Philippine Bank of Communications

Financial Statements
of the PBCOM USD Money Market Fund
Operated by the Trust and Wealth
Management Group
As of December 31, 2022 and for the period
from October 14 to December 31, 2022

and

Independent Auditor's Report

SGV
Building a better working world

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Philippine Bank of Communications

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the PBCOM USD Money Market Fund operated by the Trust and Wealth Management Group (TWMG) of Philippine Bank of Communications (the Bank), which comprise the statements of financial position as at December 31, 2022, and the related statements of comprehensive income and statements of changes in net assets attributable to unitholders for the period from October 14 to December 31, 2022, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund operated by the TWMG of the Bank as at December 31, 2022, and the financial performance for the period from October 14 to December 31, 2022 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 TWMG and the Fund it operates in accordance with the Code of Ethics for Professional Accountants in the Philippines (the Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with RAP of the BSP, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

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

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

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Ray Francis C. Balagtas

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PTR No. 9369775, January 3, 2023, Makati City

April 26, 2023

PHILIPPINE BANK OF COMMUNICATIONS

STATEMENTS OF FINANCIAL POSITION
OF THE PBCOM USD MONEY MARKET FUND
OPERATED BY THE TRUST AND WEALTH MANAGEMENT GROUP

	December 31
	2022
ASSETS	
Deposits in banks (Note 5)	**$16,859**
Accrued interest receivable (Note 5)	**30**
	16,889
LIABILITIES	
Accrued expenses and other liabilities (Note 6)	**8**
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (Note 9)	**$16,881**
NET ASSET VALUE PER UNIT (Note 9)	**$100.4935**

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS

STATEMENTS OF COMPREHENSIVE INCOME
OF THE PBCOM USD MONEY MARKET FUND
OPERATED BY THE TRUST AND WEALTH MANAGEMENT GROUP
FOR THE PERIOD FROM OCTOBER 14 TO DECEMBER 31, 2022*

	2022
INTEREST INCOME ON:	
Deposits in banks (Note 5)	**$119**
	119
EXPENSES	
Trust fees (Note 6)	**18**
	18
INCOME BEFORE INCOME TAX	**101**
PROVISION FOR INCOME TAX (Note 8)	**18**
NET INCOME	**83**
OTHER COMPREHENSIVE INCOME	–
TOTAL COMPREHENSIVE INCOME	**$83**

** The Bank launched USD Money Market Fund on October 14, 2022*

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS OF THE PBCOM USD MONEY MARKET FUND OPERATED BY THE TRUST AND WEALTH MANAGEMENT GROUP FOR THE PERIOD FROM OCTOBER 14 TO DECEMBER 31, 2022*

	2022
PRINCIPAL	
Balance at beginning of year	**$–**
Contributions	**17,350**
Withdrawals	**(550)**
Balance at end of year	**16,800**
ACCUMULATED INCOME	
Balance at beginning of year	–
Total comprehensive income	**83**
Withdrawals	**(2)**
Balance at end of year	**81**
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (Note 9)	**$16,881**

** The Bank launched USD Money Market Fund on October 14, 2022*

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS
OF THE PBCOM USD MONEY MARKET FUND
OPERATED BY THE TRUST AND WEALTH MANAGEMENT GROUP

1. General Information

Philippine Bank of Communications (the Bank) was granted license by the Monetary Board (MB) of the Bangko Sentral ng Pilipinas (BSP) to engage in trust services on October 5, 1970. The trust operations of the Bank are managed by its Trust and Wealth Management Group (TWMG).

On October 14, 2022, , the Bank, through its TWMG, launched the PBCOM USD Money Market Fund (the Fund). The Fund is a unit investment trust fund (UITF) established in accordance with the regulations issued by the BSP and existing laws. The Fund is a money market fund which derives income from a mixed portfolio of short-term placements investing primarily in US Dollar denominated government securities issued by the Republic of the Philippines, deposits in local banks or branches of foreign banks operating in the Philippines with a modified portfolio duration that does not exceed one year.

The principal place of business of the TWMG is at PBCOM Tower, 6795 Ayala Avenue corner V. A. Rufino Street, Makati City.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

The financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL), which have been measured at fair value. The financial statements are presented in US Dollar ($ or USD), the Fund's functional currency. All values were rounded to the nearest US Dollar, unless otherwise stated.

Statement of Compliance

The 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. 999, dated March 14, 2018;
h. BSP Circular No. 1011, dated August 14, 2018;
i. BSP Circular No. 1021, dated November 15, 2018;
j. BSP Circular No. 1023, dated December 4, 2018.

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

a. No presentation of the statement of cash flows;
b. The provisions of PFRS are only applied to accounts outstanding as at December 31, 2008 and thereafter;
c. 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;
d. Trust institutions are allowed to prepare the functional statements on a single year basis in the initial year of PFRS adoption; and
e. Only a general description on risk management for financial instruments may be disclosed in the financial statements.

Presentation of Financial Statements
The financial statements of the Fund are presented broadly in order of liquidity. An analysis regarding recovery or settlement within twelve (12) months after the reporting date (current) and more than twelve (12) months after the reporting date (noncurrent) is presented in Note 7.

Cash and Cash Equivalents
Cash and cash equivalents consist of bank deposits with original maturities of three (3) months or less from dates of placements and which are subject to an insignificant risk of changes in value.

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

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

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market close prices at the close of business on the end of the reporting period.

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

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

For fair values of assets and liabilities that are recognized in the financial statements on a recurring basis, the Fund 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 TWMG, on behalf of the unitholders, has determined classes of assets and liabilities on the basis of their nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy (see Note 4).

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial recognition of financial instruments
Purchases and 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 settlement date, the date that an asset is delivered to or by the TWMG, on behalf of the unitholders. Settlement date accounting refers to:

a. The recognition of an asset on the day it is received by the TWMG; and
b. The recognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the TWMG.

Securities transactions and related commission expense are recorded also on a settlement date basis. Loans and receivables are recognized when cash is advanced to the borrowers.

Classification and Measurement
The classification and measurement of financial assets is driven by the Fund's contractual cash flow characteristics of the financial assets and business model for managing the financial assets.

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

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

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

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

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

The TWMG's measurement categories are described below:

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

- the asset is held within the TWMG's business model whose objective is to hold financial assets in order to collect contractual cash flows; and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The TWMG, on behalf of the unitholders, may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost.

As at December 31, 2022, the financial assets measured at amortized cost include deposits in banks and accrued interest receivables.

Financial Assets at FVPL
Debt instruments that neither meet the amortized cost nor the FVOCI criteria, or that meet the criteria but the TWMG, on behalf of the unitholders, has chosen to designate as at FVPL at initial recognition, are classified as financial assets at FVPL. Equity investments are classified as financial assets at FVPL, unless the TWMG, on behalf of the unitholders, designates an equity investment that is not held for trading as at FVOCI at initial recognition.

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

Financial liabilities at amortized cost
Issued financial instruments or their components, which are not financial liabilities at FVPL, are classified as financial liabilities carried at amortized cost, when the substance of the contractual arrangement results in the Fund having an obligation either to deliver cash or another financial asset to the holder or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

This accounting policy applies to accrued expenses and other liabilities.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
Financial asset
A financial asset (or, when applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The TWMG, on behalf of the unitholders, retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement, and either the Fund:

  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 of the asset.

When the TWMG, on behalf of the unitholders, has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the unitholders' continuing involvement. In that case, the TWMG, on behalf of the unitholders, also recognized an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the TWMG, on behalf of the unitholders, has retained.

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

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

Write-offs
Financial assets are written off either partially or in their entirety only when the TWMG, on behalf of the unitholders, has stopped pursuing the recovery.

Impairment of Financial Assets
The TWMG is required to provide expected credit losses (ECLs) for financial assets at AC, FVOCI and contract assets. The allowance is based on the ECLs associated with the risk of default in the next twelve (12) months unless there has been a significant increase in credit risk (SICR) since origination or the financial assets are impaired where lifetime ECL is provided. Further, impairment under ECL model is now dependent upon whether there have been SICRs of the TWMG's financial assets since initial recognition and on the TWMG's evaluation of factors relevant to the measurement of expected credit losses such as a range of possible outcomes and information about past events, current conditions and forecasts of future economic conditions. Equity instruments are not subject to impairment.

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

Impairment of Financial Assets
The TWMG, on behalf of the unitholders, assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a legally enforceable right to set off the recognized amounts and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously. The TWMG, on behalf of the unitholders, assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Fund and all of the counterparties.

Principal
Principal consists of contributions and withdrawals. Contributions are recognized when received while withdrawals are recorded when paid.

Accumulated Income (Losses)
Accumulated income (losses) pertains to net income (losses) recognized by the Fund, which is subsequently decreased by withdrawals made during the year.

Net Asset Value (NAV) Per Unit
NAV per unit is computed by dividing net assets attributable to unitholders by the total number of shares issued and outstanding at the reporting date.

Net Assets Attributable to Unitholders
The Fund's net assets attributable to its unitholders have the following features which qualify them as puttable instruments classified as equity instruments:

- It entitles the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation;
- It is in the class of instruments that is subordinate to all other classes of instruments;
- All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- It does not include any contractual obligation to deliver cash or another financial asset other than the holder's right to a pro rata share of the Fund's net assets; and
- The total expected cash flows attributable to the Fund's net assets over their life are based substantially on profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund over their life.

Further, the Fund does not have other contracts that have:

- total cash flows based substantially on profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund; and
- the effect of substantially restricting or fixing the residual return to the unitholders of the Fund.

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

The TWMG, on behalf of the unitholders, assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The TWMG has concluded that it is the principal in all of its revenue arrangements.

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

Revenue within the scope of PFRS 15
For the year ended December 31, 2022, there are no items that are within the scope of PFRS 15.

Revenue outside the scope of PFRS 15

Interest income
For all financial instruments measured at amortized cost and debt securities classified as FVPL, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, as applicable, but not future credit losses.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss.

Dividend income
Dividend income is recognized when the unitholder's right to receive the payment is established.

Trading and securities gains (losses)
Trading and securities gains (losses) represent results arising from changes in fair value of financial assets at FVPL and sale of financial assets.

Expense Recognition
Expenses are recognized when decrease in future economic benefits related to decreases in assets or increases in liabilities have arisen and can be measured reliably. Expenses are recognized when incurred.

Trust fees
Trust fees are recognized when incurred and earnings are being charged daily against the Fund at 0.50% per annum of the NAV.

Taxes
Current tax assets and current tax liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Taxes substantially represent final withholding tax of 15.00% on gross interest income accruing to the unitholders arising from dollar-denominated deposits in banks and debt securities.

Provisions
Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and when it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 'Interest expense' in the statement of comprehensive income.

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

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

3. Financial Risk Management Objectives and Policies

Introduction

The TWMG has established risk management and control with policies on market, credit, liquidity and operational risks. The objectives of the TWMG's risk framework are to maintain the integrity of the managed investment portfolio by timely and responsive risk management and to optimize asset utilization in order to attain the highest possible risk-adjusted returns over time. The TWMG recognizes risk recognition as an essential first step in the investment selection process.

Risk Management Structure

TWMG

The TWMG's risk management environment is characterized by a well-defined risk organizational structure, flow of risk information, risk-based audit coverage and an established compliance system.

Board of Directors (BOD)

The BOD is responsible for establishing and maintaining a sound risk management system and is ultimately accountable for identifying and controlling risks; there are, however, separate independent bodies responsible for managing and monitoring risks.

Trust Committee (TC)

The TC has the overall responsibility for the proper administration and management of trust and other fiduciary business and shall act within the sphere of authority such as, but not limited to the following:

- The acceptance and closing of trust and other fiduciary accounts;
- The initial review of assets placed under the trustee's or fiduciary's custody;
- The investment, reinvestment and disposition of funds or property;
- The review and approval of transactions between trust and/or fiduciary accounts; and
- The review of trust and other fiduciary accounts at least once every 12 months to determine the advisability of retaining or disposing of the trust or fiduciary assets, and/or whether the account is being managed in accordance with the instrument creating the trust or other fiduciary relationship.

Risk Oversight Committee (ROC)

The ROC has the overall responsibility for the development of the risk strategy and implementing principles, enterprise risk management framework, methodology, policies and limits. It is responsible for addressing the fundamental risk issues, and manages and monitors relevant risk decisions.

Enterprise Risk Management Group (ERMG)

The ERMG is an independent unit within the Bank directly reporting to the ROC. It is the responsibility of the group to identify, analyze and measure risks from the Bank's trading, lending, borrowing and other transactional activities. It also recommends control policies and procedures to mitigate risk in identified risk areas in Treasury, Credit, Trust and other areas of operations.

Risk Control

The Risk Control function performs important day-to-day monitoring of risk exposures against approved limits and reporting of such exposures, and implementation of policies and control procedures.

Internal Audit Group (IAG)
Risk management processes relating to trust activities are audited by the IAG of the Bank who examines both the adequacy of the procedures and the TWMG's compliance thereto. The IAG discusses the results of all assessments with the TWMG, and reports its findings and recommendations to the Audit Committee.

Credit Risk
Credit risk is the risk to the unitholders' earnings arising from an obligor's failure to meet the terms of any contract with the TWMG or otherwise failure to perform as agreed. Credit risk is found in all activities where success depends in counterparty, issuer, or borrower performance. It arises anytime fiduciary funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements.

For the Bank's TWMG, credit risk mainly comes from money market investment of the Fund's cash balances and its sub-custodian arrangement. Unitholders' securities are held by the sub-custodian in a contractual fiduciary arrangement under the nominee name of the TWMG.

The TWMG, on behalf of the unitholders, manages and controls credit risk by setting limits on the amount of risk it is willing to accept on individual/corporate counterparties and for geographical and industry concentrations (pre-approved by the TC), and by monitoring exposures in relation to such limits. A Risk Control Officer monitors and reports daily the exposure of the Fund with approved counterparty banks.

The risk management structure of policies, accountabilities and responsibilities, controls and senior management involvement is similarly in place for non-performing assets.

Maximum exposure to credit risk
The Fund's maximum exposure to credit risk is represented by the carrying amounts of its financial assets. There are no agreements concluded or collateral held which reduced the maximum exposure to credit risk as at December 31, 2022.

For financial instruments recorded at fair value, the maximum exposure represents the risk exposure as of the reporting date but not the maximum risk exposure that could arise in the future as a result of changes in value.

Concentrations by industry
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographic location.

As at December 31, 2022, all financial assets of the Fund, before taking into account the collateral held or other credit enhancements (maximum exposure), are managed through financial intermediaries, except for government securities under 'Financial assets at FVPL' which are issued by the government.

Credit quality per class of financial assets

For deposits in local banks or investment in banks' bonds issuances or in non-bank financial institutions (BCRES), a description of each risk grade used by the TWMG follows:

- Excellent, BCRES 95-100
  –Banks/Non Bank FIs categorized under this classification are capable of withstanding very difficult market conditions for more than 5 years without deteriorating to a below acceptable credit classification by virtue of their size, reputation and ranking in the industry. These banks are characterized by higher than industry average ROE (profitability), substantially higher than regulatory limit CAR (solvency) and NFSR/LCR (liquidity), CAMEL's rating of at least 5, and lower than average NPL (asset quality).

- Very Good, BCRES 85-94
  These are Banks/NBFI that show within industry average ROE (profitability), higher than regulatory limit CAR (solvency) and NFSR/LCR (liquidity), CAMEL's rating of at least 4, and within industry average but decreasing NPL (asset quality).

- Acceptable, BCRES 75-84
  Banks/NBFI that fall under this classification are those that show lower than but not in bottom quartile of the industry average ROE (profitability), within regulatory limit CAR (solvency) and NFSR/LCR (liquidity), CAMEL's rating of at least 3, and within industry average but increasing NPL (asset quality).

- Below Acceptable, BCRES <75
  Banks/NBFI that fall under this classification are those that show in bottom quartile of the industry average ROE (profitability), below regulatory limit CAR (solvency) and NFSR/LCR (liquidity), CAMEL's rating of at least 2, and higher than industry average and increasing NPL (asset quality).

The following table provides the credit quality by class of financial assets of the Fund as at December 31, 2022:

	Stage 1	Stage 2	Stage 3	Total
Deposits in banks				
Very Good	**$–**	**$–**	**$–**	**$–**
Acceptable	**16,859**	–	–	**16,859**
Unrated	–	–	–	–
	$16,859	**$–**	**$–**	**$16,859**
Accrued interest receivable				
Acceptable	**30**	–	–	**30**
	$16,889	**$–**	**$–**	**$16,889**

<u>Liquidity Risk</u>
Liquidity risk is the risk of not being able to meet payment obligations such as the repayment of liabilities or payment of asset purchases as they fall due under normal and stress circumstances.

To limit this risk, the TWMG, on behalf of the unitholders, designs a portfolio mix and invests funds in tenor bucketing that suits the unitholder's need for liquidity. With this in mind, the TWMG, on behalf of the unitholders, monitors future cash flows and liquidity on a daily basis.

The TWMG, on behalf of the unitholders, maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen disruption of cash flows. Liquid assets primarily consist of amounts due from BSP and deposits in banks.

The liquidity position of the Fund is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Fund. The ERMG conducts and reports to the ROC, TC and BOD the results of its semi-annual stress testing on the Fund's portfolio, which includes, among others, the Liquidity Funding Plan and the Administrative Policies and Procedures during Liquidity Crisis.

Financial assets
The analysis of financial assets held for liquidity purposes into relevant maturity groupings is based on the expected date on which the assets will be realized.

Financial liabilities
The relevant maturity grouping is based on the remaining period at the reporting date 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 where the TWMG, on behalf of the unitholders, can be required to pay.

The maturity profile of Fund's financial assets and financial liabilities, based on the undiscounted cash flows, is shown below:

	2022				
	Up to 1 Month	**1 to 3 Months**	**3 to 12 Months**	**Beyond 1 Year**	**Total**
Financial assets					
Financial assets at FVPL:					
Government securities*	**$–**	**$–**	**$–**	**$–**	**$-**
Loans and receivables:					
Deposits in banks*	**16,888**	–	–	–	**16,888**
Accrued interest receivable	**30**	–	–	–	**30**
	$16,918	**$–**	**$–**	**$–**	**$16,918**
Financial liabilities					
Trust fee payable	**$8**	**$–**	**$–**	**$–**	**$8**
	$8	**$–**	**$–**	**$–**	**$8**

**includes future interests*

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

The TWMG's market risk management measures include (a) the imposition of limits on stop-loss, single exposure and counterparty transactions and (b) the periodic review of portfolios and the revision of investment strategies as may be warranted by changing market conditions.

Stress testing
The ERMG, in consultation with the TWMG, on behalf of the unitholders, performs semi-annual stress testing on the Fund's investment portfolio and reports the results to the ROC, TC and the BOD. Stress testing refers to the process of creating adverse scenarios considered "extreme" that may happen in the foreseeable future. It allows the TWMG to determine the earnings impact and

consequences of extreme market movements on their various investment exposures. The TWMG adopts the uniform stress test parameters as prescribed under BSP's Uniform Stress Testing program for Banks.

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rate will affect future cash flows or the fair value of the financial instruments. The TWMG follows a prudent policy on managing the Fund's assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

As at December 31, 2022, the Fund is not exposed to cash flow interest rate risk since there are no financial assets and financial liabilities with floating interest rates.

4. Fair Value of Financial Instruments

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

<u>Deposit in banks, Accrued interest receivable and Trust Fee Payable</u>
The carrying amounts approximate fair values considering that these accounts are short-term in nature or are due on demand.

5. Deposits in Banks

Deposits in banks consist of:

	2022
Savings deposits	**$5**
Time deposits	**16,854**
	$16,859

Savings deposits earn annual interest rate of 0.10% in 2022. Time deposits earn annual interest rates ranging from 1.5% to 4.40% in 2022. Interest receivable on deposits in banks amounted to $30 as at December 31, 2022.

Interest income earned from deposits in bank in 2022 amounted to $119.

6. Accrued Expenses and Other Liabilities

This account consists of trust payable. Trust fee payable represents unpaid service fees charged by TWMG to the unitholders. Trust fees are being charged daily at 0.50% per annum of the NAV of the Fund. Trust fees incurred in 2022 amounted to $18.

7. Maturity Analysis of Assets and Liabilities

The following table presents the assets and liabilities by contractual maturity and settlement dates:

	2022		
	Due Within One Year	Due Beyond One Year	Total
Financial Assets			
Deposits in banks	$16,859	$–	$16,859
Accrued interest receivable	30	–	30
	$16,889	$–	$16,889
Financial Liabilities			
Trust fee payable	$8	$–	$8
	$8	$–	$8

8. Provision for Income Tax

Provision for income tax pertains to final withholding taxes on interest income earned from placements in deposits in banks, and government securities.

9. Net Asset Value Per Unit

The NAV per unit is computed as follows:

	2022
NAV	$16,881
Outstanding units	167.9841
	$100.4935

10. Trust Reserves

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

11. Approval for the Release of the Financial Statements

The financial statements of the Fund operated by the TWMG were approved and authorized for issue by the BOD of the Bank on April 26, 2023.

12. Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Fund does not expect that the future adoption to have a significant impact on its financial statements. The Fund intends to adopt the following pronouncements when these become effective.

Effective beginning on or after January 1, 2023

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- Amendments to PAS 8, *Definition of Accounting Estimates*
- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

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.*