AB Capital & Investment Corporation

Financial Statements
of AB Capital Short Term Fund
Unit Investment Trust Fund
Operated by the Trust and Investments Division
December 31, 2023 and 2022

and

Independent Auditor's Report

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
AB Capital & Investment Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of AB Capital Short Term Fund Unit Investment Trust Fund (the Fund) operated by the Trust and Investments Division of AB Capital & Investment Corporation (the Company), which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements of comprehensive income and statements of changes in net assets for the years then ended, and notes to the financial statements, including a summary of 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 and Investments Division of the Company as at December 31, 2023 and 2022, and its financial performance for the years then ended in accordance with Regulatory Accounting Principles of the Bangko Sentral ng Pilipinas.

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 and the Trust and Investments Division of the Company 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 were prepared in accordance with Regulatory Accounting Principles of the Bangko Sentral ng Pilipinas, which differ from Philippine Financial Reporting Standards in some respects. These were prepared to assist the Trust and Investments Division of the Company in meeting the requirements of the Bangko Sentral ng Pilipinas. 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 Regulatory Accounting Principles of the Bangko Sentral ng Pilipinas 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 Department'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.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas

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PTR No. 10079900, January 5, 2024, Makati City

May 31, 2024

AB CAPITAL & INVESTMENT CORPORATION

STATEMENTS OF FINANCIAL POSITION
OF AB CAPITAL SHORT TERM FUND UNIT INVESTMENT TRUST FUND
OPERATED BY THE TRUST AND INVESTMENTS DIVISION

	December 31	
	2023	2022
ASSETS		
Deposits in banks (Note 5)	**₱80,061,653**	₱23,070,337
Financial assets at fair value through profit or loss (Note 6)	**1,542,485,409**	39,246,674
Accrued interest receivables (Notes 5 and 6)	**7,067,881**	217,509
	1,629,614,943	62,534,520
LIABILITIES		
Other accountabilities (Note 7)	**691,218**	77,245
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (Note 10)	**₱1,628,923,725**	₱62,457,275
NET ASSET VALUE PER UNIT (Note 10)	**₱1.2072**	₱1.1525

See accompanying Notes to Financial Statements.

AB CAPITAL & INVESTMENT CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
OF AB CAPITAL SHORT TERM FUND UNIT INVESTMENT TRUST FUND
OPERATED BY THE TRUST AND INVESTMENTS DIVISION

	Years Ended December 31	
	2023	2022
INCOME		
Interest on:		
Financial assets at fair value through profit or loss (Note 6)	**₱51,371,238**	₱1,190,608
Deposit in banks (Note 5)	**2,011,212**	344,367
Trading and securities losses - net (Note 6)	**257,033**	(107,323)
	53,639,483	1,427,652
EXPENSES		
Trust fees	**3,183,628**	304,408
Professional fees	**15,860**	94,830
Others	**15,908**	975
	3,215,396	400,213
INCOME BEFORE FINAL TAX	**50,424,087**	1,027,439
PROVISION FOR FINAL TAX	**9,762,798**	311,955
NET INCOME/TOTAL COMPREHENSIVE INCOME*	**₱40,661,289**	₱715,484

*There were no other comprehensive income items in 2023 and 2022.

See accompanying Notes to Financial Statements.

AB CAPITAL & INVESTMENT CORPORATION

STATEMENTS OF CHANGES IN NET ASSETS
OF AB CAPITAL SHORT TERM FUND UNIT INVESTMENT TRUST FUND
OPERATED BY THE TRUST AND INVESTMENTS DIVISION

	Years Ended December 31	
	2023	2022
PRINCIPAL		
Balance at January 1	**₱40,322,223**	₱24,909,602
Contributions	**4,858,966,711**	202,764,534
Withdrawals	**(3,333,161,550)**	(187,351,913)
Balance at December 31	**1,566,127,384**	40,322,223
ACCUMULATED EARNINGS		
Balance at January 1	**22,135,052**	21,419,568
Net income	**40,661,289**	715,484
Balance at December 31	**62,796,341**	22,135,052
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (Note 10)	**₱1,628,923,725**	₱62,457,275

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS
OF AB CAPITAL SHORT TERM FUND UNIT INVESTMENT TRUST FUND
OPERATED BY THE TRUST AND INVESTMENTS DIVISION

1. General Information

On September 6, 2013, the Monetary Board (MB) of the Bangko Sentral ng Pilipinas (BSP) granted AB Capital & Investment Corporation (the Company) a license to operate AB Capital Short Term Fund Unit Investment Trust Fund (the Fund), a Philippine Peso-denominated fund. The Company, through its Trust and Investments Division (TID), launched the Fund on November 28, 2013.

The Fund is an open-ended pooled trust fund denominated in Philippine Peso, which is operated and administered by the TID of the Company and made available by participation. As an open-ended fund, participation or redemption is allowed as often as stated in the Declaration of Trust.

The Company was incorporated in the Philippines. The principal place of business of the Company is at Units 1210-1212 & 1911-1912, PSE Tower, 5th Ave. corner 28th St., Bonifacio Global City, Taguig City.

2. Summary of Material Accounting Policies

Basis of Preparation
The accompanying financial statements of the Fund 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. 967, dated July 27, 2017;
h. BSP Circular No. 999, dated March 14, 2018
i. BSP Circular No. 1011, dated August 14, 2018;
j. BSP Circular No. 1021, dated November 15, 2018; and
k. BSP Circular No. 1023, dated December 4, 2018.

The accompanying financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVTPL) which have been measured at fair value.

The financial statements of the Fund are presented in Philippine Peso, which is also the Fund's functional currency. All values are rounded to the nearest peso except when otherwise indicated.

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

a. No presentation of the statement of cash flows;
b. The provisions of PFRS are only applied to accounts outstanding as of December 31, 2008 and thereafter;
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. Trust institutions are allowed to prepare the financial statements on a single year basis in the initial year of PFRS adoption;
e. Only a general description on risk management for financial instruments may be disclosed in the financial statements;
f. The amounts of allowance for credit losses on receivables that trust institutions are required to recognize shall be the higher between the allowance calculated under PFRS and BSP recommended valuation reserves;
g. Mandatory adoption of PFRS 9, *Financial Instruments* by trust entities is on January 1, 2019 with early application permitted;
h. 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
i. Philippine peso-denominated credit exposures to the Philippine National Government shall not be covered by the new impairment requirements of PFRS 9.

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 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 audited combined financial statements of trust institutions for financial reporting period beginning January 1, 2008. On May 5, 2009, the BSP issued such guidelines through Circular No. 653.

On November 15, 2018, the BSP issued Circular No. 1021 setting out the guidelines for the market valuation of investments where fair value shall be aligned to existing regulations with the provisions of PFRS 13, Fair Value 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. The guidelines expanded the recently issued Circular No. 1011, dated August 14, 2018, providing 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. As allowed by the BSP, the Fund has early adopted PFRS 9 on January 1, 2018.

Changes in Accounting Policies and Disclosures
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, 2023. Adoption of these pronouncements did not have any significant impact on the TMF's financial position or performance unless otherwise indicated.

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

- Amendments to PAS 8, *Definition of Accounting Estimates*
- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single*
- *Transaction*
- Amendments to PAS 12, *International Tax Reform – Pillar Two Model Rules*

Material Accounting Policies

Fair Value Measurement
Except for peso-denominated government securities, 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 Fund.

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.

In case of peso-denominated government securities, existing BSP regulations require that the fair value shall be based on weighted average yields of done deals. In the absence of the done deals, the simple average of all firm bids yields is used. In the absence of both done and bid yields, the interpolated yields derived from benchmark or reference rates are used. In this respect, the definition of fair value under the regulatory guidance differs from the definition of fair value under PFRS.

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

Fair values are financial assets at FTVPL are based on quoted market prices, thus categorized under Level 1 fair value measurement.

The carrying amounts of deposits in banks, receivables and other accountabilities approximate fair values considering their short-term nature.

Financial Instruments - Initial Recognition and Subsequent Measurement
Date of recognition
Financial instruments are recognized in the statement of financial condition when the Fund becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date, which is the date that the Fund commits to purchase or sell the asset.

Initial recognition of financial assets and financial liabilities
Financial assets and financial liabilities are initially recognized at fair value. Except for financial instruments at FVTPL, the initial measurement of financial instruments includes transaction costs.

Classification and Subsequent Measurement of financial instruments
Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion'). The classification and measurement of financial assets are as follows: financial assets at amortized cost, and financial assets at FVTPL and financial assets at FVTOCI.

Financial assets at amortized cost

A debt financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

These financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for credit losses, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are integral part of the EIR. The amortization is included in 'Interest income' in profit or loss and is calculated by applying the EIR to the gross carrying amount of the financial asset.

The Fund's financial assets at amortized cost consist of deposits in banks and accrued interest receivables.

Financial assets at FVTPL
Debt instruments that do not meet the amortized cost or FVTOCI criteria, or that meet the criteria but the Fund has chosen to designate as at FVTPL at initial recognition, are measured at fair value through profit or loss.

Financial assets at FVTPL are recorded in the statement of financial position at fair value, with changes in the fair value included under the 'Trading and securities gains (losses) - net' account in profit or loss. Interest earned is reported in the profit or loss under 'Interest income'.

Other accountabilities
These pertain to financial liabilities not classified or designated as at FVTPL and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than the exchange of a fixed amount of cash. After initial measurement, other accountabilities are subsequently measured at amortized cost using the effective interest method.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the combined statements of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Fund, on behalf of the trustors, 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, on behalf of the trustors, and all of the counterparties.

Impairment of Financial Assets
PFRS 9 requires the Fund to record ECL for all receivables and other debt financial assets not classified as at FVTPL.

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. ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk since initial recognition. The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the twelve (12) months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of the financial asset.

The Fund, on behalf of the trustors, applies the provisioning requirements in Appendix 18 of the MORB/MORNBFI in measuring credit losses for receivables as allowed by BSP Circular No. 1023 and applies the guidance set by the BSP which requires trust entities to record a minimum loss provision of 1.0% for receivables. Further, following BSP Circular No. 855, Philippine peso-denominated credit exposures to the Philippine National Government (i.e., government securities) and the BSP, which entail zero percent (0%) credit risk weight for risk-based capital, were provided with zero ECL. For the other financial assets of the Fund, 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 debt financial assets which have not experienced a SICR since initial recognition. The Fund recognizes a 12-month ECL for Stage 1 debt financial assets.
- Stage 2 is comprised of all non-impaired debt financial assets which have experienced a SICR since initial recognition. The Fund recognizes a lifetime ECL for Stage 2 debt financial assets.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment. The Fund recognizes a lifetime ECL for Stage 3 debt financial assets.

Significant increase in credit risk (SICR)
The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Fund's aging information, the borrower becomes past due for over 30 days. Further, the Fund assumes that the credit risk of a financial asset, particularly on cash and equivalents and receivables from customers, clearing house and non-customers, has not increased significantly since origination if the financial asset is determined to have "low credit risk" as of the reporting date. A financial asset is considered "low credit risk" when it has an external rating equivalent to "investment grade".

In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the Fund shall revert to recognizing a 12-month ECL.

Definition of "default"
The Fund classifies receivables, or any financial asset as in default when it is credit impaired or becomes past due on its contractual payments for more than 90 days. As part of a qualitative assessment of whether a customer is in default, the Fund considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Fund carefully considers whether the event should result in treating the customer as defaulted.

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.

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 instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Fund segmented its credit exposures based on homogeneous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio, is determined based on the underlying nature of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

EAD is modelled on historical data and represents an estimate of the outstanding amount of credit exposure at the time of 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.

Forward looking information
A range of economic overlays are considered and expert credit judgment is applied in determining the forward-looking inputs to the ECL calculation.

Write-off Policy
A financial asset is written off when there is no reasonable expectation of recovering the contractual cashflows.

Impairment of receivables
As discussed above, the Fund applies the existing guidelines in setting up allowance for credit losses under Appendix 18 of the MORB/MORBNFI. As a general rule, Especially Mentioned and Substandard – underperforming (e.g., substandard accounts that are unpaid or with missed payment of less than ninety (90) days) shall be considered as Stage 2 accounts, while Substandard Non-performing, Doubtful, and Loss accounts shall be considered as Stage 3 accounts. Under the said guidelines, receivables and other credit exposures with unpaid principal and/or interest shall be classified and provided with allowance for credit losses based on the number of days of missed payments and as to whether the receivables and credit exposures are secured or unsecured.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial asset
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 TID, on behalf of the trustors, 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 TID, on behalf of the trustors, 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.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Income Taxes
Current tax
Current tax assets and liabilities for the current period 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.

Revenue Recognition
The following specific recognition criteria must be met before revenue is recognized:

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

Trading and securities gain (loss)
Trading and securities gain or loss on trading securities represents results arising from trading activities including all gains and losses from changes in fair value of financial assets at FVTPL.

Expense Recognition
Expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen and it can be measured reliably.

Trust fees
Trust fees are accrued as incurred and are generally charged at a flat rate or percentage of the managed funds or trust assets being charged against the Fund at 0.375% per annum based on the daily net asset value of the Fund. Trust fees are recognized based on the accrual method of accounting.

Net Asset Value (NAV) Per Unit
The Fund's NAV per unit is computed by dividing net assets (total assets less total accountabilities) by the total number of shares issued and subscribed as at reporting date.

Events After the Reporting Date
Any post year-end events that provide additional information about the financial position of 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 when material to the financial statements.

Future Changes in Accounting Policies
Standards issued but not yet effective up to the date of issuance of the Fund's financial statements are listed below. The TID intends to adopt these standards when they become effective. Except as otherwise indicated, the TID does not expect the adoption of these standards to have significant impact on the Fund's financial statements.

Effective beginning on or after January 1, 2024
- Amendments to PAS 1*, Classification of Liabilities as Current or Non-current*

Effective beginning on or after January 1, 2025
- PFRS 17, *Insurance Contracts*

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 compliance with RAP of the BSP, which differs from PFRS in some respects, requires the TID, on behalf of the unitholders, to make judgments and estimates that affect the reported amounts of assets, accountabilities, 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.

As of December 31, 2023 and 2022, the Fund did not make any significant accounting judgments and estimates in the preparation of its financial statements.

4. Financial Risk Management Objectives and Policies

Risk Management Structure
Effective risk management ensures that risks taken are properly identified, assessed, measured and managed. The diligent monitoring and management of all risks, specifically credit, market, liquidity, and operational risks are being built through the development of a risk culture that will cover daily business activities and decision-making.

The TID, on behalf of the trustors, 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 in order to ensure adequate returns on minimum contributions. Risk mitigation strategies form part of risk management activities.

Trust Committee
The Trust Committee (TC) of the TID is ultimately responsible for identifying and controlling risks. The TC conducts oversight on Unit Investment Trust Fund (UITF) activities and provide due diligence in all matters relating to the TID.

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 nonpayment by borrowers or issuers, failed settlement of transactions and default on contracts.

Each business unit is responsible for the quality of its credit portfolio and for monitoring and controlling all credit risks in its portfolio.

Management of credit risk
The Fund's clients face potential credit risks every time it extends funds to borrowers, commits funds to counterparties, guarantees the paying performance of its clients, invests funds to issuers (e.g., investment securities issued by either sovereign or corporate entities) or enters into either market-traded or over-the-counter derivatives, either through implied or actual contractual agreements (i.e., on or off-balance sheet exposures).

The TID, on behalf of the trustors, maintains a credit/investment risk rating system for proper evaluation, management and tracking of inherent risks within the portfolio. The rating system begins with the risk of the borrower itself, then the risk of the particular transaction to yield a risk rating is added.

The TID, on behalf of the trustors, periodically monitors, reviews and evaluates its loan/investment portfolios and provides adequate reserves in accordance with regulatory guidelines and new accounting standards.

Maximum exposure to credit risk after taking account of any collateral and other credit enhancements
The Fund does not hold any collaterals and there are no other credit enhancements on the Fund's financial instruments. The carrying values as reflected in the statements of financial position and related notes already represent the Fund's maximum exposure to credit risk.

Risk concentrations of the maximum credit exposure to credit risk
The distribution of the Fund's financial assets by industry sector follows:

	2023			
	Deposits in Banks	**Financial Assets at FVPTL**	**Receivables**	**Total**
Financial intermediaries	**₱80,061,652**	**₱19,867,576**	**₱178,954**	**₱100,108,182**
Government	**−**	**1,522,617,833**	**6,888,928**	**1,529,506,761**
	₱80,061,652	**₱1,542,485,409**	**₱7,067,882**	**₱1,629,614,943**

	2022			
	Deposits in Banks	Financial Assets at FVPTL	Receivables	Total
Financial Intermediaries	₱23,070,337	₱−	₱39,625	₱23,109,962
Government	−	34,718,250	141,807	34,860,057
Property	−	4,528,424	36,077	4,564,501
	₱23,070,337	₱39,246,674	₱217,509	₱62,534,520

All of the issuers of the Fund's financial assets are located in the Philippines.

Credit quality per class of financial assets
The Fund's bases in grading its financial assets are as follows:

- Receivables

  High Grade - These are receivables which have a high probability of collection (the counterparty has the ability to satisfy its obligation and the security/collateral on the receivables are readily enforceable).

  Standard - These are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay.

  Substandard - These are receivables where the counterparty is not capable of honoring its financial obligation.

  Unrated - This category includes receivables for which the Fund has not yet established a credit rating.

- Financial assets at FVTPL

  Evidence of indebtedness issued by the Republic of the Philippines and BSP are classified as high grade. For corporate debts/private bonds, credit quality is based on externally available/published credit ratings from reputable rating agencies.

  Credit risk of deposit in banks, government and private debt securities and receivable is minimal since these are placed and recoverable from the government and banks with high external credit ratings. Accordingly, placements in these banks and investment securities issued by the government and banks, and related interest receivable from these investment securities are considered to be low credit risk investments. As of December 31, 2023 and 2022, the TID determined that the impact of 12-month ECL ("Stage 1") on these financial assets is not material of December 31, 2023 and 2022, no impairment losses were recognized for these financial assets in 2023 and 2022.

  The table below shows the credit quality by class of financial assets (gross of allowance and impairment losses) of the Short-Term Fund operated by TID as of December 31, 2023 and 2022:

	2023					
	Short Term Fund					
	High Grade	Standard Grade	Substandard Grade	Unrated	Credit Impaired	Total
Financial assets at FVTPL						
Debt securities						
Government	**₱1,522,617,833**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,522,617,833**
Private bonds	–	**19,867,576**	–	–	–	**19,867,576**
	1,522,617,833	**19,867,576**	–	–	–	**1,542,485,409**
Financial assets at amortized costs						
Deposits in banks	**80,061,653**	–	–	–	–	**80,061,653**
Accrued interest receivable	**6,888,927**	**178,954**	–	–	–	**7,067,881**
	86,950,580	**82,260**	–	–	–	**87,129,534**
	₱1,609,568,413	**₱20,046,530**	**₱–**	**₱–**	**₱–**	**₱185,199,679**

	2022					
	Short Term Fund					
	High Grade	Standard Grade	Substandard Grade	Unrated	Credit Impaired	Total
Financial assets at FVTPL						
Debt securities						
Government	₱34,718,250	₱–	₱–	₱–	₱–	₱34,718,250
Private bonds	–	4,528,424	–	–	–	4,528,424
	34,718,250	4,528,424	–	–	–	39,246,674
Financial assets at amortized costs						
Deposits in banks	23,070,337	–	–	–	–	23,070,337
Accrued interest receivable	141,807	75,702	–	–	–	217,509
	23,212,144	75,702	–	–	–	23,287,846
	₱57,930,394	₱4,604,126	₱–	₱–	₱–	₱62,534,520

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to or cannot easily exit or unwind its position at a desired market price (market/product liquidity risk) or to meet margin calls or obligations as they fall due. Typically, market illiquidity manifests itself in the form of significant transaction costs, low market turn-over, a relatively small number of traders at any time and significant bid-offer spreads. These factors translate to significant costs to liquidate positions - higher transaction costs, longer lead time to execute a deal or selling at a relatively disadvantageous price particularly if the need to sell is urgent.

The TID's objective is to maintain a balance between continuity of funding and flexibility. The Fund's liquidity risk is managed by holding sufficient liquid assets to ensure short-term funding requirements are met. Deposits with banks are made on a short-term basis with almost all being available on demand or within three months. Liquidity is monitored by the TID on a regular basis.

The tables below summarize the maturity profile of the financial assets and financial liabilities of the Fund as of December 31, 2023 and 2022.

Financial assets

Analysis of financial assets classified as held-for-trading into maturity groupings is based on the expected date on which these assets will be realized. For all other assets, the analysis into maturity groupings is based on the remaining term from the end of the reporting period to the contractual maturity date.

Financial liabilities

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

	2023			
	Demand	**Within 1 to 3 months**	**Within 3 to 12 months**	**Total**
Financial Assets				
Deposits in banks*	**₱13,028,715**	**₱67,044,260**	**–**	**₱80,072,975**
Accrued interest receivable	**–**	**7,067,881**	**–**	**7,067,881**
Financial assets at FVTPL**	**–**	**1,548,201,915**	**–**	**1,548,201,915**
	₱13,028,715	**₱1,622,314,056**	**₱–**	**₱1,635,341,771**

(Forward)

	2023			
	Demand	**Within 1 to 3 months**	**Within 3 to 12 months**	**Total**
Financial Liabilities				
Accounts payable	**₱–**	**₱203,567**	**₱–**	**₱203,567**
Trust fee payable	**–**	**487,651**	**–**	**487,651**
	₱–	**₱691,218**	**₱–**	**₱691,218**

**Includes future interest*
***This includes government securities and private bonds. Amounts include future interest.*

	2022			
	Demand	Within 1 to 3 months	Within 3 to 12 months	Total
Financial Assets				
Deposits in banks*	₱887,982	₱22,292,840	₱–	₱23,180,822
Accrued interest receivable	–	217,509	–	217,509
Financial assets at FVTPL**	–	29,405,001	10,077,755	39,482,756
	₱887,982	₱51,915,350	₱10,077,755	₱62,881,087
Financial Liabilities				
Accounts payable	₱–	₱20,581	₱–	₱20,581
Trust fee payable	–	56,664	–	56,664
	₱–	₱77,245	₱–	₱77,245

**Includes future interest*
***This includes government securities and private bonds. Amounts include future interest.*

Market Risk
Market risk is the risk of loss to future earnings caused by changes in interest rates, foreign currency exchange rates, equity prices and other market factors. This risk applies to both the Fund's trading and accrual positions.

Market risk affects all Fund portfolios that have holdings in fixed-income and equity instruments. Individual investment assets are exposed to market risk to the extent that a security may have a market price different from its original acquisition price at any point in time until it reaches maturity or is sold. Portfolios that are entirely invested in cash are not exposed to market risk

The tables below demonstrate the sensitivity to a reasonably possible change in interest rates with all other variables held constant, of the Fund's profit or loss (through the impact on unrealized gain/loss on financial assets at FVTPL) in 2023 and 2022.

	December 31			
	2023		2022	
Change in interest rates (in basis points)	**+1%**	**1%**	+1%	1%
Sensitivity to profit or loss	**(₱850,012)**	**851,061**	(₱68,133)	₱68,432

5. **Deposits in Banks**

Deposit in banks consist of:

	2023	2022
Cash in bank	**₱13,028,715**	₱887,982
Time deposit	**67,032,938**	22,182,355
	₱80,061,653	₱23,070,337

Deposits in banks consist of peso-denominated checking and savings accounts which earn annual interest rates of 0.0625% in 2023 and 2022 and time deposits bearing annual interest rates ranging from 0.125% to 5.125% in 2023 and 0.125% to 4.75% in 2022.

Interest income on deposit in banks, for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Time deposit	**₱1,996,035**	₱344,073
Current account	**15,177**	294
	₱2,011,212	₱344,367

Accrued interest receivables from deposits in banks, for the years ended December 31, 2023 and 2022 amounted to ₱11,321 and ₱39,625.

6. Financial Assets at Fair Value through Profit or Loss

This account consists of:

	2023	2022
Private bonds	**₱19,867,576**	₱4,528,424
Government bonds	**1,522,617,833**	34,718,250
	₱1,542,485,409	₱39,246,674

Trading and Securities Losses

The composition of net trading and securities losses in 2023 and 2022 are as follows:

	2023	2022
Changes in fair value of financial assets at FVTPL	**₱215,803**	(₱107,323)
Realized losses from sale of financial assets at FVTPL	**41,230**	–
	₱257,033	(₱107,323)

Peso-denominated financial assets at FVTPL bear nominal net annual interest rates ranging from 2.32% to 5.50% in 2023, and from 2.6% to 4.53% in 2022. Accrued interest receivables from these financial assets amounted to ₱7.057 million in 2023 and ₱.178 million in 2022.

7. Other Accountabilities

This account consists of:

	2023	2022
Trust fee payable	**₱487,651**	₱56,664
Accounts payable	**203,567**	20,581
	₱691,218	₱77,245

Trust fee payable represents unpaid service fees charged by the TID to the trustors. Accounts payable pertains to unpaid professional fees.

8. Maturity Analysis of Assets and Accountabilities

As of December 31, 2023 and 2022, the Fund's assets and accountabilities are due to be recovered and settled within one year from the reporting date.

9. Trust Reserves

BSP Circular No. 447 states that the UITF shall be exempt from the provisions on statutory and liquidity reserves, single borrower's limit and directors, officers, stockholders and their related interest ceilings of the manual of regulations applicable to trust funds in general.

10. NAV per Unit

The NAV per unit of the Fund is computed as follows:

	2023	2022
NAV	**₱1,628,923,725**	₱62,457,275
Outstanding units	**1,349,299,703**	54,193,861
NAV per unit	**₱1.2072**	₱1.1525

11. Approval for the Release of the Financial Statements

The accompanying financial statements of the Fund were approved and authorized for issue by the Board of Directors of the Company on May 31, 2024.