

**HSBC Saudi Riyal Murabaha Fund
(Managed by HSBC Saudi Arabia)**

**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REVIEW REPORT**

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021



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INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS TO THE UNITHOLDERS OF HSBC SAUDI RIYAL MURABAHA FUND (MANAGED BY HSBC SAUDI ARABIA)

Introduction

We have reviewed the accompanying interim condensed statement of financial position of HSBC Saudi Riyal Murabaha Fund (the "Fund") managed by HSBC Saudi Arabia (the "Fund Manager") as at 30 June 2021, and the related interim condensed statements of comprehensive income, changes in equity attributable to the unitholders and cash flows for the six-month period ended 30 June 2021, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. 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 International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim financial statements 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 interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

Other Matter

The financial statements of the Fund for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on 8 April 2021. Further, the interim condensed financial statements of the Fund for the six months period ended 30 June 2020 were reviewed by another auditor who expressed an unmodified review conclusion on those interim condensed financial statements on 24 August 2020.

For Ernst & Young

Saad M. Al-Khathlan
Certified Public Accountant
License No. 509

Riyadh: 8 Muharram 1443H
(16 August 2021)



HSBC SAUDI RIYAL MURABAHA FUND

Interim condensed statement of financial position

As at 30 June 2021

		30 June 2021 (Unaudited) SR	31 December 2020 (Audited) SR
	<i>Note</i>		
ASSETS			
Cash at bank	4	2,109,768	4,395,559
Financial assets measured at amortised cost	5	2,816,316,728	3,402,249,581
Financial assets at fair value through profit or loss (“FVTPL”)	6	311,008,290	-
Financial assets at fair value through other comprehensive income (“FVOCI”)	7	25,065,500	25,068,778
		<hr/>	<hr/>
TOTAL ASSETS		3,154,500,286	3,431,713,918
		<hr/> <hr/>	<hr/> <hr/>
LIABILITIES			
Management fee payable		95,138	146,948
Accrued expenses	8	841,141	720,251
		<hr/>	<hr/>
TOTAL LIABILITIES		936,279	867,199
EQUITY			
Equity attributable to unitholders		3,153,564,007	3,430,846,719
		<hr/>	<hr/>
TOTAL LIABILITIES AND EQUITY		3,154,500,286	3,431,713,918
		<hr/> <hr/>	<hr/> <hr/>
Units in issue		190,510,361	207,615,577
		<hr/>	<hr/>
Equity value per unit - Dealing		16.56	16.53
		<hr/>	<hr/>
Equity value per unit – IFRS		16.55	16.52
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The accompanying notes 1 to 13 form an integral part of these interim condensed financial statements.

HSBC SAUDI RIYAL MURABAHA FUND

Interim condensed statement of comprehensive income (unaudited)

For the six-month period ended 30 June 2021

	Note	2021 SR	2020 SR
INCOME			
Special commission income from financial assets at FVOCI		190,399	372,841
Special commission income from financial assets held at amortized cost		12,915,627	39,833,625
Net realized income from financial assets at FVTPL		27,122	-
Net unrealized income from financial assets at FVTPL	6	981,168	-
TOTAL INCOME		14,114,316	40,206,466
EXPENSES			
Management fees		7,817,016	8,651,011
Other expenses		121,010	-
Impairment charge (reversal) for expected credit losses		437,484	(87,690)
TOTAL EXPENSES		8,375,510	8,563,321
NET INCOME FOR THE PERIOD		5,738,806	31,643,145
OTHER COMPREHENSIVE INCOME FOR THE PERIOD			
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>			
Other comprehensive income		(2,240)	(835)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		5,736,566	31,642,310

The accompanying notes 1 to 13 form an integral part of these interim condensed financial statements.

HSBC SAUDI RIYAL MURABAHA FUND

Interim condensed statement of changes in equity attributable to the unitholders
(unaudited)

For the six-month period ended 30 June 2021

	2021 SR	2020 SR
EQUITY ATTRIBUTABLE TO THE UNITHOLDERS AS AT THE BEGINNING OF THE YEAR	3,430,846,719	3,661,872,540
Net income for the period	5,738,806	31,643,145
Other comprehensive income	(2,240)	(835)
Total comprehensive income for the period	5,736,566	31,642,310
Contributions and redemptions by the unitholders:		
Proceeds from issuance of units	1,422,868,583	2,398,292,745
Payments for redemption of units	(1,705,887,861)	(2,461,481,356)
Net change	(283,019,278)	(63,188,611)
EQUITY ATTRIBUTABLE TO THE UNITHOLDERS AS AT THE END OF THE YEAR	3,153,564,007	3,630,326,239
	<u>Units</u>	<u>Units</u>
UNIT TRANSACTIONS		
Transactions in units for the period ended 30 June are summarised as follows:		
UNITS AT THE BEGINNING OF THE PERIOD	207,615,577	224,397,429
Issue of units during the period	86,031,761	146,268,493
Redemption of units during the period	(103,136,977)	(150,111,672)
Net decrease in units	(17,105,216)	(3,843,179)
UNITS AT THE END OF THE PERIOD	190,510,361	220,554,250

The accompanying notes 1 to 13 form an integral part of these interim condensed financial statements.

HSBC SAUDI RIYAL MURABAHA FUND

Interim condensed statement of cash flows (unaudited)

For the six-month period ended 30 June 2021

	2021 SR	2020 SR
Operating activities		
Net income for the period	5,738,806	31,643,145
<i>Adjustments for:</i>		
Unrealized gain on financial assets at FVTPL	(981,168)	-
Impairment (reversal of) charge for expected credit losses	437,484	(87,690)
	<u>5,195,122</u>	<u>31,555,455</u>
<i>Net changes in operating assets and liability</i>		
(Decrease) increase in financial assets measured at amortised cost	175,493,129	(271,945,356)
Increase in financial assets at FVTPL	(310,027,122)	-
Decrease in financial assets measured at FVOCI	3,278	47,033
Increase in accrued expenses	120,890	-
Decrease in management fees payable	(51,810)	(3,942)
	<u>(129,266,513)</u>	<u>(240,346,810)</u>
Cash flow from financing activities		
Proceeds from issuance of units	1,422,868,583	2,398,292,745
Payment on redemption of units	(1,705,887,861)	(2,461,481,356)
	<u>(283,019,278)</u>	<u>(63,188,611)</u>
Decrease in cash and cash equivalents	(412,285,791)	(303,535,421)
Cash and cash equivalents at the beginning of the period	1,922,395,559	2,362,178,096
Cash and cash equivalents at the end of the period	<u>1,510,109,768</u>	<u>2,058,642,675</u>
<u>Supplemental cash flow information</u>		
Special commission income received	<u>14,599,155</u>	<u>38,108,143</u>

The accompanying notes 1 to 13 form an integral part of these interim condensed financial statements.

HSBC SAUDI RIYAL MURABAHA FUND

Notes to unaudited interim condensed financial statements

At 30 June 2021

1. INCORPORATION AND ACTIVITIES

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

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

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

The Fund is managed by the Fund Manager who also acts as the administrator of the Fund. Albilad Capital is the custodian of the Fund. All income is reinvested in the Fund and is reflected in the unit price.

The Fund Manager has made certain revisions to the Terms and Conditions of the Fund. The main changes in the Terms and Conditions relates to the enhancement of investment objectives. The Fund updated its terms and conditions which were approved by the CMA on 28 Ramadan 1441H (corresponding to 21 May 2020).

2. REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (the “Regulations”) issued by the CMA on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) and effective from 6 Safar 1438H (corresponding 6 November 2016) by the New Investment Fund Regulations (“Amended Regulations”) published by the CMA on 16 Sha’aban 1437H (corresponding to 23 May 2016) detailing requirements for all funds within the Kingdom of Saudi Arabia. The Regulations were further Amended by Resolution of the Board of the Capital Market Authority Number 2-22-2021 Dated 12/7/1442H. Corresponding to 24/2/2021G.

3. BASIS OF PREPARATION AND CHANGES TO ACCOUNTING POLICIES

3.1. Basis of preparation

These unaudited interim condensed financial statements for the six-month period ended 30 June 2021 have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) as endorsed in the kingdom of Saudi Arabia.

The unaudited 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 2020.

The unaudited interim condensed financial statements have been prepared on a historical cost basis, using the accrual basis of accounting except for investments at fair value through FVOCI that are measured at fair value. These unaudited interim condensed financial statements are presented in Saudi Arabian Riyals (“SR”), which is the Fund’s functional currency. All financial information presented has been rounded to the nearest SR.

3.2 New standards, interpretations and amendments

The accounting policies adopted in the preparation of the unaudited interim condensed financial statements are consistent with those followed in the preparation of the Fund’s annual financial statements for the year ended 31 December 2020. except for the adoption of new standards effective as of 1 January 2021. The fund has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments apply for the first time in 2021, but do not have an impact on the unaudited interim condensed financial statements of the fund.

HSBC SAUDI RIYAL MURABAHA FUND

Notes to unaudited interim condensed financial statements (continued)

At 30 June 2021

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

3.2 New standards, interpretations and amendments (continued)

Interest Rate Benchmark Reform–Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

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

The amendments include the following practical expedients:

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

These amendments had no impact on the unaudited interim condensed financial statements of the Fund.

The Fund intends to use the practical expedients in future periods if they become applicable.

4. CASH AND CASH EQUIVALENTS

	30 June 2021 (Unaudited) SR	31 December 2020 (Audited) SR
Cash at banks	2,109,768	4,395,559
Placement with banks (with original maturity of less than 90 days)	1,508,000,000	1,918,000,000
Total cash and cash equivalents	1,510,109,768	1,922,395,559

5. FINANCIAL ASSETS MEASURED AT AMORTISED COST

	30 June 2021 (Unaudited) SR	31 December 2020 (Audited) SR
Murabaha placements with original maturity of less than 90 days	1,508,000,000	1,918,000,000
Murabaha placements – maturing between 90 and 360 days	1,300,000,000	1,474,000,000
	2,808,000,000	3,392,000,000
Accrued special commission income	9,053,365	10,546,494
Allowance for expected credit losses	(736,637)	(296,913)
	2,816,316,728	3,402,249,581

HSBC SAUDI RIYAL MURABAHA FUND

Notes to unaudited interim condensed financial statements (continued)

At 30 June 2021

5. FINANCIAL ASSETS MEASURED AT AMORTISED COST (continued)

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

	30 June 2021 (Unaudited) SR	30 June 2020 (Unaudited) SR
Balance at beginning of the period	296,913	577,774
Charge (reversal of) for the period	439,724	(86,855)
Balance at the end of the period	736,637	490,919

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

Financial assets measured at amortised cost are composed of the following:

<u>30 June 2021 (Unaudited)</u>	<i>% of Value</i>	<i>Cost SR</i>
Remaining maturity		
Up to 1 month	26	718,000,000
1-3 months	28	790,000,000
6-9 months	21	600,000,000
9-12 months	25	700,000,000
	<u>100</u>	<u>2,808,000,000</u>

<u>31 December 2020 (Audited)</u>	<i>% of Value</i>	<i>Cost SR</i>
Remaining maturity		
Up to 1 month	31	1,068,000,000
1-3 months	25	850,000,000
3-6 months	20	684,000,000
6-9 months	23	790,000,000
	<u>100</u>	<u>3,392,000,000</u>

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

	30 June 2021 (Unaudited)			31 December 2020 (Audited)		
	<i>Cost SR</i>	<i>Market Value SR</i>	<i>Unrealized gain SR</i>	<i>Cost SR</i>	<i>Market Value SR</i>	<i>Unrealized gain SR</i>
Al Rajhi Commodity SAR Fund	310,027,122	311,008,290	981,168	-	-	-
	<u>310,027,122</u>	<u>311,008,290</u>	<u>981,168</u>	<u>-</u>	<u>-</u>	<u>-</u>

HSBC SAUDI RIYAL MURABAHA FUND

Notes to unaudited interim condensed financial statements (continued)

At 30 June 2021

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

	<i>30 June 2021 (Unaudited) SR</i>	<i>31 December 2020 (Audited) SR</i>
Debt Securities - Sukuks	25,000,000	25,000,000
Accrued special commission income	65,500	68,778
	<u>25,065,500</u>	<u>25,068,778</u>

The average special commission rate on investments as at the end of June 2021 is 1.50% p.a. (31 December 2020: 1.55% p.a.). The above debt securities are redeemable at par.

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

	<i>30 June 2021 (Unaudited) SR</i>	<i>30 June 2020 (Unaudited) SR</i>
Balance at beginning of the period	7,864	5,178
(Reversal of) charge for the period	(2,240)	2,686
Balance at the end of the period	<u>5,624</u>	<u>7,864</u>

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

8. TRANSACTIONS WITH RELATED PARTIES

The Fund Manager charges to the Fund on each Valuation Day, management fees at a rate of 0.35% (since June 2021) of Net assets value (2020: 0.45% of Net assets value).

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

<i>Related Party</i>	<i>Nature of transactions</i>	<i>Amount of transactions during the period</i>		<i>Closing Balance</i>	
		<i>June 2021</i>	<i>June 2020</i>	<i>June 2021</i>	<i>December 2020</i>
HSBC Saudi Arabia (Fund Manager)	Management fee	7,817,016	8,651,011	95,138	146,948
	Administration fee	106,443	-	106,443	-
	Board member fee	908	-	908	-
Saudi British Bank (Parent of Fund Manager)	Cash at bank			148,504	154,350

HSBC SAUDI RIYAL MURABAHA FUND

Notes to unaudited interim condensed financial statements (continued)

At 30 June 2021

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fund's investments at FVOCI is measured at fair values and classified within level 2 of the fair value hierarchy. All other financial assets and liabilities are classified as amortized cost and management believes that the fair value of all other financial assets and liabilities at the reporting date approximate their carrying values owing to their short-term tenure and the fact that these are readily liquid. These are all classified within level 3 of the fair value hierarchy. There were no transfers between various levels of fair value hierarchy during the current period or prior year.

10. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

<i>As at 30 June 2021 (Unaudited)</i>	<i>Less than 1month SR</i>	<i>1 to 3 months SR</i>	<i>3 months to 1 year SR</i>	<i>From 1 year to 5 years SR</i>	<i>Total SR</i>
ASSETS					
Financial assets measured at FVOCI	-	-	-	25,000,000	25,000,000
Financial assets measured at amortised cost	<u>718,000,000</u>	<u>790,000,000</u>	<u>1,300,000,000</u>	-	<u>2,808,000,000</u>
Total commission -bearing assets	<u>718,000,000</u>	<u>790,000,000</u>	<u>1,300,000,000</u>	<u>25,000,000</u>	<u>2,833,000,000</u>
LIABILITIES					
Total commission – bearing liabilities	-	-	-	-	-
Total commission rate gap	<u>718,000,000</u>	<u>790,000,000</u>	<u>1,300,000,000</u>	<u>25,000,000</u>	<u>2,833,000,000</u>
<i>As at 31 December 2020 (Audited)</i>	<i>Less than 1month SR</i>	<i>1 to 3 months SR</i>	<i>3 months to 1 year SR</i>	<i>From 1 year to 5 years SR</i>	<i>Total SR</i>
ASSETS					
Financial assets measured at FVOCI	-	-	-	25,000,000	25,000,000
Financial assets measured at amortised cost	<u>1,068,000,000</u>	<u>850,000,000</u>	<u>1,474,000,000</u>	-	<u>3,392,000,000</u>
Total commission -bearing assets	<u>1,068,000,000</u>	<u>850,000,000</u>	<u>1,474,000,000</u>	<u>25,000,000</u>	<u>3,417,000,000</u>
LIABILITIES					
Total commission – bearing liabilities	-	-	-	-	-
Total commission rate gap	<u>1,068,000,000</u>	<u>850,000,000</u>	<u>1,474,000,000</u>	<u>25,000,000</u>	<u>3,417,000,000</u>

11. LAST VALUATION DAY

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

HSBC SAUDI RIYAL MURABAHA FUND

Notes to unaudited interim condensed financial statements (continued)

At 30 June 2021

12. IMPACT OF COVID-19 ON THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

During March 2020, the World Health Organisation (“WHO”) declared the Coronavirus (“COVID-19”) outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia in particular has implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

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

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

13. APPROVAL OF THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

These unaudited interim condensed financial statements were approved by the Fund’s management on 8 Muharram 1443H (corresponding to 16 August 2021).