

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



KPMG Al Fozan & Partners
Certified Public Accountants
KPMG Tower
Salahudeen Al Ayoubi Road
P. O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Telephone +966 11 874 8500
Fax +966 11 874 8600
Internet www.kpmg.com.sa

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

INDEPENDENT AUDITORS' REPORT

The Shareholders
HSBC Saudi Arabia Limited
Riyadh, Kingdom of Saudi Arabia

We have audited the accompanying financial statements of **HSBC Saudi Arabia Limited** ("the Company") which comprise the balance sheet as at 31 December 2015 and the related statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 24 which form an integral part of the financial statements.

Management's responsibility for the financial statements

Management 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 in compliance with Article 175 of the Regulations for Companies and the Company's Articles of association 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.

Auditors' 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 entity'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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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:

- 1) present fairly, in all material respects, the financial position of **HSBC Saudi Arabia Limited** ("the Company") as at 31 December 2015, 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 appropriate to the circumstances of the Company; and
- 2) comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

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



Abdullah Hamad Al Fozan
License No. 348



Riyadh on: 14 Jumada'II 1437H
Corresponding to: 23 March 2016

Balance Sheet

As at 31 December

	Notes	2015	2014
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	(4)	36,749,282	79,023,724
Investments - held for trading	(9.1)	5,652,052	3,859,137
Advisory income receivable	(5)	11,329,857	54,016,511
Receivable against portfolio management	(6)	24,215,672	42,763,228
Due from related parties	(7a)	26,758,081	37,118,968
Advances, prepayments and other current assets	(8)	36,935,753	31,649,606
Total current assets		141,640,697	248,431,174
NON-CURRENT ASSETS			
Investments - available for sale	(9.2)	1,023,211,358	898,049,701
Property and equipment, net	(10)	2,807,207	2,051,997
Total non-current assets		1,026,018,565	900,101,698
Total assets		1,167,659,262	1,148,532,872
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Due to related parties	(7b)	20,293,835	32,487,149
Unearned income		11,017,120	4,478,305
Accrued expenses and other current liabilities	(11)	184,855,856	232,513,076
Zakat and income tax payable	(12)	40,795,410	49,914,203
Total current liabilities		256,962,221	319,392,733
NON-CURRENT LIABILITY			
End of service benefits	(13)	45,236,462	44,575,190
Total liabilities		302,198,683	363,967,923
SHAREHOLDERS' EQUITY			
Share capital	(14)	500,000,000	500,000,000
Statutory reserve	(15)	123,429,734	95,522,560
Unrealised gain on investments - available for sale	(9.2)	14,430,511	15,274,123
Retained earnings		227,600,334	173,768,266
Total shareholders' equity		865,460,579	784,564,949
Total liabilities and shareholders' equity		1,167,659,262	1,148,532,872

The accompanying notes (1) through (24) form an integral part of these financial statements.

Statement of Income

Ended 31 December

	Notes	2015	2014
REVENUE			
Income from advisory services		154,626,810	125,078,517
Brokerage income, net		119,690,710	174,050,541
Income from securities services		48,217,270	49,451,214
Management fee income		230,619,208	266,993,806
Income from equity swaps		18,555,488	30,173,438
		<u>571,709,486</u>	<u>645,747,516</u>
EXPENSES			
Salaries and employee related expenses		209,617,644	179,124,087
Provision against operational losses	(18)	--	101,250,000
Office expense		15,543,771	29,673,173
Rent		5,785,832	6,111,551
Advertising and promotion		1,791,195	1,720,204
Depreciation	(10)	887,247	852,147
Other general and administrative expenses	(19)	32,595,780	75,142,516
Service costs under service level agreement, net	(20)	28,619,758	27,830,449
		<u>294,841,227</u>	<u>421,704,127</u>
Net operating income		<u>276,868,259</u>	<u>224,043,389</u>
Other income		2,203,481	5,387,527
Net income for the year		<u>279,071,740</u>	<u>229,430,916</u>

The accompanying notes (1) through (24) form an integral part of these financial statements

Statement Of Cash Flows

Ended 31 December

	Notes	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		279,071,740	229,430,916
<i>Adjustments to reconcile net income to net cash generated from operating activities:</i>			
Depreciation		887,247	852,147
Gain on sale of property and equipment		--	(125,000)
End of service benefits charge		11,015,021	11,368,174
Losses on investments - held for trading		931,341	1,379,512
Realized gain on sale of investments - available for sale		(1,007,237)	(1,348,851)
		<u>290,898,112</u>	<u>241,556,898</u>
NET (INCREASE) / DECREASE IN OPERATING ASSETS			
Advisory income receivable		42,686,654	(40,964,302)
Receivable against portfolio management		18,547,556	(5,334,927)
Advances, prepayments and other assets		(5,286,147)	1,439,432
Due from related parties		10,360,887	(24,979,873)
NET INCREASE / (DECREASE) IN OPERATING LIABILITIES			
Due to related parties		(12,193,314)	9,172,538
Unearned income		6,538,815	778,855
Accrued expenses and other liabilities		(47,657,220)	115,885,678
End of service benefits paid		(10,353,749)	(4,933,851)
Zakat and income tax paid		(49,914,203)	(38,351,629)
Net cash provided by operating activities		<u>243,627,391</u>	<u>254,268,819</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment		(1,642,457)	(664,959)
Investments - held for trading		(2,724,256)	2,431,753
Disposal of property and equipment		--	125,000
Purchase of investments - available for sale		(225,000,000)	(170,000,000)
Proceeds from sale of investments – available for sale		100,001,968	139,241,974
Net cash used in investing activities		<u>(129,364,745)</u>	<u>(28,866,232)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(156,537,088)	(192,079,916)
Net cash used in investing activities		<u>(156,537,088)</u>	<u>(192,079,916)</u>
Net (decrease) / increase in cash and cash equivalents		(42,274,442)	33,322,671
Cash and cash equivalents at beginning of the year		79,023,724	45,701,053
Cash and cash equivalents at end of the year	(4)	<u>36,749,282</u>	<u>79,023,724</u>
SUPPLEMENTAL NON-CASH INFORMATION			
Net changes in fair value and transfer to statement of income		<u>(843,612)</u>	<u>1,688,335</u>

The accompanying notes (1) through (24) form an integral part of these financial statements.

Statement of Changes in Shareholders' Equity

Ended 31 December

	Share capital	Statutory reserve (Note 15)	Unrealised gain on investments - available for sale	Retained earnings	Total
Balance as at 1 January 2014	500,000,000	72,579,468	13,585,788	209,274,561	795,439,817
Net income for the year	--	--	--	229,430,916	229,430,916
Dividend paid during the year	--	--	--	(192,079,916)	(192,079,916)
Transfer to statutory reserve	--	22,943,092	--	(22,943,092)	--
Net changes in fair value	--	--	1,688,335	--	1,688,335
Provision for Zakat and income tax (Note 12)	--	--	--	(49,914,203)	(49,914,203)
Balance as at 31 December 2014	500,000,000	95,522,560	15,274,123	173,768,266	784,564,949
Net income for the year	--	--	--	279,071,740	279,071,740
Dividend paid during the year	--	--	--	(156,537,088)	(156,537,088)
Transfer to statutory reserve	--	27,907,174	--	(27,907,174)	--
Net changes in fair value	--	--	(843,612)	--	(843,612)
Provision for Zakat and income tax (Note 12)	--	--	--	(40,795,410)	(40,795,410)
Balance as at 31 December 2015	500,000,000	123,429,734	14,430,511	227,600,334	865,460,579

ANALYSIS OF RETAINED EARNINGS

	The Saudi British Bank	HSBC Asia Holdings BV	Total
Balance as at 1 January 2014	110,597,627	98,676,934	209,274,561
Net income for the year	117,009,767	112,421,149	229,430,916
Dividend payment during the year	(104,835,973)	(87,243,943)	(192,079,916)
Transfer to statutory reserves	(11,700,977)	(11,242,115)	(22,943,092)
Zakat and income tax	(16,513,097)	(33,401,106)	(49,914,203)
Balance as at 31 December 2014	94,557,347	79,210,919	173,768,266
Net income for the year	142,326,587	136,745,153	279,071,740
Dividend payment during the year	(88,783,580)	(67,753,508)	(156,537,088)
Transfer to statutory reserves	(14,232,659)	(13,674,515)	(27,907,174)
Zakat and income tax	(13,496,331)	(27,299,079)	(40,795,410)
Balance as at 31 December 2015	120,371,364	107,228,970	227,600,334

The accompanying notes (1) through (24) form an integral part of these financial statements

Notes to The Financial Statements

1. Organization and Activity

HSBC Saudi Arabia Limited (the “Company”) is a limited liability company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010221555 dated 27/06/1427H (corresponding to 23/07/2006G). The address of the Company’s head office is as follows:

HSBC Saudi Arabia Ltd.
7267 Olaya- AlMorooj Dist
Riyadh 12283-2255
Kingdom of Saudi Arabia

The main activities of the Company are to provide a full range of investment banking services including investment banking advisory, debt and project finance as well as Islamic finance. It also manages mutual funds and discretionary portfolios. The Company serves a wide range of clients including but not limited to corporates, non-bank financial institutions and individuals.

The Company acquired all the assets and liabilities together with its business activities of an affiliate SABB Securities Limited (SASL) which was a 100% owned subsidiary of The Saudi British Bank (SABB) with effect from 1 July 2011. The principal activities of SASL were to engage in the business of custody and dealing as an agent excluding the underwriting. Capital market Authority (CMA) has approved the acquisition of SASL by HSBC Saudi Arabia Limited and authorized HSBC Saudi Arabia Limited to continue the operations previously conducted by SASL.

The shareholders of SASL have resolved to dissolve the Company under voluntary liquidation according to the terms of the Company’s Articles of Association and in accordance with provisions of liquidations in Regulations for Companies. A liquidator has also been appointed and the legal formalities in this regard are still in progress.

2. Basis of Preparation

a) Statement of compliance

These financial statements have been prepared in accordance with the generally accepted accounting standards in Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (“SOCPA”) as appropriate to the circumstances of the Company. Certain comparative amounts have been reclassified to conform with the current year’s presentation.

b) Basis of measurement

The financial statements have been prepared on historical cost basis except for available for sale and held-for-trading investments which are stated at their fair value, using the accrual basis of accounting and the going concern assumption.

c) Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals (SAR) which is the functional currency. All financial information is presented in SAR.

d) Use of estimates and judgements

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 expenses. 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.

Notes to the Financial Statements *(continued)***3. Significant Accounting Policies****a) Advisory income receivable**

Advisory income receivable are stated at original invoice less provisioning made for amounts, which in the opinion of the management may not be received. Bad debts are written off when identified.

b) Property and equipment

Property and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in the income statement when incurred.

Depreciation is charged to the statement of income on a straight-line basis over the estimated useful life of individual items of property and equipment.

The estimated useful lives of assets for current period is as follow:

	Years
Leasehold Improvements	5
Furniture and Equipment	5
Motor Vehicles	4

c) Investment**Investments - available for sale**

Investments in available for sale securities/units are long term investments that are bought neither with the intention of being held to maturity nor for the trading purposes and they are stated at fair value and included under non-current assets, unless they will be sold in the next fiscal year. Changes in fair value are credited or charged to the statement of changes in shareholder's equity. Any decline in value considered to be other than temporary is charged to the statement of income. Investment income is recorded when declared. Fair value is determined by reference to the market value if an open market exists, or the use of other alternative method. Otherwise, cost is considered to be the fair value. Where partial holdings are sold, these are accounted for on a weighted average basis.

Investments - held for trading

Investment in trade securities/units which are purchased for trading purposes are initially recorded at cost and subsequently stated in the balance sheet under current assets at market value. Changes in market value are recognised in statement of income.

d) Revenue Recognition***Income from Advisory service***

Advisory service fees are recognized based on the applicable service contract, usually on a time proportionate basis as the services are performed. Advisory services where the underlying significant act is completed or instances for which no further activities are required to be done are considered fully earned.

Management fee Income

Management fee income from mutual funds and discretionary portfolio management is recognised rateably over the period when the services is being provided.

Income under Equity Swap

Equity swap income is recognised on an accrual basis over the period when the services is being provided.

Notes to the Financial Statements *(continued)***Significant Accounting Policies** *(continued)***Brokerage income**

Revenue from equity brokerage is recognized at the time of execution of orders, and is recorded net of tadawul fees, discounts and rebates.

Securities services

Fees charged for providing securities services which include custodial services are recognised as revenue over the period when the services is being provided. Unearned revenue is recognised for the period from the year end to the contracted maturity of the agreements.

Dividends

Dividends are recorded when right to receive the dividends is established.

e) Expenses

Advertising expenses are those arising from the Company's efforts underlying the advertising activities. All other expenses including direct costs are classified as other operating expenses.

f) Payables and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the service provider or not.

Obligations in respect of deferred bonuses are stated at amounts payable to employees which are accrued against the services provided by them in current and prior periods. These amounts are provided based on full accrual method, after assessing the future economic benefits and other factors including certain service conditions.

g) Employees' end of service benefits

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to the statement of income. The liability is calculated at the undiscounted value of the vested benefits to which the employees are entitled, should their services be terminated at the balance sheet date.

h) Financial Instruments

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are initially measured at fair value and are subsequently measured as per significant accounting policy disclosed for the respective financial asset and liability. Fair value is determined on the basis of objective evidence at the balance sheet date.

i) Impairment of assets

Financial assets and property & equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

j) Zakat and income tax

Zakat and income tax, computed in accordance with Saudi Arabian fiscal regulations, are accrued and charged to the retained earnings. The shareholders reimburse zakat and income tax from the proceeds of future dividends.

Under Saudi Arabian Zakat and Income tax laws, zakat and income taxes are the liabilities of Saudi and foreign shareholders, respectively. Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the zakat regulations. Income taxes are computed on the foreign shareholders share of net income for the year.

Notes to the Financial Statements *(continued)***Significant Accounting Policies** *(continued)***k) Offsetting**

Financial assets and liabilities are offset and are reported net in the balance sheet when there is a legally enforceable right to set off the recognised amounts and when the Company intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

l) Foreign currency transactions

Transactions denominated in foreign currencies are translated to the functional currency of the Company at the exchange rates prevailing at the dates of the respective transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated to Saudi Arabian Riyals at exchange rates prevailing on that date. Gains and losses resulting from changes in exchange rates are recognized in the statement of income.

m) Provisions

Provisions are recognised when a reliable estimate can be made by the Company to a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation.

n) Dividends

Dividends are recorded in the period in which they are approved by the shareholders. Dividends are paid after deduction of zakat and income tax.

o) Cash and cash equivalents

Cash and cash equivalents represent cash in hand and balances with bank with original maturity up to 3 months.

p) Assets held in trust or in a fiduciary capacity

Assets held in trust or in a fiduciary capacity are not treated as assets of the Company and accordingly treated as off-balance sheet items.

4. Cash and Cash Equivalents

	2015	2014
Cash in hand	35,000	35,000
Cash at bank	36,714,282	78,988,724
	<u>36,749,282</u>	<u>79,023,724</u>

5. Advisory Income Receivable

	2015	2014
Receivable – corporate advisory services	4,315,627	23,459,010
Receivable – corporate finance services	7,014,230	30,557,501
	<u>11,329,857</u>	<u>54,016,511</u>

6. Receivable Against Portfolio Management

This represents management fees receivable from customers in relation to discretionary portfolio management services provided by the Company.

Notes to the Financial Statements (continued)

Related Party Balances and Transactions

Related parties of the Company comprise of group companies, its shareholders and directors of HSBC Saudi Arabia Limited. The Company and its related parties transact with each other in the ordinary course of business. The transactions with related parties are undertaken at mutually agreed terms which are approved by the management.

	Notes	2015	2014
a) DUE FROM RELATED PARTIES			
Receivable from mutual funds	7.1	726,110	592,875
Receivable from SABB	7.2	21,095,046	28,301,213
Receivable from affiliates – net	7.3	4,936,925	8,224,880
		<u>26,758,081</u>	<u>37,118,968</u>
b) DUE TO RELATED PARTIES			
Payable to affiliates – net	7.4	8,555,139	12,462,474
Payable to SABB	7.5	11,738,696	20,024,675
		<u>20,293,835</u>	<u>32,487,149</u>

7.1 This represents management fees receivable from HSBC Saudi Arabia Limited Mutual Funds (“the Mutual Funds”) calculated at mutually agreed rate.

7.2 This mainly represents receivable on account of advisory services and net balance on intercompany transactions with SABB.

7.3 This mainly represents receivable on account of equity swaps commission from an HSBC entity.

7.4 This mainly consists of payable to HSBC entities.

7.5 This mainly represents payable to SABB for services referred in note 20.

The income and expenses in respect of related parties included in the financial statements are as follows:

Transaction with	Income Statement	Notes	2015	2014
The Saudi British Bank (SABB)	Services cost under service level agreement-net	20	<u>(28,619,758)</u>	<u>(27,830,449)</u>
	Rental income		<u>--</u>	<u>477,000</u>
	Fees paid for discretionary portfolios service and Mutual Funds		<u>(26,838,361)</u>	<u>(44,170,291)</u>
HSBC Saudi Arabia Limited Mutual Funds (“the Mutual Funds”)	Brokerage income, net		<u>2,151,292</u>	<u>3,032,966</u>
			<u>--</u>	<u>5,020,926</u>
	Management fee from funds		<u>1,007,237</u>	<u>113,370,104</u>
HSBC Bank Plc.	Realized gain on sale of investments	16	<u>18,555,488</u>	<u>30,173,438</u>
	Income on equity swaps			
Directors Remuneration			<u>(1,741,000)</u>	<u>(496,442)</u>
Committee members fee			<u>(506,000)</u>	<u>--</u>

8. Advances, Prepayments and Other Assets

Advances prepayments and other assets include advance income tax amounting to SAR 35.6 million (2014: SAR 27.2 million) paid by the Company to the local tax authorities.

Notes to the Financial Statements (continued)**9. Investments****9.1 Held for trading**

Investments in held for trading comprise of investments in units of HSBC Saudi Equity 20 Index Exchange Traded Fund which are recorded at fair value.

	2015	2014
9.1 AVAILABLE FOR SALE		
Cost	1,008,780,847	882,775,578
Unrealised gain, net	14,430,511	15,274,123
	<u>1,023,211,358</u>	<u>898,049,701</u>
9.2 BREAK UP OF INVESTMENTS - AVAILABLE FOR SALE:		
HSBC Saudi Riyal Trading Fund	951,410,512	820,935,262
HSBC Sukuk Fund	49,906,846	50,706,239
HSBC GCC Equity Income Fund	21,894,000	26,408,200
	<u>1,023,211,358</u>	<u>898,049,701</u>

10. Property and Equipment, Net

	2015					2014
COST						
Balance at beginning of the year	12,926,751	15,965,507	5,128,245	242,950	34,263,453	33,996,875
Additions during the year	349,381	355,549	766,227	171,300	1,642,457	664,959
Disposals during the year	--	--	--	--	--	(398,381)
Balance at the end of year	<u>13,276,132</u>	<u>16,321,056</u>	<u>5,894,472</u>	<u>414,250</u>	<u>35,905,910</u>	<u>34,263,453</u>
ACCUMULATED DEPRECIATION						
Balance at beginning of the year	12,683,846	15,657,985	3,697,971	171,654	32,211,456	31,757,690
Charge for the year	164,630	158,344	487,446	76,827	887,247	852,147
Disposals during the year	--	--	--	--	--	(398,381)
Balance at the end of year	<u>12,848,476</u>	<u>15,816,329</u>	<u>4,185,417</u>	<u>248,481</u>	<u>33,098,703</u>	<u>32,211,456</u>
NET BOOK VALUE:						
Balance at 31 December 2015	<u>427,656</u>	<u>504,727</u>	<u>1,709,055</u>	<u>165,769</u>	<u>2,807,207</u>	
Balance at 31 December 2014	<u>242,905</u>	<u>307,522</u>	<u>1,430,274</u>	<u>71,296</u>		<u>2,051,997</u>

11. Accrued Expenses and Other Liabilities

	2015	2014
Accrued bonus	102,630,802	99,660,332
Other current liabilities (note 11.1)	82,225,054	132,852,744
	<u>184,855,856</u>	<u>232,513,076</u>

11.1 Other current liabilities include the provision for operational losses as disclosed in note 18.

12. Zakat and Income Tax

The Company has made a provision of SAR 40.75 million (2014: SAR 49.91 million) for zakat and income tax, for the year ended 31 December 2015. Zakat and income tax has been calculated in accordance with the Saudi Arabian Zakat and Income Tax Regulations and charged to the statement of changes in equity. The provision for income tax is based on share of taxable income on non-Saudi shareholding of 69.40%. Provision for Income tax has been recorded based on the estimated taxable profit at 20%.

Notes to the Financial Statements (continued)**12. Zakat And Income Tax (continued)**

Tax and zakat declaration for the years ended 31 December 2007 to 2014 have been filed by the Company within the statutory deadlines. The Department of Zakat and Income Tax (DZIT) had finalised assessments up to the year ended 31 December 2007. The DZIT has initiated the review of the tax /zakat declarations filed by the Company for the year ended 2008 to 2013. However, DZIT had raised the preliminary zakat assessment for the year ended 31 December 2010 and determined the additional zakat liability of SAR 168,500 which has been accepted and settled in 2011.

The tax and zakat declaration of the Company for the year ended 31 December 2015 will be due for filing on 30 April 2016.

	2015	2014
ADJUSTED INCOME		
Income for the year	279,071,740	229,430,916
Adjustment	(509,709)	111,396,695
Adjusted Taxable / Zakatable income	278,562,031	340,827,611
Saudi share of adjusted Zakatable income Additions	85,239,981	104,293,249
Share capital		
Unrealised gain on investments - available for sale	153,000,000	153,000,000
Reserves	4,673,882	4,157,251
Retained earning	29,229,903	22,209,317
Provision for end of service benefits	53,173,089	64,038,016
Provision for operational losses	13,640,008	11,671,105
	30,982,500	--
	2015	2014
DEDUCTIONS		
Property and equipments, net	(5,068,541)	(5,224,815)
Investments	(313,102,676)	(274,803,209)
Dividends paid	(47,900,349)	(58,776,454)
Utilization of operational losses	(12,264,480)	--
Zakat base	(8,396,683)	20,564,460
Zakat charge for the year at 2.5% (on higher of Zakat base or Zakatable income)	2,131,000	2,607,331
Foreign Partner share of income	193,322,050	236,534,362
Income tax at 20%	38,664,410	47,306,872
Total Zakat & income tax	40,795,410	49,914,203

MOVEMENT IN ZAKAT AND INCOME TAX PAYABLE IS AS FOLLOWS:

Opening balance	49,914,203	38,351,629
Provision for the current year	40,795,410	49,914,203
Adjustments, net	36,612	20,877
Payment during the year, net	(49,950,815)	(38,372,506)
Closing balance	40,795,410	49,914,203

13. End of Service Benefits

	2015	2014
Opening balance		
Charge for the year	44,575,190	38,140,867
Payments made during the year, net	11,015,021	11,368,174
Closing balance	(10,353,749)	(4,933,851)
	45,236,462	44,575,190

Notes to the Financial Statements *(continued)***14. Share Capital**

As at 31 December 2015 and 2014, the Company is owned by the following shareholders in the proportion set out below:

	Number of shares	% of contribution	As at 31 December 2015
HSBC Asia Holdings BV	4,900	49%	245,000,000
The Saudi British Bank ('SABB')	5,100	51%	255,000,000
Total	10,000	100%	500,000,000

15. Statutory Reserve

In accordance with Article 176 of the Saudi Arabian Regulations for Companies, the Company is required to transfer 10% of net income to a statutory reserve until such reserve equals 50% of the paid up capital as a minimum. This reserve is not available for distribution. The Company has transferred 10% of its net income for the year to statutory reserve.

16. Equity Securities Held Under Swap Agreements

As at 31 December 2015, the Company held equity securities listed on Saudi stock exchange (Tadawul) having market value of SAR 4.48 billion (2014: SAR 7.43 billion) in its name under Equity Swap Master Confirmation Agreement. These securities were held in pursuance to Capital Market Authority (CMA) circular dated 21 August 2008. Through this circular, CMA allowed the Authorized Persons (AP) to enter into Swap Agreement with non-resident foreign investors to transfer the economic benefits of the shares of companies' listed on Tadawul while the Company retain the legal ownership of shares.

Further as at year end, cash balance amounting to SAR 80.6 million (2014: SAR 136.5 million) was kept with SABB on behalf of the customers under equity swap agreement.

17. Assets Held Under Fiduciary Capacity**a) Assets under management**

These represent Mutual funds' and Discretionary portfolio assets managed by the Company, which amount to SAR 19.4 billion as at 31 December 2015 (2014: SAR 29.35 billion).

(b) Balances held under brokerage accounts

As at 31 December 2015, cash balances held in brokerage accounts amounting to SAR 5.8 billion (2014: SAR 9.67 billion) were kept with SABB. These amounts were kept with the Company by its customers for the purpose of investments in the local equity market.

Consistent with its accounting policy, such balances are not included in the Company's financial statements and are considered off balance sheet.

(c) Assets under custody

As at 31 December 2015, the Company held Assets under custody, listed on Saudi stock exchange (Tadawul), on behalf of several customers, having market value of SAR 44.8 billion (2014: SAR 56.4 billion).

Notes to the Financial Statements *(continued)***18. Provision for Operational Losses**

Provision against operational losses represent the amount which the management reasonably expects to pay for the settlement of historical issues, mainly relating to the period 2002 to 2014, identified as a result of various Capital Market Authority (CMA) inspections.

The management performed a detailed exercise assuming various scenarios for determining the probable amount the Company may pay for these historical issues. In addition to this, the management also estimated for the impact of certain non-compliances identified during the said inspection. Based on the management's reasonable estimate, the management believes an amount of SAR 61.17 million (2014:SAR 101.25 million) may be required for these issues, which has been retained from previous year provision.

During the year ended 31 December 2015, the company paid fines levied by CMA in relation to the above.

Based on the facts currently known, there is a high degree of uncertainty as to the terms on which remaining issues would be resolved and the timing of such resolutions, resulting in amounts which could be upto or higher than the provision.

19. Other General and Administrative Expenses

	2015	2014
Professional fees	25,017,184	22,306,860
Travel	2,907,115	3,032,398
Communication expense	1,506,835	1,625,867
Others (note 19.1)	3,164,646	48,177,391
	<u>32,595,780</u>	<u>75,142,516</u>

This mainly pertains to operational losses during the year netted off against operational gains, if any (2014: SAR 49.5 million, as a result of an operational loss event).

20. Service Costs Under Service Level Agreement

This represents allocation of service costs under separate service level agreement between SABB and the Company. As per the agreement, the Company is providing risk evaluation services to SABB for SABB's margin lending customers. SABB also provides operational services to the Company including, information technology, property, operations and human resources at consideration mutually agreed by both the parties.

21. Regulatory Requirements for Capital And Capital Adequacy

The capital base consists of Tier 1 capital (which includes share capital, statutory reserve and audited retained earnings) and Tier 2 capital (include surplus on revaluation of available for sale investments) as per Article 4 & 5 of the Prudential Rules. The minimum capital requirements for market, credit & operational risk are calculated as per the requirements specified in part 3 of the Prudential Rules.

The Company manages the capital base in accordance with pillar 1 of the Prudential Rules. The capital base should not be less than minimum capital requirement and Company's internal capital adequacy assessment process.

The Company's business objectives when managing capital adequacy is to comply with the capital requirements set forth by the CMA, to safeguard the Company's ability to continue as a going concern and to maintain a strong capital base.

Notes to the Financial Statements *(continued)***As at 31 December**

	2015	2014
	SAR'000	SAR'000
CAPITAL BASE:		
Tier 1 Capital	851,029	769,291
Tier 2 Capital	14,431	15,274
Total Capital Base	865,460	784,565
MINIMUM CAPITAL REQUIREMENT:		
Market Risk	2,366	2,607
Credit Risk	149,213	205,177
Operational Risk	85,484	105,426
Total Minimum Capital Required	237,063	313,210
CAPITAL ADEQUACY RATIO:		
Total Capital Ratio (times)	3.65	2.50
Tier 1 Capital Ratio (times)	3.59	2.46
Surplus in Capital	628,397	471,355

22. Risk Management

Management of risk is an essential element of the Company's business. The major risks faced by the Company are those related to liquidity, movements in special commission rates and foreign exchange rates. These risks are managed in the following manner:

Credit risk

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss. Financial assets, which potentially are subject to concentration of credit risk, consist principally of cash at bank, advisory income receivables, available for sale investments and due from related parties. The Company's cash equivalents are placed with SABB and available for sale investments represents investments in units of mutual funds, hence, the credit risk is limited. Management closely monitors exposure to credit risk in case of advisory income receivable from its clients.

Foreign exchange rate risk

Foreign exchange rate risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liability in that currency. The Company's foreign currency transactions are primarily denominated in USD. The rate of exchange for conversion of the Saudi Riyal to the US Dollar is pegged, on the basis of which the management believes that the Company is not significantly exposed to risk of fluctuation in foreign exchange rates.

Special commission rate risk

The Company has special commission rate risk with respect to the time deposits maintained with SABB which are carried at fixed special commission rate. Further, the Company has investments in units of mutual funds having underlying money market placements. Management monitors the changes in commission rates on regular basis and believes that the commission rate risk is not significant.

Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions which may cause certain sources of funding to dry up immediately. To guard against this risk, management performs regular review of available funds and its present and future commitments.

23. Fair Value 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. As these financial statements are prepared under the historical cost method, except for the revaluation of the available-for-sale investments, differences may arise between the book values and the fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

24. board of directors' approval

The financial statements were approved by the Board of Directors on 14 Jamada'II 1437H corresponding to 23 March 2016.