

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2021
together with the
Independent auditor's report

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2021

INDEX	PAGE
Independent auditor's report	1-2
Statement of financial position	3
Statement of income and other comprehensive income	4
Statement of changes in shareholders' equity	5
Statement of cash flows	6
Notes to the financial statements	7-40



Independent auditor's report to the shareholders of HSBC Saudi Arabia, A Saudi Closed Joint Stock Company

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of HSBC Saudi Arabia (the "Company") as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standard (IFRS), that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at December 31, 2021;
- the statement of income and other comprehensive income for the year then ended;
- the statement of changes in shareholders' equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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 *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the code of professional conduct and ethics, 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.

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 International Financial Reporting Standards, that are endorsed 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.

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 Audit Committee is responsible for overseeing the Company's financial reporting process.



Independent auditor's report to the shareholders of HSBC Saudi Arabia, A Saudi Closed Joint Stock Company (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 taken together, 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 judgment and maintain professional skepticism 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, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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 the Audit Committee 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.

PricewaterhouseCoopers

Mufaddal A. Ali
License Number 447

March 29, 2022



HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2021
(Amount in Saudi Riyals)

	<i>Note</i>	31 December 2021	31 December 2020
ASSETS			
Cash and cash equivalents	4,27	235,707,160	195,374,415
Investments held at fair value through statement of income (“FVSI”)	6	81,398,336	88,127,562
Advisory income receivable, net	7	58,144,762	30,453,272
Receivable against portfolio management	8,27	-	3,464,328
Receivable against margin lending, net	9,27	-	730,750,779
Advances, prepayments and other assets, net	11,27	125,375,802	126,416,791
Property and equipment, net	5,27	16,227,088	24,951,153
Deferred tax asset	12,27	10,097,150	13,795,961
Assets held for sale	27	1,185,171,843	-
TOTAL ASSETS		<u>1,712,122,141</u>	<u>1,213,334,261</u>
LIABILITIES AND EQUITY			
Liabilities			
Deferred income		4,157,944	3,888,740
Short-term loans	13,27	-	50,111,823
Accrued expenses and other liabilities	15,27	258,649,387	208,107,718
Zakat and income tax	16	30,139,202	45,093,955
Employees` end of service benefits	14,27	42,560,412	56,877,853
Liabilities held for sale	27	420,042,098	-
Total liabilities		<u>755,549,043</u>	<u>364,080,089</u>
Shareholders` equity			
Share capital	17	500,000,000	500,000,000
Statutory reserve	18	150,000,000	150,000,000
Retained earnings		316,384,394	206,407,045
Other reserves	14	(9,811,296)	(7,152,873)
Net shareholders` equity		<u>956,573,098</u>	<u>849,254,172</u>
TOTAL LIABILITIES AND SHAREHOLDERS` EQUITY		<u>1,712,122,141</u>	<u>1,213,334,261</u>

The accompanying notes from (1) through (32) form an integral part of these financial statements.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)

STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2021
(Amount in Saudi Riyals)

		For the year ended	
	<i>Note</i>	31 December <u>2021</u>	31 December <u>2020</u>
CONTINUING OPERATIONS			
Income from advisory services		205,462,228	104,155,916
Income from brokerage	27	35,932,000	33,922,000
Income from securities services		246,576,060	212,160,006
Asset management fee income	27	-	-
Income from margin financing	27	-	-
Brokerage income from equity swaps		-	301,511
Other income / (loss)	21	873,071	5,950,301
TOTAL REVENUES		<u>488,843,359</u>	<u>356,489,734</u>
Salaries and employees` related expenses	27	(184,378,592)	(171,710,117)
Service cost under service level agreement	22,27	(41,388,285)	(33,201,232)
Office and other general expenses	27	(18,703,724)	(12,461,513)
Expected credit losses on financial assets, net	27	(7,604,612)	(10,645,035)
Advertising and promotion expenses	27	(1,261,219)	(1,095,256)
Special commission expense	27	-	-
Depreciation and amortization	5.1, 27	(9,553,944)	(11,163,687)
Other expenses	23	(34,210,042)	(42,821,645)
TOTAL EXPENSES		<u>(297,100,418)</u>	<u>(283,098,485)</u>
INCOME BEFORE ZAKAT AND INCOME TAX FROM CONTINUING OPERATIONS		191,742,941	73,391,249
Zakat and income tax expense	16	(28,501,194)	(12,313,195)
Deferred tax income	12	111,046	3,381,454
NET INCOME FOR THE YEAR FROM CONTINUING OPERATIONS		<u>163,352,793</u>	<u>64,459,508</u>
DISCONTINUED OPERATIONS			
Total revenue	27	228,847,600	205,085,805
Total expenses	27	(72,543,018)	(56,790,691)
INCOME BEFORE ZAKAT AND INCOME TAX FROM DISCONTINUED OPERATIONS		156,304,582	148,295,114
Zakat and income tax expense	16,27	(23,233,539)	(24,880,170)
Deferred tax income	12,27	46,876	1,427,426
NET INCOME FOR THE YEAR FROM DISCONTINUED OPERATIONS	27	<u>133,117,919</u>	<u>124,842,370</u>
NET INCOME FOR THE YEAR		296,470,712	189,301,878
OTHER COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR			
<i>Items that cannot be reclassified to statement of income in subsequent years:</i>			
Remeasurement loss on employees` end of service benefits	14	(3,064,040)	(2,671,140)
Deferred tax income on remeasurement loss on employees` end of service benefits	12	405,617	353,605
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>293,812,289</u>	<u>186,984,343</u>

The accompanying notes from (1) through (32) 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 year ended 31 December 2021
(Amount in Saudi Riyal)

For the year ended 31 December 2021	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Other reserves</u>	<u>Total</u>
Balance as at 1 January 2021	500,000,000	150,000,000	206,407,045	(7,152,873)	849,254,172
Net income for the year	-	-	296,470,712	-	296,470,712
Other comprehensive loss for the year, net	-	-	-	(2,658,423)	(2,658,423)
Total comprehensive income for the year	-	-	296,470,712	(2,658,423)	293,812,289
Dividends paid during the year (Note 30)	-	-	(186,493,363)	-	(186,493,363)
Balance as at 31 December 2021	500,000,000	150,000,000	316,384,394	(9,811,296)	956,573,098
	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Other reserves</u>	<u>Total</u>
For the year ended 31 December 2020					
Balance as at 1 January 2020	500,000,000	150,000,000	261,071,551	(4,835,338)	906,236,213
Net income for the year	-	-	189,301,878	-	189,301,878
Other comprehensive income for the year, net	-	-	-	(2,317,535)	(2,317,535)
Total comprehensive income for the year	-	-	189,301,878	(2,317,535)	186,984,343
Dividends paid during the year	-	-	(243,966,384)	-	(243,966,384)
Balance as at 31 December 2020	500,000,000	150,000,000	206,407,045	(7,152,873)	849,254,172

The accompanying notes from (1) through (32) form an integral part of these financial statements.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

		For the year ended	
		31 December	31 December
	<i>Note</i>	2021	2020
Cash flows from operating activities			
Net income before zakat and income tax (continuing and discontinued operations)		348,047,523	221,686,363
Adjustments for			
Expected credit losses on financial assets, net		10,643,950	14,277,861
Unrealized (gain) / loss on investments classified as FVSI	21	(85,681)	402,530
Realized gain on sale of investments classified as FVSI	21	(100,521)	(3,419,382)
Employees` end of service benefits expense	14	14,120,537	10,186,928
Depreciation and amortization	5	10,029,272	12,543,469
Special commission expense	27	3,827,714	2,686,358
Net (increase) / decrease in operating assets			
Advisory income receivable		(32,770,226)	(30,426,442)
Receivable against portfolio management		(1,108,078)	(342,307)
Receivable against margin lending		(428,042,760)	10,899,136
Advances, prepayments and other assets		(44,721,111)	(2,366,368)
Net increase / (decrease) in operating liabilities			
Deferred income		269,204	(407,991)
Accrued expenses and other liabilities		95,381,221	(44,051,539)
Cash (utilised in) / generated from operations		(24,508,956)	191,668,616
Interest paid	13.3	(3,183,409)	(3,294,582)
Cash received from SABB – transfer of employees` end of service benefits		-	49,331
Zakat and income tax paid	16	(3,526,918)	(40,315,295)
Employees` end of service benefits paid	14	(7,832,975)	(5,216,131)
Net cash (utilised in) / generated from operating activities		(39,052,258)	142,891,939
Cash flows from investing activities			
Purchase of property and equipment	5	(1,495)	(14,347,361)
Purchase of capital work in progress		-	(2,151,483)
Purchase of investments classified as FVSI		(6,553,830)	(160,000,000)
Proceeds from sale of investments classified as FVSI		13,092,616	306,629,183
Net cash generated from investing activities		6,537,291	130,130,339
Cash flows from financing activities			
Proceeds from short-term loans	13.3	850,000,000	-
Payment of short-term loans	13.3	(575,000,000)	(175,000,000)
Payment against leased premises		(6,000,000)	(6,000,000)
Dividends paid	30	(186,493,363)	(243,966,384)
Net cash generated from / (used in) financing activities		82,506,637	(424,966,384)
Net change in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year	4	195,374,415	347,318,521
Cash and cash equivalents transferred to the discontinued operations	27	(9,658,925)	-
Cash and cash equivalents at the end of the year		235,707,160	195,374,415
Non-cash supplemental information:			
Right-of-use asset		8,102,122	8,050,037
Lease liability		5,937,889	5,940,398

The accompanying notes from (1) through (32) form an integral part of these financial statements.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

1. GENERAL INFORMATION

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 District
Riyadh 12283-2255
Kingdom of Saudi Arabia

The main activities of the Company are to provide a full range of securities business services including investment banking advisory, debt capital market and syndicated finance advisory, project and export finance advisory, and custody and funds securities services. It also manages mutual funds and discretionary portfolios and provides brokerage services including margin lending conventional and Shariah compliant overdraft facility for customers to trade in the capital market. The Company serves a wide range of clients including but not limited to corporates, financial institutions, non-bank financial institutions and individuals. However, during the current year, the Company has sold some of its lines of business – see note 27.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of the Company have been prepared using accrual basis of accounting and in accordance with the International Financial Reporting Standards (“IFRS”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”) and in compliance with the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia and the By-laws of the Company.

2.2 Basis of measurement and presentation

The financial statements have been prepared under the historical cost convention except for certain financial instruments that are measured at fair value. The company does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity.

Furthermore, the employee benefit obligation is measured at present value of defined benefit obligation and have been calculated using the projected unit credit method (PUCM) and actuarial assumptions.

2.3 Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals (“SAR”) which is the functional and presentation currency of the Company.

2.4 Critical accounting judgments, estimates and assumptions

The preparation of the Company’s financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, costs, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions have been reviewed on an ongoing basis. Revisions to accounting estimates have been recognised in the year in which the estimates are revised or in the revision year and future years if the changed estimates affect both current and future years.

The key assumptions concerning the future and other key sources of estimates at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial year include:

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

2. BASIS OF PREPARATION (continued)

2.4 Critical accounting judgements, estimates and assumptions (continued)

Impairment of financial assets

The Company assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost using 'expected credit loss' model ("ECL") in accordance with IFRS 9. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

Other than the above the following estimates have been prepared by the management but are not significant / material to the financial statements.

i. Useful lives and residual values of property and equipment

The management determines the estimated useful life of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. The management periodically reviews the estimated useful lives, residual values and the depreciation method to ensure that the method and years of depreciation are consistent with the expected pattern of economic benefit of the assets.

iii. Assumptions for employee benefit obligations

Employee benefits represent obligations that will be settled in the future and require assumptions to project these obligations. IFRS requires management to make further assumptions regarding variables such as discount rates, rate of compensation increases and return on assets, mortality rates, employment turnover and future healthcare costs. The management uses an external actuary for reviewing this calculation. Changes in key assumptions can have a significant impact on the projected benefit obligation and/or periodic employees' benefits incurred costs.

iv. Deferred tax

Deferred tax is measured at the tax rates that are estimated to be applied to the temporary differences when they reverse based on the laws that have been enacted or substantively enacted by the reporting date. Management needs to estimate the scale for the profitability to determine the recoverability of deferred tax assets.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting and risk management policies used in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

New standards, interpretations and amendments adopted by the Company

The International Accounting Standards Board (IASB) has issued the following amendment to accounting standards, which are effective from 1 January 2021 but do not have any significant impact on the financial statements of the Company.

- Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions Extension of the practical expedient.
- Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting standards issued but not yet effective

The International Accounting Standard Board (IASB) has issued following standards and amendments which are effective from periods on or after 1 January 2022. The Company has opted not to early adopt these pronouncements and they are not expected to have a significant impact on the financial statements of the Company.

- (i) A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16.
- (ii) Amendments to IFRS 16, ‘Leases’ – COVID-19 related rent concession Extension of the practical Extension of the practical expedient.
- (iii) Amendments to IAS 1, Presentation of financial statements’, on classification of liabilities.
- (iv) Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8.
- (v) Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction.
- (vi) IFRS 17, ‘Insurance contracts’, as amended in June 2020.
- (vii) A narrow-scope amendment to the transition requirements in IFRS 17 Insurance Contracts.

3.1 Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances, short-term deposits, demand deposits and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of changes in value. Bank balances that are used to hold client funds are not reported as part of cash and cash equivalents.

3.2 Financial instruments

All financial assets and financial liabilities are initially recognized on the trade date i.e. the date on which the Company becomes party to the contractual provisions of the instrument.

Classification of financial assets

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (fair value through other comprehensive income (“FVOCI”), or fair value through statement of income (“FVSI”), and
- those to be measured at amortised cost

The classification depends on the Company’s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in statement of income or other comprehensive income (“OCI”). For investments in debt instruments, this will depend on the business model in the investment is held. For investments in equity instruments, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The company reclassifies debt investments when and only when its business model for managing those assets changes.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer’s perspective.

Classification and subsequent measurement of debt instruments depend on:

- The Company’s business model for managing the asset; and
- The contractual cash flow characteristics of the asset.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial instruments (continued)

Business model: The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVSI.

Factors considered by the Company in determining the business model for a group of assets include:

- past experience on how the cash flows for these assets were collected;
- how the asset's performance is internally evaluated and reported to key management personnel;
- how risks are assessed and managed; and
- how managers are compensated.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Debt securities held for trading, if any, are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in 'other' business model and measured at FVSI.

SPPP: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payment of principal and profit (the "SPPP" test). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. profit (or special commission income) includes only consideration for the time value of resources, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the SPPP test does not pass and the related financial asset is classified and measured at FVSI.

The SPPP assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Based on these factors, the Company classifies its debt instruments into one of the following three measurement categories:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit ("SPPP"), and that are not designated at FVSI, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and measured. Profit earned from these financial assets is recognised in the statement of income using the effective commission rate method.

Fair value through statement of income ("FVSI"): If debt instrument's cash flows do not represent solely SPPP or if it is not held within the held to collect or the held to collect and sell business model, or if it is designated at FVSI, then it is measured at FVSI. A gain or loss on a debt investment measured at FVSI, where cashflows do not represents solely SPPP, is recognised in the statement of income, within "Net gain/(loss) on investments mandatorily measured at FVSI", in the period in which it arises. A gain or loss from debt instruments that were designated at fair value or which are held for trading are presented separately from debt investments that are mandatorily measured at FVSI, within "Net gain / (loss) in investments designated at FVSI or held for trading".

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial instruments (continued)

Fair value through other comprehensive income (“FVOCI”): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets’ cash flows represent solely payments of principal and profit, and that are not designated at FVSI, are measured at fair value through other comprehensive income (“FVOCI”). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument’s amortised cost which are recognized in statement of income. When the debt financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to statement of income.

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

Currently cash and cash equivalents, receivable against margin lending, receivable against portfolio management and other receivables are classified as held at amortised cost. There are no debts securities classified as FVSI or FVOCI.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer’s perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer’s net assets.

The Company subsequently measures all equity investments at fair value. Where the company’s management elects to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in statement of income as other income when the Company’s right to receive payments is established.

Changes in the fair value of financial assets at FVSI are recognised in other gain / (losses) in the statement of income as applicable.

Expected credit losses (“ECL”)

The Company assesses on a forward looking basis the ECL associated with its assets carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

For fees receivables only, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The methodology applied in estimating the provision is detailed in note 25.

The methodology applied in estimating provision for advisory income receivable have been based on judgments and assumptions using provision matrix, historical loss rates, existing market conditions as well as forward looking estimates at the end of the reporting year. For margin lending receivables, the ECL methodology applied in estimating provision for receivable against margin lending have been based on judgments and assumptions using staging criteria and consideration of the cash collaterals in case of liquidation. Furthermore, existing market conditions as well as forward looking estimates are considered in the methodology.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial instruments (continued)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a Company entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

Other financial liabilities

Other financial liabilities (including trade and other payables) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial instruments

A financial asset is derecognized, when the contractual rights to receive the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for de-recognition. In instances where the Company is assessed to have transferred a financial asset, the asset is derecognized if the Company has transferred substantially all the risks and rewards of ownership. Where the Company has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Company has not retained control of the financial asset. The Company recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expired.

3.3 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 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 statement of income 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

The residual values, useful live and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

At each year end, the Company assesses whether there is any indication that an asset is impaired. If such an indication exists, an estimate of the asset's recoverable amount is made. If the recoverable amount is below the asset's carrying amount, the asset is written down to its recoverable amount.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income when the asset is derecognized.

3.5 Impairment of non-financial assets

Property and equipment and other non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's ("CGU") fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of income.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of identified asset for a period of time in exchange for consideration.

The Company recognizes right-of-use asset and lease liability at the lease commencement date.

Right-of-use asset

The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred at and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable; -
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the statement of income. Short-term leases are leases with a lease term of 12 months or less.

3.7 Employees' end of service benefits

Employees' end of service benefit costs and termination benefits

For employees' end of service benefits, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting year. Re-measurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the year in which they occur.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Employees' end of service benefits (continued)

Re-measurement recognized in other comprehensive income is reflected immediately in other reserves and will not be reclassified to statement of income. Past service cost is recognized in profit or loss in the year of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the year to the net defined benefit liability or asset. End of service benefit costs are categorized as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- re-measurement.

Curtailment gains and losses are accounted for as past service costs.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

Short-term and other long-term employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the year the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service. Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Company in respect of services provided by employees up to the reporting date.

3.8 Going concern

The financial statements are prepared on a going concern basis, as the management is satisfied that the Company has the resources to continue business for the foreseeable future. In making this assessment, the management has considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

3.9 Revenue from contracts with customers

IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers. It established a five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, the Company recognises revenue at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company recognises revenue when the amount can be reliably measured and it is probable that future economic benefits will flow to the Company. The Company applies the following five-step approach of revenue recognition:

- Step 1: Identify the contract with the customer
- Step 2: Identify the separate performance obligations under the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to separate performance obligations
- Step 5: Recognise revenue when (or as) each performance obligation is satisfied

Based on the above five steps, the revenue recognition policy for the key revenue segments is as follows:

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Revenue from contracts with customers (continued)

Income from advisory service

Advisory services revenue is recognised when services are determined as complete in accordance with the underlying agreement, agreed with the customer and invoiced, as generally set forth under the terms of the engagement.

Revenue recognition of retainer fees is recognized over a period of time and it is generally linked to the timing of performance obligation (i.e. monthly, quarterly, etc.).

Success fees are recognized upon the fulfillment of performance obligations. For example, either on the satisfaction of financial advisory services or completion of underwriting agreement.

Brokerage income

Brokerage income is recognised when the related transactions are executed on behalf of the customers at the price agreed in the contract with the customers, net of discounts and rebates. The performance obligation of the Company is satisfied when the Company carries out the transaction, which is considered as a performance obligation satisfied at a point in time, which triggers immediate recognition of the revenue, as the Company will have no further commitments.

Income from 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.

Asset management fee income

Asset management fees are recognised based on a fixed percentage of net assets under management (“asset-based”), or a percentage of returns from net assets (“returns-based”) subject to applicable terms and conditions and service contracts with customers and funds. The Company attributes the revenue from management fees to the services provided during the period, because the fee relates specifically to the Company’s efforts to transfer the services for that period. As asset management fees are not subject to claw backs, the management does not expect any significant reversal of revenue previously recognized.

This fee compensates and contributes to single performance obligation, the Company’s obligation will generally be satisfied upon the provision of non-restrictive legal custodial structure and therefore recognized over time as the overall services are performed.

Income from margin lending

Income from margin financing facilities is recognized on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the profit rate agreed with the customer.

Brokerage income from equity swaps

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

Other income

Other income comprises of all gains and losses from changes in the fair value of financial assets and financial liabilities measured at fair value through statement of income, together with the related interest income, expense, dividends and gain/loss on disposal of investment.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Short-term loans

To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Short-term loans are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the statement of income as other income or finance costs.

Short-term loans are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

3.11 Accrued and other liabilities

Liabilities are recognized for amounts to be paid for goods or services received, whether or not billed to the Company. The Company is carrying these at amortized cost.

3.12 Expenses

Expenses are those arising from the Company's operating activities including direct costs and are classified as operating expenses.

3.13 Finance cost

Expenses from short-term loans are recognized on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the profit rate agreed with the Bank.

3.14 Foreign currencies transactions and balances

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 reporting 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.

3.15 Zakat and taxation

Current tax and zakat

The Company is subject to tax and zakat in accordance with the Regulations for Zakat, Tax and Customs Authority ("ZATCA") as applicable in the Kingdom of Saudi Arabia. The Zakat charge is computed on the Zakat base and is charged to the statement of income. The provision for income tax is charged to the statement of income using tax rates enacted or substantively enacted at the end of the reporting.

Additional amounts, if any, that may become due on finalization of an assessment are accounted for in the year in which assessment is finalized.

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.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax relating to items recognized outside statement of income is recognized either in the other comprehensive income or directly in equity.

Current tax assets and liabilities are offset when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Value added tax ("VAT")

Output VAT related to revenue is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognized in the statement of financial position on a gross basis and disclosed separately as an asset and a liability. Where provision has been made for ECL of receivables, the impairment loss is recorded for the gross amount of the receivable, including VAT.

3.16 Determination of control over investment funds

The Company acts as a fund manager to a number of mutual funds. Determining whether the Company controls such a mutual fund usually focuses on the assessment of its aggregate economic interests of the Company in the Fund (comprising any carried profits and expected management fees) and the investor's rights to remove the fund manager. As a result, the Company has concluded that it acts as an agent for the investors in those mutual funds in all cases, and therefore has not consolidated these funds.

3.17 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting year, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.18 Dividends

Dividends to holders of equity instruments are recognized as liabilities in the year in which they are declared and approved.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 Share capital

Ordinary shares are classified as equity.

3.20 Statutory reserve

In accordance with Saudi Arabian Regulations for Companies, the Company is required to transfer 10% of net income to a statutory reserve until such reserve equals at least 30% of the paid up capital as a minimum. This reserve is not available for distribution.

3.21 Offsetting of financial instruments

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

3.22 Contingent assets and liabilities

A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events or where the amount of obligations cannot be measured with reasonable reliability. Contingent assets are not recognized, but are disclosed where an inflow of economic benefits is probable.

3.23 Assets held in trust or in a fiduciary capacity

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

4. CASH AND CASH EQUIVALENTS

	<i>Note</i>	As at 31 December 2021	As at 31 December 2020
Cash at bank		245,366,085	195,374,415
Transferred to assets held for sale	27	(9,658,925)	-
		<u>235,707,160</u>	<u>195,374,415</u>

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

5. PROPERTY AND EQUIPMENT, NET

	2021						2020	
	<u>Right-of-use asset</u>	<u>Leasehold improvement</u>	<u>Furniture</u>	<u>Equipment</u>	<u>Software</u>	<u>Motor vehicles</u>	<u>Total</u>	<u>Total</u>
Cost								
Balance at beginning of the year	22,701,181	13,389,947	16,790,524	13,670,721	14,919,270	414,250	81,885,893	67,538,532
Additions during the year	5,760,191	-	-	1,495	-	-	5,761,686	14,347,361
Balance at the end of year	28,461,372	13,389,947	16,790,524	13,672,216	14,919,270	414,250	87,647,579	81,885,893
Accumulated depreciation								
Balance at beginning of the year	14,651,144	13,389,947	16,645,686	7,675,692	8,539,265	414,250	61,315,984	48,772,380
Charge for the year	5,708,106	-	86,032	1,487,710	2,747,424	-	10,029,272	12,543,604
Balance at the end of year	20,359,250	13,389,947	16,731,718	9,163,402	11,286,689	414,250	71,345,256	61,315,984
Net book Value:	8,102,122	-	58,806	4,508,814	3,632,581	-	16,302,323	20,569,909
Capital work in progress	-	-	-	-	826,787	-	826,787	4,381,244
Balance at 31 December	8,102,122	-	58,806	4,508,814	4,459,368	-	17,129,110	24,951,153
Transferred to asset held for sale (Note 27)	-	-	-	-	-	-	(902,022)	-
Balance at 31 December	-	-	-	-	-	-	16,227,088	24,951,153

5.1 Depreciation and amortization charge pertains to continuing operations amounts to SAR 9.554 million while for discontinued operations amounts to SAR 0.475 million.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

6. INVESTMENTS HELD AT FVSI

As at 31 December 2021, investments held at FVSI comprise investment in units of HSBC MSCI Tadawul 30 Saudi ETF, HSBC Sukuk Fund and HSBC GCC Equity Income Fund which are recorded at fair value.

	As at 31 December 2021	As at 31 December 2020
Cost	76,941,551	86,625,330
Net unrealized gain on investments held at FVSI	4,456,785	1,502,232
	81,398,336	88,127,562

Following is the breakdown of the investments:

	As at 31 December 2021	As at 31 December 2020
HSBC MSCI Tidal 30 Saudi ETF	7,597,142	7,461,235
HSBC Sukuk Fund	48,050,594	49,981,836
HSBC Saudi Riyal Murayama Fund	-	9,788,091
HSBC GCC Equity Income Fund	25,750,600	20,896,400
	81,398,336	88,127,562

7. ADVISORY INCOME RECEIVABLE

	As at 31 December 2021	As at 31 December 2020
Gross advisory income receivable	80,020,805	47,250,579
Less: allowance for expected credit losses	<i>7.2</i> (21,876,043)	(16,797,307)
	58,144,762	30,453,272

These advisory income receivables are expected to be settled in short-term, and do not contain a significant financing component. As at 31 December 2021, an allowance for expected credit losses has been recorded amounting to SAR 21.9 million (31 December 2020: SAR 16.8 million).

7.1 Following is the aging analysis for advisory income receivable balance and the corresponding allowance for expected credit losses as at 31 December 2021.

<u>Number of days outstanding</u>	<u>Gross receivables</u>	<u>Allowance for expected credit losses</u>	<u>Net receivables</u>
Up to 90	54,474,858	7,072,216	47,402,642
91-360	17,029,603	6,287,483	10,742,120
361 and above	8,516,344	8,516,344	-
Total	80,020,805	21,876,043	58,144,762

Following is the age analysis for advisory income receivables balance and the corresponding allowance for expected credit losses as at 31 December 2020.

<u>Number of days outstanding</u>	<u>Gross receivables</u>	<u>Allowance for expected credit losses</u>	<u>Net receivables</u>
Up to 90	38,309,954	8,163,376	30,146,578
91-360	5,072,500	4,765,806	306,694
361 and above	3,868,125	3,868,125	-
Total	47,250,579	16,797,307	30,453,272

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

7. ADVISORY INCOME RECEIVABLE (continued)

7.2 Following is the movement of the allowance for expected credit losses.

	As at 31 December <u>2021</u>	As at 31 December <u>2020</u>
Opening balance	16,797,307	7,261,815
Charge for the year, net	5,078,736	9,535,492
Closing balance	<u>21,876,043</u>	<u>16,797,307</u>

8. RECEIVABLE AGAINST PORTFOLIO MANAGEMENT

This represents management fees receivable from customers in relation to discretionary portfolio management services provided by the Company. This balance is classified under “Assets held for sale” As at 31 December 2021, the management believes that no allowance for expected credit losses is required against these receivables as the receivable against portfolio management is settled after 2 working days.

9. RECEIVABLE AGAINST MARGIN LENDING

The Company extends margin financing facilities to its customers to invest in the Saudi Exchange who wish to actively trade on a leveraged basis, secured by the tradable securities. The facilities are reviewed at least on an annual basis. Further details are disclosed in note 27 to these financial statements.

	<i>Note</i>	As at 31 December <u>2021</u>	As at 31 December <u>2020</u>
Gross receivable against margin lending		1,159,551,972	731,509,212
Less: allowance for expected credit losses	9.1	(897,318)	(758,433)
Transferred to assets held for sale	27	(1,158,654,654)	-
		<u>-</u>	<u>730,750,779</u>

As disclosed in note 27, Company has entered into an agreement to sell certain line of business, therefore, receivable against margin lending has been classified under “Assets held for sale”.

9.1 Following is the movement of the allowance for expected credit losses.

	As at 31 December <u>2021</u>	As at 31 December <u>2020</u>
Opening balance	758,433	769,733
Charge for / (release) during the year	138,885	(11,300)
Transferred to assets held for sale	(897,318)	-
Closing balance	<u>-</u>	<u>758,433</u>

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

10. RELATED PARTY TRANSACTIONS

Related parties of the Company comprise 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.

In addition to the related party transactions and balances disclosed elsewhere in these financial statements, significant transactions and balances arising from transactions with related parties are as follows:

	<i>Note</i>	As at 31 December 2021	As at 31 December 2020
(a) Advances, prepayments and other assets			
Receivable from The Saudi British Bank (“SABB”) and its affiliates		7,064,537	12,623,718
Receivable from affiliates		7,272,715	3,618,106
	11	14,337,252	16,241,824
(b) Accrued expenses and other liabilities			
Payable to SABB and its affiliates		54,939,698	23,674,070
Payable to affiliates		10,829,599	4,547,835
	15	65,769,297	28,221,905
(c) Short-term loans			
Short-term loan from SABB			
- Principal amount		275,000,000	-
- Accrued special commission expense		690,779	-
	13	275,690,779	-

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

<u>Transaction with related parties and relationship</u>	<u>Statement of income</u>	For the year ended		
		<i>Note</i>	31 December 2021	301 December 2020
SABB – Affiliate	Income from advisory services		22,336,571	24,652,500
	Income from securities services (Special commission income on deposit)		7,211,021	28,414,131
	Services cost under service level agreement	22	24,319,992	23,896,700
	Special commission expense		3,827,714	1,422,772
	Fees paid for discretionary portfolios service and mutual funds		3,241,797	4,575,308
HSBC Saudi Arabia Mutual Funds* (“the Mutual Funds”) – Funds under the management of the Company	Brokerage income, net		2,633,902	775,047
	Asset management fees income		82,570,995	76,382,675
	Realized gain on sale of investments held at FVSI		100,521	3,419,382
	Unrealized gain / (loss) on investment held at FVSI		85,681	(402,530)
HSBC Entities – Affiliates	Income from advisory and securities services		37,593,373	29,529,634
	Brokerage income on equity swaps		-	301,511
	Service cost under service level agreement	22	25,296,028	18,615,232
Key management personnel**	Salaries and compensations		7,051,814	7,066,321
	Allowances		3,795,700	3,533,632

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

10. RELATED PARTY TRANSACTIONS (continued)

*HSBC Saudi Arabia Mutual Funds comprises following funds that are managed by HSBC Saudi Arabia:

<i>HSBC Saudi Equity Fund</i>	<i>HSBC GCC Equity Income Fund</i>
<i>HSBC Saudi Equity Income Fund</i>	<i>HSBC Multi-Assets Defensive Fund</i>
<i>HSBC Saudi Companies Equity Fund</i>	<i>HSBC Multi-Assets Growth Fund</i>
<i>HSBC Saudi Financial Institutions Equity Fund</i>	<i>HSBC Multi-Assets Balanced Fund</i>
<i>HSBC Saudi Construction and Cement Companies Equity Fund</i>	<i>HSBC US Dollar Murayama Fund</i>
<i>HSBC Saudi Industrial Companies Equity Fund</i>	<i>HSBC Saudi Riyal Murayama Fund</i>
<i>HSBC Saudi Freestyle Equity Fund</i>	<i>HSBC Enhanced Murayama Fund</i>
<i>HSBC Sukuk Fund</i>	<i>HSBC Private Fund 40</i>
<i>HSBC GCC Equity Fund</i>	<i>HSBC GIF Global Equity Climate Change Fund</i>
<i>HSBC MSCI Tadawul 30 Saudi ETF</i>	<i>HSBC Logistics Income Fund</i>
<i>HSBC China and India Equity Freestyle Fund</i>	
<i>HSBC Global Equity Index Fund</i>	

**Key management personnel includes top six senior executives, including Chief Executive Officer and Chief Financial Officer having authority and responsibility for planning, directing, and controlling the activities of the Company.

11. ADVANCES, PREPAYMENTS AND OTHER ASSETS, NET

	<i>Note</i>	As at 31 December 2021	As at 31 December 2020
Advance tax		16,607,142	31,593,761
Receivable against security services, net		54,160,705	31,215,819
Prepayments and other receivables	<i>11.1</i>	47,392,188	47,365,387
Due from related parties, net	<i>10</i>	14,337,252	16,241,824
Transferred to assets held for sale	<i>27</i>	(7,121,485)	-
		<u>125,375,802</u>	<u>126,416,791</u>

11.1 This mainly represents receivable for value added tax recoverable and prepaid expenses including period housing allowances and prepaid health insurance.

12. DEFERRED TAX ASSET

Deferred tax assets, net, pertain to deductible temporary differences arising from allowance for expected credit loss on margin lending and advisory receivables, property and equipment depreciation charge, employees` end of service benefits charge and taxable temporary difference movements in investments valuation. Movements of the account balance accounted are as follows:

	<i>Note</i>	As at 31 December 2021	As at 31 December 2020
Opening balance		13,795,961	8,633,476
Deferred tax income to - <u>Statement of income</u> <i>Continuing operations</i>		111,046	3,381,454
<i>Discontinued operations</i>		46,876	1,427,426
- Other comprehensive income		405,617	353,605
Transferred to assets held for sale	<i>27</i>	(4,262,350)	-
Closing balance		<u>10,097,150</u>	<u>13,795,961</u>

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

13. SHORT-TERM LOANS

	<i>Note</i>	As at 31 December <u>2021</u>	As at 31 December <u>2020</u>
Short-term loan - Principal amount	13.1, 13.2	325,000,000	50,000,000
Accrued special commission expense	13.2, 13.3	756,128	111,823
Transferred to liabilities held for sale	27	(325,756,128)	-
		-	50,111,823

13.1 This represents short-term loan from SABB and other local commercial bank carrying commission rate at agreed commercial rate.

13.2 This represents accrued special commission expense on short-term loans carrying a commission rate of 3 months SIBOR plus 1% - 1.5% per annum.

13.3 The schedule for movement of short-term loans is as follows:

	Short-term loan - principal amount	Accrued special commission expense	Total
As at 1 January 2021	50,000,000	111,823	50,111,823
Proceeds during the year	850,000,000	-	850,000,000
Charge during the year	-	3,827,714	3,827,714
Payments during the year	(575,000,000)	(3,183,409)	(578,183,409)
Transferred to liabilities held for sales	(325,000,000)	(756,128)	(325,756,128)
As at 31 December 2021	-	-	-

13.4 As disclosed in note 27, Company has entered into an agreement to transfer certain line of business, therefore, related liabilities were also classified under "Liabilities held for sale".

14. EMPLOYEES` END OF SERVICE BENEFITS

	As at 31 December <u>2021</u>	As at 31 December <u>2020</u>
Employees` end of service benefits	42,560,412	56,877,853

The movement in provision for employees` end of service benefits for the years ended are as follows:

Movements in the present value of employees` end of service benefits

	As at 31 December <u>2021</u>	As at 31 December <u>2020</u>
Employees` end of service benefits at the beginning	56,877,853	49,186,585
Current and past service cost	12,971,798	9,137,700
Net interest cost	1,148,739	1,049,228
	14,120,537	10,186,928
Premeasurement loss on employees` end of service benefits	3,064,040	2,671,140
Transfer from SABB	-	49,331
Benefits paid / payables to outgoing member	(7,832,975)	(5,216,131)
Transferred to liabilities held for sale (note 27)	(23,669,043)	-
Employees` end of service benefits at the end	42,560,412	56,877,853

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

14. EMPLOYEES` END OF SERVICE BENEFITS (continued)

As at 31 December 2021, other reserves amounting to SAR 9.81 million (2020: SAR 7.15 million) pertain to re-measurements to employees` end of service benefits composed of actuarial gains or losses recognized in other comprehensive income.

Principal actuarial assumptions (in respect of the employee benefit scheme)

	For the year ended 31 December <u>2021</u>	For the year ended 31 December <u>2020</u>
Discount rate	2.40%	2.30%
Expected rate of salary increase	4.00%	3.85%

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

Maturity profile of employees` end of service benefits:

	For the year ended 31 December <u>2021</u>	For the year ended 31 December <u>2020</u>
Distribution of timing of benefit payments		
Year 1	7,395,699	5,675,932
Year 2	7,446,954	5,474,228
Year 3	6,224,347	5,470,311
Year 4	8,338,932	5,615,624
Year 5	5,549,573	6,211,634
Year 6-10	21,608,563	17,268,477
Year 11 and above	21,568,755	18,845,680
	<u>78,132,823</u>	<u>64,561,886</u>

Sensitivity analysis on significant actuarial assumptions:

	As at 31 December <u>2021</u>	As at 31 December <u>2020</u>
Discount Rate +1%	(4,023,606)	(6,437,307)
Discount Rate -1%	4,531,584	851,739
Long Term Salary Increase +1%	4,751,377	1,028,565
Long Term Salary Increase -1%	(4,301,385)	(6,663,601)

15. ACCRUED EXPENSES AND OTHER LIABILITIES

	<i>Note</i>	As at 31 December <u>2021</u>	As at 31 December <u>2020</u>
Other current liabilities	15.1	138,118,868	89,794,596
Accrued bonus		94,871,453	84,150,819
Due to related parties	10	65,769,297	28,221,905
Lease liability		5,937,889	5,940,398
Transferred to liabilities held for sale	27	(46,048,120)	-
		<u>258,649,387</u>	<u>208,107,718</u>

15.1 This mainly represents payable in relation to pending settlements for fund management and brokerage transactions held at the year end.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

16. ZAKAT AND INCOME TAX

Zakat and income tax have 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 calculated at the rate of 20% based on the share of taxable income of non-Saudi shareholders.

The Company has filed tax and zakat declarations for the years up to and including the year ended 31 December 2020 with the Zakat, Tax and Customs Authority (“ZATCA”). During the year the Company received additional assessment orders for the years 2015, 2016 and 2017. The total open assessments of the company for the years 2014 to 2018 for which the Company has filed appeals accordingly amount to SR 74.8 million.

	<i>Note</i>	As at 31 December 2021	As at 31 December 2020
Zakat and income tax payable	16.1	54,708,009	45,093,955
Transferred to liabilities held for sale	27	(24,568,807)	-
		30,139,202	45,093,955

16.1 Movement in zakat and income tax payable is as follows:

	<i>Note</i>	As at 31 December 2021	As at 31 December 2020
Opening balance		45,093,955	60,762,716
Charge for the year;			
– Continuing operations		28,501,194	12,313,195
– Discontinued operations	27	23,233,539	24,880,170
(Reversal of) / provision for prior years, net		(7,000,000)	-
Payment, net		(3,526,918)	(40,315,295)
Advance tax utilized		(31,593,761)	(12,546,831)
Closing balance		54,708,009	45,093,955

17. SHARE CAPITAL

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

	Number of shares	% of contribution	As at 31 December 2021
HSBC Asia Holdings BV	25,500,000	51%	255,000,000
The Saudi British Bank (“SABB”)	24,500,000	49%	245,000,000
Total	50,000,000	100%	500,000,000

	Number of shares	% of contribution	As at 31 December 2020
HSBC Asia Holdings BV	25,500,000	51%	255,000,000
The Saudi British Bank (“SABB”)	24,500,000	49%	245,000,000
Total	50,000,000	100%	500,000,000

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

18. STATUTORY RESERVE

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's By-laws, a minimum of 10% of the annual net income is required to be transferred to a statutory reserve until this reserve equals at least 30% of the share capital. During the year ended 31 December 2021, no amount was transferred to statutory reserve (2020: SAR Nil). The statutory reserve requirement has already been identified and, accordingly, the Company is not required to transfer any additional amounts towards statutory reserve. This reserve is not currently available for distribution.

19. EQUITY SECURITIES HELD UNDER SWAP AGREEMENTS

As at 31 December 2021, the Company held equity securities listed on Saudi stock exchange (Tadawul) having market value of SAR 330 million (31 December 2020: SAR 208 million) in its name under Equity Swap Master Confirmation Agreement. These securities were held in pursuance to the Capital Market Authority ("CMA") circular dated 21 August 2008. Through this circular, CMA allowed the Capital Market Institution ("CMI") 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 2021, cash amounting to SAR 10.21 million (31 December 2020: SAR 20.65 million) was kept with SABB on behalf of the customers under the terms of this equity swap agreement.

20. 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 16.81 billion as at 31 December 2021 (SAR 16.34 billion as at 31 December 2020).

(b) Balances held under brokerage and securities cash accounts

As at 31 December 2021, cash balances held in brokerage accounts amounting to SAR 7.07 billion (31 December 2020: SAR 6.96 billion) were kept with SABB. The Company does not hold any brokerage cash deposit for customers and hence requires customers to hold cash deposits in a designated brokerage account in SABB in order to transact in the local equity market via HSBC as the broker.

21. OTHER INCOME, NET

Other income, net mainly comprise dividends income, realized and unrealized gains on investments held at FVSI.

	For the year ended	
	31 December 2021	31 December 2020
Realized gain on investments held at FVSI	100,521	3,419,382
Unrealized gain / (loss) on investments held at FVSI	85,681	(402,530)
Dividends income	574,003	1,986,135
Other	112,866	947,314
	873,071	5,950,301

22. SERVICE COST UNDER SERVICE LEVEL AGREEMENT

This represents allocation of service costs under separate service level agreement among the Company, SABB and HSBC entities. SABB and HSBC entities, in accordance with the terms of the agreement, have agreed to provide operational services to the Company including, information technology, property and operations.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

23. OTHER EXPENSES

	For the year ended	
	31 December <u>2021</u>	31 December <u>2020</u>
Professional fees	24,190,007	29,230,593
Travel	1,401,761	676,686
Communications expenses	496,227	505,752
Others	8,122,047	12,408,614
	34,210,042	42,821,645

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market are accessible by the Company.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The table below presents the fair value of financial assets that are carried at fair values as of 31 December 2021 and 31 December 2020 based on the fair value hierarchy:

At 31 December 2021	Fair value			Total
	Level 1	Level 2	Level 3	
<i>Financial assets measured at fair value</i>				
Investments held at FVSI	7,597,142	73,801,194	-	81,398,336
At 30 December 2020				
<i>Financial assets measured at fair value</i>				
Investments held at FVSI	7,461,235	80,666,327	-	88,127,562

As at the reporting period, the carrying values of the financial assets not carried at fair value such as advisory income receivables, receivable against portfolio management, receivable against margin lending, due from related parties and other assets approximates their fair values. Similarly, financial liabilities carried at cost such as due to related parties, short-term loans, accrued expenses and other liabilities approximate fair values, being short-term in nature. Some of investments held at FVSI is categorized as level 2 investment as the valuation of this investment is derived from the net asset value of the investee fund.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

25. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: credit risk, market risk (including currency risk, price risk and cash flow and fair value commission rate risk), liquidity risk and operational risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

The Board of Directors (the Board) of the Company are responsible for the overall risk management framework and for approving the risk management strategies and principles. On behalf of the Board, the Board Risk Committee considers the adequacy and effectiveness of the policies and controls that are in place relating to risk management. The Chief Risk Officer (CRO) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits and is responsible for day to day oversight of the risk management framework. The CRO reports to the Board Risk Committee on a regular basis.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk exposure within the company principally is receivables from advisory services rendered, portfolio management, margin lending, cash and cash equivalent, and investments in funds managed by the Company.

The Company manages its credit risk by monitoring credit exposures, establishing limits for transactions with specific counterparties and continually assessing the creditworthiness of counterparties. The Company's risk management policies are designed to identify and set appropriate risk limits and to monitor the risks and adherence to limits on a continuous basis.

Credit quality analysis

The following table sets out the credit analysis for financial assets:

As at 31 December 2021	Investment grade	Non- investment grade	Unrated	Total
Financial assets				
Cash and cash equivalents	235,707,160	-	-	235,707,160
Investments held at FVSI	-	81,398,336	-	81,398,336
Advisory income receivable	-	-	58,144,762	58,144,762
Advances, prepayment and other assets	-	-	72,482,014	72,482,014
Assets held for sale	9,658,925	-	1,175,603,865	1,185,262,790
Total	245,366,085	81,398,336	1,306,230,641	1,632,995,062

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

25. FINANCIAL RISK MANAGEMENT (continued)

As at 31 December 2020	Investment grade	Non- investment grade	Unrated	Total
Financial assets				
Cash and cash equivalents	195,374,415	-	-	195,374,415
Investments held at FVSI	-	88,127,562	-	88,127,562
Advisory income receivable	-	-	30,453,272	30,453,272
Receivable against portfolio management	-	-	3,464,328	3,464,328
Receivable against margin lending	-	-	748,288,795	748,288,795
Advances, prepayment and other assets	-	-	46,695,096	46,695,096
Total	195,374,415	88,127,562	828,901,491	1,112,403,468

Concentrations of credit risk arises when a number of counterparties are engaged in similar business activities, related group of counterparties, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of company's performance to developments affecting these counterparties.

The Company seeks to mitigate its overall credit risk exposure through sound risk strategies, establish credit limits, segment diversification and ensures there are sound internal control.

Procedures for identifying and recording and monitoring all large exposures are managed as per thresholds defined by the regulator.

The Company has defined large exposures as an exposure to a counterparty or group of connected counterparties that exceeds 10% of the capital base.

The table below shows the gross maximum exposure to credit risk for the components of the statement of financial position (continuing and discontinued):

	31 December 2021	31 December 2020
Cash and cash equivalent	245,366,085	195,374,415
Receivable against portfolio management	4,572,406	3,464,328
Receivable against margin lending	1,159,551,972	731,509,212
Advisory income receivables	80,020,805	47,250,579
Advances, prepayments and other assets	77,344,982	52,211,313
Total	1,566,856,250	1,029,809,847

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

25. FINANCIAL RISK MANAGEMENT (continued)

During the year, the following ECL were recognized in statement of income in relation to financial assets (continuing and discontinued operations):

	Note	2021	2020
ECL on advisory income receivable	7.2	5,078,736	9,535,492
ECL charged / (reversed) on receivable against margin lending	9.1	138,885	(11,300)
ECL on receivable against security services		2,525,876	913,649
ECL on other financial assets		2,900,453	3,840,020
		10,643,950	14,277,861

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on Company historical experience and expert credit assessment.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the 12-month probability of default (PD) as at the reporting date; with
- the 12-month probability of default (PD) at the time of initial recognition of the exposure.

Credit risk grades

The Company assigns credit risk grade to its exposures at individual counterparty and portfolio level based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risks are classified using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on nature of the exposure and the type of borrower. The company collects performance and default information about its credit risk exposures separately for the margin lending portfolio and advisory income receivables. The Company analyses the relationships between its historical default rates and macro-economic factors.

Definition of 'Default'

The Company considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to Company in full, or
- The borrower is past due more than 90 days on any material credit obligation to Company.

In assessing whether a borrower is in default the Company considers indicators that are:

- Qualitative- e.g. breaches of covenant;
- Quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to Company;

Measurement of ECL

The key inputs into the measurement of ECL are the following risk estimates:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

The Company has adopted the general approach for its margin trading portfolio and investment funds managed by the firm. For receivables portfolio without significant financing component, the company has measured the loss allowance equal to lifetime expected losses. Under the general approach, impairment shall be measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of an instrument has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

25. FINANCIAL RISK MANAGEMENT (continued)

Staging for margin lending is performed on portfolio taking in consideration of its product features and staging criteria to establish significant increase in credit risk (SICR) is detailed as follows:

- Stage 1 – No Breaches
- Stage 2 – Margin Call Trigger Breach
- Stage 3 – Liquidation Call Trigger Breach

PD estimates are estimates at a certain date, which are calculated, based on Vasicek model (theoretical model underpinning the Basel II IRB capital formula) used to arrive at PIT PD conditional on a state of single systematic factor. The model uses GDP growth rate of Saudi Arabia which is considered as the single risk factor (SRF) addressing systematic risk and it is assumed that it follows a normal distribution. These rating models are based on both quantitative and qualitative factors. The default rate computation is carried out at a portfolio level.

LGD is the magnitude of the likely loss if there is a default. Company estimates LGD based on the history of recovery rates of claims against defaulted counterparties if available. LGD model considers the structure, any sale of collateral, and recovery costs of any collateral that is integral to the financial asset. However, as the Company has not observed any historical losses, an expert judgment based LGD of 5% was applied on a conservative basis for the purpose of ECL computations.

EAD represents the expected exposure in the event of a default. Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount i.e. the outstanding principal plus accrued interest as of the reporting date. Since, the lifetime maturity of the portfolio is 12 months or less, irrespective of whether an account is under Stage 1 or Stage 2, a 12 month ECL is estimated which is same as lifetime ECL.

Scenario framework, the management has exercised an expert judgment to assign scenario weights for ECL computation. Accordingly, the final weighted average ECL assigned 70%, 15% and 15% to baseline, upturn and downturn ECLs respectively. The management is of the opinion that the likelihood of upturn/downturn scenario would be in the range of 10% to 20% and thereby has considered a 15% scenario weight for each of them. The management, on an ongoing basis would evaluate the macro economic conditions and thereby revisit the scenario weights accordingly.

Collateral

Company in the ordinary course of lending activities hold collaterals as security to mitigate credit risk on marginal lending portfolio. Collaterals are mainly the equity securities traded through the Company's brokerage services under marginal lending facility agreement.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices / commission rates.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals and US Dollars. Transactions in other foreign currencies are not material. Since US Dollars is pegged to SAR, therefore, there is no foreign exchange risk.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate because of changes in market prices (other than as a result of foreign currency and commission rate movements), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

Exposure

The Company is exposed to price risk on the mutual funds since its investment held at FVSI as at 31 December 2021.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

25. FINANCIAL RISK MANAGEMENT (continued)

Sensitivity

The effect on the Company's equity investments held at FVSI due to reasonable possible changes in equity index, with all other variables held constant is as follows

	31 December 2021		31 December 2020	
	Potential reasonable change %	Effect on equity	Potential reasonable change %	Effect on equity
Equity index – (Tadawul)				
Investments held at FVSI	+/-5	+/-4,069,917	+/-5	+/-4,406,379

Cash flow and fair value commission rate risk

Cash flow and fair value commission rate risk is the exposure to various risks associated with the effect of fluctuations in the prevailing commission rates on the Company's financial positions and cash flows.

Exposure

The Company's commission rate risks arise mainly from its margin lending and short-term loans. The Company on a regular basis monitors changes in the commission rates and acts accordingly. The Company's receivables from margin lending include consist of fixed commission rate instruments.

The Company's fixed rate receivables (all margin lending contracts) and fixed rate short-term loans are carried at amortised cost and therefore not subject to fair value commission rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of changes in market commission rates.

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

25. FINANCIAL RISK MANAGEMENT (continued)

The table below summarizes the Company's exposure to commission rate risks. The amounts are classified on the earlier date of the contractual maturity.

Commission rate risk	Within 3 months	3-12 months	Over 1 year	Non commission bearing	Total
31 December 2021					
Assets					
Cash and cash equivalents	-	-	-	235,707,160	235,707,160
Investments held at FVSI	-	-	-	81,398,336	81,398,336
Advisory income receivable	-	-	-	58,144,762	58,144,762
Advances, prepayment and other assets	-	-	-	72,482,014	72,482,014
Assets held for sale	23,173,093	1,135,481,562	-	26,608,135	1,185,262,790
Total financial assets	23,173,093	1,135,481,562	-	474,340,407	1,632,995,062
Liabilities					
Accrued expenses and other liabilities	-	-	-	282,737,288	282,737,288
Liabilities held for sale	325,756,128	-	-	94,285,970	420,042,098
Total financial liabilities	325,756,128	-	-	377,023,258	702,779,386
Net commission rate sensitivity gap	(302,583,035)	1,135,481,562	-	97,317,149	930,215,676
31 December 2020					
Assets					
Cash and cash equivalents	-	-	-	195,374,415	195,374,415
Investments held at FVSI	-	-	-	88,127,562	88,127,562
Advisory income receivable	-	-	-	30,453,272	30,453,272
Receivable against portfolio management	-	-	-	3,464,328	3,464,328
Receivable against margin lending	17,538,016	730,750,779	-	-	748,288,795
Advances, prepayment and other assets	-	-	-	46,695,096	46,695,096
Total financial assets	17,538,016	730,750,779	-	364,114,673	1,112,403,468
Accrued expenses and other liabilities	-	-	-	202,598,333	202,598,333
Short-term loans	50,111,823	-	-	-	50,111,823
Total financial liabilities	50,111,823	-	-	202,598,333	252,710,156
Net commission rate sensitivity gap	(32,573,807)	730,750,779	-	161,516,340	859,693,312

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

25. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can arise from market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

Management monitors the maturity profile of the Company's assets and liabilities based on the remaining year at the balance sheet date to the contractual maturity date to ensure that adequate liquidity is maintained. All liabilities other than employees' end of service benefits and long-term loans are contractually payable on a current basis. The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted repayment obligation. The contractual maturities of the liabilities have been determined based on the remaining year at the statement of financial position date to the contractual maturity date and do not take account of the effective expected maturities.

<u>31 December 2021</u>	<u>Within 3 months</u>	<u>3 to 12 months</u>	<u>No fixed maturity</u>	<u>Total</u>
<u>Assets</u>				
Cash and cash equivalents	235,707,160	-	-	235,707,160
Investments held at FVSI	-	-	81,398,336	81,398,336
Advisory income receivable	58,144,762	-	-	58,144,762
Advances, prepayment and other assets	72,482,014	-	-	72,482,014
Assets held for sale	-	1,185,262,790	-	1,185,262,790
Total financial assets	366,333,936	1,185,262,790	81,398,336	1,632,995,062
<u>Liabilities</u>				
Accrued expenses and other liabilities	160,640,750	122,096,538	-	282,737,288
Liabilities held for sale	-	420,042,098	-	420,042,098
Total financial liabilities	160,640,750	643,124,154	-	702,779,386
Maturity gap	205,693,186	542,138,636	81,398,336	930,215,676
<u>31 December 2020</u>	<u>Within 3 months</u>	<u>3 to 12 months</u>	<u>No fixed maturity</u>	<u>Total</u>
<u>Assets</u>				
Cash and cash equivalents	195,374,415	-	-	195,374,415
Investments held at FVSI	-	-	88,127,562	88,127,562
Advisory income receivable	30,453,272	-	-	30,453,272
Receivable against portfolio management	3,464,328	-	-	3,464,328
Receivable against margin lending	17,538,016	730,750,779	-	748,288,795
Advances, prepayment and other assets	46,695,096	-	-	46,695,096
Total financial assets	293,525,127	730,750,779	88,127,562	1,112,403,468
<u>Liabilities</u>				
Accrued expenses and other liabilities	144,886,347	57,711,986	-	202,598,333
Short-term loans	50,111,823	-	-	50,111,823
Total financial liabilities	194,998,170	57,711,986	-	252,710,156
Maturity gap	98,526,957	673,038,793	88,127,562	859,693,312

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

25. FINANCIAL RISK MANAGEMENT (continued)

Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Company's activities either internally or externally at the Company's service provider and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements.

Operational risk is a distinct risk category which the Company manages within acceptable levels through sound operational risk management practices that are part of the day-to-day responsibilities of management at all levels. The objective in managing operational risk is to ensure control of the Group's resources by protecting the assets of the Company and minimising the potential for financial loss.

The Company's risk management approach involves identifying, assessing, managing, mitigating, monitoring and measuring the risks associated with operations. The management of operational risk has a key objective of minimising the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (unexpected) loss.

26. 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 as per Article 4 & 5 of the Prudential Rules. The minimum capital requirements for market, credit and 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.

	As at 31 December <u>2021</u>	As at 31 December <u>2020</u>
Tier 1 Capital	942,214	835,458
Minimum Capital Requirement:		
Market Risk	16,020	15,578
Credit Risk	374,994	286,235
Operational Risk	95,257	84,972
Total Minimum Capital Required	486,271	386,785
Capital Adequacy Ratio:		
Total Capital Ratio (times)	1.94	2.16
Tier 1 Capital Ratio (times)	1.94	2.16
Surplus in Capital	455,943	448,673

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

27. DISCONTINUED OPERATIONS

On 18 May 2021, the Company entered into a business transfer agreement with Alawwal Invest Company (“Buyer”). As per the agreement, the Company agreed to sell the following lines of business to the Buyer;

- 1) the asset management business;
- 2) the retail margin lending business; and
- 3) the retail brokerage business
(together “Transaction”)

The Transaction constitutes a reorganization of the securities business conducted by the Company and the Buyer reflecting the strategy of the two parties, their future plans and serving the interests of the SABB Group in general. Completion of the transaction is subject to the applicable regulatory and corporate approvals. The net book value of the transferring business is SAR 639 million and the estimated purchase consideration amounts to SAR 766 million.

At 31 December 2021, asset management business, retail margin lending business and the retail brokerage business were classified as a discontinued operation. The accumulative results of the discontinued operations for the year ended 31 December 2021 are presented below:

	For the year ended	
	31 December 2021	31 December 2020
Income from brokerage	76,962,241	70,836,936
Asset management fee income	122,355,803	106,633,838
Income from margin financing	29,529,556	27,615,031
TOTAL REVENUES	228,847,600	205,085,805
Salaries and employees` related expenses	(32,225,374)	(31,169,880)
Service cost under service level agreement	(8,227,735)	(9,310,700)
Office and other general expenses	(5,027,178)	(4,509,071)
Expected credit losses on financial assets, net	(3,039,338)	(3,632,826)
Advertising and promotion	-	(14,125)
Special commission expense	(3,827,714)	(2,686,358)
Depreciation and amortization	(475,328)	(1,379,782)
Other expenses	(19,720,351)	(4,087,949)
TOTAL EXPENSES	(72,543,018)	(56,790,691)
Income before zakat and income tax	156,304,582	148,295,114
Zakat and income tax expense for the year	(23,233,539)	(24,880,170)
Deferred tax income	46,876	1,427,426
NET INCOME FOR THE YEAR FROM DISCONTINUED OPERATIONS	133,117,919	124,842,370

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

27. DISCONTINUED OPERATIONS (continued)

The major classes of assets and liabilities of discontinued operations are as follows:

	<u>Note</u>	31 December 2021
ASSETS		
Cash and cash equivalents	4	9,658,925
Receivable against portfolio management	8	4,572,406
Receivable against margin lending	9	1,158,654,655
Advances, prepayments and other assets	11	7,121,485
Property and equipment	5	902,022
Deferred tax asset	12	4,262,350
TOTAL ASSETS		1,185,171,843
LIABILITIES		
Liabilities		
Short-term loans	13	325,756,128
Accrued expenses and other liabilities	15	46,048,120
Zakat and income tax	16	24,568,807
Employees` end of service benefits	14	23,669,043
Total liabilities		420,042,098
Carrying amount of net assets directly related to the discontinued operation		765,129,745

The cash flow information for discontinued operation for the year ended 31 December 2021 is not significant for separate presentation in the financial statements.

28. SUBSEQUENT EVENTS

There were no subsequent events after the statement of financial position date which require adjustments to/or disclosure in the financial statements.

29. IMPACT OF COVID-19 ON THE COMPANY

The Coronavirus (“COVID-19”) pandemic continues to disrupt global markets as many geographies are experiencing issues due to identification of multiple new variants of this infections. Despite having previously controlled the outbreak through aggressive precautionary measures. The Government of the Kingdom of Saudi Arabia, however, managed to successfully control the outbreak to date.

The Company continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time and is closely monitoring its exposures at a granular level. The Company’s operations have been resilient during the pandemic and the Company was able to offer uninterrupted services to its clients and maintain day to day business operations. The management continues to monitor the ongoing situation closely although at this time management is not aware of any factors that are expected to have any potential impact on its financial performance.

30. DIVIDENDS DISTRIBUTION

The Company in its Annual General Meeting held on 7 Dhul-Qadah 1442H (corresponding to 17 June 2021G) approved the payment of dividends to shareholders for the year ended 31 December 2020 amounting to SAR 186.493 million (2020: SAR 243.407 million).

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021
(Amount in Saudi Riyals)

31. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform with the current period presentation. The below restatement has no impact on the net income of the Company.

	31 December <u>2020</u> (As previously reported)	Restatement	31 December <u>2020</u> (restated)
Due from related parties	16,241,824	(16,241,824)	-
Advances, prepayments and other assets	110,174,967	16,241,824	126,416,791
Due to related parties	28,221,905	(28,221,905)	-
Accrued expenses and other payables	179,885,813	28,221,905	208,107,718
Utility expenses	4,457,024	(4,457,024)	-
Other expenses	42,452,570	4,457,024	46,909,594

32. BOARD OF DIRECTORS' APPROVAL

The financial statements have been approved by the Board of Directors on of the Company on 19 Sha‘ban, 1443H (corresponding to 22 March 2022).