

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
Financial Statements
For the period from 29 March 2017
to 31 December 2017
together with the
Independent Auditors' Report



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

Independent auditors' report

To the Shareholders of HSBC Saudi Arabia Riyadh, Kingdom of Saudi Arabia

Opinion

We have audited the financial statements of HSBC Saudi Arabia ("the Company"), which comprise the balance sheet as at 31 December 2017, the statements of income, cash flows and changes in equity for the period from 29 March 2017 to 31 December 2017, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting standards as issued by Saudi Organization for Certified Public Accountants (SOCPA).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Note 1 of the accompanying financial statements of HSBC Saudi Arabia, which states that on 29 March 2017, the Company's legal status was changed from Limited Liability Company ("LLC") to Closed Joint Stock Company ("CJSC"). The Company has opted not to present the comparatives in the financial statements and in Note 1, the Company discloses its assets, liabilities and equity as at 28 March 2017, the last day of the Company as an LLC. All the assets and liabilities of the LLC have been brought forward to the CJSC.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting standards as issued by SOCPA, the applicable requirements of the Regulations for Companies, Company's By-Laws 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of HSBC Saudi Arabia ("the Company").

For KPMG Al Fozan & Partners
Certified Public Accountants



Abdullah Hamad Al Fozan
License No: 348

26 March 2018
Corresponding to: 9 Rajab 1439H



HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
BALANCE SHEET
As at 31 December 2017
(Saudi Arabian Riyals)

	<i>Note</i>	<u>2017</u>
ASSETS		
Current assets		
Cash and cash equivalents	(4)	115,440,130
Investments - held for trading	(10.1)	6,726,456
Investments - available for sale	(10.2)	30,979,990
Advisory income receivable, net	(5)	11,358,270
Receivable against portfolio management	(6)	8,620,181
Receivable against margin lending	(7)	716,057,346
Due from related parties	(8a)	25,108,196
Advances, prepayments and other current assets	(9)	41,780,161
Total current assets		<u>956,070,730</u>
Non-current assets		
Investments - available for sale	(10.3)	204,919,093
Property and equipment, net	(11)	9,464,236
Total non-current assets		<u>214,383,329</u>
Total assets		<u><u>1,170,454,059</u></u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Due to related parties	(8b)	32,794,654
Unearned income		5,813,269
Short term loans	(8c)	150,000,000
Accrued expenses and other current liabilities	(12)	113,864,160
Zakat and income tax payable	(13)	22,989,121
Total current liabilities		<u>325,461,204</u>
Non-current liability		
End of service benefits	(14)	41,492,493
Other non-current liabilities	(19)	30,584,985
Total non-current liabilities		<u>72,077,478</u>
Total liabilities		397,538,682
Shareholders' equity		
Share capital	(15)	500,000,000
Statutory reserve	(16)	150,000,000
Available for sale (AFS) financial reserve	(10.3)	6,366,363
Retained earnings		116,549,014
Total shareholders' equity		<u>772,915,377</u>
Total liabilities and shareholders' equity		<u><u>1,170,454,059</u></u>

The accompanying notes (1) through (28) form an integral part of these financial statements.


Chief Executive Officer and Board Member


Chief Financial Officer

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
STATEMENT OF INCOME
For the period from 29 March 2017 to 31 December 2017
(Saudi Arabian Riyals)

	<i>Note</i>	<u>2017</u>
Revenue		
Income from advisory services	(23)	82,479,429
Income from brokerage and margin lending, net	(23)	55,349,477
Income from securities services	(23)	62,375,814
Asset management fee income	(23)	81,132,936
Brokerage income from equity swaps	(17)	<u>12,020,500</u>
		293,358,156
Expenses		
Salaries and employee related expenses		136,936,636
Office expense		18,020,562
Rent		7,647,092
Advertising and promotion expenses		497,808
Depreciation		925,564
Other general and administrative expenses	(20)	24,170,472
Service costs under service level agreement, net	(21)	19,240,812
Reversal of provision against operational losses	(19)	<u>(30,584,985)</u>
		176,853,961
Net operating income		116,504,195
Other income	(22)	18,035,420
Net income for the period		<u>134,539,615</u>

The accompanying notes (1) through (28) form an integral part of these financial statements.



Chief Executive Officer and Board Member



Chief Financial Officer

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the period from 29 March 2017 to 31 December 2017
(Saudi Arabian Riyals)

	<i>Note</i>	<u>2017</u>
Cash flows from operating activities		
Net income for the period before Zakat and income tax		134,539,615
<i>Adjustments to reconcile net income to net cash generated from operating activities:</i>		
Depreciation		925,564
End of service benefits charge	(14)	7,821,718
Unrealized gain on investments - held for trading	(10)	(894,297)
Provision for doubtful debts		213,463
Realized gain on sale of investments - available for sale	(22)	<u>(14,488,756)</u>
		128,117,307
Net (increase) / decrease in operating assets		
Advisory income receivable		7,627,283
Receivable against portfolio management		2,206,325
Advances, prepayments and other assets		1,849,881
Receivable against margin lending	(7)	(706,424,399)
Due from related parties		(1,064,188)
Net increase / (decrease) in operating liabilities		
Due to related parties		17,804,968
Unearned income		591,426
Accrued expenses and other liabilities		<u>3,390,125</u>
		21,786,519
End of service benefits paid	(14)	(9,709,345)
Zakat and income tax paid	(13)	<u>(21,088,030)</u>
Net cash used in operating activities		<u>(576,698,647)</u>
Cash flows from investing activities		
Additions to property and equipment	(11)	(3,738,195)
Capital work in progress payments		(819,867)
Investments - held for trading		7,998
Proceeds from sale of investments – available for sale	(10.2)	<u>375,015,029</u>
Net cash generated from investing activities		<u>370,464,965</u>
Cash flows from financing activities		
Dividends paid		(104,835,516)
Borrowing	(8.5)	<u>150,000,000</u>
Net cash generated from financing activities		45,164,484
Net decrease in cash and cash equivalents		(161,069,198)
Cash and cash equivalents at beginning of the period		<u>276,509,328</u>
Cash and cash equivalents at end of the period	(4)	<u><u>115,440,130</u></u>
Supplementary non-cash information		
Net changes in fair value and transfer to statement of income		<u><u>(14,043,619)</u></u>

The accompanying notes (1) through (28) form an integral part of these financial statements.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the period from 29 March 2017 to 31 December 2017
(Saudi Arabian Riyals)

	Share capital	Statutory reserve (<i>Note 15</i>)	AFS financial reserve	Retained earnings	Total
Balance as at 29 March 2017	<u>500,000,000</u>	<u>137,404,756</u>	<u>20,409,982</u>	<u>119,595,078</u>	<u>777,409,816</u>
Net income for the period	--	--	--	134,539,615	134,539,615
Dividend paid during the period	--	--	--	(104,835,516)	(104,835,516)
Transfer to statutory reserve	--	12,595,244	--	(12,595,244)	--
Realized gain on sale of investments – net amount transferred to statement of income	--	--	(14,488,756)	--	(14,488,756)
Net changes in fair value	--	--	445,137	--	445,137
Provision for Zakat and income tax (<i>Note 13</i>)	--	--	--	(20,154,919)	(20,154,919)
Balance as at 31 December 2017	<u>500,000,000</u>	<u>150,000,000</u>	<u>6,366,363</u>	<u>116,549,014</u>	<u>772,915,377</u>

The accompanying notes (1) through (28) form an integral part of these financial statements.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the period from 29 March 2017 to 31 December 2017

1. ORGANIZATION AND ACTIVITY

HSBC Saudi Arabia (the “Company”) is a Closed Joint Stock 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.
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.

On 01 Rajab1438H corresponding to 28 March 2017, the Company was converted from a Limited Liability Company (“LLC”) to a Closed Joint Stock Company under Royal Decree number M/3 dated 28/01/1437H.

The share capital of the Company was SAR 500 million divided into 10,000 shares of SAR 50,000 each. The shareholders and their respective holdings were as follows:

	<u>Number of shares</u>	<u>% of contribution</u>	<u>As at 28 March 2017</u>
HSBC Asia Holdings BV	4,900	49%	245,000,000
The Saudi British Bank (“SABB”)	5,100	51%	255,000,000
Total	<u>10,000</u>	<u>100%</u>	<u>500,000,000</u>

On 29 March 2017, the legal formalities in respect of the incorporation were completed and the Company obtained its revised commercial registration certificate. The share capital of the Company was split from 10,000 shares of SAR 50,000 each into 50 million shares of SAR 10 each.

The revised shareholding is as follows:

	<u>Number of shares</u>	<u>% of contribution</u>	<u>As at 31 December 2017</u>
HSBC Asia Holdings BV	24,500,000	49%	245,000,000
The Saudi British Bank (“SABB”)	25,497,000	50.994%	254,970,000
Arabian Real Estate Company Limited	1,000	0.002%	10,000
SABB Insurance Agency Limited	1,000	0.002%	10,000
SABB Real Estate	1,000	0.002%	10,000
Total	<u>50,000,000</u>	<u>100%</u>	<u>500,000,000</u>

The Company has prepared statutory financial statements for its first fiscal period under the new legal status of a Closed Joint Stock Company (“CJSC”) which begins from the date of ministerial resolution, 29 March 2017, and ends on 31 December 2017. The Company has opted not to present the comparatives in the financial statements, as allowable per local guidance. The following table details the Company’s assets, liabilities and equity as at 28 March 2017, the last day of the Company as LLC and all the assets and liabilities of the LLC have been brought forward to the CJSC:

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the period from 29 March 2017 to 31 December 2017
(Saudi Arabian Riyals)

1. ORGANIZATION AND ACTIVITY (CONTINUED)

	<u>28 March 2017</u>
Cash and cash equivalents	276,509,328
Investments - held for trading	6,322,845
Investments - available for sale	610,199,746
Advisory income receivable	18,985,553
Receivable against portfolio management	10,826,506
Receivable against margin lending	9,632,947
Due from related parties	24,044,008
Advances, prepayments and other current assets	43,630,042
Property and equipment, net	5,831,742
Total assets	1,005,982,717
Due to related parties	(14,989,686)
Unearned income	(5,221,843)
Accrued expenses and other current liabilities	(141,059,020)
Zakat and income tax payable	(23,922,232)
End of service benefits	(43,380,120)
Total Liabilities	(228,572,901)
Net assets	777,409,816
Share capital	500,000,000
Statutory reserve	137,404,756
Unrealised gain on investments - available for sale	20,409,982
Retained earnings	119,595,078
Total shareholders' equity	777,409,816

The Company's statutory financial statements for next year and going forward will be prepared from 1 January to 31 December of each Gregorian year along with the appropriate comparative amounts as a Closed Joint Stock Company.

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 ("Saudi accounting standards") issued by the Saudi Organization for Certified Public Accountants ("SOCPA") as appropriate to the circumstances of the Company.

b) Basis of measurement

The financial statements have been prepared on the 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.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the period from 29 March 2017 to 31 December 2017

2. BASIS OF PREPARATION (CONTINUED)

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.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently throughout the period from 29 March 2017 to 31 December 2017.

a) Trade receivables

Trade receivables which include receivables from advisory services and portfolio management, are stated at original invoice amount less provision made for doubtful receivables. A provision against doubtful receivable is established when there is objective evidence that the Company will not be able to collect the amounts due according to the original terms of receivables. Bad debts are written off when identified, against its related provisions. The provisions are charged to statement of income and any subsequent recovery of receivable amounts previously written off is credited to income.

b) Receivable against margin lending

Margin lending receivables are recognized when the cash is advanced to the customers who trade in the capital markets. The cash advance is collateralised against equity securities purchased by the borrowers using these funds as well as any cash accounts that may be held by the customers. The outstanding receivable will decrease when either the borrowers liquidate their holdings or remit cash to reduce the utilization.

c) Property and equipment

Property and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss, if any. 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 the property and equipment. All other expenditure is recognized in the income statement when incurred.

Expenditure incurred up to the point of capitalization, until the asset is ready for the intended use, is treated as capital work in progress.

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 the Company's property and equipment are as follows:

	<u>Years</u>
Leasehold Improvements	5
Furniture and Equipment	5
Motor Vehicles and software	4

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the period from 29 March 2017 to 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) *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 trading purposes. These investments are stated at fair value and disclosed under non-current assets, unless the Company intends to dispose of the investments 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 then re-measured and stated in the balance sheet at market value and included under current assets. Changes in market value are recognised in statement of income.

e) *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.

Asset Management fee Income

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

Brokerage income from Equity Swaps

Brokerage income on Equity swaps is recognised on an accrual basis over the period when the service is being provided.

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 service is being provided. Unearned revenue is deferred and recognised when earned.

Margin lending

Margin lending is a fully secured overdraft facility provided to customers to trade in the capital market. Interest income from margin lending is accrued daily on the outstanding balance on an effective yield basis.

Dividends

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

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the period from 29 March 2017 to 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) 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.

g) 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.

h) 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.

i) 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 respective financial asset and liability. Fair value is determined on the basis of objective evidence at the balance sheet date.

j) Impairment of assets

Impairment of available for sale investments

The management exercises judgment to calculate the impairment loss of available for sale investments as well as their underlying assets. This includes the assessments of objective evidence which causes another than temporary decline in the value of investments. Any significant and prolonged decline in the fair value of equity investments below its cost is considered objective evidence for the impairment. The determination of what is "significant and prolonged" requires judgment. The Company' also considers impairment to be appropriate when there is evidence of deterioration in the financial health of investee, industry and sector performance, changes in technology, and operational and financing cash flow. The management also considers impairment testing to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. Management considers 20% or more as a reasonable measure for significant decline below its cost, and is recognized in the consolidated statement of income as impairment charge on investments. Prolonged decline represents decline below cost that persists for nine months or longer, recognized in the consolidated statement of income as impairment charge on investments. Any previously recognized impairment losses in respect of equity investments cannot be reversed through the consolidated statement of income.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the period from 29 March 2017 to 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

Other non-current assets 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.

k) 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 period/year.

l) 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.

m) 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 the 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.

n) Other 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.

o) 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.

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.

q) Segment information

A segment is a distinguishable component of the Company that is engaged in providing services (a business segment) which is subject to risks and rewards that are different from those of other segments. (Note 23)

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the period from 29 March 2017 to 31 December 2017

4. CASH AND CASH EQUIVALENTS

	<u>Notes</u>	<u>2017</u>
Cash at bank		98,565,130
Time Deposit	4.1	<u>16,875,000</u>
		<u><u>115,440,130</u></u>

- 4.1** Time deposits placed with SABB at rate of 1.10% per annum for tenure of less than 90 days are considered to be cash.

5. ADVISORY INCOME RECEIVABLE

	<u>Notes</u>	<u>2017</u>
Gross advisory income receivable		13,718,608
Less: Provision for doubtful receivables	5.1	<u>(2,360,338)</u>
Net advisory income receivable		<u><u>11,358,270</u></u>

- 5.1** Following is age analysis for advisory income receivable balance and the corresponding provision as at 31 December 2017:

<u>Number of days outstanding</u>	<u>Gross balance receivable</u>	<u>Provision</u>	<u>Net balance receivable</u>
Up to-90	8,478,101	-	8,478,101
91-360	5,124,882	2,244,713	2,880,169
361 and above	115,625	115,625	-
Total	<u>13,718,608</u>	<u>2,360,338</u>	<u>11,358,270</u>

The management is reasonably confident of collecting the above dues and have taken necessary actions to facilitate such recovery.

6. RECEIVABLE AGAINST PORTFOLIO MANAGEMENT

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

7. RECEIVABLE AGAINST MARGIN LENDING

The Company extends margin financing facilities to its customers to invest in the Saudi stock exchange (Tadawul) who wish to actively trade on a leveraged basis, secured by the tradable securities. The facilities are reviewed at least on an annual basis.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the period from 29 March 2017 to 31 December 2017
(Saudi Arabian Riyals)

8. RELATED PARTY BALANCES AND TRANSACTIONS

Related parties of the Company comprise of group companies including its affiliates and brokers and its shareholders. 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.

	<u>Notes</u>	<u>2017</u>
(a) <i>Due from related parties</i>		
Receivable from SABB	8.1	12,682,583
Receivable from affiliates	8.2	12,425,613
		25,108,196
(b) <i>Due to related parties</i>		
Payable to SABB	8.3	5,747,963
Payable to affiliates	8.4	27,046,691
		32,794,654
(c) <i>Short term loans</i>		
Short term revolving loan facility from SABB	8.5	150,000,000

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

8.2 This mainly represents receivable from an HSBC entity on account of commission earned from equity swap arrangements with foreign counter parties pursuant to Capital Market Authority (CMA) circular dated 21 August 2008, as explained in note 17.

8.3 This mainly represents payable to SABB for service costs under service level agreement referred in note 21.

8.4 This mainly consists of payable to HSBC entities.

8.5 The Company has obtained a short term revolving loan facility from SABB having a maturity of 12 months and carrying a commission rate of 3 months SAIBOR plus 1.50% per annum.

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8. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

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

<u>Transaction with</u>	<u>Income Statement</u>	<u>Notes</u>	<u>2017</u>
The Saudi British Bank (SABB)	Services cost under service level agreement-net	21	<u>18,446,077</u>
	Services cost under service level agreement- Medical Insurance		<u>794,735</u>
	Income from Time deposit		<u>460,336</u>
	Arranging/Advisory Income under service level agreement		<u>15,747,475</u>
	Fees paid for discretionary portfolios service and Mutual Funds		<u>5,200,989</u>
	Special commission expense on short term loan facility		<u>2,211,927</u>
	HSBC Saudi Arabia Mutual Funds ("the Mutual Funds")*	Brokerage income, net	
	Asset Management fee from funds		<u>55,796,365</u>
	Realized gain on sale of Investments - net	10.2	<u>14,488,756</u>
HSBC entities	Brokerage income on equity swaps	17	<u>12,020,500</u>
	Arranging/Advisory Income under service level agreement		<u>9,506,250</u>
	Services cost under service level agreement		<u>6,902,775</u>
Directors Remuneration & Committee members fee			<u>1,493,000</u>
Key management compensation (Key management personnel of the Company comprise senior executive management)	Salaries & compensations		<u>5,226,968</u>
	Allowances		<u>2,429,520</u>
	Periodic and annual remuneration		<u>7,271,250</u>

*HSBC Saudi Arabia Mutual Funds comprises of following entities:

<i>HSBC Saudi Equity Fund</i>	<i>HSBC China and India Equity Freestyle Fund</i>
<i>HSBC Saudi Equity Income Fund</i>	<i>HSBC Global Equity Index Fund</i>
<i>HSBC Saudi Companies Equity Fund</i>	<i>HSBC Global Emerging Markets Equity Fund</i>
<i>HSBC Saudi Petrochemical Opportunities Equity Fund</i>	<i>HSBC GCC Equity Fund</i>
<i>HSBC Saudi Financial Institutions Equity Fund</i>	<i>HSBC GCC Equity Income Fund</i>
<i>HSBC Saudi Construction and Cement Companies Equity Fund</i>	<i>HSBC Multi-Assets Defensive Fund</i>
<i>HSBC Saudi Industrial Companies Equity Fund</i>	<i>HSBC Multi-Assets Growth Fund</i>
<i>HSBC Saudi Freestyle Equity Fund</i>	<i>HSBC Multi-Assets Balanced Fund</i>
<i>HSBC Sukuk Fund</i>	<i>HSBC US Dollar Murabaha Fund</i>
<i>HSBC Saudi 20 ETF</i>	<i>HSBC Saudi Riyal Murabaha Fund</i>

9. ADVANCES, PREPAYMENTS AND OTHER ASSETS

Advances prepayments and other assets mainly include advance income tax amounting to SAR 23.4 million paid by the Company to the local tax authorities and other amounts mainly related to settlement accounts.

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10. INVESTMENTS

10.1 *Held for trading*

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

	<u>2017</u>
Cost	5,832,159
Change in fair value	894,297
Fair value at end of the period	<u><u>6,726,456</u></u>

10.2 *Available for sale- current*

Investment classified as available for sale comprise of direct investment in units of Saudi Riyal Public Trading Fund and has been classified as current asset as the Company intends to liquidate the investment within the next fiscal year to meet funding requirements.

	<u>2017</u>
Balance at the beginning of the period	390,111,540
Proceeds from redemption on investments during the period	(375,015,029)
Realized gain on available for sale investments	14,488,756
Change in fair value	1,394,723
	<u><u>30,979,990</u></u>

10.3 *Available for sale- non current*

	<u>2017</u>
Cost	229,532,720
Unrealised gain, net	6,366,363
	<u><u>235,899,083</u></u>
Break up of investments - available for sale:	
HSBC Saudi Riyal Trading Fund	167,053,416
HSBC Sukuk Fund	49,001,467
HSBC GCC Equity Income Fund	19,844,200
	<u><u>235,899,083</u></u>

10.4 Management do not consolidate their investments in HSBC Saudi Arabia Mutual Funds entities (the "Mutual Funds"). These Mutual Funds are independent registered entities operating under the supervision of an independent Fund Board and the Company exercises no direct control over its operations and power to affect any variable returns.

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11. PROPERTY AND EQUIPMENT, NET

	2017					
	<u>Lease hold improvements</u>	<u>Furniture</u>	<u>Equipment</u>	<u>Software</u>	<u>Motor vehicles</u>	<u>Total</u>
Cost						
Balance at beginning of the year	13,349,450	16,471,339	6,655,836	--	414,250	36,890,875
Additions during the year	8,500	148,474	630,421	2,950,800	--	3,738,195
Disposals during the year	--	--	--	--	--	--
Balance at the end of year	<u>13,357,950</u>	<u>16,619,813</u>	<u>7,286,257</u>	<u>2,950,800</u>	<u>414,250</u>	<u>40,629,070</u>
Accumulated depreciation						
Balance at beginning of the year	13,004,813	16,029,492	4,956,620	--	317,765	34,308,690
Charge for the year	80,160	137,957	510,850	164,179	32,418	925,564
Disposals during the year	--	--	--	--	--	--
Balance at the end of year	<u>13,084,973</u>	<u>16,167,449</u>	<u>5,467,470</u>	<u>164,179</u>	<u>350,183</u>	<u>35,234,254</u>
Net book Value:	272,977	452,364	1,818,787	2,786,621	64,067	5,394,816
Capital work in progress (11.1)	--	--	--	--	--	4,069,420
Balance at 31 December 2017	<u>272,977</u>	<u>452,364</u>	<u>1,818,787</u>	<u>2,786,621</u>	<u>64,067</u>	<u>9,464,236</u>

11.1 Capital work in progress of SAR 4.07 million pertains to an IT system under development for administration purpose.

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12. ACCRUED EXPENSES AND OTHER LIABILITIES

	<u>2017</u>
Accrued bonus	90,397,251
Other current liabilities	23,466,909
	<u>113,864,160</u>

13. ZAKAT AND INCOME TAX

The Company has made a provision of SAR 20.15 million for zakat and income tax, for the period ended 31 December 2017. Zakat and income tax has been calculated in accordance with the Saudi Arabian Zakat and Income Tax Regulations and charged to the statement of income. The provision for income tax is based on share of taxable income on non-Saudi shareholding of 69.40%. The provision has been recorded based on the estimated taxable profit at 20%.

Tax and zakat declaration for the years ended 31 December 2007 to 2016 have been filed by the Company within the statutory deadlines. The General Authority of Zakat and Income Tax (GAZT) had finalised assessments up to the year ended 31 December 2007. The GAZT has initiated the review of the tax /zakat declarations filed by the Company for the years ended 2008 to 2013. However, GAZT had raised the preliminary zakat assessment for the year ended 31 December 2010 and determined an additional zakat liability of SAR 168,500 which has been accepted and settled in 2011.

The GAZT has issued a letter asking the Company to settle additional zakat of SAR 6,870,081 for the year ended 31 December 2014. The GAZT stated that the Company's investments in mutual funds are not deductible for zakat purposes.

The Company has filed an appeal against the preliminary zakat assessment raised by the GAZT and is waiting outcome of the appeal filed with GAZT.

The assessments for the years 2008 to 2016 are yet to be raised by the GAZT. However if investments in funds are disallowed, it will result in significant additional zakat exposure to the Company which remains an industry wide issue and disclosure of which may affect the Company's position in this matter.

The zakat component are as follows:

	<u>2017</u>
Adjusted income	
Net income for the year	148,277,165
Adjustment	<u>(29,129,774)</u>
Adjusted Taxable / Zakatable income	119,147,391
Saudi share of adjusted Zakatable income	36,459,102

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13. ZAKAT AND INCOME TAX (CONTINUED)

	<u>2017</u>
Additions	
Share capital	153,000,000
Statutory Reserves	42,045,855
Retained earning	33,259,670
Dividends for the years	(32,079,668)
Provision for end of service benefits	13,062,111
Provision for operational losses	18,718,020
Written down value of property, plant and equipment	5,161,339
Capital work in progress	1,245,244
Zakat base	<u>258,058,507</u>
Zakat at 2.5%	<u>6,451,463</u>
Foreign Partner share of net income	<u>82,688,290</u>
Income tax at 20%	<u>16,537,658</u>
Total zakat & income tax	<u><u>22,989,121</u></u>

Movement in Zakat and income tax payable is as follows:

	<u>2017</u>
Opening balance as at 29 March 2017	23,922,232
Provision for the current year	20,154,919
Payment during the year, net	(21,088,030)
Closing balance	<u>22,989,121</u>

Zakat and income tax provision in lieu of annual self-assessment for the year ended 31 December 2017 is SAR 22.9 million. However, for the period from 29 March 2017 to 31 December 2017, provision of zakat and income tax accounted for in this financial statements is SAR 20.15 million.

14. END OF SERVICE BENEFITS

	<u>2017</u>
Opening balance as at 29 March 2017	43,380,120
Charge for the period	7,821,718
Payments made during the period, net	(9,709,345)
Closing balance	<u>41,492,493</u>

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15. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Company consists of 50 million shares of SAR 10 each. As at 31 December 2017, the Company is owned by the following shareholders in the proportion set out below:

	<u>Number of shares</u>	<u>% of contribution</u>	<u>As at 31 December 2017</u>
HSBC Asia Holdings BV	24,500,000	49%	245,000,000
The Saudi British Bank ('SABB')	25,497,000	50.994%	254,970,000
Arabian Real Estate Company Limited	1,000	.002%	10,000
SABB Insurance Agency Limited	1,000	.002%	10,000
SABB Real Estate	1,000	.002%	10,000
Total	<u>50,000,000</u>	<u>100%</u>	<u>500,000,000</u>

16. 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 30% of the paid up capital as a minimum. This reserve is not available for distribution.

17. EQUITY SECURITIES HELD UNDER SWAP AGREEMENTS

As at 31 December 2017, the Company held equity securities listed on Saudi stock exchange (Tadawul) having market value of SAR 4.22 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.

As at 31 December 2017, cash amounting to SAR 132 million was held with SABB on behalf of the customers under the terms of this equity swap agreement.

18. ASSETS HELD UNDER FIDUCIARY CAPACITY

(a) Assets under management

Assets under management (AUM) represent mutual funds and discretionary portfolio assets managed by the Company in its capacity as the Fund Manager. As at 31 December 2017, AUM amounted to SAR 11.6 billion.

(b) Balances held under brokerage accounts

As at 31 December 2017, cash balances held in brokerage accounts amounting to SAR 5.4 billion were kept with SABB. HSBC SA does not hold any brokerage cash deposits for customers and hence requires brokerage customers to hold cash deposits in a designated investment account in SABB in order to transact in the local equity market via HSBC as the broker.

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19. PROVISION FOR OPERATIONAL LOSSES

Provision against operational losses represent the amount which 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. As per management's reasonable estimate based on a detailed exercise, including estimate of the impact of certain non-compliances identified during the inspection, a provision of SAR 61.17 million was created in 2014.

During the current period, management performed a reassessment of the amount expected to be payable in light of recent events and decisions of CMA in respect of the inspections. Based on reasonable judgment, management is not aware of any new issues which may have risen during the period, that require any additional provision. On the basis of prudence and facts currently known, there is still a certain degree of uncertainty as to the possibility of any future claims, which the Company may incur in relation to these issues. Therefore, management has decided to release a portion of the provision amounting to SAR 30.58 million which it reasonably expects will not to be required to pay in future.

Below is a movement in the provision during the current period;

	<u>2017</u>
Opening balance as at 29 March 2017	61,169,970
Release of provision during the period	(30,584,985)
Closing balance as at 31 December 2017	<u><u>30,584,985</u></u>

20. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2017</u>
Professional fees	15,707,122
Travel	3,536,315
Provision for doubtful debts	213,463
Communication expense	843,920
Others	3,869,652
	<u><u>24,170,472</u></u>

21. 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, SABB provides operational services to the Company including, information technology, property, operations and human resources at consideration prevailing under arm's length.

22. OTHER INCOME

This mainly comprises realised gains arising from the sale of available for sale investments amounting to SAR 14.4 million.

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23. SEGMENT INFORMATION

The Company's primary business is conducted in Saudi Arabia. Transactions between the operating segments are on normal commercial terms and conditions.

The Company's reportable segments are as follows:

Advisory services – caters consultancy business in financial dealings of its corporate customers.

Brokerage services – relates to providing services for private as well as corporate customers to trade in securities at Tadawul.

Asset management services – for its customers, private and corporate for managing their investments for capital gains.

Security services – which mainly include custodial and administrative services, cater mainly services for assets held under fiduciary capacity for mutual funds, assets under equity swap agreement and private investment portfolios.

Marginal lending – a fully secured overdraft facility provided to customers to trade in the capital market are covering the private sector investors.

Other operations – includes activities of Company's investments held for trading and available for sale.

The Company's total operating income and expenses, and the results for the period then ended, by operating segment, are as follows:

	<u>Advisory services</u>	<u>Brokerage</u>	<u>Asset management</u>	<u>Securities services</u>	<u>Margin lending</u>	<u>Other operations</u>	<u>Total</u>
Revenue	82,479,429	57,372,760	81,132,936	62,375,814	9,997,217	18,035,420	311,393,576
Expenses	58,063,257	63,672,198	50,184,656	33,306,908	2,211,927	(30,584,985)*	176,853,961

*This amount pertains to reversal of provision for operational losses; refer to note 19.

24. REGULATORY REQUIREMENTS FOR CAPITAL AND CAPITAL ADEQUACY

The capital base consists of Tier 1 capital (which includes share capital, statutory reserve and 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.

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24. REGULATORY REQUIREMENTS FOR CAPITAL AND CAPITAL ADEQUACY (CONTINUED)

	<u>2017</u>
Capital Base:	
Tier 1 Capital	766,549
Tier 2 Capital	6,366
Total Capital Base	772,915
Minimum Capital Requirement:	
Market Risk	2,964
Credit Risk	243,500
Operational Risk	63,744
Total Minimum Capital Required	310,208
Capital Adequacy Ratio:	
Total Capital Ratio (times)	2.49
Tier 1 Capital Ratio (times)	2.47
Surplus in Capital	462,707

25. 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 will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company has no significant concentration of credit risks. Cash and cash equivalents are placed with national and international banks with sound credit ratings. Trade and other accounts receivable are mainly due from local customers and related parties and are stated at their estimated realizable values.

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.

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25. RISK MANAGEMENT (CONTINUED)

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security or its issuer, or factors affecting all securities traded in the market. The Company is exposed to market risk on investments in quoted mutual funds and asset management fee income from mutual funds. Management monitors the changes in market prices on regular basis and believes that the market risk is not significant.

26. 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.

27. SUBSEQUENT EVENT

There were no significant post balance sheet events that require disclosure or adjusting of accounts in these interim financial statements.

28. BOARD OF DIRECTORS' APPROVAL

The financial statements were approved by the Board of Directors on 26 March 2018.