

INTERIM REPORT – H1 2018
- HSBC Sukuk Fund -

**FUND REPORTS ARE AVAILABLE UPON REQUEST FREE OF CHARGE*



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A. Management Information

1. Fund Name HSBC Sukuk 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, within the Sukuk investments, the HSBC Sukuk Fund ('Fund') only added exposures to USD denominated Sukuk papers. The Fund continued to track the maximum exposure up to 95% of Fund NAV in Sukuk investments. The Sukuk exposures added by the Fund during period were only in Banking and Real Estate sector.

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

The Fund had a short-duration positioning during the period, and with rising interest rate environment, the Fund outperformed its benchmark.

The Fund declared two dividends during the 1st half of the 2018 at last valuations of each calendar quarter. Each of the dividends amounted to USD 0.07/ unit. During the 1st half of the year, the Fund posted a decline of around 1.1%; whereas, the benchmark declined by 2.05%. Assuming dividends were reinvested, the Fund would have posted a return of 0.24% during the 1st half of 2018.

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 SUKUK FUND
An open-ended mutual fund
Managed by HSBC Saudi Arabia
Interim Condensed Financial Statements
For the six-month period ended 30 June 2018



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Independent auditors' report on review of interim condensed financial statements

**To the Unitholders of
HSBC Sukuk Fund
Riyadh, Kingdom of Saudi Arabia**

Introduction

We have reviewed the accompanying 30 June 2018 interim condensed financial statements of **HSBC Sukuk 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 Sukuk 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

Abdullah Hamad Al Fozan
License No: 348

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



KPMG Al Fozan & Partners Certified Public Accountants, a registered company in the Kingdom of Saudi Arabia, and a non-partner member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative, a Swiss entity.

HSBC SUKUK FUND
(An open-ended mutual fund)
Interim condensed statement of financial position (Unaudited)
(Amounts in US Dollars)

	<i>Note</i>	<i>30 June 2018</i>	<i>31 December 2017</i>	<i>1 January 2017</i>
ASSETS				
Cash and cash equivalents	<i>10</i>	2,735,932	412,558	184,130
Investments measured at amortised cost	<i>11</i>	2,666,566	2,720,000	2,880,000
Investments at fair value through profit or loss	<i>12</i>	2,936,705	--	--
Investments at fair value through other comprehensive income	<i>13</i>	43,082,090	50,430,848	51,661,663
Receivables and advances		452,014	405,303	523,837
TOTAL ASSETS		51,873,307	53,968,709	55,249,630
LIABILITIES				
Dividend payable		371,618	355,194	332,013
Accrued expenses	<i>14</i>	55,898	21,508	20,386
		427,516	376,702	352,399
NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS				
		51,445,791	53,592,007	54,897,231
Units in issue (numbers)		5,308,824	5,464,525	5,533,555
Net asset value (equity) per unit - IFRS	<i>18</i>	9.69	9.81	9.92
Net asset value (equity) per unit - Dealing	<i>18</i>	9.69	9.81	9.92

The accompanying notes 1 to 23 form integral part of these interim condensed 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 SUKUK FUND
(An open-ended mutual fund)
Interim condensed statement of comprehensive income (Unaudited)
(Amounts in US Dollars)

		For the six-month period ended 30 June	
	<i>Note</i>	2018	2017
INVESTMENT INCOME			
Special commission income from investments at FVOCI		1,003,020	696,961
Net loss from investments at FVTPL		(91,155)	(600,041)
Special commission income from investments measured at amortised cost		14,645	52,381
TOTAL INCOME		926,510	149,301
EXPENSES			
Management fees	<i>15</i>	265,500	255,319
Reversal of provision for credit losses		(170)	--
Exchange loss		1,267	80
TOTAL EXPENSES		266,597	255,399
NET INCOME / (LOSS) FOR THE PERIOD		659,913	(106,098)
<i>Other comprehensive income</i>			
Fair value movement on investments at FVOCI		112,622	--
Reversal of provision for credit losses on investments at FVOCI		1,398	--
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		773,933	(106,098)

The accompanying notes 1 to 23 form integral part of these interim condensed financial statement.

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 SUKUK FUND
(An open-ended mutual fund)
Interim statement of changes in net assets (equity) attributable for Unitholders (Unaudited)
For the six-month period ended 30 June 2018
(Amounts in US Dollars)

	2018	2017
Net assets (equity) attributable to the unitholders as at the beginning of the period (as reported previously)	53,592,007	54,897,231
Impact of adoption of new standard at 1 January 2018 (Note 20)	(271)	--
Net assets (equity) attributable to the unitholders as at the beginning of the period (restated)	53,591,736	54,897,231
Net income / (loss) for the period	659,913	(106,098)
Unrealized (loss) / gain on investments at FVOCI	(534,070)	530,559
Dividend distributions during the period (Note 21)	(744,145)	(711,600)
Contributions and redemptions by the Unitholders:		
Proceeds from issuance of units	--	398,741
Payments against redemption of units	(1,527,643)	(886,625)
Net change from unit transactions	(1,527,643)	(487,884)
Net assets (equity) attributable to the unitholders as at 30 June	51,445,791	54,122,208

UNIT TRANSACTIONS

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

	2018	2017
	<i>(In numbers)</i>	
Units at the beginning of the period	5,464,525	5,533,555
Units issued during the period	--	40,120
Units redeemed during the period	(155,700)	(89,122)
Net decrease in units	(155,700)	(49,002)
Units as at end of the period	5,308,825	5,484,553

The accompanying notes 1 to 23 form integral part of these interim condensed financial statements.

HSBC SUKUK FUND
(An open-ended mutual fund)
Interim statement of cash flows (Unaudited)
(Amounts in US Dollars)

	For the six-month period ended 30 June	
	2018	2017
Cash flow from operating activities		
Net income / (loss) for the period	659,913	(106,098)
<i>Adjustment to reconcile net income / (loss) to net cash generated from operating activities:</i>		
Reversal of provision for credit loss	(170)	--
Unrealised loss on investments at FVTPL	89,380	--
Net changes in operating assets and liability		
Investments at fair value through profit or loss	2,936,705	--
Investments at fair value through other comprehensive income	851,898	1,115,056
Investments measured at amortised cost	53,333	(53,333)
Accrued income	(45,988)	157,443
Receivables and advances	(723)	(254)
Accrued expenses	34,390	25,138
Net cash generated from operating activities	4,578,738	1,137,952
Cash flow from financing activities		
Proceeds from issuance of units	--	398,741
Payments against redemption of units	(1,527,643)	(886,625)
Dividends paid	(727,721)	(687,117)
Net cash used in financing activities	(2,255,364)	(1,175,001)
Increase / (decrease) in cash and cash equivalents	2,323,374	(37,049)
Balance at the beginning of the period	412,558	184,130
Balance as at the end of the period	2,735,932	147,081
<u>Operational cash flows from special commission income</u>		
Special commission income received	957,032	854,404

The accompanying notes 1 to 23 form integral part of these interim condensed financial statements.

HSBC SUKUK FUND
(An open-ended mutual fund)
Notes to the interim condensed financial statements (Unaudited)
For the six-month period ended 30 June 2018
(Amounts in US Dollars)

1 GENERAL

HSBC Sukuk Fund (the “Fund”) is an investment fund created through an agreement between HSBC Saudi Arabia (“the Fund Manager”) and investors (“the Unitholders”). The objective of the Fund is to achieve income and capital growth over the medium to long term period, by investing in Sukuk issued globally, along with money market funds and term deposits. The Fund invests primarily in Sukuk (up to 70% of the Fund’s assets) with the 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. Albilad 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 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.

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 on 16 Sha’aban 1437H (corresponding to 23 May 2016) (“the Amended Regulations”). The Fund Manager believes that the Amended Regulations were 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 AND VALUATION DAY)

The Fund is open for subscriptions/ redemptions of units on Monday (each being a “Dealing Day”). The value of the Fund’s portfolio is determined once weekly on Tuesday (each being 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.

HSBC SUKUK FUND
(An open-ended mutual fund)
Notes to the interim condensed financial statements (Unaudited)
For the six-month period ended 30 June 2018
(Amount in US Dollars)

4 BASIS OF PREPARATION (CONTINUED)

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 IFRS has affected the reported financial position, financial performance and cash flows of the Fund is provided in note 18.

5 FUNCTIONAL AND PRESENTATIONAL CURRENCY

These interim condensed financial statements are presented in US Dollars, 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 FVTPL 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 CRITICAL 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 area where management has used estimates, assumptions or exercised judgement are as follow:

Impairment of financial assets

The Fund recognises loss allowances for expected credit loss (ECL) on cash in bank, Murabaha placements and Sukuk placements.

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
-

HSBC SUKUK FUND
(An open-ended mutual fund)
Notes to the interim condensed financial statements (Unaudited)
For the six-month period ended 30 June 2018
(Amounts in US Dollars)

8 SIGNIFICANT ACCOUNTING POLICIES

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.

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.

Foreign currency translation

Transactions in foreign currencies are translated into US Dollars 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 US Dollars 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 (equity) value per unit on the Valuation Day for which the subscription request and redemption applications are received.

Cash and cash equivalents

Cash and cash equivalents 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.
-

HSBC SUKUK FUND
(An open-ended mutual fund)
Notes to the interim condensed financial statements (Unaudited)
For the six-month period ended 30 June 2018
(Amounts in US Dollars)

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Net gain / (loss) from investments at FVTPL

Net gain from investments at FVTPL includes all realised and unrealised fair value changes and foreign exchange differences (if any), but excludes interest and dividend income, and dividend expense on securities sold short.

Net realised gain / (loss) from investments at FVTPL is calculated using the weighted average cost method.

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.

Dividend income

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

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 interim condensed financial statements.

Financial assets and financial liabilities

Policies applicable before 1 January 2018

Investments held for trading

Investments are classified as "held for trading" if they are purchased for the purpose of resale in the short term. Investments held for trading are initially recorded at cost which includes the purchase price plus all expenditures made by the Fund for the purpose of acquiring the securities. Subsequent to initial recognition, investments held for trading are measured at fair value and resulting gains or losses are recognized in the income statements but excluding dividend income which are separately shown in the income statement. Realized gains or losses at disposal and unrealized gains or losses are determined on average cost basis.

HSBC SUKUK FUND
(An open-ended mutual fund)
Notes to the interim condensed financial statements (Unaudited)
For the six-month period ended 30 June 2018
(Amounts in US Dollars)

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and financial liabilities 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 profit or loss. 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.

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 fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

HSBC SUKUK FUND
(An open-ended mutual fund)
Notes to the interim condensed financial statements (Unaudited)
For the six-month period ended 30 June 2018
(Amounts in US Dollars)

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Manager;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Fund's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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.

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 fixed rate 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.

HSBC SUKUK FUND
(An open-ended mutual fund)
Notes to the interim condensed financial statements (Unaudited)
For the six-month period ended 30 June 2018
(Amounts in US Dollars)

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

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

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position for financial assets measured at amortized cost and investments at fair value through other comprehensive income as a deduction from the gross carrying amount of the assets.

For debt instrument measured FVOCI, no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the allowance is disclosed and is recognised in the fair value reserve. Impairment losses are recognised in profit and loss and changes between the amortised cost of the assets and their fair value are recognised in OCI.

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.

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8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Definition of default

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

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

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.

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 interim condensed financial statements as these do not have material impact on the Fund's interim condensed financial statements.

10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents balance consist of cash in bank that has investment grade credit ratings, as rated by the international rating agencies.

	30 June 2018	31 December 2017	1 January 2017
Cash in bank	2,735,932	412,558	184,130
Total	2,735,932	412,558	184,130

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

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11 INVESTMENTS MEASURED AT AMORTISED COST

	30 June 2018	31 December 2017	1 January 2017
Placements with banks	2,666,667	2,720,000	2,880,000
Allowance for expected credit losses	(101)	--	--
Total	<u>2,666,566</u>	<u>2,720,000</u>	<u>2,880,000</u>

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 2.50% p.a. (31 December 2017: 1.53% p.a. and 1 January 2017: 3.13% p.a.).

As at 30 June 2018, an allowance for expected credit loss has been recorded amounting to USD 101 as part of the Fund's adoption of IFRS 9 impairment requirements.

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

12 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Investments comprise the following exposures as at reporting date:

	30 June 2018	
	Cost	Market value
Mutual Fund		
Al-Rajhi Commodity Fund	2,847,325	2,936,705
Total	<u>2,847,325</u>	<u>2,936,705</u>

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13 INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

Fair value through other comprehensive income (FVOCI) comprises Sukuk investments portfolio and is summarized as follows:

<i>Face Value</i>	<i>Counterparty</i>	<i>Maturity</i>	<i>Current Rate</i>	30 June 2018		31 December 2017		1 January 2017	
				<i>Cost</i>	<i>Market Value</i>	<i>Cost</i>	<i>Market Value</i>	<i>Cost</i>	<i>Market Value</i>
4,450,000	Emaar Sukuk Limited	18-Jul-2019	6.40	4,876,038	4,595,515	4,101,550	3,914,748	2,574,850	2,497,938
4,000,000	Turkiye Finans	24-Apr-2019	5.375	4,064,800	4,006,700	2,054,500	2,038,900	--	--
3,610,000	Dar Al Arkan International Sukuk Company							--	--
		28-May-2019	6.50	3,644,940	3,664,150	1,212,750	1,212,750	--	--
3,535,000	Saudi Electricity Global Sukuk IV	03-Apr-2022	4.211	3,569,031	3,596,332	3,569,031	3,700,332	3,569,031	3,728,347
3,600,000	Noor Sukuk Company Limited	28-Apr-2020	2.788	3,582,275	3,534,048	1,544,575	1,534,740	--	--
3,050,000	Sukuk Funding Limited	31-May-2023	4.348	3,151,775	3,076,627	3,151,775	3,115,087	--	--
2,500,000	Dubai Islamic Bank Tier 1 Sukuk Ltd	Perpetual	6.25	2,561,750	2,518,750	1,025,000	1,017,500	--	--
2,500,000	Abu Dhabi Islamic Bank Emirates Islamic Bank Sukuk Ltd.	Perpetual	6.375	2,557,238	2,512,500	868,050	868,063	--	--
2,500,000	Sukuk Ltd.	31-May-2021	3.542	2,526,758	2,490,825	2,526,758	2,529,475	1,414,000	1,409,310
2,400,000	Almarai Company*	Perpetual	4.4337	2,403,765	2,404,000	2,403,764	2,404,000	1,599,851	1,600,000
2,400,000	Sharjah Islamic Bank Sukuk III Ltd.	17-Mar-2020	2.843	2,395,200	2,369,436	2,395,200	2,384,028	--	--
2,050,000	Perusahaan Penerbit SBSN Indonesia	21-Nov-2018	4.00	2,114,575	2,057,688	2,114,575	2,091,000	2,114,575	2,132,000
1,860,000	Adib Sukuk Company Limited	14-Feb-2022	3.664	1,891,155	1,815,016	1,891,155	1,878,926	--	--
1,333,333	Najran Cement Company*	11-Jun-2020	-	1,333,298	1,333,333	1,333,298	1,333,333	1,333,298	1,333,333
1,100,000	Dar-Al-Arkan International Sukuk Company	10-Apr-2022	6.875	1,088,450	1,056,000	--	--	--	--
800,000	Savola Group Company*	22-Jan-2020	3.1875	752,170	779,967	752,170	773,801	752,170	761,084
580,000	DP World	31-May-2023	3.908	595,950	577,813	595,950	594,500	--	--
500,000	Alpha Star Holding	9-Apr-2019	4.97	510,571	498,323	2,348,625	2,310,142	--	--
200,000	APICORP Sukuk Ltd	1-Nov-2022	3.141	200,000	195,067	200,000	199,238	--	--
2,400,000	Fawaz Abdulaziz Al Hokair Company*	24-Jun-2019	4.20	--	--	2,399,488	2,400,000	2,399,488	2,400,000
2,000,000	Dubai Islamic Bank Sukuk Limited	30-Mar-2021	3.60	--	--	2,021,000	2,019,690	--	--
1,550,000	Oman Sovereign Sukuk	1-Jun-2024	4.40	--	--	1,527,525	1,551,744	--	--
1,150,000	Turkiye FinansKatilim Bankasi Sukuk	02-May-2018	3.95	--	--	1,167,953	1,150,184	1,167,953	1,149,586
775,000	EIB Sukuk Company Limited	11-Jun-2018	4.15	--	--	796,313	775,314	796,313	787,594
3,934,000	FGB Sukuk Company Limited	18-Jan-2017	4.05	--	--	--	--	4,067,773	3,997,928
2,400,000	Majid Al-Futtaim Sukuk Limited	7-Feb-2017	5.85	--	--	--	--	2,509,700	2,412,000
2,100,000	SOQ Sukuk AQ.S.C.	18-Jan-2023	3.24	--	--	--	--	2,158,800	2,144,070
2,080,000	DP World Sukuk Limited	2-July-2017	6.25	--	--	--	--	2,196,480	2,129,920
2,050,000	Dubai Islamic Bank Sukuk Limited	30-May-2017	4.75	--	--	--	--	2,132,547	2,077,982
1,650,000	EIB Sukuk Company Limited	18-Jan-2017	4.72	--	--	--	--	1,741,045	1,654,125
1,515,000	Saudi Electricity Global Sukuk Company	03-Apr-2017	2.67	--	--	--	--	1,532,423	1,518,984
1,500,000	Qatar Islamic Bank Sukuk Funding Ltd	10-Oct-2017	2.50	--	--	--	--	1,526,900	1,505,775
1,400,000	Tamweel Funding Ltd	18-Jan-2017	5.15	--	--	--	--	1,508,250	1,403,010
700,000	Banque Saudi Fransi	22-May-2017	2.95	--	--	--	--	720,300	703,745
Total				43,819,739	43,082,090	42,001,005	41,797,494	37,815,747	37,346,731

*with floating rate

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13 INVESTMENTS FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)
[CONTINUED]

	30 June 2018	31 December 2017	1 January 2017
Investments at FVOCI	43,082,090	50,430,848	51,661,663
Allowance for expected credit losses	(117,309)	--	--
	<u>43,082,090</u>	<u>50,430,848</u>	<u>51,661,663</u>

As at 30 June 2018, an allowance for expected credit loss has been recorded amounting to USD 117,309 as part of the Fund's adoption of IFRS 9 impairment requirements. The above loss allowance is not recognised in the statement of financial position because the carrying amount of debt investment securities at FVOCI is their fair value.

The methodology and assumptions applied by the Fund in estimating the ECL on Sukuk placements are based on using the Moody's rating scales which are then adjusted for country specific data based on where Sukuk 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.

14 ACCRUED EXPENSES

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

15 TRANSACTIONS WITH RELATED PARTIES

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. The related parties of the Fund include the Fund Manager, the Fund Board and other funds being managed by the Fund Manager. In the ordinary course of its activities, the Fund transacts business with the Fund Manager.

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 fees at a rate of 1.00% of Net assets value (2017: 1.00% of Net assets value). All Fees and expenses related to the management of the Fund including but not limited to custody, administration, audit, regulatory and index fees, etc., are included in the management fee.

Subscription & redemption fee up to 1% is considered in the financial statement of the fund as this is recognized as fund's income. The Fund does not charge any redemption fees on redemption of units.

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15 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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 transaction during the period		Closing balance	
		<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
HSBC Saudi Arabia (Fund Manager)	Fund management fee	265,500	255,319	55,898	21,508
SABB Bank (Shareholder)	Cash and cash equivalents	--	--	--	412,558
Fund Board	Board member remuneration	--	--	--	--

Board member compensation and 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 and HSBC Multi-assets Growth Fund managed by the Fund Manager has subscribed 800,000 units (31 December 2017: 800,000 units), 1,333,013 units (31 December 2017: 1,333,013 units) and 187,893 units (31 December 2017: 187,893 units) respectively of the fund.

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.

16 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 Murabaha placement, Sukuk placements and investments at fair value through profit or loss.

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 Fund Board. In instances where the portfolio has diverged from 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.

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16 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 on its bank balances, Murabaha and Sukuk placements and receivables. The Fund Manager seeks to limit its credit risk by monitoring credit exposure and by dealing with reputed counterparties.

The table below shows the maximum exposure to credit risk for the component of the balance sheet.

	30 June 2018	31 December 2017	1 January 2017
Cash and cash equivalents	2,735,932	412,558	184,130
Investments measured at amortised cost	2,666,566	2,720,000	2,880,000
Investment at fair value through other comprehensive income (FVOCI)	43,082,090	50,430,848	51,661,663
Receivables	452,014	405,303	523,837
<i>Total exposure to credit risk</i>	48,936,602	53,968,709	55,249,630

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.

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 unitholder redemptions. However, the Fund's cash in bank, Murabaha placements, Sukuk placements and investment in mutual fund are considered to be readily realizable as these are of short term period.

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 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.

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16 FINANCIAL RISK MANAGEMENT (CONTINUED)

Special commission rate risk

Special commission risk arises from the possibility that changes in market commission rates may affect either the fair value or the future cash flows of the financial instruments.

The Fund is subject to special commission rate risk on its commission bearing assets and liability, including Murabaha and Sukuk placements. 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 period based on the floating rate financial assets held at the period end. If the commission rate risk is not in accordance with the Fund's terms and conditions, then the Fund Manager is required to rebalance the portfolio within a reasonable period of time of each determination of such occurrence. During the period the Sukuks having floating rates does not constitute material portion of the investments and hence special commission rate risk is minimal on those investments.

	2018		2017	
<i>Special commission income</i>	+ 10bps	25,075	+10bps	17,424
	- 10bps	(25,075)	- 10bps	(17,424)
	+ 50bps	100,302	+50bps	69,696
	- 50bps	(100,302)	- 50bps	(69,696)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund's functional currency is US Dollar (USD). During the period, the Fund's foreign currency transactions are primarily in US dollars which is pegged with the Saudi Riyal; foreign exchange gains and losses are therefore not significant.

17 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market are accessible by the Fund.

Financial instruments comprise financial assets and financial liabilities. The Fund's financial assets consist of cash and cash equivalents, investments at fair value through profit or loss and investments at fair value through other comprehensive income and investments measured at amortised cost.

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.

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17 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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 measured at amortised cost	2,666,667	--	--	2,666,566	2,666,566
Investments at FVTPL	2,936,705	2,936,705	--	--	2,936,705
Investment at FVOCI	43,082,090	43,082,090	--	--	43,082,090
Total	48,685,462	46,018,795	--	2,666,566	48,685,361

31 December 2017					
	Carrying value	Level 1	Level 2	Level 3	Total
Investments measured at amortised cost	2,720,000	--	--	2,720,000	2,720,000
Investments at FVTPL	--	--	--	--	--
Investment at FVOCI	50,430,848	50,430,848	--	--	50,430,848
Total	53,150,848	50,430,848	--	2,720,000	53,150,848

1 January 2017					
	Carrying value	Level 1	Level 2	Level 3	Total
Investments measured at amortised cost	2,880,000	--	--	2,880,000	2,880,000
Investments at FVTPL	--	--	--	--	--
Investment at FVOCI	51,661,663	51,661,663	--	--	51,661,663
Total	54,541,663	51,661,663	--	2,880,000	54,541,663

During the period, no transfer in fair value hierarchy has taken place for the investments at fair value through profit or loss.

For level 3 investments measured at amortised cost (Murabaha placement), this have been valued based on management's assessment of risks associated with the Murabaha placement's underlying assets, the Terms and Conditions of the investment and the current market prevailing economics.

Other financial instruments such as cash in bank, other receivables, dividends payable and accrued expenses are short-term financial assets and financial liabilities whose carrying amounts approximate fair value, being short-term in nature and the high credit quality of counterparties.

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18 LAST VALUATION DAY

The last valuation day of the period was 30 June 2018 (2017: 31 December 2017) and the dealing net assets (equity) value on this day was SR 9.69063 per unit (2017: SR 9.81). The IFRS net assets (equity) value per unit on 30 June 2018 was SR 9.69061. Net assets (equity) per unit as per IFRS is lower due to ECL provisions under IFRS 9.

19 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 at 1 January 2017 (the Fund's date of transition) except for IFRS 9 and 15 which were adopted as at 1 January 2018 as disclosed in note 20.

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.

20 IMPACT OF CHANGE IN 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 investments at fair value through profit or loss and investments at fair value through other comprehensive income.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

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 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 previous designated financial assets and financial liabilities as measured at FVTPL.

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20 IMPACT OF CHANGE IN ACCOUNTING POLICIES (CONTINUED)

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.

	<i>Classification under previous GAAP</i>	<i>New classification under IFRS 9</i>	<i>Original carrying value under previous GAAP</i>	<i>New carrying value under IFRS 9</i>
Cash and cash equivalents	Cash and cash equivalents	Cash and cash equivalents	412,558	412,558
Money market placements	Money market placements	Investments measured at amortised cost (Placements)	2,720,000	2,720,000
Available for sale investments	Available for sale investments	Investments at FVOCI (Debt)	50,430,848	50,430,848
Other receivables	Loans and receivables	Investments measured at amortised cost	405,303	405,303

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.

	<i>New classification under IFRS 9</i>	<i>Carrying amount as at 31 December 2017</i>	<i>Re-classification</i>	<i>Re-measurement</i>	<i>IFRS 9 carrying amount as at 1 January 2018</i>
Cash and cash equivalents	Cash and cash equivalents	412,558	--	--	412,558
Investments measured at amortised cost	Investments measured at amortised cost (Placements)	2,720,000	--	(271)	2,719,729
Investments at FVOCI	Investments at FVOCI (Debt)	50,430,848	--	(118,707)	50,430,848
Receivables and advances	Investments measured at amortised cost (Receivables and advances)	405,303	--	--	405,303

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20 IMPACT OF CHANGE IN 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.

Impact on net assets (equity) attributable to Unitholders

	<i>Net assets (equity) value</i>
Closing balance under previous GAAP (31 December 2017)	53,592,007
Recognition of expected credit losses under IFRS 9	(271)
Opening balance under IFRS 9 (1 January 2018)	53,591,736

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

21 DIVIDEND DISTRIBUTIONS

As per the terms and conditions of the Fund, the Fund Board made the following distributions out of the Fund during the period:

	30 June 2017	30 June 2016
1 st Interim dividend at the rate of 0.07 USD per unit (June 2017: 0.065 USD per unit)	372,528	355,104
2 nd Interim dividend at the rate of 0.07 USD per unit (June 2017: 0.065 USD per unit)	371,617	356,496
Total	744,145	711,600

22 SUBSEQUENT EVENT

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

23 APPROVAL OF INTERIM CONDENSED FINANCIAL STATEMENTS

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