

Annual Report
- HSBC US Dollar Murabaha Fund - 2020

* FUND REPORTS ARE AVAILABLE UPON REQUEST FREE OF CHARGE



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1. Management Information

A. Fund Name HSBC US Dollar Murabaha Fund

B. Fund Manager

Name HSBC Saudi Arabia
Address HSBC Building 7267, Olaya Street (Al-Murooj District)
Riyadh 12283-2255,
Kingdom of Saudi Arabia.
Phone: 920022688
Fax: +96612992385
Website: www.hsbcSaudi.com

C. Fund Sub-Manager (if any)

Name None
Address

D. Custodian

Name Albilad Capital
Address Albilad Capital, Main Office
King Fahd Road P.O. Box 140, Riyadh 11411
Kingdom of Saudi Arabia.
Phone: 920003636
Fax: +966112906299
Website: www.albilad-capital.com

Responsibilities

- Safeguarding the Fund's assets
- Safeguarding all necessary documents that support the performance of its contractual obligations towards the fund.
- Depositing the revenue cash amounts of the Fund in the account of the fund.
- Managing the cash transaction of the Fund, including deducting the investment amounts and the expenses of the Fund according to Terms and Conditions of the Fund
- The custodian shall be liable for holding and safeguarding the Fund's assets for the benefit of unit holders

E. Certified Accountant

Name KPMG Al Fawzan & Al Sadhan Company
Address KPMG Building, Salahuddin Al Ayoubi Road
P.O. Box 92876 Riyadh 11663
Kingdom of Saudi Arabia
Tel .: +96612914350

2. Fund Information

A. Investment Objectives and Policies

The Fund is an "open-ended" investment Fund that aims to achieve a return on investment (ROI) with a low risk degree by investing in murabaha and sukuk transactions. The Fund shall comply with the legal standards approved by the Sharia Supervisory Committee. The fund shall also maintain a portion of or all of the Fund's assets in the form of cash or in short-term financial instruments that meet legal standards until they are reinvested.

B. Policy of Income and Profits Distribution

Profits will not be distributed, instead, they will be added to Fund assets, so that the income and dividends are reinvested to increase the unit value.

C. Fund Performance

- Fund Performance during the Past Three Years (USD)

	2018	2019	2020
Net asset value of the Fund as at the end of the year	18,414,280	22,543,842	25,701,409
Net holdings value of the unit as at the end of the year	14.6889	15.0114	15.1462
Highest holdings value of the unit	14.6889	15.0114	15.1462
Lowest holdings value of the unit	14.4443	14.6899	15.0121
Number of units issued as at the end of the year	1,253,817	1,501,777	1,696,998
Distributed profit value for each unit (if any)	-	-	-
Expenses rates	0.37%	0.37%	0.39%

- Fund Returns

	One year	Three years	Five years
Fund Return	0.90%	1.60%	1.20%

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Fund Return	0.16%	0.17%	0.09%	0.15%	0.23%	0.57%	0.64%	1.70%	2.20%	0.90%

- Value of Services and Commissions

Type of expenses or commission (Including VAT if applicable)	Value in Saudi riyal	Rate of Fund assets average
Subscription fees	-	-
Fund management fees	87,799.19	0.39%
Custodian fees	-	-
Certified accountant fees	-	-
Independent board members compensations	-	-
Regulatory fees	-	-
Allowance for expected credit losses	-	-
Bank fees	1,331.21	0.00586%
Sharia purification fees	-	-

D. Any Material Changes Affect Fund Performance

No material changes affected Fund performance during the year 2020.

E. Any Changes to Fund's Terms and Conditions during the Period

Date	Fund name	Change
11 Mar 2020G	HSBC US Dollar Murabaha Fund	– Adding Areej Almokbel to the board of directors of the fund
21 May 2020G	HSBC US Dollar Murabaha Fund	– Removing Areej Almokbel from the board of directors of the fund

F. Any Pricing or Evaluation Errors during the Period

None

3. Fund Manager

A. Investment Activities of the Period

During the year of 2020, the HSBC US Dollar Murabaha Fund ('Fund') continued to take new exposures in USD denominated Murabaha deposits. At the end of period, the underlying investment exposures in the Fund were only through Murabaha Deposits.

B. Irregularities of Investment Restrictions

As required by the Investment Fund Regulations (IFR) Article 48 (e), the fund manager must have a foreseen average of the date of maturity not exceeding (120) calendar days.

On 10th March 2020 the fund witnessed a passive breach due to large redemptions, which caused the fund to go above 120 days and breaching the IFR Article 48 (E). The breach was rectified on 18th March 2020.

C. Report on the Performance of Investment Fund during the Period

During the year of 2020, the US Dollar one-month LIBOR continued to post a decreasing trend, with the US Dollar one-month LIBOR declining from around 1.73% at beginning of January to around 0.16% at end of June, 2020 and ended the year at around 0.14%. The Fund continued to have exposure to short-duration Murabaha deposits. Year-to-date, on an annualized basis, the Fund returned 0.90%, whereas, the benchmark returned 0.52% for the same period.

D. Any Additional Information that Might Enable Unit Holders to Make Informed Decisions that are Based on Sufficient Information about the Fund during the Period

There is no additional information to be disclosed except what is stated in this report, Fund's Terms and Conditions, and the Fund's financial statements. However, investors need to read and understand the Fund's Terms and Conditions and all related documents and/or obtain advice from their own legal, tax, and/or investment advisors before taking any investment decision.

E. Percentage of Management Fees Calculated on the Fund itself and other funds that the Fund is investing in (if the fund is substantially investing in other investment funds)

Funds	Fees
Murabaha Funds	
HSBC Saudi Riyal Murabaha Fund	0.45%

F. Special Commission Received by Fund Manager during the Period

NA.

G. Investment of Fund Manager or any Counterpart in the Fund

Neither the Fund manager nor any counterpart shall invest in this Fund.

H. Annual Voting Practices

NA.

I. Cases of Conflict of Interests Approved by the Fund Board

All conflict cases related to the Fund's daily management were regularly submitted to the Fund Board. No conflict cases are not managed by HSBC Saudi Arabia.

J. Fund Board's Annual Report

<i>Subject</i>	<i>Approval Details</i>	<i>Meeting Date</i>
<i>Changes in Terms and Conditions</i>	Changes in fee structure, Updating the glossary table for funds, Removing the signature fields from the Information Memorandum & the Summary, Amending the Auditor responsibilities, 1. Updating the Fund Board information. 2. Updating the information of the Board members of HSBC Saudi Arabia.	27 Feb 2020 (through email circulation)
<i>Selection of Financial Auditor</i>	The Fund Board approved to continue with KPMG as the Financial Auditor for Mutual Funds due to difficulties in changing the auditor in light of COVID situation.	23 April 2020 (through email circulation)
<i>Unitholder Meeting Policy</i>	The Fund Board approved the unitholder meeting policy for the public funds.	1 June 2020
<i>Counterparty Limit approvals</i>	The Fund Board approved additional counterparties for the placement of deposits.	1 June 2020

4. Custodian Statement

The statement is based on the Custodian opinion on whether the Fund manager has carried out the following:

- Issuance, transfer, and redemption of units according to the Investment Fund Regulation and the Fund's Terms and Conditions.
- Evaluation and calculation of unit price according to the Investment Fund Regulation and the Fund's Terms and Conditions.
- Violation of any of investment restrictions, investment limits, and borrowing powers applied on the Investment Funds' regulation.

NA, responsibilities assigned to the custodian does not include the opinion thereof.

5. Certified Accountant Statement

The statement is based on Certified Accountant's opinion as follows:

- The financial statements are prepared and audited according to accounting standards issued by Saudi Organization for Certified Public Accountants (“SOCPA”), provisions of Investment Fund Regulation, and the Fund’s Terms and Conditions.

Annex 1 is affixed on page 2 of the Fund’s financial statements- the opinion of the Certified Accountant.

- The financial statements are fair and true for the net income, net profits, loses of the investment Fund for the accounting period of such statements. NA

The responsibilities assigned to the Certified Accountant do not include the opinion thereof.

- The financial statements are true and fair for the financial position of the investment Fund at the end of the period.

Annex 1 is affixed on page 2 of the Fund’s financial statements- the opinion of the Certified Accountant.

HSBC US DOLLAR MURABAHA FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
FINANCIAL STATEMENTS
For the year ended 31 December 2020
together with the
INDEPENDENT AUDITOR'S REPORT

HSBC US DOLLAR MURABAHA FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
FINANCIAL STATEMENTS
For the year ended 31 December 2020

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KPMG Professional Services

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P O Box 92876
Riyadh 11663
Kingdom of Saudi Arabia
Headquarter

Commercial Registration No 1010425494

كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
المركز الرئيسي

سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

Independent auditor's report

To the unitholders of HSBC US Dollar Murabaha Fund

Opinion

We have audited the financial statements of HSBC US Dollar Murabaha Fund ("the Fund"), managed by HSBC Saudi Arabia ("the Fund Manager"), which comprise of the statement of financial position as at 31 December 2020, the statements of comprehensive income, changes in net assets (equity) attributable to the unitholders and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing ("ISA") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Fund in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Fund Manager and those charged with governance for the financial statements

The Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and compliance with the applicable provisions of the Investment Funds Regulations issued by the Capital Market Authority, the Fund's Terms and Conditions and the Information Memorandum and for such internal control as the Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Fund Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, the Fund Board, is responsible for overseeing the Fund's financial reporting process.



Independent auditor's report

To the unitholders of HSBC US Dollar Murabaha Fund (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund Manager.
- Conclude on the appropriateness of the Fund Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of the Fund.

KPMG Professional Services

Hani Hamzah A. Bedairi
License no. 460

Riyadh: 26 Sha'ban 1442H
Corresponding to: 8 April 2021



HSBC US DOLLAR MURABAHA FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Statement of financial position
As at 31 December 2020
(Amounts in US Dollar)

	<i>Note</i>	<i>As at 31 December 2020</i>	<i>As at 31 December 2019</i>
Assets			
Cash at bank	<i>10</i>	827,731	913,910
Investments measured at amortised cost	<i>11</i>	23,972,936	20,735,111
Investments at fair value through profit or loss (FVTPL)	<i>12</i>	901,591	890,473
Receivables and advances		--	1,229
Total assets		25,702,258	22,540,723
Liabilities			
Accrued expenses	<i>13</i>	849	1,362
Total liabilities		849	1,362
Net assets (equity) attributable to the unitholders		25,701,409	22,539,361
Units in issue (numbers)		1,696,998	1,501,777
Net asset (equity) value per unit – Dealing	<i>17</i>	15.15	15.01
Net asset (equity) value per unit – IFRS	<i>17</i>	15.15	15.01

The accompanying notes 1 to 20 form an integral part of the financial statements.

HSBC US DOLLAR MURABAHA FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Statement of comprehensive income
For the year ended 31 December
(Amounts in US Dollar)

		<i>For the year ended 31 December</i>	
	<i>Note</i>	<u>2020</u>	<u>2019</u>
Investment income			
Special commission income from investments held at amortized cost		271,900	466,988
Unrealized gain from investments at FVTPL		11,118	22,685
Total investment income		<u>283,018</u>	<u>489,673</u>
Expenses			
Management fees	14	87,799	71,205
Impairment (reversal) / charge for expected credit losses	11	(2,831)	1,563
Total expenses		<u>84,968</u>	<u>72,768</u>
Net income for the year		<u>198,050</u>	<u>416,905</u>
Other comprehensive income for the year		--	--
Total comprehensive income for the year		<u>198,050</u>	<u>416,905</u>

The accompanying notes 1 to 20 form an integral part of the financial statements.

HSBC US DOLLAR MURABAHA FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Statement of changes in net asset (equity) attributable to the unitholders
For the year ended 31 December
(Amounts in US Dollar)

	<i>For the year ended 31 December</i>	
	<u>2020</u>	<u>2019</u>
Net assets (equity) attributable to the unitholders as at the beginning of the year	22,539,361	18,414,280
Net income for the year	198,050	416,905
<i>Contributions and redemptions by the unitholders:</i>		
Proceeds from issuance of units	11,740,836	5,833,747
Payments for redemption of units	(8,776,838)	(2,125,571)
Net change from unit transactions	2,963,998	3,708,176
Net assets (equity) attributable to the unitholders as at the end of the year	<u>25,701,409</u>	<u>22,539,361</u>

UNIT TRANSACTIONS

Transactions in units for the year ended 31 December are summarised as follows:

	<i>For the year ended 31 December</i>	
	<u>2020</u>	<u>2019</u>
	<i>(In numbers)</i>	
Units as at the beginning of the year	1,501,777	1,253,817
Units issued during the year	777,014	390,047
Units redeemed during the year	(581,793)	(142,087)
Net increase in units	195,221	247,960
Units as at the end of the year	<u>1,696,998</u>	<u>1,501,777</u>

The accompanying notes 1 to 20 form an integral part of the financial statements.

HSBC US DOLLAR MURABAHA FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Statement of cash flows
For the year ended 31 December 2020
(Amounts in US Dollar)

		<i>For the year ended 31 December</i>	
	<i>Note</i>	<u>2020</u>	<u>2019</u>
Cash flow from operating activities			
Net income for the year		198,050	416,905
<i>Adjustment for:</i>			
Unrealised loss / (gain) on investment at FVTPL		11,118	(22,685)
Impairment (reversal of) / charge for expected credit losses		<u>(2,831)</u>	<u>1,563</u>
		206,337	395,783
Net changes in operating assets and liability			
Increase in investments measured at amortised cost		(4,139,994)	(4,476,724)
Increase in investments measured at FVTPL		(22,236)	--
Decrease in receivables and advances		1,230	5,631
Decrease in accrued expenses		<u>(514)</u>	<u>(5,273)</u>
Net cash used in operating activities		(3,955,177)	(4,080,583)
Cash flow from financing activities			
Proceeds from issuance of units		11,740,836	5,833,747
Payments for redemption of units		<u>(8,776,838)</u>	<u>(2,125,571)</u>
Net cash generated from financing activities		2,963,998	3,708,176
Decrease in cash and cash equivalents		(991,179)	(372,407)
Balance as at the beginning of the year		16,658,910	17,031,317
Balance as at the end of the year	<i>10</i>	<u><u>15,667,731</u></u>	<u><u>16,658,910</u></u>
<u>Supplemental cashflow information</u>			
Special commission income received		<u><u>441,711</u></u>	<u><u>475,264</u></u>

The accompanying notes 1 to 20 form an integral part of the financial statements.

HSBC US DOLLAR MURABAHA FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Notes to the financial statements
For the year ended 31 December 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 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.

The Fund Manager has made certain revisions to the Terms and Conditions of the Fund. The main changes in the Terms and Conditions relates to the enhancement of investment objectives. 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 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 (a “Dealing Day”). The value of the Fund’s portfolio is determined on each business day (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

The financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) 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.

5. FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in US Dollar (“USD”), which is also the Fund’s functional currency.

6 BASIS OF MEASUREMENT

The 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.

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 a 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 financial statements continue to be prepared on the going concern basis.

The financial statement accounts in the statement of financial position have been presented in the order of liquidity.

HSBC US DOLLAR MURABAHA FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Notes to the financial statements
For the year ended 31 December 2020
(Amounts in US Dollar)

7 USE OF CRITICAL JUDGEMENTS AND ESTIMATES

Preparation of the financial statements in accordance 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 recognised prospectively. Areas where management has used estimates, assumptions or exercised judgement are as follows:

Allowance for expected credit losses

The Fund recognises allowance for expected credit loss (ECL) on its Murabaha placements.

The Fund measures loss allowance 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 is the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date.

8. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Net Asset (Equity) Value

Net assets (equity) value per unit, as disclosed in the statement of financial position is calculated by dividing the net assets attributable to the Unitholders by the numbers of units in issue at the year end.

Trade date accounting

All purchases and sales of financial assets are recognized and derecognized on the trade date, i.e. the date that the Fund commits to purchase or sell the assets. Regular-way purchases or sales of financial assets require delivery of those assets within the timeframe generally established by regulation or convention in the market place.

Subscription and redemption of units

Units subscribed and redeemed are recorded at net asset (equity) value per unit on the Valuation Day for which the subscription request and redemption applications are received.

Cash and cash equivalents

Cash and cash equivalents for the purpose of statement of cash flows comprise deposits with banks and highly liquid financial assets with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by the Fund in the management of short-term commitments.

HSBC US DOLLAR MURABAHA FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Notes to the financial statements
For the year ended 31 December 2020
(Amounts in US Dollar)

8. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Redeemable units

The redeemable units are as equity instruments as they meet certain strict criteria. Those criteria include:

- the redeemable units must entitle the holder to a pro-rata share of net assets;
- the redeemable units must be the most subordinated class and class features must be identical;
- there must be no contractual obligations to deliver cash or another financial asset other than the obligation on the issuer to repurchase; and
- the total expected cash flows from the redeemable units over its life must be based substantially on the profit or loss of the issuer.

Revenue from contracts with customers

The Fund recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Fund. The revenue is recognised when (or as) each performance obligation is satisfied.

Net gain from financial instruments at FVTPL

Net gain from financial instruments at FVTPL includes all realised and unrealised fair value changes and foreign exchange differences (if any).

Net realised gain from financial instruments at FVTPL is calculated using the weighted average cost method.

Dividend income

Dividend income is recognised in the statement of comprehensive income on the date on which the right to receive payment is established. For quoted equity securities, this is usually the ex-dividend date. For unquoted equity securities, this is usually the date on which the shareholders approve the payment of a dividend. Dividend income from equity securities designated as at FVTPL is recognised in statement of comprehensive income in a separate line item.

Special commission income

Special commission income is recognized in statement of comprehensive income on accrual basis using the effective interest rate method.

Management fees

Fund management fees are charged at rates agreed with the Fund Manager. These charges are calculated on each Valuation Day at an annual percentage of the Fund's net assets value. These expenses are charged to the statement of comprehensive income.

HSBC US DOLLAR MURABAHA FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Notes to the financial statements
For the year ended 31 December 2020
(Amounts in US Dollar)

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Zakat and tax

Under the current system of zakat and income tax in the Kingdom of Saudi Arabia, the Fund is not paying any zakat and income tax. Zakat and income tax are considered to be the obligation of the Unitholders and are not provided in the accompanying financial statements.

The Value Added Tax (VAT) applicable for fees and expenses are recognized in the statement of comprehensive income.

Fair value measurement

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 in the principal or, in its absence, the most advantageous market to which the Fund has access at that date. The fair value of a liability reflects its non-performance risk.

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 closing day price, because this price provides a 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 minimize 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 transfers between levels of the fair value hierarchy as at the end of the reporting year during which the change has occurred.

Financial assets and financial liabilities

Recognition and initial measurement

Financial assets and financial liabilities at FVTPL are initially recognised on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognised on the date on which they are originated.

Financial assets and financial liabilities at FVTPL are initially recognised at fair value, with transaction costs recognised in the statement of comprehensive income. Financial assets or financial liabilities not at FVTPL are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue.

Classification of financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

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8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and financial liabilities (continued)

Financial asset at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial asset at fair value through other comprehensive income ("FVOCI")

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL.

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial asset at fair value through other comprehensive income ("FVOCI") (continued)

On initial recognition of an equity investment that is not held for trading, the Fund may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Financial asset at fair value through profit or loss ("FVTPL")

All other financial assets are classified as measured at FVTPL.

Business model assessment

The Fund Manager makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual commission revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Fund's managers;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Fund's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and financial liabilities (continued)

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Commission / Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Fund considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Fund considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Fund’s claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Fund changes its business model for managing financial assets.

Classification of financial liabilities

The Fund classifies its financial liabilities at amortised cost unless it has designated liabilities at FVTPL.

Derecognition

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

The Fund derecognize a financial liability when contractual obligations are discharged, cancelled, or expire.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS as endorsed in the Kingdom of Saudi Arabia, or for gains and losses arising from a group of similar transactions such as in the Fund’s trading activity.

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8. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and financial liabilities (continued)

Expected Credit loss (“ECL”)

The Fund recognizes loss allowances for ECL on financial assets measured at amortised cost and financial assets measured at FVOCI.

The Fund considers a financial asset to have low credit risk when the credit rating of the counterparty is equivalent to the globally understood definition of ‘investment grade’.

Significant increase in credit risk

To determine whether the risk of default on a financial instrument has increased significantly since initial recognition, the Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Fund’s historical experience and expert credit assessment and including an assessment of the change in probability of default (PD) as at the reporting date with the PD at the time of initial recognition of the exposure.

Definition of default

The Fund considers a financial asset to be in default when:

- the investee is unlikely to pay its credit obligations to the Fund in full, without recourse by the Fund to actions such as realizing security (if any is held); or
- the investee is past due more than 30 days on any material credit obligation to the Fund.

In assessing whether a investee is in default. The Fund considers indicators that are:

- qualitative- e.g. breaches of covenant;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Fund; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Fund in accordance with the contract and the cash flows that the Fund expects to receive); and
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position for financial assets measured at amortized cost as a deduction from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Fund has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

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9 IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARD

New IFRS standards, IFRIC interpretations and amendments thereof, adopted by the Fund

The following new standards, amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB) have been effective from 1 January 2020 and accordingly adopted by the Fund, as applicable:

<u>Standard / Amendments</u>	<u>Description</u>
Amendments to IFRS 3	Definition of business
Amendments to IAS 1 and IAS 8	Definition of material
Amendments to References to the Conceptual Framework in IFRS standards	Conceptual framework in IFRS standards
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest rate benchmark reform – Phase 1

The adoption of the above standard / amendments and interpretations did not have any significant impact on these financial statements.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Fund's financial statements are listed below. The Fund intends to adopt these standards when they become effective and material impacts from the adoption of these standards are not expected.

<u>Standard / Interpretation</u>	<u>Description</u>	<u>Effective from periods beginning on or after the following date</u>
Amendments to IFRS 16	COVID 19 – Related rent concessions	1 June 2021
IFRS 17	Insurance contracts	1 January 2023
Amendments to IAS 1	Classification of liabilities as current or non-current	1 January 2022
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest rate benchmark reform – Phase 2	1 January 2021
Amendments to IAS 16	Property, Plant and Equipment: Proceed before intended use	1 January 2022
Amendments to IFRS 3	Reference to conceptual framework	1 January 2022

10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are as follows:

	<i>As at 31 December 2020</i>	<i>As at 31 December 2019</i>
Cash at bank	827,731	913,910
Placements with Banks (with original maturity of less than 90 days)	14,840,000	15,745,000
	<u>15,667,731</u>	<u>16,658,910</u>

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

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11 INVESTMENTS MEASURED AT AMORTISED COST

	<i>Note</i>	<i>As at 31 December 2020</i>	<i>As at 31 December 2019</i>
Murabaha placements - with original maturity of less than 90 days	10	14,840,000	15,745,000
Murabaha placements - maturing between 90 and 360 days		9,050,000	4,935,000
		23,890,000	20,680,000
Accrued special commission income		84,585	59,591
Allowance for expected credit losses		(1,649)	(4,480)
Total		23,972,936	20,735,111

The Fund has made Murabaha placements with counterparties that have credit ratings of investment grade as issued by credit rating agencies. The average effective special commission rate on money market placements as at the year end is 0.65% p.a. (31 December 2019: 2.13%)

The methodology and assumptions applied by the Fund in estimating the ECL on the Murabaha placements are based on using the Moody's rating scales which are then adjusted for country specific data, forward looking estimates and macroeconomic variables such as expected GDP growth, to determine the ECL as at the end of the reporting period.

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

	<i>As at 31 December 2020</i>	<i>As at 31 December 2019</i>
Balance at the beginning of the year	4,480	2,917
Charge for the year	(2,831)	1,563
Balance at the end of the year	1,649	4,480

12 INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Investments measured at FVTPL comprise of the following:

	<i>As at 31 December 2020</i>		<i>As at 31 December 2019</i>	
	<i>Cost</i>	<i>Market value</i>	<i>Cost</i>	<i>Market value</i>
Mutual Fund				
HSBC Saudi Riyal Murabaha Fund (ART)	849,819	901,591	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. These 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 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 year, the Fund entered into the following transactions with related parties in the ordinary course of business:

<u>Related Party</u>	<u>Nature of transactions</u>	<u>Amount of transactions during the year</u>		<u>Closing balance as at 31 December 2020</u>	
		<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
HSBC Saudi Arabia (Fund Manager)	Management fee	87,799	71,205	848	1,362
SABB	Cash at bank	--	--	--	7,141
	Income on murabaha placements	477	--	--	--

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

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

<u>Fund name</u>	<u>Year</u>	<u>Amount / Unit</u>	<u>Issuance</u>	<u>Redemption</u>	<u>Closing balance as at 31 December 2020</u>
HSBC Multi-Assets	2020	Amounts	--	--	4,418,708
Defensive Fund		Units	--	--	291,737
	2019	Amounts	--	--	4,379,382
		Units	--	--	291,737

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”).

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15 FINANCIAL RISK MANAGEMENT

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

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

This note presents information about the Fund's objectives, policies and processes for measuring and managing risk and the Fund's management of capital.

Risk management framework

The Fund maintains positions in non-derivative financial instruments in accordance with its investment management strategy. The Fund's investment portfolio comprises of debt securities.

The Fund's investment manager has been given discretionary authority to manage the assets in line with the Fund's investment objectives. Compliance with the target asset allocations and the composition of the portfolio are monitored by the Investment Committee of the Fund. In instances where the portfolio has diverged from target asset allocations, the Fund Manager is obliged to take actions to rebalance the portfolio in line with the established targets, within prescribed time limits.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund.

The Fund is exposed to credit risk on its cash at bank, investments held at amortised cost and receivables. The Fund Manager seeks to limit its credit risk by monitoring credit exposure and by dealing with reputed counterparties.

Credit risk is monitored on a regular basis by the Fund Manager to ensure it is in line with the investment guidelines of the Fund Board.

The table below shows the maximum exposure to credit risk for the component of the statement of financial position:

	<i>As at 31 December 2020</i>	<i>As at 31 December 2019</i>
Cash at bank	<u>827,731</u>	<u>913,910</u>
Investments held at amortized cost	23,974,585	20,735,111
Receivables and advances	<u>--</u>	<u>1,229</u>
Total exposure to credit risk	<u>24,802,316</u>	<u>21,650,250</u>

The Fund does not have a formal internal grading mechanism. Credit risk is managed and controlled by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. Credit risks are generally managed on the basis of external credit ratings of the counterparties.

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15 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Analysis of credit quality

The Fund has Murabaha placements (gross) with counterparties having the following credit quality ratings as rated by Moody's:

	<i>As at 31 December 2020</i>	<i>As at 31 December 2019</i>
A1	3,430,000	--
A2	8,645,000	1,050,000
A3	1,490,000	8,045,000
Aa2	--	--
Aa3	5,800,000	3,675,000
Baa1	3,550,000	5,910,000
Baa2	--	1,000,000
Baa3	975,000	1,000,000
Total	23,890,000	20,680,000

Amounts arising from ECL

Expected credit losses on investments at amortized cost has been measured on a 12-month and lifetime expected loss basis and reflects the maturities of exposures. The Fund considers that these exposures have low credit risk based on the external credit ratings of the counterparties.

12-month probabilities of default are based on Moody's transition matrices. Loss given default parameters generally reflect an assumed recovery rate of 50%. However, if the asset were credit-impaired, then the estimate of loss would be based on a specific assessment of expected cash shortfalls and on the original effective interest rate.

The Fund has recorded expected credit loss on investments at amortized cost amounting to USD 1,648 as at 31 December 2020 (31 December 2019: USD 4,480) During the year, there were no stage movements in ECL of investments measured at amortised cost.

Liquidity risk

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

The Fund's Terms and Conditions provide for the subscriptions and redemptions of units on each business day and it is, therefore, exposed to the liquidity risk of meeting unitholder redemptions. However, the Fund's Murabaha placements and Debt Securities are considered to be readily realizable as these are of short-term nature.

The Fund Manager monitors the liquidity requirements on a regular basis and seeks to ensure that sufficient funds are available to meet any commitments as they arise.

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15 FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk

Market risk is the risk that changes in market prices – such as interest rates, foreign exchange rates, and credit spreads – will affect the Fund’s income or the fair value of its holdings in financial instruments.

The Fund’s strategy for the management of market risk is driven by the Fund’s investment objective as per the Fund’s 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 timely basis by the Fund Manager.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund’s functional currency is US Dollar (USD) and there are no foreign currency exposures as at 31 December 2020 except for investment at FVTPL which is in Saudi Arabian Riyal (“SR”). SR is already pegged with USD at a fixed rate and accordingly, foreign exchange gains / losses are not significant.

Commission rate risk

Commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of financial instruments. The Fund Manager monitors positions daily to ensure maintenance of positions within established gap limits, if any.

A summary of the Fund’s commission rate gap position, analysed by the earlier of contractual re-pricing or maturity date, is as follows:

<u>As at 31 December 2020</u>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>Total</i>
ASSETS				
Investments at amortized cost	4,515,000	10,325,000	9,050,000	23,890,000
Total commission-bearing assets	4,515,000	10,325,000	9,050,000	23,890,000
LIABILITIES				
Total commission-bearing liabilities	--	--	--	--
Total commission rate gap	4,515,000	10,325,000	9,050,000	23,890,000
<u>As at 31 December 2019</u>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>Total</i>
ASSETS				
Investments at amortized cost	5,700,000	10,045,000	4,935,000	20,680,000
Total commission-bearing assets	5,700,000	10,045,000	4,935,000	20,680,000
LIABILITIES				
Total commission-bearing liabilities	--	--	--	--
Total commission rate gap	5,700,000	10,045,000	4,935,000	20,680,000

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15 FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

Sensitivity analysis

The sensitivity analysis reflects how net assets (equity) attributable to the Unitholders would have been affected by changes in relevant risk variable that were reasonably possible at the reporting date.

Management has determined that a fluctuation in commission rates of 10 basis points is reasonably possible, considering the economic environment in which the Fund operates. The table below sets out the effect on the Fund's net assets (equity) attributable to the Unitholders of a reasonably possible increase of 10 basis points in commission rates at 31 December. The impact of such an increase or reduction has been estimated by calculating the fair value changes of the fixed-interest debt securities and other fixed-interest-bearing assets, less liabilities. The impact is primarily from the decrease in the fair value of fixed income securities. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

<i>Effect on net assets (equity) in USD</i>	<i>As at December 2020</i>	<i>As at 31 December 2019</i>
	<hr/>	<hr/>
Net assets (equity) attributable to the Unitholders	22,034	17,860

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

16 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.

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16 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The table below analyses financial instruments at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the statement of financial position. All fair value measurements below are recurring.

		As at 31 December 2020			
		-----Fair value-----			
	Carrying value	Level 1	Level 2	Level 3	Total
Investments measured at amortised cost	23,974,585	--	--	23,974,585	23,974,585
Investments at FVTPL	901,591	--	901,591	--	901,591
Total	24,876,176	--	901,591	23,974,585	24,876,176

		As at 31 December 2019			
		-----Fair value-----			
	Carrying value	Level 1	Level 2	Level 3	Total
Investments measured at amortised cost	20,735,111	--	--	20,735,111	20,735,111
Investments at FVTPL	890,473	--	890,473	--	890,473
Total	21,625,584	--	890,473	20,735,111	21,625,584

During the year, no transfer within the levels have taken place.

Level 3 investments measured at amortised cost have been valued based on management's assessment of risks associated with the instruments underlying assets, the terms and conditions of the investment and the expected market prevailing economics.

Other financial instruments such as other receivables and accrued expenses are financial assets and financial liabilities whose carrying amounts approximate fair value, because of their short-term nature and the high credit quality of counterparties.

17 LAST VALUATION DAY

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

The last valuation day of the year was 31 December 2020 (2019: 31 December 2019) and in lieu of the above circular from CMA, the dealing net assets (equity) value on this day was USD 15.15 (2019: USD 15.01) per unit. The IFRS net assets (equity) value per unit on 31 December 2020 was USD 15.15 (2019: USD 15.01) per unit. Net assets (equity) per unit as per IFRS and dealing net assets (equity) value per unit remained the same due to immaterial ECL provisions recognised under IFRS 9.

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18 COVID – 19

The COVID-19 pandemic continues to disrupt global markets as many geographies are experiencing a “third wave” of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia (“the Government”) however has managed to successfully control the outbreak to date, owing primarily to the unprecedented yet effective measures taken by the Government. Recently, a number of COVID-19 vaccines have been developed and approved for mass distribution by various governments around the world. The Government has also approved multiple vaccines and has begun administering it to the general public.

The Fund Manager however continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time. The Fund Manager continues to monitor the ongoing situation closely albeit the pandemic did not have a significant impact on the financial performance of the Fund during 2020.

19 SUBSEQUENT EVENT

The Capital Market Authority, on 1 March 2021, has issued certain amendments to the Investment Funds Regulations and Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority. These amendments have effective dates starting from 1 May 2021. The Fund Manager is currently in the process of evaluating the expected impact, if any, of these amendments on the Fund’s financial statements for 2021.

There were no other subsequent events after the statement of financial position date which require adjustments to/or disclosure in the financial statements.

20 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Fund Board on 25 Sha’ban 1442H (corresponding to 7 April 2021).