China Banking Corporation

Financial Statements
of the Chinabank Income-Paying Dollar Bond
Feeder Fund
Operated by the Trust Banking Group
December 31, 2024
and for the period from November 11, 2024
to December 31, 2024

and

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
China Banking Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Chinabank Income-Paying Dollar Bond Feeder Fund (the Fund) operated by the Trust Banking Group (TBG) of China Banking Corporation (the Bank), which comprise the statements of financial position as at December 31, 2024, and the statements of comprehensive income and statements of changes in net assets attributable to unitholders for the period November 11, 2024 to December 31, 2024, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund of the Bank as at December 31, 2024, and its financial performance for the period November 11, 2024 to December 31, 2024 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 TBG of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter Basis of Accounting

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements were prepared in accordance with RAP of the BSP, which differ from Philippine Financial Reporting Standards (PFRS) Accounting Standards in some respects. These were prepared to assist the TBG of the Bank in meeting the requirements of the BSP. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with RAP of the BSP, and for such internal control as management determines is necessary to enable the preparation of 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 TBG'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 TBG or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the TBG'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 TBG's internal control.

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

- Conclude upon 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 TBG'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 TBG 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.
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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Tax Identification No. 193-975-241
BOA/PRC Reg. No. 0001, April 16, 2024, valid until August 23, 2026
BIR Accreditation No. 08-001998-062-2023, October 23, 2023, valid until October 22, 2026
PTR No. 10465256, January 2, 2025, Makati City

June 4, 2025

CHINA BANKING CORPORATION

STATEMENT OF FINANCIAL POSITION
OF THE CHINABANK INCOME-PAYING DOLLAR BOND FEEDER FUND
OPERATED BY THE TRUST BANKING GROUP
AS AT DECEMBER 31, 2024

ASSETS	
Deposits in banks (Note 6)	**US$38,222**
Financial assets at fair value through profit or loss (Note 7)	**1,176,270**
Accrued interest receivable	**16**
	1,214,508
LIABILITIES	
Accrued trust fees and other liabilities (Note 8)	**745**
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	**US$1,213,763**
NET ASSET VALUE PER UNIT (Note 12)	**US$0.9826**

See accompanying Notes to Financial Statements.

CHINA BANKING CORPORATION

STATEMENT OF COMPREHENSIVE INCOME
OF THE CHINABANK INCOME-PAYING DOLLAR BOND FEEDER FUND
OPERATED BY THE TRUST BANKING GROUP
FOR THE PERIOD NOVEMBER 11, 2024 TO DECEMBER 31, 2024

INCOME	
Distribution income from the fund (Note 7)	**US$3,526**
Trading and securities losses – net (Note 7)	**(17,062)**
Interest income on deposits in banks (Note 6)	**138**
	(13,398)
EXPENSES	
Trust fees (Note 8)	**1,106**
Broker's commissions (Note 7)	**492**
Provision for credit losses (Note 6)	**3**
Others	**157**
	1,758
NET LOSS BEFORE INCOME TAX	**(15,156)**
PROVISION FOR INCOME TAX (Note 11)	**902**
NET LOSS / TOTAL COMPREHENSIVE LOSS*	**(US$16,058)**

*The Fund has no other comprehensive income items for the period November 11, 2024 to December 31, 2024.

See accompanying Notes to Financial Statements.

CHINA BANKING CORPORATION

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS OF THE CHINABANK INCOME-PAYING DOLLAR BOND FEEDER FUND OPERATED BY THE TRUST BANKING GROUP FOR THE PERIOD NOVEMBER 11, 2024 TO DECEMBER 31, 2024

PRINCIPAL	
Balance at beginning of the period	**US$–**
Contributions	**1,232,466**
Withdrawals	**–**
Balance at end of the period	**1,232,466**
ACCUMULATED LOSSES	
Balance at beginning of the period	**US$–**
Net loss / Total comprehensive loss	**(16,058)**
Withdrawals	**(2,645)**
Balance at the end of period	**(18,703)**
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AT END OF THE YEAR	**US$1,213,763**

See accompanying Notes to Financial Statements.

CHINA BANKING CORPORATION

NOTES TO FINANCIAL STATEMENTS
OF THE CHINABANK INCOME-PAYING DOLLAR BOND FEEDER FUND
OPERATED BY THE TRUST BANKING GROUP

1. General Information

China 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. The trust operations of the Bank are managed by its Trust Banking Group (the TBG).

On November 11, 2024, the Bank, through its TBG, launched the Chinabank Income-Paying Dollar Bond Feeder Fund (the Fund) with following participation amounts:

Minimum initial participation	Minimum additional participation	Minimum maintaining balance
USD 1,000	USD 500	USD 1,000

The Fund is structured as a Feeder Fund and invests at least ninety percent (90%) of its assets in a Target Fund. The Fund's target fund is the Vanguard Total Bond Market ETF (BND).

The Fund is structured as a Distributing Fund and has an income distribution feature whereby the income of the Fund is distributed in the form of units called Unit Income. The Fund has an auto redemption policy on the Unit Income distributed to the eligible participants. There is no set minimum amount for participants to receive the Unit Income.

The Bank's principal place of business is at 8745 Paseo de Roxas cor. Villar St., Makati City.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements of the Fund are issued in compliance with the following BSP guidelines:

a. BSP memorandum dated October 16, 1990, as amended;
b. Revised Manual of Accounts (MOA) for Trust, Other Fiduciary Business and Investment Management Activities dated February 14, 2002;
c. BSP Circular No. 494, dated September 20, 2005;
d. BSP Circular No. 609, dated May 26, 2008;
e. BSP Circular No. 653, dated May 5, 2009;
f. BSP Circular No. 967 dated July 27, 2017;
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; and
j. BSP Circular No. 1023, dated December 4, 2018

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

The financial statements of the Fund are presented in United States Dollar (US$), the Fund's functional currency, and all values are rounded to the nearest dollar except when otherwise indicated.

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

a. No presentation of the statement of cash flows;
b. The provisions of PFRS Accounting Standards are only applied to accounts outstanding as of December 31, 2008 and thereafter;
c. Only a general description on risk management for financial instruments may be disclosed in the financial statements.

On November 15, 2018, BSP issued Circular No. 1021, setting out the guidelines for the market valuation of investments to align with the existing provisions of PFRS 13, *Fair Value Measurement.*

On December 4, 2018, the BSP issued Circular No. 1023, setting out the guidelines on the adoption of PFRS 9 *Financial Instruments,* under management of trust entities. The guidelines expanded Circular 1011, dated August 14, 2018, providing an encompassing governance overlay on the adoption of PFRS 9, *Financial Instruments* by BSP Supervised Financial Institutions (BSFIs). Under this circular, specific guidelines on the classification and measurement, and impairment of financial assets under the administration of trust entities were provided, taking into consideration the peculiarity of the trust operations.

Presentation of Financial Statements
The Fund presents its statement of financial position in order of liquidity. An analysis regarding recovery of assets and settlement of liabilities within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 10.

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 currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Fund 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.

Income and expenses are not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Fund.

Material Accounting Policy Information

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.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

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.

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

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the 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 Fund 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 as presented in Note 5.

Financial Instruments - Initial Recognition and Subsequent Measurement
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.

Date of recognition
Regular way purchases and sales of financial assets are recognized on trade date. Trade date accounting refers to (a) the recognition of an asset on the day it is traded by the Fund and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is traded by the Fund.

Any change in fair value of unsettled trade purchase of financial assets at FVTPL are recognized in profit or loss. Deposits are recognized when cash is advanced to the borrowers while financial liabilities are recognized when cash is received by the Fund.

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

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Fund recognizes the difference between the transaction price and the fair value (a 'Day 1' difference) in the statement of comprehensive income under 'Other income (loss)' 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 Fund determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial Instruments – Classification and Subsequent Measurement
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 Fund 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 Fund 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 SPPI on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

The Fund determines its business model at the level that best reflects how it manages groups of financial assets to achieve its investment objective.

The Fund'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 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; and
- the expected frequency, value and timing of sales are also important aspects of the Fund's 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 Fund's original expectations, the Fund 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 Fund's measurement categories of financial assets 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 Fund'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 Fund's financial assets at amortized cost include the deposit in banks and accrued interest receivable.

The Fund may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost.

Financial Assets at FVTPL
Debt instruments that neither meet the amortized cost nor the FVOCI criteria, or that meet the criteria, but the Fund has chosen to designate as at FVTPL at initial recognition are classified as financial assets at FVTPL. The Fund's financial assets at FVTPL include investments in target fund which is Vanguard Total Bond Market (BND), an ETF, with broad exposures to investment-grade U.S. dollar-denominated bond market

Financial assets at FVTPL 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 FVTPL and gains or losses arising from disposals of these instruments are included in 'Trading and securities gains (losses) – net' account in the statement of comprehensive income.

Distribution income from the fund is reported in profit or loss when the right of payment has been established.

The Fund's measurement category of financial liabilities is as follows:

Accrued trust fees and other liabilities
Accrued trust fees and other liabilities are financial liabilities that are not held for trading or not designated as at FVTPL at the inception of the liability. 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.

Reclassification
The Fund can only reclassify financial assets if the objective of its business model for managing those financial assets changes.

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

A change in the objective of the Fund's business model will be effected only at the beginning of the next reporting period following the change in the business model.

Impairment of financial assets
PFRS 9 requires the Fund to record expected credit loss (ECL) for all debt financial assets not classified as at FVTPL.

ECL represents 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 significant increase in credit risk (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.

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Fund recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Fund recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.

The Fund uses internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment can be quantitative or qualitative and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

The Fund defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes at least 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a counterparty is in default, the Fund also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Fund carefully considers whether the event should result in treating the counterparty as defaulted. An instrument is considered to be no longer in default (i.e., to have cured) when it no longer meets any of the default criteria for a consecutive period of 180 days (i.e. consecutive payments from the borrowers for 180 days).

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors such as downgrade in the credit rating of the borrowers and a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Fund's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses. For exposures without internal credit grades, if contractual payments are more than specified days past due threshold (i.e. 30 days), the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Fund shall revert to recognizing a 12-month ECL.

ECL is a function of the PD, EAD and LGD, with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.
The PD represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. EAD represents an estimate of the outstanding amount of credit exposure at the time a default may occur. LGD is the amount that may not be recovered in the event of default. LGD takes into consideration the amount and quality of any collateral held.

The calculation of ECLs, including the estimation of PD, EAD, LGD and discount rate is made, on an individual basis for most of the Fund's financial assets.

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

a. the rights to receive cash flows from the asset have expired; or
b. 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
c. 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 unitholders' continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of 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 when the Fund no longer expects collections or recoveries within a foreseeable future. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to provision for impairment and credit losses.

Revenue Recognition
The Fund's revenue arises from the following:

Interest income
For all financial instruments measured at amortized cost, interest income is recorded at the effective interest rate (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.

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.

Distribution income from the fund
Distribution income from the fund is recognized when the unitholder's right to receive payment is established.

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

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

Trust fees
Trust fees are recognized when incurred.

Broker's commission
Broker's commission represents transaction costs paid to brokers as a result of trading activities. Broker's commission is recognized as incurred.

Provisions and Contingencies
Provisions are recognized when the Fund has a present obligation (legal or constructive) as a result of a past event and 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, provision is determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and where, appropriate, the risk 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.

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.

<u>Net Asset Value (NAV) per Unit</u>
NAV per unit is computed by dividing net assets attributable to unitholders (total assets less total liabilities) by the total number of units issued and outstanding at reporting date.

<u>Net Assets Attributable to Unitholders</u>
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.

<u>Income Taxes - Current Tax</u>
Current tax assets and current tax liabilities for the current periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Taxes substantially represent withholding tax on interest income accruing to unitholders at the rate of 15.00%. The account also includes 25% withholding tax on distribution income accruing to the unitholders.

<u>Events after the Reporting Date</u>
Any post year-end event that provides additional information about the Fund's position at the reporting date (adjusting event) is reflected in the financial statements. Any post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Standards Issued but not yet Effective

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

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

Effective beginning on or after January 1, 2026
- Amendments to PFRS 9 and PFRS 7, *Classification and Measurement of Financial Instruments*
- Annual Improvements to PFRS Accounting Standards—Volume 11
  - Amendments to PFRS 1, *Hedge Accounting by a First-time Adopter*
  - Amendments to PFRS 7, *Gain or Loss on Derecognition*
  - Amendments to PFRS 9, *Lessee Derecognition of Lease Liabilities* and *Transaction Price*
  - Amendments to PFRS 10, *Determination of a 'De Facto Agent'*
  - Amendments to PAS 7, *Cost Method*

Effective beginning on or after January 1, 2027
- PFRS 17, *Insurance Contracts*
- PFRS 18, *Presentation and Disclosure in Financial Statements*
- PFRS 19, *Subsidiaries without Public Accountability*

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

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with RAP of the BSP, which differs from PFRSs in some respects, requires the Fund to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses, and disclosures of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any changes in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There are no significant judgments and estimates made by management in preparing 2024 financial statements.

4. Financial Risk Management Objectives and Policies

<u>Introduction</u>
Effective risk management ensures that risks taken are properly identified, assessed, measured and managed. The diligent monitoring and management of all risks, notably investment, 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 Fund believes that effective risk management shall not only minimize potential or actual losses but will likewise optimize earnings. Its risk mission and objectives target periodic, consistent and accurate measurement of risks for more effective management. It is also an objective to always consider risk and return on all transactions and exposures to ensure adequate returns on principal contributions. Risk mitigation strategies form part of risk management activities.

Cognizant of the importance of risk management in the performance of its fiduciary function, the Fund has drawn up guidelines to comprehensively and systematically identify, measure, control and monitor risks as well as come up with mitigating measures to reduce such risks to acceptable levels.

The key risks that the Fund faces are credit risk, market risk and liquidity risk which are inherent in the financial instruments that the Fund holds on behalf of unitholders or in the portfolio the Fund administers for or advises to clients. The Fund's risk management guidelines seek to control and mitigate these risks.

Risk Management Structure

The Board of Directors (BOD) is responsible for overseeing the development of the Fund's risk management process.

The Trust Investment Committee (TIC) has been tasked to ensure that the Fund's policies and procedures consistently address material areas of risks and that the same are periodically reviewed and modified, when necessary, to remain appropriate, sound and responsive to significant changes in the Fund's fiduciary activities.

The Trust Risk Officer (TRO) is the direct support of the TIC in the day-to-day management and implementation of the approved risk management strategies. The TRO is responsible for monitoring the implementation of specific risk control procedures and enforcing compliance thereto. The TRO is likewise involved in risk measurement and monitoring to make sure that the Fund engages only in acceptable and manageable financial risks.

The Account Review Committee is tasked to conduct a comprehensive review of trust, fiduciary and investment management accounts to ensure that the unitholders' portfolios and the Fund's transactions are in compliance with the risk management policies.

The Internal Audit Division (IAD) also plays a crucial role in risk management primarily because it is independent of the business units and reports exclusively to the Audit Committee, which includes two independent directors. The IAD focuses not only on the implementation of controls but also in ensuring that adequate controls are in place and in monitoring compliance to controls.

The regular audit covers all processes and controls, including those embodied under the risk management guidelines. The audit of these processes and controls is undertaken at least annually. The audit results and exceptions, including recommendations for their resolution or improvement, are presented to the Audit Committee.

The TRO reports to the TIC on a monthly basis. Such report covers specific risk management matters that require the attention and appropriate action of the TIC. On the other hand, the Chief Audit Executive reports to the Audit Committee annually on the results of business unit audits and for the resolution of pending but important internal audit issues.

Risk Measurement and Reporting

Credit risk

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

The Fund has established risk limits for purposes of managing and controlling credit risks to individual counterparties and groups of counterparties. It also conducts periodic assessment of the creditworthiness of counterparties.

Maximum exposure to credit risk
Credit risk exposure is limited to the carrying amount of the financial assets. The maximum exposure to credit risk is represented by the carrying amounts of the financial assets. There are no agreements which reduced the maximum exposure to credit risk as of the reporting dates.

Risk concentrations
The Fund monitors concentrations of credit risk by industry. The distribution of financial assets by industry sector, before taking into account other credit enhancements follows:

	Deposit in Banks	Financial assets at FVTPL*	Accrued interest receivable	Total
Financial intermediaries	**US$38,222**	**US$–**	**US$16**	**US$38,238**
Others	**–**	**1,176,270**	**–**	**1,176,270**
	US$38,222	**US$1,176,270**	**US$16**	**US$1,214,508**

* *Comprises of investments in target fund, Vanguard Total Bond Market (BND)*

Credit quality of financial assets
As of December 31, 2024, the financial assets of the Fund are classified as high grade.

The Fund calculates the ECL on deposits in banks based on the formula: probability of default (PD) x loss given default (LGD) x exposure at default (EAD), incorporated with forward-looking assumption. The PD and LGD of the issuer banks are based on published rates obtained from market data platform while EAD is based on the outstanding balance. If PD and LGD of the issuer banks are not available, data of the closest comparable bank were used in calculating the ECL. The credit quality of deposits in banks are classified under Stage 1.

High grade investments pertain to financial assets from entities that are highly liquid, sustain operating trends, unlikely to be affected by external factors and have competent management that uses current business models.

Liquidity Risk
Liquidity risk is defined as the risk to the client's earnings or principal contribution arising from the Fund's inability to recognize or address unplanned changes in client's and/or beneficiary's needs, thereby affecting the ability to liquidate assets quickly with minimal loss in value.

The Fund is exposed to daily cash redemptions of redeemable units. It therefore invests the majority of its assets in investments that are traded in an active market and can be readily disposed of.

The Fund has developed liquidity contingency plans to enable it to service cash flows requirements in a timely manner and at a reasonable cost notwithstanding prevailing disruptive market conditions. The plans are periodically reviewed and tested to ensure that they remain relevant and accurate.

Analysis of financial instruments by remaining contractual maturities
The Fund's analysis of financial instruments into maturity groupings is based on the contractual date on which these assets will be realized.

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

	2024						
	On Demand	**Within 30 Days**	**31 to 60 Days**	**61 to 180 Days**	**181 to 360 Days**	**Over 360 days**	**Total**
Financial Assets							
Deposits in banks*	**US$3,225**	**US$35,003**	**US$–**	**US$–**	**US$–**	**US$–**	**US$38,228**
Financial assets at FVTPL							
Debt financial assets	–	–	–	–	**1,176,270**	–	**1,176,270**
Accrued interest receivable	–	**16**	–	–	–	–	**16**
	US$3,225	**US$35,019**	**US$–**	**US$–**	**US$1,176,270**	**US$–**	**US$1,214,514**
Financial Liabilities							
Accrued trust fees and other liabilities	**US$–**	**US$745**	**US$–**	**US$–**	**US$–**	**US$–**	**US$745**

**Includes future interest*

Net assets attributable to unitholders
As of December 31, 2024, the net asset values (NAV) attributable to unitholders are redeemable on demand.

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 trading and accrual positions.

Interest rate risk
The Fund is exposed to fair value interest rate risk since the target fund which is Vanguard Total Bond Market (BND), an ETF, is broadly exposed to investment-grade U.S. dollar-denominated bond market. Market values of these investments are sensitive to fluctuations in interest rates. An inverse relationship exists between interest rate and the price of fixed-income securities, i.e., as interest rates rise, the prices of fixed income securities fall, and, conversely, when interest rates decline, the prices of fixed income securities increase.

The Target Fund's ETF Shares are listed for trading and are bought and sold on the secondary market at market prices. Although it is expected that the market price of an ETF Share typically will approximate its NAV, there may be times when the market price and the NAV differ significantly. Thus, the Fund may pay more or less than the NAV when buying ETF Shares on the secondary market, and the Fund may receive more or less than the NAV when selling the shares.

Foreign currency risk
When investments are in securities denominated in currencies other than the base currency of the Fund, the possibility exists for an investor to experience losses due to movements in foreign exchange rates. The exchange rates depend upon a variety of global and local factors (e.g., interest rates, economic performance and political developments). The Fund is not exposed to foreign currency risk as of December 31, 2024.

5. Fair Value Measurements

The methods and assumptions used by the TBG in estimating the fair values of the Fund's financial instruments are as follows:

Deposits in banks and Accrued interest receivable
The carrying amounts approximate fair values in view of the relatively short-term maturities of these instruments.

Debt Securities
Fair values are generally based on quoted market prices.

Accrued trust fees and other liabilities
The carrying amounts approximate fair values considering that these are short-term in nature.

As of December 31, 2024, financial assets at FVTPL are measured at fair value using Level 1 inputs.

There were no transfers between fair value categories for assets and liabilities measured at fair value.

6. Deposits in Banks

Deposits in banks consist of dollar-denominated savings and time deposits which bear annual interest rates ranging from 2.50% to 3.97% in 2024.

Interest income on deposits in banks amounted to US$138 in 2024.

The provision for credit losses recognized in the statement of comprehensive income in 2024 amounted to US$3

7. Financial Assets at Fair Value through Profit or Loss

As of December 31, 2024, this account consists of investments in a quoted target fund, Vanguard Total Bond Market ETF (BND) amounting to US$ 1.18 million.

These investments are designated as at FVTPL as these investments are managed and their performance is assessed on a fair value basis, in accordance with the risk management or investment strategy of the Fund.

Net unrealized losses on financial assets at FVTPL recognized in the statement of comprehensive income for 2024 under 'Trading and securities losses – net' amounted to US$17,062.

As of December 31, the carrying amount of financial assets at FVPTL includes accumulated fair value losses of US$17,062.

The distribution income from the investments in BND amounted to US$3,526 in 2024.

Broker's commission incurred on the purchase and sale of financial assets at FVTPL amounted to US$492 in 2024.

8. Accrued Trust Fees and Other Liabilities

This account consists of:

Accrued trust fees	**US$708**
Custodianship fees payable	**37**
	US$745

Accrued trust fees represent unpaid service fees charged by the Fund to the unitholders. Trust fees are being charged at 0.75% per annum based on the daily NAV of the Fund. Trust fees for 2024 amounted to US$1,106.

9. Trust Operations

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

10. Maturity Analysis of Assets and Liabilities

The amounts of assets and liabilities expected to be recovered or settled within one year and after one year from December 31, 2024.

11. Provision for Income Tax

Provision for income tax represents the final withholding taxes on interest and distribution income of the Fund accruing to the unitholders.

12. NAV Per Unit

The NAV per unit of the Fund based on the balances as of December 31, 2024 is computed as follows:

NAV	**US$1,213,763**
Outstanding units	**1,235,276**
NAV per unit	**US$0.9826**

Client contributions into and withdrawals from the Fund are valued based on present day's NAV per unit.

13. Approval for Release of the Financial Statements

The accompanying financial statements of the Fund operated by the TBG were approved and authorized for issue by the Bank's BOD on June 4, 2025.