

Philippine Savings Bank

Financial Statements
of the PSBank Money Market Fund
Operated by the Trust Division
December 31, 2023 and 2022

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Philippine Savings Bank

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the PSBank Money Market Fund (“the Fund”) operated by the Trust Division of Philippine Savings Bank (“the Bank”), which comprise the statements of net assets as at December 31, 2023 and 2022 and the statements of comprehensive income and the statements of changes in net assets for the years then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund operated by the Trust Division of the Bank as at December 31, 2023 and 2022, and its financial performance for the years then ended in accordance with Regulatory Accounting Principles (RAP) of the Bangko Sentral ng Pilipinas (BSP).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit 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 Matter – Basis of Accounting

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Fund to meet the requirements of the BSP. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.



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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with RAP of the BSP, and for such internal control as management determines is necessary to enable the preparation of the 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 Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with PSAs 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 PSAs, 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 the Fund'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 Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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PHILIPPINE SAVINGS BANK
STATEMENTS OF NET ASSETS
OF THE PSBANK MONEY MARKET FUND
OPERATED BY THE TRUST DIVISION

	December 31	
	2023	2022
ASSETS		
Deposits in banks (Note 6)	₱206,155,282	₱449,215,474
Fair value through profit or loss investments (Note 7)	437,503,723	348,786,906
Other assets (Note 8)	1,425,679	2,553,663
	645,084,684	800,556,043
LIABILITIES		
Accrued trust fees and other liabilities (Note 9)	329,652	₱689,858
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (Note 13)	₱644,755,032	799,866,185
NET ASSET VALUE PER UNIT (Note 13)	₱121.71	₱116.42

See accompanying Notes to Financial Statements.



PHILIPPINE SAVINGS BANK
STATEMENTS OF COMPREHENSIVE INCOME
OF THE PSBANK MONEY MARKET FUND
OPERATED BY THE TRUST DIVISION

	Years Ended December 31	
	2023	2022
REVENUE		
Interest income on:		
Deposits in banks (Note 6)	₱13,234,840	₱5,941,546
Fair value through profit or loss investments (Note 7)	29,756,325	17,154,093
Trading and securities gains - net (Note 7)	54,806	(1,420,422)
Miscellaneous income	316	2,690
	43,046,287	21,677,907
EXPENSES		
Trust fees (Note 9)	3,519,129	4,578,555
Custody fee	171,449	156,789
Professional fees	21,856	73,878
Documentary stamp tax	32,110	6,239
	3,744,544	4,815,461
INCOME BEFORE INCOME TAX	39,301,743	16,862,446
PROVISION FOR FINAL TAX (Note 12)	(8,598,235)	(4,619,128)
TOTAL COMPREHENSIVE INCOME*	₱ 30,703,508	₱12,243,318

*There are no other comprehensive income items for the years ended December 31, 2023 and 2022.
See accompanying Notes to Financial Statements.



PHILIPPINE SAVINGS BANK
STATEMENTS OF CHANGES IN NET ASSETS
OF THE PSBANK MONEY MARKET FUND
OPERATED BY THE TRUST DIVISION

	Years Ended December 31	
	2023	2022
PRINCIPAL		
Balance at beginning of year	₱744,507,339	₱963,501,320
Contributions	69,294,265	137,121,140
Withdrawals	(238,351,927)	(356,115,121)
Balance at end of year	575,449,677	744,507,339
ACCUMULATED EARNINGS		
Balance at beginning of year	55,358,846	57,132,067
Total comprehensive income	30,703,508	12,243,318
Withdrawals	(16,756,999)	(14,016,539)
Balance at end of year	69,305,355	55,358,846
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		
(Note 13)	₱644,755,032	₱799,866,185

See accompanying Notes to Financial Statements.



PHILIPPINE SAVINGS BANK

**NOTES TO FINANCIAL STATEMENTS
OF THE PSBANK MONEY MARKET FUND
OPERATED BY THE TRUST DIVISION**

1. General Information

Philippine Savings Bank (the Bank) was granted a license by the Monetary Board (MB) of the Bangko Sentral ng Pilipinas (BSP) to engage in trust services on August 12, 1993. The trust operations of the Bank are managed by the Trust Division (the TD).

On January 2, 2014, the Bank through its TD, launched the PSBank Money Market Fund (the Fund), a unit investment trust fund (UITF). The Fund was created to achieve liquidity and generate income by investing in a diversified portfolio of short-term Philippine peso-denominated fixed income investments with a portfolio duration of not more than one year.

The TD's principal place of business is at 17th Floor, PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City.

2. Material Accounting Policy Information

Basis of Preparation

The accompanying combined financial statements of the trust and managed funds operated by the TD of the Bank are issued in compliance with the following BSP guidelines:

- a. BSP memorandum dated October 16, 1990, as amended;
- b. Revised Manual of Accounts (MOA) for Trust, Other Fiduciary Business and Investment Management Activities dated February 14, 2002;
- c. BSP Circular No. 494, dated September 20, 2005;
- d. BSP Circular No. 609, dated May 26, 2008;
- e. BSP Circular No. 653, dated May 5, 2009;
- f. BSP Circular No. 813, dated September 27, 2013;
- g. BSP Circular No. 1021, dated November 15, 2018;
- h. BSP Circular No. 1023, dated December 4, 2018;
- i. BSP Circular No. 1032, dated February 15, 2019;

The accompanying financial statements have been prepared on a historical cost basis, except for fair value through profit or loss (FVTPL) investments. The financial statements of the Fund are presented in Philippine Peso, the Fund's functional currency. All values are rounded off to the nearest peso, except when otherwise indicated.



Statement of Compliance

The financial statements of the Fund have been prepared in compliance with the Regulatory Accounting Principles (RAP) of the BSP, which differ from Philippine Financial Reporting Standards (PFRS) in some respects, as follows:

- the provisions of PFRS are only applied to accounts outstanding as at December 31, 2008 and thereafter;
- no presentation of the statements of cash flows in the financial statements; and
- foreclosed assets are initially recognized at the carrying amount of the loan plus booked accrued interest receivable less allowance for credit losses plus transaction costs incurred upon acquisition.

Presentation of Financial Statements

The Fund is presented in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within twelve (12) months after the reporting date (current) and more than twelve (12) months after the reporting date (non-current) is presented in Note 10.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as at January 1, 2023. The TD has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Unless otherwise indicated, adoption of these new standards did not have an impact on the combined financial statements of the trust and managed funds operated by the TD.

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies, and
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments to the Practice Statement provide non-mandatory guidance.

- Amendments to PAS 8, *Definition of Accounting Estimates*

The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*



The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

- Amendments to PAS 12, *International Tax Reform – Pillar Two Model Rules*

The amendments introduce a mandatory exception in PAS 12 from recognizing and disclosing deferred tax assets and liabilities related to Pillar Two income taxes.

The amendments also clarify that PAS 12 applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two Model Rules published by the Organization for Economic Cooperation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes. Such tax legislation, and the income taxes arising from it, are referred to as ‘Pillar Two legislation’ and ‘Pillar Two income taxes’, respectively.

The temporary exception from recognition and disclosure of information about deferred taxes and the requirement to disclose the application of the exception, apply immediately and retrospectively upon adoption of the amendments in June 2023.

Meanwhile, the disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023.

Material Accounting Policy Information

On April 3, 2008, the MB, in its Resolution No. 527, approved the revised MOA for trust institutions to align the MOA with the provisions of PFRS and the Financial Reporting Package for Trust institutions (FRPTI). The FRPTI was issued by the BSP through BSP Circular No. 609 dated May 26, 2008.

On April 23, 2009, the MB, in its Resolution No. 601, approved the guidelines (the Guidelines) in the preparation of the financial statements of trust institutions for financial reporting periods beginning January 1, 2008. On May 5, 2009, the Guidelines were issued by the BSP through Circular No. 653, as follows:

- a. Trust institutions shall adopt the provisions of PFRS;
- b. PFRS shall be applied only to accounts outstanding as of December 31, 2008;
- c. Statement of cash flows need not be presented in the financial statements;
- d. Trust institutions are allowed to prepare the financial statements on a single year basis in the initial year of PFRS adoption; and
- e. Only general description on risk management for financial instruments may be disclosed in the financial statements.

On September 13, 2013, the MB, in its Resolution No. 1504, amended the guidelines on the market valuation of government securities through the issuance of BSP Circular No. 813. The benchmark or reference prices in the valuation of government securities shall be based on the weighted average of done or executed deals in a trading market registered with the SEC.



On November 8, 2018, the MB, in its Resolution No. 1848, approved the guidelines on the marking to market financial instruments through the issuance of BSP Circular No. 1021, to align with the existing provisions of PFRS 13, *Fair Value Measurement*. Fair value is based on the 'exit price' notion and uses 'fair value hierarchy' which results in a market-based, rather than entity-specific measurement.

On November 22, 2018, the MB, in its Resolution No. 1964, amended the guidelines on the classification and measurement of financial instruments through the issuance of BSP Circular No. 1023. Trust entities are required to adopt the provisions of PFRS 9 on its financial assets and liabilities.

On February 15, 2019, the MB, in its Resolution No. 112, approved the amendments to the Manual of Regulations for Banks (MORB) and Manual of Regulations for Non-Bank Financial Institutions (MORNBFI), respectively, on the administration of compliance with the basic security deposit requirement through the issuance of BSP Circular No. 1032. Haircuts for government securities shall be determined based on the remaining maturity of the security from the end of the reference quarter and applied on the fair value of the government securities used as compliance with basic security deposit.

Fair Value Measurement

The TD, on behalf of the unitholders, measures financial instruments, such as FVTPL investments, financial assets at FVOCI and derivative financial instruments, at fair value at each statement of condition date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the TD. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. If an asset or a liability measured at fair value has a bid price and an ask price (e.g. an input from a dealer market), the price between the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The TD, on behalf of the unitholders, uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.



All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the TD, on behalf of the unitholders, determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the TD, on behalf of the unitholders has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset and liability and the level of the fair value hierarchy as explained above.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets, except for derivatives, that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivatives are recognized on a trade date basis. Loans and receivables and amounts due from BSP and other banks are recognized when cash is advanced to the borrowers.

Initial recognition and classification of financial instruments

All financial instruments, including trading and investment securities and loans and receivables, are initially measured at fair value. Except for fair value through profit/loss (FVPL) investments and liabilities, the initial measurement of financial instruments includes transaction costs.

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from an observable market, the TD, on behalf of the trustors, recognizes the difference between the transaction price and the fair value (a 'Day 1' difference) in the combined statement of income unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in the combined statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the TD, on behalf of the trustors, determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial Instruments – Classification and Subsequent Measurement

Financial assets are measured at FVTPL unless these are measured at FVOCI or at amortized cost. Financial liabilities are classified as either financial liabilities at FVTPL or financial liabilities at amortized cost. The classification of financial assets depends on the contractual terms and the business model for managing the financial assets. Subsequent to initial recognition, the TD, on behalf of the trustors, may reclassify its financial assets, except for equity securities designated at FVOCI, only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.



The TD, on behalf of the trustors determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. As a second step of its classification process, the TD, on behalf of the trustors, assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test (SPPI test).

Investments at FVTPL

Financial assets or financial liabilities at FVTPL

Financial assets and financial liabilities at FVTPL include financial assets and financial liabilities held for trading purposes and derivative instruments.

Financial instruments held-for-trading

Other financial assets or financial liabilities held for trading (HFT) are recorded in the statements of condition at fair value. Included in this classification are debt securities which have been acquired principally for the purpose of selling in the near term. Changes in fair value relating to the HFT positions are recognized in 'Trading and securities gains (losses) - net'. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in other operating income under 'Miscellaneous' when the right to receive payment has been established.

Derivatives recorded at FVTPL

Derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as cash flow hedges) are taken directly to the statements of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

As of December 31, 2023 and 2022, the Fund does not hold derivative instruments in its financial statements.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the TD, on behalf of the unitholders, has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
 - (a) The TD, on behalf of the unitholders, has transferred substantially all the risks and rewards of the asset, or
 - (b) The TD, on behalf of the unitholders, has neither transferred nor retained the risks and rewards of the asset but has transferred control over the asset.

Where the TD, on behalf of the unitholders, has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the TD's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the TD, on behalf of the unitholders, could be required to repay.



Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the trust and managed funds could be required to repay.

Financial assets are written off either partially or in their entirety only when the TD has stopped pursuing the recovery. If a write-off is later recovered, any amounts formerly charged are credited to 'Provision for (Reversal of) credit and impairment losses' in the statements of income.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Offsetting Financial Instruments

Financial instruments are offset and the net amount reported in the statement of condition when there is a legally enforceable right to offset the recognized amounts and the TD, on behalf of the unitholders, intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously. The TD, on behalf of the unitholders, assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the TD and all of the counterparties.

Reclassification of Financial Assets

The TD reclassifies its financial assets when there is a change in its business model for managing financial assets. A change in business model occurs when the TD either begins or ceases to perform an activity that is significant to its operations. The TD applies the reclassification prospectively from the reclassification date and does not restate any previously recognized gains, losses or interest.

Impairment of Financial Assets

PFRS 9 requires the TD, on behalf of the unitholders, to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with loan commitments and financial guarantee contracts.

Expected credit loss methodology

ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The objective of the new impairment standard is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances are now measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that result from all possible default events over the expected life of a financial instrument. In comparison, the previous incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment.



Staging assessment

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.

Significant increase in credit risk (SICR)

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative models, the borrower or counterparty's credit rating has deteriorated by at least 2 notches. On the other hand, if based on the Bank's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses, then credit risk may have significantly increased as well. Moreover, if contractual payments are more than 30 days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which amortized payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

ECL parameters and methodologies

ECL is a function of the probability of default (PD), exposure at default (EAD) and loss given default (LGD).

The PD represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for the instruments are estimated based on current market conditions and reasonable and supportable information about future economic conditions. EAD is modelled on historical data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate.

Economic overlays and multiple economic scenarios

The TD, on behalf of the trustors, incorporates economic overlays into the measurement of ECL to add a forward-looking risk measure parallel to the expected future macroeconomic atmosphere expectations. A broad range of economic indicators were considered for the economic inputs such as GDP, GIR change, CPI change, PSE indices, foreign exchange rates and other BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To address this, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.



Revenue Recognition

Revenue from contracts with customer is recognized upon transfer of services to the customer at an amount that reflects the consideration to which trust and managed funds expects to be entitled in exchange for those services.

Interest income

Interest on financial instruments is recognized based on the effective interest method.

The EIR is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the EIR, the TD, on behalf of the unitholders, estimates cash flows from the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the EIR, transaction costs and all other premiums or discounts.

When a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed in “Impairment of Financial Assets” above), the TD, on behalf of the trustors, calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the TD, on behalf of the trustors reverts to calculating interest income on a gross basis.

Trading and securities gains (losses)

Trading and securities gain (loss) represents results arising from trading activities, including all gains and losses from changes in the fair values and sale of FVTPL investments.

Expense Recognition

Expenses are recognized when it is probable that a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has occurred, and that decrease in economic benefits can be measured reliably. Expenses are recognized when incurred. Expenses mainly represent trust fees.

Provisions

Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event, it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where it is expected that some or all of a provision is to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as ‘Interest expense’ in the statement of income.

Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognized but are disclosed in the financial statements unless the possibility of an outflow of assets embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.



Income Taxes

Current taxes

Current tax assets and liabilities for the current periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Taxes substantially represent final withholding tax of 20.00% on peso earnings and 15.00% on dollar earnings in 2023 and 2022, respectively.

Events after the Reporting Period

Any post year-end event that provides additional information about the trust and managed funds' position at the statement of condition date (adjusting event) is reflected in the financial statements. Any post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Standards issued but not yet effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Trust Division, on behalf of the trustors does not expect that the future adoption of the said pronouncements will have a significant impact on the combined financial statements of the trust and managed funds.

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*
- Amendments to PAS 7 and PFRS 7, *Disclosures: Supplier Finance Arrangements*

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*
- Amendments to PAS 21, *Lack of exchangeability*

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with the RAP of the BSP which differs from PFRS in some respects, requires the TD, on behalf of the unitholders, to make judgments and estimates that affect the reported amount of assets, liabilities, income and expenses, and the accompanying disclosures, as well as the disclosure of contingent assets and contingent liabilities, if any. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any changes in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgment

In the process of applying the TD's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:



(a) *Fair value of financial instruments*

When the fair values of financial assets and financial liabilities in the statements of assets and liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model.

The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility for longer-dated derivatives and discount rates, prepayments and default rates assumptions. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair values of the TD's financial instruments are disclosed in Note 5.

(b) *Classification of financial assets*

The TD, on behalf of the trustors, classifies its financial assets depending on the business model for managing those financial assets and whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

The TD, on behalf of the trustors, performs the business model assessment in accordance with pre-defined investment objectives, trustors' liquidity requirement and investment horizon and based on observable factors such as:

- Performance of the business model and the financial assets held within that business model are evaluated
- Risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- Expected frequency, value and timing of sales

In performing the SPPI test, the TD, on behalf of the trustors, applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, the period for which the interest rate is set, contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms and other features that may modify the consideration for the time value of money.

4. **Financial Risk Management Objectives and Policies**

Effective risk management ensures that risks taken are properly identified, assessed, measured and managed. The diligent monitoring and management of risks are being built via the development of a risk culture that will cover daily business activities and decision-making.

The TD, on behalf of the unitholders, believes that effective risk management shall not only minimize potential or actual losses but will likewise optimize earnings. Its risk mission and objectives target periodic, consistent and accurate measurement of risks for more effective management. Its objective is to always consider risk and return on all transactions and exposures to ensure adequate returns on principal contributions. Risk mitigation strategies form part of risk management activities.

The Board of Directors (BOD) of the Bank provides overall governance on all activities of the TD. The BOD sets strategy, ensures there are procedures and policies to guide trust activities, and is responsible for monitoring the TD's performance.



The Internal Audit Group conducts an annual review of trust operations to ensure that established policies and procedures are strictly followed.

The Compliance Group of the Bank maintains and updates the Trust Compliance Program. The program includes a specific checklist for the TD which is the basis for the conduct of monthly testing for compliance with local laws and regulations.

The Risk Management Office (RMO) of the Bank monitors key risks and market risks based on regular reports submitted by the TD. Regular reports to the RMO include Key Risk Indicators and Investment Holdings of Trust Accounts.

Risk Management Structure and Policies

Trust Committee

The Trust Committee of the Bank is ultimately responsible for identifying and controlling risks. The Trust Committee reviews and enforces the satisfactory discharge of all trust, investment management and fiduciary duties and responsibilities.

Both the BOD and the Trust Committee review the policies and procedures of the TD. Regular reports to the Trust Committee and BOD include the Trust Performance Report, Trust Accounts Opened and Closed, and Income and Expense Report.

Risk Measurement and Reporting

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to perform its obligations during the life of the transaction. This includes risk of non-payment by borrowers or issuers, failed settlement of transactions and default on contracts.

As of December 31, 2023 and 2022, the TD, on behalf of the unitholders, did not engage in core lending activities. For equity and credit transactions, the TD follows a strict counterparty selection process which involves analysis of the following:

- Financial strength and size of the entity;
- Quality of research;
- Execution (better than average);
- Professional and reputable management;
- Efficient backroom operation; and
- Relationship.

Maximum exposure to credit risk

The carrying values of the Fund's financial assets as reflected in the statements of net assets and related notes already represent the Fund's maximum exposure to credit risk. The Fund does not hold collateral as security and does not have any agreement which reduces the maximum exposure to credit risk as of December 31, 2023 and 2022.



Risk concentrations

The tables below show the distribution of maximum credit exposure by industry sector of the Fund:

2023					
	Deposits in Banks	FVTPL Investments	Other Assets	Total	Percentage
Government	P=	P437,503,723	P=	P437,503,723	67.87%
Financial institutions	206,155,282	–	917,759	207,073,041	32.13%
Total	P206,155,282	P437,503,723	P917,759	P644,576,764	100.00%

**Excluding prepaid taxes amounting to 507,920*

2022					
	Deposits in Banks	FVTPL Investments	Other Assets	Total	Percentage
Government	P=	P348,786,906	P2,733	P348,789,639	43.58%
Financial institutions	449,215,474	–	2,310,607	451,526,081	56.42%
Total	P449,215,474	P348,786,906	P2,313,340	P800,315,720	100.00%

**Excludes Prepaid taxes amounting to P240,323*

The TD, on behalf of the unitholders, uses the credit risk rating from published data providers like or other reputable rating agencies, as follows.

High grade - represents those investments which fall under any of the following grade:

- Aaa - fixed income obligations are judged to be of the highest quality, with the smallest degree of risk.
- Aa1, Aa2, Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.
- A1, A2, A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but that have elements present that suggest a susceptibility to impairment over the long term.
- Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.

Standard grade - represents those investments which fall under any of the following grade:

- Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.
- B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.

Substandard grade - represents those investments which fall under any of the following grade:

- Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.
- Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
- C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Unrated - represents those investments that do not have ratings from any external rating agencies.



The tables below show the credit quality per class of financial assets:

	2023						Total
	Stage 1		Stage 2		Stage 3	POCI	
	Individual	Collective	Individual	Collective			
Deposits in banks							
High Grade	₱206,155,282	₱—	₱—	₱—	₱—	₱—	₱206,155,282
FVTPL							
High Grade	437,503,723	—	—	—	—	—	437,503,723
Other assets							
High Grade	917,759	—	—	—	—	—	917,759
	₱644,576,764	₱—	₱—	₱—	₱—	₱—	₱644,576,764

* Excludes Prepaid taxes amounting to 507,920

	2022						Total
	Stage 1		Stage 2		Stage 3	POCI	
	Individual	Collective	Individual	Collective			
Deposits in banks							
High Grade	₱449,215,474	₱—	₱—	₱—	₱—	₱—	₱449,215,474
FVTPL							
High Grade	348,786,906	—	—	—	—	—	348,786,906
Other assets							
High Grade	2,313,340	—	—	—	—	—	2,313,340
	₱800,315,720	₱—	₱—	₱—	₱—	₱—	₱800,315,720

*Excludes Prepaid taxes amounting to P240,323

Liquidity Risk

Liquidity risk is the risk of not being able to meet funding obligations such as repayment of liabilities or payment of asset purchases as they fall due.

The risk measurement tool used by the TD to measure liquidity risk is the Maximum Cumulative Outflow. This slots the maturities of the Fund's assets and liabilities in their respective time buckets.

Analysis of financial assets and liabilities by remaining contractual maturities

The tables below show the maturity profile of the Fund's financial assets and other liabilities based on contractual undiscounted repayment obligations:

	2023							Total
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	
Financial Assets								
Deposits in banks*	P 2,197,420	P203,957,862	P—	P—	P—	P206,155,282	P—	P206,155,282
FVPL investments	—	313,611,484	123,892,239	—	—	437,503,723	—	437,503,723
Other assets	—	917,759	—	—	—	917,759	—	917,759
	2,197,420	P518,487,105	P123,892,239	P—	P—	P644,576,764	P—	P644,576,764
Financial Liabilities								
Trust fees payable	P—	P 278,613	P—	P—	P—	P278,613	P—	P278,613
Professional fees payable	—	36,722	—	—	—	36,722	—	36,722
Redemptions payable	—	—	—	—	—	—	—	—
Custodianship fees payable	—	14,317	—	—	—	14,317	—	14,317
	P—	P329,652	P—	P—	P—	P 329,652	P—	P 329,652

*Includes future interest

**Excludes Prepaid taxes amounting to P507,920

	2022							Total
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	
Financial Assets								
Deposits in banks*	P 1,781,563	P387,021,000	P60,412,911	P—	P—	P449,215,474	P—	P449,215,474
FVPL investments	—	298,786,906	50,000,000	—	—	348,786,906	—	348,786,906
Other assets	—	983,886	1,569,777	—	—	2,553,663	—	2,313,340
	P 1,781,563	P686,791,792	P111,982,688	P—	P—	P800,556,043	P—	P800,315,720
Financial Liabilities								
Trust fees payable	P—	P470,729	P—	P—	P—	P470,729	P—	P470,729
Professional fees payable	—	109,695	—	—	—	109,695	—	109,695
Redemptions payable	—	96,386	—	—	—	96,386	—	96,386
Custodianship fees payable	—	13,048	—	—	—	13,048	—	13,048
	P—	P689,858	P—	P—	P—	P689,858	P—	P689,858

*Includes future interest

**Excludes Prepaid taxes amounting to P240,323



Market Risk

Market risk is the risk of loss to future earnings, to fair value or future cash flows of a financial instrument as a result of changes in its price, in turn caused by changes in interest rates, foreign currency exchange rates, equity prices and other market factors. This risk applies to the Fund's accrual positions.

Interest rate risk

The TD follows a prudent policy on managing its assets and liabilities to ensure that fluctuations in interest rates are kept within acceptable limits.

To measure the sensitivity on interest rate risk, the yield-to-maturity of debt securities and government securities classified under FVTPL investments was increased by 100 basis points (bps) (as the reasonable change in interest rates) and compared the results thereof against the carrying value.

The following table sets forth the sensitivity of the Fund's trading and securities gains (losses) on FVTPL investments to reasonably possible changes in interest rates with all other variables held constant:

2023		2022	
Change in basis points	Sensitivity of income	Change in basis points	Sensitivity of income
+100	(P298,435)	+100	(P244,711)
-100	299,023	-100	245,075

5. Fair Value Measurement

As of December 31, 2023 and 2022, the carrying values of the financial instruments of the Fund as reflected in the statements of condition, related notes and other supplementary combining information approximate their respective fair values as of the relevant reporting dates.

The methods and assumptions used by the TD, on behalf of the unitholders, in estimating the fair value of the financial instruments are as follows:

Deposits in banks, and receivables included under other assets

Carrying amounts approximate fair values due to the relatively short-term maturities of these assets.

Government debt securities

Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology, using rates currently available for debt on similar terms, credit risk and remaining maturities.



Other accountabilities

The carrying amounts approximate fair values considering that these are short-term in nature.

2023					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial Assets					
FVTPL investments:					
Government debt securities	₱ 437,503,723	₱ 437,503,723	₱—	₱—	₱ 437,503,723
2022					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial Assets					
FVTPL investments:					
Government debt securities	₱348,796,906	₱348,796,906	₱—	₱—	₱348,796,906

The following tables summarize the carrying amount and fair values of the financial assets analyzed based on inputs to fair value:

6. Deposits in Banks

Deposits in banks consist of:

	2023	2022
Savings deposit	₱2,197,420	₱1,781,563
Time deposit	203,957,862	447,433,911
	₱206,155,282	₱449,215,474

Deposits in banks consist of savings deposits and time deposits with short-term maturity ranging from 1 to 178 days and from 7 to 91 days in 2023 and 2022, respectively. Deposits in banks earn annual interest rates ranging from 2.13% to 6.13% and from 1.88% to 5.75% in 2023 and 2022, respectively.

Interest income earned on savings and time deposits amounted to ₱13.23 million and ₱5.94 million in 2023 and 2022, respectively.

7. Fair Value through Profit or Loss Investments

This account pertains to government securities amounting to ₱437.50 million and ₱348.79 million as of December 31, 2023 and 2022, respectively.

The unrealized gains (losses) on FVTPL investments amounted to ₱0.04 million and (₱0.01 million) in 2023 and 2022, respectively.

The trading securities gains (losses) on FVTPL investments amounted to ₱0.05 million and (₱1.42 million) in 2023 and 2022, respectively.

In 2023 and 2022, financial asset at FVTPL bear nominal interest from 6.75% to 6.89% and 4.38% to 6.3%, respectively. Interest income on FVTPL investments amounted to ₱29.76 million and ₱17.15 million in 2023 and 2022, respectively.



8. Other Assets

This account consists of accrued interest receivables amounting to ₱1.43 million and ₱2.55 million as of December 31, 2023 and 2022, respectively.

9. Accrued Trust Fees and Other Liabilities

This account consists of:

	2023	2022
Trust fees payable	₱ 278,613	₱348,996
Professional fees payable	36,722	259,728
Custodianship fees payable	14,317	9,674
Redemptions payable	-	71,460
	₱329,652	₱689,858

Trust fee payable represents unpaid service fees charged by the TD to the Fund. Trust fees are being charged against the Fund at 0.50% per annum based on daily NAV of the Fund. Trust fees amounted to ₱ 3.52 million and ₱4.58 million in 2023 and 2022, respectively.

Professional fee payable refers to unpaid audit fees.

Redemptions payable refers to the redemptions made by the unitholders not yet settled by the Trust Division as of reporting date. These redemptions were settled on the next banking day after year-end.

Custodianship fee payable represents outstanding fees to the custodian of its debt instruments. The amount represents the accrual of the minimum fee payable to the custodian.

10. Maturity Analysis of Assets and Liabilities

The tables below show an analysis of assets and other accountabilities as of December 31, 2023 and 2022 analyzed according to when they are expected to be recovered or settled from the reporting dates:

	2023		
	Less than One Year	Over One Year	Total
Assets			
Deposits in banks	₱ 206,155,282	₱-	₱206,155,282
FVTPL investments	437,503,723	-	437,503,723
Other assets	1,425,679	-	1,425,679
	₱ 645,084,684	₱-	₱ 645,084,684
Liabilities			
Accrued trust fees and other liabilities	₱ 329,652	₱-	₱ 329,652



	2022		
	Less than One Year	Over One Year	Total
Assets			
Deposits in banks	₱449,215,474	₱–	₱449,215,474
FVTPL investments	348,786,906	–	348,786,906
Other assets	2,553,663	–	2,553,663
	<u>₱800,556,043</u>	<u>₱–</u>	<u>₱800,556,043</u>
Liabilities			
Accrued trust fees and other liabilities	₱689,858	₱–	₱689,858

11. Trust Operations

Under BSP Circular No. 447, the Fund shall be exempted from the provisions on statutory and liquidity reserves of the Manual of Regulations applicable to trust funds in general.

12. Income and Other Taxes

Income tax represents final withholding taxes on interest income of the Fund which accrue to the unitholders. Final withholding tax rate on investments shall be 20.00% on peso earnings and 15.00% on dollar earnings in 2023 and 2022.

Under Philippine Tax Laws, the Fund is subject to percentage tax and other taxes. Percentage taxes paid consist of gross receipts tax and documentary stamp tax.

Provision for final tax amounted to ₱8.60 million and ₱4.62 million in 2023 and 2022.

13. Net Asset Value per Unit

As of December 31, 2023 and 2022, the net asset value (NAV) per unit of the UITF is computed as follows:

	2023	2022
NAV	₱ 644,755,032	₱799,866,185
Outstanding units	5,297,593	6,870,476
NAV per unit	₱121.71	₱116.42



Movements of the outstanding units follow:

	2023	2022
Balance at the beginning of the year	6,870,476	8,892,878
Contributions	582,364	1,191,352
Withdrawals	(2,155,247)	(3,213,754)
Balance at the end of the year	5,297,593	6,870,476

14. Approval for the Release of the Financial Statements

The accompanying financial statements of the Fund were approved and authorized for issue by the BOD of the Bank on March 21, 2024.

