

INTERIM REPORT – H1 2019
- HSBC US Dollar Murabaha Fund -

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



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A. Management Information

1. Fund Name HSBC US Dollar Murabaha 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 Altuwajiri (Dependent Member) 	<ol style="list-style-type: none"> 1. Daniel Lima (Chairman) 2. Haitham Alrashed (Dependent Member) 3. Ali Alothaim (Dependent Member) 4. Tariq Altuwajiri (Dependent Member)

C. Investment Activities of the Period

During the 1st half of 2019, the HSBC US Dollar Murabaha Fund ('Fund') continued to take new exposures in USD denominated Murabaha deposits. During the period, the underlying investment exposures in the Fund were only in Murabaha Deposits.

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

The US FED FOMC held the U.S. Federal Funds rate steady in the range of 2.25%- 2.50% during the first half of 2019, although taking a clearly dovish tone in the last FOMC meeting. The US Dollar one-month LIBOR has declined steadily during the 1st half of 2019, with the US Dollar one-month LIBOR declining from around 2.50% at the end of December, 2018 to around 2.40% at end of June, 2019. Year-to-date, on an annualized basis, the Fund returned 2.42%. During the same period, the benchmark accomplished 2.47%.

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 US DOLLAR MURABAHA FUND
An open-ended mutual fund
(Managed by HSBC Saudi Arabia)
Interim condensed financial statements
For the six month 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 US Dollar Murabaha Fund

Introduction

We have reviewed the accompanying interim condensed financial statements of **HSBC US Dollar Murabaha 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 US Dollar Murabaha 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 US DOLLAR MURABAHA 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 at bank	<i>10</i>	1,079,910	211,317
Investments measured at amortised cost	<i>11</i>	17,428,608	17,334,950
Investments at fair value through profit or loss	<i>12</i>	880,201	867,788
Receivables and advances		1,339	6,860
TOTAL ASSETS		19,390,058	1,8420,915
LIABILITIES			
Accrued expenses	<i>13</i>	1,168	6,635
TOTAL LIABILITIES		1,168	6,635
NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS			
		19,388,890	18,414,280
Units in issue (numbers)		1,304,471	1,253,817
Net asset value (equity) per unit – Dealing	<i>18</i>	14.87	14.69
Net asset value (equity) per unit - IFRS	<i>18</i>	14.86	14.69

The accompanying notes (1) to (19) 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 US DOLLAR MURABAHA FUND
(An open-ended mutual fund)
Interim condensed statement of comprehensive income (Unaudited)
For the six-month period ended 30 June 2019
(Amounts in US Dollar)

	<i>Note</i>	<u>30 June 2019</u>	<u>30 June 2018</u>
INVESTMENT INCOME			
Net gain on investments measured at fair value through profit or loss		12,413	7,076
Special commission income from investments measured at amortised cost		246,968	131,998
TOTAL INCOME		<u>259,381</u>	<u>139,074</u>
EXPENSES			
Management fees	14	34,346	31,182
Reversal of allowance for expected credit losses		(331)	(935)
Exchange loss		--	181
TOTAL EXPENSES		<u>34,015</u>	<u>30,428</u>
NET INCOME FOR THE PERIOD		225,336	108,646
Other comprehensive income for the period		-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>225,336</u>	<u>108,646</u>

The accompanying notes (1) to (19) 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 US DOLLAR MURABAHA FUND

(An open-ended mutual fund)

Interim condensed statement of changes in net assets (equity) attributable to the unitholders (Unaudited)

For the six-month period ended 30 June 2019

(Amounts in US Dollar)

	<i>30 June</i> <i>2019</i>	<i>30 June</i> <i>2018</i>
Net assets (equity) attributable to the unitholders as at the beginning of the period	18,414,280	17,428,207
Impact of adoption of new standard at 1 January 2018	-	(1,974)
Net assets (equity) attributable to the unitholders as at the beginning of the period	18,414,280	17,426,233
Net income for the period	225,336	108,646
<i>Subscriptions and redemptions by the unitholders:</i>		
Proceeds from issuance of units	836,442	957,439
Payments for redemption of units	(87,198)	(1,222,211)
Net change from unit transactions	749,244	(264,772)
Net assets (equity) attributable to the unitholders as at 30 June	19,388,890	17,270,107

UNIT TRANSACTIONS

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

	<i>30 June</i> <i>2019</i>	<i>30 June</i> <i>2018</i>
	<i>-----Numbers-----</i>	
Units at the beginning of the period	1,253,817	1,206,609
Units issued during the period	56,548	66,070
Units redeemed during the period	(5,894)	(84,440)
Net change in units	50,654	(18,370)
Units as at end of the period	1,304,471	1,188,239

The accompanying notes (1) to (19) form integral part of these interim condensed financial statements.

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

	<i>30 June</i> 2019	<i>30 June</i> 2018
Cash flow from operating activities		
Net income for the period	225,336	108,646
<i>Adjustment for:</i>		
Unrealized (gains) / loss on investments at FVTPL	(12,413)	7,076
Reversal of allowance for credit loss	(331)	(935)
	212,622	114,787
Net changes in operating assets and liabilities		
(Increase) / decrease in investments measured at amortised cost	(4,668,327)	499,002
Increase in investments at FVTPL	-	(863,971)
Decrease in available for sale investments	-	801,608
Increase in receivables and advances	5,521	(395,745)
Decrease in accrued expenses	(5,467)	(134)
Net cash (used in) / generated from operating activities	(4,455,651)	155,547
Cash flow from financing activities		
Proceeds from issuance of units	836,442	957,439
Payments for redemption of units	(87,198)	(1,222,211)
Net cash generated from / (used in) financing activities	749,244	(264,772)
Decrease in cash and cash equivalents	(3,706,407)	(109,225)
Cash and cash equivalent at the beginning of the period	17,031,317	1,051,175
Cash and cash equivalent as at the end of the period	13,324,910	941,950
<u>Supplemental cash flow information</u>		
Special commission income received	234,112	143,783

The accompanying notes (1) to (19) form integral part of these interim condensed financial statements.

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

1 GENERAL

HSBC US Dollar Murabaha Fund (“the Fund”) is an investment fund established through the agreement between HSBC Saudi Arabia (“the Fund Manager”) and the investors (“the unitholders”).

The objective of the Fund is to seek capital appreciation and potential for capital preservation through participation in a professionally managed portfolio of short term US Dollar deposits, placements 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.

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).

3 SUBSCRIPTION/REDEMPTION (DEALING DAY AND VALUATION DAY)

The Fund is open for subscriptions / redemptions of units on each business day being a (“Dealing Day”) of the Saudi Stock Exchange Market. The value of the Fund’s portfolio is determined on each business day (“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 US DOLLAR MURABAHA FUND
(An open-ended mutual fund)
Notes to the interim condensed financial statements (Unaudited)
For the six-month period ended 30 June 2019
(Amounts in US Dollar)

5 FUNCTIONAL AND PRESENTATION CURRENCY

These interim condensed financial statements are presented in US Dollar (USD), 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") 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 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 of credit losses

The Fund recognises loss allowances for expected credit loss (ECL) on its Murabaha 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

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 (except as disclosed in Note 9 Impact of change in accounting policies due to adoption of new standard) with those used in the preparation of the annual financial statements for the year ended 31 December 2018.

HSBC US DOLLAR MURABAHA FUND
(An open-ended mutual fund)
Notes to the interim condensed financial statements (Unaudited)
For the six-month 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 consist of cash in bank that has investment grade credit ratings, as rated by the international rating agencies.

	<i>30 June 2019</i> <i>(Unaudited)</i>	<i>31 December</i> <i>2018 (Audited)</i>
Cash at bank	1,079,910	211,317
Placements with the banks (maturity less than 90 days)	12,245,000	16,820,000
Total	13,324,910	17,031,317

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

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 original maturity of less than 90 days	12,245,000	16,820,000
Murabaha placements – maturing between 90 and 180 days	5,105,000	450,000
	17,350,000	17,270,000
Accrued commission	81,194	67,867
Allowance for expected credit losses	(2,584)	(2,917)
Total	17,428,608	17,334,950

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 2.78% p.a. (31 December 2018: 3.00% p.a. and 1 January 2018: 1.27% p.a.).

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.

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

	<i>For the six-</i> <i>month period</i> <i>ended 30 June</i> <i>2019</i> <i>(Unaudited)</i>	<i>For the year</i> <i>ended 31</i> <i>December 2018</i>
Balance at the beginning of the period	2,917	--
ECL recognition on 1 January 2018	-	1,974
Charge / (reversal) for the period	(331)	943
Balance at the end of the period	2,586	2,917

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

12 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Investments comprise the following exposure as at reporting date:

	<i>30 June</i>		<i>31 December</i>	
	<i>2019 (Unaudited)</i>		<i>2018 (Audited)</i>	
	Cost	Market value	Cost	Market value
Mutual Fund				
HSBC Saudi Riyal Murabaha Fund (ART)	849,819	880,201	849,819	867,788

13 ACCRUED EXPENSES

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

14 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, and administrator of the Fund), Albilad Capital (being custodian of the Fund), the Fund Board 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 0.35% of Net assets value (2018: 0.35% 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 2% is not 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.

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		Closing balance	
		the six-month period ended			
		30 June 2019	30 June 2018	30 June 2019 (Unaudited)	31 December 2018 (Audited)
HSBC Saudi Arabia (Fund Manager)	Fund management fee	34,346	31,182	1,112	6,635
SABB (Shareholder)	Cash and cash equivalents	325,544	--	-----	20,000
	Income on murabaha placements	--	10,261	-----	--

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

14 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

As at 30 June 2019, HSBC Multi-assets Defensive Fund managed by the Fund Manager have outstanding number of 291,737 units (31 December 2018: Nil units) in the Fund.

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

15 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.

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

15 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 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 amortised cost	17,428,608	--	--	17,428,608	17,428,608
Investment at FVTPL	880,201	880,201	--	--	880,201
Total	18,308,809	880,201	--	17,428,608	18,308,809

	31 December 2018 (Audited)				
	Carrying value	Level 1	Level 2	Level 3	Total
Investments at amortised cost	17,334,950	--	--	17,334,950	17,334,950
Investment at FVTPL	867,788	867,788	--	--	867,788
Total	18,202,738	867,788	--	17,334,950	18,202,738

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, and accrued expenses are short-term financial assets and financial liabilities respectively whose carrying amounts approximate fair value, being short-term in nature and the high credit quality of counterparties.

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 investments measured comprises murabaha placements and investment in mutual fund.

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

16 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Fund's 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.

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 at bank, investments measured at amortised cost, 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 statement of financial position:

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Cash at bank	1,079,910	211,317
Investments measured at amortised cost – net of ECL	17,428,608	17,334,950
Investment at FVTPL	880,201	867,788
Receivables and advances	1,339	6,860
<i>Total exposure to credit risk</i>	19,390,058	18,420,915

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 placements (gross) with counterparties having the following credit quality ratings by Moody's:

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
A2	--	2,000,000
A3	2,020,000	4,950,000
Aa2	--	3,480,000
Aa3	4,195,000	--
Baa1	6,925,000	6,840,000
Baa3	4,210,000	--
Total	17,350,000	17,270,000

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16 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 probabilities of default are based on Moody's transition matrices. 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 expected credit loss amounting to USD 2,586 as at 30 June 2019 (31 December 2018: USD 2,917). During the period, there were no stage movements in ECL of investments measured at amortised cost.

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 fund manager in accordance with the policies and procedures in place. The Fund's market positions are monitored on a timely basis by the Fund Manager.

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.

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 amortized cost	4,500,000	7,745,000	5,105,000	17,350,000
Total commission-bearing assets	4,500,000	7,745,000	5,105,000	17,350,000
<u>LIABILITIES</u>				
Total commission-bearing liabilities	--	--	--	--
Total commission rate gap	4,500,000	7,745,000	5,105,000	17,350,000

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16 FINANCIAL RISK MANAGEMENT (CONTINUED)

<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	7,925,000	9,345,000	450,000	17,270,000
Total commission-bearing assets	7,925,000	9,345,000	450,000	17,270,000
<u>LIABILITIES</u>				
Total commission-bearing liabilities	--	--	--	--
Total commission rate gap	7,925,000	9,345,000	450,000	17,270,000

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 SAR</u>	<i>30 June 2019 (Unaudited)</i>	<i>31 December 2018 (Audited)</i>
Net assets (equity) attributable to the unitholders	24,697	13,998

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

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.

17 LAST VALUATION DAY

The Capital Market Authority (CMA), through its circular dated 10 Rabi Al Thani 1439H (corresponding to 28 December 2017), has approved the Dual NAV approach for investment funds. In accordance with the circular, IFRS 9 will be applied for accounting and reporting purposes and dealing NAV will remain unaffected until further notice.

The last valuation day of the six-month period was 30 June 2019 (2018: 31 December 2018) and in lieu of the above circular from CMA, the dealing net assets (equity) value on this day was USD 14.87 per unit (December 2018: USD 14.69). The IFRS net assets (equity) value per unit on 30 June 2019 was USD 14.86 (December 2018: USD 14.69).

18 SUBSEQUENT EVENTS

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

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19 APPROVAL OF FINANCIAL STATEMENTS

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