East West Banking Corporation

EastWest PhilEquity Feeder Fund
Unit Investment Trust Fund
Operated by the Trust Division
Financial Statements
December 31, 2023 and 2022

and

Independent Auditor's Report

SGV
Building a better
working world

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
East West Banking Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of EastWest PhilEquity Feeder Fund Unit Investment Trust Fund (the Fund) operated by the Trust Division of East West Banking Corporation (the Bank), which comprise the statements of financial position as at December 31, 2023 and 2022, and the related statements of comprehensive income (loss) and statements of changes in net assets attributable to unitholders for the years then ended, and a material accounting policy information 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 Trust Division of the Bank as at December 31, 2023 and 2022, and the 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 Trust Division of the Bank and the Fund it operates in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Trust Division 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 Trust Division'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.

Veronica Arce

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BOA/PRC Reg. No. 0001, April 16, 2024, valid until August 23, 2026
BIR Accreditation No. 08-001998-135-2021, November 10, 2021, valid until November 9, 2024
PTR No. 10079902, January 5, 2024, Makati City

April 19, 2024

EAST WEST BANKING CORPORATION
EASTWEST PHILEQUITY FEEDER FUND UNIT INVESTMENT TRUST FUND
OPERATED BY THE TRUST DIVISION

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2023	2022
ASSETS		
Deposits in banks (Note 6)	**₱819,070**	₱614,872
Financial assets at fair value through profit or loss (Note 7)	**244,329,157**	252,647,905
Receivables (Note 8)	**254,275**	266,263
	245,402,502	253,529,040
LIABILITIES		
Trust fees payable	**209,175**	217,707
Other liabilities	**295,347**	291,671
	504,522	509,378
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	**₱244,897,980**	₱253,019,662
NET ASSET VALUE PER UNIT (Note 11)	**₱897.17**	₱891.57

See accompanying Notes to Financial Statements.

EAST WEST BANKING CORPORATION
EASTWEST PHILEQUITY FEEDER FUND UNIT INVESTMENT TRUST FUND
OPERATED BY THE TRUST DIVISION

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31	
	2023	2022
REVENUE		
Interest income on Deposits with the Bank (Note 6)	**₱35,725**	₱ 6,561
Trading and securities gain (loss) (Note 7)	**2,897,146**	(17,080,466)
Other income (Note 9)	**1,583,257**	1,665,646
	4,516,128	(15,408,259)
EXPENSES		
Trust fees (Note 12)	**2,533,030**	2,658,337
Others	**50,001**	49,590
	2,583,031	2,707,927
INCOME (LOSS) BEFORE FINAL TAX	**1,933,097**	(18,116,186)
Provision for final tax	**7,145**	1,312
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱1,925,952**	(₱ 18,117,498)

See accompanying Notes to Financial Statements.

EAST WEST BANKING CORPORATION
EASTWEST PHILEQUITY FEEDER FUND UNIT INVESTMENT TRUST FUND
OPERATED BY THE TRUST DIVISION

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

	Year Ended December 31, 2023		
	Principal	**Accumulated Income**	**Total Net Assets Attributable to Unitholders**
Balance at January 1, 2023	**₱272,960,312**	**(₱19,940,650)**	**₱253,019,662**
Contributions	**10,338,863**	**–**	**10,338,863**
Withdrawals	**(20,415,086)**	**28,589**	**(20,386,497)**
Total comprehensive loss	**–**	**1,925,952**	**1,925,952**
Balance at December 31, 2023	**₱262,884,089**	**(₱17,986,109)**	**₱244,897,980**

	Year Ended December 31, 2022		
	Principal	Accumulated Income	Total Net Assets Attributable to Unitholders
Balance at January 1, 2022	₱270,557,674	(₱1,978,408)	₱268,579,266
Contributions	44,973,967	–	44,973,967
Withdrawals	(42,571,329)	155,256	(42,416,073)
Total comprehensive loss	–	(18,117,498)	(18,117,498)
Balance at December 31, 2022	₱272,960,312	(₱19,940,650)	₱253,019,662

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. General Information

East West Banking Corporation (the Bank) was granted a license by the Monetary Board (MB) of the Bangko Sentral ng Pilipinas (BSP) to engage in trust services on May 23, 1995. The trust operations of the Bank, managed by the Trust Division, offer a wide array of trust and other fiduciary services ranging from simple safekeeping to more complicated management of estates and retirement funds.

EastWest PhilEquity Feeder Fund Unit Investment Trust Fund (the Fund) was created and established on October 29, 2014. It is a peso-denominated fund which invests all or substantially all of its investable assets in PhilEquity Fund Inc. (PEFI), an open-ended mutual fund which seeks long-term capital appreciation through investments primarily in equity securities of listed Philippine companies.

The Bank's principal place of business is at East West Corporate Center, The Beaufort, 5th Avenue corner 23rd Street, Fort Bonifacio Global City, Taguig City.

2. Material Accounting Policy Information

Basis of Preparation
The financial statements of the Fund have been prepared on a historical cost basis.

The financial statements are presented in Philippine peso (₱), the Fund's functional currency. All values were rounded to the nearest peso, 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. 1021, dated November 15, 2018;
h. BSP Circular No. 1023, dated December 4, 2018; and
i. BSP Circular No. 1032, dated February 15, 2019;

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

- No presentation of the statement of cash flows;
- The provisions of PFRS are only applied to accounts outstanding as of December 31, 2008 and thereafter;

- 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;
- Trust institutions are allowed to prepare the functional statements on a single year basis in the initial year of PFRS adoption; and
- Only a general description on risk management for financial instruments may be disclosed in the financial statements.

Presentation of Financial Statements
The Trust Division presents the statements of financial position of the Fund broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 7.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as at January 1, 2023. The Trust Division has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise indicated, adoption of these new standards did not have an impact on the combined financial statements of the TMF.

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

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

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

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

- Amendments to PAS 8, Definition of Accounting Estimates

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

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

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

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

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

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

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

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

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

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

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

The principal or the most advantageous market must be accessible to the Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a nonfinancial 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 Trust Division, on behalf of the trustors, uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Trust Division, 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 Trust Division, 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 level of the fair value hierarchy (Note 5).

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
Date of recognition
The Trust Division, on behalf of the trustors, recognizes financial instruments when, and only when, it becomes a party to the contractual terms of the financial instruments. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date, the date that an asset is delivered to or by the Trust Division, on behalf of the trustors. Settlement date accounting refers to:

a. The recognition of an asset on the day it is received by the Trust Division, on behalf of the trustors; and
b. The derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Trust Division, on behalf of the trustors.

Initial recognition of financial instruments
The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. Except for financial assets and financial liabilities at FVTPL, all financial assets and financial liabilities are recognized initially at fair value plus any directly attributable cost of acquisition or issue. The Trust Division, on behalf of the trustors, categorizes financial assets as: financial assets at FVTPL, differentiating those that are held for trading and those designated as such, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets.

The Trust Division, on behalf of the trustors, determines the classification at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial liabilities are categorized into financial liabilities at FVTPL and other financial liabilities carried at amortized cost.

As of December 31, 2023 and 202022, the Fund has no financial liabilities at FVTPL, AFS financial assets and HTM investments.

<u>Investments at FVTPL</u>
Financial assets or financial liabilities at FVTPL

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

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

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

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

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

Loans and receivables
This financial asset category relates to 'Deposits in banks' and 'Receivables'. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and as such are not categorized as financial assets at FVTPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for credit and impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate (EIR). The amortization is included in 'Interest income' in the statement of comprehensive income. The losses arising from impairment are recognized in profit or loss.

As of December 31, 2023, the Fund has no loans and receivables.

Other assets
These are financial assets not specifically classified as statement of financial position line item. These includes due from counterparty and miscellaneous receivables.

Other financial liabilities
Other financial liabilities are issued financial instruments or their components, which are not financial liabilities at FVTPL. This accounting policy relates to 'Trust fees payable' and 'Other liabilities' in the statement of financial position. They are classified as such 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.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Impairment of Financial Assets
The Trust Division, on behalf of the trustors, assesses at each statement of financial position date whether there is objective evidence that a financial asset may be 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.

Financial assets carried at amortized cost
The Trust Division first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and the group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective impairment assessment.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is determined using the financial asset's original EIR as the discount rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in the statement of comprehensive income. Interest income continues to be recognized based on the original EIR of the financial asset. Financial assets at amortized cost, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset have expired;
- the Fund 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 has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred control over the asset.

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

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.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement 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 Trust Division, 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 Trust Division and all of the counterparties.

Taxes
Current tax assets and liabilities for the current periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date. Taxes substantially represent withholding tax on interest income accruing to trustors at the rate of 15.00% final tax for dollar-denominated securities and 20.00% for peso-denominated securities, in 2023 and 2022.

Equity Transaction
The Fund's net assets attributable to its unitholders have the following features which qualify as puttable instruments classified as equity instruments:

- The shares entitle the holder to a pro-rata share of the Fund's net assets in the event of the Fund's liquidation;

- The shares are 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;
- The shares do not include any contractual obligation to deliver cash or other 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 shares over its life are based substantially on the 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 the life of the shares.

In addition, the Fund does not have other shares that have:

- Total cash flows based substantially on the 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 puttable instrument holders.

Net asset value per unit
Net asset value (NAV) per unit is computed by dividing net assets attributable to unitholders (total assets less total liabilities) by the total number of units issued and outstanding as of the statement of financial position date.

Revenue Recognition
Effective January 1, 2018, under PFRS 15, revenue from contracts with customers is recognized when control of the services is transferred to the customer at an amount that reflects the consideration to which the Trust Division expects to be entitled in exchange for those services.

Prior to January 1, 2018, under PAS 18, revenue is recognized to the extent that it is probable that economic benefits will flow to the Trust Division and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

The Trust Division assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Trust Division has generally concluded that it is the principal in its revenue arrangements.

The Fund's revenue arises significantly from the following:

Interest income
For all debt instruments measured at amortized cost and interest-bearing financial assets at FVTPL, interest income is recognized based on the EIR, which is the rate that exactly discounts estimated future cash payments or receipts throughout 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.

Trading and securities gains (losses)
Trading and securities gain (loss) represents results arising from trading activities including all gains and losses from changes in fair value of financial assets at FVTPL.
Other income
Other income represents gains and other items of income incidental to the offering of the Fund.

Expense Recognition
Expenses are recognized in the statement of comprehensive income when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized when incurred.

Trust fees
Trust fees are recognized as incurred and are generally charged against the income of the Fund as a percentage of the funds managed or based on an agreed fixed fee.

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

Events after the Reporting Date
Post-year-end events that provide additional information about the Fund's position at the financial position date (adjusting event) 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.

Standards issued but not yet effective

Pronouncement issued but not yet effective are listed below. Unless otherwise indicated, the Trust Division does not expect that the future adoption of the said pronouncement to have a significant impact on its financial statements. The Division intends to adopt the following pronouncement when they become effective.

Effective beginning on or after January 1, 2024
- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*
- Amendments to PAS 7 and PFRS 7, *Disclosures: Supplier Finance Arrangements*

Effective beginning on or after January 1, 2025
- PFRS 17, *Insurance Contracts*
- Amendments to PAS 21, *Lack of exchangeability*

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

3. Significant Accounting Judgment and Estimates

The preparation of the financial statements requires the Trust Division, on behalf of the trustors, to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as these become reasonably determinable. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

As of December 31 ,2023 and 2022, the Trust Division did not exercise significant judgment and estimate in the preparation of the Fund's financial statements.

4. Financial Risk Management Objectives and Policies

Introduction

Effective risk management ensures that risks taken are properly identified, measured, controlled and monitored. The diligent monitoring and management of all risks, notably credit, market, liquidity, and operational risks, are being built via the development of a risk culture that will cover daily business activities and decision-making.

The risk management process of the Trust Division is performed at the portfolio level. Trust portfolio activities are principally related to the use of financial instruments exposed to credit, market liquidity and operational risks.

Risk Management Structure

a. Board of Directors (BOD)
   The Bank's risk culture is practiced and observed across the Bank putting the prime responsibility on the BOD. It establishes the risk culture and the risk management organization and incorporates the risk process as an essential part of the strategic plan of the Bank. The BOD approves the Trust Division's articulation of risk appetite which is used internally to help management understand the tolerance for risk in each of the major risk categories, its measurement and key controls available that influence the Bank's level of risk taking.
   All risk management policies and policy amendments are based on the Trust Division's established approving authorities and by the BOD. At a high level, the BOD also approves the Trust Division's framework for risk management.

b. Risk Management Division (RMD)
   The RMD, which performs an independent governance function within the Bank, provides the risk management function for the Trust Division.

   The RMD is tasked with instituting policies in identifying, measuring, controlling and monitoring existing and emerging risks inherent in the Fund's overall portfolio. RMD develops and employs risk assessment tools to facilitate risk identification, analysis and measurement. It also develops and endorses risk tolerance limits for BOD approval and monitors compliance to approved risk tolerance limits.

c. Internal Audit Division (IAD)

The IAD provides an independent assessment of the Bank's trust management and effectiveness of existing internal control systems through adherence testing of processes and controls. The IAD audits risk management processes annually or in a cycle depending on the latest audit rating. It employs a risk-based audit approach that examines both the adequacy of the procedures and the Trust Division's compliance with the procedures. It discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee which in turn, conducts the detailed discussion of the findings and recommendations during its regular meetings.

IAD's activities are suitably designed to provide BOD reasonable assurance that significant financial and operating information is materially complete, reliable and accurate; internal resources are adequately protected; and employee performance is in compliance with the Bank's policies, standards, procedures and applicable laws and regulations.

d. Corporate Governance and Compliance Committee (CGCC)
The CGCC is responsible for ensuring the BOD's effectiveness and due observance of corporate governance principles and guidelines. It reviews and assesses the adequacy of the CGCC's charter and Corporate Governance Manual and recommends changes as necessary.
It oversees the implementation of the Bank's compliance program and ensures compliance issues are resolved expeditiously. It assists Board members in assessing whether Trust Division is managing its compliance risk effectively and ensures regular review of the Compliance program.

e. Trust Committee
The Trust Committee of the Bank is ultimately responsible for identifying and controlling the risks in the Trust Division. The BOD may delegate its authority for the acceptance, termination, closure or management of trust and other fiduciary accounts to the Trust Committee or to the Trust Officer subject to certain guidelines.

In compliance with Part 4 of the BSP Manual of Regulations for Banks, trust and other fiduciary business of an institution shall be carried through a trust department. The trust department shall be organizationally, operationally, administratively and functionally separate and distinct from other departments and/or businesses of the institution. The trust department, the trust officer and other subordinate officers of the trust department shall only be directly responsible to the Bank's Trust Committee which shall in turn be only directly responsible to the Bank's BOD.

The BOD, through its Trust Committee, ensures that funds and properties held in trust or in any fiduciary capacity are administered with the skill, care, prudence and diligence necessary under the circumstances then prevailing that a prudent man, acting in like capacity and familiar matters, would exercise in the conduct of an enterprise of like character and with similar aims (Subsection 406.4).

The Trust Committee is the highest governing body of the Trust Division. Further, the main venue for approval of investment outlets and counterparties shall be the Trust Division's quarterly Trust Committee meetings. The Trust Committee meets at least once every quarter (or in three months), or more frequently as circumstances may warrant. Members may participate via electronic mail, teleconference or videoconference.

In addition to meeting the qualification standards prescribed for directors and officers of financial institutions, members of the Trust Committee possess the necessary technical expertise in trust and fiduciary business.

The Trust Committee, duly constituted and authorized by the BOD, acts within the sphere of authority as provided in the Bank's by-laws and/or as may be delegated by the BOD. It also undertakes such responsibilities, but not limited to the following:

- Acceptance and closing of trust and other fiduciary accounts;
- The initial review of assets placed under the trustee's fiduciary custody;
- The investment, re-investment and disposition of funds or property;
- The review and approval of transactions between trust and/or fiduciary accounts; and
- Review of trust and other fiduciary accounts annually 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.

The Trust Committee also presides over the proper conduct of the trust business and reviews on a periodic basis business development initiatives such as:

- Staffing and delineation of responsibility/accountability;
- The proactive development and implementation of strategies for cultivating of revenue streams and cost management; and
- Application and monitoring of the proper performance benchmarks.

Investment General Policies

a. *Prudent Man Rule*
Funds and properties held in trust or in any fiduciary capacity shall be administered with the skill, care, prudence and diligence necessary under the circumstances then prevailing that a prudent man, acting in like capacity and familiar with such matters, would exercise in the conduct of an enterprise of like character and with similar aims.

b. *Balance between risk and return*
Maximize the fund's returns within the set level of risk through proper diversification of investments.

c. *Liquidity*
Liquidity needs of the clients are considered when making investments. Specifically, the Unit Investment Trust Funds (UITFs) may only be invested in securities which have a readily available market price. This ensures that the entire UITF portfolio will be invested in relatively liquid instruments. Nonetheless, recognizing the need to fund withdrawals from the UITFs, a portion of the total portfolio should be invested in highly liquid instruments which may be sold or pre-terminated with low exposure to price or market risk.

d. *Compliance with BSP Circulars Nos. 447, 593, 767, 852 and 907*
All investment activities for UITFs must be done within the framework set by the BSP in Circular Nos. 447, 593, 767, 852 and 907.

Investment Risk Tools

A Risk Profiling Questionnaire (RPQ) is employed to evaluate the suitability of the client for various investment outlets. The RPQ establishes the risk tolerance and investment objective and other particulars of the client, as well as special instructions, signed by the client.

A review ensuring implementation of diversification of investments is being done unless:

- it is reasonably determined that special circumstances exist not to do so;
- the client directs otherwise; or
- the governing document, i.e., contract or agreement or product program provides otherwise.

The review of diversification is referenced against the risk and investment profile and preferences of the clients, which were established with the RPQ, as well as other instructions or advise from the clients related to the management of their investments.

The Trust Division prior to admission of a client's initial participation in any unit investment trust fund, conducts a Suitability Assessment to profile the risk-return orientation and suitability of the client to the specific type of fund.

Approving Authority
Prior to investing in any security, the Trust Division performs required vetting and approval procedures as summarized below:

Types of Investment	Required Approval
Savings deposit with the Bank and other banks	None
All government securities and other notes or loans guaranteed by the government	None
All corporate papers	Trust Committee and Trust Division Head
Equities and mutual fund investments	Trust Committee and Trust Division Head
Derivative transactions	Trust Committee and Trust Division Head

Risk Measurement and Reporting
Credit risk
Funds are invested with approved counterparties in accordance with the policy duly approved by the BOD. Credit risk refers to the loss of earnings or capital arising from counterparty's failure to meet the terms of any contract with the Trust Division or otherwise not performed as agreed. Credit risk is found in all activities where success depends on counterparty, issuer, or borrower performance. It arises any time funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements and reflected in the client's financial statements.

Trust Division manages its credit exposure by staying well within the approved sub limits allocated to Trust Division from the Bank approved counterparty limits. A maximum of approximately 40% among each of the amounts approved by the Bank for credit facilities was seen from trust transactions.

Maximum exposure to credit risk
As of December 31, 2023 and 2022, the Fund's maximum exposure to credit risk equals the carrying values of its financial assets.

Risk concentrations of the maximum credit exposure to credit risk
The financial assets of the Fund are all invested in PEFI. As of December 31, 2023 and 2022, the Fund does not hold collateral and has no other credit enhancements.

Credit quality per class of financial assets
The credit quality of the Fund's financial assets is based on the second lowest external rating provided by the following (if available): 1) Standard & Poor's (S&P); 2) Moody's; 3) Fitch; and 4) Philratings. When external rating is not available, the account is classified as "unrated".

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

	2023				
	Neither Past Due nor Specifically Impaired				
	AA/A	**BB/B**	**Unrated**	**Impaired**	**Total**
Deposits in banks	**₱–**	**₱819,070**	**₱–**	**₱–**	**₱819,070**
Financial assets at FVTPL					
Investment in Mutual Funds	**–**	**244,329,157**	**–**	**–**	**244,329,157**
Accrued interest receivable	**–**	**254,275**	**–**	**–**	**254,275**
	₱–	**₱245,402,502**	**₱–**	**₱–**	**₱245,402,502**

	2022				
	Neither Past Due nor Specifically Impaired				
	AA/A	BB/B	Unrated	Impaired	Total
Deposits in banks	₱–	₱614,872	₱–	₱–	₱614,872
Financial assets at FVTPL					
Investment in Mutual Funds	–	252,647,905	–	–	252,647,905
Accrued interest receivable	–	266,263	–	–	266,263
	₱–	₱253,529,040	₱–	₱–	₱253,529,040

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

The Fund's principal source of liquidity consists mainly of highly marketable securities with liquid markets. In managing the investible funds of the clients, the availability of funds is checked on a weekly basis. Client withdrawals are allowed only against cleared funds. In cases where the sale of client's investment is necessary to provide available funds for withdrawal, the withdrawal shall only be effected upon completion of such sale and when funds are already available.

Withdrawals of funds for each client are effected via liquidation of the most liquid investment, giving careful consideration on the opportunity costs of foregone interest income or penalty charges that would be otherwise earned or incurred against the remaining value of the investment of the client. Securities may also be sold between investment pools under the same Trust management via inter-portfolio transfer. Inter-portfolio transfer is the process of buying securities or investments from one account to another. It is the policy of the Trust Division to keep this activity to a minimum and that transfers must be accomplished such that no account is unduly disadvantaged over another.

The Trust Division, on behalf of the trustors, takes a multi-tiered approach to maintaining liquid assets. The Fund's principal source of liquidity is comprised of 'Deposits in Banks' and 'Receivables', with maturities of less than one year.

As of December 31, 2023 and 2022, all of the Fund's financial liabilities are payable on demand.

Equity price risk
The equity price risk of the Fund relates to the risk of unfavorable changes in the fair value of its equity instruments as a result of changes in the net asset value (NAV) of mutual funds.

The following table sets forth, for the period indicated, the impact of changes in NAV per share of PEFI on the Fund's Trading and securities gain (loss):

	2023		2022	
Changes in NAV per Share	**+1.00%**	**-1.00%**	+1.00%	-1.00%
Trading and securities gain (loss)	**₱2,443,292**	**(₱2,443,292)**	₱2,526,479	(₱2,526,479)

5. Fair Value of Financial Instruments

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

Deposit in banks
The carrying amount approximates fair value considering that this account is short-term in nature.

Financial assets at FVTPL
Fair values of investments in mutual fund are based on the published NAV per share of PEFI.

Receivables
The carrying amount approximates fair value of the loans and receivables. As of December 31, 2023 and 2022, the Fund's financial assets at FVTPL are categorized as Level 2.

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

In 2023 and 2022, there were no transfers between Level 1 and Level 2 fair value measurements and into and out of Level 3 fair value measurements.

6. Deposits in banks

Deposits in banks consist of peso-denominated savings and time deposits. In 2023 and 2022, deposits in banks earn annual interest rates ranging from 0.50% to 6.00% and 0.50% to 1.20%. Interest income on deposits in banks amounted to ₱35,725 and ₱6,561 in 2023 and 2022, respectively.

7. Financial Assets at Fair Value through Profit or Loss

This account consists of investments in mutual fund amounting to ₱244.33 million and ₱252.65 million as of December 31, 2023 and 2022, respectively.

As of December 31, 2023 and 2022, financial assets at FVTPL include fair value gains (losses) amounting to ₱3.46 million and (₱15.16) million, respectively. As of December 31, 2023 and 2022, trading and securities gain (loss) amounted to ₱2.90 million and (₱17.08) million, respectively.

8. Receivables

As of December 31, 2023 and 2022, receivables amounting to ₱0.25 million and ₱0.27 million, respectively, arose from fees charged to previous unitholders upon redemption of participations.

9. Other Income

In 2023 and 2022, other income amounting to ₱1.58 million and ₱1.67 million respectively, represents early redemption charges paid by unitholders upon withdrawal. The Fund charges a fee of ₱500.00 or 0.25% of the amount withdrawn, whichever is higher, for early redemptions.

10. Maturity Analysis of Assets and Liabilities

As of December 31, 2023 and 2022, the Fund's assets and liabilities are all expected to be recovered or settled within one year.

11. Unit Investment Trust Fund Net Asset Value per Unit

The NAV per unit of the Fund follows:

		2023	2022
a.	Net asset value at the end of the year (a)	**₱244,897,980**	₱253,019,662
b.	Outstanding units (b)	**272,967.00**	283,791.40
c.	NAV per unit (a/b)	**₱897.1706**	₱891.5692

12. Trust Fees

In 2023 and 2022, trust fees incurred amounted to ₱2.53 million and 2.67 million, respectively, which represent 0.25% per annum based on the daily NAV of the Fund.

13. Trust Reserves

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

14. Approval of Financial Statements

The accompanying financial statements of the Fund were approved and authorized for issue by the BOD of the Bank on April 19, 2024.