

Annual Report
(HSBC Sukuk Fund)
2021

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A) Fund Information

1- Fund Name

HSBC Sukuk Fund

2- Investment Objectives and Policies

The Fund is an open-ended investment Fund that aims to achieve income and capital growth over the medium to long term, by investing in Sukuk issued domestically and globally, Murabaha funds, Murabaha operations and Sharia-compliant certificates. Investment in issued securities may include without limitation investment funds issued or managed by HSBC Saudi Arabia or any affiliate thereof. The Fund performance is measured against the performance of HSBC Saudi Sukuk Index which is a compound index including Dow Jones Sukuk Index concerning which the Fund summary includes all details. The Index performance and particulars can be accessed by visiting Bloomberg website: www.bloomberg.com

3- Income & Dividends Distribution Policy

The profits earned by the Fund will be distributed over the Unitholders on a periodical basis and at the discretion of the Board of Directors. For more clarification, the capital gains achieved by the Fund from sale of any bonds at a price higher than the purchase price will not be distributed over Unitholders but they will instead be invested in short term financial instruments compliant with Islamic Sharia at the times of payment of the received profits. The Fund will distribute the income over Unitholders on a quarterly basis subject to the consent of the Board of Directors.

4- Description of the Fund Indicative Index and Service Provider Website

The Fund performance is measured against the performance of a compound index including Dow Jones Sukuk Index (95%) and Libor for one month (5%). The Index performance and particulars can be accessed by visiting Bloomberg website: www.bloomberg.com

(b) Fund Performance

• Fund Performance During the Past Three Years (USD)

	2019	2020	2021
Net Asset Value at the end of the year	57,592,536	61,386,769	58,585,089
Net Asset Value per Unit at the end of the year	10.0687	9.9977	9.6114
Highest Net Asset Value per Unit	10.1996	10.2072	10.2097
Lowest Net Asset Value per Unit	9.6579	9.0571	9.0571
Number of Issued Units at the end of the Year	5,719,939	6,140,084	6,095,401
Value of Distributed Dividends per unit (if any)	0.29	0.21	0.24
Expenses Ratio	1.05%	1.08%	1.01%
Percentage of Assets Borrowed from the Asset Value, Exposure Period and Maturity Date	-	-	-

- **Fund Returns**

	One Year	Three Years	Five Years	Since Inception
Fund Returns	-2.10%	6.67%	9.69%	21.66%
Benchmark Returns	-1.93%	8.93%	8.01%	9.19%

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Fund Return	4.47%	0.81%	2.62%	0.81%	1.79%	1.49%	1.32%	7.35%	-0.70	-2.10%

- **Services Consideration and Commissions**

Type of Expenses or Commission (Including VAT, if any)	Value in USD	Percentage according to Fund Asset Average
Fund Management Fees	566,094	0.94%
Custodian Fees	7,693	0.013%
Administrative Services Fees	19,222	0.03%
Auditor's Fees	5,167	0.01%
Independent Board Members' Remuneration	2,364	0.004%
CMA Fees	1,123	0.002%
Tadawul Fees	860	0.001%
Expected Credit Losses Provision	-	-
Other Expense	1,171	0.002%

3- Any material changes that affected the Fund performance

During the year, one of the Holdings of the HSBC Sukuk Fund, namely: SD International Sukuk II Ltd, had a significantly negative impact on the Fund's performance. The Obligor (Serba Dinamik Holdings Berhad) of the Sukuk was suspended by the Bursa Malaysia. The suspension was after a series of events, which started when the external Auditor of Serba Dinamik Holdings Berhad raised a number of questions regarding the statutory audit of Serba Dinamik Holdings Berhad. The Fund had approx. 4.2% exposure to the Sukuk at the beginning of the year. The investment in this Sukuk was exited during the year.

4- Annual Voting Practices

Not Applicable

5- Fund Board of Directors' Annual Report

(a) Names and Types of Membership of the Board Members:

- Hamad Ibrahim Al-Washmi, Chairman of the Board of Directors, (a non-independent Board member);
- Tariq Saad Abdul Aziz Al-Tuwaijri, (an independent Board member);
- Ali Saleh Al-Othaim, (an independent Board member);

- Abdulrahman Al-Mudaimigh, (an independent Board member); and
- Rehab Saleh Al-Khudair, (a non-independent Board member).

Names of Members of the Fund's Board of Directors	Experience and qualifications	Current position
Hamad Ibrahim Al-Washmi (Chairman of the Board of Directors – Non-Independent Member)	<ul style="list-style-type: none"> - Head of Compliance, HSBC Saudi Arabia (2018) - Member of Audit Committee, Najm Insurance Co. (2002) - Head of Customer Experience, SABB Customer Experience Department, SABB Bank (2016) - International Assignment with the Global Compliance Department, HSBC Holdings PLC, London, United Kingdom (2016) - Head of RBWM Compliance, Compliance Department, SABB (2014) - Senior Manager, Business Performance & Planning – Retail Banking & Wealth Management, SABB (2010) - Manager Business Performance & Planning, SABB (2009) - Relationship Manager – Large Corporate and Government Entities, Arab National Bank (2003) - Consumer Loans Credit Officer, Arab National Bank (2002) - Recommendation & Call Verification Units Supervisor, Arab National Bank (2002) - Package Account Unit Supervisor, Arab National Bank (2002) - Showroom Manager, Jarir Bookshop (2000) - MBA, University of San Diego, School of Business Administration, San Diego (2009) - Bachelor of Science in Business Administration (2000) 	Chief Risk and Compliance Officer, HSBC Saudi Arabia (2021)
Rehab Alkhudair (Non-Independent Member)	<ul style="list-style-type: none"> - Senior Investment Performance Analysis Manager– Asset Management Department, HSBC Saudi Arabia (2019) - Performance Analyst – Asset Management Department, HSBC Saudi Arabia (2016) - Assistant Performance Analyst – Asset Management Department, HSBC Saudi Arabia (2014) - Assistant Manager, Regulatory Compliance, HSBC Saudi Arabia (2014) - Assistant Financial Analyst - Treasury & Investments, Riyadh Bank (2012) - Master Degree in Finance Management, Durham University, United Kingdom (2013) - BBA, Finance (with honors degree), Al Yamamah University, Saudi Arabia (2010) 	Chief Operating Officer Asset Management, HSBC Saudi Arabia (2020)
Tariq Saad Abdul-Aziz Al-Tuwaijri (Independent Member)	<ul style="list-style-type: none"> - Director of Equity Investments at Nessel Holding Company (2010) - Deputy General Executive President of Mediation at Wasatah Capital Company (2008) - Senior Mediator at Al Jazeera Capital (2004) - Relations Director - Banking Services of Samba Financial Group (1998) - Bachelor of Business Administration from the Open Arabian University (2015) - General Institute of Technical Education and Vocational Training, 	Head of the Nomination and Compensation Committee, Non-Independent Member of the Board of Directors of

	Diploma of Business Administration (2010)	Thoub Al Asil Company and Member of the Saudi Economics Association (2018)
Ali Saleh Ali Al-Othaim (Independent Member)	<ul style="list-style-type: none"> - Member of the Board Directors of Al Khair Capital (2012) - Member of the Board of Directors of the Chamber of Commerce and Industry, Riyadh (2003) - Member of the Board of Directors of Al Othaim Commercial Group (1998) - Deputy President of Al Othaim Jewelry (formerly) (1994) - Bachelor of Business Administration, Major: Financial Management, King Saud University (1998) 	Businessman
- Abdulrahman Ibrahim Al-Mudaimigh (Independent Member)	<ul style="list-style-type: none"> - Board member of National Building and Marketing Company (2019) - Chairman of Future Ceramics (2019) - Board member of National Gypsum Company (2019) - Board member of Impact Capital Company (2019) - Board member of FIPCO (2019) - Board member of AL Maather REIT Fund (2017) - CEO of Watar Partners for Business Trading Company (2017) - Acting CEO of Bawan Company (2016) - Deputy President of Business Development for Bawan Company (2011) - Founding partner, General Manager of Bina Holding Company (2007) - Senior credit analyst for the Industrial Development Fund (2004) - MBA from London Business School (2018) - Bachelor degree in Financial Management from Prince Sultan University (2004) 	Executive partner of Watar Partners for Business Trading Company (2017)

(b) Roles and Responsibilities of the Fund Board of Directors

Responsibilities of the Fund Board Members include without limitation:

- Approving all contracts, decisions and material reports to which the Fund is a party.
- Approving a written policy with regard to the voting rights in respect of Fund assets.
- Supervising and, where appropriate, approving any conflict of interest disclosed by the Fund Manager pursuant to Article (13) of the IFR.
- Holding, twice a year at least, a meeting with the Conformity and Compliance Committee at the Fund Manager, or the officer in charge of Conformity and Compliance at the Fund Manager, in order to review compliance by the Fund with all relevant laws and regulations.
- Recognizing any recommendation raised by the liquidator, in case a liquidator is appointed.
- Ensuring completion and accuracy of the Fund Terms and Conditions and any other document involving disclosures in connection with the Fund and the Fund Manager as well as its management of the Fund and the amended Investment Funds Regulations.
- Ensuring that the Fund Manager is fulfilling its responsibilities in a way realizing the interests of the Unitholders pursuant to the Fund Terms and Conditions, and the amended provisions of the Investment Funds Regulations.
- Working honestly, in good faith, and exerting diligence, skill and care, and in a way realizing the interests of the Unitholders.

- Recording the minutes of meetings showing all the occurrences affecting the meetings and decisions taken by the Board.
- Approving delegating the powers and authorities of the Fund Manager to other financial institutions in order to function as adviser, sub-manager, custodian, agent or mediator after having obtained the approval by CMA.
- Approving the appointment of the Auditor.
- Approving the services authorized by the Manager in respect of keeping the books, subscription, redemption, sale and purchase and financial transfers, confirmation and information affecting the investments in response to the subscribers' inquiries. Assuming the tasks of follow-up and control of the Fund's performance, and ensuring that the Fund Manager carries out its responsibilities in a way realizing the interests of the Unitholders, pursuant to the Terms and Conditions of the Fund, the Information Memorandum, the relevant documentation and the provisions of the Investment Fund Regulations.

(c) Particulars of the Fund Board Members' Remuneration

Remuneration of the Board independent members shall be paid by the Fund Manager. The Fund will pay any expenses of the Fund Board of Directors.

(d) Statement of any real or potential conflict of interest between the interests of a Fund board member and those of the Fund:

- There is no real or potential conflict between the interest of any Board member and the interests of the Fund.
- No Fund Board member may sit on the boards of directors of other funds in the Kingdom of Saudi Arabia.

The Board of Directors of the Fund shall supervise and resolve any conflicts of interest, and shall exercise due care and diligence towards Unitholders, and shall exert utmost effort to appropriately resolve conflicts of interest in good faith. The Fund Manager shall ensure that none of its subordinates is engaged in any business involving a conflict of interest. In the event of any material conflict between the interests of the Fund Manager or the Sub-Manager's interest and the interests of any investment fund managed thereby or another client's account, then the Fund Manager shall disclose this to the Board of Directors as soon as possible.

(f) All Fund Boards of Directors in which the relevant Board Member participates:

Fund Name	Hamad Al-Washmi	Rehab Al-Khudair	Tariq Al-Tuwajri	Ali Saleh Al-Othaim	Abdulrahman Al-Mudaimigh
HSBC Saudi Riyal Murabaha Fund	√	√	√	√	√
HSBC US Dollar Murabaha Fund	√	√	√	√	√
HSBC Saudi Equity Fund	√	√	√	√	√
HSBC Saudi Equity Income Fund	√	√	√	√	√
HSBC Saudi Financial Institutions Equity Fund	√	√	√	√	√
HSBC Saudi Companies Equity	√	√	√	√	√

Fund					
HSBC Saudi Industrial Companies Equity Fund	√	√	√	√	√
HSBC Saudi Construction and Cement Equity Fund	√	√	√	√	√
HSBC Global Equity Index Fund	√	√	√	√	√
HSBC GCC Equity Fund	√	√	√	√	√
HSBC China and India Equity Freestyle Fund	√	√	√	√	√
HSBC Multi-Assets Defensive Fund	√	√	√	√	√
HSBC Multi-Assets Balanced Fund	√	√	√	√	√
HSBC Multi-Assets Growth Fund	√	√	√	√	√
HSBC Saudi Freestyle Equity Fund	√	√	√	√	√
HSBC MSCI Tadawul 30 Saudi ETF	√	√	√	√	√
HSBC Sukuk Fund	√	√	√	√	√
HSBC GCC Equity Income Fund	√	√	√	√	√

G- Subjects Discussed and Resolutions passed thereon including the fund Performance and Attainment of its Objectives

Subject	Approval Description	Meeting Date
Counterparty Limits	The Fund Board of Directors agreed on the limits of the new or renewed counterparty limits in the Kingdom of Saudi Arabia, the United Arab Emirates and Bahrain.	13 October 2021
Preparing the Financial Statements of the Mutual Funds	The Fund Board of Directors agreed to outsource the preparation of the financial statements of the mutual fund.	21 February 2021
Changing the Broker	The Fund Board of Directors approved the new mediators to carry out the investment fund trading operations.	21 February 2021
Changing the Auditor	The Fund Board of Directors agreed to replace the present auditor with Ernst & Young (EY)	4 March 2021 (By circulation via email)
Fees	Fees were restructured.	(By circulation via email)

C) Fund Manager

HSBC Saudi Arabia

1- Address

HSBC Building 7267, Olaya St. (AlMurooj)
Riyadh 12283-2255,
Kingdom of Saudi Arabia,
Unified Number: 920022688,
Fax: +966 1299 2385
Website: www.hsbcSaudi.com

2- Fund Sub-Manager and/or Investment Advisor (if any)

Not Applicable

3- Investment Activities during the Period

4-

During 2021, HSBC Sukuk Fund mainly added to Sukuk investments an exposure to the positive GCC sukuk denominated in US Dollar and an exposure to Sukuk securities denominated in SAR.

5- Report on the Fund Performance during the Period

GCC financial markets witnessed a good run of performance during 2021, helped significantly by the increase in the Brent oil price during 2021. On an overall basis, GCC Sukuk's spreads narrowed during the year 2021, reflecting increased confidence of investors in GCC Sukuk papers; however, with inflation expectations rising in the US, the US interest rates increased, with US 10-Year treasuries closing the year at around 1.51%. The Fund declared four dividends during the year. The total of the four dividends amounted to USD 0.24/ unit. During the year, the Fund posted a decline of 3.86% (partly impacted by the exposure to SD International Sukuk II Ltd.); whereas, the benchmark decreased by 1.93%. (Assuming dividends were reinvested, the Fund would have posted a decline of 1.49% during the year).

6- Any Changes made to the Terms and Conditions of the Fund during the Period

Date	Fund Name	Change
1 June 2021	HSBC Sukuk Fund	-The Board of Director membership was updated.
20 May 2021	HSBC Sukuk Fund	- The Auditor was replaced. - The Auditor's fees were amended.
24 May 2021	HSBC Sukuk Fund	- Terminology list was updated. - The acknowledgment was removed from some Fund documents. - The duties of the auditor were amended. - HSBC Sukuk Fund distribution policy was amended.

10 June 2021	HSBC Sukuk Fund	-The Fund fees and expenses were restructured.
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7- Any Additional Information that May Enable Unit Holders to Make Informed Decisions that are Based on Sufficient Information about the Fund Activities during the Period

There is no additional information to be disclosed except what has been stated in this Report, Fund's Terms and Conditions, and the Fund's financial statement. The investors need to read and understand the Fund's Terms and Conditions and all related documents and/or obtain advice from their own legal, tax, and/or investment advisors before taking any investment decision.

8- Percentage of Management Fees calculated on the Fund itself and other funds that the Fund is investing in (if the fund is substantially investing in other investment funds)

Funds	Fees
Murabaha Funds	
HSBC Saudi Murabaha Fund	0.70%

8- Special Commission Received by Fund Manager during the Period

None

9- Any other data or information that shall be included in this Report according to these Regulations

None

10- Management Term of the Person Recorded as the Fund Manager

Nine Years

11- Percentage of the expenses of every Fund by the end of the year and the weighted average of the expenses of the main funds subject of investment

The Fund expenses reached 1.01% by the end of the year. The expenses weighted average of the main invested funds were 0.02%.

(D) Custodian

Albilad Capital Company

1- Address

Albilad Capital, Head Office
King Fahd Road, P.O. Box: 140, Riyadh 11411,
Kingdom of Saudi Arabia
Uniform No. 920003636
Fax: +966112906299
Website: www.albilad-capital.com

(2) Concise Description of the Custodian's main roles and responsibilities

- Take custody of the assets of the Investment Fund;
- Open a separate account under its name with a local bank in favor of the Fund;
- Segregate the Fund's assets and register Fund securities under its name for the benefit of the Investment Fund;
- Maintain all necessary documents to support the performance of its contractual responsibilities towards the Fund.
- Deposit all cash belonging to the Fund into the relevant bank account; and
- Manage the Fund cash i.e. deduct the investment amounts and Fund expenses in accordance with the Fund's Terms and Conditions and the Information Memorandum.
- The Fund Custodian and Fund Sub-Custodian shall not be a Fund Manager, sub-Fund manager, or any of their affiliates;
- The Custodian shall be liable to the Fund Manager and Unitholders for its obligations pertaining to any losses caused to the Investment Fund due to the Custodian fraud, negligence, willful misconduct or default.
- The Custodian shall be liable for taking custody of, and protecting the Fund's assets on behalf of Unitholders.
- The Custodian shall be liable for taking all necessary administrative measures in relation to the custody of the Fund's assets.

(E) Fund Operator

1- Name & Address of the Fund Operator

HSBC Saudi Arabia
HSBC Building 7267, Olaya Street (Al-Murooj District)
Riyadh 12283-2255,
Kingdom of Saudi Arabia
Uniform Number: 920022688
Fax: +96612992385
Website: www.hsbcSaudi.com

(2) Concise Description of the Fund Operator main roles and responsibilities

- The Fund Operator shall be responsible for operating the Fund; the Fund Operator shall:
- Keep the books and records related to the Fund operation;
- Prepare and update the unit subscribers record and maintain it in the Kingdom according to the Investment Fund Regulations;
- Be liable for the distribution of dividends, if any, according to the distribution policy provided for under these Terms and Conditions;
- Conclude the subscription and redemption procedures provided for under these Terms and Conditions; and
- Fully and fairly evaluate the Fund assets and calculate the Fund unit price.

(F) Auditor:

Ernst & Young & Co.
Olaya Street, 14th Floor, Al Faisaliah Office Tower, Riyadh,
P.O. Box 12212,

Kingdom of Saudi Arabia
Telephone: + 9662159898

(G) Financial Statements

Attached

HSBC Sukuk Fund
(Managed by HSBC Saudi Arabia)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2021

HSBC Sukuk Fund

FINANCIAL STATEMENTS

At 31 December 2021

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Ernst & Young Professional Services (Professional LLC)
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INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF HSBC SUKUK FUND (MANAGED BY HSBC SAUDI ARABIA)

Opinion

We have audited the financial statements of HSBC SUKUK Fund (the "Fund") managed by HSBC Saudi Arabia (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, changes in equity attributable to the unitholders and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Other Matter

The financial statements of the Fund for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on 26 Sha'ban 1442 H (corresponding to 8 April 2021).

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants and the applicable provisions of the Investment Funds Regulations issued by the Board of the Capital Market Authority, and the Fund's terms and conditions and the Information Memorandum, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.



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**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF HSBC SAUDI RIYAL MURABAHA FUND
(MANAGED BY HSBC SAUDI ARABIA) (CONTINUED)**

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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.

for Ernst & Young professional services

Fahad M. Al-Toaimi
Certified Public Accountant
License No. 354

Riyadh: 27 Sha'ban 1443H
(30 March 2022)



HSBC Sukuk Fund

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

		<i>31 December 2021 USD</i>	<i>31 December 2020 USD</i>
	<i>Notes</i>		
ASSETS			
Bank balance		234,766	331,080
Financial assets at fair value through profit or loss (“FVTPL”)	5	3,317,372	3,187,751
Financial assets at fair value through other comprehensive income (“FVOCI”)	6	55,431,689	58,180,520
Receivables and advances		221	41,601
TOTAL ASSETS		58,984,048	61,740,952
LIABILITIES			
Dividends payable	12	365,724	337,705
Management fees payable		13,058	16,478
Accrued expenses		20,177	-
TOTAL LIABILITIES		398,959	354,183
EQUITY			
Equity attributable to unitholders of redeemable units		58,585,089	61,386,769
TOTAL LIABILITIES AND EQUITY		58,984,048	61,740,952
Redeemable units in issue		6,095,402	6,140,085
Equity value per unit – Dealing		9.61	10.00

The attached notes 1 to 14 form an integral part of these financial statements.

HSBC Sukuk Fund

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	<i>Notes</i>	2021 USD	2020 USD
INCOME			
Special commission income from investments at FVOCI		2,147,115	2,305,288
Unrealized gain on financial assets at FVTPL		15,720	39,108
Realized gain on financial assets at FVTPL		747	679
Realized loss on disposal of and maturity of financial assets at FVOCI		(3,091,985)	(4,131)
Net exchange loss		(809)	(2,616)
TOTAL INCOME		(929,212)	2,338,328
EXPENSES			
Management fees	7	566,094	643,626
Impairment charge for expected credit losses		(68,610)	(32,717)
Other expenses		40,270	-
TOTAL EXPENSES		537,754	610,909
NET (LOSS) INCOME FOR THE YEAR		(1,466,966)	1,727,419
Other comprehensive income:			
Net movement in unrealized gain (loss) net of transfer of fair value reserves on disposal of investments at FVOCI – debt instruments		645,676	(847,239)
Movement in fair value / allowance for expected credit losses on investments at FVOCI – debt instruments		(68,610)	(32,717)
Total other comprehensive income (loss)		577,066	(879,956)
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		(889,900)	847,463

The attached notes 1 to 14 form an integral part of these financial statements.

HSBC Sukuk Fund

STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO THE UNITHOLDERS

For the year ended 31 December 2021

	2021 <i>USD</i>	2020 <i>USD</i>
EQUITY AT THE BEGINNING OF THE YEAR	61,386,769	57,592,536
Net income for the year	(1,466,966)	1,727,419
Net unrealized gain (loss) including transfer of fair value reserves on investments at FVOCI – debt instrument	645,676	(847,239)
Movement in fair value for expected credit losses on investments at FVOCI – debt instrument	(68,610)	(32,717)
Dividend distributions during the year (Note 12)	(1,462,709)	(1,304,437)
Total	59,034,160	57,135,562
ISSUANCE AND REDEMPTION OF UNITS		
Issue of units during the year	34,195	4,277,293
Redemption of units during the year	(483,266)	(26,086)
Net change from unit during the year	(449,071)	4,251,207
EQUITY AT THE END OF THE YEAR	58,585,089	61,386,769
	<i>Units</i>	<i>Units</i>
REDEEMABLE UNIT TRANSACTIONS		
Transactions in redeemable units during the year are summarised as follows:		
UNITS AT THE BEGINNING OF THE YEAR	6,140,085	5,719,939
Issue of units during the year	3,477	422,797
Redemption of units during the year	(48,160)	(2,651)
Net decrease in units	(44,683)	420,146
UNITS AT THE END OF THE YEAR	6,095,402	6,140,085

The attached notes 1 to 14 form an integral part of these financial statements.

HSBC Sukuk Fund

STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	<i>Notes</i>	2021 USD	2020 USD
Operating activities			
Net (loss) / income for the year		(1,466,966)	1,727,419
<i>Adjustments to reconcile net income(loss) to net cash flows from operating activities:</i>			
Movement in unrealised loss on financial assets at FVTPL		(15,720)	(39,108)
Impairment (reversal of) / charge for expected credit losses		(68,610)	(32,717)
		(1,551,296)	1,655,594
<i>Working capital adjustments:</i>			
Increase in financial assets at FVTPL		(113,901)	(38,603)
Decrease / (increase) in investments at FVOCI		3,394,507	(4,501,208)
Increase in receivables and advances		41,380	6,690
(Decrease) / increase in management fee payable		(3,420)	7,293
Increase in other accrued expenses		20,177	(2,415)
Net cash flows from / (used in) operating activities		1,787,447	(2,872,649)
Financing activities			
Proceeds from issuance of units		34,195	4,277,293
Payment on redemption of units		(483,266)	(26,086)
Dividends paid	12	(1,434,690)	(1,380,856)
Net cash flows (used in) / from financing activities		(1,883,761)	2,870,351
Net decrease in bank balance		(96,314)	(2,298)
Bank balance at the beginning of the year		331,080	333,378
Bank balance at the end of the year		234,766	331,080
<u>Supplemental cash flow information:</u>			
Special commission income received		2,307,977	2,133,574

The attached notes 1 to 14 form an integral part of these financial statements.

HSBC Sukuk Fund

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2021

1. INCORPORATION AND ACTIVITIES

HSBC Sukuk Fund (the “Fund”) is an investment fund created through an agreement between HSBC Saudi Arabia (the “Fund Manager”) and investors (the “Unitholders”) in the Fund. The address of the Fund Manager is as follows:

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

The objective of the Fund is to achieve income and capital growth over the medium to long term year, by investing in Sukuk issued globally, along with money market funds and term deposits. The Fund invests primarily in Sukuk (up to 90 % of the Fund’s assets) with the remaining balance invested in Shariah compliant money market funds and term deposits. The Fund has no geographic constraints in terms of investment, but it focuses on investments in the Gulf Cooperation Council (“GCC”).

The Fund is managed by the Fund Manager who also acts the administrator of the Fund. The Fund Administration function is carried out by a department within HSBC Saudi Arabia that has reporting line and control structures, which are independent of the Asset management business. Al Bilad Capital is acting as the custodian of the Fund. The Fund is an income-distributing Fund, whereby any income earned by the Fund is distributed to the Unitholders at least on semi-annual basis. Any such income distribution by the Fund, however, will solely be at the discretion of the Fund Board of Directors. However, profit, if any, realized, by the Fund, from the sale of any Sukuk at a price higher than its purchase price will not be distributed to Unitholders and would form part of the net asset (equity) value of the Fund.

The Fund’s performance shall be measured against the performance of legitimate Saudi Standard & Poor’s Ratings. The Fund updated its terms and conditions which were approved by the CMA on 28 Ramadan 1441H (corresponding to 21 May 2020).

The Fund Manager has made certain revisions to the Terms and Conditions of the Fund. The latest update was approved by the CMA on 20 May 2021.

During the year, the Fund Manager has announced that it agreed to transfer its asset management, retail brokerage and retail margin lending businesses to Alawwal Invest, a wholly owned subsidiary of the Saudi British Bank. Accordingly, the Fund Manager is in the process to obtain necessary approvals from CMA for transferring the management of the Fund to the new Fund Manager.

2. REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (the “Regulations”) detailing requirements for all investments funds operating within the Kingdom of Saudi Arabia and published by the Capital Market Authority (the “CMA”) on 3 Dhul Hijja 1427H (corresponding to 24 December 2006). The Regulations were further Amended by Resolution of the Board of the Capital Market Authority Number 2-22-2021 Dated 12/7/1442H. Corresponding to 24/2/2021G (the “Amended Regulations”). The amended regulations are effective from 19 Ramadan 1442, corresponding to 1 May 2021).

3. BASIS OF PREPARATION AND CHANGES TO ACCOUNTING POLICIES

3.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”) (collectively referred to as “IFRS as endorsed in the KSA”) and applicable provisions of Investment Fund Regulations issued by the board of Capital Market Authority and the funds terms and conditions and information memorandum.

3.2 Basis of preparation

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

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

3.3 Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Fund's annual financial statements for the year ended 31 December 2021, except for the adoption of new standards effective as of 1 January 2022. The Fund has not early adopted any standard, interpretation or amendment that has been issued but not yet effective.

The following are the significant accounting policies applied by the Fund in preparing its financial statements.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and short-term deposits in banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturities of three months or less.

Short-term investments that are not held for the purpose of meeting short-term cash commitments and restricted margin accounts are not considered as "cash and cash equivalents".

For the purpose of the statement of cash flows, cash and cash equivalents includes bank balances.

Financial instruments

(i) Classification

In accordance with IFRS 9, the Fund classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities discussed below.

In applying that classification, a financial asset or financial liability is considered to be held for trading if:

- a) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or
- b) On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking or
- c) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument)

Financial assets

The Fund classifies its financial assets as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

- The entity's business model for managing the financial assets
- The contractual cash flow characteristics of the financial asset
- Financial assets measured at amortised cost
A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows 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.
- Fair Value through Other Comprehensive Income ("FVOCI")
Financial assets held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses, which are recognised in the statement of comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI, is reclassified from equity to the statement of comprehensive income and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other income/expense.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Significant accounting policies (continued)

Financial assets (continued)

- Financial assets measured at fair value through profit or loss (FVTPL)
A financial asset is measured at fair value through profit or loss if:
 - i. Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding (SPPI); and
 - ii. It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
 - iii. At initial recognition, it is irrevocably designated as measured at FVTPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.
- The Fund investments includes investment in mutual fund instruments which are acquired principally for the purpose of generating a profit from short-term fluctuations in price.

Financial liabilities

- Financial liabilities measured at fair value through profit or loss (FVTPL)
A financial liability is measured at FVTPL if it meets the definition of held for trading. The Fund does not hold any financial liabilities measured at FVTPL.
- Financial liabilities measured at amortised cost
This category includes all financial liabilities, other than those measured at fair value through profit or loss.

(ii) Recognition

The Fund recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

(iii) Initial measurement

Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

Financial assets and liabilities (other than those classified as at FVTPL) are measured initially at their fair value including any directly attributable incremental costs of acquisition or issue.

(iv) Subsequent measurement

After initial measurement, the Fund measures financial instruments which are classified as at FVTPL, at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net gain or loss on financial assets and liabilities at FVTPL in the statement of comprehensive income. Special commission income and dividends earned or paid on these instruments are recorded separately in special commission income or expense and dividend income or expense in the statement of comprehensive income.

(v) Derecognition of financial instruments

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Fund's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

At 31 December 2021

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Significant accounting policies (continued)

(v) *Derecognition of financial instruments (continued)*

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Fund continues to recognise the transferred asset to the extent of the Fund's continuing involvement. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

The Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

(vi) *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the statement of financial position.

(vii) *Impairment of financial assets*

The Fund assesses on a forward-looking basis the Expected Credit Losses ("ECL") associated with its financial assets, carried at amortised cost, the ECL is based on a 12-month ECL and lifetime ECL. The 12-month ECL is the portion of lifetime the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

Accounting policy for ECL on Debt FVOCI

The ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in financial statements at fair value on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each year. The Fund determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Significant accounting policies (continued)

(vii) Impairment of financial assets (continued)

Fair value measurement (continued)

At each reporting date, the Fund analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Fund's accounting policies. For this analysis, the Fund verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Fund also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed are discussed in note 10.

Trade date accounting

All regular way purchases and sales of financial assets are recognized / derecognized on the trade date (i.e. the date that the Fund commits to purchase or sell the assets). Regular way purchases or sales are purchases or sales of financial assets that require settlement of assets within the time frame generally established by regulation or convention in the market place.

Provisions

Provisions are recognised when the Fund has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably. If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risk specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

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

Accrued expenses

Liabilities are recognized for amounts to be paid in the future for services received, whether billed by the suppliers or not. These are initially recognized at fair value and subsequently at amortized cost using the effective interest rate method.

Redeemable units

Redeemable units are classified as equity instruments when:

- The redeemable units entitle the Unitholder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation
- The redeemable units are in the class of instruments that is subordinate to all other classes of instruments
- All redeemable units in the class of instruments that is subordinate to all other classes of instruments have identical features
- The redeemable units do not include any contractual obligation to deliver cash or another financial asset other than the Unitholder's rights to a pro rata share of the Fund's net assets
- The total expected cash flows attributable to the redeemable units over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund over the life of the instrument

In addition to the redeemable shares having all of the above features, the Fund must have no other financial instrument or contract that has:

- Total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund
- The effect of substantially restricting or fixing the residual return to the redeemable shareholders

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Significant accounting policies (continued)

Redeemable units (continued)

The Fund continuously assesses the classification of the redeemable units. If the redeemable units cease to have all the features, or meet all the conditions set out, to be classified as equity, the Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognised in net assets attributable to the Unitholders. If the redeemable units subsequently have all the features and meet the conditions to be classified as equity, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

The issuance, acquisition and cancellation of redeemable units are accounted for as equity transactions.

No gain or loss is recognised in the statement of comprehensive income on the purchase, issuance or cancellation of the Fund's own equity instruments

Net assets value per unit

The net asset value per unit as disclosed in the statement of financial position is calculated by dividing the net assets of the Fund by the number of units outstanding at year end.

Management fees

Fund management fees are recognised on an accrual basis and charged to the statement of comprehensive income. Fund management fees are charged at agreed rates with the Fund Manager and as stated in the Terms and Conditions of the Fund.

Net gain or loss on financial assets and liabilities at FVTPL

Net gains or losses on financial assets and liabilities at FVTPL are changes in the fair value of financial assets and liabilities held for trading or designated upon initial recognition as at FVTPL and exclude commission and dividend income and expenses.

Unrealised gains and losses comprise changes in the fair value of financial instruments for the year and from reversal of the prior year's unrealised gains and losses for financial instruments, which were realised in the reporting year. Realised gains and losses on disposals of financial instruments classified as at FVTPL are calculated using the weighted average cost method. They represent the difference between an instrument's initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments).

Dividend income

Dividend income is recognised in the statement of comprehensive income on the date on which the right to receive the payment for dividend 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 the statement of comprehensive income in a separate line item.

Foreign currencies

Transactions in foreign currencies are translated into USD at the exchange rate at the dates of the transactions. Foreign exchange gains and losses arising from translation are included in profit or loss.

Monetary assets and liabilities denominated in foreign currencies are retranslated into USD at the exchange rate at the reporting date.

Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income as net foreign exchange losses.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Significant accounting policies (continued)

Expenses

Expenses are measured and recognized as expenses on an accrual basis in the year in which they are incurred.

Zakat and income tax

Zakat and income tax is the obligation of the Unitholders and is not provided for in these financial statements.

New standards, amendments and interpretations adopted by the Fund

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

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

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

These amendments had no impact on the financial statements of the Fund. The Fund intends to use the practical expedients in future periods if they become applicable.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. However, these amendments had no impact on the financial statements of the Fund.

Standards issued but not yet effective and not early adopted

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's financial statements are disclosed below. The Fund intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Based on the Fund's assessment, the below standards are not expected to have potential impacts on the reported numbers and disclosures.

Standards	Description	Mandatory effective date
IFRS 17	Insurance Contracts	1 January 2023
IFRS 1	First-time Adoption of International Financial Reporting Standards: Subsidiary as a first-time adopter	1 January 2022
IFRS 9	Financial Instruments: Fees in the '10 per cent' test for derecognition of financial liabilities	1 January 2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IAS 37	Onerous Contracts: Costs of Fulfilling a Contract	1 January 2022

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Fund’s financial statements in conformity with the International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates, by definition, may differ from the related actual results.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

Going concern

The Fund Board, in conjunction with the Fund Manager made an assessment of the Fund’s ability to continue as a going concern and are satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, they are 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.

Fair value measurement

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price (mid price), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm’s length market transactions, adjusted as necessary, and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible).

Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed are discussed in Note 8.

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

The composition of the investment’s portfolio on the last valuation day of the year is summarised below:

	<i>31 December 2021</i>			
	<i>% of Market Value</i>	<i>Cost USD</i>	<i>Market value USD</i>	<i>Unrealised gain USD</i>
<i>Mutual Fund</i>				
HSBC Saudi Riyal Murabaha Fund	<u>100%</u>	<u>3,181,392</u>	<u>3,317,372</u>	<u>135,980</u>

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

	<i>31 December 2020</i>			
	<i>% of Market Value</i>	<i>Cost USD</i>	<i>Market value USD</i>	<i>Unrealised gain USD</i>
<i>Mutual Fund</i>				
HSBC Saudi Riyal Murabaha Fund	<u>100%</u>	<u>3,067,491</u>	<u>3,187,751</u>	<u>120,260</u>

HSBC Sukuk Fund

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

	<i>31 December 2021 USD</i>	<i>31 December 2020 USD</i>
Debt securities – Sukuks	54,970,052	57,558,021
Accrued special commission income	461,637	622,499
	<u>55,431,689</u>	<u>58,180,520</u>

The movement in the allowance for expected credit losses for debt securities (sukuk) is summarized as follows:

	<i>31 December 2021 USD</i>	<i>31 December 2020 USD</i>
Balance at the beginning of the year	158,728	191,445
Reversals during the year, net	(68,610)	(32,717)
Balance at the end of the year	<u>90,118</u>	<u>158,728</u>

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

7. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

A. *Transactions and balances with Fund Manager and board of directors*

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 following are the details of major related party transactions during the year:

<i>Related party</i>	<i>Nature of transactions</i>	<i>Amount of transactions</i>		<i>Balance</i>	
		<i>31 Dec 2021 USD</i>	<i>31 Dec 2020 USD</i>	<i>31 Dec 2021 USD</i>	<i>31 Dec 2020 USD</i>
HSBC Saudi Arabia (Fund Manager)	Fund management fee*	566,094	643,626	13,058	16,478
	Administration fee	19,222	-	2,872	-
	Board member fee	2,365	-	2,365	-
Saudi British Bank	Cash at bank	36,064	-	36,064	-
	Investment in Sukuk	3,199,403	-	3,199,403	-

The Fund pays the Fund Manager a management fee calculated at an annual rate of 0.75% per annum calculated on the net asset value at each Valuation Day. The fee is intended to compensate the Fund Manager for administration of the Fund.

*The fund management fees include VAT amount of USD 73,838 (2020: USD 57,513).

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. The Fund does not charge any redemption fees on redemption of units.

HSBC Sukuk Fund

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

7. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

B. Transactions and balances with Funds managed by the Fund Manager

<i>Fund name</i>	<i>Year</i>	<i>Amount/ Unit</i>	<i>Issuance</i>	<i>Closing balance</i>
HSBC Multi-Assets Defensive Fund	2021	Amounts	-	10,147,967
		Units	-	1,055,826
	2020	Amounts	1,575,000	10,555,832
		Units	155,616	1,055,826
HSBC Multi-Assets Balanced Fund	2021	Amounts	-	18,232,826
		Units	-	1,897,000
	2020	Amounts	2,665,000	18,965,637
		Units	263,355	1,897,000
HSBC Multi-Assets Growth Fund	2021	Amounts	-	2,769,075
		Units	-	288,103
	2020	Amounts	-	2,880,369
		Units	-	288,103

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fund has investments at fair value through profit or loss and at fair value through other comprehensive income which is measured at fair values and are classified within level 1 or level 3 of the fair value hierarchy. All other financial assets and liabilities are classified as amortized cost and management believes that the fair value of all other financial assets and liabilities at the reporting date approximate their carrying values owing to their short-term tenure and the fact that these are readily liquid. These are all classified within level 3 of the fair value hierarchy. There were no transfers between various levels of fair value hierarchy during the current period or prior year.

9. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

<i>As at 31 Dec 2021</i>	<i>Within 12 months USD</i>	<i>After 12 months USD</i>	<i>Total USD</i>
ASSETS			
Bank balance	234,766	-	234,766
Financial assets at FVTPL	3,317,372	-	3,317,372
Financial assets at FVOCI	3,532,899	51,898,790	55,431,689
Receivables and advances	221	-	221
TOTAL ASSETS	7,085,258	51,898,790	58,984,048
LIABILITIES			
Management fee payable	13,058	-	13,058
Dividend payable	365,724	-	365,724
Accrued expenses	20,177	-	20,177
TOTAL LIABILITIES	398,959	-	398,959

HSBC Sukuk Fund

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

9. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

<i>As at 31 December 2020</i>	<i>Within 12 months USD</i>	<i>After 12 months USD</i>	<i>Total USD</i>
ASSETS			
Bank balance	331,080	-	331,080
Financial assets at FVTPL	3,187,751	-	3,187,751
Financial assets at FVOCI	-	58,180,520	58,180,520
Receivables and advances	41,601	-	41,601
TOTAL ASSETS	3,560,432	58,180,520	61,740,952
LIABILITIES			
Dividend payable	337,705	-	337,705
Accrued expenses and other payables	16,478	-	16,478
TOTAL LIABILITIES	354,183	-	354,183

10. FINANCIAL RISK MANAGEMENT

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 investments in mutual funds and 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

The following table shows the Fund's maximum exposure to credit risk for components of the statement of financial position.

	<i>31 December 2021 USD</i>	<i>31 December 2020 USD</i>
Bank balance	234,766	331,080
Investments held at FVOCI	55,431,689	58,180,520
Investments held at FVTPL	3,317,372	3,187,751
Receivable and advances	221	41,601
	58,984,048	61,740,952

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.

The Fund's cash at bank is held with Bank AlBilad which is rated A3 (2020: A2) respectively, based on Moody's ratings.

HSBC Sukuk Fund

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2021

10. FINANCIAL RISK MANAGEMENT (continued)

Analysis of credit quality

The Fund has sukuk placements with counterparties with the following credit quality:

	<i>31 December 2021 USD</i>	<i>31 December 2020 USD</i>
A1	16,238,270	9,862,018
A2	2,350,209	2,345,057
A3	13,112,026	14,029,709
B1	2,971,287	2,985,335
Ba1	1,007,500	3,173,000
Ba3	-	2,583,000
Baa1	4,295,447	4,319,683
Baa2	2,333,700	7,194,625
Baa3	5,875,867	8,789,309
Unrated	7,247,383	2,898,784
Total	<u>55,431,689</u>	<u>58,180,520</u>

Credit risk

Amounts arising from ECL

Expected credit loss on investments at FVOCI 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.

The Fund has recorded expected credit loss on investments at FVOCI amounting to USD 90,118 as at 31 December 2021 (31 December 2020: USD 158,728) During the year, there were no stage movements in ECL of investments at FVOCI.

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.

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.

Market risk

Market risk is the risk that changes in market prices - such as foreign exchange rates, special commission rates and equity prices 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 Fund's terms and conditions. The Fund's market risk is managed on a timely basis by the Fund 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.

10. FINANCIAL RISK MANAGEMENT (continued)

Equity price risk

Equity price risk is the risk that the fair value of equities changes as the result of changes in the levels of equity indices and the value of individual stocks.

Sensitivity analysis

The table below sets out the effect on net assets attributable to Unitholders of a reasonably possible weakening / strengthening in the individual equity market prices of 5% at reporting date. The estimates are made on an individual investment basis. The analysis assumes that all other variables, in particular interest and foreign currency rates, remain constant.

		2021		2020
Net gain / (loss) on investments held at FVTPL	+ 5%	165,869	+ 5%	159,388
	+ 5%	(165,869)	- 5%	(159,388)

Special commission rate risk

Special commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund is subject to special commission rate risk or future risks on its special commission bearing assets including its investments in sukuk.

The following table demonstrates the sensitivity of the Fund's profit or loss for the period to a reasonably possible change in the interest rates, with all the other variable held constant.

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.

<i>Effect on net assets (equity)</i>	<i>31 December</i>	<i>31 December</i>
	<i>2021</i>	<i>2020</i>
	<i>USD</i>	<i>USD</i>
Net assets (equity) attributable to the Unitholders	170,156	206,376

11. LAST VALUATION DAY

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

12. DIVIDEND DISTRIBUTION

In accordance with the Terms and Conditions of the Fund, the Fund Board declared the following dividend out of the Fund during the year, except the 4th dividend which are unpaid as of the end of the year:

	<i>31 December</i>	<i>31 December</i>
	<i>2021</i>	<i>2020</i>
	<i>USD</i>	<i>USD</i>
1st dividend at a rate of USD 0.06 (2020: SR 0.055) per unit	365,745	337,640
2nd dividend at a rate of USD 0.06 (2020: SR 0.0475) per unit	365,516	291,598
3rd dividend at a rate of USD 0.06 (2020: SR 0.055) per unit	365,724	337,494
4th dividend at a rate of USD 0.06 (2020: SR 0.055) per unit	365,724	337,705

At 31 December 2021

13. IMPACT OF COVID-19

A novel strain of coronavirus (“COVID-19”) was first identified at the end of December 2019, subsequently in March 2020 was declared as a pandemic by the World Health Organization (“WHO”). COVID-19 continues to spread throughout in nearly all regions around the world including the Kingdom of Saudi Arabia and resulted in travel restrictions and curfew in the cities which resulted in a slowdown of economic activities and shutdowns of many sectors at global and local levels.

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

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

14. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Fund’s management on 27 Sha’ban 1443H (corresponding to 30 March 2022).