

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 2022



Ernst & Young Professional Services (Professional LLC)
Paid-up capital (SR 5,500,000 -Five million five hundred thousand Saudi Riyal)
Head Office
Al Faisaliah Office Tower, 14th Floor
King Fahad Road
P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

C.R. No. 1010383821

Tel: +966 11 215 9898
+966 11 273 4740
Fax: +966 11 273 4730

ey.ksa@sa.ey.com
ey.com/mena

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 2022, 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 2022, 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.

Basis for Qualified conclusion:

The financial information presented in the interim condensed financial statements are as at 28 June 2022. Management is unable to quantify the impact of not reporting the financial information as at 30 June 2022 and consequently the effects on the interim financial statements of the failure to report the financial information as at 30 June 2022 have not been determined.

Qualified Conclusion

Based on our review, because of the possible significance of the matter discussed in the Basis of Qualified Conclusion section of our review report, we are unable to conclude that the accompanying interim condensed financial statements are prepared, in all material respects, in accordance with IAS 34 that are endorsed in the Kingdom of Saudi Arabia.

For Ernst & Young professional services

Fahad M. Al-Toaimi
Certified Public Accountant
License No. 354

Riyadh: 19 Muharram 1444H
(17 August 2022)



HSBC Sukuk Fund

Interim condensed statement of financial position

As at 30 June 2022

	<i>Notes</i>	30 June 2022 (Unaudited) USD	31 December 2021 (Audited) USD
ASSETS			
Bank balance		3,096,527	234,766
Financial assets at fair value through profit or loss (“FVTPL”)	4	3,200,095	3,317,372
Financial assets at fair value through other comprehensive income (“FVOCI”)	5	51,676,799	55,431,689
Receivables and advances		-	221
TOTAL ASSETS		57,973,421	58,984,048
LIABILITIES			
Securities purchased payable		2,237,300	-
Dividends payable		426,435	365,724
Management fees payable		43,354	13,059
Other accrued expenses		28,683	20,176
TOTAL LIABILITIES		2,735,772	398,959
EQUITY			
Equity attributable to unitholders of redeemable units		55,237,649	58,585,089
TOTAL LIABILITIES AND EQUITY		57,973,421	58,984,048
Redeemable units in issue		6,091,925	6,095,402
Equity value per unit – Dealing		9.07	9.61
Equity value per unit – IFRS		9.07	9.61

The accompanying notes 1 to 10 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 2022

	<i>Notes</i>	2022 <i>USD</i>	2021 <i>USD</i>
INCOME			
Net unrealized gain on financial assets at FVTPL		10,579	5,092
Net realized gain on financial assets at FVTPL		5,367	747
Special commission income from investments at FVOCI		925,031	1,114,237
Realized gain (loss) on disposal of and maturity of financial assets at FVOCI		35,821	(1,077,575)
Net exchange loss		(46)	(27)
TOTAL INCOME		976,752	42,474
EXPENSES			
Management fees	6	226,870	320,034
Impairment charge for expected credit losses	5	85,156	121,687
Other expenses		35,415	9,531
TOTAL EXPENSES		347,441	451,252
NET INCOME / (LOSS) FOR THE PERIOD		629,311	(408,778)
Other comprehensive income:			
Unrealized (loss) gain on investments at FVOCI – debt instruments		(3,181,331)	983,025
Realized gain (loss) on disposal of investments at FVOCI – debt instruments		35,821	(1,077,575)
Movement in fair value / allowance for expected credit losses on investments at FVOCI – debt instruments		85,156	121,687
OTHER COMPREHENSIVE (LOSS) INCOME		(3,060,354)	27,137
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(2,431,043)	(381,641)

The accompanying notes 1 to 10 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 2022

	2022 <i>USD</i>	2021 <i>USD</i>
EQUITY AT THE BEGINNING OF THE PERIOD	58,585,089	61,386,769
Net income / (loss) for the period	629,311	(408,778)
Other comprehensive (loss) income	(3,060,354)	27,137
Total comprehensive loss for the period	(2,431,043)	(381,641)
Dividend distributions during the period	(883,329)	(731,261)
	(3,314,372)	(1,112,902)
ISSUANCE AND REDEMPTION OF UNITS		
Redemption of units during the period	(33,068)	(483,266)
EQUITY AT THE END OF THE PERIOD	55,237,649	59,790,601

	<i>Units</i>	<i>Units</i>
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REDEEMABLE UNIT TRANSACTIONS

Transactions in redeemable units during the period are summarised as follows:

UNITS AT THE BEGINNING OF THE PERIOD	6,095,402	6,140,085
Issue of units during the period	-	-
Redemption of units during the period	(3,477)	(48,160)
Net decrease in units	(3,477)	(48,160)
UNITS AT THE END OF THE PERIOD	6,091,925	6,091,925

The accompanying notes 1 to 10 form an integral part of these interim condensed financial statements.

HSBC Sukuk Fund

Interim condensed statement of cash flows (unaudited)

At 30 June 2022

	2022 USD	2021 USD
Operating activities		
Net income (loss) for the period	629,311	(408,778)
<i>Adjustments to reconcile net income(loss) to net cash flows from operating activities:</i>		
Movement in unrealised (gain) on financial assets at FVTPL	(10,579)	(5,092)
Impairment charge for expected credit losses	85,156	121,687
	<u>703,888</u>	<u>(292,183)</u>
<i>Working capital adjustments:</i>		
Financial assets at FVTPL	127,856	19,244
Investments at FVOCI	609,380	2,161,287
Receivables and advances	221	-
Management fee payable	30,294	37,192
Securities purchased payable	2,237,300	1,200,000
Accrued expenses	8,505	10,661
Dividend payable	60,711	27,811
	<u>3,778,155</u>	<u>3,164,012</u>
Net cash flows from operating activities		
Financing activities		
Payment on redemption of units	(33,068)	(483,266)
Dividends paid	(883,326)	(731,261)
	<u>(916,394)</u>	<u>(1,214,527)</u>
Net cash flows used in financing activities		
Net increase in bank balance	2,861,761	1,949,485
Bank balance at the beginning of the period	234,766	331,080
Bank balance at the end of the period	3,096,527	2,280,565
<u>Significant non-cash transactions:</u>		
Net unrealized loss on investments at FVOCI – debt instruments	(3,145,510)	(94,550)
<u>Supplemental cash flow information:</u>		
Special commission income received	898,875	1,183,075

The accompanying notes 1 to 10 form an integral part of these interim condensed financial statements.

HSBC Sukuk Fund

Interim condensed statement of cash flows (unaudited)

At 30 June 2022

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 95% 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 Manager has made certain revisions to the Terms and Conditions of the Fund. The main changes were relating to applying the new IFR requirements related to the fund documentation. The Fund updated its terms and conditions which were approved by the CMA on 30 Rajab 1443H (corresponding to 3 March 2022).

The Fund Manager has announced that it agreed to transfer its asset management, retail brokerage and retail margin lending businesses to Alawwal Invest, a wholly owned subsidiary of the Saudi British Bank. Accordingly, the Fund Manager is in the process to obtain necessary approvals from CMA for transferring the management of the Fund to the new Fund Manager.

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 2022 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 2021.

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 2022

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

3.2 New standards, interpretations and amendments

The Fund has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Various amendments apply for the first time in 2022, but do not have an impact on the interim condensed financial statements of the Fund.

- Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions extension of the practical expedient (effective for annual periods beginning on or after 1 April 2021).
- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16 (effective for annual periods beginning on or after 1 January 2022):
- Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial
- Reporting without changing the accounting requirements for business combinations.
- Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in statement of income.
- Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a fund includes when assessing whether a contract will be loss-making.
- Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial Instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's interim condensed financial statements are disclosed below. The Fund intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- Amendments to IAS 1, 'Presentation of financial statements', on classification of liabilities (deferred until accounting periods starting not earlier than 1 January 2024).
- Narrow scope amendments to IAS 1, Practice Statement 2 and IAS 8 (annual periods beginning on or after 1 January 2023).
- Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction (annual periods beginning on or after 1 January 2023).
- IFRS 17, 'Insurance Contracts', as amended in June 2020 (annual periods beginning on or after 1 January 2023).
- A narrow-scope amendment to the transition requirements in IFRS 17 Insurance Contracts (annual periods beginning on or after 1 January 2023).

3 (a) SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The significant accounting judgements and estimates used in the preparation of the interim condensed financial statements are consistent with those used in the preparation of the Fund's annual financial statements for the year ended 31 December 2021.

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 2022 (Unaudited)			
	<i>% of Market Value</i>	<i>Cost USD</i>	<i>Market value USD</i>	<i>Unrealised gain/(loss) USD</i>
<i>Mutual Fund</i>				
HSBC Saudi Riyal Murabaha Fund	<u>100%</u>	<u>3,053,536</u>	<u>3,200,095</u>	<u>146,559</u>

HSBC Sukuk Fund

Notes to unaudited interim condensed financial statements (continued)

At 30 June 2022

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

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 2021 (Audited)			
	% of Market Value	Cost USD	Market value USD	Unrealised gain/ (loss) USD
<i>Mutual Fund</i>				
HSBC Saudi Riyal Murabaha Fund	100%	3,181,392	3,317,372	135,980

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

	30 June 2022 (Unaudited) USD	31 December 2021 (Audited) USD
Debt securities – Sukuks	51,189,006	54,970,052
Accrued special commission income	487,793	461,637
	<u>51,676,799</u>	<u>55,431,689</u>

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

	30 June 2022 (Unaudited) USD	30 June 2021 (Audited) USD
Balance at the beginning of the year	90,118	158,728
Charge for the year	85,156	121,687
Balance at the end of the year	<u>175,274</u>	<u>280,415</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:

HSBC Sukuk Fund

Notes to unaudited interim condensed financial statements (continued)

At 30 June 2022

6. TRANSACTIONS WITH RELATED PARTIES (continued)

Related party	Nature of transactions	Amount of transactions		Balance	
		2022 USD	2021 USD	2022 USD	2021 USD
HSBC Saudi Arabia (Fund Manager)	Fund management fee	226,870	320,034	43,354	13,058
	Administration fee	16,025	1,889	2,450	2,872
	Board member fee	2,065	231	2,055	2,365
Saudi British Bank	Cash at bank	-	-	142	36,064
	Investment in Sukuk	-	-	3,199,403	3,199,403

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 2022 include 1,333,155 units held by the Fund Manager (31 December 2021: 1,333,155 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.

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:

As at 30 June 2022 (Unaudited)	Within 12 months USD	After 12 months USD	Total USD
ASSETS			
Bank balance	3,096,527	-	3,096,527
Financial assets at FVTPL	3,200,095	-	3,200,095
Financial assets at FVOCI	1,027,265	50,649,534	51,676,799
TOTAL ASSETS	7,323,887	50,649,534	57,973,421
LIABILITIES			
Management fee payable	43,354	-	43,354
Dividend payable	426,435	-	426,435
Securities purchased payable	2,237,300	-	2,237,300
Other accrued expenses	28,683	-	28,683
TOTAL LIABILITIES	2,735,772	-	2,735,772

HSBC Sukuk Fund

Notes to unaudited interim condensed financial statements (continued)

At 30 June 2022

8. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

<i>As at 31 December 2021 (Audited)</i>	<i>Within 12 months USD</i>	<i>After 12 months USD</i>	<i>Total USD</i>
ASSETS			
Bank balance	234,766	-	234,766
Financial assets at FVTPL	3,317,372	-	3,317,372
Financial assets at FVOCI	3,532,899	51,898,790	55,431,689
Receivables and advances	221	-	221
TOTAL ASSETS	7,085,258	51,898,790	58,984,048
LIABILITIES			
Management fee payable	13,059	-	13,059
Dividend payable	365,724	-	365,724
Accrued expenses and other payables	20,176	-	20,176
TOTAL LIABILITIES	398,959	-	398,959

9. LAST VALUATION DAY

The last valuation day of the period/year was 28 June 2022 (year ended 31 December 2021: 30 December 2021).

10. APPROVAL OF THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

These unaudited interim condensed financial statements were approved by the Fund's management on 19 Muharram 1444 H (corresponding to 17 August 2022).