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Financial Statements and Independent Auditors' Report

BDO Unibank, Inc.

Trust and Investments Group
BDO PERA Bond Index Fund
of the Unit Investment Trust Fund

December 31, 2023 and 2022

P&A Grant Thornton

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Report of Independent Auditors

The Board of Directors
BDO Unibank, Inc.
BDO Corporate Center
7899 Makati Avenue
Makati City

Opinion

We have audited the financial statements of BDO PERA Bond Index Fund of the Unit Investment Trust Fund (UITF – BDO PERA Bond Index Fund) managed by the Trust and Investments Group (BDO Trust and Investments Group) of BDO Unibank, Inc. (the Bank), which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements of comprehensive income and statements of changes in accountabilities for the years then ended, and notes to the financial statements, including material accounting policies. These financial statements were prepared from the transactions recorded in the books of accounts maintained by BDO Trust and Investments Group for UITF – BDO PERA Bond Index Fund.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the UITF – BDO PERA Bond Index Fund as at December 31, 2023 and 2022, and its financial performance for the years then ended in accordance with the Guidelines in the Preparation of Audited Financial Statements for Trust Institutions issued by the Bangko Sentral ng Pilipinas (BSP) as described in Note 2 to the financial statements.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matters

We draw attention to Note 2 to the financial statements, which describes the basis of preparation of the financial statements. The financial statements are prepared to assist the BDO Trust and Investments Group in complying with the requirements of BSP. As a result, the accompanying financial statements may not be suitable for another purpose. Our report is intended solely for the information and use of the Board of Directors and management of the Bank and should not be used for any other purpose without our consent.

We draw attention to Note 14 to the financial statements, which describes management's assessment of the continuing impact on the UITF – BDO Pera Bond Index Fund's financial statements of the business disruptions brought by the coronavirus pandemic and the ongoing Russia-Ukraine conflict.

Our opinion is not modified in respect of these matters.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Guidelines in the Preparation of Audited Financial Statements for Trust Institutions issued by the BSP as described in Note 2 to the financial statements, and for such internal control as management 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, management is responsible for assessing the Bank'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 management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing BDO Trust and Investments Group's financial reporting process.

Auditors' 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 auditors' 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 PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the 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 PSA, we exercise professional judgment and maintain professional skepticism 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 BDO Trust and Investments Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Bank 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.

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 10076147, January 3, 2024, Makati City
SEC Group A Accreditation
Partner - No. 95626-SEC (until financial period 2026)
Firm - No. 0002 (until financial period 2024)
BIR AN 08-002511-022-2022 (until Oct. 13, 2025)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

April 18, 2024

BDO UNIBANK, INC.
TRUST AND INVESTMENTS GROUP
BDO PERA BOND INDEX FUND
OF THE UNIT INVESTMENT TRUST FUND
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

	Notes		2023		2022
RESOURCES					
DUE FROM BANKS	6	**P**	**574,312**	P	1,550,315
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	7		**60,934,815**		44,464,485
TOTAL RESOURCES		**P**	**61,509,127**	P	46,014,800
ACCOUNTABILITIES					
PRINCIPAL	2	**P**	**58,227,849**	P	45,491,414
ACCUMULATED INCOME	2		**3,131,611**		411,653
OTHER ACCOUNTABILITIES	8		**149,667**		111,733
TOTAL ACCOUNTABILITIES		**P**	**61,509,127**	P	46,014,800

See Notes to Financial Statements.

BDO UNIBANK, INC.
TRUST AND INVESTMENTS GROUP
BDO PERA BOND INDEX FUND
OF THE UNIT INVESTMENT TRUST FUND
STATEMENTS OF COMPREHENSIVE INCOME*
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

	Notes	2023	2022
INCOME			
Interest income	6, 7	P 2,475,948	P 1,632,928
Net fair value gains on financial assets at fair value through profit or loss (FVTPL)	7	1,398,851	-
Net gain on sale of financial assets at FVTPL	7	-	80
Others		-	250
		3,874,799	1,633,258
EXPENSES			
Trust fees	9	542,568	417,042
Net loss on sale of financial assets at FVTPL	7	489,799	157,623
Net fair value losses on financial assets at FVTPL	7	-	1,639,599
Others	10	20,852	19,609
		1,053,219	2,233,873
NET PROFIT (LOSS)		P 2,821,580	(P 600,615)

* The Fund has no other comprehensive income (loss) transactions in 2023 and 2022.

See Notes to Financial Statements.

BDO UNIBANK, INC.
TRUST AND INVESTMENTS GROUP
BDO PERA BOND INDEX FUND
OF THE UNIT INVESTMENT TRUST FUND
STATEMENTS OF CHANGES IN ACCOUNTABILITIES
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

	Notes	2023	2022
PRINCIPAL FUND BALANCE	2		
Principal			
Balance at beginning of year		P 45,491,414	P 34,823,027
Net contributions		12,736,435	10,668,387
Balance at end of year		58,227,849	45,491,414
Accumulated Income			
Balance at beginning of year		411,653	1,030,371
Net profit (loss)		2,821,580	(600,615)
Withdrawal		(101,622)	(18,103)
Balance at end of year		3,131,611	411,653
Total Principal Fund Balance		61,359,460	45,903,067
OTHER ACCOUNTABILITIES	8		
Balance at beginning of year		111,733	86,543
Net accruals		37,934	25,190
Balance at end of year		149,667	111,733
TOTAL ACCOUNTABILITIES		P 61,509,127	P 46,014,800

See Notes to Financial Statements.

BDO UNIBANK, INC.
TRUST AND INVESTMENTS GROUP
BDO PERA BOND INDEX FUND
OF THE UNIT INVESTMENT TRUST FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

BDO Unibank, Inc. (BDO Unibank) was incorporated in the Philippines on December 20, 1967 to engage in the business of banking. BDO Unibank was authorized by the Bangko Sentral ng Pilipinas (BSP) to engage in foreign currency deposit operations on November 23, 1990. On August 5, 1996, BSP granted approval to BDO Unibank to operate as an expanded commercial bank. As of December 31, 2023, BDO Unibank had 1,208 branches (including two foreign branches), 2,863 on-site and 1,939 off-site automated teller machines, 557 cash accept machines, 150 branch universal machines, 4 self-service teller machines and 1 automated teller machine, all located within and outside the Philippines.

BDO Unibank was authorized to engage in trust operations on January 5, 1988. Relative to its trust operations, BDO Unibank's Trust and Investments Group (the Group) was organized. One of the funds managed by the Group is the Unit Investment Trust Fund (UITF). The Group introduced the UITF in 2005. UITF is an investment vehicle managed by the trust department of a financial institution which pools together funds from various investors and places these in allowable investments. These allowable investments include bank deposits, government securities and marketable securities and such other investment outlets and categories as the BSP may allow.

One of the UITFs set up by the Group is the BDO PERA Bond Index Fund (PBIF or the Fund), which was introduced on June 27, 2017. The Fund is a peso-denominated bond fund which aims to achieve investment returns that closely track the total return of the Markit iBoxx ALBI Philippines 1-5 (Domestic) Index, by investing in a diversified portfolio of peso-denominated bonds. The Fund is suitable for investors with moderate risk appetite and has a recommended investment time horizon of at least three years. The minimum investment in the Fund is P1,000. The Net Asset Value per unit (NAVpu) of the Fund as at the last trading day of 2023 and 2022 is P121.1132 and P114.8801, respectively.

1.2 Approval of Financial Statements

The financial statements of the Fund managed by the Group as of and for the year ended December 31, 2023 (including the comparative financial statements as of and for the year ended December 31, 2022) were authorized for issue by the Board of Directors of BDO Unibank on April 18, 2024.

2. MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policy information that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with the Guidelines in the Preparation of Audited Financial Statements for Trust Institutions

The financial statements of the Fund have been prepared in accordance with the Guidelines in the Preparation of Audited Financial Statements for Trust Institutions (the Guidelines) for the financial reporting period beginning January 1, 2008 as set out under BSP Circular No. 653.

The Guidelines have adopted Philippine Financial Reporting Standards (PFRS) except for the following:

- Presentation of statement of cash flows which is required as part of the basic financial statements under PFRS but is not required under the Guidelines;

- Presentation of each component of income and expense recognized in other comprehensive income in the statements of changes in accountabilities which is no longer allowed to be presented per PFRS but is required by the Guidelines; and,

- Application of provisions of PFRS only to trust accounts still outstanding as of the end of reporting period.

PFRS are adopted by the Financial and Sustainability Reporting Standards Council (FSRSC) from the pronouncements issued by the International Accounting Standards Board (IASB), and approved by the Philippine Board of Accountancy.

Pursuant to the Guidelines, the audited financial statements shall comprise of the following:

- Statements of financial position as of the end of the period;

- Statements of comprehensive income for the period;

- Statements of changes in accountabilities, which shall show a reconciliation of the net carrying amount at the beginning and end of the period of the following accounts: (i) principal, (ii) accumulated income or loss, and (iii) other accountabilities, separately disclosing the changes in each of the foregoing accounts; and,

- Notes to the financial statements, which shall comprise of a summary of significant accounting policies and other disclosure requirements provided under PFRS/Philippine Accounting Standard (PAS).

The financial statements were prepared from the transactions recorded in the books of accounts maintained by the Group for the Fund.

The financial statements have been prepared using the measurement bases specified by PFRS as prescribed for adoption by a trust institution under the Guidelines for each type of asset, accountability, income and expense. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial and non-financial assets. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements of the Fund are presented in accordance with PAS 1, *Presentation of Financial Statements*, as modified by the Guidelines. The Fund presents all items of income, expenses and other comprehensive income (loss), if any, in a single statement of comprehensive income.

The Fund presents a third statements of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statements of financial position at the beginning of the preceding period. The related notes to the third statements of financial position are not required to be disclosed.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Fund's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Fund are measured using the Fund's functional currency. Functional currency is the currency of the primary economic environment in which the Fund operates.

2.2 Adoption of Amended Standards

(a) Effective in 2023 that are Relevant to the Fund

The Fund adopted for the first time the following amendments to existing standards, which are mandatorily effective for annual periods beginning on or after January 1, 2023:

PAS 1 and PFRS Practice Statement 2 (Amendments)	:	Presentation of Financial Statements — Disclosure of Accounting Policies
PAS 8 (Amendmets)	:	Definition of Accounting Estimates

Discussed below are the relevant information about these pronouncements.

(i) PAS 1 and PFRS Practice Statement 2 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies*. The amendments replaced the requirement for entities to disclose their significant accounting policies with the requirement to disclose their material accounting policy information. The amendments also include guidance to help entities apply the definition of material in making decisions about accounting policy disclosures.

The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial, that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements and if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. The application of these amendments is reflected in the Fund's financial statements under Notes 2 and 3.

(ii) PAS 8 (Amendments), *Definition of Accounting Estimates*. The amendments introduced a new definition of accounting estimate which is a monetary amount in the financial statements that are subject to measurement uncertainty. It also clarifies that a change in accounting estimate that results from new information or new developments is not a correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. The application of these amendments had no significant impact on the Fund's financial statements.

(b) Effective in 2023 that are not Relevant to the Fund

Among the amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2023, the amendments to PAS 12, *International Tax Reform – Pillar Two Model Rules* and PAS 12, *Deferred Tax Related to Assets and Liabilities from a Single Transaction*, are not relevant to the Fund's financial statements.

(c) Effective Subsequent to 2023 but not Adopted Early

There are amendments to existing standards effective for annual periods subsequent to 2023, which are adopted by the Financial and Sustainability Reporting Standards Council. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and none of these are expected to have significant impact on the Fund's financial statements:

(i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2024)

(ii) PAS 1 (Amendments), *Presentation of Financial Statements – Non-current Liabilities with Covenants* (effective from January 1, 2024)

(iii) PAS 7 (Amendments), *Cash Flow Statements* and PFRS 7 (Amendments), *Financial Instruments: Disclosures – Supplier Finance Arrangements* (effective from January 1, 2024

(iv) PAS 21 (Amendments), *The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability* (effective from January 1, 2025)

2.3 Financial Instruments

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the financial instrument.

(a) Financial Assets

At initial recognition, the Group measures a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are incremental or directly attributable to the acquisition or issue of the financial asset, such as fees and commissions. Transaction costs of financial assets carried at FVTPL are expensed outright in profit or loss. Unless specifically indicated to apply to either year, the policies that follow apply to both years.

Regular purchases and sales of financial assets are recognized on their trade date (i.e., the date that the Group commits to purchase or sell the asset).

(i) Classification, Measurement and Reclassification of Financial Assets

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described below and in the succeeding pages.

Financial Assets at Amortized Cost

Where the business model is to hold assets to collect contractual cash flows, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (SPPI). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement [see Note 3.1(a)]. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Fund's financial assets at amortized cost are presented in the statements of financial position as Due from Banks, which include accrued interest receivables.

Financial Assets at Fair Value Through Profit or Loss

The Fund's financial assets at FVTPL include government securities which are held for trading purposes or designated as at FVTPL.

Financial assets at FVTPL are measured at fair value with gains or losses recognized as part of Net Fair Value Gains or Losses on Financial Assets in the statements of comprehensive income. Related transaction costs are recognized directly as expense in the statements of comprehensive income. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

Interest earned on these investments is reported under Interest Income account in the statements of comprehensive income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

(ii) Impairment of Financial Assets

The Group assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost and debt instruments measured at FVOCI and other contingent accounts. Recognition of credit losses is no longer dependent on the Group's identification of a credit loss event. Instead, the Group considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments which are measured as 12-month ECL:

- all current loan accounts, except restructured loans;
- debt securities that are identified to have 'low credit risk' at the reporting date; and,
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for credit losses is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments).

'Stage 2' financial instruments also include the following characteristics:

- performing accounts but with occurrence of loss event;
- accounts with missed payments but not yet classified as defaulted;
- current restructured loans; and,
- current loans that are rated as Especially Mentioned based on the Internal Credit Risk Rating System (ICRRS) of the Group.

A lifetime ECL shall be recognized for 'Stage 3' financial instruments, which include financial assets considered as credit-impaired, purchased or originated credit-impaired assets, and those classified as Past Due and Items in Litigation based on the ECL methodology of the Bank.

The Group's definition of credit risk and information on how credit risk is mitigated by the Group are disclosed in Note 4.4.

(iii) Measurement of ECL

The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Fund's detailed ECL measurement as determined by the Group is disclosed in Note 4.4.

(iv) Reclassification of Financial Assets

The Funds can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Funds are required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Funds' business model will take effect only at the beginning of the next reporting period following the change in the business model.

(v) Derecognition of Financial Assets

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Fund recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Fund retains substantially all the risks and rewards of ownership of a transferred financial asset, the Fund continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(b) Classification and Measurement of Financial Liabilities

Financial liabilities, which include other accountabilities (except tax-related payables), are recognized when the Funds become a party to the contractual terms of the instrument.

2.4 Other Income and Expense Recognition

Revenue is recognized only when (or as) the Group satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Funds' combined financial statements may be partially within the scope of PFRS 9, *Financial Instruments,* and partially within the scope of PFRS 15, *Revenue from Contracts with Customers*. In such case, the Group first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then apply PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

2.5 Principal Fund Balance

Principal consists of the pooled contributions of investors, after deducting principal drawings.

Accumulated income includes all current and prior period results of operations as reported in the statements of comprehensive income and statements of changes in accountabilities, reduced by the amount of income withdrawals.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements of the Fund in accordance with the Guidelines, which require the adoption of PFRS, requires the Fund through the Group, to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates and the differences could be significant.

3.1 Critical Management Judgments in Applying Accounting Policies

(a) Application of ECL to Financial Assets at Amortized Cost

The allowance for impairment for financial assets carried at amortized cost is based on the ECLs associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since organization of the financial instrument, in such case, a lifetime ECL for the instrument is recognized.

The Group has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

(b) *Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model*

In determining the classification of financial assets, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Group assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion.

The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers certain circumstances documented in the Fund's business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Fund's objective for the business model.

(c) *Recognition of Provisions and Contingencies*

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the combined financial statements. Similarly, possible inflows of economic benefits to the Funds that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the combined financial statements. On the other hand, any reimbursement that the Funds can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

Judgment is exercised by management to distinguish between provisions and contingencies. Disclosures on relevant contingencies are disclosed in Note 12.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and accountabilities within the next reporting period:

(a) Estimation of Allowance for ECL

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behaviour (e.g., likelihood of other party defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Notes 2.3(a)(iii) and 4.4.

(b) Fair Value Measurement for Financial Instruments

The Group applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. Valuation techniques are used to determine fair values which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as counterparty credit risk, volatilities and correlations require management to make estimates. Changes in assumptions could affect the reported fair value of financial instruments. The Group uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

The carrying values of the Fund's financial assets at FVTPL and the amounts of fair value changes recognized during the reporting periods on those assets are disclosed in Note 7.

4. RISK MANAGEMENT POLICIES AND OBJECTIVES

The objective of the Group in risk management is to establish and maintain a sound system that will enable the Group to identify, measure, control and monitor the various risk exposures arising from its business activities. The Group believes that, as there are opportunities, there are associated risks and the objective is not to totally avoid risks, but to adequately and consistently evaluate, manage, control, and monitor the risks and ensure that the Group is adequately compensated for all the risks taken. Good risk management involves making informed and rational decisions about the level of risks the institution wants to take, in the pursuit of its objectives, but with consideration to return commensurate with the risk-taking activity.

For the successful implementation of the risk management process, the Group has established clearly defined risk policies, effective organization and limit structures, appropriate systems and technology support, a good management information reporting system and model/system revalidation.

The risk management methodologies are mainly focused on market (including interest rate), liquidity and credit risks, which are described in greater detail below and in the succeeding pages.

4.1 Market Risk

Market risk is the risk of loss, immediate or over time, due to adverse fluctuations in the price or market value of instruments, products, and transactions in the overall portfolio of the Fund. While market risk activities are pursued for profit, inevitably these activities create occasional losses. The Group's Market Risk Management aims to determine what is actually at risk so that the Fund and the Group's clients can avoid losses from risks that were ignored or misunderstood. The Fund, through the Group, manages this risk through the process of identifying, analyzing, measuring, and controlling relevant market risk factors, and establishing appropriate limits for various exposures.

Market risk factors are independent variables that cause changes in the value of an investment. These risks can occur in isolation or in combination with other risk factors such that an investment or transaction may have several market risk factors which need to be measured and managed. These include:

- the term structure of interest rates;
- spot foreign exchange rates;
- equity prices; and,
- foreign exchange, interest rate and equity price volatility.

The market risk inherent to each of the Fund's managed portfolios is measured through Value-at-Risk (VaR). VaR is the maximum potential loss of a portfolio measured at a 99% level of confidence over a one-day period under normal market conditions.

The Group uses a backtesting framework to verify the accuracy of its VaR calculation system. This consists of a comparison of a portfolio's daily VaR estimates with actual and theoretical profit or loss, in line with the Basel methodology. Theoretical profit or loss is the profit and loss obtained from applying the day's price movements to the previous day's portfolio. It assumes that the composition remained fixed over the one-day holding period. The hypothetical profit or loss result is then compared to the VaR based on the previous day's portfolio.

Stress testing allows the Group to evaluate the market risk inherent to a portfolio under abnormal market conditions. It is used as a complementary approach to VaR since it helps capture sudden and dramatic changes in the portfolio's value given atypical market circumstances and provides the portfolio manager with the ability to assess performance based on these perceived worst-case scenarios.

Modified duration determines the effect that a one-percent change in interest rates will have on the price of a bond. It is useful in determining the sensitivity of a bond's price to interest rate movements. It also helps reduce bond risks by neutralizing price and reinvestment risks due to interest rates movements.

The following table sets out the Fund's VaR, stress test and modified duration as of the last trading day of each reporting period:

	2023	2022
VaR	**P 320,256**	P 442,890
Stress test	**P 4,913,836**	P 3,796,267
Modified duration	**2.78**	2.70

4.2 Interest Rate Risk

Interest risk refers to the sensitivity of fixed-income securities to interest rate fluctuations. The Group uses duration which measures the sensitivity of the price of a debt instrument to a change in interest rate to quantify and manage this risk (see Note 4.1). The Group controls the level of interest risk it undertakes by setting limits on duration of portfolios.

4.3 Liquidity Risk

Liquidity risk is the risk that the Fund will be unable to service any requested cash requirements, client withdrawals or investment-related expenses. Fund managers are required to maintain adequate liquidity at all times and must remain in a position, within the normal course of business, to meet all the liquidity requirements of clients in a timely manner. The Group's liquidity risk policies aim to ensure an adequate liquidity position by diversifying the investments of a trust fund, identifying and maintaining an appropriate level of highly marketable or liquid assets.

The Trust Committee has overall responsibility for ensuring that the Group's policies on liquidity management are adhered to on a continuing basis. Fund managers and account officers are responsible for executing the liquidity directives of their clients while operating within the Group's policies. Movements and redemptions on the Fund are monitored and reported to the Trust Committee on a regular basis to ensure that potential liquidity problems are timely captured and to mitigate any related risks. Further, stress scenarios indicated in the UITF Liquidity Contingency Plan are simulated on a regular basis to determine the impact of such conditions.

The maturity profile of the Fund's Due from Banks and financial assets at FVTPL are presented in Notes 6 and 7, respectively. The Fund's financial liabilities are expected to be settled in less than one year after the end of each reporting period (see Note 8).

4.4 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default by failing to repay principal and interest in a timely manner.

The Group conducts credit analysis and review of issuers and investments in accordance with the guidelines prescribed in the Basic Standard in the Administration of Trust, Other Fiduciary and Investment Management Accounts. The Group ensures all prospective and existing investments are sound by regularly identifying, measuring, and monitoring counterparties, issuers, and credit exposures. It also manages and limits concentration risk to any single counterparty or group of related counterparties by setting exposure limits at the issuer level or group level. Such limits are monitored and reported regularly to the Trust Committee who is tasked to oversee all trust operations. Proper risk management of the exposures will ensure that the Fund can react to these credit risk concentrations in a timely manner.

Generally, the maximum credit risk exposure of financial assets as of December 31, 2023 and 2022 is the carrying amount of the financial assets as shown in the statements of financial position, as summarized below.

	Notes	**2023**	2022
Due from banks	6	**P 574,312**	P 1,550,315
Financial assets at FVTPL	7	**60,934,815**	44,464,485
		P 61,509,127	P 46,014,800

The maximum credit exposure of financial assets is subject to impairment except for financial assets at FVTPL.

The Group recognizes allowance for ECL on financial assets at amortized cost [see Note 2.3(a)(ii)]. The Group analyzes the credit quality of counterparties based on internal and external factors that affect its performance. As of December 31, 2023 and 2022, the Fund's Due from Banks are held with financial institutions that are rated at least with very strong and satisfactory credit ratings, based on internal rating system of the Group.

The Fund does not have any financial assets that are individually or collectively impaired, nor does it have any significant balances that are past due but not impaired.

Collateral is usually not held against financial assets at FVTPL, and no such collateral was held as of December 31, 2023 and 2022.

5. FAIR VALUE MEASUREMENT AND DISCLOSURES

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets (currently nil) which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which an asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Fund uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

5.1 Financial Instruments Measured at Fair Value

The Fund's financial assets at FVTPL measured at fair value in the statements of financial position on a recurring basis as of December 31, 2023, and 2022, classified under Level 1 amounted to P60,422,529 and P44,145,924, respectively, which pertain to government securities issued by the Philippine government.

In 2023 and 2022, fair values of peso-denominated government debt securities issued by the Philippine government, are determined based on the reference price per Philippine Dealing and Exchange Corporation (PDEx) which used Bloomberg Valuation Service (BVAL). These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithms of direct observations or observed comparable.

Interest receivable on government securities presented as part of Financial Assets at FVTPL amounting to P512,286 and P318,561 as of December 31, 2023 and 2022, respectively, is classified under Level 3.

As of December 31, 2023 and 2022, the Fund does not have financial assets measured at fair value under the Level 2 fair value hierarchy.

The Fund has no financial liabilities measured at fair value as of December 31, 2023 and 2022.

There were no transfers between Levels 1, 2 and 3 in both years.

5.2 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The following table summarizes the fair value hierarchy of the Fund's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed as of December 31, 2023 and 2022:

	Notes	Level 1	Level 3	Total
December 31, 2023				
Resources				
Financial assets at amortized cost – Due from banks	6	**P 574,310**	**P 2**	**P 574,312**
Accountabilities				
Financial liabilities at amortized cost – Other accountabilities	8	**P -**	**P 149,667**	**P 149,667**
December 31, 2022				
Resources				
Financial assets at amortized cost – Due from banks	6	P 1,546,370	P 3,945	P 1,550,315
Accountabilities				
Financial liabilities at amortized cost – Other accountabilities	8	P -	P 111,733	P 111,733

As of December 31, 2023 and 2022, the Fund does not have financial assets and financial liabilities measured at amortized cost under the Level 2 fair value hierarchy.

For financial assets with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

Due from Banks pertains to deposits with various banks and accrued interest income on such deposits. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short term deposits approximate the nominal value.

The Fund considers the carrying amounts of Other Accountabilities recognized in the statements of financial position to be reasonable approximation of their fair values due to their short term duration.

6. DUE FROM BANKS

This account consists of the following:

	2023	2022
Special savings deposits	**P 560,002**	P 1,533,945
Savings deposits	**14,310**	16,370
	P 574,312	P 1,550,315

These deposits are maintained by the Fund with the following:

	2023	2022
Regular bank	**P 574,312**	P 46,370
Other banks	**-**	1,503,945
	P 574,312	P 1,550,315

These accounts earn annual interest is 0.06% in 2023 and from 0.06% to 5.75% in 2022, gross of tax, and is recognized as part of Interest Income in the statements of comprehensive income.

The Fund's special savings account will mature in less than one year both in 2023 and 2022.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As of December 31, 2023 and 2022, the balance of this account consists of government securities issued by the Philippine government, with an aggregate fair value of P60,934,815 and P44,464,485, respectively, which have been determined directly by reference to published prices quoted in an active market.

Government securities earn annual interest of 2.63% to 8.63% in 2023 and ranging from 2.38% to 8.63% in 2022. Interest earned from financial assets at FVTPL is recognized as part of Interest Income in the statements of comprehensive income.

Interest receivable on government securities presented as part of Financial Assets at FVTPL amounted to P512,286 and P318,561 as of December 31, 2023 and 2022, respectively.

The Fund recognized net fair value gains of P1,398,851 and net fair value losses of P1,639,599 in 2023 and 2022, respectively on its investments in financial assets at FVTPL, which are presented as Net Fair Value Gains on Financial Assets at FVTPL and Net Fair Value Losses on Financial Assets at FVTPL, respectively, in the statements of comprehensive income.

The sale of securities with total carrying values of P15,045,245 and P16,868,484, resulted in net losses of P489,799 and P157,543 in 2023 and 2022, respectively, and are presented as Net Loss on Sale of Financial Assets at FVTPL in the statements of comprehensive income.

The Fund's financial assets at FVTPL will mature in less than one year both in 2023 and 2022.

8. OTHER ACCOUNTABILITIES

The balance of this account represents trust fees payable which are expected to be settled within one year from feaeach reporting period. The carrying amount of other accountabilities is a reasonable approximation of its fair value due to its short duration.

9. TRUST FEES

Trust fees are charged at the rate of 1.00% per annum of the net asset value of the Fund.

10. OTHER TRUST EXPENSES

The balance of this account is composed of the following:

	2023	2022
Custodian fees	**P 16,478**	P 15,478
Brokers' Commission	**4,093**	3,947
Others	**281**	184
	P 20,852	P 19,609

The sale and purchase of fixed income investments are subject to broker's commission of 0.02% of the purchase prices.

11. TAXES

Interest income generated by the Fund from due from banks and government securities and income from sale of financial assets were recorded net of applicable final taxes; thus, no taxes were reported in the statements of comprehensive income.

12. COMMITMENTS AND CONTINGENT ACCOUNTABILITIES

In the normal course of the operations of the Fund, through the Group, there are various outstanding commitments and contingent liabilities which are not reflected in the financial statements. The Fund recognizes in the books any losses and liabilities incurred in the course of operations as soon as these become known and quantifiable. The Group believes that as of December 31, 2023 and 2022, no additional material losses or liabilities are required to be recognized in the financial statements of the Fund as a result of these commitments and contingencies.

13. RELATED PARTY TRANSACTIONS

In the normal course of the Group's trust operations, the Fund's certain bank deposit accounts which are presented as part of Due from banks in the statements of financial position include transactions with related parties amounting to P574,310 and P46,370 as of December 31, 2023 and 2022, respectively (see Note 6).

The trust fees charged by the Group which amounted to P542,568 and P417,042 for the years ending December 31, 2023 and 2022, respectively as presented in the statements of comprehensive income, are remitted to BDO Unibank.

14. OTHER MATTERS

14.1 Impact of Russia – Ukraine Conflict on the Company's Business

On February 24, 2022, Russia started its invasion of Ukraine which caused far-reaching impact for economies, markets, and businesses. The ongoing military conflict has introduced a wide range of sanctions against Russia, including certain Russian entities and individuals, and led to significant casualties, dislocation of population, damage to infrastructure, slowdown of business operations in both countries, disruption of supply chains and commodity flows that impact commodity prices such as gas, petrol, cereals, iron, and steel.

A prolonged conflict between Russia and Ukraine may result in a significant slowdown in the global and Philippine economy and therefore a potential consequential deterioration in the business outlook for the Philippines.

The Group being in the trust industry was heavily affected by the spur of inflationary pressures leading to a slow global growth due to the ongoing conflicts. With this, the Group maintains exposure due to the heightened global market volatility leading to fluctuations in asset prices across various financial markets. Hence, the Group remains committed to proactive risk management practices to mitigate the potential impact of the geopolitical event in its financial statements.

However, as of December 31, 2023, the Group, whose business is primarily in the Philippines, has not been affected in a material way by the Russia-Ukraine conflict, despite its inflationary impact on commodity prices and disruption in supply chains. The Philippines remains a domestically focused, import-dependent consumption economy, and Philippine Gross Domestic Product (GDP) numbers remained strong and resilient in 2023. The reopening of the economy, the lifting of mobility restrictions and the resurgence in consumption spending all contributed to this strong GDP performance. This in turn has spurred price increases which necessitated the increase in policy rates to temper inflation. Consequently, it affected the fixed income and equities market negatively. However, the increase in interest rates benefited investors investing in low-risk assets such as time deposits and money market funds which contributed to the AUM and income growth of the Group.

Moreover, the management assessed that the impact of this event is not continuing and therefore will not affect the ability of the Group to continue as going concern.

14.2 Continuing Impact of COVID-19

The COVID-19 pandemic spread in the Philippines in early 2020, significantly impacting the nation's economy and society in general. Successful efforts to contain the pandemic via health and safety protocols including vaccination of bulk of the population led to the lifting of mobility restrictions in early 2023, ushering in a return to normalized levels of consumer and business activities.

As a result, the impact of the COVID-19 pandemic to the Fund has considerably diminished and the Group's operations have gone back to pre-pandemic levels. In 2023, an increase in net profit of 570% was registered for the Fund.

Management will continue to monitor any potential risks that may arise from lingering COVID-19 issues, and will institute measures to mitigate these, as needed. Based on the country's economic growth performance, management is optimistic that the Group will continue to post positive results. Accordingly, management has not determined any material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern due to the effects of the pandemic.

15. TRUST RESERVES

Under BSP Circular No. 447, *Regulations Governing the Creation, Administration and Investment/s of Unit Investment Trust Funds,* the provision for statutory and liquidity reserves applicable to trust funds in general shall not be required for UITF.

16. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

This section is required by the BSP under Circular No. 1074-2020, *Amendments to Regulations on Financial Audit for Banks*, to be disclosed as part of the notes to the financial statements. This supplementary information is not a required disclosure under PFRS. As of reporting period, the Group has none to report on *(a) selected financial performance indicators, (b) capital instruments issued, (c) significant credit exposures for loans, (d) credit status of loans, (e) analysis of loan portfolio as to type of security, (f) information on related party loans, (g) secured liabilities and assets pledged as security, and (h) contingencies and commitments arising from off-balance sheet items.*