

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 2020
together with the
Independent auditors' review report

HSBC SUKUK FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Interim condensed financial statements

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Independent auditor's review report on the interim condensed financial statements

To the unitholders of HSBC Sukuk Fund

Introduction

We have reviewed the accompanying 30 June 2020 interim condensed financial statements of **HSBC Sukuk Fund** ("the Fund"), managed by HSBC Saudi Arabia ("the Fund Manager"), which comprises:

- the condensed statement of financial position as at 30 June 2020;
- the condensed statement of comprehensive income for the six months period ended 30 June 2020;
- the condensed statement of changes in net assets (equity) attributable to the unitholders for the six months period ended 30 June 2020;
- the condensed statement of cash flows for the six months period ended 30 June 2020; 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") that is endorsed in the Kingdom of Saudi Arabia 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 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* ("ISRE 2410") that is endorsed in the Kingdom of Saudi Arabia. A review of interim condensed 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 ("ISA") 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 2020 interim condensed financial statements of **HSBC Sukuk Fund** are not prepared, in all material respects, in accordance with IAS 34 that is endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants


Hani Hamzah A. Bedairi
License No. 460

Date: 5 Muharram 1442H
Corresponding to: 24 August 2020



HSBC SUKUK FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Interim condensed statement of financial position (Unaudited)
As at 30 June 2020
(Amounts in US Dollar)

	<i>Note</i>	<i>As at 30 June 2020 (Unaudited)</i>	<i>As at 31 December 2019 (Audited)</i>
ASSETS			
Cash at bank	<i>10</i>	38,374	333,378
Investments at fair value through profit or loss (FVTPL)	<i>11</i>	3,272,569	3,110,040
Investments at fair value through other comprehensive income (FVOCI)	<i>12</i>	55,818,923	54,526,551
Receivables and advances		41,601	48,291
TOTAL ASSETS		59,171,467	58,018,260
LIABILITIES			
Dividend payable		291,598	414,124
Accrued expenses	<i>13</i>	82,168	11,600
TOTAL LIABILITIES		373,766	425,724
NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS		58,797,701	57,592,536
Units in issue (numbers)		6,138,910	5,719,939
Net asset value (equity) per unit – IFRS	<i>17</i>	9.58	10.07
Net asset value (equity) per unit - Dealing	<i>17</i>	9.58	10.07

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

HSBC SUKUK FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Interim condensed statement of comprehensive income (Unaudited)
For the six-months period ended 30 June 2020
(Amounts in US Dollar)

	<i>Note</i>	<i>For the six-months period ended 30 June</i>	
		<u>2020</u>	<u>2019</u>
INVESTMENT INCOME			
Special commission income from investments at FVOCI		1,165,620	1,071,023
Net gain / (loss) on investments at FVTPL		27,530	50,182
Realized gain on sale and maturity of investment at FVOCI		72,158	85,825
Special commission income from investments measured at amortised cost		--	21,381
TOTAL INVESTMENT INCOME		1,265,308	1,228,411
EXPENSES			
Management fees	<i>14</i>	307,401	263,426
Provision for expected credit losses		122,370	54,511
Exchange losses, net		633	797
TOTAL EXPENSES		430,404	318,734
NET INCOME FOR THE PERIOD		834,904	909,677
OTHER COMPREHENSIVE (LOSS) / INCOME			
Net unrealized (loss) /gain on investments at FVOCI – debt instruments		(2,920,289)	1,696,456
Transfer of fair value reserves on investment at FVOCI to income statement – debt instruments		(12,933)	(85,825)
Movement in fair value / allowance for expected credit losses on investments at FVOCI – debt instruments		122,370	54,511
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE PERIOD		(1,975,948)	2,574,819

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

HSBC SUKUK FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia

Interim condensed statement of changes in net assets (equity) attributable to the unitholders (Unaudited)
For the six-months period ended 30 June 2020
(Amounts in US Dollar)

	<i>For the six-months period ended 30 June</i>	
	<u>2020</u>	<u>2019</u>
Net assets (equity) attributable to the unitholders as at the beginning of the period (restated)	57,592,536	50,784,038
Net income for the period	834,904	909,677
Net unrealized (loss) / gain on investments at FVOCI – debt instruments	(2,920,289)	1,696,456
Transfer of fair value reserves on investment at FVOCI to income statement – debt instruments	(442,582)	(85,825)
Movement in fair value / allowance for expected credit losses on investments at FVOCI – debt instruments	122,370	54,511
Dividend distributions during the period (Note 19)	(629,238)	(800,039)
Contributions and redemptions by the Unitholders:		
Proceeds from issuance of units	4,240,000	5,000,000
Payments for redemption of units	--	(153,340)
Net change from unit transactions	4,240,000	4,846,660
Net assets (equity) attributable to the unitholders as at 30 June	58,797,701	57,405,478

UNIT TRANSACTIONS

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

	<i>For the six-months period ended 30 June</i>	
	<u>2020</u>	<u>2019</u>
	<i>(In numbers)</i>	
Units at the beginning of the period	5,719,939	5,289,055
Units issued during the period	418,971	501,053
Units redeemed during the period	--	(15,700)
Net increase in units	418,971	485,353
Units as at end of the period	6,138,910	5,774,408

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HSBC SUKUK FUND
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Interim statement of cash flows (Unaudited)
For the six-months period ended 30 June 2020
(Amounts in US Dollar)

	<i>For the six-months period ended</i>	
	<i>30 June</i>	
	<u>2020</u>	<u>2019</u>
Cash flow from operating activities		
Net income for the period	834,904	909,677
<i>Adjustment for:</i>		
Unrealised gain on investments at FVTPL	(27,530)	(42,809)
Net changes in operating assets and liabilities		
(Increase) / decrease in investments at FVTPL	(135,000)	13,366
Increase in investments at FVOCI	(4,429,291)	(9,703,719)
Decrease in investments measured at amortised cost	--	2,740,167
Increase in receivables and advances	(96,891)	(2,008,213)
Increase in accrued expenses	70,568	7,543,044
Net cash used in operating activities	(3,783,240)	(634,312)
Cash flow from financing activities		
Proceeds from issuance of units	4,240,000	5,000,000
Payments for redemption of units	--	(153,340)
Dividends paid	(751,764)	(752,206)
Net cash generated from financing activities	3,488,236	4,094,454
(Decrease) / increase in cash and cash equivalents	(295,004)	3,460,142
Cash and cash equivalents at the beginning of the period	333,378	2,396,907
Cash and cash equivalents as at the end of the period	38,374	5,857,049
<u>Supplemental cash flow information</u>		
Special commission income received	1,068,729	1,092,776

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HSBC SUKUK FUND
(An open-ended mutual fund)
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Notes to the interim condensed financial statements (Unaudited)
For the six-months period ended 30 June 2020
(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”).

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 2019.

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.

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(Amounts in US Dollar)

6 BASIS OF MEASUREMENT (CONTINUED)

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 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 judgments, 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 judgments, 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 judgment is as follows:

Allowance for expected credit losses

The Fund recognizes loss allowances for expected credit loss (ECL) on its 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 2019. A number of standards are effective from 1 January 2020 but they do not have a material impact on these interim condensed financial statements.

9 STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Fund has not early adopted any of the forthcoming new or amended standards in preparing these interim financial statements.

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10 CASH AT BANK

Cash at bank comprise of balances with banks which have investment grade credit ratings, as rated by the international rating agencies.

11 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	<u>30 June 2020</u> <i>(Unaudited)</i>		<u>31 December 2019</u> <i>(Audited)</i>	
	Cost	Market value	Cost	Market value
Mutual Fund				
HSBC Saudi Riyal Murabaha Fund (ART)	3,028,887	3,136,888	3,028,887	3,110,040
HSBC US Dollar Murabaha Fund (AUT)	135,000	135,681	--	--
Total	3,163,887	3,272,569	3,028,887	3,110,040

Following is the breakdown of gain on investments at fair value through profit or loss:

	<u>30 June 2020</u> <i>(Unaudited)</i>	<u>30 June 2019</u> <i>(Unaudited)</i>
Realized gain for the period	--	7,373
Unrealized gain for the period	27,530	42,809
Total	27,530	50,182

12 INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>30 June 2020</u> <i>(Unaudited)</i>	<u>31 December 2019</u> <i>(Audited)</i>
Debt securities – Sukuks	55,190,518	54,001,726
Accrued special commission income	628,405	524,825
Total	55,818,923	54,526,551

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

Face Value	Counterparty	Maturity	Current Rate	30 June 2020 (Unaudited)		31 December 2019 (Audited)	
				Cost	Market Value	Cost	Market Value
4,900,000	Riyad Bank	25-Feb-30	3.1740	4,858,000	4,930,625	-	-
3,000,000	Almarai Sukuk Ltd	5-Mar-24	4.3110	3,000,000	3,184,335	3,000,000	3,146,310
3,000,000	Boubyan Sukuk Ltd	18-Feb-25	6.2500	3,000,000	3,053,805	-	-
2,800,000	Esic Sukuk Ltd	30-Jul-24	3.9390	2,817,920	2,758,420	2,817,920	2,795,226
2,800,000	Arabian Centres Sukuk Ltd	26-Nov-24	5.3750	2,816,500	2,478,000	2,816,500	2,891,000
2,800,000	SD International Sukuk II Ltd	12-Mar-25	6.9965	2,800,000	2,236,500	2,800,000	2,814,000
2,666,667	Bank AlBilad FRN	30-Aug-26	3.0971	2,666,224	2,666,935	2,666,224	2,666,935
2,650,000	Aldar Sukuk No 2 Ltd	22-Oct-29	3.8750	2,661,773	2,716,369	2,661,773	2,710,274
2,600,000	Warba Sukuk Ltd	24-Sep-24	2.9820	2,600,000	2,652,741	2,600,000	2,621,762
2,100,000	ICD Sukuk Co Ltd	1-Feb-27	5.0000	2,160,375	2,197,986	2,160,375	2,235,986
2,000,000	DIB Tier 1 Sukuk 3 Ltd	Perpetual	6.2500	2,156,000	2,057,500	-	-
2,000,000	MAF Sukuk Ltd	14-May-29	4.6380	2,034,813	2,087,500	2,034,812	2,157,590
2,000,000	NMC Healthcare Sukuk Ltd	21-Nov-23	5.9500	2,022,720	225,410	2,528,400	2,375,900
1,910,000	Dar Al Arkan Sukuk Co Ltd	10-Apr-22	6.8750	1,864,703	1,878,963	1,864,703	1,952,975
1,600,000	Arab National Bank FRN	7-Oct-25	2.6143	1,586,337	1,598,130	1,586,337	1,594,691
1,500,000	Sharjah Sukuk	14-Mar-28	4.2260	1,554,375	1,622,760	1,554,375	1,625,107
1,535,000	Saudi Electricity	3-Apr-22	4.2110	1,549,777	1,607,652	2,559,404	2,645,982
1,400,000	Emaar Sukuk Ltd	17-Sep-29	3.8750	1,408,400	1,300,880	-	-
1,400,000	EMG Sukuk Ltd	18-Jun-24	4.5640	1,399,650	1,419,250	1,999,500	2,101,250
1,250,000	DP World Crescent	26-Sep-28	4.8480	1,328,125	1,318,638	1,593,750	1,646,513
1,250,000	DP World Crescent Ltd	18-Jul-29	3.8750	1,243,546	1,233,931	1,492,255	1,543,178

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(Amounts in US Dollar)

12 INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

<i>Face Value</i>	<i>Counterparty</i>	<i>Maturity</i>	<i>Current</i>		30 June 2020 (Unaudited)		31 December 2019 (Audited)	
			<i>Rate</i>	<i>Cost</i>	<i>Market Value</i>	<i>Cost</i>	<i>Market Value</i>	
1,100,000	Sharjah Sukuk Program Ltd	3-Apr-26	3.8540	1,137,250	1,163,091	200,000	211,109	
1,100,000	MAF Sukuk Ltd	28-Feb-30	3.9325	1,100,000	1,082,125	1,100,000	1,122,511	
1,000,000	Perusahaan Penerbit	29-Mar-26	4.5500	1,067,500	1,107,500	-	-	
1,000,000	Dar Al Arkan Sukuk Co Ltd	21-Mar-23	6.8750	1,040,000	949,215	-	-	
1,000,000	Perusahaan Penerbit Indonesia	20-Feb-29	4.4500	1,000,000	1,123,750	1,000,000	1,098,750	
1,000,000	Saudi Telecom Company	13-May-29	3.8900	1,000,000	1,109,376	1,000,000	1,070,000	
1,000,000	DIB Sukuk Ltd	16-Jan-26	2.9500	999,880	1,009,355	-	-	
1,000,000	Emaar Sukuk Ltd	15-Sep-26	3.6350	981,000	949,110	1,962,000	1,999,660	
700,000	KSA Sukuk Ltd	20-Apr-27	3.6280	727,125	765,755	-	-	
700,000	SIB Sukuk Co III Ltd	23-Jun-25	2.8500	700,000	704,914	-	-	
1,333,333	Najran Cement Company*	11-Jun-20	4.3857	-	-	1,333,298	1,333,333	
800,000	Savola Group Company*	22-Jan-20	3.7829	-	-	752,169	799,234	
580,000	AHB Sukuk Co. Ltd	19-Sep-23	4.3750	-	-	580,000	613,938	
1,200,000	Dubai Islamic Bank Tier 1 Sukuk Ltd	Perpetual	6.7500	-	-	1,224,000	1,233,000	
2,250,000	DIFC Sukuk	12-Nov-24	4.3250	-	-	2,257,313	2,367,517	
1,860,000	DIB Sukuk Ltd	14-Feb-22	3.6640	-	-	1,891,155	1,891,332	
700,000	Noor Sukuk Co. Ltd	24-Apr-23	4.4710	-	-	707,000	736,663	
Total				57,281,992	55,190,518	52,743,263	54,001,726	

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 sukuku is summarized as follows:

	<i>For the six-month period ended 30 June</i>	
	<u>2020</u>	<u>2019</u>
Balance at the beginning of the year	191,445	279,812
ECL of financial assets sold / matured during the period / year	(12,933)	(243,080)
Charge for the period / year	122,370	154,713
Balance at the end of the period / year	300,882	191,445

As at 30 June 2020, an allowance for expected credit loss has been recorded amounting to USD 300,882 (31 December 2019: USD 191,445). The above allowance for expected credit loss is not recognized in the interim condensed statement of financial position because the carrying amount of investments at FVOCI is their fair value.

13 ACCRUED EXPENSES

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

14 TRANSACTIONS WITH RELATED PARTIES

Related parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties of the Fund comprise 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).

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14 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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 (2019: 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.

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 2020	30 June 2019	30 June 2020 (Unaudited)	31 December 2019 (Audited)
HSBC Saudi Arabia (Fund Manager)	Fund management fee	307,401	263,426	82,168	9,185
SABB	Cash at bank	--	--	1,624	2,716

Board member compensation and other expenses during the year has been borne and paid by HSBC Saudi Arabia ("the Fund Manager"). Further, the Fund has invested in the units of HSBC Saudi Riyal Murabaha Fund which is managed by the Fund Manager (refer note 11).

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.

Following mutual funds managed by the Fund Manager had transactions in units of the Fund:

Fund name	Period	Amount /		Closing balance	
		Units	Issuance		Redemption
	2020	Amounts	1,575,000	--	10,142,666
HSBC Multi-Assets Defensive Fund		Units	155,616	--	1,055,826
	2019	Amounts	1,000,000	--	9,063,835
		Units	100,210	--	900,210
	2020	Amounts	2,665,000	--	18,223,303
HSBC Multi-Assets Balanced Fund		Units	263,355	--	1,897,000
	2019	Amounts	3,000,000	--	16,448,473
		Units	300,631	--	1,633,645
	2020	Amounts	--	--	2,767,629
HSBC Multi-Assets Growth Fund		Units	--	--	288,103
	2019	Amounts	1,000,000	--	2,900,788
		Units	100,210	--	288,103

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(Amounts in US Dollar)

15 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

When available, the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. The Fund measures instruments quoted in an active market at a market price, because this price reasonable approximation of the exit price.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The Fund recognizes transfer between levels of fair value at the end of the reporting period during which the change has occurred.

The fair value hierarchy has the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

	30 June 2020 (Unaudited)				
	Carrying Value	Level 1	Level 2	Level 3	Total
Investments at FVTPL	3,272,569	3,272,569	--	--	3,272,569
Investment at FVOCI	55,818,923	--	--	55,818,923	55,818,923
Total	<u>59,091,492</u>	<u>3,272,569</u>	<u>--</u>	<u>55,818,923</u>	<u>59,091,492</u>
	31 December 2019 (Audited)				
	Carrying Value	Level 1	Level 2	Level 3	Total
Investments at FVTPL	3,110,040	3,110,040	--	--	3,110,040
Investment at FVOCI	54,526,551	--	--	54,526,551	54,526,551
Total	<u>57,636,591</u>	<u>3,110,040</u>	<u>--</u>	<u>54,526,551</u>	<u>57,636,591</u>

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

Level 3 investments measured at FVOCI (sukuks) have been valued based on management's assessment of risks associated with the instrument's underlying assets, the Terms and Conditions of the investment and the expected market prevailing economics.

Other financial instruments such as cash at bank, receivables and advances, 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.

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16 FINANCIAL RISK MANAGEMENT

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

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

Risk management framework

The risk management framework and policies of the Fund are consistent with those used and disclosed in the annual financial statements of the Fund for the year ended 31 December 2019.

Credit risk

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

The Fund is exposed to credit risk for its cash at bank, investments measured at FVTPL, investments at FVOCI and receivables and advances. The Fund Manager seeks to limit its credit risk by monitoring credit exposures and by dealing with only reputable counterparties.

Liquidity risk

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

The Fund's Terms and Conditions provide for the subscriptions and redemptions of units on Dealing Day and it is, therefore, exposed to the liquidity risk of meeting unitholders redemptions at any time. However, the Fund is allowed to borrow in order to satisfy redemptions. Substantially all of the Fund's cash at bank, investments measured at FVTPL, investments at FVOCI and receivables and advances are either short-term or considered to be readily realisable. The Fund Manager monitors liquidity requirements on a regular basis and seeks to ensure that funds are available to meet commitments as they arise.

Market risk

Market risk is the risk that changes in market prices – such as commission 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 Funds' 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 regular basis by the Fund Manager.

17 LAST VALUATION DAY

The last valuation day of the period was 30 June 2020 (2019: 31 December 2019) and the dealing net assets value on this day was USD 9.58 per unit (31 December 2019: USD 10.07). The IFRS net assets value per unit on 30 June 2020 was USD 9.58 (31 December 2019: USD 10.07).

18 IMPACT OF COVID 19 OUTBREAK

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 implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

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18 IMPACT OF COVID 19 OUTBREAK (CONTINUED)

Oil prices witnessed significant volatility during the first half of 2020, owing not just to demand issues arising from COVID-19 as the world economies went into lockdown, but also supply issues driven by volume which had predated the pandemic. The oil prices have shown some recovery in late Q2 2020 as oil producing countries cut back production coupled with increasing of demand as countries emerged from lockdowns.

These events have significantly impacted the economy and created volatility in value of investment which impacted the Fund's earnings and cash flows. The Fund Manager continues to evaluate the current situation through reviewing its investment strategy and other risk management practices to manage the impact COVID-19 outbreak has had on its normal operations and financial performance.

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>For the six-month period ended 30 June</i>	
	<u>2020</u>	<u>2019</u>
1 st Interim dividend at the rate of 0.055 USD per unit (2019: 0.07 USD per unit)	337,640	381,972
2 nd Interim dividend at the rate of 0.0475 USD per unit (2019: 0.07 USD per unit)	291,598	418,067
Total	<u>629,238</u>	<u>800,039</u>

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.

21 APPROVAL OF INTERIM CONDENSED FINANCIAL STATEMENTS

These interim condensed financial statements were approved by the Fund Board on 4 Muharram 1442H (corresponding to 23 August 2020).