

HSBC Sukuk 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 SUKUK FUND (MANAGED BY HSBC SAUDI ARABIA)

Introduction

We have reviewed the accompanying interim condensed statement of financial position of HSBC Sukuk 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 Sukuk Fund

Interim condensed statement of financial position

As at 30 June 2021

	<i>Notes</i>	30 June 2021 (Unaudited) USD	31 December 2020 (Audited) USD
ASSETS			
Bank balance		2,280,565	331,080
Financial assets at fair value through profit or loss (“FVTPL”)	4	3,173,598	3,187,751
Financial assets at fair value through other comprehensive income (“FVOCI”)	5	55,924,683	58,180,520
Receivables and advances		41,601	41,601
TOTAL ASSETS		61,420,447	61,740,952
LIABILITIES			
Dividends payable		365,516	337,705
Management fees payable		53,670	16,478
Securities purchased payable		1,200,000	-
Other accrued expenses		10,660	-
TOTAL LIABILITIES		1,629,846	354,183
EQUITY			
Equity attributable to unitholders of redeemable units		59,790,601	61,386,769
TOTAL LIABILITIES AND EQUITY		61,420,447	61,740,952
Redeemable units in issue		6,091,925	6,140,085
Equity value per unit – Dealing		9.81	10.00
Equity value per unit – IFRS		9.81	10.00

The accompanying notes 1 to 11 form an integral part of these interim condensed financial statements.

HSBC Sukuk Fund

Interim condensed statement of comprehensive income (unaudited)

For the six-month period ended 30 June 2021

	Notes	2021 USD	2020 USD
INCOME			
Net unrealized gain on financial assets at FVTPL		5,092	1,165,620
Net realized gain on financial assets at FVTPL		747	27,530
Realized gain on disposal of and maturity of financial assets at FVOCI		36,662	72,158
Net exchange loss		(27)	(633)
TOTAL INCOME		42,474	1,264,675
EXPENSES			
Management fees	6	320,034	307,401
Impairment charge for expected credit losses	5	121,687	122,370
Other expenses		9,531	-
TOTAL EXPENSES		451,252	429,771
NET (EXPENSE) / INCOME FOR THE PERIOD		(408,778)	834,904
other comprehensive income:			
Net unrealized loss on investments at FVOCI – debt instruments		(94,550)	(2,920,289)
Transfer of fair value reserves on investment at FVOCI to income statement – debt instruments		-	(12,933)
Movement in fair value / allowance for expected credit losses on investments at FVOCI – debt instruments		121,687	122,370
OTHER COMPREHENSIVE INCOME		27,137	(2,810,852)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(381,641)	(1,975,948)

The accompanying notes 1 to 11 form an integral part of these interim condensed financial statements.

HSBC Sukuk Fund

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

For the six-month period ended 30 June 2021

	<i>2021</i> <i>USD</i>	<i>2020</i> <i>USD</i>
EQUITY AT THE BEGINNING OF THE PERIOD	61,386,769	57,592,536
Net (loss) / income for the period	(408,778)	834,904
Other comprehensive income	27,137	(2,810,852)
Total comprehensive loss for the period	(381,641)	(1,975,948)
Dividend distributions during the period	(731,261)	(629,238)
	(1,112,902)	(2,605,186)
ISSUANCE AND REDEMPTION OF UNITS		
Issue of units during the period	-	4,240,000
Redemption of units during the period	(483,266)	-
EQUITY AT THE END OF THE PERIOD	59,790,601	59,227,350
	<i>Units</i>	<i>Units</i>
REDEEMABLE UNIT TRANSACTIONS		
Transactions in redeemable units during the period are summarised as follows:		
UNITS AT THE BEGINNING OF THE PERIOD	6,140,085	5,719,939
Issue of units during the period	-	418,971
Redemption of units during the period	(48,160)	-
Net decrease in units	(48,160)	418,971
UNITS AT THE END OF THE PERIOD	6,091,925	6,138,910

The accompanying notes 1 to 11 form an integral part of these interim condensed financial statements.

HSBC Sukuk Fund

Notes to unaudited interim condensed financial statements

At 30 June 2021

	2021 USD	2020 USD
Operating activities		
Net income for the period	(408,778)	834,904
<i>Adjustments to reconcile net income(loss) to net cash flows from operating activities:</i>		
Movement in unrealised loss (gain) on financial assets at FVTPL	(5,092)	(27,530)
Impairment charge for expected credit losses	121,687	122,370
	<u>(292,183)</u>	<u>929,744</u>
<i>Working capital adjustments:</i>		
Decrease / (increase) in financial assets at FVTPL	19,245	(135,000)
Decrease / (increase) in investments at FVOCI	2,161,287	(4,551,661)
(Increase) in receivables and advances	-	(96,891)
Increase in management fee payable	37,192	70,568
Increase in securities purchased payable	1,200,000	-
Increase in other accrued expenses	10,660	-
Increase in dividend payable	27,811	-
	<u>3,164,012</u>	<u>(3,783,240)</u>
Net cash flows from / (used in) operating activities		
Financing activities		
Proceeds from issuance of units	-	4,240,000
Payment on redemption of units	(483,266)	-
Dividends paid	(731,261)	(751,764)
	<u>(1,214,527)</u>	<u>3,488,236</u>
Net cash flows (used in) / from financing activities		
Net increase / (decrease) in bank balance	1,949,485	(295,004)
Bank balance at the beginning of the period	<u>331,080</u>	<u>333,378</u>
Bank balance at the end of the period	<u>2,280,565</u>	<u>38,374</u>
<u>Significant non-cash transactions:</u>		
Net unrealized loss on investments at FVOCI – debt instruments	<u>(94,550)</u>	<u>(2,920,289)</u>
<u>Supplemental cash flow information:</u>		
Special commission income received	<u>1,183,075</u>	<u>1,068,729</u>

HSBC Sukuk Fund

Notes to unaudited interim condensed financial statements

At 30 June 2021

1. INCORPORATION AND ACTIVITIES

HSBC Sukuk Fund (the “Fund”) is an investment fund created through an agreement between HSBC Saudi Arabia (the “Fund Manager”) and investors (the “Unitholders”) in the Fund. 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 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. Al Bilad 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.

The Fund’s performance shall be measured against the performance of legitimate Saudi Standard & Poor’s Ratings. 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 financial assets held at FVTPL that are measured at fair value. These unaudited interim condensed financial statements are presented in US Dollars (“USD”), which is the Fund’s functional currency. All financial information presented has been rounded to the nearest USD.

HSBC Sukuk 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

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.

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

The composition of the investment's portfolio on the last valuation day of the period/year end is summarised below:

	30 June 2021 (Unaudited)			
	<i>% of Market Value</i>	<i>Cost USD</i>	<i>Market value USD</i>	<i>Unrealised gain/ (loss) USD</i>
<u>Mutual Fund</u>				
HSBC Saudi Riyal Murabaha Fund	<u>100%</u>	<u>3,048,247</u>	<u>3,173,598</u>	<u>125,351</u>

The above equity investments are listed on the Saudi Stock Exchange ("Tadawul"). The Fund Manager seeks to limit risk for the Fund by monitoring exposures in each investment sector and individual securities.

	31 December 2020 (Audited)			
	<i>% of Market Value</i>	<i>Cost USD</i>	<i>Market value USD</i>	<i>Unrealised gain/ (loss) USD</i>
<u>Mutual Fund</u>				
HSBC Saudi Riyal Murabaha Fund	<u>100%</u>	<u>3,067,491</u>	<u>3,187,751</u>	<u>120,260</u>

HSBC Sukuk Fund

Notes to unaudited interim condensed financial statements (continued)

At 30 June 2021

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

	30 June 2021 (Unaudited) USD	31 December 2020 (Audited) USD
Debt securities – Sukuks	55,371,022	57,558,021
Accrued special commission income	553,661	622,499
	<u>55,924,683</u>	<u>58,180,520</u>

Below table shows the movement in the allowance for expected credit loss:

	30 June 2021 (Unaudited) USD	30 June 2020 (Audited) USD
Balance at the beginning of the year	158,728	191,445
ECL of financial assets sold / matured during the year	-	(12,933)
Charge for the year	121,687	122,370
	<u>280,415</u>	<u>300,882</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.

6. TRANSACTIONS WITH RELATED PARTIES

A. Transactions and balances with Fund Manager

In the ordinary course of its activities, the Fund transacts business with related parties. The following are the details of major related party transactions during the period:

Related party	Nature of transactions	Amount of transactions		Balance	
		2021 USD	2020 USD	2021 USD	2020 USD
HSBC Saudi Arabia (Fund Manager)	Fund management fee	320,034	307,401	53,670	16,478
	Administration fee	1,889	-	296	-
	Board member fee	231	-	231	-
Saudi British Bank (Parent of Fund Manager)	Cash at bank			4,416	-
	Investment in Sukuk	-	-	3,200,000	-

The Fund pays the Fund Manager a management fee calculated at an annual rate of 0.75% per annum calculated on the net asset value at each Valuation Day. The fee is intended to compensate the Fund Manager for administration of the Fund.

The units in issue at 30 June 2021 include 1,333,155.58 units held by the Fund Manager (31 December 2020: Nil units).

B. Transactions with Board of Directors

The independent directors are entitled to remuneration for their services at rates determined by the Fund's terms and conditions in respect of attending meetings of the board of directors or meetings of the Fund. Independent director's fees are currently USD 5,000 per meeting up to a maximum of 2 meetings per annum per director which is paid equally by all funds supervised by the board.

HSBC Sukuk Fund

Notes to unaudited interim condensed financial statements (continued)

At 30 June 2021

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fund has investments at fair value through profit or loss and at fair value through other comprehensive income which is measured at fair values and are classified within level 1 or level 3 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.

8. 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>Within 12 months USD</i>	<i>After 12 months USD</i>	<i>Total USD</i>
ASSETS			
Bank balance	2,280,565	-	2,280,565
Financial assets at FVTPL	3,173,598	-	3,173,598
Financial assets at FVOCI	51,823,685	4,100,998	55,924,683
Receivables and advances	41,601	-	41,601
TOTAL ASSETS	57,319,449	4,100,998	61,420,447
LIABILITIES			
Management fee payable	53,670	-	53,670
Dividend payable	365,516	-	365,516
Securities purchased payable	1,200,000	-	1,200,000
Other accrued expenses	10,660	-	10,660
TOTAL LIABILITIES	1,629,846	-	1,629,846
<i>As at 31 December 2020 (Audited)</i>	<i>Within 12 months USD</i>	<i>After 12 months USD</i>	<i>Total USD</i>
ASSETS			
Bank balance	331,080	-	331,080
Financial assets at FVTPL	3,187,751	-	3,187,751
Financial assets at FVOCI	55,184,710	2,995,810	58,180,520
Receivables and advances	41,601	-	41,601
TOTAL ASSETS	58,745,142	2,995,810	61,740,952
LIABILITIES			
Dividend payable	337,705	-	337,705
Accrued expenses and other payables	16,478	-	16,478
TOTAL LIABILITIES	354,183	-	354,183

9. LAST VALUATION DAY

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

At 30 June 2021

10. IMPACT OF COVID-19 ON THE 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.

11. 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).