

**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 2020**  
**together with the**  
**Independent auditor's review report**

**HSBC US DOLLAR MURABAHA 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 US Dollar Murabaha Fund

## Introduction

We have reviewed the accompanying 30 June 2020 interim condensed financial statements of **HSBC US Dollar Murabaha 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 US Dollar Murabaha 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 US DOLLAR MURABAHA 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>
<b>ASSETS</b>			
Cash at bank	10	534,707	913,910
Investments measured at amortised cost	11	20,275,890	20,735,111
Investments at fair value through profit or loss (FVTPL)	12	898,232	890,473
Receivables and advances		64	1,229
<b>TOTAL ASSETS</b>		<b>21,708,893</b>	22,540,723
<b>LIABILITIES</b>			
Accrued expenses	13	1,315	1,362
<b>TOTAL LIABILITIES</b>		<b>1,315</b>	1,362
<b>NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS</b>			
		<b>21,707,578</b>	22,539,361
Units in issue (numbers)		<b>1,436,153</b>	1,501,777
Net asset value (equity) per unit – Dealing	17	<b>15.12</b>	15.01
Net asset value (equity) per unit – IFRS	17	<b>15.12</b>	15.01

The accompanying notes 1 to 20 form an integral part of these interim condensed financial statements.

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

		<i>For the six-month period ended 30 June</i>	
	<i>Note</i>	<u>2020</u>	<u>2019</u>
<b>INVESTMENT INCOME</b>			
Net unrealized gain on investments measured at FVTPL		7,759	12,413
Special commission income from investments measured at amortised cost		<b>181,073</b>	246,968
<b>TOTAL INVESTMENT INCOME</b>		<b>188,832</b>	259,381
<b>EXPENSES</b>			
Management fees	14	<b>39,121</b>	34,346
Reversal of allowance for expected credit losses		<b>(1,397)</b>	(331)
<b>TOTAL EXPENSES</b>		<b>37,724</b>	34,015
<b>NET INCOME FOR THE PERIOD</b>		<b>151,108</b>	225,336
Other comprehensive income for the period		--	--
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>151,108</b>	225,336

The accompanying notes 1 to 20 form an integral part of these interim condensed financial statements.

**HSBC US DOLLAR MURABAHA 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-month period ended 30 June 2020****(Amounts in US Dollar)**

	<i>For the six-month period ended 30 June</i>	
	<u>2020</u>	<u>2019</u>
<b>Net assets (equity) attributable to the unitholders as at the beginning of the period</b>	<b>22,539,361</b>	<b>18,414,280</b>
Net income for the period	<b>151,108</b>	225,336
<b>Contributions and redemptions by the unitholders:</b>		
Proceeds from issuance of units	<b>6,766,032</b>	836,442
Payments for redemption of units	<b>(7,748,923)</b>	(87,198)
<b>Net change from unit transactions</b>	<b>(982,891)</b>	749,244
<b>Net assets (equity) attributable to the unitholders as at 30 June</b>	<b>21,707,578</b>	<b>19,388,890</b>

**UNIT TRANSACTIONS**

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

	<i>For the six-month period ended 30 June</i>	
	<u>2020</u>	<u>2019</u>
	<i>-----Numbers-----</i>	
<b>Units at the beginning of the period</b>	<b>1,501,777</b>	1,253,817
Units issued during the period	<b>448,261</b>	56,548
Units redeemed during the period	<b>(513,885)</b>	(5,894)
<b>Net (decrease) / increase in units</b>	<b>(65,624)</b>	50,654
<b>Units as at end of the period</b>	<b>1,436,153</b>	<b>1,304,471</b>

The accompanying notes 1 to 20 form an integral part of these interim condensed financial statements.

**HSBC US DOLLAR MURABAHA FUND**  
**(An open-ended mutual fund)**  
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**Interim condensed statement of cash flows (Unaudited)**  
**For the six-month period ended 30 June 2020**  
(Amounts in US Dollar)

	<i>Note</i>	<i>For the six-month period ended 30 June</i>	
		<u>2020</u>	<u>2019</u>
<b>Cash flow from operating activities</b>			
Net income for the period		<b>151,108</b>	225,336
<i>Adjustment for:</i>			
Unrealized gain on investments at FVTPL		<b>(7,759)</b>	(12,413)
Reversal of allowance for credit loss		<b>(1,397)</b>	(331)
<b>Net changes in operating assets and liabilities</b>			
Increase in investments measured at amortised cost		<b>(1,539,382)</b>	(4,668,327)
Decrease in receivables and advances		<b>1,165</b>	5,521
Decrease in accrued expenses		<b>(47)</b>	(5,467)
<b>Net cash used in operating activities</b>		<b>(1,396,312)</b>	(4,455,651)
<b>Cash flow from financing activities</b>			
Proceeds from issuance of units		<b>6,766,032</b>	836,442
Payments for redemption of units		<b>(7,748,923)</b>	(87,198)
<b>Net cash generated (used in) / from financing activities</b>		<b>(982,891)</b>	749,244
Decrease in cash and cash equivalents		<b>(2,379,203)</b>	(3,706,407)
Cash and cash equivalent at the beginning of the period		<b>16,658,910</b>	17,031,317
<b>Cash and cash equivalent as at the end of the period</b>	<i>10</i>	<b>14,279,707</b>	13,324,910
<b><u>Operational cash flows from special commission income</u></b>			
Special commission income received		<b>151,691</b>	234,112

The accompanying notes 1 to 20 form an integral part of these interim condensed financial statements.

**HSBC US DOLLAR MURABAHA FUND**  
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**Notes to the interim condensed financial statements (Unaudited)**  
**For the six-month period ended 30 June 2020**  
(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”).

**3 SUBSCRIPTION/REDEMPTION (DEALING DAY AND VALUATION DAY)**

The Fund is open for subscriptions / redemptions of units on each business day (“Dealing Day”). 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.

These 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 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 its 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.

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(Amounts in US Dollar)

**6 BASIS OF MEASUREMENT (CONTINUED)**

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 judgement 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 for expected credit losses***

The Fund recognizes loss allowances for expected credit loss (ECL) on its Murabaha 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 12 months after the reporting date.

**8 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting and risk management policies used in the preparation of these interim condensed financial statements are consistent with those used and disclosed in the 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.

**10 CASH AND CASH EQUIVALENTS**

	<i>30 June 2020</i> <i>(Unaudited)</i>	<i>31 December</i> <i>2019 (Audited)</i>
Cash at bank	534,707	913,910
Placements with the banks (maturity less than 90 days)	13,745,000	15,745,000
Total	14,279,707	16,658,910

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

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**11 INVESTMENTS MEASURED AT AMORTISED COST**

	<u>30 June 2020</u> <i>(Unaudited)</i>	<u>31 December</u> <i>2019 (Audited)</i>
Murabaha placements with original maturity of less than 90 days	<b>13,745,000</b>	15,745,000
Murabaha placements – maturing between 90 and 360 days	<b>6,445,000</b>	4,935,000
	<b>20,190,000</b>	20,680,000
Accrued special commission income	<b>88,973</b>	59,591
Allowance for expected credit losses	<b>(3,083)</b>	(4,480)
<b>Total</b>	<b>20,275,890</b>	20,735,111

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 1.14% p.a. (31 December 2019: 2.13% 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:

	<u>30 June 2020</u> <i>(Unaudited)</i>	<u>31 December</u> <i>2019 (Audited)</i>
Balance at the beginning of the period / year	<b>4,480</b>	2,917
Net (reversal) / charge for the period / year	<b>(1,397)</b>	1,563
Balance at the end of the period / year	<b>3,083</b>	4,480

**12 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)**

Investments comprise the following exposure as at reporting date:

	<u>30 June</u> <u>2020 (Unaudited)</u>		<u>31 December</u> <u>2019 (Audited)</u>	
	Cost	Market value	Cost	Market value
<b>Mutual Fund</b>				
HSBC Saudi Riyal Murabaha Fund (ART)	<b>849,819</b>	<b>898,232</b>	849,819	890,473

**13 ACCRUED EXPENSES**

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

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**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 HSBC Saudi Arabia (being the Fund Manager, the Fund Board and administrator of the Fund), mutual funds managed by the Fund Manager 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 0.75% of Net assets value (2019: 0.75% 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 investment to the Fund are always net of subscription fees.

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-month 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	39,121	34,346	1,315	1,362
SABB	Cash at bank	--	--	7,199	7,141
	Murabaha placements	--	--	1,000,000	--
	Income on murabaha placements	98	--	--	--

HSBC Saudi Riyal Murabaha Fund managed by the Fund Manager has subscribed 204,667 units (31 December 2019: 204,667 units) of the Fund.

Board member compensation and other fees such as custodian fee and administration fee during the year has been borne and paid by HSBC Saudi Arabia (“the Fund Manager”).

No special commission is accrued against the cash balances in the respective bank accounts with the related parties.

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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (Unaudited)**  
**For the six-month period ended 30 June 2020**  
(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 is 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:

	<b>30 June 2020 (Unaudited)</b>				
	<b>Carrying value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investments at amortised cost	20,275,890	--	--	20,275,890	20,275,890
Investment at FVTPL	898,232	898,232	--	--	898,232
<b>Total</b>	<b>21,174,122</b>	<b>898,232</b>	<b>--</b>	<b>20,275,890</b>	<b>21,174,122</b>
	<b>31 December 2019 (Audited)</b>				
	<b>Carrying value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investments at amortised cost	20,735,111	--	--	20,735,111	20,735,111
Investment at FVTPL	890,473	890,473	--	--	890,473
<b>Total</b>	<b>21,625,584</b>	<b>890,473</b>	<b>--</b>	<b>20,735,111</b>	<b>21,625,584</b>

During the period, no transfer within the level have taken place.

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**15 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)**

Financial instruments such as investments measured at amortised cost (murabaha placement), cash in bank, other receivables, and accrued expenses are 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.

***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 measured at amortised cost and other receivables. 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 measured at amortised cost 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 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.

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**For the six-month period ended 30 June 2020**  
(Amounts in US Dollar)

**17 LAST VALUATION DAY**

The last valuation day of the six-month period was 30 June 2020 (2019: 31 December 2019) and the dealing net assets (equity) value on this day was USD 15.12 per unit (December 2019: USD 15.01). The IFRS net assets (equity) value per unit on 30 June 2020 was USD 15.12 (December 2019: USD 15.01).

**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.

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 stock market and created volatility in net asset value of investment funds 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 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.

**20 APPROVAL OF FINANCIAL STATEMENTS**

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