

# ***ABF Philippines Bond Index Fund***

**Financial Statements**

**As at and for the years ended December 31, 2021 and 2020**

## **Independent Auditor's Report**

To the Unitholders and Trustee of  
**ABF Philippines Bond Index Fund**  
7th Floor, BPI Buendia Center, Sen. Gil J. Puyat Avenue,  
Makati City

### **Report on the Audits of the Financial Statements**

#### ***Our Opinion***

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ABF Philippines Bond Index Fund (the "Fund") as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

#### ***What we have audited***

The financial statements of the Fund comprise:

- the statements of financial position as at December 31, 2021 and 2020;
- the statements of total comprehensive income for the years ended December 31, 2021 and 2020;
- the statements of changes in net assets attributable to holders of redeemable units for the years ended December 31, 2021 and 2020;
- the statements of cash flows for the years ended December 31, 2021 and 2020; and
- the notes to the financial statements, which include a summary of significant accounting policies.

#### ***Basis for Opinion***

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Independence***

We are independent of the Fund 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.

#### ***Other Matter - Restriction on Use***

This report is intended solely for the information and use of the unitholders and trustee of ABF Philippines Bond Index Fund and is not intended for any other purpose.

***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 PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA 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 PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

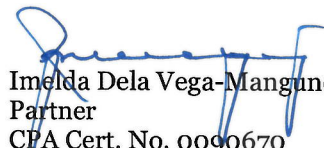
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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To the Unitholders and Trustee of  
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- 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.

**Isla Lipana & Co.**



Imelda Dela Vega-Mangundaya  
Partner

CPA Cert. No. 0090670

PTR No. 0024586, issued on January 6, 2022, Makati City

SEC A.N. (individual) as general auditors 90670-SEC, Category A, valid to audit 2019 to 2023  
financial statements

SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024  
financial statements

TIN 152-015-124

BIR A.N. 08-000745-047-2021, issued on November 23, 2021; effective until November 22, 2024

BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City  
June 15, 2022

**ABF Philippines Bond Index Fund**

Statements of Financial Position  
December 31, 2021 and 2020  
(All amounts in Philippine Peso)

	Notes	2021	2020
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash in bank	2	43,222,757	29,871,627
Financial assets at fair value through profit or loss	3,9	13,412,249,217	13,512,243,321
Receivables	3	151,434,736	161,367,360
<b>Total assets</b>		<b>13,606,906,710</b>	<b>13,703,482,308</b>
<b><u>LIABILITIES AND NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</u></b>			
<b>CURRENT LIABILITIES</b>			
Accrued expenses	5,6,8	3,839,500	4,034,312
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			
	5	13,603,067,210	13,699,447,996
<b>Total liabilities and net assets attributable to holders of redeemable units</b>		<b>13,606,906,710</b>	<b>13,703,482,308</b>

(The notes on pages 1 to 16 are an integral part of these financial statements)

# **ABF Philippines Bond Index Fund**

Statements of Total Comprehensive Income  
For the years ended December 31, 2021 and 2020  
(All amounts in Philippine Peso)

	Notes	2021	2020
<b>INCOME (LOSS)</b>			
Net (loss) gain on financial assets at fair value through profit or loss	3	(367,978,270)	1,611,606,539
Interest income	2	3,619	11,761
		(367,974,651)	1,611,618,300
<b>EXPENSES</b>			
Management fees	8	24,997,072	26,807,057
Trust fees	8	10,579,204	11,359,261
Others	6	557,169	1,064,247
		36,133,445	39,230,565
(LOSS) INCOME BEFORE TAX		(404,108,096)	1,572,387,735
PROVISION FOR INCOME TAX	7	128,508,692	115,048,708
NET (LOSS) INCOME FOR THE YEAR		(532,616,788)	1,457,339,027
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		(532,616,788)	1,457,339,027

(The notes on pages 1 to 16 are an integral part of these financial statements)

### **ABF Philippines Bond Index Fund**

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units  
For the years ended December 31, 2021 and 2020  
(All amounts in Philippine Peso)

	Notes	2021	2020
BALANCES AT JANUARY 1		13,699,447,996	13,961,547,059
COMPREHENSIVE INCOME			
Net (loss) income for the year		(532,616,788)	1,457,339,027
Other comprehensive income		-	-
Total comprehensive (loss) income for the year		(532,616,788)	1,457,339,027
TRANSACTIONS WITH UNITHOLDERS			
Issuance of units	4	1,565,398,817	1,763,977,957
Redemption of units	4	(1,129,162,815)	(3,483,416,047)
Total transactions with unitholders		436,236,002	(1,719,438,090)
BALANCES AT DECEMBER 31	5	13,603,067,210	13,699,447,996

(The notes on pages 1 to 16 are an integral part of these financial statements)

# ABF Philippines Bond Index Fund

Statements of Cash Flows  
For the years ended December 31, 2021 and 2020  
(All amounts in Philippine Peso)

	Notes	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
(Loss) income before tax		(404,108,096)	1,572,387,735
Adjustments for:			
Net income on financial assets at fair value through profit or loss	3	367,978,270	(1,611,606,539)
Interest income	2	(3,619)	(11,761)
Operating loss before changes in operating liabilities		(36,133,445)	(39,230,565)
Decrease in accrued expenses		(194,812)	(146,122)
Net cash used in operations		(36,328,257)	(39,376,687)
Acquisition of securities	3	(4,521,794,652)	(3,619,487,286)
Proceeds from disposal of securities	3	3,611,270,645	4,807,026,661
Interest income received		652,476,084	697,479,645
Income taxes paid	7	(128,508,692)	(115,048,708)
Net cash (used in) from operating activities		(422,884,872)	1,730,593,625
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of units	4	1,565,398,817	1,763,977,957
Payments for redemption of units	4	(1,129,162,815)	(3,483,416,047)
Net cash from (used in) financing activities		436,236,002	(1,719,438,090)
NET INCREASE IN CASH IN BANK		13,351,130	11,155,535
CASH IN BANK	2		
January 1		29,871,627	18,716,092
December 31		43,222,757	29,871,627

(The notes on pages 1 to 16 are an integral part of these financial statements)



## **ABF Philippines Bond Index Fund**

Notes to the Financial Statements

As at and for the years ended December 31, 2021 and 2020

(All amounts are shown in Philippine Peso, unless otherwise stated)

### **1 General information**

ABF Philippines Bond Index Fund (the “Fund”) is a Unit Investment Trust Fund (“UITF”) established in accordance with, and operated subject to the provisions of the Fund’s Trust Deed and in accordance with the regulations issued by the Bangko Sentral ng Pilipinas (Bangko Sentral) and existing laws. UITFs are created by virtue of Bangko Sentral Circular No. 447 which also governs the administration and investments of UITFs and requires that an external audit of the Fund be conducted annually.

The Bangko Sentral approved the Fund’s registration on April 10, 2006 following its approval of the Fund’s Trust Deed dated March 2, 2006. The Fund was launched as a UITF on April 21, 2006.

The Fund is part of the Asian Bond Fund 2 (ABF2) initiative by the Executives’ Meeting of East Asia Pacific Central Banks (EMEAP) that aims at broadening and deepening the domestic and regional bond markets in Asia. ABF2, which is the second phase of the Asian Bond Fund (ABF) initiative, comprises a Pan-Asian Bond Index Fund (PAIF) and eight single-market funds. The eight single-market funds, which the Fund is a part of, each invests in sovereign and quasi-sovereign local currency-denominated bonds issued in the respective EMEAP markets.

The Fund was organized to engage in the sale of its units and investment of the proceeds thereof in a diversified portfolio of peso-denominated sovereign, quasi-sovereign and supranational bonds. The Fund intends to achieve investment returns that closely track the iBoxx ABF Philippines Index. As an open-end pooled trust fund, the Fund stands ready at any time to redeem its outstanding units at a value defined under the Fund’s Trust Deed.

BPI Asset Management and Trust Corporation (“BPI-AMTC”) serves as the Fund Manager (“Fund Manager”), while Hongkong and Shanghai Banking Corporation Limited (“HSBC”) serves as the trustee and custodian (“Trustee and Custodian”) of the Fund. The separation of fund management and trustee roles which is currently not found in other UITF products is in line with the principle of check-and-balance. The Fund has no employees.

The Fund Manager is a wholly-owned subsidiary of Bank of the Philippine Islands (“BPI” or “Parent Bank”), a domestic commercial bank with an expanded banking license in the Philippines.

#### *COVID-19 outbreak*

The COVID-19 pandemic is impacting both the Philippine and global economy and markets, and accordingly impacting the Fund’s net asset value (NAV) and NAV per unit. The Fund Manager is taking necessary actions to mitigate the potential impact. While the Fund cannot quantify the potential direct or indirect effects of the COVID-19 pandemic, the Fund is expected to continue on a going concern basis for the foreseeable future.

#### *Approval of the financial statements*

The financial statements have been approved and authorized for issue by the Fund’s Fund Manager on June 15, 2022.

### **2 Cash in bank**

The account relates to a savings deposit account maintained with HSBC which earns interest at 0.01% per annum in 2021 (2020 - 0.01%).

Interest income earned from cash in bank for the year ended December 31, 2021 amounts to P3,619 (2020 - P11,761). There is no interest receivable as at December 31, 2021 and 2020.

### 3 Financial assets at fair value through profit or loss (FVTPL)

The account consists of investments in government securities denominated in Philippine Peso bear annual interest rates ranging in 2021 from 1.90% to 14.60% (2020 - 1.90% to 14.60%). The detailed list of investments is presented in Note 9. These investments are held for trading.

For the year ended December 31, 2021, interest income earned from investments in government securities amounts to P642,539,841 (2020 - P690,280,487), of which P151,434,736 remains collectible as at December 31, 2021 (2020 - P161,367,360).

Movements in the account for the years ended December 31 follow:

	2021	2020
At January 1	13,512,243,321	13,778,456,644
Additions	4,521,794,652	3,619,487,286
Disposals	(3,524,294,327)	(4,540,303,126)
Unrealized fair value (loss) gain	(1,097,494,429)	654,602,517
	13,412,249,217	13,512,243,321

Payments for acquisitions of securities in 2021 amount to P4,521,794,652 (2020 - 3,619,487,286).

For the year ended December 31, 2021, proceeds from disposal of financial assets at FVTPL amounts to P3,611,270,645 (2020 - P4,807,026,661). Realized gain on sale of financial assets at FVTPL which is presented in the statement of total comprehensive income amounts to P86,976,318 (2020 - gain of P266,723,535).

### 4 Redeemable units

The details of the units of the Fund follow:

	2021	2020
At January 1	51,055,672	57,573,478
Issuance	6,069,635	6,789,664
Redemptions	(4,331,572)	(13,307,470)
At December 31	52,793,735	51,055,672

Proceeds from issuance and payments for redemption of units for the year ended December 31, 2021 amount to P1,565,398,817 and P1,129,162,815, respectively (2020 - P1,763,977,957 and P3,483,416,047).

As at December 31, 2021, the Fund has 2,805 unitholders (2020 - 3,095).

### 5 Net asset value (NAV) for unit subscriptions and redemptions

The consideration received or paid for units issued or re-purchased is based on the value of the Fund's NAV per redeemable unit at the date of the transaction ("trading NAV"). The total equity as shown in the statement of financial position represents the Fund's NAV based on Philippine Financial Reporting Standards ("PFRS NAV").

NAV consists of principal and accumulated earnings.

As at December 31, 2021, the PFRS NAV is equal to the Fund's trading NAV of P13,603,355,706 (2020 - P13,699,931,086) decreased by adjustment on accrual of professional fees amounting to P288,496 (2020 - decreased by P483,090). This adjustment is due to timing difference only and does not materially affect the reported trading NAV of the Fund.

Details of the Fund's trading NAV per unit at December 31 follow:

	Note	2021	2020
Trading NAV		13,603,355,706	13,699,931,086
Outstanding units	4	52,793,735	51,055,672
NAV per unit		257.67	268.33

## 6 Other expenses

The account for the years ended December 31 consist of:

	2021	2020
Professional fees	101,646	604,076
Taxes and licenses	198,623	239,571
Others	256,900	220,600
	557,169	1,064,247

Others pertain to real-time gross settlement fees and index license fee.

As at December 31, 2021, the Fund has an outstanding license fee and other payable which is included as part of accrued expenses amounting to P14,600 (2020 - P11,200).

## 7 Provision for income tax

Provision for income tax represents tax withheld for income subject to final tax. Provision for income tax for the year ended December 31, 2021 amounts to P128,508,692 (2020 - P115,048,708).

## 8 Related party transactions

The primary responsibility of BPI-AMTC as Fund Manager is to manage the assets of the Fund to meet the investment objectives stated in the Trust Deed while the function of HSBC as the Trustee and Custodian is to safeguard the rights and interest of the investors and the Fund's assets. By separating the roles, the Trustee can independently check the compliance of the Fund Manager to the provisions of the Trust Deed.

### *Management fee*

As outlined in the Trust Deed, BPI AMTC is entitled to a management fee based on net asset value as follows:

Net asset value	Rate per annum (gross of tax)
Up to P3 billion	0.274%
Over P3 billion but less than P6 billion	0.252%
Over P6 billion but less than P10 billion	0.230%
Over P10 billion	0.186%

Total management fees for the year ended December 31, 2021 amounts to P24,997,072 (2020 - P26,807,057), of which P2,573,453 (2020 - P2,575,910) remains unpaid and outstanding as at reporting date and recorded under accrued expenses in the statement of financial position.

The outstanding balance of management fee payable is unsecured, non-interest bearing, and payable in cash on demand.

*Trust fee*

HSBC shall be entitled to trust fee of up to 0.080% (inclusive of custody fee) per annum based on the net asset value of the Fund, net of applicable taxes. Total trust fees for the year ended December 31, 2021 amounts to P10,579,204 (2020 - P11,359,261), of which P962,951 (2020 - P964,112) remains unpaid and outstanding as at reporting date and recorded under accrued expenses in the statement of financial position. The outstanding balance of trust fee payable is unsecured, non-interest bearing, and payable in cash on demand.

The Fund's units are being distributed through BPI branches. BPI acts as the receiving bank for the contributions and withdrawals related to the Fund.

There were no remunerations paid by the Fund to members of the Fund Manager's Board of Directors.

## 9 Breakdown of financial assets at FVTPL

The details of the Fund's investments are as follows:

(a) As at December 31, 2021

Security description	Maturity date	Market value
<i>Government Instruments</i>		
IFXTN2017 20310719 001-TX	July 19, 2031	1,033,880,544
IFXTN1060 20250909 001-TX	September 9, 2025	943,808,241
IFXT7-64 04222028 1-TX	April 22, 2028	927,306,425
IFXTN258 20351216 001-TX	December 16, 2035	857,250,202
IFXT1064 01102029 1-TX	January 10, 2029	744,839,938
IFXT1061 05042027 1	May 4, 2027	730,877,750
IFXTN2511 20400909 001-TX	September 9, 2040	688,787,739
IFXT3-25 09102023 1-TX	September 10, 2023	579,341,874
IFXTN758 20230421 01-TX	April 21, 2023	555,895,824
IFXT7-62 02142026 1-TX	February 14, 2026	504,520,137
IFXT5-77 04082026 1-TX	April 8, 2026	481,874,410
IFXT1065 07092030 1-TX	July 9, 2030	422,372,898
IFXT1066 07222031 1-TX	July 22, 2031	396,347,826
IFXTN1059 20240820 001-TX	August 20, 2024	378,687,045
IFXT2023 01242039 1-TX	January 24, 2039	352,684,138
IFXTN2020 20330321 001-TX	March 21, 2033	344,230,182
IFXT5-76 10172024 1	October 17, 2024	343,569,635
IFXT1063 03222028 01-TX	March 22, 2028	332,035,858
IFXTN2016 20300527 001-TX	May 27, 2030	318,773,884
IFXT7-65 08122028 001-TX	August 12, 2028	313,010,003
IFXTN761 04122025 01-TX	April 12, 2025	275,548,208
IFXT575 03082023 01-TX	March 8, 2023	237,031,721
IFXTN257 20350930 001-TX	September 30, 2035	201,039,792
IFXTN1058 20221206 001-TX	December 6, 2022	172,428,263
IFXTN759 04202024 01	April 20, 2024	170,055,848
IFXTN259 20360929 001-TX	September 29, 2036	155,958,248
IFXTN2510 20370816 001-TX	August 16, 2037	112,538,244
IFXT2024 07152041 1-TX	July 15, 2041	100,790,300
IFXTN2019 20320927 001-TX	September 27, 2032	100,409,718
IFXTN2505 20321129 001-TX	November 29, 2032	97,833,314
IFXTN256 20341105 001-TX	November 5, 2034	94,084,816
IFXTN2014 20270906 001-TX	September 6, 2027	76,342,513
IFXTN2503 20310126 001-TX	January 26, 2031	59,675,912
IFXT2021 05182037 1	May 18, 2037	51,287,880
IFXTN2018 20320202 001-TX	February 2, 2032	47,822,350
IFXTN2022 02222038 1-TX	February 22, 2038	45,734,308
IFXTN2015 20281204 001-TX	December 4, 2028	43,341,571
IFXTN2012 20260119 001-TX	January 19, 2026	42,980,242
IFXTN2504 20311005 001-TX	October 5, 2031	25,748,844
IFXTN2013 20261207 001-TX	December 7, 2026	22,799,154
IFXTN2502 20300728 001-TX	July 28, 2030	14,460,233
IFXTN2501 20251129 001-TX	November 29, 2025	14,243,185
		13,412,249,217

(b) As at December 31, 2020

Security description	Maturity date	Market value
<i>Government Instruments</i>		
IFXTN2017 20310719 001-TX	July 19, 2031	1,460,535,371
IFXTN258 20351216 001-TX	December 16, 2035	1,044,103,592
IFXT1064 1102029 1-TX	January 10, 2029	903,862,129
IFXTN1060 20250909 001-TX	September 9, 2025	881,344,841
IFXTN758 20230421 01-TX	April 21, 2023	713,176,816
IFXT7-62 2142026 1-TX	February 14, 2026	636,975,696
IFXTN2511 20400909 001-TX	September 9, 2040	632,137,057
IFXTN1059 20240820 001-TX	August 20, 2024	548,975,336
IFXT3-24 7042022 001-TX	July 4, 2022	487,013,812
IFXT2023 1242039 1-TX	January 24, 2039	475,968,943
IFXTN574 1262022 1	January 26, 2022	462,739,908
IFXTN2020 20330321 001-TX	March 21, 2033	447,728,384
IFXT575 0 3082023 0 1-TX	March 8, 2023	418,782,397
IFXT1063 3222028 01-TX	March 22, 2028	372,497,328
IFXTN2016 20300527 001-TX	May 27, 2030	360,526,530
IFXT5-76 10172024 1	October 17, 2024	355,119,564
IFXTN761 4122025 01-TX	April 12, 2025	344,209,120
IFXT3-25 9102023 1-TX	September 10, 2023	327,980,445
IFXT1061 5042027 1	May 4, 2027	299,872,788
IFXTN759 4202024 1	April 20, 2024	292,428,675
IFXTN1054 20220119 001-TX	January 19, 2022	261,246,322
IFXT1065 7092030 1-TX	July 9, 2030	227,998,517
IFXTN257 20350930 001-TX	September 30, 2035	223,664,144
IFXTN1058 20221206 001-TX	December 6, 2022	175,296,690
IFXTN259 20360929 001-TX	September 29, 2036	173,235,488
IFXTN2510 20370816 001-TX	August 16, 2037	125,983,714
IFXTN2019 20320927 001-TX	September 27, 2032	112,984,079
IFXTN2505 20321129 001-TX	November 29, 2032	109,992,843
IFXTN256 20341105 001-TX	November 5, 2034	105,371,203
IFXTN2014 20270906 001-TX	September 6, 2027	83,612,074
IFXTN1057 20220913 001-TX	September 13, 2022	72,746,541
IFXTN2503 20310126 001-TX	January 26, 2031	68,164,309
IFXTN2018 20320202 001-TX	February 2, 2032	53,938,008
IFXTN2015 20281204 001-TX	December 4, 2028	48,547,030
IFXTN2012 20260119 001-TX	January 19, 2026	46,381,871
IFXTN2022 2222038 1-TX	February 22, 2038	32,004,327
IFXTN2504 20311005 001-TX	October 5, 2031	29,187,484
IFXT2021 5182037 1	May 18, 2037	28,699,958
IFXTN2013 20261207 001-TX	December 7, 2026	24,574,968
IFXTN2502 20300728 001-TX	July 28, 2030	16,449,016
IFXTN2501 20251129 001-TX	November 29, 2025	15,795,761
IFXTN1056 20220802 001-TX	August 2, 2022	10,390,242
		13,512,243,321

## **10 Financial Risk Management**

### **10.1 Risk management process**

The Fund's activities expose it to financial risks: market risk (primarily price risk and interest rate risk), credit risk and liquidity risk. The Fund has no exposure to foreign exchange risk as it is restricted from investing in foreign currency denominated instruments. The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Fund's financial performance.

The management of these risks is carried out by the Fund Manager under policies approved by the Fund Manager's Board of Directors (the "Board"). The Board approves written principles as well as written policies covering overall risk management. Any prospective investment shall be limited to the type of investments described in the Trust Deed of the Fund. The Fund's Supervisory Committee oversees the Trustee and the Fund Manager on matters pertaining to the management and administration of the Fund, particularly in matters relating to the overall structure and strategic issues of the Fund.

The Fund's objective is to achieve investment returns that track the total return of the iBoxx Philippines Index through investments in a diversified portfolio of peso-denominated sovereign and quasi-sovereign and supranational bonds.

### **10.2 Market risk**

The Fund invests in financial instruments comprising the tracked index. Investment positions are reported at estimated market value with changes reflected in profit or loss. Investment positions are subject to various risk factors, which include primarily exposures to interest rate risk. Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of the Fund's financial assets and liabilities and future cash flows.

The Fund's fair value interest rate risk exposure principally relates to debt securities issued by the Philippine government classified as financial assets at FVTPL whose market values fluctuate as a result of changes in interest rates or factors specific to their issuer. The Fund's overall market position is monitored on a daily basis by the Fund Manager and is reviewed on a monthly basis by the Fund's Board of Directors.

Interest rate risk is measured using duration and contained through duration limits. In addition, tracking error is also computed for the Fund monthly (as measured by the annualized standard deviation of difference in monthly returns between the Fund and the iBoxx Philippines Index on a rolling three-year period) and compared versus the defined tracking error limit. The tracking error percentage of the Fund is 0.10% as at December 31, 2021 (2020 - 0.13%).

The sensitivity to a reasonable possible change in market interest rates of the Funds' net income is approximated via modified duration approach.

The following table demonstrates the sensitivity to a reasonable possible shift of  $\pm 100$  basis point interest rates for the years ended December 31, with all variables held constant:

	2021	2020
Increase/decrease on net income on financial assets at FVTPL	794,167,452	865,515,929

### **10.3 Credit risk**

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The main concentration to which the Fund is exposed arises from the Fund's investment in Republic of the Philippines ("ROP") securities classified as financial assets at FVTPL. The Fund is also exposed to counterparty credit risk on bank deposits.

The Fund's cash in bank is deposited with HSBC, a universal bank with a credit rating of AA- at December 31, 2021 (2020 - "A-"), issued and reaffirmed by Standard & Poor's and is considered to be fully performing.

The Fund invests primarily in high-grade investment instruments and securities. At December 31, 2021 and 2020, the Fund's financial assets at FVTPL are composed of peso-denominated debt securities issued by the Philippine government that are rated "BBB+" in 2021 and 2020 by Standard & Poor's.

The Fund's receivables arise from interest receivable. Interest receivable arise mainly from interest earned on deposits in banks and investments in Philippine government debt securities classified as financial assets at FVTPL.

The Fund measures credit risk and expected credit losses for financial assets at amortized cost using probability of default, exposure at default and loss given default. Management considers both historical analysis and forward looking information in determining any expected credit loss. Management considers the probability of default to be close to zero as its counterparty has a strong capacity to meet its contractual obligation in the near term. As a result, no loss allowance has been recognized based on 12-month expected credit losses as any such impairment would be insignificant to the Fund as at December 31, 2021 and 2020.

Receivables are considered to be fully collectible as at December 31, 2021 and 2020.

#### **10.4 Liquidity risk**

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous to the Fund.

The Fund is exposed to daily cash redemptions of redeemable units. In accordance with the Fund's policy, the Fund Manager monitors the Fund's liquidity position on a daily basis to ensure that excess cash positions are invested in fixed-income securities and redemptions are funded within the prescribed period indicated in the Fund's Trust Deed.

The Fund also has in place a liquidity contingency plan drawn up specifically for UITFs and other managed accounts. The liquidity contingency plan provides a framework for addressing potential liquidity crisis situations which consists of identifying early warning indicators of a potential liquidity problem, setting out response action plans and defining the roles and responsibilities of key units and personnel to effectively manage the liquidity situation and ensure that client's liquidity requirements are met in a timely and orderly manner.

The Fund's financial liabilities relate mainly to accrued expenses (excluding license fee and other payable) which are contractually due in less than 1 month. The Fund expects to settle its financial liabilities in accordance with their contractual maturity.

Overall, due to the Fund's structure and strong liquidity position, the liquidity risk exposure of the Fund is negligible.

#### **10.5 Capital management**

The capital of the Fund is represented by the net assets attributable to holders of redeemable units as shown in the statement of financial position. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for unitholders of the Fund. Redeemable units are redeemed on demand at the holder's option.



As at reporting date, the Fund does not foresee any imminent significant redemptions as holders of these investments typically retain their holdings for the medium to long-term period.

The Fund does not have externally imposed capital requirements.

#### **10.6 Fair value of financial instruments**

As at December 31, 2021, the Fund's financial assets at FVTPL amounting to P13,412,249,217 (2020 - P13,512,243,321) are classified under Level 1. The fair value of debt securities issued by the Philippine government which are traded in active markets is based on prices provided by IHS Markit Limited, the index provider for all Asian Bond Funds. There are no financial instruments measured at fair value which are classified as Level 2 and 3. There were no transfers between the fair value hierarchies during the reporting periods.

The carrying amounts of the Fund's other financial assets and financial liabilities at reporting period approximate their fair values considering that these have short-term maturities.

#### **11 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

##### **11.1 Basis of preparation**

The financial statements of the Fund have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS, in general, include all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretation Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the Securities and Exchange Commission (SEC).

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at FVTPL.

There are currently no areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Fund's financial statements.

#### **Changes in accounting policy and disclosures**

##### *(a) New standards, amendments to standards and interpretations*

There are no standards, amendments to standards and interpretations that are effective for annual periods beginning on January 1, 2021 that are considered relevant and have a material effect on the financial statements of the Fund.

##### *(b) New standards, amendments and interpretations not yet adopted*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2021, and have not been early adopted in preparing these financial statements. None of these are considered relevant and expected to have a material effect on the financial statements of the Fund.

## **11.2 Financial instruments**

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. The Fund recognizes a financial instrument in the statement of financial position when, and only when, the Fund becomes a party to the contractual provisions of the instrument.

### *11.2.1 Measurement methods*

#### *Amortized cost and effective interest rate*

Amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Fund revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in the statement of total comprehensive income.

#### *Initial recognition, measurement and derecognition*

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Fund commits to purchase or sell the asset.

At initial recognition, the Fund measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the statement of total comprehensive income. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, as described in Note 11.3.2.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Fund recognizes the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.
- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

### 11.3 Financial assets

#### 11.3.1 Classification and subsequent measurement

The Fund has applied PFRS 9 and classifies its financial assets in the following measurement categories: at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) and at amortized cost.

The classification requirements for debt and equity instruments are described below:

##### *Debt instruments*

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on the Fund's business model for managing the asset and the cash flow characteristics of the asset.

Based on these factors, the Fund classifies its debt instruments into one of the following measurement categories:

- *Amortized cost*

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at fair value through profit or loss, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

As at December 31, 2021 and 2020, amortized cost financial assets comprise of cash in bank. Cash in bank comprises of deposit held at call with a bank which earns interest at the prevailing bank deposit rate.

- *Fair value through other comprehensive income (FVOCI)*

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in the statement of total comprehensive income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

As at December 31, 2021 and 2020, the Fund has no financial assets under the FVOCI category.

- *Fair value through profit or loss (FVTPL)*

Assets that do not meet the criteria for amortized cost or FVOCI and the collection of contractual cash flows is only incidental to achieving the Fund's business model objective are measured at fair value through profit or loss. A gain or loss on a debt security that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statement of total comprehensive income under 'Net income (loss) from financial assets at fair value through profit or loss' in the period in which it arises.

As at December 31, 2021 and 2020, the Fund's financial assets under FVTPL includes investment in government securities denominated in Philippine Peso. These investments are classified as current assets.

*Business model:* The business model reflects how the Fund manages the assets in order to generate cash flows. That is, whether the Fund's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at fair value through profit or loss. Factors considered by the Fund in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

*SPPI:* Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Fund assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Fund considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Fund reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

#### *Equity investments*

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Fund subsequently measures all equity investments, if any, at fair value through profit or loss, except where the Fund's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. When this election is used, fair value gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, even on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as dividend income when the Fund's right to receive payments is established. Gains and losses on equity investments at fair value through profit or loss are included in 'Net income (loss) on financial assets at fair value through profit or loss' in the statement of total comprehensive income.

As at December 31, 2021 and 2020, the Fund has no investments in equity securities.

#### 11.3.2 Impairment

The Fund assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and fair value through other comprehensive income, if any. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

### *Credit impaired financial assets*

Financial assets are assessed for credit impairment at each balance sheet date and more frequently when circumstances warrant further assessment. Evidence of credit-impairment may include indications that the debtor is experiencing significant financial difficulty, probability of bankruptcy or other financial reorganization, as well as measurable decrease in the estimated future cash flows evidenced by the adverse changes in the payments status of the debtor or economic conditions that correlate with defaults. An asset that is in Stage 3 (non performing) will move back to Stage 2 (under performing) when, as at reporting date, it is no longer considered to be credit-impaired. The asset will transfer back to Stage 1 (fully performing) when its credit risk at the reporting date is no longer considered to have increased significantly from initial recognition, and when there is sufficient evidence to support full collection of principal and interest due. Prior to the transfer to Stage 1, the asset should have exhibited both the quantitative and qualitative indicators of probable collection.

When a financial asset has been identified as credit-impaired, expected credit losses are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the instrument's original effective interest rate. For impaired financial assets with drawn and undrawn components, expected credit losses also reflect any credit losses related to the portion of the loan commitment that is expected to be drawn down over the remaining life of the instrument.

When a financial asset is credit impaired, interest ceases to be recognized on the regular accrual basis, which accrues income based on gross carrying amount of the asset. Rather, interest income is calculated by applying the original effective interest rate to the amortized cost of the asset, which is the gross carrying amount less related allowance for impairment. Following impairment, interest income is recognized on the unwinding of the discount from the initial recognition of impairment.

## **11.4 Financial liabilities**

The Fund classifies its financial liabilities in the following categories: financial liabilities at FVTPL and financial liabilities at amortized cost.

### **11.4.1 Classification**

#### *Financial liabilities at FVTPL*

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Fund as at FVTPL upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in profit or loss.

The Fund has no financial liabilities held for trading or designated at FVTPL as at December 31, 2021 and 2020.

#### *Other liabilities measured at amortized cost*

Financial liabilities that are not classified as FVTPL fall into the category of other liabilities measured at amortized cost. Financial liabilities measured at amortized cost include accrued expenses (excluding license fee and other payable).

#### 11.4.2 Recognition, measurement and derecognition

Financial liabilities carried at FVTPL are initially recognized at fair value; and transaction costs are recognized as expense in the statement of total comprehensive income. Subsequently, these are carried at fair value.

Financial liabilities not carried at FVTPL are initially recognized at fair value plus transaction costs. Subsequently, these are measured at amortized cost using the effective interest method.

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished (i.e. when the obligation is discharged or is cancelled or has expired).

### 11.5 Determination of fair value

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 of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The Fund classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in Level 1.

The fair value of assets and liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the asset or liability is included in Level 3.

The Fund has no financial assets and liabilities carried at fair value other than the investments in Philippine government bonds classified as financial assets at FVTPL (Note 3).

### 11.6 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Fund or the counterparty.

As at December 31, 2021 and 2020, there are no financial assets and liabilities that have been offset.

### **11.7 Subscriptions and redemptions**

Subscriptions and additional investments are recorded upon receipt of notice of subscription from unitholders. Redemptions are recorded upon receipt of notice of redemption.

### **11.8 Redeemable units**

The Fund issues redeemable units, which are redeemable at the holder's option and are classified as equity in accordance with PAS 32, *Financial Instruments: Presentation*. The equity of the Fund is represented by the net assets attributable to holders of the redeemable units. Each unit has the following features which allow it to be classified as an equity:

- it entitles the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation;
- the unit has no priority over other claims to the assets of the Fund on liquidation, and it does not need to be converted into another instrument before it is classified as such; and
- all units impose a contractual obligation on the Fund to deliver a pro rata share of its net assets on liquidation.

In addition, the Fund has no other financial instrument or contract that has:

- 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 (excluding any effects of such instrument or contract); and
- the effect of substantially restricting or fixing the residual return to the unitholders.

Should the redeemable units' terms or conditions change such that they do not comply with the strict criteria as mentioned above, the redeemable units would be reclassified to a financial liability from the date the instrument ceases to meet the criteria. The financial liability would be measured at the instrument's fair value at the date of reclassification. Any difference between the carrying value of the equity instrument and fair value of the liability on the date of reclassification would be recognized in equity.

Redeemable units are issued and redeemed at prices based on the Fund's trading NAV per unit at the time of issue or redemption. The Fund's trading NAV per unit is calculated by dividing the net assets attributable to the holders of redeemable units with the total number of outstanding redeemable units. In accordance with the provisions of the Fund's regulations, investment positions are valued based on the closing price for the purpose of determining the NAV per unit for subscriptions and redemptions.

Redeemable units can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's NAV calculated in accordance with the Fund's regulations.

### **11.9 Revenue and expense recognition**

*Net income (loss) on financial assets at FVTPL*

Net income (loss) on financial assets at FVTPL includes all realized and unrealized fair value changes.

*Interest income on financial assets measured at amortized cost*

Interest income on bank deposits is recognized on a time proportion basis using the effective interest rate method.

*Expenses*

Expenses are recognized in the period in which they are incurred.

#### **11.10 Taxation**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The Fund has interest income from cash deposits which are subject to final withholding tax. Such income is presented at gross amount and the related final tax is presented in the statement of total comprehensive income as provision for income tax. Realized gain on sale of financial assets at FVTPL is tax-exempt.

#### **11.11 Functional and presentation currency**

Subscriptions and redemptions of the Fund's redeemable units are denominated in Philippine Peso ("Peso"). The performance of the Fund is measured and reported to the investors in Peso. The Fund's Trustee considers the Peso as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in Peso, which is the Fund's functional and presentation currency.

#### **11.12 Related party relationships and transactions**

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or unitholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

#### **11.13 Comparatives**

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Where PAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year. There were no significant changes to the presentation made during the years ended December 31, 2021 and 2020.

#### **11.14 Events after reporting date**

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