# AB Capital & Investment Corporation

Financial Statements
of AB Capital Equity Fund
Unit Investment Trust Fund
Operated by the Trust and Investments Division
December 31, 2024 and 2023

and

Independent Auditor's Report

Building a better working world

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
sgv.ph

# 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 Equity Fund Unit Investment Trust Fund ("the Fund") operated by the Trust and Investments Division ("the TID") of AB Capital & Investment Corporation ("the Company"), which comprise the statements of financial position as at December 31, 2024 and 2023, 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 financial statements present fairly, in all material respects, the financial position of the Fund operated by the TID of the Company as at December 31, 2024 and 2023, and its financial performance for the years then ended in accordance with Regulatory Accounting Principles (RAP) of the Bangko Sentral ng Pilipinas (BSP).

### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund and the TID 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 are prepared in accordance with RAP of the BSP, which differ from Philippine Financial Reporting Standards in some respects. These were prepared to assist the TID of the Company in meeting the requirements of the BSP. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with RAP of the BSP and for such internal control as management determines is necessary to enable the preparation of 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 TID'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.

Bernalette L. Ramos

Bernalette L. Ramos
Partner
CPA Certificate No. 0091096
Tax Identification No. 178-486-666
BOA/PRC Reg. No. 0001, April 16, 2024, valid until August 23, 2026
BIR Accreditation No. 08-001998-081-2024, January 26, 2024, valid until January 25, 2027
PTR No. 10465367, January 2, 2025, Makati City

June 3, 2025

## AB CAPITAL & INVESTMENT CORPORATION

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

| | December 31 | |
|---|---|---|
| | **2024** | 2023 |
| **ASSETS** | | |
| Deposits in banks (Note 5) | **₱216,363,490** | ₱2,403,264 |
| Financial assets at fair value through profit or loss (Note 6) | **3,408,569,051** | 322,232,474 |
| Receivables (Note 7) | **29,426,608** | 220,200 |
| | **3,654,359,149** | 324,855,938 |
| **LIABILITIES** | | |
| Other accountabilities (Note 8) | **47,685,302** | 349,092 |
| **NET ASSETS ATTRIBUTABLE TO UNITHOLDERS** (Note 11) | **₱3,606,673,847** | ₱324,506,846 |
| **NET ASSET VALUE PER UNIT** (Note 11) | **₱3.5052** | ₱2.8626 |

*See accompanying Notes to Financial Statements.*

## AB CAPITAL & INVESTMENT CORPORATION

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

| | Years Ended December 31 | |
|---|---|---|
| | **2024** | 2023 |
| **INCOME** | | |
| Trading and securities gains (losses) - net (Note 6) | **₱157,170,424** | **(₱2,343,339)** |
| Dividends (Note 6) | **39,457,035** | **10,575,171** |
| Interest income on: | | |
| Deposits in banks (Note 5) | **5,405,508** | **391,393** |
| Financial assets at fair value through profit or loss (Note 6) | **2,363,989** | **979,244** |
| | **204,396,956** | **9,602,469** |
| **EXPENSES** | | |
| Trust fees | **20,897,195** | **3,379,647** |
| Administrative and other expenses | **816,534** | **182,408** |
| Professional fees | **77,622** | **15,860** |
| | **21,791,351** | **3,577,915** |
| **INCOME BEFORE FINAL TAX** | **182,605,605** | **6,024,554** |
| **PROVISION FOR FINAL TAX** | **1,554,047** | **195,262** |
| **NET INCOME/TOTAL COMPREHENSIVE INCOME*** | **₱181,051,558** | **₱5,829,292** |

*There were no other comprehensive income items in 2024 and 2023.

*See accompanying Notes to Financial Statements.*

## AB CAPITAL & INVESTMENT CORPORATION

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

| | Years Ended December 31 | |
|---|---|---|
| | **2024** | 2023 |
| **PRINCIPAL** | | |
| Balance at January | **₱309,689,006** | ₱10,247,473 |
| Contributions | **3,204,378,773** | 314,385,141 |
| Withdrawals | **(103,263,330)** | (14,943,608) |
| Balance at December 31 | **3,410,804,449** | 309,689,006 |
| **ACCUMULATED EARNINGS** | | |
| Balance at January 1 | **14,817,840** | 8,988,548 |
| Net income | **181,051,558** | 5,829,292 |
| Balance at December 31 | **195,869,398** | 14,817,840 |
| **NET ASSETS ATTRIBUTABLE TO UNITHOLDERS** (Note 11) | **₱3,606,673,847** | ₱324,506,846 |

*See accompanying Notes to Financial Statements.*

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

## 1. General Information

On August 15, 2005, the Monetary Board (MB) of the Bangko Sentral ng Pilipinas (BSP) granted AB Capital & Investment Corporation ("the Company") a license to operate AB Capital Equity 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 December 4, 2006.

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 Units 1210-1212 and 1911-1912, PSE Tower, 5th Ave. corner 28th St., Bonifacio Global City, Taguig City.

## 2. Summary of Material Accounting Policies

<u>Basis of Preparation</u>
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 opted to early adopt 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, 2024. Adoption of these pronouncements did not have any impact on the Fund's financial position or performance..

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
  The amendments clarify:
  - That only covenants with which an entity must comply on or before reporting date will affect a liability's classification as current or non-current.
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right.
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*
  The amendments specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right of use retained.

- Amendments to PAS 7 and PFRS 7, *Disclosures: Supplier Finance Arrangements*
  The amendments specify disclosure requirements to enhance the current requirements, which are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

## 3. Material Accounting Policies

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 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 best economic interest.

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

- 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

As of December 31, 2024 and 2023, fair values of the Fund's equity securities are based on quoted market prices from the Philippine Stock Exchange and fall under the Level 1 input of the fair value hierarchy (e.g. quoted (unadjusted) market prices in active markets for identical assets or liabilities).

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

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement

*Date of recognition*
The Fund recognizes financial instruments when, and only when, it becomes a party to the contractual terms of the financial instruments.

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention 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 the selling price on the trade date. Loans and receivables are recognized when cash is advanced to the borrowers.

Except for financial assets and financial liabilities at FVTPL, all financial assets and financial liabilities are recognized initially at fair value plus any cost directly attributable to the acquisition or issuance.

*Classification and Subsequent Measurement of financial instruments*
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 receivables.

*Financial assets at FVTPL*
Equity investments are classified as at FVTPL, unless the Fund designates an investment that is not held for trading as at FVTOCI at initial recognition.

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.

Dividends earned on holding these equity instruments are recognized in the statement of income when the Company's right to receive the dividends is established, unless the dividends clearly represent recovery of a part of the cost of the investment. Dividends earned are recognized in the statement of income under 'Dividends'.

The Fund's other financial assets are carried at amortized cost as these are held to collect principal balances, and in the case of cash in banks, the interest earned.

*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.

<u>Offsetting of Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount is reported in the 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.

<u>Impairment of Financial Assets</u>
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.

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.

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

*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, 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.

*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 right to receive cash flows from the asset have expired;
- the Fund 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 Fund, on behalf of the trustors, has transferred its right 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 have been enacted or substantively enacted as at the reporting date.

Revenue Recognition

The following specific recognition criteria must be met before revenue is recognized.

*Interest income*

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

*Trading and securities gains (losses)*

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

*Dividends*

Dividends are recognized when the trustor's right to receive the payment is established.

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 of 1.25% per annum on the trust assets managed. 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 January 1, 2025*

- Amendments to PAS 21, *Lack of exchangeability*

*Effective January 1, 2026*

- Amendments to PFRS 9 and PFRS 7, *Classification and Measurement of Financial Instruments*
- Annual Improvements to PFRS Accounting Standards—Volume 11
    - Amendments to PFRS 1, *Hedge Accounting by a First-time Adopter*
    - Amendments to PFRS 7, *Gain or Loss on DerecognitioN*
    - Amendments to PFRS 9, *Lessee Derecognition of Lease Liabilities and Transaction Price*

- Amendments to PFRS 10, *Determination of a 'De Facto Agent'*
- Amendments to PAS 7, *Cost Method*

*Effective January 1, 2027*

- PFRS 17, *Insurance Contracts*
- PFRS 18, *Presentation and Disclosure in Financial Statements*
- PFRS 19, *Subsidiaries without Public Accountability*

*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*

## 4. 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 Fund 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, 2024 and 2023, the Fund did not make any significant accounting judgment or estimate in the preparation of its financial statements.

## 5. Financial Risk Management Objectives and Policies

<u>Risk Management Structure</u>
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 Fund 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 Fund 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 Fund, on behalf of the trustors, periodically monitors, reviews and evaluates its loan/investment portfolios and provides adequate reserves in accordance with regulatory guidelines and 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 debt financial assets by industry sector follows:

| | **2024** | | |
|---|---|---|---|
| | **Deposits in Banks** | **Receivables** | **Total** |
| Financial intermediaries | **₱216,363,490** | **₱2,793,705** | **₱219,157,195** |
| Industrial | **–** | **1,144,136** | **1,144,136** |
| Services | **–** | **25,488,767** | **25,488,767** |
| | **₱216,363,490** | **₱29,426,608** | **₱245,790,098** |

| | 2023 | | |
|---|---|---|---|
| | Deposits in Banks | Receivables | Total |
| Financial intermediaries | ₱2,403,264 | ₱– | ₱2,403,264 |
| Industrial | – | 220,200 | 220,200 |
| | ₱2,403,264 | ₱220,200 | ₱2,623,464 |

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:

- Deposits in banks
  Deposits in banks are classified as high grade.

- 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.

Credit risk of deposit in banks and receivables is minimal since these are placed and recoverable respectively from banks and private corporations, respectively, with high external credit ratings. Accordingly, placements in these banks and dividends and interest receivable from these investment securities are considered to be low credit risk investments. As of December 31, 2024 and 2023, the TID determined that the impact of 12-month ECL ("Stage 1") on its deposits in bank and receivables is not material. As such, no impairment losses were recognized for these financial assets in 2024 and 2023.

The table below shows the credit quality by class of financial assets (gross of allowance and impairment losses) of the Equity Fund operated by TID as of December 31, 2024 and 2023:

| | **2024** | | | | | |
|---|---|---|---|---|---|---|
| | **Equity Fund** | | | | | |
| | **High Grade** | **Standard Grade** | **Substandard Grade** | **Unrated** | **Credit Impaired** | **Total** |
| Financial assets at amortized costs | | | | | | |
| Deposits in banks | **₱216,363,490** | **₱–** | **₱–** | **₱–** | **₱–** | **₱216,363,490** |
| Interest receivable | **68,236** | – | – | – | – | **68,236** |
| Due from broker | – | **25,488,767** | – | – | – | **5,488,767** |
| Dividends receivable | – | **3,869,605** | – | – | – | **3,869,605** |
| | **₱216,431,726** | **₱29,358,372** | **₱–** | **₱–** | **₱–** | **₱225,790,098** |

| | 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Equity Fund | | | | | |
| | High Grade | Standard Grade | Substandard Grade | Unrated | Credit Impaired | Total |
| Financial assets at amortized costs | | | | | | |
| Deposits in banks | ₱2,403,264 | ₱– | ₱– | ₱– | ₱– | ₱2,403,264 |
| Dividends receivable | – | 220,200 | – | – | – | 220,200 |
| | ₱2,403,264 | ₱220,200 | ₱– | ₱– | ₱– | ₱2,623,464 |

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, 2024 and 2023.

*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.

| | **2024** | | |
|---|---|---|---|
| | **On Demand** | **Within 1 to 3 Months** | **Total** |
| Financial Assets | | | |
| Receivables: | | | |
| Deposits in banks* | **₱31,497,588** | **₱184,900,020** | **₱216,397,608** |
| Interest receivable | – | **68,236** | **68,236** |
| Dividend receivable | – | **3,869,605** | **3,869,605** |
| Due from broker | – | **25,488,767** | **25,488,767** |
| Financial assets at FVPL - quoted equity securities | – | **3,408,569,051** | **3,408,569,051** |
| | **₱31,497,588** | **₱3,622,895,679** | **₱3,654,393,267** |
| Financial Liabilities | | | |
| Due to broker | **₱–** | **₱43,796,828** | **₱43,796,828** |
| Trust fee payable | – | **3,880,384** | **3,880,384** |
| Accounts payable | – | **8,090** | **8,090** |
| | **₱–** | **₱47,685,302** | **₱47,685,302** |

**Includes future interest*

| | 2023 | | |
|---|---|---|---|
| | On Demand | Within 1 to 3 Months | Total |
| Financial Assets | | | |
| Receivables: | | | |
| Deposits in banks | ₱2,403,264 | ₱– | ₱2,403,264 |
| Dividend receivable | – | 220,200 | 220,200 |
| Financial assets at FVPL - quoted equity securities | – | 322,232,474 | 322,232,474 |
| | ₱2,403,264 | ₱322,452,674 | ₱324,855,938 |
| Financial Liabilities | | | |
| Accounts payable | ₱– | ₱3,567 | ₱3,567 |
| Trust fee payable | – | 345,525 | 345,525 |
| | ₱– | ₱349,092 | ₱349,092 |

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. Portfolios whose investments are classified as fixed rate receivables are not subject to market risk given that the reporting on these assets need not be marked-to-market.

*Equity price risk*

Equity price risk is the risk that the fair value of equity instruments will decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Fund's quoted equity securities classified as financial assets at FVTPL.

The following table sets forth the impact of changes in Philippine Stock Exchange index (PSEi) on the Fund's trading and securities gains (losses) in profit or loss in 2024 and 2023:

| | **2024** | | 2023 | |
|---|---|---|---|---|
| **Changes in PSEi** | **+5.34%** | **-5.34%** | +14.04% | -14.04% |
| Trading and securities gains (losses) | **₱486,929,310** | **(₱486,929,310)** | ₱40,998,468 | (₱40,998,468) |

6. **Deposits in Banks**

Deposit in banks consist of:

| | **2024** | 2023 |
|---|---|---|
| Cash in banks | **₱31,497,588** | ₱2,403,264 |
| Time deposit | **184,865,902** | – |
| | **₱216,363,490** | ₱2,403,264 |

Deposits in banks consist of peso-denominated checking and savings accounts which earned annual interest rate of 0.05% and 0.0625% in 2024 and 2023, respectively. Time deposits bear annual interest rates of 3.55% to 6.575% in 2024 and 0.50% to 4.30% in 2023.

Interest income on deposit in banks for the years ended December 31, 2024 and 2023 are as follows:

| | 2024 | 2023 |
|---|---|---|
| Time deposit | **₱5,400,725** | ₱387,115 |
| Current account | **4,783** | 4,278 |
| | **₱5,405,508** | ₱391,393 |

7. **Financial Assets at Fair Value through Profit or Loss**

As of December 31, 2024 and 2023, this account consists of quoted equity securities amounting to ₱3,408.57 million and ₱322.23 million, respectively. In 2024 and 2023, interest income earned from fixed income investments totaled ₱2.36 million and ₱0.98 million. There are no outstanding fixed income investments as of year-end.

<u>Trading and Securities Gain</u>
The composition of net trading and securities gains (losses) in 2024 and 2023 are as follows:

| | 2024 | 2023 |
|---|---|---|
| Changes in fair value of financial assets at FVTPL | **₱152,860,372** | (₱230,476) |
| Realized gains (losses) from sale of financial assets at FVTPL | **4,310,052** | (2,112,863) |
| | **₱157,170,424** | (₱2,343,339) |

In 2024 and 2023, the Fund recognized dividend income from financial assets at FVTPL amounting to ₱39.46 million and ₱10.58 million, respectively.

8. **Receivables**

This account consists of:

| | 2024 | 2023 |
|---|---|---|
| Due from broker | **₱25,488,767** | ₱– |
| Dividend receivable | **3,869,605** | ₱220,200 |
| Interest receivable | **68,236** | – |
| | **₱29,426,608** | ₱220,200 |

## 9. Other Accountabilities

As of December 31, 2024 and 2023, this account consists of:

| | **2024** | 2023 |
|---|---|---|
| Due from broker | **₱43,796,828** | ₱– |
| Trust fee payable | **3,880,384** | 345,525 |
| Accounts payable | **8,090** | 3,567 |
| | **₱47,685,302** | ₱349,092 |

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

## 10. Maturity Analysis of Assets and Accountabilities

The Fund's assets and accountabilities are due to be recovered and settled within one year from the reporting date.

## 11. 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.

## 12. NAV per Unit

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

| | **2024** | 2023 |
|---|---|---|
| NAV | **₱3,606,673,847** | ₱324,506,846 |
| Outstanding units | **1,028,935,161** | 113,359,882 |
| NAV per unit | **₱3.5052** | ₱2.8626 |

## 13. 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 June 3, 2025.