

PNB Institutional Money Market Fund

Financial Statements
December 31, 2022 and 2021

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Philippine National Bank

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PNB Institutional Money Market Fund (the Fund) operated by the Trust Banking Group of Philippine National Bank (the Bank), which comprise the statements of financial position as at December 31, 2022 and 2021, and the related statements of comprehensive income and statements of changes in net assets for the years then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2022 and 2021 and its financial performance for the years then ended in accordance with the 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

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describe the basis of accounting. The financial statements were prepared in accordance with the RAP of the BSP, which differ from Philippine Financial Reporting Standards in some respects. These were prepared to assist the Trust Banking Group of Philippine National Bank in meeting the requirements of the BSP. As a result, the financial statements may not be suitable for another purpose.

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 the RAP of the BSP, 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 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 Trust Banking 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 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 of the Fund 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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BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024

SEC Partner Accreditation No. 134290-SEC (Group A)

Valid to cover audit of 2022 to 2026 financial statements of SEC covered institutions

SEC Firm Accreditation No. 0001-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

BIR Accreditation No. 08-001998-150-2022, November 7, 2022, valid until November 6, 2025

PTR No. 9564633, January 3, 2023, Makati City

June 23, 2023



PNB INSTITUTIONAL MONEY MARKET FUND
STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|--|---------------------|----------------|
| | 2022 | 2021 |
| ASSETS | | |
| Deposits in banks (Note 6) | ₱250,027,448 | ₱1,249,524,681 |
| Accrued interest receivables (Note 6) | 993,574 | 934,282 |
| | 251,021,022 | 1,250,458,963 |
| LIABILITIES | | |
| Other liabilities (Note 7) | 483,612 | 919,178 |
| NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (Note 9) | ₱250,537,410 | ₱1,249,539,785 |
| NET ASSET VALUE PER UNIT (Note 9) | ₱1.17 | ₱1.16 |

See accompanying Notes to Financial Statements.



PNB INSTITUTIONAL MONEY MARKET FUND
STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | |
|------------------------------------|--------------------------------|-------------|
| | 2022 | 2021 |
| INCOME | | |
| Interest income (Note 6) | ₱8,328,482 | ₱11,182,254 |
| Others | 5,585 | 4,147 |
| | 8,334,067 | 11,186,401 |
| EXPENSES | | |
| Trust fees (Note 7) | 630,283 | 2,147,961 |
| Others | 829,881 | 665,212 |
| | 1,460,164 | 2,813,173 |
| INCOME BEFORE INCOME TAX | 6,873,903 | 8,373,228 |
| PROVISION FOR INCOME TAX | 1,667,537 | 2,229,000 |
| TOTAL COMPREHENSIVE INCOME* | ₱5,206,366 | ₱6,144,228 |

*There were no other comprehensive income items in 2022 and 2021.

See accompanying Notes to Financial Statements.



PNB INSTITUTIONAL MONEY MARKET FUND
STATEMENTS OF CHANGES IN NET ASSETS

| | Years Ended December 31 | |
|---|--------------------------------|----------------|
| | 2022 | 2021 |
| PRINCIPAL | | |
| Balance at beginning of year | ₱1,242,955,840 | ₱1,075,337,123 |
| Contributions | 120,062,222 | 1,025,552,500 |
| Withdrawals | (1,117,593,901) | (857,933,783) |
| Balance at end of year | 245,424,161 | 1,242,955,840 |
| ACCUMULATED EARNINGS | | |
| Balance at beginning of year | 6,583,945 | 8,628,988 |
| Total comprehensive income | 5,206,366 | 6,144,228 |
| Withdrawals | (6,677,062) | (8,189,271) |
| Balance at end of year | 5,113,249 | 6,583,945 |
| NET ASSETS ATTRIBUTABLE TO UNITHOLDERS | | |
| AT END OF YEAR (Note 9) | ₱250,537,410 | ₱1,249,539,785 |

See accompanying Notes to Financial Statements.



PNB INSTITUTIONAL MONEY MARKET FUND

NOTES TO FINANCIAL STATEMENTS

1. General Information

Philippine National Bank (the Bank) was granted license by the Monetary Board (MB) of the Bangko Sentral ng Pilipinas (BSP) to engage in trust services on September 25, 1962. The trust operations of the Bank are managed by the Trust Banking Group (the TBG).

On February 14, 2014, the Bank, through the TBG, launched the PNB Institutional Money Market Fund (the Fund) with a minimum initial participation of ₱10.0 million as approved by the BSP on January 21, 2014.

The Fund is specifically created to meet the investment needs of institutional investors. It is invested in a portfolio mix of short-term and long-term bank deposits with an average term of up to one year.

The TBG's principal place of business is at 3rd Floor, PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City, Metro Manila.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements of the fund are issued in compliance with the relevant BSP guidelines.

The accompanying financial statements have been prepared on a historical cost basis.

The financial statements of the Fund are presented in Philippine peso (₱), the Fund's functional and presentation currency. All values are rounded off to the nearest peso except when otherwise indicated.

Statement of Compliance

The accompanying financial statements of the Fund have been prepared in compliance with the Regulatory Accounting Principles (RAP) of the BSP as indicated in BSP Circular No. 653, which differ from Philippine Financial Reporting Standards (PFRS) in some respects, as follows:

- a. The provisions of PFRS are only applied to accounts outstanding as of December 31, 2008 and thereafter;
- b. No presentation of the statement of cash flows;
- c. 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;
- d. Investment properties of pre-need companies and employee benefit plans are measured at fair value;
- e. Only a general description on risk management for financial instruments may be disclosed in the financial statements;
- f. Trust institutions are allowed to prepare the financial statements on a single year basis in the initial year of PFRS adoption;
- g. Mandatory adoption of PFRS 9, *Financial Instruments* by trust entities is on January 1, 2019 with early application permitted;
- h. The amounts of allowance for credit losses for on-balance sheet loans that trust entities are required to recognize beginning 2019 shall be the higher between the allowance calculated under PFRS 9 and the minimum allowance equivalent to 1.0% required by the BSP;



- i. Trust institutions that cannot economically justify a more sophisticated loan loss estimation methodology that is compliant with PFRS 9 shall, at a minimum, be subject to the regulatory guidelines in setting up allowance for credit losses prescribed under Appendix 18 of the MORB/MORNBFI; and
- j. Philippine peso-denominated credit exposures to the Philippine National Government shall not be covered by the new impairment requirements of PFRS 9.

Presentation of Financial Statements

The statements of financial position of the Fund are presented in order of liquidity.

As of December 31, 2022 and 2021, the Fund's assets and liabilities are expected to be recovered or settled within twelve (12) months after the statement of financial position date.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new accounting pronouncements starting January 1, 2022. Unless otherwise indicated, the adoption of the following new and amended standards and interpretations do not have an impact on the financial statements of the Fund.

- Amendments to PFRS 3, *Business Combinations, Reference to the Conceptual Framework*
- Amendments to PAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Costs of Fulfilling a Contract*
- *Annual Improvements to PFRSs 2018-2020 Cycle*
 - Amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards, Subsidiary as a first-time adopter*
 - Amendments to PFRS 9, *Financial Instruments, Fees in the '10 percent' test for derecognition of financial liabilities*
 - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

Significant Accounting Policies

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 BSP issued the FRPTI through 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 audited financial statements of trust institutions for financial reporting period beginning January 1, 2008. On May 5, 2009, the Guidelines were issued by the BSP through Circular No. 653.

On November 8, 2018, the MB, in its Resolution No. 1848, approved the guidelines on the marking to market of 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 December 4, 2018, the BSP issued Circular No. 1023 setting out the guidelines on the adoption of PFRS 9 under management of trust entities (TEs). The guidelines expanded the recently issued Circular No. 1011, dated August 14, 2018, which provided an encompassing governance overlay on the adoption of PFRS 9 by BSP Supervised Financial Institutions (BSFIs). Under this circular, specific guidelines on the classification and measurement, and impairment of financial assets under the administration of trust entities were provided, taking into consideration the peculiarity of the trust operations. The BSP



and the Trust Officers Association of the Philippines (TOAP) agreed that the mandatory adoption of PFRS 9 for trust institutions is on January 1, 2019 with restatement taken to January 1, 2019 accumulated earnings.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 TBG, on behalf of the unitholders. The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The TBG, 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; and
- 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 TBG, on behalf of the unitholders, determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at reporting date.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are recognized within the fair value hierarchy described in Note 5.

Recognition of Financial Instruments

Date of recognition

The TBG, on behalf of the unitholders, recognizes a financial asset and a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market are recognized on the trade date.



Trade date is the date that an entity commits itself to purchase or sell an asset. Trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

Receivables are recognized when cash is advanced to the borrowers.

Initial recognition of financial instruments

All financial assets and financial liabilities are recognized initially at fair value plus transaction costs, except in the case of financial assets and financial liabilities at FVTPL.

As of December 31, 2022 and 2021, the Fund has no financial assets and liabilities at FVTPL.

'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 observable markets, the TBG, on behalf of the unitholders, recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of comprehensive income under 'Interest income' and 'Interest expense' accounts unless it qualifies for recognition as some other type of asset or liability. In cases where transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the TBG, on behalf of the unitholders, determines the appropriate method of recognizing the 'Day 1' difference amount.

Classification and measurement

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's contractual cash flow characteristics of the financial assets and business model for managing the financial assets.

As part of its classification process, the TBG, on behalf of the unitholders, assesses the contractual terms of financial assets to identify whether they meet the 'solely payments of principal and interest' (SPPI) test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (e.g. if there are repayments of principal or amortization of the premium or discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the TBG, on behalf of the unitholders, applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast contractual terms that introduce a more than de minimis exposure to risks volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

The TBG, on behalf of the unitholders, determines the business model at the level that best reflects how it manages groups of financial assets to achieve the business objective of the unitholders.



The TBG's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the unitholders
- the 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
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- the expected frequency, value and timing of sales are also important aspects of the assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the TBG's original expectations, the TBG, on behalf of the unitholders, does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The TBG's measurement categories are described below:

Financial assets at FVTPL

Financial assets at FVTPL include debt and equity securities. Debt securities that neither meet the financial asset at FVOCI or amortized cost criteria, or that meet the criteria but the TBG, on behalf of the unitholders, has chosen to designate as at FVTPL at initial recognition are classified as financial assets at FVTPL. Equity securities are classified as financial assets at FVTPL, unless the TBG, on behalf of the unitholders, designates the equity security that is not held for trading as at FVOCI at initial recognition.

A financial asset is considered as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the TBG, on behalf of the unitholders, manages together and has evidence of a recent actual pattern of short-term profit-taking; or,
- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

Financial assets at FVTPL are measured at fair value. Related transaction costs are recognized directly as expense in the statement of comprehensive income under 'Others'. Gains and losses arising from changes (mark-to-market) in the fair value of the financial assets at FVTPL and gains or losses arising from disposals of these instruments are included in 'Trading and investment securities gains (losses)-net' in the statements of comprehensive income.

Interest earned from these investments is reported in statements of comprehensive income under 'Interest income on financial assets at fair value through profit or loss' while dividend income is reported in the statements of comprehensive income under 'Dividend income' when the right to receive payment has been established.

As of December 31, 2022 and 2021, the Fund has no financial assets at FVTPL.



Financial assets at FVOCI

Financial assets at FVOCI include debt and equity securities. Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in net unrealized gain on financial assets at fair value through other comprehensive income in the statement of financial position.

Debt securities at FVOCI are those that meet both of the following conditions: (i) the asset is held within a business model whose objective is to hold the financial assets in order to both collect contractual cash flows and sell financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. The effective yield component of debt securities at FVOCI, as well as the impact of restatement on foreign currency-denominated debt securities at FVOCI, is reported in the statement of comprehensive income. Interest earned on holding debt securities at debt securities at FVOCI are reported using the effective interest method. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized in profit or loss. Losses arising from impairment of such investments are recognized in other comprehensive income with a corresponding charge to provision for credit and impairment losses in profit or loss.

Equity securities designated at FVOCI are those that the TBG, on behalf of the unitholders, made an irrevocable election to present in OCI the subsequent changes in fair value. Dividends earned on holding equity securities at FVOCI are recognized in the statement of comprehensive income when the right of the payment has been established, except when the TBG benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in other comprehensive income. Gains and losses on disposal of these equity securities are never recycled to profit or loss, but the cumulative gain or loss previously recognized in the statement of comprehensive income is reclassified to accumulated earnings or any other appropriate equity account upon disposal. Equity securities at FVOCI are not subject to impairment assessment.

As of December 31, 2022 and 2021, the Fund has no financial assets at FVOCI.

Financial assets at amortized cost

Financial assets at amortized cost are debt financial assets that meet both of the following conditions: (i) these are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and (ii) the contractual terms give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. This accounting policy relates to the statement of financial position captions 'Deposits in banks' and 'Accrued interest receivables'.

Financial assets at amortized cost are initially measured at fair value plus transaction costs. They are subsequently measured at amortized cost using the EIR method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of comprehensive income. Gains and losses are recognized in the statement of comprehensive income when these investments are derecognized or impaired, as well as through the amortization process.



Reclassification of financial assets

The TBG, on behalf of the unitholders, can reclassify financial assets if the objective of its business model for managing those financial assets changes. The TBG, on behalf of the unitholders, is required to reclassify the following financial assets:

- from amortized cost or FVOCI to FVTPL, if the objective of the business model changes so that the amortized cost or FVOCI criteria are no longer met
- from FVTPL to amortized cost or FVOCI, if the objective of the business model changes so that the amortized cost or FVOCI criteria start to be met and the characteristics of the instruments contractual cash flows are SPPI; and
- from amortized cost to FVOCI if the business model changes so that the objective becomes both to collect contractual cash flows and to sell or from FVOCI to amortized cost if the business model becomes solely for the collection of contractual cash flows.

Reclassification of financial assets designated as at FVTPL or equity financial assets at FVOCI at initial recognition is not permitted.

A change in the objective of the business model of the Fund must be effected before the reclassification date. The reclassification date is the beginning of the reporting period following the change in the business model.

Financial liabilities at amortized cost

Issued financial instruments or their components, which are not designated at FVTPL, are classified as financial liabilities at amortized cost, where the substance of the contractual arrangement results in the TBG, on behalf of the unitholders, having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, financial liabilities not qualified as and not designated at FVTPL, are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Impairment of Financial Assets

PFRS 9 requires the TBG, 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 based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions, and time value of money. 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.

Following BSP Circular No. 855, credit exposures, such as Philippine peso denominated exposures to the Philippine National Government and the BSP, which entail zero percent (0%) credit risk weight for risk-based capital, have zero ECL. Further, under the provisioning requirements in Appendix 18 of the MORNBF in measuring credit losses for loans receivable, as allowed by BSP Circular No. 1023, the TBG records a minimum loss provision of 1.0% for loan receivables under Stage 1 accounts. For all other financial assets of the TBG, these are classified as Stage 1, Stage 2 and Stage 3 as described below:

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 fund 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 fund 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 Fund's quantitative models, the borrower or counterparty's credit rating has deteriorated. 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. 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 TBG, on behalf of the unitholders 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), with the timing of the loss also considered, and is estimated by incorporating forward – looking information and through the use of experienced credit judgment.

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 each individual financial asset is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The 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. The



EAD is an estimate of the exposure at a future/default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest and accrued interest from missed payments.

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

Where the TBG, 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 TBG's, on behalf of the unitholders, continuing involvement in the asset. 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 TBG, on behalf of the unitholders, could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, 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 Comprehensive Income.

Offsetting of Financial Instruments

Financial instruments are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and the TBG, on behalf of the unitholders, intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously. The TBG, 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 Fund and all of the counterparties.

Net Asset Value (NAV) per Unit

NAV per unit is computed by dividing net assets attributable to unitholders (total assets less total liabilities) by the total number of units issued and outstanding at reporting date.

Income 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 20.0% on peso accruing to the TBG, on behalf of the unitholders.



Revenue Recognition

Revenue from Contracts with Customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the TBG, on behalf of its unitholders, expects to be entitled in exchange for those services.

The TBG, on behalf of the unitholders, assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The TBG has concluded that it is the principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Interest income

Interest on financial instruments is recognized based on the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. 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 TBG, 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, transaction costs and all other premiums or discounts paid or received between parties to the contract that are an integral part of the EIR, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized thereafter using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Expense Recognition

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

Trust fee

Trust fees are accrued as incurred and are generally charged against the earnings of the trust funds as a flat rate or percentage of the managed funds or trust assets.

Other expenses

Other expenses include transaction costs, handling and other charges and custodianship fees. These are recognized when incurred.

Provisions

Provisions are recognized when the TBG, on behalf of the unitholders, has a present legal or constructive obligation as a result of past events and it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessment of the time value of money and where appropriate, the risks specific to the obligation. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the TBG, on behalf of the unitholders, expects some or all of a provision to be reimbursed, the reimbursement is recognized only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement.



As of December 31, 2022 and 2021, the TBG, on behalf of the unitholders, did not recognize any provision.

Contingencies

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.

Events After the Reporting Period

Post year-end events that provide additional information about the Fund at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Future Changes in Accounting Policies

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the TBG, on behalf of the unitholders, does not expect the future adoption of the said pronouncements to have a significant impact on its financial statements. The TBG, on behalf of the unitholders, intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2023

- Amendments to PAS 1, *Presentation of Financial Statements*, and PFRS Practice Statement 2, *Disclosure of Accounting Policies*
- Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Accounting Estimates*
- Amendments to PAS 12, *Income Taxes, Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, *Presentation of Financial Statements, Classification of Liabilities as Current or Non-current*
- Amendments to PFRS 16, *Leases, Lease Liability in a Sale and Leaseback*

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures, 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 compliance with the RAP of the BSP, which differs from PFRS in some respects, requires the TBG, on behalf of the unitholders, to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses, and disclosures 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 will be reflected in the financial statements as they become reasonably determinable.



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.

There were no significant judgments or estimates made by the TBG in preparing the Fund's financial statements as of December 31, 2022 and 2021.

4. Financial Risk Management Objectives and Policies

Introduction

Risk is an inherent component of the TBG's business activities. The ability to effectively identify, assess, measure, respond, manage and monitor risks in business activities is exigent to the achievement of the TBG's mission and objectives.

The TBG has to contend with a variety of risks as it engages in investment management, trust and other fiduciary activities. The multitude and the magnitude of its transactions and instruments, and their complexities make it paramount for the TBG to measure, manage and control the risks as these fiduciary activities could result in material losses to unitholders and in turn, expose the TBG to financial losses and litigation if not conducted in a manner consistent with its fiduciary duty of fidelity to the unitholder and the unitholder's stipulated objectives.

The TBG 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. It is also an objective to always consider risk and return on all transactions and exposures to ensure adequate returns on principal contributions. Risk mitigation strategies form part of the TBG's risk management activities.

The TBG's risk management philosophy reflects its values and influences and guides its operations. The TBG aspires to institutionalize the risk management process within the unit and believes that risk management is the responsibility of every employee.

Risk Management Structure

The component parts of the TBG risk management structure are: the Board of Directors (BOD), the Trust Committee, the TBG Management/Trust Officer, the Risk Management Unit (administrative reporting), the Compliance Unit (administrative reporting), and the Front, Middle and Back Office Personnel.

The Risk Management and Compliance Units of the TBG have direct functional responsibilities to the Bank's Risk Management Group and Global Compliance Group and report TBG-related risk and compliance matters to the Bank's Risk Oversight Committee and the Board Audit and Compliance Committee, respectively, on a regular basis.

The Risk Management Framework for trust banking is patterned after the Bank's Risk Management Group, Internal Audit Group, Compliance Office, Risk Management Committee, Board Audit and Compliance Committee and Corporate Governance Committee which constantly monitor the management of risks.

The Trust Committee, duly constituted and authorized by the Bank's BOD for proper administration and management of trust and other fiduciary business, shall approve overall fiduciary business strategies and policies including those related to identifying, measuring, monitoring and controlling fiduciary risks. It shall ensure that management of the TBG is taking the steps necessary to manage these risks.



The Trust Officer, designated by the Bank's BOD as head of the TBG, is responsible for the administration of trust and implementation of improved strategies that will limit fiduciary risks and ensure compliance with laws and regulations.

The TBG's management provides adequate supervision of the daily activities of officers and employees to ensure that its lines of fiduciary business are managed and staffed by persons with knowledge, experience and expertise consistent with the nature and scope of the TBG's fiduciary activities.

The Risk Management Unit assists the business units and the back office in identifying, measuring, analyzing and managing risks and performs independent limits monitoring. Any breach in limits and any potential risk area are reported to the management of the TBG.

The Compliance Office of the TBG checks compliance with approved risk policies as well as deviations from existing rules and regulations.

The four major areas of risk management process at the TBG are: 1) risk identification; 2) risk measurement; 3) risk evaluation; and 4) risk monitoring and control.

Risk Identification

Risk identification is the recognition and understanding of existing risks or risks that may arise from new business. This is a continuing process at both the transaction and portfolio levels.

Risk identification is done through the following:

- a. Product and Product Manual Development, Approval and Review - through the product approval process, a thorough analysis and evaluation within the business parameters and risk guidelines of the TBG and the Bank, is performed.
- b. Limit Setting
- c. Risk Approval Process - this covers all activities that need risk limits. For existing products, the review and risk approval process is done annually (at least once) in cases where risk taking limits are reviewed and linked to overall institutional return targets. For new products, both product approval process and product documentation by way of product manual preparation (which is also subject to review and approval process) are required.

Risk Measurement

Risk measurement is the assessment of risks in both individual transactions and portfolio level. Quantifiable risks are subjected to numerical measurement and controlled by means of general and specific limits. Non-quantifiable risks are just as significant and similarly require the attention of the management of the TBG. Invariably, these risks are managed by the development of a strong "control culture" and an effective internal control system that monitors and updates operational policies and procedures of the TBG's activities and transactions.

Risk Evaluation

Risk evaluation is done through the following:

- a. Identification of Variables - this process focuses on variables that will provide relevant information and contribute to a meaningful risk analysis.
- b. Data Gathering - the collection process has to be practical and data needed has to be readily available. Risk analysis revolves around historical data to intelligently predict and quantify the risk.
- c. Risk Modelling - once data has been collected, these have to be arrayed into a model to be tested and calibrated on a regular basis.



Risk Monitoring and Control

The aspect of risk management that completes the process is monitoring and control. This guarantees that the risks identified are tested against established limits; that the information and/or data relating to the risks are thoroughly analyzed; any breach in the limits are appropriately reported; and lastly, that management actions as stated in the risk approval process are pursued. To ensure the completeness of the risk management process, it is important that corrective and/or continuing actions are undertaken.

Risk Measurement and Reporting

Credit Risk

Credit risk refers to the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations.

This risk is controlled by strict adherence to the credit standards set by the Trust Committee and through monitoring and review of the financial status of the borrowers and issuers of the financial instruments.

Key risk measures include: 1) investing in money market deposits which are issued by financial institutions whose credit ratings have been deemed acceptable in accordance with the Bank's counterparty accreditation criteria; 2) government securities issued or unconditionally guaranteed by the Republic; 3) corporate securities with credit ratings deemed acceptable in accordance with the Bank's credit policies using the Credit Risk Rating Scores plus additional information on the investee, the industry they are involved in and their financial profitability; 4) thorough and in depth vetting (information) on borrowers/corporate issuer; 5) setting up of concentration limits; and 6) consistent and constant monitoring of loan portfolio.

Maximum exposure to credit risk

The maximum exposure to credit risk for financial assets is limited to the carrying amount as of December 31, 2022 and 2021. The TBG, on behalf of the unitholders, does not hold quoted equity securities as collateral and there are no other credit enhancements on the TBG's financial assets.

Concentration of risks of financial assets with credit risk exposure

The TBG considers concentration risk to be present in its receivables when the total exposure to a particular industry, sector or sub-sector, as internally defined, exceeds 15.0% of the total loan portfolio.

As of December 31, 2022 and 2021, the Fund's maximum credit risk exposure related to its financial assets is concentrated in the financial intermediaries sector.

Credit quality per class of financial assets

The TBG uses the credit ratings based on the external ratings of eligible external credit assessment rating institutions (i.e. Moody's Investors Service) as follows:

Aaa to 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.

Baa1 and below – represents those investments which falls under any of the following grade:

- Baa1 and below - represents those investments which fall under any of the following grade:
- 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.
- 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.
- 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.

The financial assets are also grouped according to stage whose description is explained as follows:

Stage 1 - those that are considered current and up to 30 days past due, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk.

Stage 2 - those that, based on change in rating, delinquencies and payment history, demonstrate significant increase in credit risk, and/or are considered more than 30 days past due but does not demonstrate objective evidence of impairment as of reporting date.

Stage 3 - those that are considered in default or demonstrate objective evidence of impairment as of reporting date.

In 2022 and 2021, all financial assets are classified under Stage 1 and there were no transfers between stages during the year.

The following tables show the credit quality by class of financial assets of the Fund:

| December 31, 2022 | | | | |
|-----------------------------|-------------|-------------|-------------|--------------|
| | Aaa to Aa3 | Baa1 to Ba3 | Unrated | Total |
| Deposits in bank | ₱96,195,890 | ₱60,418,740 | ₱93,412,818 | ₱250,027,448 |
| Accrued interest receivable | 399,725 | 167,004 | 426,845 | 993,574 |
| | ₱96,595,615 | ₱60,585,744 | ₱93,839,663 | ₱251,021,022 |

| December 31, 2021 | | | | |
|-----------------------------|--------------|--------------|--------------|----------------|
| | Aaa to Aa3 | Baa1 to Ba3 | Unrated | Total |
| Deposits in bank | ₱269,770,937 | ₱818,374,810 | ₱161,378,934 | ₱1,249,524,681 |
| Accrued interest receivable | 214,891 | 263,495 | 455,896 | 934,282 |
| | ₱269,985,828 | ₱818,638,305 | ₱161,834,830 | ₱1,250,458,963 |

As of December 31, 2022 and 2021, ECL for the Fund's 'Deposit in banks' and 'Accrued interest receivables' are not material relative to the overall financial statement balances.

Liquidity Risk

Liquidity risk refers to the risk that an entity will encounter difficulty in obtaining liquid funds to meet its commitments.

Generally, this risk may be mitigated by properly determining the appropriate mix of short-term and long-term investments based on the unitholder's liquidity requirements and constraints.

The market liquidity of the investment is taken into consideration in the evaluation of investment outlets to make sure that there is a ready secondary market for the issue. The portfolio mix must be discussed with and agreed upon by the unitholders at the outset. The TBG, on behalf of the unitholders, undertakes an assessment of the unitholder's level of sophistication and considers the following factors in the creation of an investment portfolio: 1) specific needs and unique circumstances of the unitholder



and/or beneficiaries, 2) basic characteristics of the unitholder's investment experience; and 3) financial constraints, risk tolerance, tax considerations and regulatory requirements. Periodic stress testing is conducted to comply with regulatory requirement.

Liquidity is monitored on a daily basis through the Portfolio Management Division.

Financial assets

The Fund's analysis of financial instruments into maturity groupings is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier the expected date the assets will be realized.

Financial liabilities

The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date. When counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the TBG, on behalf of the unitholders, can be required to pay.

The tables below summarize the maturity profile of the Fund based on contractual undiscounted cash flows.

| December 31, 2022 | | | | | | |
|------------------------------|----------------|---------------|----------------|-----------------|---------------|--------------|
| | Within 30 days | 31 to 60 days | 61 to 180 days | 181 to 360 days | Over 360 days | Total |
| Financial Assets | | | | | | |
| Deposits in banks | ₱126,642,965 | ₱121,395,235 | ₱– | ₱5,074,097 | ₱– | ₱253,112,297 |
| Financial Liabilities | | | | | | |
| Other liabilities | ₱265,770 | ₱– | ₱– | ₱– | ₱– | ₱265,770 |

| December 31, 2021 | | | | | | |
|------------------------------|----------------|---------------|----------------|-----------------|---------------|----------------|
| | Within 30 days | 31 to 60 days | 61 to 180 days | 181 to 360 days | Over 360 days | Total |
| Financial Assets | | | | | | |
| Deposits in banks | ₱673,250,528 | ₱139,326,505 | ₱244,803,437 | ₱193,078,493 | ₱– | ₱1,250,458,963 |
| Financial Liabilities | | | | | | |
| Other liabilities | ₱725,460 | ₱– | ₱– | ₱– | ₱– | ₱725,460 |

Market Risk

Market risk refers to the risk that the financial value of a financial instrument comprising the managed fund will deteriorate due to adverse movements of market rates or prices, currency rates and/or changes in interest rates. In the case of equities market, this pertains to the possibility of market downturn caused by unfavorable market conditions or deteriorating investor confidence or price drop due to the decline in the company's performance. In the case of fixed income instruments, this occurs when the yields on long-term investments held are no longer comparable to current yields available for similar tenors.

The risk measurement framework for market risks begins with further breaking down into its component risk factors, variables that cause changes in the value of a financial instrument or portfolio of financial instruments.

The Risk-Taking Personnel (front office personnel) who are given authority to commit the TBG to financial transactions such as those from Business Development Division, Standard Products Division, Fiduciary Services Division, Portfolio Management Division, Investment Management Division, Pinnacle Club Division and the TBG management are jointly responsible for identifying and quantifying each of the risk factors for all proposed transaction or strategy.



All investments are subject to the investment limits upon recommendation of the TBG management and approval by the Trust Committee.

Interest rate risk

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

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The TBG's exposure to market risk for changes in interest rates relates primarily to the TBG's interest-bearing financial assets.

As of December 31, 2022 and 2021, the Fund has minimal exposure to interest rate risk since its financial instruments bear fixed interest rates and are carried at amortized cost.

5. Fair Value Measurement

The methods and assumptions used by the Fund in estimating the fair value of the financial instruments are:

Deposits in banks and Accrued interest receivables

The carrying amounts approximate fair values due to the relatively short-term maturity of these assets.

Other liabilities

The carrying amounts approximate fair values considering that these are currently due and demandable.

As of December 31, 2022 and 2021, the Fund has no financial instruments carried at fair value.

6. Deposits in banks and accrued interest receivables

Deposits in banks consist of time deposits from other banks amounting to ₱239.9 million and ₱1,059.5 million as of December 31, 2022 and 2021, respectively. Time deposits bear annual interest rates ranging from 1.9% to 6.0% and from 0.4% to 1.1% in 2022 and 2021, respectively.

Deposits in banks also include savings and time deposits with the Bank amounting to ₱10.1 million and ₱190.0 million as of December 31, 2022 and 2021, respectively. Time deposits with the Bank bear annual interest rates of 5.5% in 2022 and ranging from 1.1% to 1.6% in 2021.

Interest income on deposits in banks amounted to ₱8.3 million and ₱11.2 million in 2022 and 2021, respectively.

Accrued interest receivables on time deposits amounted to ₱1.0 million and ₱0.9 million in 2022 and 2021, respectively.



7. Other Liabilities

This account consists of:

| | 2022 | 2021 |
|------------------|-----------------|-----------------|
| Accrued expenses | ₱265,770 | ₱725,460 |
| Tax payable | 217,842 | 193,718 |
| | ₱483,612 | ₱919,178 |

Accrued expenses pertain to accrued trust fees, accrued audit and examination fees, and custodianship fees. Accrued trust fees represent unpaid service fees charged by the TBG to the unitholders. Trust fees are being charged at 1.25% per annum based on average daily total assets of the Fund. Trust fees for 2022 and 2021 amounted to ₱0.6 million and ₱2.1 million, respectively.

Tax payable pertains to final withholding taxes arising from interest income on deposits in banks.

8. Trust Operations

BSP Circular No. 447 states that unit investment trust funds shall be exempted from the provisions on statutory and liquidity reserves of the Manual of Regulations applicable to trust funds in general.

9. NAV per Unit

As of December 31, 2022 and 2021, the NAV per unit of the Fund is computed as follows:

| | 2022 | 2021 |
|-------------------|---------------------|----------------|
| NAV | ₱250,537,410 | ₱1,249,539,785 |
| Outstanding units | 213,342,242 | 1,080,348,922 |
| NAV per unit | ₱1.17 | ₱1.16 |

Movements of the outstanding units follow:

| | 2022 | 2021 |
|------------------------------|----------------------|----------------------|
| Balance at beginning of year | 1,080,348,922 | 940,549,326 |
| Contributions | 103,601,521 | 889,237,629 |
| Withdrawals | (970,608,201) | (749,438,033) |
| Balance at end of year | 213,342,242 | 1,080,348,922 |

10. Approval for the Release of the Financial Statements

The accompanying financial statements of the Fund were approved and authorized for issue by the BOD on June 23, 2023.

