P&A Grant Thornton

Financial Statements and Independent Auditors' Report

BDO Unibank, Inc.
Trust and Investments Group
BDO Peso Bond Fund
of the Unit Investment Trust Fund

December 31, 2022 and 2021

P&A Grant Thornton

Shaping a Vibrant Tomorrow
#BoldPerspectives #DivergentThinking #ForgingPaths

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 8988 2288

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 Peso Bond Fund of the Unit Investment Trust Fund (UITF – BDO Peso Bond Fund) managed by the Trust and Investments Group (BDO Trust and Invesments Group) of BDO Unibank, Inc. (the Bank), which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of comprehensive income and statements of changes in accountabilities for the years then ended, and notes to the financial statements, including a summary of significant accounting policies. These financial statements were prepared from the transactions recorded in the books of accounts maintained by BDO Trust and Investments Group for the UITF – BDO Peso Bond Fund.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the UITF – BDO Peso Bond Fund as at December 31, 2022 and 2021, 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 discussed 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 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 further draw attention to Note 14 to the financial statements, which describes management's assessment of the impact on the UITF – BDO Peso Bond Fund's financial statements of the business disruptions brought by the coronavirus outbreak and the ongoing Russia-Ukrain conflict.

Our opinion is not modified in respect to 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. 9566639, January 3, 2023, Makati City
SEC Group A Accreditation
Partner - No. 95626-SEC (until financial period 2026)
Firm - No. 0002 (until Dec. 31, 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, 2023

BDO UNIBANK, INC.
TRUST AND INVESTMENTS GROUP
BDO PESO BOND FUND
OF THE UNIT INVESTMENT TRUST FUND
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes		2022		2021
RESOURCES					
DUE FROM BANKS	6	**P**	**119,099,564**	P	323,586,430
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	7		**8,817,280,317**		9,159,511,703
TOTAL RESOURCES		**P**	**8,936,379,881**	P	9,483,098,133
ACCOUNTABILITIES					
PRINCIPAL	2	**P**	**8,535,624,391**	P	8,794,541,163
ACCUMULATED INCOME	2		**376,538,061**		662,176,645
OTHER ACCOUNTABILITIES	8		**24,217,429**		26,380,325
TOTAL ACCOUNTABILITIES		**P**	**8,936,379,881**	P	9,483,098,133

See Notes to Financial Statements.

BDO UNIBANK, INC.
TRUST AND INVESTMENTS GROUP
BDO PESO BOND FUND
OF THE UNIT INVESTMENT TRUST FUND
STATEMENTS OF COMPREHENSIVE INCOME*
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2022	2021
INCOME			
Interest income	6, 7	**P 300,397,665**	P 307,945,749
Net gain on sale of financial assets	7	**-**	19,813,723
Others		**20,454**	77,421
		300,418,119	327,836,893
EXPENSES			
Net fair value losses on financial assets	7	**318,523,333**	280,953,538
Trust fees	9	**94,812,415**	99,547,377
Net loss on sale of financial assets	7	**62,076,451**	-
Others	10	**3,083,611**	2,233,449
		478,495,810	382,734,364
NET LOSS		**(P 178,077,691)**	(P 54,897,471)

* The Fund has no other comprehensive income (loss) transactions in 2022 and 2021.

See Notes to Financial Statements.

BDO UNIBANK, INC.
TRUST AND INVESTMENTS GROUP
BDO PESO BOND FUND
OF THE UNIT INVESTMENT TRUST FUND
STATEMENTS OF CHANGES IN ACCOUNTABILITIES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	**2022**	2021
PRINCIPAL FUND BALANCE	2		
Principal			
Balance at beginning of year		**P 8,794,541,163**	P 8,275,004,149
Net contributions (withdrawals)		**(258,916,772)**	519,537,014
Balance at end of year		**8,535,624,391**	8,794,541,163
Accumulated Income			
Balance at beginning of year		**662,176,645**	836,612,539
Net loss		**(178,077,691)**	(54,897,471)
Withdrawals		**(107,560,893)**	(119,538,423)
Balance at end of year		**376,538,061**	662,176,645
Total Principal Fund Balance		**8,912,162,452**	9,456,717,808
OTHER ACCOUNTABILITIES	8		
Balance at beginning of year		**26,380,325**	59,362,528
Net payments		**(2,162,896)**	(32,982,203)
Balance at end of year		**24,217,429**	26,380,325
TOTAL ACCOUNTABILITIES		**P 8,936,379,881**	P 9,483,098,133

See Notes to Financial Statements.

BDO UNIBANK, INC.
TRUST AND INVESTMENTS GROUP
BDO PESO BOND FUND
OF THE UNIT INVESTMENT TRUST FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(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, 2022, BDO Unibank had 1,199 branches (including two foreign branches), 2,385 on-site and 2,269 off-site automated teller machines, 640 cash accept machines, 8 self-service teller machines and 1 automated teller machine, all located nationwide.

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.

Among the UITFs set up by the Group are the BDO Peso Fixed Income Fund and BDO Peso Bond Fund, (collectively hereinafter referred to as the Funds), which were introduced on April 29, 2005 and April 1, 2005, respectively. On February 10, 2017, the Funds were merged under one fund and was renamed as the new BDO Peso Bond Fund (the Fund). On July 22, 2020, the BDO GS Fund (GSF) was consolidated into the Fund, which aimed to provide GSF clients access to a more diversified investment strategy through the Fund's flexibility to invest in corporate bonds for better return opportunities. On February 11, 2022, the Fund was converted to a multi-class Fund composed of two (2) unit classes, namely: (1) Retail Unit Class (R); and (2) Merit Unit Class (I). Investments of existing participants of the BDO Peso Bond Fund were automatically classified as investments in the Fund's Retail Unit Class while participants of the BDO Merit Fund were consolidated into and initially composed the Fund's Merit Unit Class. The Fund is a peso-denominated bond fund that aims to provide its participants a high level of income with preservation of capital and maintenance of liquidity by investing in a combination of short to long-term fixed-income securities. The Fund's Retail Unit Class is suitable for investors with moderate risk appetite and has a recommended investment time horizon of at least three years. While the Fund's Merit Unit Class is available for TIG-managed Retirement Plans with existing investment management accounts (IMA) or trust and other fiduciary accounts (TA) with moderate risk appetite. The minimum investment amount is P 10,000 for the Retail Unit Class and P 1,000 for the Merit Unit Class. The Net Asset Value per unit (NAVpu) of the Fund's Retail Unit Class as at the last trading day of 2022 and 2021 is P 2,299.1828 and P 2,340.2051, respectively. The NAVpu of the Fund's Merit Unit Class as at the last trading day of 2022 is P 2,302.7251.

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, 2022 (including the comparative financial statements as of and for the year ended December 31, 2021) were authorized for issue by the Board of Directors of BDO Unibank on April 18, 2023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies 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 outside 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 Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, 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 Standards (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 the Guidelines for each type of asset, accountability, income and expense. 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 PFRS

(a) Effective in 2022 that are Relevant to the Fund

The Fund adopted for the first time the following amendment and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2022

PAS 37 (Amendments)	:	Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to PFRS (2018-2020 Cycle)		
PFRS 9 (Amendments)	:	Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities

Discussed below are the relevant information about these pronouncements.

(i) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract.* The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services. Costs that relate directly to a contract include both incremental costs of fulfilling that contract (e.g., direct labor and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g., the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The application of these amendments had no significant impact on the Fund's financial statements.

(ii) Annual Improvements to PFRS 2018-2020 Cycle. The amendments which do not have significant impact are relevant to the Fund's financial statements: PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities.* The amendments clarify the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

(b) Effective in 2022 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, 2022, the following are not relevant to the Fund's financial statements:

(i) PFRS 3 (Amendments), *Business Combinations - Reference to the Conceptual Framework* (effective from January 1, 2022)

(ii) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are not relevant to the Fund:

a. PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Subsidiary as a First-time Adopter*

b. PFRS 16 (Amendments), *Leases – Lease Incentives*

c. PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use*

d. PAS 41, *Agriculture – Taxation in Fair Value Measurements*

(c) Effective Subsequent to 2022 but not Adopted Early

There are amendments to existing standards effective for annual periods subsequent to 2022 which are adopted by the FRSC. The Group will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, 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, 2023)

(ii) PAS 1 and PFRS Practice Statement 2 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective from January 1, 2023)

(iii) PAS 8 (Amendments), *Accounting Estimates – Definition of Accounting Estimates* (effective from January 1, 2023)

2.3 Financial Instruments

Financial assets and financial liabilities are recognized when the Fund 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 in profit or loss.

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 page.

Financial Assets at Amortized Cost

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Fund's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect" or "HTC"); and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

All financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for expected credit loss (ECL).

Where the business model is to hold assets to collect contractual cash flows, the Group assesses whether the financial instruments' cash flows represent 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. 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 receivable.

Financial Assets at Fair Value Through Profit or Loss

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. The Fund's financial assets at FVTPL include government securities and corporate bonds, 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 Bank'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 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.

The key element used in the calculation of ECL are as follows:

- *Probability of default (PD)* – This is a quantitative measure of default risk based on the general credit worthiness of the borrower or issuer. It is the likelihood of a borrower defaulting on its obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. A related measurement of default is the survival rate, which is the chance that the loan will be repaid.

- *Loss given default (LGD)* – The fraction of loan value or exposure that is likely to be lost in the event of borrower default. The loss statistic is specific to the facility structure and thus, associated with the facility risk rating. A related measure is the recovery rate, which is the percentage of the defaulted principal that can be recovered if default occurs.

- *Exposure at default (EAD)* – It represents the gross carrying amount of the financial instruments subject to the impairment calculation. The EAD is measured at book value of facilities granted with an assumption that most short-term lines and credit commitments are fully drawn at default. In case of a loan commitment, the Fund shall include the potential availment (up to the current contractual limit) at the time of default should it occur.

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

(iv) Reclassification of Financial Assets

The Fund can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Fund is 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 Fund's 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 Fund becomes a party to the contractual terms of the instrument.

Financial liabilities are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method, for those with maturities beyond one year, less settlement payments. All interest-related charges, if any, are recognized as an expense in the statements of comprehensive income.

Financial liabilities are derecognized from the statements of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Financial liabilities are also derecognized when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in the statements of comprehensive income.

(c) Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statements of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.4 Current versus Non-current Classification

The Fund's resources and accountabilities presented in the statements of financial position are based on liquidity. As of December 31, 2022 and 2021, all resources (assets) and accountabilities (liabilities) of the Fund are classified as current.

An asset is current when it is:

- expected to be realized or intended to be sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within 12 months after the reporting period; or
- cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as non-current.

2.5 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources, and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

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 financial statements. Similarly, possible inflows of economic benefits to the Fund that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Fund 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.

2.6 Principal Fund Balance

Principal consists of the pooled contributions of investors, reduced by the amounts of withdrawals, if any.

Accumulated income includes all current and prior period results of operations as reported in the profit or loss section of the statements of comprehensive income, reduced by the amounts of income withdrawals.

2.7 Taxes

Taxes consist of final taxes paid on interest income generated by the Fund on its investments and final taxes on income from sale of financial assets. Final tax is calculated according to the tax rates applicable to the investments to which the income relates.

2.8 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Fund or BDO Unibank and their related parties, regardless of whether a price is charged.

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 and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control of BDO Unibank; (b) associates; and (c) individuals owning, directly or indirectly, an interest in the voting power of BDO Unibank that gives them significant influence over the BDO Unibank and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.9 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Fund's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

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

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.5 and 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 as follows:

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 Fund's overall portfolio. 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.

VaR limits represent management's tolerance for a potential loss over a one-day time horizon, using a 99% level of confidence. The VaR limit system is designed to reduce risk when increases in market volatility are captured in the daily VaR measurement process. The limit is derived by considering the historical daily VaR movement of the Fund.

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 the reporting periods:

	2022	2021
VaR	**P 87,966,691**	P 36,777,305
Stress test	**P 733,599,816**	P 533,455,389
Modified duration	**2.74**	1.93

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 Group 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 Group 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, 2022 and 2021 is the carrying amount of the financial assets as shown in the statements of financial position, as summarized below:

	Notes	2022	2021
Due from banks	6	**P 119,099,564**	P 323,586,430
Financial assets at FVTPL	7	**8,817,280,317**	9,159,511,703
		P 8,936,379,881	P9,483,098,133

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, 2022 and 2021, the Fund's Due from Banks are held with financial institution and/or counterparties 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 at December 31, 2022 and 2021.

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 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 fair value hierarchy of 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, 2022 and 2021 are shown as follows (see Note 7):

	2022	2021
Level 1		
Corporate bonds	**P 988,614,088**	P1,375,800,678
Government securities	**7,774,606,600**	7,736,018,648
	P 8,763,220,688	P9,111,819,326
Level 3		
Corporate bonds	**P 6,151,177**	P 10,202,882
Government securities	**47,908,452**	37,489,495
	P 54,059,629	P 47,692,377

As at December 31, 2022 and 2021, 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, 2022 and 2021.

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

The fair value of the Fund's debt securities, which are categorized within Level 1, is discussed as follows.

- The fair values of peso-denominated government debt securities issued by the Philippine government are determined based on the reference price per Philippine Dealing & Exchange Corp (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.

- The fair values of the Fund's debt securities which consist of corporate bonds is determined by following the hierarchy of rates prescribed in the BSP Circular No. 813, *Amendment on Market Valuation of Government Securities*, using rates quoted in PDEx for peso denominated securities at the end of the reporting period.

Interest receivable on debt securities is classified under Level 3 hierarchy.

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, 2022 and 2021:

	Notes	**Level 1**	**Level 3**	**Total**
December 31, 2022				
Resources				
Financial assets at amortized cost – Due from banks	6	**P 118,781,748**	**P 317,817**	**P 119,099,564**
Accountabilities				
Financial liabilities at amortized cost – Other accountabilities	8	**P -**	**P 24,217,429**	**P 24,217,429**
December 31, 2021				
Resources				
Financial assets at amortized cost – Due from banks	6	P 323,494,319	P 92,111	P 323,586,430
Accountabilities				
Financial liabilities at amortized cost – Other accountabilities	8	P -	P 26,380,325	P 26,380,325

As at December 31, 2022 and 2021 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 deposit approximates 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

The balance of this account is composed of the following:

	2022	2021
Special savings deposits	**P 114,317,817**	P 322,992,111
Savings deposits	**4,781,747**	594,319
	P 119,099,564	P 323,586,430

Due from banks are maintained by the Fund with the following:

	2022	2021
Regular bank	**P 18,781,786**	P 63,494,319
Other banks	**100,317,778**	260,092,111
	P 119,099,564	P 323,586,430

Annual interest earned on these deposits ranges from 0.06% to 5.50% and 0.06% to 1.20% in 2022 and 2021, respectively, gross of tax, and is recognized as part of Interest Income in the statements of comprehensive income.

As of December 31, 2022 and 2021, the Fund's special savings account will mature in less than one year.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of the following:

	2022	2021
Corporate bonds	**P 994,765,265**	P 1,386,003,560
Government securities	**7,822,515,052**	7,773,508,143
	P 8,817,280,317	P 9,159,511,703

All amounts presented have been determined directly by reference to published prices quoted in an active market.

Government securities are issued by the Philippine government and earn annual interest rates (gross of tax) ranging from 2.38% to 8.63% and from 1.45% to 13.00% in 2022 and 2021, respectively. Corporate bonds are issued by Philippine companies and earn annual interest rates ranging from 5.27% to 5.62% in 2022 and from 3.38% to 6.68% in 2021. Interest earned from financial assets at FVTPL is recognized as part of Interest Income in the statements of comprehensive income.

Interest receivable on debt securities presented as part of Financial Assets at FVTPL amounted to P54,059,629 and P47,692,337 as of December 31, 2022 and 2021, respectively.

The Fund recognized net fair value loss of P318,523,333 and P280,953,538 in 2022 and 2021, respectively, on its investments in financial assets at FVTPL, respectively, which are presented as Net Fair Value Losses on Financial Assets in the statements of comprehensive income.

The sale of financial assets with total carrying values of P6,738,193,189 and P5,596,997,505 in 2022 and 2021, respectively, resulted in net losses of P62,076,451 and net gains of P19,813,723 in 2022 and 2021, respectively, and are presented as Net Gain or Loss on Sale of Financial Assets in the statements of comprehensive income.

The maturity profile of the Fund's financial assets at FVTPL is presented below.

	2022	2021
Within one year	**P -**	P 2,126,351,260
One to five years	**8,082,864,037**	6,778,392,682
More than five years	**734,416,280**	254,767,761
	P 8,817,280,317	P 9,159,511,703

8. OTHER ACCOUNTABILITIES

The balance of this account consists of the following:

	2022	2021
Trust fees payable	**P 22,248,933**	P 24,934,321
Accounts payable	**1,762,076**	433,672
Due to brokers	**51,389**	1,012,332
Others	**155,031**	-
	P 24,217,429	P 26,380,325

Due to brokers arises from purchase of securities which are normally settled within three days from the trade date.

Accounts payable pertains to unpaid principal redemption at the end of the year. Other accountabilities are expected to be settled in less than one year after the end of each reporting period.

9. TRUST FEES

Trust fees are charged at the rate of 1.00% and 0.825% per annum of net asset value of the Fund's Retail Unit Class and Merit Unit Class, respectively.

10. OTHER EXPENSES

The balance of this account is composed of the following:

	2022	2021
Administrative expenses	**P 1,627,129**	P -
Custodianship fees	**1,239,071**	1,949,659
Brokers' commission	**147,744**	212,696
Others	**69,667**	71,094
	P 3,083,611	P 2,233,449

Sales and purchases of fixed income investments are subject to brokers' commission of 0.02% of the purchase price.

11. TAXES

Interest income from due from banks and debt-securities and income from sale of debt securities generated by the Fund were recorded net of applicable taxes; thus, no taxes were reported in the statements of comprehensive income for these transactions.

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, 2022 and 2021, 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 has invested to BDO Unibank and to its various related parties including its parent company (SMIC) and other related interests as of December 31 as follows:

Related Party Category	2022	2021
BDO Unibank (own bank)		
Deposit in banks	**P 18,781,748**	P 63,494,319
Other Related Interest		
Debt instruments	**-**	84,539,017
Entities Under Common Control		
Debt instruments	**123,873,911**	-

The balances arising from the transactions above are presented as part of Due from Banks and Financial Assets at FVTPL accounts in the statements of financial position (see Notes 6 and 7).

The trust fees charged by the Group which amounted to P94,812,415 and P99,547,377 for the years ending December 31, 2022 and 2021, 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 individual 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.

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. The persistent inflation and tighter financial condition have caused the downward trajectory of the market, hence, incurring significant fair value losses on its financial assets during the year.

However, 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 started to become widespread in the Philippines in early March 2020 and its impact has been continuing until the date of the approval of these financial statements. The measures taken by the government to contain the virus have affected economic conditions and the Group's business operations.

In 2020 to 2022, the Group has taken the following measures to mitigate the adverse effects of the COVID-19 pandemic to the Group's business:

- Activated Business Continuity Plan to enable dual-site processing capabilities or team redundancies in the event one site becomes contaminated. Senior management likewise split among sites and skeletal crews;

- Implemented occupational safety and health standards to provide a safe and sanitized environment for both clients and employees through the strict observance of health and safety protocols, retrofitting of workspaces, vaccination efforts and periodic testing for employees to minimize infection within the workplace; and,

- Performed review of loan and investments accounts to assess vulnerable sectors and recognized additional allowance for impairment.

The rise of mild symptoms Covid-19 variant Omicron in early 2022 reduced the heightened cautions stance on the virus. By April 2022, all employees of the Group reported back to the office thus ending the hybrid work arrangement.

Even with substantially reduced effect of the Covid-19, management will continue to take actions to continually improve the operations as the need arises. Based on the actions taken, management projects that the Group would continue to report positive results of operations. Management do not expect unusual liquidity requirements to service clients' request for withdrawals and redemptions. The Group has not determined material uncertainty due to the Covid pandemic that may cast significant doubt on the Group's ability to continue as a going concern.

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.