

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

INDEPENDENT AUDITORS' REPORT



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

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

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of **HSBC Saudi Arabia Limited** ("the Company") which comprise the balance sheet as at 31 December 2016 and the related statements of income, statement of cash flows and statement of changes in shareholders' equity for the year then ended and the attached notes 1 through 26 which form an integral part of the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with the Regulations for Companies and the Company's Articles of association and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements taken as a whole:

- 1) present fairly, in all material respects, the financial position of **HSBC Saudi Arabia Limited** ("the Company") as at 31 December 2016, and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia; and
- 2) comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

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

Abdullah Hamad Al Fozan
License No. 348



Riyadh on: 27 Jumada'II 1438H
Corresponding to: 26 March 2017

HSBC SAUDI ARABIA LIMITED
(Limited Liability Company)
Financial Statements
31 December 2016
together with the
INDEPENDENT AUDITORS' REPORT

Balance Sheet

As at 31 December 2016

	Notes	2016 SAR	2015 SAR
ASSETS			
Current assets			
Cash and cash equivalents	(4)	252,554,720	36,749,282
Investments - held for trading	(9.1)	6,408,920	5,652,052
Investments - available for sale	(9.2)	402,555,440	-
Advisory income receivable	(5)	43,274,154	11,329,857
Receivable against portfolio management	(6)	12,038,421	24,215,672
Due from related parties	(7a)	61,021,199	26,758,081
Advances, prepayments and other current assets	(8)	38,841,460	36,935,753
Total current assets		816,694,314	141,640,697
Non-current assets			
Investments - available for sale	(9.2)	205,859,938	1,023,211,358
Property and equipment, net	(10)	5,125,854	2,807,207
Total non-current assets		210,985,792	1,026,018,565
Total assets		1,027,680,106	1,167,659,262
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Due to related parties	(7b)	19,515,530	20,293,835
Unearned income		5,803,337	11,017,120
Accrued expenses and other current liabilities	(11)	173,864,469	184,855,856
Zakat and income tax payable	(12)	21,088,030	40,795,410
Total current liabilities		220,271,366	256,962,221
Non-current liability			
End of service benefits	(13)	42,686,638	45,236,462
Total liabilities		262,958,004	302,198,683
Shareholders' equity			
Share capital	(14)	500,000,000	500,000,000
Statutory reserve	(15)	137,404,756	123,429,734
Unrealised gain on investments - available for sale	(9.2)	18,625,614	14,430,511
Retained earnings		108,691,732	227,600,334
Total shareholders' equity		764,722,102	865,460,579
Total liabilities and shareholders' equity		1,027,680,106	1,167,659,262

The accompanying notes (1) through (26) form an integral part of these financial statements.

Statement of Income

For the year ended 31 December 2016

	Notes	2016 SAR	2015 SAR
Revenue			
Income from advisory services		128,183,079	154,626,810
Brokerage income, net		79,964,700	119,690,710
Income from securities services		51,416,623	48,217,270
Management fee income		122,058,609	230,619,208
Income from equity swaps		10,158,420	18,555,488
		391,781,431	571,709,486
Expenses			
Salaries and employee related expenses		184,081,640	209,617,644
Office expense		23,439,815	15,543,771
Rent	(22)	7,720,181	5,785,832
Advertising and promotion		932,713	1,791,195
Depreciation	(10)	968,700	887,247
Other general and administrative expenses	(19)	25,237,279	32,595,780
Service costs under service level agreement, net	(20)	23,697,780	28,619,758
		266,078,108	294,841,227
Net operating income		125,703,323	276,868,259
Other income	(21)	14,046,900	2,203,481
Net income for the year		139,750,223	279,071,740

The accompanying notes (1) through (26) form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 SAR	2015 SAR
Cash flows from operating activities			
Net income for the year		139,750,223	279,071,740
<i>Adjustments to reconcile net income to net cash generated from operating activities:</i>			
Depreciation		968,700	887,247
End of service benefits charge		7,952,160	11,015,021
(Gains)/Losses on investments - held for trading		(732,040)	931,341
Realized gain on sale of investments - available for sale		(10,825,187)	(1,007,237)
		<u>137,113,856</u>	<u>290,898,112</u>
Net (increase)/decrease in operating assets			
Advisory income receivable		(31,944,297)	42,686,654
Receivable against portfolio management		12,177,251	18,547,556
Advances, prepayments and other assets		(1,905,707)	(5,286,147)
Due from related parties		(34,263,118)	10,360,887
Net increase/(decrease) in operating liabilities			
Due to related parties		(778,305)	(12,193,314)
Unearned income		(5,213,783)	6,538,815
Accrued expenses and other liabilities		(10,991,387)	(47,657,220)
End of service benefits paid		(10,501,984)	(10,353,749)
Zakat and income tax paid		(53,668,432)	(49,914,203)
		<u>24,094</u>	<u>243,627,391</u>
Net cash provided by operating activities			
Cash flows from investing activities			
Additions to property and equipment		(755,471)	(1,642,457)
Capital work in progress payments		(2,531,876)	
Investments – held for trading		(24,828)	(2,724,256)
Disposal of property and equipment		-	-
Purchase of investments – available for sale		(40,000,000)	(225,000,000)
Proceeds from sale of investments – available for sale		469,816,270	100,001,968
		<u>426,504,095</u>	<u>(129,364,745)</u>
Net cash used in investing activities			
Cash flows from financing activities			
Dividends paid		(210,722,751)	(156,537,088)
		<u>(210,722,751)</u>	<u>(156,537,088)</u>
Net cash used in investing activities			
Net increase/(decrease) in cash and cash equivalents		215,805,438	(42,274,442)
Cash and cash equivalents at beginning of the year		36,749,282	79,023,724
		<u>252,554,720</u>	<u>36,749,282</u>
Cash and cash equivalents at end of the year	(4)	<u>252,554,720</u>	<u>36,749,282</u>
Supplemental non-cash information			
Net changes in fair value and transfer to statement of income		4,195,103	(843,612)

The accompanying notes (1) through (26) form an integral part of these financial statements.

Statement of Changes in Shareholders' Equity

For the year ended 31 December 2016

SAR

	<i>Share capital</i>	<i>Statutory reserve (Note 15)</i>	<i>Unrealised gain on investments - available for sale</i>	<i>Retained earnings</i>	<i>Total</i>
Balance as at 1 January 2015	500,000,000	95,522,560	15,274,123	173,768,266	784,564,949
Net income for the year	-	-	-	279,071,740	279,071,740
Dividend paid during the year	-	-	-	(156,537,088)	(156,537,088)
Transfer to statutory reserve	-	27,907,174	-	(27,907,174)	-
Net changes in fair value	-	-	(843,612)	-	(843,612)
Provision for Zakat and income tax (Note 12)	-	-	-	(40,795,410)	(40,795,410)
Balance as at 31 December 2015	500,000,000	123,429,734	14,430,511	227,600,334	865,460,579
Net income for the year	-	-	-	139,750,223	139,750,223
Dividend paid during the year	-	-	-	(210,722,751)	(210,722,751)
Transfer to statutory reserve	-	13,975,022	-	(13,975,022)	-
Net changes in fair value	-	-	4,195,103	-	4,195,103
Provision for Zakat and income tax (Note 12)	-	-	-	(33,961,052)	(33,961,052)
Balance as at 31 December 2016	500,000,000	137,404,756	18,625,614	108,691,732	764,722,102

Analysis of retained earnings

	<i>The Saudi British Bank</i>	<i>HSBC Asia Holdings BV</i>	<i>Total</i>
Balance as at 1 January 2015	94,557,347	79,210,919	173,768,266
Net income for the year	142,326,587	136,745,153	279,071,740
Dividend payment during the year	(88,783,580)	(67,753,508)	(156,537,088)
Transfer to statutory reserves	(14,232,659)	(13,674,515)	(27,907,174)
Zakat and income tax	(13,496,331)	(27,299,079)	(40,795,410)
Balance as at 31 December 2015	120,371,364	107,228,970	227,600,334
Net income for the year	71,272,614	68,477,609	139,750,223
Dividend payment during the year	(114,714,578)	(96,008,173)	(210,722,751)
Transfer to statutory reserves	(7,127,261)	(6,847,761)	(13,975,022)
Zakat and income tax	(14,199,855)	(19,761,197)	(33,961,052)
Balance as at 31 December 2016	55,602,284	53,089,448	108,691,732

The accompanying notes (1) through (26) form an integral part of these financial statements.

Notes to the Financial Statements (31 December 2016)

1. Organization and Activity

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

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

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

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

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

2. Basis of Preparation

a) *Statement of compliance*

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

b) *Basis of measurement*

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

c) *Functional and presentation currency*

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

d) *Use of estimates and judgements*

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Notes to the Financial Statements (31 December 2016) (continued)

3. Significant Accounting Policies

a) *Advisory income receivable*

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

b) *Property and equipment*

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

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

Expenditure incurred up to the point of capitalization, until the asset is ready for the intended use will 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 assets for current period is as follow:

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

c) *Investment*

Investments - available for sale

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

Investments - held for trading

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

d) *Revenue Recognition*

Income from Advisory service

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

Management fee Income

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

3. Significant Accounting Policies (continued)

d) Revenue Recognition (continued)

Income under Equity Swap

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

Brokerage income

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

Securities services

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

Dividends

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

e) Expenses

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

f) Payables and accruals

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

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

g) Employees' end of service benefits

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

h) Financial Instruments

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

i) Impairment of assets

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

Notes to the Financial Statements (31 December 2016) (continued)**3. Significant Accounting Policies** (continued)**j) Zakat and income tax**

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

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

k) Offsetting

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

l) Foreign currency transactions

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

m) Provisions

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

n) Dividends

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

o) Cash and cash equivalents

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

p) Assets held in trust or in a fiduciary capacity

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

4. Cash and Cash Equivalents

	<u>2016</u>	<u>2015</u>
Cash in hand	-	35,000
Cash at bank	52,554,720	36,714,282
Time Deposit	(4.1) 200,000,000	-
	<u>252,554,720</u>	<u>36,749,282</u>

4.1. Time deposit placed with SABB at (1.55%) on 21 December 2016 and matures on 19 January 2017.

5. Advisory Income Receivable

	2016	2015
Receivable – corporate advisory services	17,616,215	4,315,627
Receivable – corporate finance services	25,657,939	7,014,230
	<u>43,274,154</u>	<u>11,329,857</u>

6. Receivable Against Portfolio Management

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

7. Related Party Balances and Transactions

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

	Notes	2016	2015
a) Due from related parties			
Receivable from mutual funds	7.1	944,303	726,110
Receivable from SABB	7.2	51,840,760	21,095,046
Receivable from HSBC Plc	7.3	6,712,695	4,335,300
Receivable from HSBC Middle East Ltd.	7.4	1,523,441	601,625
		<u>61,021,199</u>	<u>26,758,081</u>
b) Due to related parties			
Payable to SABB	7.5	6,719,578	11,738,696
Payable to HSBC Plc	7.6	3,359,900	2,012,200
Payable to HSBC Middle East Ltd.	7.7	8,286,035	4,280,640
Payable to Hongkong Shanghai Banking Corporation	7.8	1,150,017	2,262,299
		<u>19,515,530</u>	<u>20,293,835</u>

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

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

7.3 This mainly represents receivable on account of equity swap commission of SAR 2.8 million and receivable on account of advisory services.

7.4 This mainly consists of receivable on account of services under service level agreement.

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

7.6 This mainly consists of payables on account of services under service level agreement and amounts due on advisory services performed.

7.7 This mainly consists of payables on account of services under service level agreement and amounts due on advisory services performed.

7.8 This mainly consists of payables on account of services under agreement.

Notes to the Financial Statements (31 December 2016) (continued)**7. Related Party Balances and Transactions** (continued)

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

Transaction with	Description	Notes	2016	2015
The Saudi British Bank (SABB)	Services cost under service level agreement-net	(20)	(23,697,780)	(28,619,758)
	Income from Time deposit		86,111	-
	Cash and cash equivalents	(4)	239,768,181	36,714,282
	Cash at bank on account of swaps	(16)	125,571,260	80,582,308
	Arranging/Advisory Income under service level agreement		47,868,090	41,794,130
	Fees paid for discretionary portfolios service and mutual funds		(11,974,887)	(26,838,361)
				(363,998)
Hongkong and Shanghai banking Corporation	Services cost under agreement			
HSBC Saudi Arabia Limited Mutual Funds ("the Mutual Funds")	Brokerage and Management Fee income, net		71,854,796	109,725,704
	Realized gain on sale of investments		10,825,187	1,007,237
	Investments in Funds	(9.2)	608,415,378	1,023,211,358
HSBC Bank Plc.	Income on equity swaps	(16)	10,158,420	18,555,488
	Services cost under agreement		(1,125,659)	(1,240,000)
	Advisory income		3,937,500	-
	Cash and cash Equivalents	(4)	2,401,511	-
HSBC Middle East Ltd.	Services cost under service level agreement-net		(4,173,424)	(3,343,382)
	Cash and cash equivalents		4,553,669	-
Directors Remuneration & Committee members fee			(1,481,000)	(2,247,000)
Key management compensation (Key management personnel of the Company comprise senior executive management)	Salaries & compensations		(6,526,121)	(6,447,500)
	Allowances		(3,260,777)	(3,199,417)
	Periodic and annual remuneration		(11,933,240)	(13,444,589)

8. Advances, Prepayments And Other Assets

Advances prepayments and other assets mainly included advance income tax amounting to SAR 28.7 million (2015: SAR 35.6 million) paid by the Company to the local tax authorities.

9. Investments

9.1 Held for trading

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

9.2 Available for sale – Current

	<u>2016</u>	<u>2015</u>
Cost	389,842,323	-
Unrealised gain, net	12,713,117	-
	<u>402,555,440</u>	<u>-</u>

Investment in Saudi Riyal Trading fund has been reclassified from non-current to current as the company intends to liquidate part of the investment to meet funding requirements.

Available for sale – Non current

	<u>2016</u>	<u>2015</u>
Cost	199,947,441	1,008,780,847
Unrealised gain, net	5,912,497	14,430,511
	<u>205,859,938</u>	<u>1,023,211,358</u>
Break up of investments - available for sale:		
HSBC Saudi Riyal Trading Fund	536,740,586	951,410,512
HSBC Sukuk Fund	49,563,392	49,906,846
HSBC GCC Equity Income Fund	22,111,400	21,894,000
	<u>608,415,378</u>	<u>1,023,211,358</u>

Notes to the Financial Statements (31 December 2016) (continued)**10. Property and Equipment, Net**

	2016					2015
	<i>Lease hold improvement</i>	<i>Furniture</i>	<i>Equipment</i>	<i>Motor vehicles</i>	<i>Total</i>	<i>Total</i>
Cost						
Balance at beginning of the year	13,276,132	16,321,056	5,894,472	414,250	35,905,910	34,263,453
Additions during the year	58,036	106,435	591,000	-	755,471	1,642,457
Disposals during the year	-	-	-	-	-	-
Balance at the end of year	<u>13,334,168</u>	<u>16,427,491</u>	<u>6,485,472</u>	<u>414,250</u>	<u>36,661,381</u>	<u>35,905,910</u>
Accumulated depreciation						
Balance at beginning of the year	12,848,476	15,816,329	4,185,417	248,481	33,098,703	32,211,456
Charge for the year	131,082	168,720	609,928	58,970	968,700	887,247
Disposals during the year	-	-	-	-	-	-
Balance at the end of year	<u>12,979,558</u>	<u>15,985,049</u>	<u>4,795,345</u>	<u>307,451</u>	<u>34,067,403</u>	<u>33,098,703</u>
Net book Value:	354,610	442,442	1,690,127	106,799	2,593,978	
Capital Working in progress	-	-	-	-	2,531,876	
Balance at 31 December 2016	<u>354,610</u>	<u>442,442</u>	<u>1,690,127</u>	<u>106,799</u>	<u>5,125,854</u>	
Balance at 31 December 2015	<u>427,656</u>	<u>504,727</u>	<u>1,709,055</u>	<u>165,769</u>		<u>2,807,207</u>

11. Accrued Expenses and Other Liabilities

	2016	2015
Accrued bonus	<u>91,516,816</u>	102,630,802
Other current liabilities (note 11.1)	<u>82,347,653</u>	82,225,054
	<u>173,864,469</u>	<u>184,855,856</u>

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

12. Zakat and Income Tax

The Company has made a provision of SAR 21.08 million (2015: SAR 40.75 million) for zakat and income tax, for the year ended 31 December 2016. Zakat and income tax has been calculated in accordance with the Saudi Arabian Zakat and Income Tax Regulations and charged to the statement of changes in equity. The provision for income tax is based on share of taxable income on non-Saudi shareholding of 69.40%. Provision for Income tax has been recorded based on the estimated taxable profit at 20%.

HSBC SA tax/zakat assessment is finalized and agreed up to and including the fiscal year ended 31 December 2007. Tax/zakat declarations for the years ended 31 December 2008 to 2015 have been filed by the company within the statutory deadline. The GAZT is currently reviewing the tax/zakat declarations for the years 2008 to 2014. The GAZT has yet to raise the tax/zakat assessment for these years.

The GAZT has yet to initiate its review of the tax/zakat declaration filed by the company for the year 2015. The GAZT has raised the preliminary zakat assessment for year ended 31 December 2010 and determined the additional zakat liability of SR 168,500. The company has accepted the additional zakat liability and settled the same with the GAZT.

12. Zakat and Income Tax (continued)

The GAZT has issued a letter asking the Company to settle additional zakat of SR 6,870,081 for the year ended 31 December 2014. The GAZT stated that the Company's investments in mutual funds are not deductible for zakat purposes. The Company has filed an appeal against the preliminary zakat assessment raised by the GAZT. Management is confident of a favourable outcome on the aforementioned appeal and have therefore not made any provision in respect of the above.

The assessments for the years 2008 to 2015 are yet to be raised by the GAZT. However if investments in funds are disallowed, it would result in additional zakat exposure to the company which remains an industry wide issue and disclosure of which might affect the company's position in this matter.

The GAZT issued a limited certificate for the year ended 31 December 2015, which is valid up to 30 April 2017.

The tax/zakat return for the year ended 31 December 2016 is due for lodgment with the GAZT by 30 April 2017.

The zakat component are as follows:

	2016	2015
Adjusted income		
Income for the year	139,750,223	279,071,740
Adjustment	(2,470,469)	(509,709)
Adjusted Taxable/Zakatable income	137,279,754	278,562,031
Saudi share of adjusted Zakatable income	42,007,605	85,239,981
Additions		
Share capital	153,000,000	153,000,000
Unrealised gain on investments - available for sale	4,415,736	4,673,882
Reserves	37,769,499	29,229,903
Retained earning	69,645,702	53,173,089
Provision for end of service benefits	13,842,357	13,640,008
Provision for operational losses	18,718,020	30,982,500
Deductions		
Property and equipments, net	(5,437,525)	(5,068,541)
Investments	(188,136,235)	(313,102,676)
Dividends paid	(64,481,162)	(47,900,349)
Utilization of operational losses	-	(12,264,480)
Zakat base	81,343,997	(8,396,683)
Zakat charge for the year at 2.5% (on higher of Zakat base or Zakatable income)	2,033,600	2,131,000
Foreign Partner share of income	95,272,149	193,322,050
Income tax at 20%	19,054,430	38,664,410
Total Zakat & income tax	21,088,030	40,795,410
Movement in Zakat and income tax payable is as follows:		
Opening balance	40,795,410	49,914,203
Provision for the current year	33,961,052	40,795,410
Payment during the year, net	(53,668,432)	(49,914,203)
Closing balance	21,088,030	40,795,410

Notes to the Financial Statements (31 December 2016) (continued)**13. End of Service Benefits**

	2016	2015
Opening balance	45,236,462	44,575,190
Charge for the year	7,952,160	11,015,021
Payments made during the year, net	(10,501,984)	(10,353,749)
Closing balance	42,686,638	45,236,462

14. Share Capital

As at 31 December 2016 and 2015, the Company is owned by the following shareholders in the proportion set out below:

	Number of shares	% of contribution	As at 31 December 2016
HSBC Asia Holdings BV	4,900	49%	245,000,000
The Saudi British Bank ('SABB')	5,100	51%	255,000,000
Total	10,000	100%	500,000,000

15. Statutory Reserve

In accordance with Article 176 of the Saudi Arabian Regulations for Companies, the Company is required to transfer 10% of net income to a statutory reserve until such reserve equals 30% of the paid up capital as a minimum. This reserve is not available for distribution. The Company has transferred 10% of its net income for the year to statutory reserve.

16. Equity Securities held under Swap Agreements

As at 31 December 2016, the Company held equity securities listed on Saudi stock exchange (Tadawul) having market value of SAR 5.52 billion (2015: SAR 4.48 billion) in its name under Equity Swap Master Confirmation Agreement. These securities were held in pursuance to Capital Market Authority (CMA) circular dated 21 August 2008. Through this circular, CMA allowed the Authorized Persons (AP) to enter into Swap Agreement with non-resident foreign investors to transfer the economic benefits of the shares of companies' listed on Tadawul while the Company retain the legal ownership of shares. A sum of SAR 10.15 million was recognised as income in 2016 (2015: SAR 18.55 million).

Further as at year end, cash balance amounting to SAR 125.5 million (2015: SAR 80.6 million) was kept with SABB on behalf of the customers under equity swap agreement.

17. Assets held under Fiduciary Capacity

Assets held in trust or in a fiduciary capacity are not treated as assets of the company, since the company does not earn economic benefits from these assets and accordingly treated as off balance sheet items.

a) Assets under management

These represent Mutual funds' and Discretionary portfolio assets managed by the Company, which amount to SAR 12.4 billion as at 31 December 2016 (2015: SAR 19.4 billion).

b) Balances held under brokerage accounts

As at 31 December 2016, cash balances held in brokerage accounts amounting to SAR 6.8 billion (2015: SAR 5.8 billion) were kept with SABB. These amounts were kept with the Company by its customers for the purpose of investments in the local equity market.

18. Provision for Operational Losses

Based on reasonable judgement, the management is not aware of any new issues during the year 2016 that require any additional provision. On the basis of prudence and facts currently known, there is a certain degree of uncertainty as to the possibility of any future claims, which the Company may incur in relation to historical issues relating to period from 2002 to 2014 identified as a result of various Capital Market Authority inspections. The management believes an amount of SAR 61.7m (2015:SAR 61.7m) may be required for these issues and therefore has carried forward provision from 2015.

19. Other General and Administrative Expenses

	2016	2015
Professional fees	20,036,192	25,017,184
Travel	2,702,656	2,907,115
Communication expense	1,440,659	1,506,835
Others (note 19.1)	1,057,772	3,164,646
	<u>25,237,279</u>	<u>32,595,780</u>

19.1 This mainly pertains to operational losses during the year netted off against operational gains, if any.

20. Service Costs under Service Level Agreement

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

21. Other Income

Other income mainly comprise of realised gains of SAR 10.8 million (2015: SAR 1 million) arising from the sale of available for sale investments and dividend income of SAR2.4 million (2015: SAR 2.1 million).

22. Operating Lease Commitment

Operating Lease Commitment – The Company has renewed the existing rent lease. The annual rent payable is SAR 8 million.

23. Regulatory Requirements for Capital and Capital Adequacy

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

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

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

Notes to the Financial Statements (31 December 2016) (continued)**23. Regulatory Requirements for Capital and Capital Adequacy** (continued)

SAR '000	As at 31 December	
	2016	2015
Capital Base:		
Tier 1 Capital	746,097	851,029
Tier 2 Capital	18,625	14,431
Total Capital Base	764,722	865,460
Minimum Capital Requirement:		
Market Risk	2,719	2,366
Credit Risk	144,641	149,213
Operational Risk	80,462	85,484
Total Minimum Capital Required	227,822	237,063
Capital Adequacy Ratio:		
Total Capital Ratio (times)	3.36	3.65
Tier 1 Capital Ratio (times)	3.28	3.59
Surplus in Capital	536,900	628,397

24. Risk Management

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

Credit risk

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

Foreign exchange rate risk

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

Special commission rate risk

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

Liquidity risk

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

25. Fair Value of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As these financial statements are prepared under the historical cost method, except for the revaluation of the available-for-sale investments, differences may arise between the book values and the fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

26. Board of Directors' Approval

The financial statements were approved by the Board of Directors on 26 March 2017.