

# ABF Philippines Bond Index Fund

**Financial Statements**

**As at and for the years ended December 31, 2023 and 2022**



**pwc**



## **Independent Auditor's Report**

To the Unitholders and Trustee of  
**ABF Philippines Bond Index Fund**  
27th Floor, Ayala Triangle Gardens Tower 2  
Paseo de Roxas corner Makati 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, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

#### *What we have audited*

The financial statements of the Fund comprise:

- the statements of financial position as at December 31, 2023 and 2022;
- the statements of total comprehensive income for the years ended December 31, 2023 and 2022;
- the statements of changes in net assets attributable to holders of redeemable units for the years ended December 31, 2023 and 2022;
- the statements of cash flows for the years ended December 31, 2023 and 2022; and
- the notes to the financial statements, including material accounting policy information.

#### **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 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 Code of Ethics.

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

This report is intended solely for the information and use of the unitholders, the trustee of ABF Philippines Bond Index Fund and the Bangko Sentral ng Pilipinas 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 PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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



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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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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.**

A handwritten signature in black ink that reads "Ruth Blasco". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

Ruth F. Blasco

Partner

CPA Cert No. 112595

P.T.R. No. 0018519, issued on January 11, 2024, Makati City

TIN 235-725-236

BIR A.N. 08-000745-133-2023, issued on May 9, 2023; effective until May 8, 2026

BOA/PRC Reg. No. 0142, effective until November 14, 2025

Makati City  
April 17, 2024

**ABF Philippines Bond Index Fund**

Statements of Financial Position  
December 31, 2023 and 2022  
(All amounts in Philippine Peso)

	Notes	2023	2022
<u>ASSETS</u>			
CURRENT ASSETS			
Cash in bank	2	56,629,840	38,060,886
Financial assets at fair value through profit or loss	3,9	15,082,209,281	14,234,601,346
Receivables	3	192,493,908	189,702,194
Total assets		15,331,333,029	14,462,364,426
<u>LIABILITIES AND NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</u>			
CURRENT LIABILITIES			
Accrued expenses	5,6,8	4,363,094	4,065,035
NET ASSETS ATTRIBUTABLE TO HOLDERS OF			
REDEEMABLE UNITS	5	15,326,969,935	14,458,299,391
Total liabilities and net assets attributable to holders of redeemable units		15,331,333,029	14,462,364,426

(The notes on pages 1 to 14 are an integral part of these financial statements.)

**ABF Philippines Bond Index Fund**

Statements of Total Comprehensive Income  
For the years ended December 31, 2023 and 2022  
(All amounts in Philippine Peso)

	Notes	2023	2022
<b>INCOME (LOSS)</b>			
Net income (loss) from financial assets at fair value through profit or loss	3	1,498,168,534	(583,809,139)
Interest income on cash in bank	2	4,117	3,880
		1,498,172,651	(583,805,259)
<b>EXPENSES</b>			
Management fees	8	28,924,595	24,677,516
Trust fees	8	12,247,060	10,435,555
Others	6	844,181	767,582
		42,015,836	35,880,653
INCOME (LOSS) BEFORE TAX		1,456,156,815	(619,685,912)
PROVISION FOR INCOME TAX	7	174,431,166	137,834,540
NET INCOME (LOSS) FOR THE YEAR		1,281,725,649	(757,520,452)
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		1,281,725,649	(757,520,452)

(The notes on pages 1 to 14 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, 2023 and 2022  
(All amounts in Philippine Peso)

	Notes	2023	2022
BALANCES AS AT JANUARY 1		14,458,299,391	13,603,067,210
COMPREHENSIVE INCOME (LOSS)			
Net income (loss) for the year		1,281,725,649	(757,520,452)
Other comprehensive income		-	-
Total comprehensive income (loss) for the year		1,281,725,649	(757,520,452)
TRANSACTIONS WITH UNITHOLDERS			
Issuance of units	4	1,215,550,178	2,269,109,941
Redemption of units	4	(1,628,605,283)	(656,357,308)
Total transactions with unitholders		(413,055,105)	1,612,752,633
BALANCES AS AT DECEMBER 31	5	15,326,969,935	14,458,299,391

(The notes on pages 1 to 14 are an integral part of these financial statements.)



**ABF Philippines Bond Index Fund**

Statements of Cash Flows  
For the years ended December 31, 2023 and 2022  
(All amounts in Philippine Peso)

	Notes	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income (loss) before tax		1,456,156,815	(619,685,912)
Adjustments for:			
Net (income) loss from financial assets at fair value through profit or loss	3	(1,498,168,534)	583,809,139
Interest income on cash in bank	2	(4,117)	(3,880)
Operating loss before changes in operating liabilities		(42,015,836)	(35,880,653)
Increase in accrued expenses		298,059	225,535
Net cash used in operations		(41,717,777)	(35,655,118)
Acquisition of securities	3	(2,732,848,050)	(4,148,919,072)
Proceeds from disposal of securities	3	2,511,256,938	2,053,588,983
Interest income received		869,364,114	650,905,243
Income taxes paid	7	(174,431,166)	(137,834,540)
Net cash from (used in) operating activities		431,624,059	(1,617,914,504)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of units	4	1,215,550,178	2,269,109,941
Payments for redemption of units	4	(1,628,605,283)	(656,357,308)
Net cash (used in) from financing activities		(413,055,105)	1,612,752,633
NET INCREASE (DECREASE) IN CASH IN BANK		18,568,954	(5,161,871)
CASH IN BANK	2		
January 1		38,060,886	43,222,757
December 31		56,629,840	38,060,886

(The notes on pages 1 to 14 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, 2023 and 2022

(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 Wealth, formerly known as 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”), a domestic commercial bank with an expanded banking license and listed in the local stock exchange.

#### *Approval of the financial statements*

The financial statements have been approved and authorized for issuance by the Fund’s Trustee and Fund Manager on April 17, 2024.

### **2 Cash in bank**

The account relates to a savings deposit account maintained with HSBC which earns interest at 0.01% per annum in 2023 and 2022.

Interest income earned from cash in bank for the year ended December 31, 2023 amounts to P4,117 (2022 - P3,880).

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

The account consists of investments in government securities denominated in Philippine Peso and bear annual interest rates ranging from 2.30% to 14.6% in 2023 (2022 - 2.87% to 18.25%). The detailed list of investments is presented in Note 9. These investments are held for trading.

For the year ended December 31, 2023, interest income earned from investments in government securities amounts to P872,151,711 (2022 - P689,168,821) and is booked as part of Net income (loss) from financial assets at fair value through profit or loss, of which P192,493,908 remains collectible as at December 31, 2023 (2022 - P189,702,194).

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

	2023	2022
At January 1	14,234,601,346	13,412,249,217
Additions	2,732,848,050	4,148,919,072
Disposals	(2,620,321,000)	(2,090,386,992)
Unrealized fair value gain (loss)	735,080,885	(1,236,179,951)
	15,082,209,281	14,234,601,346

Payments for acquisitions of securities in 2023 amount to P2,732,848,050 (2022 - P4,148,919,072).

For the year ended December 31, 2023, proceeds from disposals of financial assets at FVTPL amount to P2,511,256,938 (2022 - P2,053,588,983). Realized loss resulting from the sale of financial assets at FVTPL which is presented in the statement of total comprehensive income amounts to P109,064,062 (2022 - P36,798,009).

### 4 Redeemable units

The details of the number of units of the Fund follow:

	2023	2022
At January 1	59,490,569	52,793,735
Issuance	4,783,000	9,364,441
Redemptions	(6,374,548)	(2,667,607)
At December 31	57,899,021	59,490,569

Proceeds from issuance and payments for redemption of units for the year ended December 31, 2023 amount to P1,215,550,178 and P1,628,605,283, respectively (2022 - P2,269,109,941 and P656,357,308).

As at December 31, 2023, the Fund has 2,658 unitholders (2022 - 2,622).

### 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, 2023, the PFRS NAV is equal to the Fund's trading NAV amounting to P15,327,331,275 (2022 - P14,458,641,893) decreased by adjustment on accrual of professional fees amounting to P361,340 (2022 - P342,502). This adjustment is due to timing differences 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	2023	2022
Trading NAV		15,327,331,275	14,458,641,893
Outstanding units	4	57,899,021	59,490,569
NAV per unit		264.73	243.04

## 6 Other expenses

The account for the years ended December 31 consist of:

	2023	2022
Professional fees	376,147	354,503
Taxes and licenses	225,134	161,679
Others	242,900	251,400
	844,181	767,582

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

As at December 31, 2023, the Fund has an outstanding license fee and other payable which is included as part of accrued expenses amounting to P13,200 (2022 - P14,200).

## 7 Provision for income tax

Provision for income tax represents tax withheld on income subject to final tax. Provision for income tax for the year ended December 31, 2023 amounts to P174,431,166 (2022 - P137,834,540).

## 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 the Fund's 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, 2023 amount to P28,924,595 (2022 - P24,677,516), of which P2,916,417 (2022 - P2,720,473) 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, 2023 amount to P12,247,060 (2022 - P10,435,555), of which P1,072,137 (2022 - P987,860) 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 to members of the Supervisory Committee and the Fund Manager's Board of Directors in 2023 and 2022.

## 9 Breakdown of financial assets at FVTPL

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

(a) As at December 31, 2023

Security description	Maturity date	Market value
<i>Government Instruments</i>		
IFXTN1060 20250909 001-TX	September 9, 2025	697,243,393
IFXTN1301 20360420 1-TX	April 20, 2036	50,870,625
IFXTN1501 20380713 1-TX	July 13, 2038	16,200,623
IFXTN2012 20260119 001-TX	January 19, 2026	38,397,229
IFXTN2013 20261207 001-TX	December 7, 2026	20,890,072
IFXTN2014 20270906 001-TX	September 6, 2027	219,627,734
IFXTN2015 20281204 001-TX	December 4, 2028	39,303,908
IFXTN2016 20300527 001-TX	May 27, 2030	353,565,767
IFXTN2017 20310719 001-TX	July 19, 2031	786,567,747
IFXTN2018 20320202 001-TX	February 2, 2032	44,751,443
IFXTN2019 20320927 001-TX	September 27, 2032	93,749,211
IFXTN2020 20330321 001-TX	March 21, 2033	327,007,822
IFXTN2022 20380222 1-TX	February 22, 2038	41,524,288
IFXTN2025 20421124 1-TX	November 24, 2042	498,396,823
IFXTN2501 20251129 001-TX	November 29, 2025	11,778,646
IFXTN2502 20300728 001-TX	July 28, 2030	12,917,629
IFXTN2503 20310126 001-TX	January 26, 2031	53,784,731
IFXTN2504 20311005 001-TX	October 5, 2031	23,489,774
IFXTN2505 20321129 001-TX	November 29, 2032	89,514,023
IFXTN2510 20370816 001-TX	August 16, 2037	102,701,403
IFXTN2511 20400909 001-TX	September 9, 2040	473,747,160
IFXTN256 20341105 001-TX	November 5, 2034	293,727,837
IFXTN257 20350930 001-TX	September 30, 2035	468,065,609
IFXTN258 20351216 001-TX	December 16, 2035	792,926,261
IFXTN259 20360929 001-TX	September 29, 2036	141,462,251
IFXTN761 20250412 01-TX	April 12, 2025	259,549,810
IFXTN769 20300427 1-TX	April 27, 2030	180,249,336
IFXTN770 20300727 1-TX	July 27, 2030	132,360,306
IFXT1061 20270504 1	May 4, 2027	657,143,522
IFXT1063 20280322 01-TX	March 22, 2038	325,856,580
IFXT1064 20290110 1-TX	January 10, 2029	968,542,420
IFXT1065 20300709 1-TX	July 9, 2030	422,470,556
IFXT1066 20310722 1-TX	July 22, 2031	493,170,618
IFXT1067 20320120 1-TX	January 20, 2032	367,212,573
IFXT1068 20320623 1-TX	June 23, 2032	457,320,427
IFXT1069 20320915 1-TX	September 15, 2032	610,320,555
IFXT1070 20321020 1-TX	October 20, 2032	238,990,884
IFXT1071 20330817 1-TX	August 17, 2033	202,584,564
IFXT2021 20370518 1	May 18, 2037	46,973,105
IFXT2023 20391204 1-TX	December 4, 2039	276,716,755
IFXT2024 20410715 1-TX	July 15, 2041	86,636,941
IFXT3-01 20260204 1-TX	February 4, 2026	89,021,943
IFXT3-27 20250407 1-TX	April 7, 2025	132,802,160
IFXT3-29 20260907 1-TX	September 7, 2026	10,060,612
IFXT5-77 20260408 1-TX	April 8, 2026	746,018,309
IFXT7-62 20260214 1-TX	February 14, 2026	713,488,088
IFXT7-64 20280422 1-TX	April 22, 2028	672,865,540
IFXT7-65 20280812 001-TX	August 12, 2028	663,217,483
IFXT7-67 20290519 1-TX	May 19, 2029	182,089,916
IFXT7-68 20291013 1-TX	October 13, 2029	454,334,269
		15,082,209,281

(b) As at December 31, 2022

Security description	Maturity date	Market value
<i>Government Instruments</i>		
IFXTN1060 20250909 001-TX	September 9, 2025	1,121,117,892
IFXT1064 20290110 1-TX	January 10, 2029	1,069,833,957
IFXTN2017 20310719 001-TX	July 19, 2031	1,054,115,530
IFXT5-77 20260408 1-TX	April 8, 2026	891,647,241
IFXT7-64 20280422 1-TX	April 22, 2028	812,599,772
IFXT1061 20270504 1	May 4, 2027	776,448,450
IFXTN258 20351216 001-TX	December 16, 2035	722,305,823
IFXT7-62 20260214 1-TX	February 14, 2026	642,056,000
IFXT7-65 20280812 001-TX	August 12, 2028	621,636,356
IFXT1066 20310722 1-TX	July 22, 2031	462,322,645
IFXT1068 20320623 1-TX	June 23, 2032	437,000,921
IFXTN2511 20400909 001-TX	September 9, 2040	410,978,997
IFXT1065 20300709 1-TX	July 9, 2030	395,237,996
IFXT2023 20390124 1-TX	January 24, 2039	364,524,012
IFXTN1059 20240820 001-TX	August 20, 2024	361,041,227
IFXT1067 20320120 1-TX	January 20, 2032	345,577,011
IFXTN2016 20300527 001-TX	May 27, 2030	338,560,368
IFXT5-76 20241017 1	October 17, 2024	326,689,622
IFXT1063 20280322 01-TX	March 22, 2028	306,588,190
IFXTN2020 20330321 001-TX	March 21, 2033	303,977,922
IFXTN257 20350930 001-TX	September 30, 2035	276,134,222
IFXTN761 20250412 01-TX	April 12, 2025	258,585,574
IFXT1070 20321020 1-TX	October 20, 2032	226,957,808
IFXTN2014 20270906 001-TX	September 6, 2027	220,469,751
IFXTN2025 20421124 1-TX	November 24, 2042	211,384,260
IFXTN259 20360929 001-TX	September 29, 2036	129,731,272
IFXT7-68 20291013 1-TX	October 13, 2029	107,474,226
IFXTN256 20341105 001-TX	November 5, 2034	103,651,254
IFXT3-27 20250407 1-TX	April 7, 2025	96,911,420
IFXTN2510 20370816 001-TX	August 16, 2037	91,974,865
IFXTN2019 20320927 001-TX	September 27, 2032	88,767,344
IFXTN2505 20321129 001-TX	November 29, 2032	86,088,675
IFXT2024 20410715 1-TX	July 15, 2041	79,121,670
IFXTN759 20240420 01	April 20, 2024	63,964,394
IFXTN2503 20310126 001-TX	January 26, 2031	52,737,475
IFXT1069 20320915 1-TX	September 15, 2032	49,702,410
IFXT3-01 20260204 1-TX	February 4, 2026	44,132,566
IFXTN2018 20320202 001-TX	February 2, 2032	42,411,276
IFXT2021 20370518 1	May 18, 2037	42,035,210
IFXTN2012 20260119 001-TX	January 19, 2026	39,363,034
IFXTN2015 20281204 001-TX	December 4, 2028	39,118,345
IFXTN2022 20380222 1-TX	February 22, 2038	37,172,412
IFXTN2504 20311005 001-TX	October 5, 2031	22,736,000
IFXTN2013 20261207 001-TX	December 7, 2026	20,926,078
IFXT7-67 20290519 1-TX	May 19, 2029	13,391,864
IFXTN2502 20300728 001-TX	July 28, 2030	12,781,621
IFXTN2501 20251129 001-TX	November 29, 2025	12,616,388
		14,234,601,346

## 10 Financial risk management

### 10.1 Risk management process

The Fund's activities expose it to financial risks: market risk (primarily 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 ABF 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 the issuer. The Fund's overall market positions are monitored on a daily basis by the Fund Manager and are 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 0.09% as at December 31, 2023 and 2022.

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

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

	2023	2022
Increase/decrease on net income from financial assets at FVTPL	858,068,937	805,278,498

### 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 debt securities issued by the Philippine government 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 A+ at December 31, 2023 and 2022, 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, 2023 and 2022, the Fund's financial assets at FVTPL are composed of Peso-denominated debt securities issued by the Philippine government that are rated "BBB+" in 2023 and 2022 by Standard & Poor's.

The Fund's receivables arise from interest receivable. Interest receivable arises 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, 2023 and 2022.

#### **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, if any, 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 statutory payables) which are contractually due in less than one (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, 2023, the Fund's financial assets at FVTPL amounting to P15,082,209,281 (2022 - P14,234,601,346) 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 Levels 2 and 3. There were no transfers between fair value hierarchies during the reporting period.

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 material 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 (PFRSs). The term PFRSs, in general, include all applicable PFRSs, 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 and Sustainability Reporting Standards Council (FSRSC) 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 existing standards and interpretations*

The following amendments to existing standards have been adopted by the Fund effective January 1, 2023:

##### *i. Amendments to PAS1, 'Presentation of Financial Statements', and PFRS Practice Statement 2*

The amendments require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' (being information that, when considered together with other information included in an entity's financial statements, can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements) and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

To support these amendments, PFRS Practice Statement 2, Making Materiality Judgements, was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The adoption of these amendments resulted in changes in the accounting policies disclosed by the Fund.

There are no other new standards, amendments to existing standards or interpretations that are effective for annual periods beginning on January 1, 2023 that are considered relevant and have a material effect on the financial statements of the Fund.

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

A number of new standards, amendments to existing standards and interpretations are effective for annual periods beginning on or after January 1, 2024, 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.

### *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 FVTPL, 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 FVTPL 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, 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 FVTPL and at amortized cost.

The Fund has no investments in equity investments as at December 31, 2023 and 2022.

The classification requirements for debt 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 FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

As at December 31, 2023 and 2022, 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.

- *FVTPL*  
Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income and the collection of contractual cash flows is only incidental to achieving the Fund's business model objective are measured at FVTPL. A gain or loss on a debt security that is subsequently measured at FVTPL 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, 2023 and 2022, 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 FVTPL. 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 FVTPL.

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.

### 11.3.2 Impairment

The Fund assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost. 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, ECL is 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, ECL also reflects 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 at amortized cost.

### 11.4.1 Classification

#### *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 statutory payables).

### 11.4.2 Recognition, measurement and derecognition

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

## 11.7 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 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 last traded market 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 trading NAV calculated in accordance with the Fund's regulations.

## 11.8 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 currency.

## 11.9 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.