

INTERIM REPORT – H1 2019
- 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: 920022688
Fax: +966112992385
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

- Resignation of His Excellency Governor/ Ihsan Abbas Hamzah Bafakih from the fund board

The changes to the funds' prospectus as follows:

Paragraph	Previous Fund Board	New Fund Board
Members of the Fund Board	<ol style="list-style-type: none"> 1. Daniel Lima (Chairman) 2. Haitham Alrashed (Dependent Member) 3. Ihsan Bafakih (Dependent Member) 4. Ali Alothaim (Dependent Member) 5. Tariq Altuwajri (Dependent Member) 	<ol style="list-style-type: none"> 1. Daniel Lima (Chairman) 2. Haitham Alrashed (Dependent Member) 3. Ali Alothaim (Dependent Member) 4. Tariq Altuwajri (Dependent Member)

C. Investment Activities of the Period

During the 1st half of 2019 we added to our Sukuk exposure and reached almost the maximum allowed of 95% in Sukuk. With the focus on USD denominated Sukuk and increased the overall duration.

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

With the rally of US treasuries especially on the long end due to the big shift in interest rate outlook and market expectations from rate increase to rate cut, we ran a moderate duration portfolio but the performance remained slightly above the benchmark

The Fund declared two dividends during the 1st half of the 2019 at last valuations of each calendar quarter. Each of the dividends amounted to USD 0.0724/ unit. During the 1st half of the year, the Fund total return is 4.88%; whereas, the benchmark return is 4.80%.

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)

Funds	Fees
Murabaha Funds	
HSBC Saudi Riyal Murabaha Fund	0.45%

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 months period ended 30 June 2019
together with the
Independent auditors' review report



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Independent auditors' review report on the interim condensed financial statements

To the unitholders of HSBC Sukuk Fund

Introduction

We have reviewed the accompanying interim condensed financial statements of **HSBC Sukuk Fund** ("the Fund"), managed by **HSBC Saudi Arabia** ("the Fund Manager"), which comprises:

- the interim condensed statement of financial position as at 30 June 2019;
- the interim condensed statement of comprehensive income for the six months period ended 30 June 2019;
- the interim condensed statement of changes in net assets (equity) attributable to the unitholders for the six months period ended 30 June 2019;
- the interim condensed statement of cash flows for the six months period ended 30 June 2019; 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 the International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as 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, the Fund's Terms and Conditions and the Information Memorandum. Our responsibility is to express a conclusion on these interim condensed 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 the 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 2019 interim condensed financial statements of **HSBC Sukuk Fund** are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants

Abdulaziz Abdullah Alnaim
License No: 394

4 August 2019
Corresponding to: 3 Dhul Hijjah 1440H



HSBC SUKUK FUND
(An open-ended mutual fund)
Interim condensed statement of financial position (Unaudited)
As at 30 June 2019
(Amounts in US Dollar)

	<i>Note</i>	<i>30 June 2019 (Unaudited)</i>	<i>31 December 2018 (Audited)</i>
ASSETS			
Cash and cash equivalents	<i>10</i>	5,857,049	2,396,907
Investments measured at amortised cost	<i>11</i>	--	2,740,167
Investments at fair value through profit or loss	<i>12</i>	3,278,437	3,334,612
Investments at fair value through other comprehensive income	<i>13</i>	54,277,035	42,736,731
Receivables and advances		2,055,956	47,743
TOTAL ASSETS		65,468,477	51,256,160
LIABILITIES			
Dividend payable		418,067	370,234
Accrued expenses	<i>14</i>	7,644,932	101,888
TOTAL LIABILITIES		8,062,999	472,122
NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS		57,405,478	50,784,038
Units in issue (numbers)		5,774,408	5,289,055
Net asset value (equity) per unit – IFRS	<i>18</i>	9.94	9.65
Net asset value (equity) per unit - Dealing	<i>18</i>	9.94	9.60

The accompanying notes (1) to (21) form an 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)
For the six-months period ended 30 June 2019
(Amounts in US Dollar)

	<i>Note</i>	<i>For the six-months period ended 30 June</i>	
		2019	2018
INVESTMENT INCOME			
Special commission income from investments at fair value through other comprehensive income		1,071,023	1,003,020
Net gain / (loss) on investments at fair value through profit or loss		50,182	(91,155)
Realized gain on maturity of investment at fair value through other comprehensive income		85,825	--
Special commission income from investments measured at amortised cost		21,381	14,645
TOTAL INCOME		1,228,411	926,510
EXPENSES			
Management fees	<i>15</i>	263,426	265,500
Allowance / (reversal) for expected credit losses		54,511	(170)
Exchange losses, net		797	1,267
TOTAL EXPENSES		318,734	266,597
NET INCOME FOR THE PERIOD		909,677	659,913
OTHER COMPREHENSIVE INCOME			
Net unrealized gain on investments at fair value through other comprehensive income		1,696,456	112,622
Reversal of realized gain on maturity of investment at fair value through other comprehensive income		(85,825)	--
Movement in fair value / allowance for expected credit losses on investments at fair value through other comprehensive income		54,511	1,398
TOTAL OTHER COMPREHENSIVE INCOME FOR THE PERIOD		1,665,142	114,020
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		2,574,819	773,933

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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 changes in net assets (equity) attributable to the unitholders (Unaudited)
For the six-months period ended 30 June 2019
(Amounts in US Dollar)

	<u><i>For the six- months period ended 30 June 2019</i></u>	<u><i>For the six- months period ended 30 June 2018</i></u>
Net assets (equity) attributable to the unitholders as at the beginning of the period (as reported previously)	50,784,038	52,943,917
Impact of adoption of new standard at 1 January 2018	--	(271)
Net assets (equity) attributable to the unitholders as at the beginning of the period (restated)	50,784,038	52,943,646
Net income for the period	909,677	659,913
Net unrealized gain on investments at fair value through other comprehensive income	1,696,456	112,622
Reversal of realized gain on maturity of investment at fair value through other comprehensive income	(85,825)	--
Movement in fair value / allowance for expected credit losses on investments at fair value through other comprehensive income	54,511	1,398
Dividend distributions during the period (Note 19)	(800,039)	(744,145)
<i>Subscriptions and redemptions by the Unitholders:</i>		
Proceeds from issuance of units	5,000,000	--
Payments for redemption of units	(153,340)	(1,527,643)
Net change from unit transactions	4,846,660	(1,527,643)
Net assets (equity) attributable to the unitholders as at 30 June	57,405,478	51,445,791

UNIT TRANSACTIONS

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

	<u><i>For the six- months period ended 30 June 2019</i></u>	<u><i>For the six- months period ended 30 June 2018</i></u>
	<i>(In numbers)</i>	
Units at the beginning of the period	5,289,055	5,464,525
Units issued during the period	501,053	--
Units redeemed during the period	(15,700)	(155,700)
Net change in units	485,353	(155,700)
Units as at end of the period	5,774,408	5,308,825

The accompanying notes (1) to (21) form integral part of these interim condensed financial statements.

HSBC SUKUK FUND
(An open-ended mutual fund)
Interim statement of cash flows (Unaudited)
For the six-months period ended 30 June 2019
(Amounts in US Dollar)

	<u>30 June 2019</u>	<u>30 June 2018</u>
Cash flow from operating activities		
Net income for the period	909,677	659,913
<i>Adjustment for:</i>		
Reversal of charge for expected credit losses	--	(170)
Unrealised (gain) / loss on investments at fair value through profit or loss	(42,809)	89,380
Realized gain on maturity of investments at fair value through other comprehensive income	(85,825)	--
Net changes in operating assets and liabilities		
Decrease in investments at fair value through profit or loss	13,366	2,936,705
Increase / (decrease) in investments at fair value through other comprehensive income	(9,703,719)	1,250,585
Decrease in investments measured at amortised cost	2,740,167	100,555
Increase in receivables and advances	(2,008,213)	(492,620)
Increase in accrued expenses	7,543,044	34,390
Increase in dividend payable	47,833	--
Net cash (used in) / generated from operating activities	(586,479)	4,578,738
Cash flow from financing activities		
Proceeds from issuance of units	5,000,000	--
Payments for redemption of units	(153,340)	(1,527,643)
Dividends paid	(800,039)	(727,721)
Net cash generated from / (used in) financing activities	4,046,621	(2,255,364)
Increase in cash and cash equivalents	3,460,142	2,323,374
Cash and cash equivalents at the beginning of the period	2,396,907	412,558
Cash and cash equivalents as at the end of the period	5,857,049	2,735,932
<u>Supplemental cash flow information</u>		
Special commission income received	1,092,776	957,032

The accompanying notes (1) to (21) 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-months period ended 30 June 2019
(Amounts in US Dollar)

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 remaining balance invested in Shariah compliant money market funds and term deposits. The Fund has no geographic constraints in terms of investment but it focuses on investments in the Gulf Cooperation Council (“GCC”).

The Fund is managed by the Fund Manager who also acts the administrator of the Fund. 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 the Unitholders at least on semi-annual basis. Any such income distribution by the Fund, however, will solely be at the discretion of the Fund Board of Directors. However, profit, if any, realized, by the Fund, from the sale of any Sukuk at a price higher than its purchase price will not be distributed to Unitholders and would form part of the net asset (equity) value of the Fund.

2 REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (“the Regulations”) published by the Capital Market Authority (“the CMA”) on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) detailing requirements for all investment funds operating within the Kingdom of Saudi Arabia. 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 6 November 2016).

The Fund Manager has made certain revisions to the terms and conditions of the Fund. The main change in the terms and conditions relate to the change in the 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 have been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (“SOCPA”) and to comply with the applicable provisions of the Investment Fund Regulations issued by the Capital Market Authority, the Fund’s Terms and Conditions and the Information Memorandum.

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 2018.

HSBC SUKUK FUND
(An open-ended mutual fund)
Notes to the interim condensed financial statements (Unaudited)
For the six-months period ended 30 June 2019
(Amounts in US Dollar)

5 FUNCTIONAL AND PRESENTATION 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 fair value through profit or loss ("FVTPL") and investments at fair value through other comprehensive income ("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 interim condensed statement of financial position have been presented in the order of liquidity.

7 USE OF CRITICAL JUDGEMENTS 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 is as follows:

Allowance for expected credit losses

The Fund recognises loss allowances for expected credit loss (ECL) on its Murabaha placements and Sukuk 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 accounting policies, estimates and assumptions used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2018.

HSBC SUKUK FUND
(An open-ended mutual fund)
Notes to the interim condensed financial statements (Unaudited)
For the six-months period ended 30 June 2019
(Amounts in US Dollar)

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

Effective 1 January 2019, the Fund has adopted IFRS 16 - Leases. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model. The impact upon adoption of IFRS 16 was not material to the Fund's interim condensed financial statements.

10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents balance comprise of cash with banks which have investment grade credit ratings, as rated by the international rating agencies.

11 INVESTMENTS MEASURED AT AMORTISED COST

	<i>30 June 2019</i> <i>(Unaudited)</i>	<i>31 December</i> <i>2018 (Audited)</i>
Murabaha placements with banks	--	2,666,667
Accrued commission	--	73,500
Total	--	2,740,167

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 31 December 2018 was 3.15% per annum.

12 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Investments at FVTPL comprise the following exposure as at reporting date:

	<u><i>30 June 2019</i></u> <u><i>(Unaudited)</i></u>		<u><i>31 December 2018</i></u> <u><i>(Audited)</i></u>	
	Cost	Market value	Cost	Market value
Mutual Fund				
HSBC Saudi Riyal Murabaha Fund (ART)	3,232,261	3,278,437	3,331,246	3,334,612
Total	3,232,261	3,278,437	3,331,246	3,334,612

HSBC SUKUK FUND
(An open-ended mutual fund)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the six-months period ended 30 June 2019
(Amounts in US Dollar)

13 INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<i>30 June 2019</i> <i>(Unaudited)</i>	<i>31 December 2018</i> <i>(Audited)</i>
Investments at FVOCI	53,790,344	42,307,200
Accrued commission	486,691	429,531
Total	54,277,035	42,736,731

Investments at fair value through other comprehensive income (FVOCI) comprise Debt Securities – Sukuks, and are summarized as follows:

<i>Face Value</i>	<i>Counterparty</i>	<i>Maturity</i>	<i>Current</i>		<i>30 June 2019</i> <i>(Unaudited)</i>		<i>31 December 2018</i> <i>(Audited)</i>	
			<i>Rate</i>	<i>Cost</i>	<i>Market Value</i>	<i>Cost</i>	<i>Market Value</i>	
5,000,000	Almarai Sukuk Ltd	5-Mar-2024	4.311	5,000,000	5,212,500	--	--	
4,710,000	Dar Al Arkan Sukuk Co.	10-Apr-2022	6.875	4,598,300	4,721,775	4,598,300	4,462,725	
3,535,000	Saudi Electricity	03-Apr-2022	4.211	3,569,031	3,679,440	3,569,031	3,577,137	
3,200,000	MAF Sukuk Ltd.	14-May-2029	4.638	3,255,700	3,335,648	--	--	
10,000,000	Bank Albilad	30-Aug-2026	4.8513	2,666,224	2,666,934	2,666,224	2,666,935	
2,600,000	Noor Tier 1 Sukuk Ltd.	31-Dec-2199	6.25	2,593,500	2,664,532	2,593,500	2,588,313	
2,500,000	NMC Healthcare Sukuk Ltd.	21-Nov-2023	5.95	2,528,400	2,632,700	1,508,400	1,518,660	
2,500,000	Ei Sukuk Company Ltd.	31-May-2021	3.542	2,526,758	2,510,725	2,526,758	2,478,825	
2,250,000	DIFC Sukuk	12-Nov-2024	4.325	2,257,313	2,319,323	--	--	
2,100,000	ICD Sukuk Company Ltd.	01-Feb-2027	5.00	2,160,375	2,175,579	--	--	
2,000,000	EMG Sukuk Ltd.	18-Jun-2024	4.564	1,999,500	2,063,750	--	--	
2,000,000	SD International Sukuk Ltd.	09-May-2022	6.30	2,000,000	2,017,740	--	--	
2,000,000	Garuda Indonesia Global Sukuk	03-Jun-2020	5.95	1,949,124	1,999,760	1,462,500	1,442,370	
2,000,000	Emaar Sukuk Ltd.	15-Sep-2026	3.635	1,962,000	1,953,180	--	--	
1,860,000	DIB Sukuk Ltd.	14-Feb-2022	3.664	1,891,155	1,881,688	1,891,155	1,820,066	
1,500,000	DP World Crescent	26-Sep-2028	4.848	1,593,750	1,591,350	--	--	
1,600,000	Arab National Bank	07-Oct-2025	4.3625	1,586,337	1,591,121	1,586,337	1,587,795	
1,500,000	Sharjah Sukuk	14-Mar-2028	4.226	1,554,375	1,559,063	--	--	
1,333,333	Najran Cement Company Ltd.	11-Jun-2020	5.00	1,333,298	1,333,333	1,333,298	1,333,333	
1,200,000	DIB Tier 1 Sukuk 2 Ltd.	31-Dec-2199	6.75	1,224,000	1,240,500	1,224,000	1,233,000	
1,000,000	Perusahaan Penerbit Indonesia	20-Feb-2029	4.45	1,000,000	1,077,500	--	--	
1,000,000	Saudi Telecom Company	13-May-2029	3.89	1,000,000	1,031,900	--	--	
800,000	Savola Group	22-Jan-2020	4.2025	752,170	792,649	752,170	786,517	
700,000	Noor Sukuk Company Ltd.	24-Apr-2023	4.4710	707,000	723,286	--	--	
580,000	AHB Sukuk Company Ltd.	19-Sep-2023	4.375	580,000	607,257	580,000	584,802	
200,000	Sharjah Sukuk Program Ltd.	03-Apr-2026	3.854	200,000	205,438	--	--	
200,000	APICORP Sukuk Ltd.	01-Nov-2022	3.141	200,000	201,673	200,000	193,998	
4,450,000	Emaar Sukuk Ltd.	18-Jul-2019	6.40	--	--	4,876,038	4,508,740	
1,500,000	DIB Tier 1 Sukuk Ltd.	31-Dec-2199	6.25	--	--	1,537,050	1,501,875	
1,520,000	Bahrain Mumtalakat Holding Company Ltd.	25-11-2021	4.00	--	--	1,455,300	1,447,002	
2,400,000	SIB Sukuk Company 3 Ltd.	17-Mar-2020	2.843	--	--	2,395,200	2,365,092	
3,600,000	Noor Sukuk Company Ltd.	28-Apr-2020	2.788	--	--	3,582,275	3,256,612	
2,450,000	TF Varlik Kiralama	24-Apr-2019	5.375	--	--	2,489,690	2,454,288	
500,000	Alpha Star Holding	09-Apr-2019	4.97	--	--	510,571	499,115	
Total				52,688,310	53,790,344	43,337,797	42,307,200	

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

The movement of the allowance for expected credit losses for sukuk is summarized as follows:

	<i>For the six-month</i> <i>period ended 30</i> <i>June 2019</i>	<i>For the year ended</i> <i>31 December 2018</i> <i>(Audited)</i>
Balance at the beginning of the period	279,812	--
Reversal of ECL at maturity	(85,825)	--
Effect of the adoption of IFRS 9	--	117,636
Charge for the period	54,511	162,176
Balance at the end of the period	248,498	279,812

HSBC SUKUK FUND
(An open-ended mutual fund)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the six-months period ended 30 June 2019
(Amounts in US Dollar)

13 INVESTMENTS FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME [CONTINUED]

As at 30 June 2019, an allowance for expected credit loss has been recorded amounting to USD 248,498 (31 December 2018: USD 279,812). The above allowance for expected credit loss is not recognised in the interim condensed statement of financial position because the carrying amount of investments at FVOCI is their fair value.

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 of HSBC Saudi Arabia (being the Fund Manager, the Fund Board, and administrator 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 transactions were carried out on the basis of approved terms and conditions of the Fund.

The Fund Manager charges to the Fund on each Valuation Day, management fees at a rate of 1.00% of Net assets value (2018: 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 fee up to 1% is considered in these interim condensed financial statements of the Fund as this is recognized as Fund’s income. 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.

Related party	Nature of transactions	Amount of transaction for the six-months period ended		Closing balance	
		30 June 2019	30 June 2018	30 June 2019 (Unaudited)	31 December 2018 (Audited)
HSBC Saudi Arabia (Fund Manager)	Fund management fee	263,426	265,500	51,242	101,888
SABB (Shareholder)	Cash and cash equivalents	--	--	21,587	2,396,907

Board member compensation and other expenses during the period has been borne and paid by HSBC Saudi Arabia (“the Fund Manager”).

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

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15 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

At reporting date, HSBC Multi-Assets Defensive Fund, HSBC Multi-Assets Balanced Fund and HSBC Multi-Assets Growth Fund managed by the Fund Manager held 900,210 units (31 December 2018: 800,000 units), 1,633,645 units (31 December 2018: 1,333,013 units) and 288,103 units (31 December 2018: 187,893 units), respectively of the Fund.

16 FAIR VALUES OF FINANCIAL INSTRUMENTS

The Fund measures certain financial instruments at fair value at each reporting date. 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 must be accessible by the Fund. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Changes in assumptions about these factors could affect the fair value of financial instruments.

Valuation models

The fair values of financial instruments that are traded in active markets are based on prices obtained directly from an exchange on which the instruments are traded or obtained from a broker that provides an unadjusted quoted price from an active market for identical instruments. For all other financial instruments, the Fund determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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16 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy – Financial instruments

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

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

	30 June 2019 (Unaudited)				
	Carrying Value	Level 1	Level 2	Level 3	Total
Investments at FVTPL	3,278,437	3,278,437	--	--	3,278,437
Investment at FVOCI	54,277,035	54,277,035	--	--	54,277,035
Total	<u>57,555,472</u>	<u>57,555,472</u>	<u>--</u>	<u>--</u>	<u>57,555,472</u>
	31 December 2018 (Audited)				
	Carrying Value	Level 1	Level 2	Level 3	Total
Investments at amortised cost	2,740,167	--	--	2,740,167	2,740,167
Investments at FVTPL	3,334,612	3,334,612	--	--	3,334,612
Investment at FVOCI	42,736,731	32,992,581	--	9,713,306	42,736,731
Total	<u>48,811,510</u>	<u>36,327,193</u>	<u>--</u>	<u>12,453,473</u>	<u>48,811,510</u>

During the period, no transfer of financial instruments between fair value hierarchies has taken place.

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

17 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 investments measured at amortised cost, FVTPL and FVOCI.

The Fund 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 Manager is obliged to take actions to rebalance the portfolio in line with the established targets, within prescribed time limits.

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17 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 cash and cash equivalents, investments measured at amortised cost, investments at FVTPL and investments at FVOCI and receivables. The Fund Manager seeks to limit its credit risk by monitoring credit exposure and by dealing with reputed counterparties.

The Fund's policy over credit risk is to minimize its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the certain credit standards.

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

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

	<u><i>30 June 2019</i></u> <u><i>(Unaudited)</i></u>	<u><i>31 December 2018</i></u> <u><i>(Audited)</i></u>
Cash and cash equivalents	5,857,049	2,396,907
Investments measured at amortised cost	--	2,740,167
Investments at FVTPL	3,278,437	3,334,612
Investment at FVOCI	54,277,035	42,736,731
Receivables and advances	2,055,956	47,743
<i>Total exposure to credit risk</i>	<u>65,468,477</u>	<u>51,256,160</u>

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.

Analysis of credit quality

The Fund has murabaha and sukuk placements with counterparties having following credit quality:

	<u><i>30 June</i></u> <u><i>2019</i></u> <u><i>(Unaudited)</i></u>	<u><i>31 December</i></u> <u><i>2018</i></u> <u><i>(Audited)</i></u>
A1	4,149,882	2,478,825
A2	5,270,562	10,304,676
A3	7,036,408	13,823,530
Aa3	201,673	193,998
B1	4,721,775	4,462,725
B2	1,240,500	--
Ba1	2,632,700	1,518,660
Ba2	--	499,115
Ba3	2,017,740	1,447,002
Baa1	1,591,350	--
Baa2	6,476,898	--
Baa3	9,485,003	6,683,216
Unrated	8,965,853	895,453
Total	<u>53,790,344</u>	<u>42,307,200</u>

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17 FINANCIAL RISK MANAGEMENT (CONTINUED)

Amounts arising from ECL

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

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

The Fund has recorded allowance for expected credit loss amounting to USD 248,498 as at 30 June 2019 (31 December 2018: USD 279,812).

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.

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.

Commission rate risk

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

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17 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

<u>30 June 2019 (Unaudited)</u>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>More than 3 months</i>	<i>Total</i>
<u>ASSETS</u>				
Investments at FVOCI - Gross	--	--	53,790,344	53,790,344
Total commission-bearing assets	--	--	53,790,344	53,790,344
<u>LIABILITIES</u>				
Total commission-bearing liabilities	--	--	--	--
Total commission rate gap	--	--	53,790,344	53,790,344
<u>31 December 2018 (Audited)</u>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>More than 3 months</i>	<i>Total</i>
<u>ASSETS</u>				
Investments at amortized cost	2,666,667	--	--	2,666,667
Investments at FVOCI - Gross	3,334,612	2,953,403	36,019,185	42,307,200
Total commission-bearing assets	6,001,279	2,953,403	36,019,185	42,307,200
<u>LIABILITIES</u>				
Total commission-bearing liabilities	--	--	--	--
Total commission rate gap	6,001,279	2,953,403	36,019,185	42,307,200

Sensitivity analysis

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

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

<u>Effect on net assets in USD</u>	<u>30 June 2019 (Unaudited)</u>	<u>31 December 2018 (Audited)</u>
Net assets (equity) attributable to the Unitholders	38,603	41,455

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

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17 FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund's functional currency is US Dollar (USD) and there are no foreign currency exposures as at 30 June 2019 except for investment at FVTPL which is in Saudi Arabian Riyal (SR). SR is already pegged with USD at a fixed rate and accordingly, foreign exchange gains / losses are not significant.

18 LAST VALUATION DAY

The last valuation day of the period was 30 June 2019 (2018: 31 December 2018) and the dealing net assets value on this day was USD 9.94 per unit (31 December 2018: USD 9.60). The IFRS net assets value per unit on 30 June 2019 was USD 9.94 (31 December 2018: USD 9.65).

19 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:

	<i>30 June 2019 (Unaudited)</i>	<i>30 June 2018 (Audited)</i>
1 st Interim dividend at the rate of 0.07 USD per unit (2018: 0.07 USD per unit)	381,972	372,528
2 nd Interim dividend at the rate of 0.07 USD per unit (2018: 0.07 USD per unit)	418,067	371,617
Total	800,039	744,145

20 SUBSEQUENT EVENTS

There were no events subsequent to the statement of financial position date which require adjustments of or disclosure in the interim condensed financial statements or notes thereto except as disclosed in note 2 of these interim condensed financial statements.

21 APPROVAL OF INTERIM CONDENSED FINANCIAL STATEMENTS

These interim condensed financial statements were approved by the Fund Board on 3 Dhul Hijjah 1440H (corresponding to 4 August 2019).