

ANNUAL REPORT
- HSBC GCC Equity Income Fund -
2016

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



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A. Management Information

1. Fund Name HSBC GCC Equity Income Fund

2. Fund Manager

Name HSBC Saudi Arabia
Address 7267 Olaya, AlMurooj
Riyadh 12283-2255
Kingdom of Saudi Arabia
Phone: +1 920022688
Fax: +96612992385
Website: www.hsbcSaudi.com

3. Fund Sub-Manager (if any)

Name None
Address

4. Custodian

Name HSBC Saudi Arabia
Address 7267 Olaya, AlMurooj
Riyadh 12283-2255
Kingdom of Saudi Arabia
Phone: +1 920022688
Fax: +96612992385
Website: www.hsbcSaudi.com

Duties and Responsibilities

- To preserve the assets of the Fund.
- To keep all the necessary documents that support the performance of his contractual obligations to the Fund.
- To deposit cash amounts owned by the Fund in the Fund's account.
- To manage cash transactions for the Fund, including the deduction of investment credit and expenses of the Fund in accordance with the Terms and Conditions of the Fund and the Information Memorandum.
- The Custodian is responsible for holding and protecting the Fund's assets for the Fund's unit holders.

5. Auditor

Name KPMG Al Fozan & Al Sadhan
Address KPMG Tower
Salahudeen Al Ayoubi Road
P O Box 92876
Riyadh 11663
Kingdom of Saudi Arabia
Phone: +96612914350

B. Fund Information

1. Investment Objectives, Policies and Polices

The Fund is an open-ended Shariah compliant fund that seeks to provide income as well as capital growth over the long term through investing in equities of companies listed on take-out GCC stock markets that offer sustainable dividend yields and/or the potential for dividend growth over the long term. Furthermore, S&P GCC Composite Shariah Dividend 15% Capped Index will be used as benchmark to evaluate the Fund's performance.

2. Distribution of Income and Gain Policy

The Fund distributes income to unit holders as per the Fund board's approval on a semi-annual basis. The amounts of the distributions are specified at the end of the months of March and September of each year, and unit holders become entitled to these distributions on the last valuation day of those two months. Furthermore, income distributions need to be paid to unit holders within 20 working days from the end of the months of March and September.

C. Fund Performance

1. Fund Performance During the Last 3 Years (SAR)

Criteria/Year	2014	2015	2016
End of year NAV	273,158,937	157,745,193	141,739,851
End of year NAV/unit	13.2041	10.9573	11.0918
Highest NAV/unit	17.78	14.93	11.17
Lowest NAV/unit	12.35	10.76	8.82
No. of units in issue	20,687,361	14,396,354	12,778,842
Dividends/unit	0.6	0.45	0.6
Expense Ratio	1.73%	1.73%	1.71%

2. Fund Returns

Year	1Yr	3Yrs	5Yrs
Return	1.23%	-20.75%	10.92%

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Fund Name	N/A	N/A	N/A	N/A	N/A	N/A	4.66%	33.72%	-5.65%	-17.02%	1.23%

3. Fund Fees (SAR)

Type of Fee or Expense	Amount (SR)	Percentage of AUM
Subscription Fee	102,007.92	Up to 2% of subscription amount
Management Fee	2,366,361	1.70%
Custodian Fee	-	-
Auditor Fee	-	-
Independent Board of Directors' Remuneration	-	-
Regulatory Fees	-	-
Index Cost	-	-
Debt Cost	-	-
Dividend Purification (Only if Shariah Compliant)	12,528	0.009%
Bank Charges	4,315	0.003%
Unrealised Currency	29,923	0.0215%
Trading Commission	108,590.41	0.078%

4. Material Changes on the Fund during the Year

No material changes occurred on the Fund during the year 2016.

5. Detailed Fundamental, Material, Notifiable, or Significant Changes Made on the Fund's Terms and Conditions During the Year

- Changes that were made on 29/3/2016 (Attached are the details of the 1st Changes)

- Changes that were made on 28/11/2016 (Attached are the details of the 2nd Changes)

6. Valuation or Pricing Errors during the Year

Valuation Day	Reason and Brief Description of the Error	Percentage Impact on NAV	Impact	Corrective Action
28-Sep-16	Valuation Error	0.02%	Valuation was corrected. No impact on the fund or any investor	NAV was rectified immediately the following day

D. Fund Manager

1. Investment Activities of the Period

No investment activities for the year 2016.

2. Investment Limitation Breaches

None.

3. Commentary on Investment Fund's Performance During the Period

During calendar year of 2016, S&P GCC Equity Shariah index witnessed an outstanding recovery closing the year with a return of 11.0%. GCC equity markets witnessed an extreme volatility during the year of 2016 due to the volatility of oil prices as they are highly oil dependent economies. The index performance in 2016 was split into two, negative performance (first nine months) and positive performance (Q4 2016). During the first nine months the index declined by around 7.2% on the back of low and volatile oil prices along with macro-economic instability which have impacted the overall performance of GCC market. In contrast, during Q4 2016, the index appreciated by around 19.6% due to the significant recovery in Oil prices as it was at USD 37/barrel at the beginning of the year and rallied to USD 57/barrel at the end of the year increasing by around 52.4%. In addition, the sentiment in the oil markets turned positive after the successful agreement of both OPEC and Non OPEC to a production cut.

During the year, the Fund focussed mainly on investing in Stocks with good dividends and/ or expectation of good level of dividends. For most part of the year. The Fund declared two dividends during the year at the end of March and September, 2016, with each dividend amounting to SAR 0.30/ unit.

During the year, the fund grew by around 1.2% in 2016 underperforming the benchmark by 10.7%.

Assuming dividends were reinvested, the Fund would have posted a return of 7.5% during the year.

4. Any Additional Information that Might Enable Unit Holders to Make Informed Decisions that are Based on Sufficient Information about the Fund During the Year

There is no additional information to be disclosed; 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, regulatory, tax, and/or investment advisors.

5. Distribution of Management Fees (only if the fund is substantially investing in other funds)

Not Applicable.

6. Special Commission Received by Fund Manager (if any, including what they are and the manner in which they were utilized)

The Fund Manager receives reports published by HSBC SA Brokerage which are accessible to all HSBC SA Brokerage clients. In addition, HSBC SA Brokerage facilitates meetings between the Fund Manager and listed companies in the Saudi market upon request.

7. Fund Manager or Affiliates' Investment in the Fund

HSBC Saudi Arabia's investment in the Fund:

Fund Name	Units	Price	Fund CCY	Value Fund CCY	Value SAR
HSBC GCC Equity Income Fund - GPF	2,000,000.00	11.0557	SAR	22,111,400.00	22,111,400.00

8. Annual Voting Practices Used by the Board

Nothing to disclose.

9. Cases of Conflict of Interest Approved by the Board

Usage of HSBC Saudi Arabia's brokerage department for the trading of local and GCC equity funds. This was discussed and approved by the Fund Board due to the nature of operation of the Saudi stock market (Tadawul).

10. Board of Directors Report (must include subjects that were discussed and voting results, as well as fund performance and goals)

SUBJECT	APPROVAL DETAILS	MEETING DATE
FUND BOARD CAPACITY EVALUATION	As required by the Regulation, the Fund Board capacity was evaluated and it was approved by the Fund Board that the current Fund Boards have sufficient capacity to supervise the Funds under their respective Fund Board	22 December 2016
VOTING POLICY	Fund Board approved the Voting Policy for HSBC SA Mutual Funds and it was approved that although the Fund Manager is allowed to attend the AGM, voting rights for the election of board directors will not be exercised	27 October 2016

POLICY FOR SUBSCRIPTION TO IPO	The Fund Board approved the policy for participating in the institutional bidding of IPO's	27 October 2016
APPROVAL OF AUDITOR	The Fund Board approved the appointment of KPMG as the Financial Auditor for HSBC SA Mutual Funds	27 October 2016

E. Custodian Statement

A statement based on its opinion whether the fund manager has:

- issued, transferred and redeemed the units in accordance with the provisions of the Investment Funds Regulations and the fund's Terms and Conditions;
- Valued and calculated the price of units in accordance with the provisions of the Investment Funds Regulations , the fund's Terms and Conditions and the information memorandum;
- Breached any of the investment restrictions, limitations and borrowing powers applicable to the Investment fund Regulations.

Not applicable, Fund custodian responsibility does not include providing his opinion on these points.

F. Auditor Statement

A statement whether, in the auditor's opinion:

- The financial statements have been prepared and audited in accordance with SOCPA standards, the Investment Funds Regulations ,the fund's terms and conditions and the information memorandum;
Auditor's opinion available in Annex1 page 2.
- The financial statements give a true and fair view of the net income and the net gains or losses of the investment fund's assets in that accounting period;
Auditor's responsibility does not include providing his option on this point.
- The financial statements give a true and fair view of the financial position of the investment fund at the end of the period.
Auditor's opinion available in Annex1 page 2.

HSBC GCC EQUITY INCOME FUND
Managed by HSBC Saudi Arabia Limited
FINANCIAL STATEMENTS
For the year ended 31 December 2016
together with the
INDEPENDENT AUDITORS' REPORT
TO THE UNITHOLDERS



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

INDEPENDENT AUDITORS' REPORT

To: **The Unitholders**
HSBC GCC Equity Income Fund
Riyadh, Kingdom of Saudi Arabia

We have audited the accompanying financial statements of **HSBC GCC Equity Income Fund** (the "Fund") managed by **HSBC Saudi Arabia Limited** (the "Fund Manager") which comprises the balance sheet as at 31 December 2016, and the related statements of income, cash flows and changes in net assets attributable to unitholders for the year then ended and the attached notes from (1) to (16) which form an integral part of the financial statements.

Fund Manager's responsibility for the financial statements

The Fund Manager is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Fund's preparation and fair presentation of the financial statements 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Fund Manager, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Opinion

In our opinion, the financial statements taken as a whole present fairly, in all material respects, the financial position of the HSBC GCC Equity Income Fund as at 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia.

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

Abdullah Hamad Al Fozan
License No. 348



Date: 7 Rajab 1438H
Corresponding to: 4 April 2017

HSBC GCC EQUITY INCOME FUND
 Managed by HSBC Saudi Arabia Limited
BALANCE SHEET
 As at 31 December 2016
 (Amounts in Saudi Arabian Riyals)

<u>ASSETS</u>	<u>Note</u>	<u>2016</u>	<u>2015</u>
Cash and bank balance	9	2,404,562	1,172,060
Held for trading investments	7	141,158,475	156,632,013
Other receivables		146,334	--
TOTAL ASSETS		<u>143,709,371</u>	<u>157,804,073</u>
 <u>LIABILITIES</u>			
Other liabilities	11	1,969,520	58,880
TOTAL LIABILITIES		<u>1,969,520</u>	<u>58,880</u>
 NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		 <u>141,739,851</u>	 <u>157,745,193</u>
 Units in issue (numbers)		 <u>12,778,842</u>	 <u>14,396,354</u>
 Net assets attributable to each unit		 <u>11.09</u>	 <u>10.96</u>

The accompanying notes 1 through 16 form an integral part of these financial statements.

HSBC GCC EQUITY INCOME FUND
 Managed by HSBC Saudi Arabia Limited
STATEMENT OF INCOME
 For the year ended 31 December 2016
 (Amounts in Saudi Arabian Riyals)

<u>INCOME</u>	<u><i>Notes</i></u>	<u>2016</u>	<u>2015</u>
Trading gain / (loss), net	8	1,419,259	(35,352,298)
Dividend income		9,095,912	12,623,486
Other income		30,769	--
		<hr/> 10,545,940	<hr/> (22,728,812)
<u>EXPENSES</u>			
Fund management fee	6	2,366,360	4,107,948
Exchange loss, net		29,923	55,434
Other expenses		16,843	94,875
		<hr/> 2,413,126	<hr/> 4,258,257
NET INCOME / (LOSS) FOR THE YEAR		<hr/> 8,132,814	<hr/> (26,987,069)

The accompanying notes 1 through 16 form an integral part of these financial statements.

HSBC GCC EQUITY INCOME FUND
Managed by HSBC Saudi Arabia Limited
STATEMENT OF CASH FLOWS
For the year ended 31 December 2016
(Amounts in Saudi Arabian Riyals)

	<i>Note</i>	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income / (loss) for the year		8,132,814	(26,987,069)
<i>Adjustment for:</i>			
Unrealized (gain) / loss on held for trading investments	8	<u>(41,378,760)</u>	<u>26,928,113</u>
		(33,245,946)	(58,956)
Changes in operating assets and liabilities:			
Held for trading investments, net		56,852,298	92,513,841
Other receivables		(146,334)	–
Other liabilities		116,402	(3,341,853)
Net cash generated from operating activities		<u>23,576,420</u>	<u>89,113,032</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of units		6,796,921	20,388,859
Payments against redemption of units		(21,136,633)	(100,669,661)
Dividends paid during the period	13	<u>(8,004,206)</u>	<u>(8,145,873)</u>
Net cash used in financing activities		<u>(22,343,918)</u>	<u>(88,426,675)</u>
Net increase in cash and cash equivalents		1,232,502	686,357
Cash and cash equivalents at beginning of the year	9	<u>1,172,060</u>	<u>485,703</u>
Cash and cash equivalents at end of the year		<u>2,404,562</u>	<u>1,172,060</u>

The accompanying notes 1 through 16 form an integral part of these financial statements.

HSBC GCC EQUITY INCOME FUND
 Managed by HSBC Saudi Arabia Limited
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS
 For the year ended 31 December 2016
 (Amounts in Saudi Arabian Riyals)

	<u>2016</u>	<u>2015</u>
Net assets attributable to unit holders at beginning of the year	157,745,193	273,158,937
Net income / (loss) for the year	8,132,814	(26,987,069)
Dividend distribution during the year	(8,004,206)	(8,145,873)
Changes from unit transactions		
Proceeds from issuance of units	6,796,921	20,388,859
Payments made towards units redeemed	(21,136,633)	(100,669,661)
Payment outstanding against units redeemed	(1,794,238)	--
Net change from unit transactions	(16,133,950)	(80,280,802)
Net assets attributable to the unit holders at end of the year	141,739,851	157,745,193
<u>UNIT TRANSACTIONS:</u>		
	<i>(In numbers)</i>	
Units at beginning of the year	14,396,354	20,687,238
Units issued	645,384	1,442,874
Units redeemed	(2,262,896)	(7,733,758)
Net change in units	(1,617,512)	(6,290,884)
Units at end of the year	12,778,842	14,396,354

The accompanying notes 1 through 16 form an integral part of these financial statements.

HSBC GCC EQUITY INCOME FUND
Managed By HSBC Saudi Arabia Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016
(Amounts in Saudi Arabian Riyals)

1. THE FUND AND ITS ACTIVITIES

HSBC GCC Equity Income Fund (“the Fund”) is an open-ended mutual investment fund created through an agreement between HSBC Saudi Arabia Limited (“the Fund Manager”) and investors (the Unitholders). The Fund seeks to achieve long-term capital growth and income by investing in shariah-compliant equities listed on the GCC stock markets that offer sustainable dividend yields and/or the potential for dividend growth over the long term. The fund invests in accordance with shariah screening criteria, approved by the shariah supervisory committee.

The Fund is managed by the Fund Manager who also acts as global as well as local custodian and the administrator of the Fund. The Fund will distribute income, subject to the approval of the Fund Board, on a semi-annual basis.

The Fund updated its terms and conditions which were approved by the Capital Market Authority (CMA) on 3 Safar 1438H (corresponding to 3 November 2016).

2. REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (“the Regulations”) published by Capital Market Authority (CMA) on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) and amended in 16 Shaban 1437H (corresponding to 23 May 2016) detailing requirements for all funds within the Kingdom of Saudi Arabia.

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 PRESENTATION

4.1 *Statement of Compliance*

These financial statements have been presented in accordance with the requirements of accounting standards on financial reporting issued by the Saudi Organization of Certified Public Accountants (“the SOCPA”).

These financial statements were approved by the Fund’s Board of Directors on 7th Rajab 1438H (Corresponding to 4th April, 2017).

4.2 *Basis of Measurement*

These financial statements have been prepared under the historical cost convention, except for the measurement of investments held for trading that are stated at fair value, using the accrual basis of accounting and the going concern concept.

HSBC GCC EQUITY INCOME FUND
Managed By HSBC Saudi Arabia Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016
(Amounts in Saudi Arabian Riyals)

4. BASIS OF PRESENTATION (Continued)

4.3 *Functional and presentation currency*

These financial statements are presented in Saudi Arabian Riyal (SR), which is the functional currency of the Fund. All financial information presented has been rounded to the nearest SR.

4.4 *Use of estimates and judgments*

In the ordinary course of business, the preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

5. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are consistent with those used and disclosed in the previous year and are set out below:

5.1 *Held for trading investments*

Investments which are purchased for trading purposes are initially recorded at cost on the trade date and then re-measured and stated in the balance sheet at market value. Unrealized gains/ losses on the revaluation of held for trading investments are recognized in the statement of income.

5.2 *Revenue recognition*

Realized gains/ losses on disposal of held for trading investments are determined by comparing the sales proceeds and the average cost of investments. Trading gain/ loss includes gains and losses from changes in fair value of held for trading investments.

Dividend income is recognized when the right to receive the dividend is established. Dividend income is presented net of withholding taxes.

5.3 *Trade date accounting*

All regular-way 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 market place.

5.4 *Fund management fee*

Fund management fee is 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 income.

5.5 *Zakat/ Income tax*

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

5.6 *Cash and cash equivalents*

Cash and cash equivalents for the purpose of the statement of cash flows represents a bank balance.

HSBC GCC EQUITY INCOME FUND
 Managed By HSBC Saudi Arabia Limited
NOTES TO THE FINANCIAL STATEMENTS
 For the year ended 31 December 2016
 (Amounts in Saudi Arabian Riyals)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.7 *Subscription and redemption of units*

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

5.8 *Financial instruments*

Financial assets and liabilities are recognized at the time when the Fund becomes a party to the contractual provisions of the instrument. Any gain or loss on de-recognition of financial assets and financial liabilities is taken directly to the statement of income.

5.9 *Foreign currency translation*

Transactions in foreign currencies are translated into SR at the rates of exchange prevailing at the date of the transactions. Assets and liabilities in foreign currencies are translated at the rates of exchange prevalent on the balance sheet date. Resulting exchange gains and losses are taken to the statement of income.

6. MANAGEMENT FEE, CUSTODIAN AND FUND ADMINISTRATION FEES AND OTHER EXPENSES

The Fund Manager charges to the Fund on each Valuation Day, management fees at a rate of 1.7% per annum (31 December 2015: 1.7% per annum). 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 investments to the fund are always net of subscription fees.

7. HELD FOR TRADING INVESTMENTS

The geographical composition of quoted held for trading investments is summarized as follows:

	<u>2016</u>	<u>2015</u>
Saudi Arabia	97,715,094	108,943,605
Oman	19,120,678	23,318,113
UAE	21,816,026	20,551,126
Qatar	2,506,677	3,819,169
Total	<u>141,158,475</u>	<u>156,632,013</u>

As at 31 December 2016, the cost of the above mentioned held for trading investments amounted to SR 137.14 million (31 December 2015: SR 193.99 million).

8. TRADING GAIN / (LOSS), NET

	<u>2016</u>	<u>2015</u>
Realised loss on held for trading investments	(39,959,501)	(8,424,184)
Unrealised loss on held for trading investments	41,378,760	(26,928,114)
	<u>1,419,259</u>	<u>(35,352,298)</u>

HSBC GCC EQUITY INCOME FUND
 Managed By HSBC Saudi Arabia Limited
NOTES TO THE FINANCIAL STATEMENTS
 For the year ended 31 December 2016
 (Amounts in Saudi Arabian Riyals)

9. 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 Limited (being the Fund Manager, Fund Board, custodian and administrator of the Fund) and The Saudi British Bank (“SABB”) (being a 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.

Related party transactions for period ended 31 December 2016 and balances arising there from are described as under:

Related party	Nature of transactions	Amount of transactions during the year		Closing balance Receivable / (Payable)	
		2016	2015	2016	2015
	Fund management fee	2,366,360	4,107,948	(32,879)	(22,029)
	Cash and cash equivalents	--	--	82,825	930,440
HSBC Saudi Arabia Limited (<i>Fund Manager</i>)	Custodian and fund administration fees	--	25,277	--	--
	Purification Expenses	12,528	41,198	(12,528)	--
SABB (<i>Shareholder</i>) & HSBC Saudi Arabia limited (<i>Custodian</i>)	Cash and cash equivalents	--	--	2,321,737	241,620
Fund Board	Board meeting expenses	--	140	--	--

Custody and fund administration fee is charged at a rate of 0.2% per annum of the Fund's net assets value payable to the Fund Manager effective up until 17 January 2015 in accordance with the terms and conditions applicable at that time. Subsequent to 17 January 2015, the custody and administration fee is reduced to nil as per the updated terms and conditions.

Board member compensation and other fees during the year has been borne and paid by HSBC Saudi Arabia Limited (*“the Fund Manager”*).

HSBC Multi-Assets Defensive Fund managed by the Fund Manager has subscribed nil units (31 December 2015: 219,656 units) of the fund.

Cash and cash equivalents of SR 2,321,737 (31 December 2015: SR 241,620) is deposited in a current account maintained with SABB under the name of the Fund Manager (HSBC Saudi Arabia) and SR 82,825 (31 December 2015: 930,440) is held with the Custodian under a securities cash account. No interest is receivable on this balance.

The arrangement with the Fund Manager for Subscription fee is disclosed in Note 6.

10. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm’s length transaction. Financial instruments comprise financial assets and financial liabilities.

The Fund’s financial assets consist of a bank balance, held for trading investments and other receivables whilst its financial liabilities consist of other liabilities.

Held for trading investments are carried at fair value. Fair value is derived from the observable listed market prices. The fair values of other financial instruments are not materially different from their carrying values.

HSBC GCC EQUITY INCOME FUND
Managed By HSBC Saudi Arabia Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016
(Amounts in Saudi Arabian Riyals)

11. OTHER LIABILITIES

This includes an amount of SR 1,794,238 (31 December 2015: Nil) payable to unit holders against redemption of units.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Fund manages its investment portfolio and other assets by monitoring the return on net assets and makes adjustments to its investment policy in the light of changes in market conditions.

The Fund maintains position in financial instrument as dictated by its investment policy. All investments are “held for trading” investments. The Fund is exposed to following risk:

Special commission rate risk

Special commission rate risk arises from the possibility that changes in market commission rates may affect either the fair value or the future cash flows of the financial instruments. The Fund is not exposed to special commission rate risk.

Credit risk

Credit risk is a risk that one party to a financial instrument may 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 and other receivables. The fund manager seeks to limit its credit risk by dealing with credit worthy counter parties. Further, the bank balance is with a bank that has a good credit rating.

Equity price risk

Equity price risk is the risk that the fair value of equity investments decreases as a result of changes in the levels of equity indices and the value of individual stocks. The Fund is exposed to equity price risk arising from its investments in shares.

The Fund is exposed to equity price risk arising from its investments in shares in the GCC equity markets. The Fund Manager endeavors to minimize the risk through diversification across various sectors in the GCC equity markets and has established certain risk guidelines to manage its equity price risk.

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 terms and conditions provide for the redemptions of units twice weekly and it is, therefore, exposed to the liquidity risk of meeting Unitholders’ redemptions. Further, the Fund’s investments are considered to be readily realizable as they are all listed on various GCC equity markets.

The Fund Manager has established certain maturity and liquidity guidelines for the Fund to ensure sufficient funds are available to meet any commitments as they arise. There are no funds drawn by the fund under the credit line with the bank as at balance sheet date.

Currency risk

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

The Fund has majority of the investments in its functional currency, i.e. Saudi Arabian Riyal. However, the Fund is subject minimal currency risk Omani Riyal (OMR) and Qatari Riyal (QAR). The risk is managed by close monitoring of open positions under various currencies, assessing and limiting exposures to highly volatile currencies based on past trends, political and economic factors and expected fluctuations in near future.

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.

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Managed By HSBC Saudi Arabia Limited
NOTES TO THE FINANCIAL STATEMENTS
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(Amounts in Saudi Arabian Riyals)

13. COMPARATIVE FIGURE

Where applicable, certain figures for 2015 have been reclassified to confirm the presentation in the current year

14. DIVIDEND DISTRIBUTION

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

	<u>2016</u>	<u>2015</u>
1 st dividend at a rate of 0.30 SR (2015: 0.25 SR) per unit	4,056,732	4,063,761
2 nd dividend at a rate of 0.30 SR (2015: 0.25 SR) per unit	<u>3,947,474</u>	<u>4,082,112</u>
	<u>8,004,206</u>	<u>8,145,873</u>

15. UNSETTLED SUBSCRIPTIONS AND REDEMPTION REQUEST

The Fund has received subscription request as of 31 December 2016, amounting to SAR 202,428 after the cutoff time and accordingly the unit balances reported do not include these requests.

16. LAST VALUATION DAY

The last valuation day of the year was 31 December 2016 (2015: 31 December 2015).