INTERIM REPORT – H1 2018
- HSBC Saudi Riyal Murabaha Fund -

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HSBC

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A. Management Information

1. Fund Name		HSBC Saudi Riyal Murabaha Fund
2. Fund Manager		
	Name	HSBC Saudi Arabia
	Address	7267 Olaya, AlMurooj Riyadh 12283-2255 Kingdom of Saudi Arabia **Phone:** +1 920022688 **Fax:** +96612992385 **Website:** www.hsbcsaudi.com
3. Fund Sub-Manager (if any)		
	Name	None
	Address	
4. Advisor (if any)		
	Name	None
	Address	

B. ***Detailed Fundamental, Material, Notifiable, or Significant Changes Made on the Fund's Terms and Conditions During the Period***

During the first half of 2018, the below changes have been made:

- Added the VAT to include the Service Fess offered by the Funds.
- Appointed Albilad Capital Co. as an Independent Custodian.
- Updated the Fund's terms and conditions and issued the information memorandum and information summary "the documents" to comply with the IFRs issued by the CMA.

C. ***Investment Activities of the Period***

During the 1st Half of 2018, the HSBC Saudi Riyal Murabaha Fund ('Fund') continued to expand its set of counterparties. The Fund continued to have exposure to both Murabaha deposits and Sukuk, during the period.

D. ***Commentary on Investment Fund's Performance During the Period***

During the 1st half of 2018, the One-month Saudi Riyal interbank rate continued to post an increasing trend, with the One-month Saudi Riyal interbank rate increasing from 1.69% at the beginning of the year to 2.39% at the end of June, 2018. With respect to Murabaha deposits, the Fund continued to have a relatively short-duration exposure. Year-to-date, on an annualized basis, the Fund returned 1.86%; whereas, the benchmark returned 1.94% for the same period.

E. ***Valuation or Pricing Errors during the Year***

None.

F. ***Any Additional Information that Might Enable Unit Holders to Make Informed Decisions that are Based on Sufficient Information about the Fund During the Year***

There is no additional information to be disclosed; however, investors need to read and understand the Fund's Terms and Conditions and all related documents and/or obtain advice from their own legal, regulatory, tax, and/or investment advisors.

G. ***Distribution of Management Fees (only if the fund is substantially investing in other funds)***

Not Applicable.

H. ***Special Commission Received by Fund Manager (if any, including what they are and the manner in which they were utilized)***

None.

HSBC SAUDI RIYAL MURABAHA FUND
An open-ended mutual fund
(Managed by HSBC Saudi Arabia)
Interim condensed financial statements
For the six-month period ended 30 June 2018

KPMG

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Independent auditors' report on review of interim condensed financial statements

To the Unitholders of
HSBC Saudi Riyal Murabaha Fund
Riyadh, Kingdom of Saudi Arabia

Introduction

We have reviewed the accompanying 30 June 2018 interim condensed financial statements of **HSBC Saudi Riyal Murabaha Fund**, an open-ended mutual fund ("the Fund"), managed by HSBC Saudi Arabia ('the Fund Manager"), which comprises:

- the interim condensed statement of financial position as at 30 June 2018;
- the interim condensed statement of comprehensive income for the six month period ended 30 June 2018;
- the interim condensed statement of changes in net assets (equity) attributable to the Unitholders for the six month period ended 30 June 2018;
- the interim condensed statement of cash flows for the six month period ended 30 June 2018; and
- the notes to the interim condensed financial statements.

The Fund Manager is responsible for the preparation and presentation of these interim condensed financial statements in accordance with IAS 34, "Interim Financial Reporting" (IAS 34) that is endorsed in the Kingdom of Saudi Arabia and to comply with the applicable provisions of the Investment Funds Regulations issued by the Capital Market Authority (CMA), the Fund's Terms and Conditions and the Information Memorandum. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2018 interim condensed financial statements of **HSBC Saudi Riyal Murabaha Fund** are not prepared, in all material respects, in accordance with IAS 34 that is endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants

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محاسبون ومراجعون قانونيون
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KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

Abdullah Hamad Al Fozan
License No: 348

Date: 15 August 2018
Corresponding to: 4 Dhul Hijjah, 1439H

HSBC SAUDI RIYAL MURABAHA FUND
(An open-ended mutual fund)
Interim statement of financial position (Unaudited)
(Saudi Arabian Riyal)

	Note	**30 June 2018**	31 December 2017	1 January 2017
ASSETS				
Cash and cash equivalents	*10*	**879,116,930**	802,729,105	1,063,447,112
Investments measured at amortised cost	*11*	**77,926,605**	393,000,000	84,000,000
Investments at fair value through other comprehensive income	*12*	**128,901,872**	159,000,000	239,000,000
Accrued income		**3,917,410**	4,741,218	3,400,874
TOTAL ASSETS		**1,089,862,817**	1,359,470,323	1,389,847,986
LIABILITIES				
Accrued expenses		**790,615**	681,794	395,973
TOTAL LIABILITIES		**790,615**	681,794	395,973
NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS		**1,089,072,202**	1,358,788,529	1,389,452,013
Units in issue (numbers)		**69,367,450**	87,335,828	90,563,545
Net assets (equity) value per unit – IFRS	*16*	**15.70**	15.56	15.34
Net assets (equity) value per unit – Dealing	*16*	**15.70**	15.56	15.34

The accompanying notes 1 to 20 form an integral part of these interim financial statements.

The interim condensed financial statements and accompanying disclosures in the report are signed off on behalf of the fund board based on the authorization issued:

Saqib Masood
Chief Investment Officer

Chistie K Moinuddin
Chief Financial Officer

HSBC SAUDI RIYAL MURABAHA FUND
(An open-ended mutual fund)
Interim statement of comprehensive income (Unaudited)
(Saudi Arabian Riyal)

	Notes	***For the six-month period ended 30 June*** **2018**	2017
INVESTMENT INCOME			
Special commission income from investments held at amortised cost		**10,558,946**	10,424,853
Special commission income from investments at FVOCI		**2,933,003**	4,122,297
Net realised loss on available for sale investments		**-**	(70,597)
TOTAL INCOME		**13,491,949**	14,476,553
EXPENSES			
Management fees	*13*	**2,745,196**	3,469,859
Impairment reversal of credit losses		**(71,608)**	--
TOTAL EXPENSES		**2,673,588**	3,469,859
NET INCOME FOR THE PERIOD		**10,818,361**	11,006,694
Other comprehensive income - reversal of provision for credit losses on investments at FVOCI		43,114	**--**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**10,861,475**	11,006,694

The accompanying notes 1 to 20 form an integral part of these interim financial statements.

The interim condensed financial statements and accompanying disclosures in the report are signed off on behalf of the fund board based on the authorization issued:

Saqib Masood
Chief Investment Officer

Chistie K Moinuddin
Chief Financial Officer

HSBC SAUDI RIYAL MURABAHA FUND
(An open-ended mutual fund)
Interim statement of changes in net asset (equity) attributable to the Unitholders (Unaudited)
(Saudi Arabian Riyal)

	For the six-month period ended 30 June	
	2018	2017
Net assets (equity) attributable to the Unitholders at the beginning of the period – (as reported previously)	**1,358,788,529**	1,389,452,013
Impact of adoption of new standard at 1 January 2018 (Note 18)	(286,245)	--
Net assets (equity) attributable to the Unitholders at the beginning of the period – (restated)	**1,358,502,284**	1,389,452,013
Total comprehensive income for the period	**10,861,475**	11,006,694
Contributions and redemptions by the Unitholders:		
Proceeds from issuance of units	**627,748,663**	788,191,655
Payments against redemption of units	**(908,040,220)**	(385,261,296)
Net change from unit transactions	**(280,291,557)**	402,930,359
Net assets (equity) attributable to the Unitholders as at 30 June	**1,089,072,202**	1,803,389,066

UNIT TRANSACTIONS
Transactions in units for the period ended 30 June are summarised as follows:

	For the six-month period ended 30 June	
	2018	2017
	(in numbers)	
UNITS AT THE BEGINNING OF THE PERIOD	**87,335,828**	90,563,545
Units issued during the period	**40,183,535**	51,190,964
Units redeemed during the period	**(58,151,913)**	(25,014,446)
Net (decrease) / increase in units	**(17,968,378)**	26,176,518
UNITS AT THE END OF THE PERIOD	**69,367,450**	116,740,063

The accompanying notes 1 to 20 form an integral part of these interim financial statements.

HSBC SAUDI RIYAL MURABAHA FUND
(An open-ended mutual fund)
Interim statement of cash flows (Unaudited)
(Saudi Arabian Riyal)

	For the six-month period ended 30 June	
	2018	2017
Cash flow from operating activities		
Net income for the period	**10,861,475**	11,006,694
Adjustment to reconcile net income to net cash generated from operating activities:		
Impairment reversal of credit losses	**(114,722)**	--
Changes in operating assets and liability:		
Investments measured at amortised cost	**315,000,000**	(664,000,000)
Investments at FVOCI	**30,000,000**	40,000,000
Accrued income	**823,808**	(105,564)
Other receivables	**--**	20,641
Accrued expenses	**108,821**	292,784
Net cash generated from operating activities	**356,679,382**	11,214,555
Cash flow from financing activities		
Proceeds from issuance of units	**627,748,663**	788,191,655
Payments against redemption of units	**(908,040,220)**	(385,261,296)
Net cash generated from / (used in) financing activities	**(280,291,557)**	402,930,359
Increase / (decrease) in cash and cash equivalent	**76,387,825**	(209,855,086)
Bank balance at the beginning of the period	**802,729,105**	1,063,447,112
Bank balance at the end of the period	**879,116,930**	853,592,026
Operational cash flows from special commission income		
Special commission income received	**15,140,452**	14,451,151

The accompanying notes 1 to 20 form an integral part of these interim financial statements.

1 GENERAL

HSBC Saudi Riyal Murabaha Fund ("the Fund") is an investment fund created through agreement between HSBC Saudi Arabia ("the Fund Manager") and investors (the Unitholders). The objective of the Fund is to seek capital growth and potential for capital preservation through participation in a professionally managed portfolio of short term Saudi Riyal deposits 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 REGULATORY 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 on 16 Sha'aban 1437H (corresponding to 23 May 2016) ("the Amended Regulations"). The Fund Manager believes that the Amended Regulations was effective since 6 Safar 1438H (corresponding to 06 November 2016).

During the period ended 30 June 2018, the Fund Manager has made certain revisions to the terms and conditions of the Fund. The main change in the terms and conditions relates to change in custodianship. The Fund updated its terms and conditions which were approved by the CMA on 14 Rajab 1439H (corresponding to 1 April 2018).

3. SUBSCRIPTION/REDEMPTION (DEALING DAY & 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

These interim condensed financial statements are prepared in accordance with IAS 34 'Interim Financial Reporting' as endorsed in the Kingdom of Saudi Arabia and to comply with the applicable provisions of the Investment Funds Regulations issued by the CMA, the Fund's Terms and Conditions and the Information Memorandum.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Fund's annual financial statements as at 31 December 2017. The Fund has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018 and accounting policies for these new standards are disclosed in the Note 8.

For all periods up to and including the year ended 31 December 2017, the Fund prepared its financial statements in accordance with generally accepted accounting standards as issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). The interim condensed financial statements for the six-month period ended 30 June 2018 are the first financial statements of the Fund prepared in accordance with IFRS and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Fund is provided in note 17.

5 FUNCTIONAL AND PRESENTATIONAL CURRENCY

These interim condensed financial statements are presented in Saudi Riyal ("SR"), which is the Fund's functional currency.

6 BASIS OF MEASUREMENT

These interim condensed financial statements have been prepared on a historical cost basis (except for investments at FVOCI which are stated at their fair value) using the accrual basis of accounting.

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 the resources to continue in business for the 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 interim condensed 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 JUDGMENTS AND ESTIMATES

The preparation of these interim condensed financial statements in conformity 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 judgment 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 recognized prospectively. Significant areas where management has used estimates, assumptions or exercised judgement are as follows:

Impairment of financial assets
The Fund recognises loss allowances for expected credit loss (ECL) on the financial instruments measured at amortised cost that are sukuk and murabaha placements. No impairment loss is recognised on equity investments.

The Fund measures loss allowances 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 are the portion of ECL that result 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 these interim condensed financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Where policies are applicable only after or before 1 January 2018, those policies have been particularly specified in note 19.

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation

Transactions in foreign currencies are translated into Saudi Riyal at the exchange rate at the dates of the transactions. Foreign exchange gains and losses arising from translation are included in the interim condensed statement of comprehensive income.

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

Foreign currency differences arising on retranslation are recognised in profit or loss as net foreign exchange gain/(loss), except for those arising on financial instruments at FVTPL, which are recognised as a component of net gain/(loss) from financial instruments at FVTPL.

Net Asset Value (Equity)

Net assets (equity) value per unit, as disclosed in balance sheet is calculated by dividing the net assets of the Fund by the numbers of units in issue as at the period end.

Subscription and redemption of units

Units subscribed and redeemed are recorded at net asset 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 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, other than cash collateral provided in respect of derivatives and securities borrowing transactions.

Redeemable units

The redeemable units are as equity instruments as they meet certain strict criteria. Those criteria include:

- the redeemable units must entitle the holder to a pro-rata share of net assets;
- the redeemable units must be the most subordinated class and class features must be identical;
- there must be no contractual obligations to deliver cash or another financial asset other than the obligation on the issuer to repurchase; and
- the total expected cash flows from the redeemable units over its life must be based substantially on the profit or loss of the issuer.

Revenue recognition

Trade date accounting

All regular-way 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.

Special commission income

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

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund 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 income.

Zakat and income tax

Under the current system of taxation in Kingdom of Saudi Arabia the Fund is not liable to pay any tax. Zakat and income tax are considered to be the obligation of the Unitholders and are not provided in the accompanying condensed interim financial statements.

Financial assets and financial liabilities

Policies applicable before 1 January 2018

Available for sale investments

Investments in available for sale securities are measured and carried in the balance sheet at fair value. Any changes in fair value, other than impairment losses, are recognized in the statement of changes in net assets attributable to unitholders.

Held to maturity investments

Investments that are bought with the intention of being held to maturity are carried at cost (adjusted for any premium or discount on an effective yield basis), less a provision for any permanent diminution in the value of held to maturity investments. Investments transactions are accounted for as at the trade date.

Policies applicable from 1 January 2018

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 are recognised on the date on which they are originated.

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

Classification

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

A financial asset is measured at amortised 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 assets 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.

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A debt instrument is measured at FVOCI only 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 achieved by both collecting contractual cash flows and selling financial assets; 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.

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

All other financial assets are classified as measured at FVTPL.

The Fund classifies financial assets into the following categories.
- Financial assets at FVOCI - Investments in Sukuk / Bond
- Financial assets at amortised cost - Cash and cash equivalents, Money market placements and Murabaha placements, due from brokers and other receivables.

Financial liabilities includes management fee payable, accrued expenses and other current liabilities and redemption payable are classified as financial liabilities at amortized cost.

Business model assessment
The Fund 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 Funds'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.

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. 'special commission income' 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.

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The Fund holds a portfolio of long-term investments for which the Fund has no option to propose to revise the interest rate at periodic reset dates. The Fund has determined that the contractual cash flows of these investments are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

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.

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 set off the amounts and it 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, or for gains and losses arising from a Fund of similar transactions such as in the Fund's trading activity.

Impairment

The Fund recognises loss allowances for ECL on the financial instruments that are measured at amortize cost that are sukuk, money market placements and murabaha placements. No impairment loss is recognised on equity investments.

The Fund measures loss allowances 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 are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

*ECL are a proba*bility-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;

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The methodology and assumptions applied by the Fund in estimating the ECL on the investments are defined in note 11 and 12.

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.

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 consid*ers 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 10 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.

Derecognition

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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. Transactions in which the Fund neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Fund continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

9 STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of amendments and standards are effective for the period beginning on or after 1 January 2019 and earlier application is permitted; however, the Fund has not early applied these new amendments and standard in preparing these financial statements as these do not have material impact on the Fund's financial statement

10 CASH AND CASH EQUIVALENTS

	30 June 2018	31 December 2017	1 January 2017
Bank balances - current account	**2,316,930**	7,729,105	947,112
Placements with the banks (maturity below 3 months)	**876,800,000**	795,000,000	1,062,500,000
	879,116,930	802,729,105	1,063,447,112

The bank balances is placed with a local Saudi bank, having sound credit rating. The average effective special commission rate on money market placements as at the period end is 2.59% p.a. (31 December 2017: 1.84% p.a. and 1 January 2017: 2.21% p.a.).

11 INVESTMENTS MEASURED AT AMORTISED COST

	30 June 2018	31 December 2017	1 January 2017
Placements with the banks (maturity exceeding 3 months)	**78,000,000**	393,000,000	84,000,000
Allowance for credit losses	**(73,395)**	--	--
Total	**77,926,605**	393,000,000	84,000,000

11 INVESTMENTS MEASURED AT AMORTISED COST (CONTINUED)

Counterparties with whom the Fund has made placements have credit ratings of investment grade as issued by rating agencies. The average effective special commission rate on money market placements as at the period end is 2.02% p.a. (31 December 2017: 1.84% p.a. and 1 January 2017: 2.21% p.a.).

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

12 INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2018	31 December 2017	1 January 2017
Debt securities - Sukuks	**129,000,000**	159,000,000	239,000,000
Allowance for credit losses	**(98,128)**	--	--
Total	**128,901,872**	159,000,000	239,000,000

The average effective special commission rate on investments as at the period end is 3.68% p.a. (31 December 2017: 3.45% p.a. and 1 January 2017: 3.53% p.a.).

The above debt securities are redeemable at par Sukuk investments and hence the only fair value adjustment relates to expected credit loss measurement. 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 period

13 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, Fund Board, and administrator of the Fund), Albilad Capital (being custodian of the Fund) 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.

The Fund Manager charges to the Fund on each Valuation Day, management fee at a rate up to 0.75% (2016: 0.75%) per annum of the Fund's net assets value. All fees and expenses related to the management of the Fund including but not limited to custody, administration, audit, regulatory fee, index fee, etc., are included in the management fee. The revision in management fee and other charges has been made on the basis of updated terms and conditions of the Fund.

13 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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.

During the period, the Fund entered into the following transactions with related parties in the ordinary course of business. These transactions were carried out on the basis of approved terms and conditions of the Fund. All related party transactions are approved by the Fund Board.

Related Party	**Nature of transactions**	**Amount of transactions during the period**		**Closing balance**	
		2018	2017	**2018**	2017
HSBC Saudi Arabia *(Fund Manager)*	Management fee	**2,745,196**	3,469,859	**70,364**	102,050
SABB	Cash & cash equivalent	**--**	--	**2,316,930**	7,729,105
	Murabaha placements	**--**	--	**136,000,000**	161,000,000
	Income on murabaha placements	**1,380,719**	3,803,713	**407,003**	252,656
Fund Board	Board member remuneration	**--**	--	**--**	--

Other expenses during the period has been borne and paid by HSBC Saudi Arabia *("the Fund Manager").*

HSBC Multi-assets Defensive Fund, HSBC Multi-assets Balanced Fund & HSBC Multi-assets Growth Fund managed by the Fund Manager have subscribed 2,930,893 units (31 December 2017: 1,350,014 units), 6,905,857 units (31 December 2017: 6,398,320 units) and 1,293,068 units (31 December 2017: 3,053,899 units) respectively of the Fund as at 30 June2018.

Cash and cash equivalents is deposited in a current account maintained with SABB under the name of the Fund Manager (HSBC Saudi Arabia). No interest is receivable on this balance.

14 FINANCIAL RISK MANAGEMENT

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

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

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 debt securities (Sukuk, Money market placements and Murabaha placements) and investments in unlisted investment funds.

14 FINANCIAL RISK MANAGEMENT (CONTINUED)

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, the Fund's investment manager is obliged to take actions to rebalance the portfolio in line with the established targets, within prescribed time limits.

The Fund uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Fund is exposed to credit risk for its investments measured at amortized cost, placements held at amortized cost, bank balance and other receivables. The Fund Manager seeks to limit its credit risk by monitoring credit exposures and by dealing with only reputable counterparties.

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

	30 June 2018	*31 December 2017*	*1 January 2017*
Cash and cash equivalents	**879,116,930**	802,729,105	1,063,447,112
Investments measured at amortised cost (placements)	**77,926605**	393,000,000	84,000,000
Investments at FVOCI (Sukuks)	**128,901,872**	159,000,000	239,000,000
Total exposure to credit risk	**1,085,945,407**	1,354,729,105	1,386,547,112

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.

As at the reporting date, the Fund's investments at FVOCI (debt) exposures were concentrated in the following economic sectors and geographies.

	30 June 2018	31 December 2017	1 January 2017
Sectors			
Banks	**75,942,188**	76,000,000	116,000,000
Corporate	**52,959,684**	83,000,000	123,000,000
Geographies			
Saudi Arabia	**128,901,872**	159,000,000	239,000,000

Allowance for impairment

The Fund recognised expected credit losses on its financial instruments measured at amortized cost and those measured at FVOCI, which amounts to SR 171,523 as at the period end (1 January 2018: SR 286,245). There was a reversal of impairment loss during the period of SR 114,722 primarily due disposal of investments.

14 FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

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

The Fund's terms and conditions provide for the subscriptions and redemptions of units throughout the week and it is, therefore, exposed to the liquidity risk of meeting unitholders redemptions. However, the fund is allowed to borrow in order to satisfy redemptions. The Fund's bank balances, investments measured at amortized cost and placements are considered to be readily realisable. The Fund Manager monitors liquidity requirements on a regular basis and seeks to ensure that funds are available to meet commitments as they arise.

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 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.

Special commission rate risk

Special commission rate risk arises from the possibility that changes in market commission rates will affect future profitability or the fair value of the financial instruments.

The Fund is subject to special commission rate risk on its commission bearing assets and liability, including murabaha placements and sukuks. The sensitivity of the income is the effect of assumed changes in commission rates, with all other variables held constant, on the Fund's income for the year, based on the floating rate financial assets held at 30 June 2018. The following table sets out the approximate annual aggregate impact on net income by hypothetical changes in the weighted average special commission rates of the floating rate financial assets at 30 June:

	2018		2017	
Special commission income	**+ 10bps**	**79,701**	**+10bps**	119,487
	- 10bps	**(79,701)**	**- 10bps**	(119,487)
	+ 50bps	**398,506**	**+50bps**	597,434
	- 50bps	**(398,506)**	**- 50bps**	(597,434)

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' management believes that there is minimal risk of significant losses due to exchange rate fluctuation as the majority of monetary assets and liabilities are in currencies linked to the Saudi Riyal. In addition, as the Fund's foreign currency transactions are primarily in US dollars which is pegged with the Saudi Riyal, foreign exchange gains and losses are not significant.

15 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities. The Fund's financial assets consist of cash and cash equivalent, investments measured at amortised cost and investments at FVOCI.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. For investments traded in an active market, fair value is determined by reference to quoted market bid prices or net asset values as declared by the Fund Manager.

Fair value hierarchy

The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The table below presents the financial instruments measured at their fair values as of reporting date based on the fair value hierarchy:

		30 June 2018			
	Carrying value	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments at FVOCI	**128,901,872**	**--**	**--**	**128,901,872**	**128,901,872**
Investments measured at amortised cost / Held to maturity	**77,926,605**	**--**	**--**	**77,926,605**	**77,926,605**
Total	**206,828,477**	**--**	**--**	**206,828,477**	**206,828,477**

		31 December 2017			
	Carrying value	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments at FVOCI / Available for sale investments	159,000,000	--	--	159,000,000	159,000,000
Investments measured at amortised cost / Held to maturity	393,000,000	--	--	393,000,000	393,000,000
Total	552,000,000	--	--	552,000,000	552,000,000

15 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

		1 January 2017			
	Carrying value	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments at FVOCI / Available for sale investments	239,000,000	--	--	239,000,000	239,000,000
Investments measured at amortised cost / Held to maturity	84,000,000	--	--	84,000,000	84,000,000
Total	323,000,000	--	--	323,000,000	323,000,000

For level 3 investments at FVOCI (Sukuk), these have been valued based on management's assessment of risks associated with the Sukuk's underlying assets, the terms and conditions of the investment and the current market prevailing economics.

During the period, no transfer in fair value hierarchy for the financial assets held at fair value through other comprehensive income.

16 LAST VALUATION DAY

The last valuation day of the period was 30 June 2018 (2017: 31 December 2017) and the dealing net assets value on this day was SR 15.7025 per unit (2017: SR 15.56 per unit). The IFRS net assets value per unit on 30 June 2018 was SR 15.7001 per unit. The decrease in NAV is due to the recognition of allowance of impairment under IFRS 9.

17 EXPLANATION OF TRANSITION TO IFRS

As stated in note 4, these are the Fund's first financial statements prepared in accordance with IFRS.

The accounting policies set out in note 8 have been applied in preparing the financial statements for the year ended 31 December 2017 and in the preparation of an opening IFRS statement of financial position as at 1 January 2017 (the Fund's date of transition) except for IFRS 9 as disclosed in note 18.

The transition from previous GAAP i.e. generally accepted accounting standards in the Kingdom of Saudi Arabia as issued by SOCPA to IFRS had no significant impact on the Fund's financial position, comprehensive income, and statement of changes in net assets attributable to Unitholders and cash flows. Hence no separate reconciliation statement is prepared to reconcile the financial position balances from SOCPA to IFRS.

18 IMPACT OF CHANGE IS ACCOUNTING POLICIES

IFRS 9, Financial Instruments
The Fund has adopted IFRS 9 "Financial Instruments" for the period from 1 January 2018. Based on which the Fund has evaluated the classification and measurement of all its financial instruments under IFRS 9.

The Fund's investments are either held for trading or investments that are measured at amortised cost. Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

18 IMPACT OF CHANGE IS ACCOUNTING POLICIES (CONTINUED)

Comparative periods have not been restated. A difference in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognized in net assets (equity) attributable to the Unitholder as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previously designated financial assets and financial liabilities as measured at FVTPL.

Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with previous GAAP and the new measurement categories under IFRS 9 for the Fund's financial assets as at 1 January 2018.

	Classification under previous GAAP	*New classification under IFRS 9*	*Original carrying value under previous GAAP*	*New carrying value under IFRS 9*
Cash and cash equivalents	Cash and cash equivalents	Cash and cash equivalents	802,729,105	802,729,105
Murabaha placements	Held to maturity (HTM)	Investments measured at amortised cost	393,000,000	392,854,997
Available for sale investments	Available for sale investments (AFS)	Investments at FVOCI (Debt)	159,000,000	158,858,758

Reconciliation of carrying amounts under previous GAAP to carrying amounts under IFRS 9 at the adoption of IFRS 9

The following table reconciles the carrying amounts under previous GAAP to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	Carrying amount as at 31 December 2017	*Re-classification*	*Re-measurement*	*IFRS 9 carrying amount as at 1 January 2018*
Cash and cash equivalent	802,729,105	--	--	802,729,105
Investments measured at amortised cost	393,000,000	--	(145,003)	392,854,997
Investments at FVOCI	159,000,000	--	(141,242)	158,858,758

18 IMPACT OF CHANGE IS ACCOUNTING POLICIES (CONTINUED)

As at 1 January 2018, re-measurement pertains to first time adoption of expected credit loss recorded in investments measured at amortised cost and investments at FVOCI.

Impact on net assets (equity) attributable to Unitholders

	Net assets (equity) value
Closing balance under previous GAAP (31 December 207)	1,358,788,529
Recognition of expected credit losses under IFRS 9	(286,245)
Opening balance under IFRS 9 (1 January 2018)	**1,358,502,284**

IFRS 15, Revenue from Contracts with Customers

The Fund adopted IFRS 15 'Revenue from Contracts with Customers' resulting in a change in the revenue recognition policy of the Fund in relation to its contracts with customers.

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Fund has opted for the modified retrospective application permitted by IFRS 15 upon adoption of the new standard. Modified retrospective application also requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as at 1 January 2018 in equity.

As at 30 June 2018, the Fund Manager have assessed that impact of application of IFRS 15 to the Fund's interim condensed financial statements and no adjustment is required in equity as at 1 January 2018.

19 SUBSEQUENT EVENT

There were no significant post balance sheet events that require disclosure or adjusting of accounts in these financial statements.

20 APPROVAL OF CONDENSED INTERIM FINANCIAL STATEMENTS

These interim condensed financial statements are approved by the Fund Board on 15 August 2018 (Corresponding to 4 Dhul Hijjah 1439H).