HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

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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 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, 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 31 December 2023;
- 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, comprising material accounting policy information 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 International Code of Ethics for Professional Accountants (including International Independence Standards), endorsed in the Kingdom of Saudi Arabia (the "Code"), that is relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with the Code's requirements.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon, which is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Board of Directors and those charged with governance for the financial statements

The Board of Directors 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 other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's Bylaws, and for such internal control as the Board of Directors 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, the Board of Directors 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 the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, i.e. the Board of Directors and the Audit Committee are responsible for overseeing the Company's financial reporting process.

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 in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

Auditor's responsibilities for the audit of the financial statements (continued)

- Conclude on the appropriateness of the Board of Directors' 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers

Mufaddal A. Ali
License number 447

28 March 2024

HSBC SAUDI ARABIA
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023
(*Amounts in Saudi Riyals*)

	Note	**31 December 2023**	**31 December 2022**
ASSETS			
Cash and cash equivalents	*4*	**900,739,017**	1,071,376,555
Margin deposit with clearing house	*5*	**82,960,955**	117,832,248
Investments held at fair value through statement of income (FVSI)	*6*	**-**	77,961,746
Advisory income receivable, net	*7*	**54,852,649**	91,866,722
Receivable from security services, net	*8*	**31,986,062**	35,011,268
Advances, prepayments and other assets	*9*	**167,870,321**	150,999,071
Deferred tax asset, net	*13*	**14,537,659**	14,334,877
Property and equipment, net	*10*	**61,877,330**	4,696,775
Intangible assets, net	*11*	**2,946,466**	2,495,454
TOTAL ASSETS		**1,317,770,459**	1,566,574,716
LIABILITIES AND EQUITY			
LIABILITIES			
Deferred income		**7,778,178**	5,077,860
Accrued expenses and other liabilities	*14*	**290,481,020**	288,937,360
Zakat and income tax	*15*	**73,052,961**	85,120,301
Employees' end of service benefits (EOSB)	*16*	**41,639,150**	40,794,929
TOTAL LIABILITIES		**412,951,309**	419,930,450
SHAREHOLDERS' EQUITY			
Share capital	*17*	**500,000,000**	500,000,000
Statutory reserve	*18*	**-**	150,000,000
Retained earnings		**413,156,946**	506,223,521
Other reserves		**(8,337,796)**	(9,579,255)
TOTAL EQUITY		**904,819,150**	1,146,644,266
TOTAL LIABILITIES AND EQUITY		**1,317,770,459**	1,566,574,716

The accompanying notes from (1) through (29) 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 2023
(*Amount in Saudi Riyals*)

	Note	31 December 2023	31 December 2022 (Restated - Note 27)
CONTINUING OPERATIONS			
Income from advisory services		**277,821,893**	310,948,405
Income from brokerage		**51,315,143**	55,214,000
Income from securities services		**387,933,605**	333,967,926
Special commission income		**44,920,168**	7,270,770
Other income, net	*20*	**15,388,232**	4,744,312
TOTAL REVENUES		**777,379,041**	712,145,413
Salary and employee related expenses		**(181,101,255)**	(219,397,893)
Service cost under service level agreement	*21*	**(58,983,817)**	(62,044,993)
Reversal of / (charge for) expected credit losses on financial assets, net	*21*	**3,347,137**	(4,640,387)
Advertising and promotion expenses		**(1,161,845)**	(1,449,194)
Depreciation and amortization		**(8,770,185)**	(8,984,029)
Other office expenses	*22*	**(64,665,784)**	(47,733,863)
TOTAL EXPENSES		**(311,335,749)**	(344,250,359)
INCOME BEFORE ZAKAT AND INCOME TAX FROM CONTINUING OPERATIONS		**466,043,292**	367,895,054
Zakat and income tax expense	*15*	**(73,360,932)**	(58,731,196)
Deferred income tax reversal	*13*	**392,201**	10,781
NET INCOME FOR THE YEAR FROM CONTINUING OPERATIONS		**393,074,561**	309,174,639
DISCONTINUED OPERATIONS			
Total revenue	*26*	**-**	166,902,153
Total expenses	*26*	**-**	(72,723,721)
Gain on sale of discontinued operations, net	*26.1*	**-**	107,801,403
INCOME BEFORE ZAKAT AND INCOME TAX FROM DISCONTINUED OPERATIONS		**-**	201,979,835
Zakat and income tax expense	*15*	**-**	(9,820,616)
Zakat and income tax on gain on sale of discontinued operations	*15, 26.1*	**-**	(15,181,941)
NET INCOME AFTER ZAKAT AND INCOME TAX FROM DISCONTINUED OPERATIONS		**-**	176,977,278
NET INCOME FOR THE YEAR		**393,074,561**	486,151,917
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Items that cannot be reclassified to statement of income in subsequent years:			
Remeasurement gain on employees' EOSB	*16*	**1,430,878**	267,445
Deferred tax expense on remeasurement loss on employees' EOSB	*13*	**(189,419)**	(35,404)
		1,241,459	232,041
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**394,316,020**	486,383,958

The accompanying notes from (1) through (29) 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 2023
(*Amount in Saudi Riyals*)

For the year ended 31 December 2023	**Share capital**	**Statutory reserve**	**Retained earnings**	**Other reserves**	**Total**
Balance as at 1 January 2023	**500,000,000**	**150,000,000**	**506,223,521**	**(9,579,255)**	**1,146,644,266**
Net income for the year	**-**	**-**	**393,074,561**	**-**	**393,074,561**
Other comprehensive income for the year	**-**	**-**	**-**	**1,241,459**	**1,241,459**
Total comprehensive income for the year	**-**	**-**	**393,074,561**	**1,241,459**	**394,316,020**
Dividend paid during the year (Note 28)	**-**	**(150,000,000)**	**(486,141,136)**	**-**	**(636,141,136)**
Balance as at 31 December 2023	**500,000,000**	**-**	**413,156,946**	**(8,337,796)**	**904,819,150**

For the year ended 31 December 2022	Share capital	Statutory reserve	Retained earnings	Other reserves	Total
Balance as at 1 January 2022	500,000,000	150,000,000	316,384,394	(9,811,296)	956,573,098
Net income for the year	-	-	486,151,917	-	486,151,917
Other comprehensive income for the year	-	-	-	232,041	232,041
Total comprehensive income for the year	-	-	486,151,917	232,041	486,383,958
Dividend paid during the year (Note 28)	-	-	(296,312,790)	-	(296,312,790)
Balance as at 31 December 2022	500,000,000	150,000,000	506,223,521	(9,579,255)	1,146,644,266

The accompanying notes from (1) through (29) 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 2023
(Amount in Saudi Riyals)

	Note	**31 December 2023**	**31 December 2022**
Cash flows from operating activities			
Income before zakat and income tax (continuing and discontinued operations)		**466,043,292**	569,874,889
Adjustments for			
(Reversal of) / charge for expected credit losses on financial assets, net	*24.1*	**(3,347,137)**	6,573,287
Unrealised gain on investments held at FVSI	*20*	**-**	(3,178,577)
Realised gain on sale of investments held at FVSI	*20*	**(5,843,127)**	-
Employees' EOSB expense	*16*	**7,803,453**	9,026,420
Depreciation and amortization	*10, 11*	**8,770,185**	9,632,947
Special commission income		**(44,920,168)**	(7,270,770)
Special commission expense	*26*	**-**	11,474,535
Gain on sale of discontinued operations, net	*26.1*	**-**	(107,801,403)
Movement in operating assets and liabilities			
Decrease / (increase) in advisory income receivable		**47,078,158**	(38,839,678)
Decrease / (increase) in margin deposit with clearing house		**34,871,293**	(117,832,248)
Increase in receivable against portfolio management		**-**	(2,912,152)
Decrease in receivable against margin lending		**-**	18,805,578
(Increase) / decrease in receivable from security services		**(7,826,239)**	16,483,843
Increase in advances, prepayments and other assets		**(47,135,601)**	(87,797,535)
Increase in deferred income		**2,700,318**	919,916
(Decrease) / increase in accrued expenses and other liabilities		**(56,938,289)**	16,475,805
Cash generated from operations		**401,256,138**	293,634,857
Interest paid		**-**	(12,230,663)
Interest received		**42,471,848**	1,274,208
Zakat and income tax paid	*15*	**(47,859,279)**	(28,410,747)
Employees' EOSB paid	*16*	**(5,528,354)**	(3,780,410)
Net cash generated from operating activities		**390,340,353**	250,487,245
Cash flows from investing activities			
Additions to of capital work in progress	10, 11	**(1,891,628)**	(373,243)
Proceeds from sale of investments held at FVSI		**83,804,873**	-
Proceeds from sale of discontinued operations	*26.1*	**-**	1,203,209,258
Net cash generated from investing activities		**81,913,245**	1,202,836,015
Cash flows from financing activities			
Proceeds from short-term loans		**-**	1,075,000,000
Payment of short-term loans		**-**	(1,400,000,000)
Payment against leased premises	*14.1*	**(6,750,000)**	(6,000,000)
Dividend paid	*28*	**(636,141,136)**	(296,312,790)
Net cash used in financing activities		**(642,891,136)**	(627,312,790)
Net change in cash and cash equivalents		**(170,637,538)**	826,010,470
Cash and cash equivalents at the beginning of the year			
- Continuing operations		**1,071,376,555**	235,707,160
- Discontinued operations		**-**	9,658,925
Cash and cash equivalents at the end of the year	*4*	**900,739,017**	1,071,376,555
Non-cash supplemental information:			
Remeasurement gain on employees' EOSB		**1,430,878**	267,445
Right-of-use asset additions		**63,832,947**	6,000,000
Lease liabilities	*10*	**63,832,947**	6,000,000

The accompanying notes from (1) through (29) form an integral part of these financial statements.

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. The Company serves a wide range of clients including but not limited to corporates, financial institutions, non-bank financial institutions

Previously, the Company also managed mutual funds and discretionary portfolios and provided brokerage services including margin lending conventional and Shariah compliant overdraft facility for customers to trade in the capital market. However, during the year ended 31 December 2021, the Company entered into a business sale agreement to sell these lines of business. The transaction was completed on 15 September 2022 as mutually agreed between the buyer and seller – see note 26.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These 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 Company's Bylaws.

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 has 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 judgments, 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 are reviewed on an ongoing basis. Revisions to accounting estimates are 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.

2. BASIS OF PREPARATION (continued)

2.4 Critical accounting judgements, estimates and assumptions (continued)

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:

i. *Expected credit loss allowance on 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 or material to the financial statements.

ii. *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.

v. *Client money accounts*
Client money accounts for brokerage business and assets held as custodian are held in a fiduciary capacity with no current or economic benefits for holding these accounts flowing to the Company. Full ownership and controls over the monies is with customers and are therefore not considered as assets of the Company and accordingly are not included in the financial statements, but rather are considered as off balance sheet items.

3. MATERIAL ACCOUNTING POLICIES

The material 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 2023 but do not have any significant impact on the financial statements of the Company.

- IFRS 17, 'Insurance contracts' – This standard replaces IFRS 4, which permits a wide variety of practices in accounting for insurance contracts.

3. MATERIAL ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments adopted by the Company (continued)

- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 – The IASB amended IAS 1 Presentation of Financial Statements to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' (being information that, when considered together with other information included in an entity's financial statements, can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements) and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information. To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

- Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction - requires companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

- Definition of Accounting Estimates – Amendments to IAS 8 - The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates.

- Amendment to IAS 12 - International tax reform - pillar two model rules - These amendments give companies temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform. The amendments also introduce targeted disclosure requirements for affected companies.

New standards not yet effective

Accounting Standard / interpretation	Description	Effective from periods beginning on or after
Amendment to IFRS 16 – Leases on sale and leaseback	These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.	1 January 2024
Amendments to IAS 7 and IFRS 7 on Supplier finance arrangements	These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.	1 January 2024
Amendment to IAS 1 – Non-current liabilities with covenants	These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.	1 January 2024

(Amount in Saudi Riyals)

3. MATERIAL ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments adopted by the Company (continued)

New standards not yet effective (continued)

Amendments to IAS 21 - Lack of Exchangeability	An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations.	1 January 2024
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28	(Available for optional adoption/effective date deferred indefinitely)
Other standards		
IFRS S1, 'General requirements for disclosure of sustainability-related financial information	This standard includes the core framework for the disclosure of material information about sustainability-related risks and opportunities across an entity's value chain.	1 January 2024 subject to endorsement from SOCPA
IFRS S2, 'Climate-related disclosures'	This is the first thematic standard issued that sets out requirements for entities to disclose information about climate-related risks and opportunities.	1 January 2024 subject to endorsement from SOCPA

3.1 Cash and cash equivalents

Cash and cash equivalents include cash in 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.

3. MATERIAL ACCOUNTING POLICIES (continued)

3.2 Financial instruments (continued)

<u>Debt instruments</u>
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.

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.

3. MATERIAL ACCOUNTING POLICIES (continued)

3.2 Financial instruments (continued)

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”.

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.

<u>Equity instruments</u>
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 recognized in other gain / (losses) in the statement of income as applicable.

The gain / (loss) on the disposal of FVSI investments is incurred in the statement of income and calculated as the difference between the sale proceeds and carrying value before disposal.

<u>Expected credit losses (“ECL”)</u>

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 24.

3. MATERIAL ACCOUNTING POLICIES (continued)

3.2 Financial instruments (continued)

Expected credit losses ("ECL") (continued)

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. Furthermore, existing market conditions as well as forward looking estimates are considered in the methodology.

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.

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.

3. MATERIAL 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:

	Years
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.

3. MATERIAL 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 Company 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.

3. MATERIAL ACCOUNTING POLICIES (continued)

3.7 Employees' end of service benefits (continued)

Employees' end of service benefit costs and termination 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 recognizes 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 recognizes 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: Recognize revenue when (or as) each performance obligation is satisfied

3. MATERIAL ACCOUNTING POLICIES (continued)

3.9 Revenue from contracts with customers (continued)

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

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

Income from brokerage
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.

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 , expense, dividends and gain / loss on disposal of investment.

3.10 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.

3.11 Expenses

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

3.12 Finance cost and special commission income

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.

3.13 Special commission income

Special commission income from short-term deposits is recognized on accrual basis based on effective commission rate method.

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. MATERIAL ACCOUNTING POLICIES (continued)

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 and net income using the basis defined under the zakat regulations. Income taxes are computed on the foreign shareholders share of net taxable income for the year.

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 compressive 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 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 will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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 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.

(Amount in Saudi Riyals)

3. MATERIAL ACCOUNTING POLICIES (continued)

3.17 Dividends

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

3.18 Share capital

Ordinary shares are classified as equity.

3.19 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.

3.20 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.

3.21 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

	Note	As at 31 December 2023	As at 31 December 2022
Cast at bank	*12*	**343,851,350**	215,379,993
Short-term deposits	*4.1, 12*	**556,887,667**	855,996,562
		900,739,017	1,071,376,555

4.1 This represents multiple short-term deposits with the Saudi Awwal Bank ("SAB") having maturity of less than three months and the related accrued interest. Short-term deposits are placed at mutually agreed commercial rate of 3 months SAIBOR plus 0.5% - 1% per annum (2022: plus 0.5% - 1% per annum).

5. MARGIN DEPOSIT WITH CLEARING HOUSE

This represents margin collateral deposited with Securities Clearing Center Company (Muqassa) for brokerage settlement activities. Margin collateral is determined by Muqassa for Capital Market Institutions based on average portfolio balances by applying Standard Portfolio Analysis of Risk (SPAN) methodology.

6. INVESTMENTS HELD AT FVSI

	As at 31 December 2023	As at 31 December 2022
Cost	**-**	76,941,551
Net unrealized gain on investments held at FVSI	**-**	1,020,195
	-	77,961,746

(Amount in Saudi Riyals)

6. INVESTMENTS HELD AT FVSI (continued)

Following is the breakdown of the investments:

	As at 31 December 2023	As at 31 December 2022
SAB Invest MSCI Tadawul 30 Saudi ETF	-	7,045,760
SAB Invest Sukuk Fund	-	44,362,586
SAB Invest GCC Equity Income Fund	-	26,553,400
	-	77,961,746

During the year ended 31 December 2023, the company sold all investments held at FVSI at SAR 83.9M realizing SAR 5.8M as gain from the sale.

7. ADVISORY INCOME RECEIVABLES, NET

	Note	As at 31 December 2023	As at 31 December 2022
Gross advisory income receivables		**71,782,325**	118,860,483
Less: allowance for expected credit losses	*7.2*	**(16,929,676)**	(26,993,761)
		54,852,649	91,866,722

These advisory income receivables are expected to be settled in short-term, and do not contain a significant financing component. As at 31 December 2023, an allowance for expected credit losses has been recorded amounting to SAR 16.9 million (31 December 2022: SAR 26.9 million).

7.1 Aging analysis for advisory income receivable

Following is the aging analysis for advisory income receivable balance and the corresponding allowance for expected credit losses as at 31 December 2023:

Number of days outstanding	Gross receivables	Allowance for expected credit losses	Net receivables
Up to 90	**40,616,929**	**51,012**	**40,565,917**
91-360	**17,908,441**	**3,621,709**	**14,286,732**
361 and above	**13,256,955**	**13,256,955**	**-**
Total	**71,782,325**	**16,929,676**	**54,852,649**

Following is the age analysis for advisory income receivables balance and the corresponding allowance for expected credit losses as at 31 December 2022:

Number of days outstanding	Gross receivables	Allowance for expected credit losses	Net receivables
Up to 90	61,425,307	18,691	61,406,616
91-360	31,501,946	1,041,840	30,460,106
361 and above	25,933,230	25,933,230	-
Total	118,860,483	26,993,761	91,866,722

(Amount in Saudi Riyals)

7. ADVISORY INCOME RECEIVABLE, NET (continued)

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

	Note	For the year ended 31 December 2023	For the year ended 31 December 2022
Opening balance		**26,993,761**	21,876,043
(Reversal) / charge for the year	*24.1*	**(10,064,085)**	5,117,718
Closing balance		**16,929,676**	26,993,761

During the year ended 31 December 2023, no ECL has been recognized on receivables from related parties which are outstanding for less than 365 days (Refer to Note 24).

8. RECEIVABLE FROM SECURITY SERVICES, NET

	Note	As at 31 December 2023	As at 31 December 2022
Gross receivable from security services		**40,727,097**	37,035,355
Less: allowance for expected credit losses	*8.1*	**(8,741,035)**	(2,024,087)
		31,986,062	35,011,268

8.1 Following is the movement of the allowance for expected credit losses:

	Note	For the year ended 31 December 2023	For the year ended 31 December 2022
Opening balance		**2,024,087**	2,501,418
Charge / (reversal) for the year	*24.1*	**6,716,948**	(477,331)
Closing balance		**8,741,035**	2,024,087

9. ADVANCES, PREPAYMENTS AND OTHER ASSETS, NET

	Note	As at 31 December 2023	As at 31 December 2022
Advance tax	*9.1*	**57,247,395**	50,951,204
Other receivables	*9.2*	**26,355,324**	24,248,764
Prepayments	*9.3*	**2,549,008**	2,572,286
Due from related parties		**90,196,074**	81,704,297
Less: allowance for expected credit losses		**(8,477,480)**	(8,477,480)
	12	**81,718,594**	73,226,817
		167,870,321	150,999,071

9.1 This mainly represents quarterly tax payments to ZATCA.

9.2 This mainly represents value added tax recoverable and other general receivables.

9.3 This mainly represents prepaid housing allowances, prepaid health insurance, and prepaid ticket allowance.

(Amount in Saudi Riyals)

10. PROPERTY AND EQUIPMENT, NET

	2023					
	Right-of-use assets	**Leasehold improvement**	**Furniture**	**Equipment**	**Motor vehicles**	**Total**
Cost						
Balance at beginning of the year	**28,461,372**	**13,389,947**	**16,790,524**	**13,672,216**	**414,250**	**72,728,309**
Additions during the year	**63,832,947**	**-**	**-**	**-**	**-**	**63,832,947**
Balance at the end of year	**92,294,319**	**13,389,947**	**16,790,524**	**13,672,216**	**414,250**	**136,561,256**
Accumulated depreciation						
Balance at beginning of the year	**26,067,356**	**13,389,947**	**16,788,092**	**10,694,712**	**414,250**	**67,354,357**
Charge for the year	**7,082,179**	**-**	**2,432**	**1,224,364**	**-**	**8,308,975**
Balance at the end of year	**33,149,535**	**13,389,947**	**16,790,524**	**11,919,076**	**414,250**	**75,663,332**
Net book Value:	**59,144,784**	**-**	**-**	**1,753,140**	**-**	**60,897,924**
Capital work in progress	**-**	**-**	**-**	**979,406**	**-**	**979,406**
Balance as at 31 December	**59,144,784**	**-**	**-**	**2,732,546**	**-**	**61,877,330**

	2022					
	Right-of-use asset	Leasehold improvement	Furniture	Equipment	Motor vehicles	Total
Cost						
Balance at beginning of the year	28,461,372	13,389,947	16,790,524	13,672,216	414,250	72,728,309
Additions during the year	-	-	-	-	-	-
Balance at the end of year	28,461,372	13,389,947	16,790,524	13,672,216	414,250	72,728,309
Accumulated depreciation						
Balance at beginning of the year	20,359,250	13,389,947	16,731,718	9,163,402	414,250	60,058,567
Charge for the year	5,708,106	-	56,374	1,531,310	-	7,295,790
Balance at the end of year	26,067,356	13,389,947	16,788,092	10,694,712	414,250	67,354,357
Balance at 31 December	2,394,016	-	2,432	2,977,504	-	5,373,952
Transferred to asset held for sale (Note 26)	-	-	-	(677,177)	-	(677,177)
Balance at 31 December	2,394,016	-	2,432	2,300,327	-	4,696,775

(Amount in Saudi Riyals)

11. INTANGIBLE ASSETS, NET

	2023 Software	2022 Software
Cost		
Balance at beginning of the year	**14,919,270**	14,919,270
Balance at the end of the year	**14,919,270**	14,919,270
Accumulated amortization		
Balance at beginning of the year	**13,623,846**	11,286,689
Charge for the year	**461,210**	2,337,157
Balance at the end of year	**14,085,056**	13,623,846
Capital work in progress	**2,112,252**	1,200,030
Net book value as at 31 December	**2,946,466**	2,495,454

12. RELATED PARTY TRANSACTIONS

Related parties of the Company comprise group companies (HSBC Group companies) including its affiliates, brokers, key management personnel, 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:

		Note	As at 31 December 2023	As at 31 December 2022
(a)	*Advances, prepayments and other assets*			
	Receivable from SAB and its affiliates	*12.1*	**63,118,872**	50,091,471
	Receivable from SAB Invest	*12.2*	**1,196,014**	22,481,074
	Receivable from affiliates		**17,403,708**	654,272
		9	**81,718,594**	73,226,817
(b)	*Accrued expenses and other liabilities*			
	Payable to SAB and its affiliates	*12.3*	**6,138,799**	5,052,743
	Payable to other HSBC affiliates	*12.4*	**22,547,866**	34,359,804
		14	**28,686,665**	39,412,547
	Cash and cash equivalents			
	Cash at bank	*4*	**343,851,350**	215,379,993
	Short-term deposits with SAB	*4, 12.5*	**556,887,667**	855,966,562
		4	**900,739,017**	1,071,346,555
(d)	*Investment held at FVSI*			
	Investment in mutual funds managed by SAB Invest	*12.6*	**-**	77,961,746
			-	77,961,746

(Amount in Saudi Riyals)

12. RELATED PARTY TRANSACTIONS (continued)

12.1 This mainly represents receivable on account of securities services, advisory services and net balance on intercompany transaction with SAB.

12.2 This includes receivable from SAB Invest under sub lease arrangement. This also includes gross receivable from SAB Invest Logistics Income Fund amounting to SAR 8.4 million as at 31 December 2023 (31 December 2022: SAR 8.4 million) against which 100% expected credit losses have been recognized. As at 31 December 2023, ECL provision against the receivable from SAB Invest Logistic Fund amounts to SAR 8.4 million (31 December 2022: SAR 8.4 million).

12.3 This mainly represents net balance payable on intercompany transactions with SAB.

12.4 This mainly represents payable to HSBC entities for profit sharing of advisory deals and other intercompany.

12.5 This represents multiple short-term deposits with SAB having maturity of less than three months. These deposits are placed at mutually agreed commercial rate of 3 months SAIBOR plus 0.5% - 1% per annum.

12.6 This represents investment in mutual funds managed by SAB invest. During the year ended 31 December 2023 the investments in funds were redeemed at fair value at the redemption date.

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

Transaction with statement of income statement and other comprehensive income		*Note*	**For the year ended 31 December 2023**	**For the year ended 31 December 2022 (Restated)**
SAB	Income from advisory services		**111,304,804**	84,918,800
	Income from securities services		**158,991,944**	62,346,006
	Services cost under service level agreement	*21*	**(22,958,249)**	(29,776,181)
	Special commission income		**44,920,168**	-
	Special commission expense		**-**	(11,474,535)
	Fees paid for discretionary portfolios service and mutual funds		**-**	(3,241,797)
SAB Invest	Rental income from sub lease arrangement	*20*	**2,779,497**	810,867
	Income from securities services		**11,470,543**	-
	Proceeds from sale of discontinued operations	*26.1*	**-**	120,000,000
Mutual Funds managed by SAB Invest * ("the Mutual Funds")	Unrealised gain on investment held at FVSI	*20*	**-**	3,178,577
	Realized gain on investment held at FVSI	*20*	**5,843,127**	-
	Dividend income	*20*	**3,474,493**	-
HSBC Saudi Arabia managed Mutual Funds* ("the Mutual Funds")	Brokerage income, net (discontinuing operation)	*26.1*	**-**	2,904,186
	Asset management fees income (discontinuing operation)	*26.1*	**-**	89,860,680
	Unrealized loss on investment held at FVSI		**-**	6,593,683
HSBC entities	Income from advisory and securities services		**61,892,282**	48,536,383
	Income from brokerage		**31,112,705**	-
	Service cost under service level agreement	*21*	**(36,025,568)**	(42,912,236)
Key management compensation**	Salaries, allowances and compensations		**34,516,487**	27,476,332

(Amount in Saudi Riyals)

12 RELATED PARTY TRANSACTIONS (continued)

* Starting from 15 September 2022, mutual funds are managed by SAB Invest as part of sale of discontinued operations (note 26).

** Key management personnel include 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.

13. DEFERRED TAX ASSET, NET

Deferred tax assets, net, pertain to deductible temporary differences arising from allowance for expected credit loss on advisory and security service receivables, property and equipment depreciation charge, end of service benefits charge and taxable temporary difference movements in investments valuation.

Movements of the account balance accounted are as follows:	**As at 31 December 2023**	**As at 31 December 2022**
Opening balance	**14,334,877**	14,359,500
Deferred tax to		
Profit or loss (continuing operations)	**392,201**	10,781
Other comprehensive income	**(189,419)**	(35,404)
Closing balance	**14,537,659**	14,334,877

14. ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	**As at 31 December 2023**	**As at 31 December 2022**
Accrued bonus		**91,513,339**	120,289,909
Lease liability	*14.1*	**58,475,948**	-
Due to related parties	*12.4, 12.3*	**28,686,665**	39,412,547
Other current liabilities		**111,805,068**	129,234,904
		290,481,020	288,937,360

14.1 Movement in lease liabilities:

	As at 31 December 2023	**As at 31 December 2022**
Lease liability at the beginning of the year	-	5,937,889
Additions during the year	**63,832,947**	-
Payments during the year	**(6,750,000)**	(6,000,000)
Finance cost on lease liability	**1,393,001**	62,111
Lease liability at the end of the year	**58,475,948**	-

(Amount in Saudi Riyals)

15. ZAKAT AND INCOME TAX

Zakat and income tax have been calculated in accordance with the ZATCA 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 Provision for Zakat is calculated at the rate of 2.5% based on the Saudi shareholders' share of equity or net income using the basis defined under the zakat regulations issued by ZATCA.

During the year ended 31 December 2023, the Company concluded the negotiations with Alternative Dispute Resolution Committee (ADRC) to settle the claims and assessment with ZATCA for the years from 2015 to 2018, amounting to SAR 42.6 million. The final settlement amounted to SAR 23.6 million, of which SAR 21.9 million was already accounted for during the prior years, and SAR 1.6 million was charged to the statement of income during the current year ended 31 December 2023.

Moreover, the Company has not yet concluded with ZATCA on the Zakat and tax assessment for the periods from 2019 to 2022.

The Company will file its Zakat and tax return for the year ended 2023 in the due course.

	As at 31 December 2023	**As at 31 December 2022**
Zakat and income tax payable	**73,052,961**	85,120,301
	73,052,961	85,120,301

Movement in zakat and income tax payable is as follows:

	Note	**for the year ended 31 December 2023**	**for the year ended 31 December 2022**
Opening balance		**85,120,301**	54,708,009
Charge for the year;			
– Continuing operations		**71,698,371**	58,731,196
– Discontinued operations	*26*	**-**	9,820,616
– Sale of discontinued operation	*26.1*	**-**	15,181,941
– ADRC settlement		**1,662,561**	-
		73,360,932	83,733,753
Payment made		**(47,859,279)**	(28,410,747)
Advance tax utilized		**(37,568,993)**	(24,910,714)
Closing balance		**73,052,961**	85,120,301

(Amount in Saudi Riyals)

16. EMPLOYEES' END OF SERVICE BENEFITS

Movements in the present value of employees' end of service benefits:

	For the year ended 31 December 2023	**For the year ended 31 December 2022**
Employees' end of service benefits at the beginning of the year:		
From continued operations	**40,794,929**	42,560,412
From discontinued operations	**-**	23,669,043
	40,794,929	66,229,455
Current and past service cost	**6,240,388**	7,481,735
Net interest cost	**1,563,065**	1,544,685
	7,803,453	9,026,420
Remeasurement gain on employees' end of service benefit	**(1,430,878)**	(267,445)
Benefits paid / payables to outgoing member	**(5,528,354)**	(3,780,410)
Transferred to SAB Invest (Note 26.2)	**-**	(30,413,091)
Employees' end of service benefits at the end of the year	**41,639,150**	40,794,929

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

	For the year ended 31 December 2023	**For the year ended 31 December 2022**
Discount rate	**4.70%**	4.11%
Expected rate of salary increase	**5.00%**	5.00%

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 2023	**For the year ended 31 December 2022**
Distribution of timing of benefit payments		
Year 1	**4,236,114**	5,262,769
Year 2	**6,227,873**	4,153,534
Year 3	**3,656,002**	5,781,519
Year 4	**4,406,159**	3,536,195
Year 5	**3,747,570**	3,991,150
Year 6-10	**15,618,567**	14,870,716
Year 11 and above	**21,514,929**	16,696,883
	59,407,214	54,292,766

Sensitivity analysis on significant actuarial assumptions:

	As at 31 December 2023	**As at 31 December 2022**
Discount rate +1%	**(2,576,306)**	(2,382,179)
Discount rate -1%	**2,910,097**	2,675,945
Long term salary increase +1%	**2,977,740**	2,728,395
Long term salary increase -1%	**(2,685,915)**	(2,476,341)

(Amount in Saudi Riyals)

17. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Company consists of 50 million shares of SAR 10 each. As at 31 December 2023, the Company is owned by the following shareholders in the proportion set out below:

	Number of shares	% of contribution	As at 31 December 2023
HSBC Asia Holdings BV	**25,500,000**	**51%**	**255,000,000**
The Saudi Awwal Bank ("SAB")	**24,500,000**	**49%**	**245,000,000**
Total	**50,000,000**	**100%**	**500,000,000**

18. STATUTORY RESERVE

In accordance with the previous Regulations for Companies in Kingdom of Saudi Arabia and Company's Article of Association, the Company was required to transfer 10% of its net income for the year to a statutory reserve until such reserve equals 30% of its share capital. This statutory reserve was not available for distribution to shareholder.

As per Article 177 of the new Companies Law, the Company removed the minimum statutory reserve requirement of 30%, therefore, previously recorded statutory reserve was distributed to shareholders as a special dividend (Note 28). During the year ended 31 December 2023, the Company has obtained the EGM approval to update the bylaws accordingly.

19. ASSETS HELD UNDER FIDUCIARY CAPACITY

As at 31 December 2023, cash balances held in brokerage accounts amounting to SAR 2.92 billion (31 December 2022: SAR 3.01 billion) were kept with SAB. 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 SAB in order to transact in the local equity market via HSBC Saudi Arabia as the broker.

20. OTHER INCOME, NET

		For the year ended	
	Note	**31 December 2023**	**31 December 2022**
Unrealised gain on investments held at FVSI	*12*	**-**	3,178,577
Realised gain on investments held at FVSI	*12*	**5,843,127**	-
Rental income from sub lease arrangement	*12*	**2,779,497**	810,687
Dividend income	*12*	**3,474,493**	-
Foreign exchange gain, net		**3,291,115**	755,048
		15,388,232	4,744,312

21. SERVICE COST UNDER SERVICE LEVEL AGREEMENT

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

(Amount in Saudi Riyals)

22. OTHER OFFICE EXPENSES

	For the year ended	
	31 December 2023	31 December 2022
Office expenses	**19,428,045**	26,112,964
Office premises	**3,410,168**	8,285,608
Professional fees	**4,961,218**	5,347,515
Travel expenses	**5,062,041**	1,721,951
Communication expenses	**1,963,246**	843,491
Others	**29,841,066**	5,422,334
	64,665,784	47,733,863

23. 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 2023 and 31 December 2022 based on the fair value hierarchy:

	Note	Fair value			
As at 31 December 2023		**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value					
Investments held at FVSI	*6*	**-**	**-**	**-**	**-**
As at 31 December 2022					
Financial assets measured at fair value					
Investments held at FVSI	*6*	**77,961,746**	**-**	**-**	**77,961,746**

As at the reporting period, the carrying values of the financial assets not carried at fair value such as cash and cash equivalents, margin deposit with clearing house, advisory income receivables, receivables from security services, due from related parties and other assets approximates their fair values. Similarly, financial liabilities carried at cost such as due to related parties, accrued expenses, and other liabilities approximate fair values, being short-term in nature.

(Amount in Saudi Riyals)

24. 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.

24.1 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, cash and cash equivalent, and investments in funds.

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 2023	**Investment grade**	**Non-investment grade**	**Unrated**	**Total**
Financial assets				
Cash and cash equivalents	**900,739,017**	**-**	**-**	**900,739,017**
Margin deposit with clearing house	**82,960,955**	**-**	**-**	**82,960,955**
Advisory income receivable, net	**-**	**-**	**54,852,649**	**54,852,649**
Receivable from security services, net	**-**	**-**	**31,986,062**	**31,986,062**
Other assets	**-**	**-**	**89,556,643**	**89,556,643**
Total	**983,699,972**	**-**	**176,395,354**	**1,160,095,326**

As at 31 December 2022	**Investment grade**	**Non-investment grade**	**Unrated**	**Total**
Financial assets				
Cash and cash equivalents	1,071,376,555	-	-	1,071,376,555
Margin deposit with clearing house	117,832,248	-	-	117,832,248
Advisory income receivable, net	-	-	91,866,722	91,866,722
Receivable from security services, net	-	-	35,011,268	35,011,268
Other assets	-	-	104,085,820	104,085,820
Total	1,189,208,803	77,961,746	230,963,810	1,420,172,613

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.

(Amount in Saudi Riyals)

24. FINANCIAL RISK MANAGEMENT (continued)

24.1 Credit risk (continued)

Credit quality analysis (continued)

The table below shows the gross maximum exposure to credit risk for the components of the statement of financial position:

	31 December 2023	31 December 2022
Cash and cash equivalents	**900,739,017**	1,071,376,555
Margin deposit with clearing house	**82,960,955**	117,832,248
Advisory income receivables	**71,782,325**	118,860,483
Receivable from security services	**40,727,097**	37,035,355
Advances and other assets	**83,200,124**	87,205,520
Total	**1,179,409,518**	1,432,310,161

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

	Note	**31 December 2023**	31 December 2022
ECL (reversal) / charge on advisory income receivable	*7.2*	**(10,064,085)**	5,117,718
ECL charge / (reversal) on receivable from security services	*8.1*	**6,716,948**	(477,331)
ECL charge on other financial assets		**-**	1,932,900
		(3,347,137)	6,573,287

The bifurcation of ECL into continuing and discontinuing operation is as follows:

	Note	**31 December 2023**	31 December 2022
ECL (reversal) / charge (continuing operation)		**(3,347,137)**	4,640,387
ECL charge (discontinuing operation)		**-**	1,932,900
		(3,347,137)	6,573,287

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.

24. FINANCIAL RISK MANAGEMENT (continued)

24.1 Credit risk (continued)

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).

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.

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. Management has applied management overlay and recognized no ECL on outstanding receivables from related parties (HSBC Group and SAB) which are outstanding for less than 365 days. The management, on an ongoing basis would evaluate the macro-economic conditions and thereby revisit the scenario weights accordingly.

24. FINANCIAL RISK MANAGEMENT (continued)

24.2 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.

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 2023		**31 December 2022**	
Equity index – (Saudi Stock Exchange)	**Potential reasonable change %**	**Effect on statement of income /equity**	**Potential reasonable change %**	**Effect on statement of income /equity**
Investments held at FVSI	-	-	+/-5	+/- 3,898,087

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 arose mainly from its margin lending and short-term loans. During the year ended 31 December 2022, the Company repaid all short-term loans and discontinued and sold its margin lending business (refer to Note 26). Therefore, the Company has no significant exposure to fair value commission rate risk as at 31 December 2023.

(Amount in Saudi Riyals)

24. FINANCIAL RISK MANAGEMENT (continued)

24.2 Market risk (continued)

Exposure (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
As at 31 December 2023					
Financial assets					
Cash and cash equivalents	**556,887,667**	**-**	**-**	**343,851,350**	**900,739,017**
Margin deposit with clearing house	**-**	**-**	**-**	**82,960,955**	**82,960,955**
Advisory income receivable, net	**-**	**-**	**-**	**54,852,649**	**54,852,649**
Receivable from security services, net	**-**	**-**	**-**	**31,986,062**	**31,986,062**
Other assets	**-**	**-**	**-**	**89,556,643**	**89,556,643**
Total financial assets	**556,887,667**	**-**	**-**	**603,207,659**	**1,160,095,326**
Financial liabilities					
Accrued expenses and other liabilities	**-**	**-**	**-**	**180,800,702**	**180,800,702**
Total financial liabilities	**-**	**-**	**-**	**180,800,702**	**180,800,702**
Net commission rate sensitivity gap	**556,887,667**	**-**	**-**	**422,406,957**	**979,294,624**

Commission rate risk	Within 3 months	3-12 months	Over 1 year	Non commission bearing	Total
As at 31 December 2022					
Financial assets					
Cash and cash equivalents	855,996,562	-	-	215,379,993	1,071,376,555
Margin deposit with clearing house	-	-	-	117,832,248	117,832,248
Investments held at FVSI	-	-	-	77,961,746	77,961,746
Advisory income receivable, net	-	-	-	91,866,722	91,866,722
Receivable from security services, net	-	-		35,011,268	35,011,268
Other assets	-	-	-	104,085,820	104,085,820
Total financial assets	855,996,562	-	-	642,137,797	1,498,134,359
Financial liabilities					
Accrued expenses and other liabilities	-	-	-	143,436,690	143,436,690
Total financial liabilities	-	-	-	143,436,690	143,436,690
Net commission rate sensitivity gap	855,996,562	-	-	498,701,107	1,354,697,669

(Amount in Saudi Riyals)

24. FINANCIAL RISK MANAGEMENT (continued)

24.3 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.

As at 31 December 2023	Within 3 months	3 to 12 months	No fixed maturity	Total
Financial assets				
Cash and cash equivalents	**556,887,667**	**-**	**343,851,350**	**900,739,017**
Margin deposit with clearing house	**-**	**-**	**82,960,955**	**82,960,955**
Advisory income receivable, net	**-**	**54,852,649**	**-**	**54,852,649**
Receivable from security services, net	**-**	**31,986,062**	**-**	**31,986,062**
Other assets		**89,556,643**	**-**	**89,556,643**
Total financial assets	**556,887,667**	**176,395,354**	**426,812,305**	**1,160,095,326**
Financial liabilities				
Accrued expenses and other liabilities	**180,800,702**	**-**	**-**	**180,800,702**
Total financial liabilities	**180,800,702**	**-**	**-**	**180,800,702**
Maturity gap	**376,086,965**	**176,395,354**	**426,812,305**	**979,294,624**

As at 31 December 2022	Within 3 months	3 to 12 months	No fixed maturity	Total
Financial assets				
Cash and cash equivalents	855,996,562	-	215,379,993	1,071,376,555
Margin deposit with clearing house	-	-	117,832,248	117,832,248
Investments held at FVSI	-	-	77,961,746	77,961,746
Advisory income receivable, net	-	91,866,722	-	91,866,722
Receivable from security services, net	-	35,011,268	-	35,011,268
Other assets	-	104,085,820	-	104,085,820
Total financial assets	855,996,562	230,963,810	411,173,987	1,498,134,359
Financial liabilities				
Accrued expenses and other liabilities	143,436,690	-	-	143,436,690
Total financial liabilities	143,436,690	-	-	143,436,690
Maturity gap	712,559,872	230,963,810	411,173,987	1,354,697,669

24. FINANCIAL RISK MANAGEMENT (continued)

24.4 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 Company'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.

25. REGULATORY REQUIREMENTS FOR CAPITAL AND CAPITAL ADEQUACY

The Company's objectives when managing capital are to comply with the capital requirements set 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 2023, the Company was in compliance with the externally imposed capital restrictions.

26. DISCONTINUED OPERATIONS

On 18 May 2021, the Company entered into a business transfer agreement with SAB Invest ("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 SAB Group in general. The net book value as of the agreement date (provisional) of the transferring business was SAR 639 million and the estimated purchase consideration amounted to SAR 766 million.

On 15 September 2022, the Company has executed the sale transaction to Buyer according to the amended and restated business transfer agreement. The asset management business, retail margin lending business and the retail brokerage business which were classified as discontinued operations were sold.

(Amount in Saudi Riyals)

26. DISCONTINUED OPERATIONS (continued)

The cumulative results of the discontinued operations for the period / year from 1 January up to the date of disposal of discontinued operations (15 September 2022) are presented below:

	Note	For the year ended 31 December 2023	For the period from 1 January 2022 to 15 September 2022
Income from brokerage		-	43,079,208
Asset management fee income	*12.7*	-	89,860,650
Income from margin financing		-	33,962,295
TOTAL REVENUES		-	166,902,153
Salary and employee related expenses		-	(40,674,337)
Service cost under service level agreement		-	(3,543,424)
Expected credit losses on financial assets, net	*24.1*	-	(1,932,900)
Advertising and promotion expenses		-	(148,153)
Special commission expense		-	(11,474,535)
Depreciation and amortization		-	(648,918)
Other office expenses		-	(14,301,454)
TOTAL EXPENSES		-	(72,723,721)
Gain on sale of discontinued operations		-	107,801,403
INCOME BEFORE ZAKAT AND INCOME TAXES		-	201,979,835
Zakat and income tax expense		-	(9,820,616)
Deferred tax income		-	-
Zakat and income tax charge on gain on sale of discontinued operations		-	(15,181,941)
NET INCOME FOR THE PERIOD / YEAR FROM DISCONTINUED OPERATIONS		-	176,977,278

26.1 Details of sale of the business

The details of the sale of discontinued operations are included below:

	Note	For the year ended 31 December 2023	31 December 2022
Consideration received / receivable			
Cash received		-	1,203,209,258
Receivable*	*12.2*	-	9,787,742
Total disposal consideration		-	1,212,997,000
Carrying amount of net assets sold			
Margin lending early transfers**		-	(755,365,486)
Carrying value of net assets sold		-	(337,631,514)
		-	(1,092,997,000)
Premium received	*12.7*	-	120,000,000
Transaction cost ***		-	(12,198,597)
Gain on sale before zakat and income tax		-	107,801,403
Zakat and income tax expense on gain	*15*	-	(15,181,941)
Gain on sale after zakat and income tax		-	92,619,462

(Amount in Saudi Riyals)

26. DISCONTINUED OPERATIONS (continued)

26.1 Details of sale of the business (continued)

* Represents receivable from the Buyer after review and validation of the consideration transferred and net assets sold as at 31 December 2022.

** Relates to the Margin Lending clients' balances transferred to SAB Invest prior to 15 September 2022.

*** Transaction cost represents expenditures incurred directly for the purpose of execution of the sale transaction.

The carrying amount of the net assets as at 15 September 2022 were:

	Note	**As at 15 September 2022**
ASSETS		
Receivable against margin lending, net		384,483,591
Property and equipment		677,177
Receivable against portfolio management, net		7,484,558
Advances, prepayments and other assets		1,635,231
Total assets		394,280,557
LIABILITIES		
Liabilities		
Accrued expenses and other liabilities		26,235,952
End of service benefits	*16*	30,413,091
Total liabilities		56,649,043
NET ASSETS		337,631,514

27. RESTATEMENT OF COMPARATIVE FIGURES DUE TO RECLASSIFICATION ADJUSTMENT

Management has re-evaluated the presentation of income from issuer services in the statement of income and other comprehensive income and consequently reclassified them from "income from security services" to "income from advisory services". The Company believes that this presentation is in line with the Company's internal reporting to the HSBC Group and provides more relevant information to the users of the financial statements.

In accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors", the change has been made retrospectively and comparatives have been restated accordingly.

The above restatement has no effect on the Company's statement of financial position, statement of changes in shareholders' equity or statement of cash flows. The effect of this restatement on the statement of income and comprehensive income for the year ended 31 December 2022 is summarized below.

(Amount in Saudi Riyals)

27. RESTATEMENT OF COMPARATIVE FIGURES DUE TO RECLASSIFICATION ADJUSTMENT (continued)

Statement of income and other comprehensive income

	For the year ended		
Financial statement line item	**31 December 2022 As previously stated**	**Restatement due to reclassification adjustment**	**31 December 2022 Restated**
Income from advisory services	281,430,408	29,517,997	**310,948,405**
Income from securities services	363,485,923	(29,517,997)	**333,967,926**

28. DIVIDEND DISTRIBUTION

The Company in its Annual General Meeting held on 19 Dhul Qidah 1444H (corresponding to 8 June 2023) approved the payment of dividend to the shareholders for the year ended 31 December 2023 amounting to SAR 486.1 million (31 December 2022: SAR 296.3 million).

Further, in the Board of Directors meeting held on 17 Dhul Qidah 1444H (corresponding to 6 June 2023) approved the payment of special dividends to the shareholders against the Company's statuary reserve amounting to SAR 150 million (31 December 2022: nil).

29. APPROVAL OF THE FINANCIAL STATEMENTS BY THE BOARD OF DIRECTORS

The financial statements have been approved and authorized for issue by the Board of Directors of the Company on 18 March 2024 (corresponding to 8 Ramadan 1445 Hijri)