

**HSBC Saudi Financial Institutions Equity
Fund
(Managed by HSBC Saudi Arabia)**

**UNAUDITED INTERIM CONDENSED FINANCIAL
STATEMENTS AND INDEPENDENT AUDITOR'S REVIEW
REPORT**

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021



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INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS TO THE UNITHOLDERS OF HSBC SAUDI FINANCIAL INSTITUTIONS EQUITY FUND (MANAGED BY HSBC SAUDI ARABIA)

Introduction

We have reviewed the accompanying interim condensed statement of financial position of HSBC Saudi Financial Institutions Equity Fund (the "Fund") managed by HSBC Saudi Arabia (the "Fund Manager") as at 30 June 2021, and the related interim condensed statements of comprehensive income, changes in equity attributable to the unitholders and cash flows for the six-month period ended 30 June 2021, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

Other Matter

The financial statements of the Fund for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on 8 April 2021. Further, the interim condensed financial statements of the Fund for the six months period ended 30 June 2020 were reviewed by another auditor who expressed an unmodified review conclusion on those interim condensed financial statements on 24 August 2020.

For Ernst & Young


Saad M. Al-Khathlan
Certified Public Accountant
License No. 509

Riyadh: 7 Muharram 1443H
(15 August 2021)



HSBC Saudi Financial Institutions Equity Fund

Interim condensed statement of financial position

As at 30 June 2021

	<i>Note</i>	30 June 2021 (Unaudited) SR	31 December 2020 (Audited) SR
ASSETS			
Bank balance		2,047,477	4,167,860
Financial assets at fair value through profit or loss (FVTPL)	4	96,105,230	85,428,258
Receivables and advances		721,735	21,423
TOTAL ASSETS		98,874,442	89,617,541
LIABILITIES			
Management fee payable	5	36,948	14,446
Accrued expenses and other payables	6	88,898	69,208
TOTAL LIABILITIES		125,846	83,654
EQUITY			
Net assets attributable to unitholders of redeemable units		98,748,596	89,533,887
TOTAL LIABILITIES AND EQUITY		98,874,442	89,617,541
Redeemable units in issue		3,483,429	4,192,792
Net asset value attributable to each per unit		28.35	21.35

The accompanying notes 1 to 12 form an integral part of these unaudited interim condensed financial statements.

HSBC Saudi Financial Institutions Equity Fund

Interim condensed statement of comprehensive income (unaudited)

For the six-month period ended 30 June 2021

	<i>Note</i>	30 June 2021 SR	30 June 2020 SR
INCOME			
Net unrealized gain / (loss) on financial assets at FVTPL		20,764,588	(24,703,720)
Net realized gain / (loss) on disposal of financial assets at FVTPL		6,358,909	(513,839)
Dividend income		1,270,991	2,216,121
Other income		269	185
TOTAL INCOME / (LOSS)		28,394,757	(23,001,253)
EXPENSES			
Management fees	5	935,089	856,538
Other expenses	7	106,911	92,776
TOTAL EXPENSES		1,042,000	949,314
NET INCOME / (LOSS) FOR THE PERIOD		27,352,757	(23,950,567)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		-	-
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		27,352,757	(23,950,567)

The accompanying notes 1 to 12 form an integral part of these unaudited interim condensed financial statements.

HSBC Saudi Financial Institutions Equity Fund

Interim condensed statement of changes in equity attributable to the unitholders (unaudited)

For the six-month period ended 30 June 2021

	2021 SR	2020 SR
EQUITY AT THE BEGINNING OF THE PERIOD	89,533,887	116,021,196
Net income / (loss) for the period	27,352,757	(23,950,567)
Other comprehensive income for the period	-	-
Total comprehensive income / (loss) for the period	27,352,757	(23,950,567)
Issue of units during the period	7,671,708	6,636,587
Redemption of units during the period	(25,809,756)	(5,848,932)
Net changes	(18,138,048)	787,655
EQUITY AT THE END OF THE PERIOD	98,748,596	92,858,284

Units

Units

REDEEMABLE UNIT TRANSACTIONS

Transactions in redeemable units during the period are summarised as follows:

UNITS AT THE BEGINNING OF THE PERIOD	4,192,792	4,985,498
Issue of units during the period	319,289	316,631
Redemption of units during the period	(1,028,652)	(305,284)
Net (decrease) / increase in units	(709,363)	11,347
UNITS AT THE END OF THE PERIOD	3,483,429	4,996,845

The accompanying notes 1 to 12 form an integral part of these unaudited interim condensed financial statements.

HSBC Saudi Financial Institutions Equity Fund

Interim condensed statement of cash flows (unaudited)

For the six-month period ended 30 June 2021

	2021 SR	2020 SR
Operating activities		
Net income / (loss) for the period	27,352,757	(23,950,567)
<i>Adjustments to reconcile net income / (loss) to net cash flows from operating activities:</i>		
Movement in unrealised (gain)/loss on financial assets at FVTPL	(20,764,588)	24,703,720
<i>Working capital adjustments:</i>		
Decrease in financial assets at FVTPL	10,087,616	9,357,218
(Increase) / decrease in receivables and advances	(700,312)	1,761,145
Increase / (decrease) in management fee payable	22,502	(11,240)
Increase / (decrease) in accrued expenses and other payables	19,690	(157,599)
Net cash flows from operating activities	<u>16,017,665</u>	<u>11,702,677</u>
Financing activities		
Proceeds from issuance of units	7,671,708	6,636,587
Payment on redemption of units	(25,809,756)	(5,848,932)
Net cash flows (used in) / from financing activities	<u>(18,138,048)</u>	<u>787,655</u>
Net (decrease) / increase in bank balance	(2,120,383)	12,490,332
Bank balance at the beginning of the period	<u>4,167,860</u>	<u>701,676</u>
Bank balance at the end of the period	<u><u>2,047,477</u></u>	<u><u>13,192,008</u></u>

The accompanying notes 1 to 12 form an integral part of these unaudited interim condensed financial statements.

HSBC Saudi Financial Institutions Equity Fund

Notes to unaudited interim condensed financial statements

At 30 June 2021

1. INCORPORATION AND ACTIVITIES

HSBC Saudi Financial Institutions Equity Fund (the “Fund”) is an open-ended investment fund created by an agreement between HSBC Saudi Arabia (the “Fund Manager”) and investors (the “Unitholders”) in the Fund. The address of the Fund Manager is as follows:

HSBC Saudi Arabia, Head Office
HSBC Building 7267
Olaya Street (Al-Murooj District)
Riyadh 12283-2255
Kingdom of Saudi Arabia

HSBC Saudi Financial Institutions Equity Fund (“the Fund”) is an investment fund established through an agreement between HSBC Saudi Arabia (“the Fund Manager”) and investors (“the Unitholders”).

The objective of the Fund is to achieve capital appreciation over the medium to long-term by investing in a portfolio of equities of financial institutions listed on Tadawul (Saudi Stock Exchange Market), including banks and financial services companies, as well as investing in The Saudi British Bank (“SABB”).

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

2. REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (the “Regulations”) issued by the CMA on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) and effective from 6 Safar 1438H (corresponding to 6 November 2016) by the New Investment Fund Regulations (“Amended Regulations”) published by the CMA on 16 Sha’aban 1437H (corresponding to 23 May 2016) detailing requirements for all funds within the Kingdom of Saudi Arabia. The Regulations were further Amended by Resolution of the Board of the Capital Market Authority Number 2-22-2021 Dated 12/7/1442H. Corresponding to 24/2/2021G.

3. BASIS OF PREPARATION AND CHANGES TO ACCOUNTING POLICIES

3.1. Basis of preparation

These unaudited interim condensed financial statements for the six-month period ended 30 June 2021 have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) as endorsed in the kingdom of Saudi Arabia.

The unaudited interim condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Fund’s annual financial statements as at 31 December 2020.

The unaudited interim condensed financial statements have been prepared on a historical cost basis, using the accrual basis of accounting except for financial assets held at FVTPL that are measured at fair value. These unaudited interim condensed financial statements are presented in Saudi Arabian Riyals (“SR”), which is the Fund’s functional currency. All financial information presented has been rounded to the nearest SR.

3.2 New standards, interpretations and amendments

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Fund’s annual financial statements for the year ended 31 December 2020, except for the adoption of new standards effective as of 1 January 2021. The fund has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments apply for the first time in 2021, but do not have an impact on the interim condensed financial statements of the fund.

HSBC Saudi Financial Institutions Equity Fund

Notes to unaudited interim condensed financial statements (continued)

At 30 June 2021

3. BASIS OF PREPARATION AND CHANGES TO ACCOUNTING POLICIES (continued)

3.2 New standards, interpretations and amendments (continued)

Interest Rate Benchmark Reform—Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the interim condensed financial statements of the Fund.

The Fund intends to use the practical expedients in future periods if they become applicable.

4. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

The composition of the investment's portfolio on the last valuation day of the period/year end is summarised below:

	30 June 2021 (Unaudited)			
	<i>% of Market value</i>	<i>Cost SR</i>	<i>Market value SR</i>	<i>Unrealised gain, net SR</i>
<u>Investments in equities (by sector)</u>				
Banks	100.0	70,815,400	96,105,230	25,289,830
Total	100.0	70,815,400	96,105,230	25,289,830

The above equity investments are listed on the Saudi Stock Exchange ("Tadawul"). The Fund Manager seeks to limit risk for the Fund by monitoring exposures in each investment sector and individual securities.

	31 December 2020 (Audited)			
	<i>% of Market value</i>	<i>Cost SR</i>	<i>Market value SR</i>	<i>Unrealised gain, net SR</i>
<u>Investments in equities (by sector)</u>				
Banks	100.0	80,903,016	85,428,258	4,525,242
Total	100.0	80,903,016	85,428,258	4,525,242

HSBC Saudi Financial Institutions Equity Fund

Notes to unaudited interim condensed financial statements (continued)

At 30 June 2021

5. TRANSACTIONS WITH RELATED PARTIES

A. *Transactions and balances with Fund Manager*

In the ordinary course of its activities, the Fund transacts business with related parties. The following are the details of major related party transactions during the period:

<i>Related party</i>	<i>Nature of transactions</i>	<i>Amount of transactions</i>		<i>Balance</i>	
		<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>
		<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
HSBC Saudi Arabia (Fund Manager)	Fund management fee	935,089	856,538	36,948	14,446
	Administration fee	27,503	25,192	4,642	4,367
	Board member fee	9,918	9,891	10,247	16,118
Saudi British Bank (Parent of Fund Manager)	Cash at bank			-	22,471

The Fund pays the Fund Manager a management fee calculated at an annual rate of 1.70% per annum calculated on the total asset value at each valuation date. The fee is intended to compensate the Fund Manager for administration of the Fund.

The units in issue at 30 June 2021 include 19,029 units held by the employees of the Fund Manager (31 December 2020: 22,768 units).

There are no units in issue as at 30 June 2021 (31 December 2020: Nil units) that are held by the Fund Manager.

The Saudi British Bank ("SABB") (parent of the Fund Manager) acts as the Fund's banker.

The Fund invested 264,263 units in SABB shares for a total cost of SR 7,547,648 and with a market value of SR 8,324,285 as at 30 June 2021 (220,507 units in SABB shares for a total cost of SR 6,455,097 and with a market value of SR 5,450,933 as at 31 December 2020).

B. *Transactions with Board of Directors*

The independent directors are entitled to remuneration for their services at rates determined by the Fund's terms and conditions in respect of attending meetings of the board of directors or meetings of the Fund. Independent director's fees are currently SR 5,000 per meeting up to a maximum of 2 meetings per annum per director which is paid equally by all funds supervised by the board.

6. ACCRUED EXPENSES AND OTHER PAYABLES

	<i>30 June</i>	<i>31 December</i>
	<i>2021</i>	<i>2020</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>SR</i>	<i>SR</i>
Benchmark fee payable	40,287	20,327
Accrued expenses	20,458	21,704
Board of directors' fees payable	10,247	16,118
Other payables	17,906	11,059
	88,898	69,208

HSBC Saudi Financial Institutions Equity Fund

Notes to unaudited interim condensed financial statements (continued)

At 30 June 2021

7. OTHER EXPENSES

	2021 (Unaudited) SR	2020 (Unaudited) SR
Administrator fees	27,503	25,192
Custodian fees	25,846	17,635
Benchmark fees	19,960	18,174
Professional fees	17,108	15,578
Board of directors' fees	9,918	9,891
Others	6,576	6,306
	<u>106,911</u>	<u>92,776</u>

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fund has only investments at fair value through profit or loss which is measured at fair values and are classified within level 1 of the fair value hierarchy. All other financial assets and liabilities are classified as amortized cost and management believes that the fair value of all other financial assets and liabilities at the reporting date approximate their carrying values owing to their short-term tenure and the fact that these are readily liquid. These are all classified within level 2 of the fair value hierarchy. There were no transfers between various levels of fair value hierarchy during the current period or prior year.

9. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled respectively:

<i>As at 30 June 2021 (Unaudited)</i>	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
ASSETS			
Bank balance	2,047,477	-	2,047,477
Financial assets at FVTPL	96,105,230	-	96,105,230
Receivables and advances	721,735	-	721,735
TOTAL ASSETS	<u>98,874,442</u>	<u>-</u>	<u>98,874,442</u>
LIABILITIES			
Management fee payable	36,948	-	36,948
Accrued expenses and other payables	88,898	-	88,898
TOTAL LIABILITIES	<u>125,846</u>	<u>-</u>	<u>125,846</u>
<i>As at 31 December 2020 (Audited)</i>	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
ASSETS			
Bank balance	4,167,860	-	4,167,860
Financial assets at FVTPL	85,428,258	-	85,428,258
Receivables and advances	21,423	-	21,423
TOTAL ASSETS	<u>89,617,541</u>	<u>-</u>	<u>89,617,541</u>
LIABILITIES			
Management fee payable	14,446	-	14,446
Accrued expenses and other payables	69,208	-	69,208
TOTAL LIABILITIES	<u>83,654</u>	<u>-</u>	<u>83,654</u>

HSBC Saudi Financial Institutions Equity Fund

Notes to unaudited interim condensed financial statements (continued)

At 30 June 2021

10. LAST VALUATION DAY

The last valuation day of the period/year was 30 June 2021 (year ended 31 December 2020: 31 December 2020).

11. IMPACT OF COVID-19 ON THE INTERIM CONDENSED FINANCIAL STATEMENTS

During March 2020, the World Health Organisation (“WHO”) declared the Coronavirus (“COVID-19”) outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia in particular has implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

In response to the rapid spread of the virus and the resulting disruption of some social and economic activities and business continuity, the Fund Manager has taken a series of preventive and precautionary measures, including activating of remote work to ensure the safety of its employees and their families.

The impact of the pandemic on the Fund’s operations and financial results till the date of the interim financial statements has been reflected in the net assets value and investments value. These developments could further impact our future financial results, cash flows and financial condition and the Fund Manager will continue to assess the nature and extent of the impact on its business and financial results.

12. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

These interim condensed financial statements were approved by the Fund’s management on 7 Muharram 1443H (corresponding to 15 August 2021).