

ANNUAL REPORT
- HSBC Saudi Freestyle Equity Fund -
2016

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



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A. Management Information

1. Fund Name HSBC Saudi Freestyle Equity 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 aims to achieve medium to long term capital growth by investing in and actively managing a concentrated portfolio of equities listed on the Saudi stock market.

2. Distribution of Income and Gain Policy

The Fund does not distribute any income but rather reinvest it in the Fund itself, which will be reflected on the price and value of the units.

C. Fund Performance

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

Criteria/Year	2014	2015	2016
End of year NAV	1,080,371,527	747,810,846	466,683,032
End of year NAV/unit	22.22	17.28	16.47
Highest NAV/unit	28.38	26.78	16.82
Lowest NAV/unit	18.68	16.87	12.19
No. of units in issue	48,616,003	43,280,325	28,329,385
Dividends/unit	-	-	-
Expense Ratio	1.74%	1.71%	1.70%

2. Fund Returns

Year	1Yr	3Yrs	5Yrs
Return	-4.66%	-10.98%	64.74%

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Return	N/A	N/A	N/A	N/A	N/A	N/A	22.03%	51.64%	20.09%	-22.25%	-4.66%

3. Fund Fees (SAR)

Type of Fee or Expense	Amount (SR)	Percentage of AUM
Subscription Fee	210,904.51	Up to 2% of subscription amount
Management Fee	8,870,498	1.70%
Custodian Fee	-	-
Auditor Fee	-	-
Independent Board of Directors' Remuneration	-	-
Regulatory Fees	-	-
Index Cost	-	-
Debt Cost	-	-
Dividend Purification (Only if Shariah Compliant)	-	-
Trading Commission	727,852.85	0.139%

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

None.

D. Fund Manager

1. Investment Activities of the Period

The Fund has increased its exposure in healthcare and insurance due to the defensive nature of these sectors. The fund also during the year increased the weight of petrochemicals mainly due to improved oil prices and the fact that the bulk of the petrochemical products are exported, hence the products are not exposed to the weakening conditions of the Saudi economy in 2016.

2. Investment Limitation Breaches

None.

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

During calendar year of 2016, S&P Saudi Shariah Index witnessed an outstanding recovery closing the year with a return of 10.5%. 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 fund declined by around 28.1% due to a number of major developments that have taken place including energy price increases, hikes in various administrative fees, the introduction of VAT next year, a freeze in public sector hiring and substantial cuts to the allowances of public sector employees. Moreover, the National Transformation Program (NTP) 2020 was revealed (the government's medium-term goals) that will lead to further taxes on soft drinks and cigarettes as well as gradually increasing fees on foreign workers and further hikes in energy prices. In contrast, during Q4 2016, the fund grew by around 32.5% on the back of the successful issuance of USD 17.5bn sovereign foreign bond, Government's announcement regarding clearing SAR 100bn in private sector dues and the trends in oil market after the successful agreement of both OPEC and Non OPEC to a production cut were the key triggers for the market rally. During the year, the fund declined by around 4.7%.

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 or affiliates do not have any investments in the Fund.

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 SAUDI FREESTYLE EQUITY 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 Saudi Freestyle Equity Fund
Riyadh, Kingdom of Saudi Arabia

We have audited the accompanying financial statements of **HSBC Saudi Freestyle Equity Fund** (the "Fund") managed by **HSBC Saudi Arabia Limited** (the "Fund Manager") which comprises 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 (12) 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 Saudi Freestyle Equity 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 SAUDI FREESTYLE EQUITY 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 cash equivalents	9	17,065,459	268,525
Held for trading investments	7	449,484,586	747,646,654
Other Receivables		241,500	-
TOTAL ASSETS		466,791,545	747,915,179
<u>LIABILITIES</u>			
Other liabilities		108,513	104,428
TOTAL LIABILITIES		108,513	104,428
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		466,683,032	747,810,751
Units in issue (<i>numbers</i>)		28,329,385	43,280,325
Net assets attributable to each unit		16.47	17.28

The accompanying notes 1 through 12 form an integral part of these financial statements.

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

	<u><i>Note</i></u>	<u>2016</u>	<u>2015</u>
INCOME			
Trading loss, net	8	(80,083,009)	(249,926,424)
Dividend income		16,988,153	28,762,596
		<u>(63,094,856)</u>	<u>(221,163,828)</u>
EXPENSES			
Fund management fee	6	8,870,498	19,017,868
Other expenses		-	112,467
		<u>8,870,498</u>	<u>19,130,335</u>
NET LOSS FOR THE YEAR		<u>(71,965,354)</u>	<u>(240,294,163)</u>

The accompanying notes 1 through 12 form an integral part of these financial statements.

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

	<u>Note</u>	<u>2016</u>	<u>2015</u>
CASH FLOW FROM OPERATING ACTIVITIES			
Net loss for the year		(71,965,354)	(240,294,163)
Adjustments for:			
Unrealized (gain)/loss on held for trading investments	8	(259,404,289)	211,908,914
		(331,369,643)	(28,385,249)
Changes in operating assets and liabilities			
Held for trading investments, net		557,566,357	120,612,564
Other receivables		(241,500)	--
Other liabilities		4,085	(41,693)
Net cash generated from operating activities		<u>225,959,299</u>	<u>92,185,622</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of units		27,677,538	433,153,934
Payments against redemption of units		(236,839,903)	(525,420,546)
Net cash used in financing activities		<u>(209,162,365)</u>	<u>(92,266,612)</u>
Net increase/(decrease) in cash and cash equivalents		16,796,934	(80,990)
Cash and cash equivalents at beginning of the year	9	268,525	349,515
Cash and cash equivalents at end of the year		<u>17,065,459</u>	<u>268,525</u>

The accompanying notes 1 through 12 form an integral part of these financial statements.

HSBC SAUDI FREESTYLE EQUITY 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	747,810,751	1,080,371,526
Net loss for the year	(71,965,354)	(240,294,163)
Changes from unit transactions		
Proceeds from issuance of units	27,677,538	433,153,934
Payments against redemption of units	(236,839,903)	(525,420,546)
Net change from unit transactions	(209,162,365)	(92,266,612)
Net assets attributable to the unit holders at end of the year	466,683,032	747,810,751

UNIT TRANSACTIONS:

	<i>(In numbers)</i>	
Units at beginning of the year	43,280,325	48,616,003
Units issued	1,910,453	17,740,274
Units redeemed	(16,861,393)	(23,075,952)
Net change in units	(14,950,940)	(5,335,678)
Units at end of the year	28,329,385	43,280,325

The accompanying notes 1 through 12 form an integral part of these financial statements.

HSBC SAUDI FREESTYLE EQUITY 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 Saudi Free Style Equity 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 Unit holders). The objective of the Fund is to achieve capital growth over the medium to long-term by investing in Shariah compliant Saudi equities. The Fund invests in a concentrated portfolio and is managed in a manner that is both active and flexible to provide returns to investors that are not linked to a benchmark or weighting tied to an index.

The Fund is managed by the Fund Manager who also acts as the custodian and the administrator of the Fund. All income is reinvested in the Fund and is reflected in the unit price.

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 & 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

4.1 Statement of compliance

These financial statements are 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 held for trading investments, which are presented at fair value, using the accrual basis of accounting and the going concern concept.

4.3 Functional and presentation currency

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

HSBC SAUDI FREESTYLE EQUITY 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 PREPARATION (CONTINUED)

4.4 Use of estimates and judgments

In the ordinary course of business, the preparation of financial statements requires management to make judgments, 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 AND RISK MANAGEMENT POLICIES

The significant accounting policies used in the preparation of these financial statements 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 presented 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. Investment transactions are accounted as at the trade date.

5.2 *Revenue Recognition*

Realized gains / (losses) on disposal of held for trading investments are determined by comparing the sales proceed and the average cost of investments. Trading gains / (losses) 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 time frame generally established by regulation or convention in the market place.

All other financial asset and liabilities (including assets and liabilities recorded at fair value through the statement of income) are initially recognized on the trade date at which the Fund becomes a party to the contractual provision of the instrument.

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

HSBC SAUDI FREESTYLE EQUITY 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 AND RISK MANAGEMENT POLICIES (CONTINUED)

5.6 Cash and cash equivalents

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

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.

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

The Fund Manager charges to the Fund on each Valuation Day, management fees at a rate of 1.7% per annum (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 sector-wise composition of held for trading investments is summarized as follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>
Retail	63,290,919	73,490,614
Transportation	36,060,067	96,578,960
Agriculture and food industries	33,030,272	182,827,110
Petrochemical industries	133,654,357	71,171,850
Real estate development	42,554,067	26,060,130
Cement	-	60,022,500
Banks and financial services	67,710,887	83,501,170
Building and construction	23,954,069	18,665,220
Insurance	35,288,737	31,603,000
Hotel and Tourism	13,941,211	55,020,300
Industrial investment	-	48,705,800
	<u>449,484,586</u>	<u>747,646,654</u>

As at 31 December 2016, the cost of the above mentioned held for trading investments amounted to SAR 417.49 million (2015: SAR 975.05 million).

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

8. TRADING LOSS, NET

	<u>2016</u>	<u>2015</u>
Realised loss on held for trading investments	(339,487,298)	(38,017,510)
Unrealised gain /(loss) on held for trading investments	259,404,289	(211,908,914)
	(80,083,009)	(249,926,424)

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 the administrator of the Fund), and The Saudi British Bank (“SABB”) (being a 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 the year ended 31 December 2016 and balances as at this date are as follows:

Related party	Nature of transactions	Amount of transaction during the period		Closing balance Receivable/(Payable)	
		<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
HSBC Saudi Arabia Limited (<i>Fund Manager</i>)	Fund management fee	8,870,498	19,017,868	(108,513)	(104,428)
	Other expenses	--	100,331	--	--
SABB (<i>shareholder</i>)	Cash and cash equivalents	--	--	17,065,459	268,525
Fund Board	Board members compensation	--	98	--	--

Other expenses include custody and administration fee at a rate of 0.2% per annum of the Fund's net assets value payable to the Fund Manager effective till 17 January 2015 as per the terms and conditions applicable till 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 expenses during the year has been borne and paid by HSBC Saudi Arabia Limited (“*the Fund Manager*”).

HSBC Multi-Assets defensive fund, HSBC Multi-Assets balanced Fund & HSBC Multi-Assets Growth Fund managed by the Fund Manager has subscribed 316,952 units (31 December 2015: 755,891 units), 2,374,387 units (31 December 2015: 2,007,424 units) & 885,213 units (31 December 2015: 1,239,969 units) respectively of the fund.

Cash and cash equivalents is deposited in current account maintained with SABB under the name of the Fund Manager (HSBC Saudi Arabia). 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 cash and cash equivalents, held for trading investments and its financial liabilities consist of other liabilities.

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

10. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

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

11. 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 the following risks:

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 cash and cash equivalents and other receivables. The fund manager seeks to limit its credit risk by dealing with credit worthy counter parties. The cash and cash equivalents balance is maintained 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 Manager endeavors to minimize the risk through diversification across various sectors of the Saudi equity market. Further, the Fund Manager has established 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. The Fund's investments are considered to be readily realizable as they are all listed on the Saudi equity market.

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 a change in foreign exchange rates. The Fund is not subject to currency risks as all the assets and liabilities of the Fund are in local currency. The Investment risk of the Fund are included in the Terms and Conditions detailed on the website of the Fund manager www.hsbcSaudi.com. The Terms and Conditions do not form part of these financial statements.

12. LAST VALUATION DAY

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