HSBC US DOLLAR MURABAHA FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
FINANCIAL STATEMENTS
For the year ended 31 December 2019
together with the
INDEPENDENT AUDITOR'S REPORT

HSBC US DOLLAR MURABAHA FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
FINANCIAL STATEMENTS
For the year ended 31 December 2019

KPMG Al Fozan & Partners
Certified Public Accountants
Riyadh Front, Airport 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

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

Independent auditor's report

To the unitholders of HSBC US Dollar Murabaha Fund

Opinion

We have audited the financial statements of **HSBC US Dollar Murabaha Fund** ("the Fund"), managed by HSBC Saudi Arabia ("the Fund Manager"), which comprise the statement of financial position as at 31 December 2019, the statements of comprehensive income, changes in net assets (equity) attributable to the unitholders and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2019, and its financial performance and its cash flows for the year then ended 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 Certified Public Accountants ("SOCPA").

Basis for opinion

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

Responsibilities of the Fund Manager and those charged with governance for the financial statements

The Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and to comply with the applicable provisions of the Investment Funds Regulations issued by the Capital Market Authority, the Fund's Terms and Conditions and the Information Memorandum and for such internal control as the Fund Manager 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 Fund Manager is responsible for assessing the Fund'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 Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, the Fund Board, are responsible for overseeing the Fund's financial reporting process.

KPMG

Independent auditor's report

To the unitholders of HSBC US Dollar Murabaha Fund (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

- Conclude on the appropriateness of the Fund Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our 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 Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

For KPMG Al Fozan & Partners
Certified Public Accountants

Hani Hamzah A. Bedairi
License No. 460

2 Shaban 1441H
Corresponding to: 26 March 2020

HSBC US DOLLAR MURABAHA FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Statement of financial position
As at 31 December 2019
(Amounts in US Dollar)

	Note	**31 December 2019**	31 December 2018
Assets			
Cash at bank	*10*	**913,910**	211,317
Investments measured at amortised cost	*11*	**20,735,111**	17,334,950
Investments at fair value through profit or loss (FVTPL)	*12*	**890,473**	867,788
Receivables and advances		**1,229**	6,860
Total assets		**22,540,723**	18,420,915
Liabilities			
Accrued expenses	*13*	**1,362**	6,635
Total liabilities		**1,362**	6,635
Net assets (equity) attributable to the unitholders		**22,539,361**	18,414,280
Units in issue (numbers)		**1,501,777**	1,253,817
Net asset (equity) value per unit – Dealing	*17*	**15.01**	14.69
Net asset (equity) value per unit – IFRS	*17*	**15.01**	14.69

The accompanying notes 1 to 19 form an integral part of the financial statements.

HSBC US DOLLAR MURABAHA FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Statement of comprehensive income
For the year ended 31 December
(Amounts in US Dollar)

	Note	**2019**	2018
Investment income			
Special commission income from investments held at amortized cost		**466,988**	343,475
Unrealized gain from investments at FVTPL		**22,685**	16,361
Exchange loss, net		**--**	(182)
Total income		**489,673**	359,654
Expenses			
Management fees	*14*	**71,205**	64,185
Impairment charge for expected credit losses	*11*	**1,563**	943
Total expenses		**72,768**	65,128
Net income for the year		**416,905**	294,526
Other comprehensive income for the year		**--**	**--**
Total comprehensive income for the year		**416,905**	294,526

The accompanying notes 1 to 19 form an integral part of the financial statements.

HSBC US DOLLAR MURABAHA FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Statement of changes in net asset (equity) attributable to the unitholders
For the year ended 31 December
(Amounts in US Dollar)

	2019	2018
Net assets (equity) attributable to the unitholders as at the beginning of the year	**18,414,280**	17,428,207
Impact of adoption of IFRS 9 at 1 January 2018	**--**	(1,974)
Net assets (equity) attributable to the unitholders as at the beginning of the year (restated)	**18,414,280**	17,426,233
Net income for the year	**416,905**	294,526
Contributions and redemptions by the unitholders:		
Proceeds from issuance of units	**5,833,747**	3,605,273
Payments for redemption of units	**(2,125,571)**	(2,911,752)
Net change from unit transactions	**3,708,176**	693,521
Net assets (equity) attributable to the unitholders as at the end of the year	**22,539,361**	18,414,280

UNIT TRANSACTIONS

Transactions in units for the year ended 31 December are summarised as follows:

	2019	2018
	(In numbers)	
Units as at the beginning of the year	**1,253,817**	1,206,609
Units issued during the year	**390,047**	246,974
Units redeemed during the year	**(142,087)**	(199,766)
Net change in units	**247,960**	47,208
Units as at the end of the year	**1,501,777**	1,253,817

The accompanying notes 1 to 19 form an integral part of the financial statements.

HSBC US DOLLAR MURABAHA FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Statement of cash flows
For the year ended 31 December 2019
(Amounts in US Dollar)

	Note	**2019**	2018
Cash flow from operating activities			
Net income for the year		**416,905**	294,526
Adjustment for:			
Unrealised gain on investment at FVTPL		**(22,685)**	(20,761)
Impairment charge for expected credit losses		**1,563**	943
		395,783	274,708
Net changes in operating assets and liability			
Increase in investments measured at amortised cost		**(4,476,724)**	(450,000)
Increase in investments measured at FVTPL		**--**	(847,027)
Decrease in available for sale investments		**--**	801,608
Decrease / (increase) in receivables and advances		**5,631**	(33,280)
(Decrease) / increase in accrued expenses		**(5,273)**	5,632
Net cash used in operating activities		**(4,080,583)**	(248,359)
Cash flow from financing activities			
Proceeds from issuance of units		**5,833,747**	3,605,273
Payments for redemption of units		**(2,125,571)**	(2,911,752)
Net cash generated from financing activities		**3,708,176**	693,521
(Decrease) / increase in cash and cash equivalents		**(372,407)**	445,162
Balance as at the beginning of the year		**17,031,317**	16,586,155
Balance as at the end of the year	*10*	**16,658,910**	17,031,317
Supplemental cashflow information			
Special commission income received		**475,264**	382,975

The accompanying notes 1 to 19 form an integral part of the financial statements.

1 GENERAL

HSBC US Dollar Murabaha Fund ("the Fund") is an investment fund established through the agreement between HSBC Saudi Arabia ("the Fund Manager") and the investors ("the Unitholders").

The objective of the Fund is to seek capital appreciation and potential for capital preservation through participation in a professionally managed portfolio of short-term US Dollar deposits, placements and monetary instruments. The funds are invested in accordance with Shariah Investment Guidelines as determined by Shariah Supervisory Committee.

The Fund is managed by the Fund Manager who also acts the administrator of the Fund. Albilad 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") published by the Capital Market Authority ("the CMA").

3 SUBSCRIPTION/REDEMPTION (DEALING DAY AND VALUATION DAY)

The Fund is open for subscriptions / redemptions of units on each business day (a "Dealing Day"). The value of the Fund's portfolio is determined on each business day (a "Valuation Day"). The net asset value of the Fund for the purpose of purchase or sale of units is determined by dividing the net value of assets (fair value of fund assets minus fund liabilities) by the total number of outstanding fund units on the relevant Valuation Day.

4 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants ("SOCPA") and to comply with the applicable provisions of the Investment Fund Regulations issued by the Capital Market Authority, the Fund's Terms and Conditions and the Information Memorandum.

5. FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in US Dollar ("USD"), which is also the Fund's functional currency.

6 BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis, except for investments at fair value through profit or loss ("FVTPL") which are stated at their fair value.

The Fund Manager has made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has resources to continue in business for a foreseeable future. Furthermore, the Fund Manager is not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

The financial statement accounts in the statement of financial position have been presented in the order of liquidity.

7 USE OF CRITICAL JUDGEMENTS AND ESTIMATES

Preparation of the financial statements in accordance with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Fund's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Significant areas where management has used estimates, assumptions or exercised judgement are as follows:

Allowance for expected credit losses

The Fund recognises allowance for expected credit loss (ECL) on its Murabaha placements.

The Fund measures loss allowance at an amount equal to lifetime ECL, except for the following, for which they are measured at 12-month ECL:

- Financial assets that are determined to have low credit risk at the reporting date; and
- Financial assets on which credit risk has not increased significantly since their initial recognition

The Fund considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade' or certain unrated investment with no default in past. 12-month ECL is the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date.

8. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Net Asset (Equity) Value

Net assets (equity) value per unit, as disclosed in the statement of financial position is calculated by dividing the net assets attributable to the Unitholders by the numbers of units in issue at the year end.

Trade date accounting

All purchases and sales of financial assets are recognized and derecognized on the trade date, i.e. the date that the Fund commits to purchase or sell the assets. Regular-way purchases or sales of financial assets require delivery of those assets within the timeframe generally established by regulation or convention in the market place.

Subscription and redemption of units

Units subscribed and redeemed are recorded at net asset (equity) value per unit on the Valuation Day for which the subscription request and redemption applications are received.

Cash and cash equivalents

Cash and cash equivalents for the purpose of statement of cash flows comprise deposits with banks and highly liquid financial assets with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by the Fund in the management of short-term commitments.

8. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Redeemable units

Redeemable units are classified as equity as it meets all of the following conditions:

- it entitles the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation;
- it is in the class of instruments that is subordinate to all other classes of instruments;
- all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- apart from the contractual obligation for the Fund to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any other features that would require classification as a liability; and
- the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund over the life of the instrument.

Incremental costs directly attributable to the issue or redemption of redeemable units are recognized directly in equity as a deduction from the proceeds or part of the acquisition cost.

Revenue from contracts with customers

The Fund recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Fund. The revenue is recognised when (or as) each performance obligation is satisfied.

Net gain from financial instruments at FVTPL

Net gain from financial instruments at FVTPL includes all realised and unrealised fair value changes and foreign exchange differences (if any).

Net realised gain from financial instruments at FVTPL is calculated using the weighted average cost method.

Dividend income

Dividend income is recognised in the statement of comprehensive income on the date on which the right to receive payment is established. For quoted equity securities, this is usually the ex-dividend date. For unquoted equity securities, this is usually the date on which the shareholders approve the payment of a dividend. Dividend income from equity securities designated as at FVTPL is recognised in statement of comprehensive income in a separate line item.

Special commission income

Special commission income is recognized in statement of comprehensive income on accrual basis using the effective interest rate method.

Management fees

Fund management fees are charged at rates agreed with the Fund Manager. These charges are calculated on each Valuation Day at an annual percentage of the Fund's net assets value. These expenses are charged to the statement of comprehensive income.

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Zakat and tax

Under the current system of zakat and income tax in the Kingdom of Saudi Arabia, the Fund is exempt from paying any zakat and income tax. Zakat and income tax are considered to be the obligation of the Unitholders and are not provided in the accompanying financial statements.

The Value Added Tax (VAT) applicable for fees and expenses are recognized in the statement of comprehensive income.

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 in the principal or, in its absence, the most advantageous market to which the Fund has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. The Fund measures instruments quoted in an active market at a mid-price, because this price provides a reasonable approximation of the exit price.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximise the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Fund recognizes transfers between levels of the fair value hierarchy as at the end of the reporting year during which the change has occurred.

Financial assets and financial liabilities

Recognition and initial measurement

Financial assets and financial liabilities at FVTPL are initially recognised on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognised on the date on which they are originated.

Financial assets and financial liabilities at FVTPL are initially recognised at fair value, with transaction costs recognised in the statement of comprehensive income. Financial assets or financial liabilities not at FVTPL are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue.

Classification of financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and financial liabilities (continued)

Financial asset at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial asset at fair value through other comprehensive income ("FVOCI")

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL.

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial asset at fair value through other comprehensive income ("FVOCI") (continued)

On initial recognition of an equity investment that is not held for trading, the Fund may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Financial asset at fair value through profit or loss ("FVTPL")

All other financial assets are classified as measured at FVTPL.

Business model assessment

The Fund Manager makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual commission revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Fund's managers;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Fund's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and financial liabilities (continued)

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Commission / Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Fund considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Fund considers:
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Fund's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Fund changes its business model for managing financial assets.

Classification of financial liabilities

The Fund classifies its financial liabilities at amortised cost unless it has designated liabilities at FVTPL.

Derecognition

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

The Fund derecognize a financial liability when contractual obligations are discharged, cancelled, or expire.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS as endorsed in the Kingdom of Saudi Arabia, or for gains and losses arising from a group of similar transactions such as in the Fund's trading activity.

8. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and financial liabilities (continued)

Expected Credit loss ("ECL")

The Fund recognizes loss allowances for ECL on financial assets measured at amortised cost and financial assets measured at FVOCI.

The Fund considers a financial asset to have low credit risk when the credit rating of the counterparty is equivalent to the globally understood definition of 'investment grade'.

Significant increase in credit risk

To determine whether the risk of default on a financial instrument has increased significantly since initial recognition, the Fund 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 the Fund's historical experience and expert credit assessment and including an assessment of the change in probability of default (PD) as at the reporting date with the PD at the time of initial recognition of the exposure.

Definition of default
The Fund considers a financial asset to be in default when:

- the investee is unlikely to pay its credit obligations to the Fund in full, without recourse by the Fund to actions such as realizing security (if any is held); or
- the investee is past due more than 30 days on any material credit obligation to the Fund.

In assessing whether a investee is in default. The Fund 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 the Fund; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:
- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Fund in accordance with the contract and the cash flows that the Fund expects to receive); and
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position for financial assets measured at amortized cost as a deduction from the gross carrying amount of the assets.

(Amounts in US Dollar)

8. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Write-off

The gross carrying amount of a financial asset is written off when the Fund has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

9 IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARD

New IFRS standards, IFRIC interpretations and amendments thereof, adopted by the Fund
The following new standards, amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB) have been effective from 1 January 2019 and accordingly adopted by the Fund, as applicable:

Standard / Amendments	***Description***
IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
IAS 28	Long term interests in associates and joint ventures
IAS 19	Plan amendments, curtailments or settlements
IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRS 2015 - 2017 cycle
IFRS 9	Amendments regarding prepayment features with negative compensation and modification of financial liabilities

The adoption of the above standard / amendments and interpretations did not have any significant impact on these financial statements.

Standards issued but not yet effective
Standards issued but not yet effective up to the date of issuance of the Fund's financial statements are listed below. The Fund intends to adopt these standards when they become effective and the material impacts from the adoption are note expected.

Standard / Interpretation	***Description***	***Effective from periods beginning on or after the following date***
Amendments to IFRS 3	Definition of business	1 January 2020
Amendments to IAS 1 & IAS 8	Definition of material	1 January 2020
IFRS 7 and IFRS 9	Pre – replacement issues in the context of the IBOR reforms	1 January 2020
Amendments to IAS 1	Classification of liabilities	1 January 2022

10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are as follows:

	31 December 2019	31 December 2018
Cash at bank	**913,910**	211,317
Placements with Banks (with original maturity of less than 90 days)	**15,745,000**	16,820,000
	16,658,910	17,031,317

The bank balance is placed with a local Saudi Arabian bank, having sound credit rating.

(Amounts in US Dollar)

11 INVESTMENTS MEASURED AT AMORTISED COST

	Note	**31 December 2019**	31 December 2018
Murabaha placements - with original maturity of less than 90 days	*10*	**15,745,000**	16,820,000
Murabaha placements - maturing between 90 and 360 days		**4,935,000**	450,000
		20,680,000	17,270,000
Accrued special commission income		**59,591**	67,867
Allowance for expected credit losses		**(4,480)**	(2,917)
Total		**20,735,111**	17,334,950

The Fund has made Murabaha placements with counterparties that have credit ratings of investment grade as issued by credit rating agencies. The average effective special commission rate on money market placements as at the year end is 2.13% p.a. (31 December 2018: 3.00%)

The methodology and assumptions applied by the Fund in estimating the ECL on the Murabaha placements are based on using the Moody's rating scales which are then adjusted for country specific data, forward looking estimates and macroeconomic variables such as expected GDP growth, to determine the ECL as at the end of the reporting period.

The movement in the allowance for expected credit losses for Murabaha placements is summarized as follows:

	31 December 2019	31 December 2018
Balance at the beginning of the year	**2,917**	--
ECL recognition on 1 January 2018	**--**	1,974
Charge for the year	**1,563**	943
Balance at the end of the year	**4,480**	2,917

12 INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Investments measured at FVTPL comprise of the following:

	31 December 2019		31 December 2018	
	Cost	**Market value**	Cost	Market value
Mutual Fund				
HSBC Saudi Riyal Murabaha Fund (ART)	**849,819**	**890,473**	849,819	867,788

13 ACCRUED EXPENSES

Accrued expenses include management fee payable (inclusive of VAT) to the Fund Manager.

(Amounts in US Dollar)

14 TRANSACTIONS WITH RELATED PARTIES

Related parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties of the Fund comprise HSBC Saudi Arabia (being the Fund Manager, the Fund Board and administrator of the Fund), mutual funds managed by the Fund Manager and The Saudi British Bank ("SABB") (being significant shareholder of the Fund Manager).

In the ordinary course of its activities, the Fund transacts business with related parties. Related party transactions are governed by limits set by the regulations issued by CMA. All the related party transactions are undertaken at mutually agreed prices and approved by the Fund Manager. These transactions were carried out on the basis of approved Terms and Conditions of the Fund.

The Fund Manager charges to the Fund on each Valuation Day, management fees at a rate of 0.75% of Net assets value (2018: 0.75% of Net assets value). All Fees and expenses related to the management of the Fund including but not limited to administration, audit, regulatory and index fees, etc., are included in the management fee.

Subscription fee up to 2% is not considered in the financial statement of the Fund, as investment to the Fund are always net of subscription fees.

During the year, the Fund entered into the following transactions with related parties in the ordinary course of business:

Related Party	Nature of transactions	Amount of transactions during the year		Closing balance	
		2019	2018	**2019**	2018
HSBC Saudi Arabia (Fund Manager)	Management fee	**71,205**	64,185	**1,362**	6,635
SABB	Cash at bank	--	**--**	**7,141**	20,000
	Income on murabaha placements	--	10,261	--	**--**

HSBC Saudi Riyal Murabaha Fund managed by the Fund Manager has subscribed 204,667 units (31 December 2018: 204,667 units) of the Fund.

Board member compensation and other fees such as custodian fee and administration fee during the year has been borne and paid by HSBC Saudi Arabia *("the Fund Manager").*

No special commission is accrued against the cash balances in the respective bank accounts with the related parties.

(Amounts in US Dollar)

15 FINANCIAL RISK MANAGEMENT

The Fund has exposure to the following risks from financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Fund's objectives, policies and processes for measuring and managing risk and the Fund's management of capital.

Risk management framework

The Fund maintains positions in non-derivative financial instruments in accordance with its investment management strategy. The Fund's investment portfolio comprises of debt securities.

The Fund's investment manager has been given discretionary authority to manage the assets in line with the Fund's investment objectives. Compliance with the target asset allocations and the composition of the portfolio are monitored by the Investment Committee of the Fund. In instances where the portfolio has diverged from target asset allocations, the Fund Manager is obliged to take actions to rebalance the portfolio in line with the established targets, within prescribed time limits.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund.

The Fund is exposed to credit risk on its cash at bank, investments held at amortised cost and receivables. The Fund Manager seeks to limit its credit risk by monitoring credit exposure and by dealing with reputed counterparties.

Credit risk is monitored on a regular basis by the Fund Manager to ensure it is in line with the investment guidelines of the Fund Board.

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

	31 December 2019	31 December 2018
Cash at bank	**913,910**	211,317
Investments held at amortized cost	**20,735,111**	17,334,950
Receivables and advances	**1,229**	6,860
Total exposure to credit risk	**21,650,250**	17,553,127

The Fund does not have a formal internal grading mechanism. Credit risk is managed and controlled by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. Credit risks are generally managed on the basis of external credit ratings of the counterparties.

(Amounts in US Dollar)

15 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Analysis of credit quality

The Fund has Murabaha placements (gross) with counterparties having the following credit quality ratings as rated by Moody's:

	31 December 2019	31 December 2018
A2	**1,050,000**	2,000,000
A3	**8,045,000**	4,950,000
Aa2	--	3,480,000
Aa3	**3,675,000**	--
Baa1	**5,910,000**	6,840,000
Baa2	**1,000,000**	--
Baa3	**1,000,000**	--
Total	**20,680,000**	17,270,000

Amounts arising from ECL

Impairment charge for expected credit losses on investments at amortized cost has been measured on a 12-month and lifetime expected loss basis and reflects the maturities of exposures. The Fund considers that these exposures have low credit risk based on the external credit ratings of the counterparties.

12-month probabilities of default are based on Moody's transition matrices. Loss given default parameters generally reflect an assumed recovery rate of 50%. However, if the asset were credit-impaired, then the estimate of loss would be based on a specific assessment of expected cash shortfalls and on the original effective interest rate.

The Fund has recorded expected credit loss on investments at amortized cost amounting to USD 4,480 as at 31 December 2019 (31 December 2018: USD 2,917). During the year, there were no stage movements in ECL of investments measured at amortised cost.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in releasing funds to meet the commitments associated with financial liabilities.

The Fund's Terms and Conditions provide for the subscriptions and redemptions of units on each business day and it is, therefore, exposed to the liquidity risk of meeting unitholder redemptions. However, the Fund's Murabaha placements and Debt Securities are considered to be readily realizable as these are of short-term nature.

The Fund Manager monitors the liquidity requirements on a regular basis and seeks to ensure that sufficient funds are available to meet any commitments as they arise.

(Amounts in US Dollar)

15 FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk

Market risk is the risk that changes in market prices – such as interest rates, foreign exchange rates, and credit spreads – will affect the Fund's income or the fair value of its holdings in financial instruments.

The Fund's strategy for the management of market risk is driven by the Fund's investment objective as per the Fund's Terms and Conditions. The Fund's market risk is managed on a timely basis by the investment manager in accordance with the policies and procedures in place. The Fund's market positions are monitored on a timely basis by the Fund Manager.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund's functional currency is US Dollar (USD) and there are no foreign currency exposures as at 31 December 2019 except for investment at FVTPL which is in Saudi Arabian Riyal ("SR"). SR is already pegged with USD at a fixed rate and accordingly, foreign exchange gains / losses are not significant.

Commission rate risk

Commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of financial instruments. The Fund Manager monitors positions daily to ensure maintenance of positions within established gap limits, if any.

A summary of the Fund's commission rate gap position, analysed by the earlier of contractual re-pricing or maturity date, is as follows:

31 December 2019	***Less than 1 month***	***1 to 3 months***	***3 months to 1 year***	***Total***
ASSETS				
Investments at amortized cost	**5,700,000**	**10,045,000**	**4,935,000**	**20,680,000**
Total commission-bearing assets	**5,700,000**	**10,045,000**	**4,935,000**	**20,680,000**
LIABILITIES				
Total commission-bearing liabilities	--	--	--	--
Total commission rate gap	**5,700,000**	**10,045,000**	**4,935,000**	**20,680,000**

31 December 2018	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*Total*
ASSETS				
Investments at amortized cost	7,925,000	9,345,000	450,000	17,270,000
Total commission-bearing assets	7,925,000	9,345,000	450,000	17,270,000
LIABILITIES				
Total commission-bearing liabilities	--	--	--	--
Total commission rate gap	7,925,000	9,345,000	450,000	17,270,000

15 FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

Sensitivity analysis

The sensitivity analysis reflects how net assets (equity) attributable to the Unitholders would have been affected by changes in relevant risk variable that were reasonably possible at the reporting date.

Management has determined that a fluctuation in commission rates of 10 basis points is reasonably possible, considering the economic environment in which the Fund operates. The table below sets out the effect on the Fund's net assets (equity) attributable to the Unitholders of a reasonably possible increase of 10 basis points in commission rates at 31 December. The impact of such an increase or reduction has been estimated by calculating the fair value changes of the fixed-interest debt securities and other fixed-interest-bearing assets, less liabilities. The impact is primarily from the decrease in the fair value of fixed income securities. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Effect on net assets (equity) in USD	**2019**	2018
Net assets (equity) attributable to the Unitholders	**17,860**	15,647

A reduction in interest rates of the same amount would have resulted in an equal but opposite effect to the amounts shown above.

16 FAIR VALUES 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

When available, the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. The Fund measures instruments quoted in an active market at a market price, because this price reasonable approximation of the exit price.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The Fund recognizes transfer between levels of fair value at the end of the reporting period during which the change has occurred.

The fair value hierarchy has the following levels:

- 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.

(Amounts in US Dollar)

16 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The table below analyses financial instruments at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the statement of financial position. All fair value measurements below are recurring.

		31 December 2019			
		-------------------------Fair value-------------------			
	Carrying value	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments measured at amortised cost	**20,735,111**	**--**	**--**	**20,735,111**	**20,735,111**
Investments at FVTPL	**890,473**	**890,473**	**--**	**--**	**890,473**
Total	**21,625,584**	**890,473**	**--**	**20,735,111**	**21,625,584**

		31 December 2018			
		-------------------------Fair value-------------------			
	Carrying value	Level 1	Level 2	Level 3	Total
Investments measured at amortised cost	17,334,950	--	--	17,334,950	17,334,950
Investments at FVTPL	867,788	867,788	--	--	867,788
Total	18,202,738	867,788	--	17,334,950	18,202,738

During the year, no transfer within the levels have taken place.

Level 3 investments measured at amortised cost have been valued based on management's assessment of risks associated with the instruments underlying assets, the terms and conditions of the investment and the expected market prevailing economics.

Other financial instruments such as other receivables and accrued expenses are financial assets and financial liabilities whose carrying amounts approximate fair value, because of their short-term nature and the high credit quality of counterparties.

17 LAST VALUATION DAY

The Capital Market Authority (CMA), through its circular dated 10 Rabi Al Thani 1439H (corresponding to 28 December 2017), has approved the Dual NAV approach for investment funds. In accordance with the circular, IFRS 9 will be applied for accounting and reporting purposes and dealing NAV will remain unaffected until further notice.

The last valuation day of the year was 31 December 2019 (2018: 31 December 2018) and in lieu of the above circular from CMA, the dealing net assets (equity) value on this day was USD 15.01 (2018: USD 14.69) per unit. The IFRS net assets (equity) value per unit on 31 December 2019 was USD 15.01 (2018: USD 14.69) per unit.

18 SUBSEQUENT EVENT

Since early January 2020, the coronavirus ("COVID-19") outbreak has spread across globally, causing disruption to business and economic activity. The COVID-19 pandemic has significantly impacted the stock markets around the world to date and may continue to do so in the coming months of 2020, whereby potentially impacting the earnings and cash flows of the Fund. Furthermore, the impact of macroeconomic forecast and other key indicators due to this outbreak will need to be considered while determining the impact of ECL as per IFRS 9 in 2020. The Fund Manager considers this outbreak to be a non-adjusting post balance sheet event. The scale and duration of this outbreak remains uncertain and as it evolves globally in 2020, the Fund Manager will evaluate the potential impacts to the Fund and respond accordingly.

19 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Fund Board on 2 Shaban 1441H (corresponding to 26 March 2020).