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Financial Statements and
Independent Auditors' Report

Bank of Commerce – Trust Service Group
Unit Investment Trust Fund
Diversity Dollar Bond Fund
(Amounts in United States Dollars)

December 31, 2025
(With Comparative Figures for the Year Ended December 31, 2024)

Report of Independent Auditors

The Trust and Investment Committee
Bank of Commerce – Trust Service Group
San Miguel Properties Centre
No. 7, St. Francis Street
Mandaluyong City

Opinion

We have audited the financial statements of the Trust and Managed Fund's Diversity Dollar Bond Fund (DDBF), a Unit Investment Trust Fund (UITF) managed by the Trust Service Group (TSG) of Bank of Commerce (the Bank), which comprise the statement of financial position as at December 31, 2025 and the statement of comprehensive income and statement of changes in accountabilities for the year then ended, and the notes to financial statements, including material accounting policy information. These financial statements were prepared from the transactions recorded in the books of accounts maintained by the TSG for Trust and Managed Fund's Diversity Dollar Bond Fund.

In our opinion, the accompanying financial statements present fairly, in all material respects, the assets and accountabilities of the Trust and Managed Fund's DDBF managed by the Bank's TSG as at December 31, 2025, and its financial performance for the year then ended in accordance with the Guidelines in the Preparation of Audited Financial Statements for Trust Institutions issued by the Bangko Sentral ng Pilipinas (BSP), as described in Note 2 to the financial statements.

Basis for Opinion

We conducted our audit in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank of Commerce (the Bank) in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), as applicable to audit of financial statements of public interest entities, together with the ethical requirements that are relevant to audit of the financial statements of public interest entities in the Philippines. We have also fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The financial statements of the DDBF as at and for the year ended December 31, 2024 were audited by other auditors whose report, dated May 27, 2025, expressed an unqualified opinion on those financial statements prepared under the same basis of accounting. We were not engaged to audit, review or apply any procedures to the 2024 financial statements of the DDBF. Accordingly, we do not express an opinion or any other form of assurance on the 2024 financial statements of the DDBF as a whole.

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 the Guidelines in the Preparation of Audited Financial Statements for Trust Institutions issued by the BSP, as discussed in Note 2 to financial statements, 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. These financial statements were prepared from the transactions recorded in the books of accounts maintained by the TSG for the Trust and Managed Fund's Diversity Dollar Bond Fund.

In preparing the financial statements, management is responsible for assessing the TSG'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 TSG or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 TSG'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 TSG's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the TSG's 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.

PUNONGBAYAN & ARAULLO



By: Maria Isabel E. Comedia
Partner

CPA Reg. No. 0092966
TIN 189-477-563
PTR No. 10770756, January 6, 2026, Makati City
SEC Group A Accreditation
Partner - No. 92966-SEC (until financial period 2027)
Firm - No. 0002 (until financial period 2030)
BIR AN 08-002551-021-2025 (until August 6, 2028)
BOA/PRC Cert. of Reg. No. 0002/P-005 (until August 12, 2027)

May 20, 2026

**BANK OF COMMERCE, INC.
TRUST SERVICE GROUP
UNIT INVESTMENT TRUST FUND**

**DIVERSITY DOLLAR BOND FUND
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2025
(With Comparative Figures as of December 31, 2024)
(Amounts in United States Dollars)**

	Notes	2025	2024
<u>ASSETS</u>			
DEPOSITS IN BANKS	6	\$ 52,105	\$ 89,200
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	7	398,110	579,659
OTHER ASSETS	8	10,003	20,986
TOTAL ASSETS		\$ 460,218	\$ 689,845
<u>ACCOUNTABILITIES</u>			
PRINCIPAL	2	\$ 591,881	\$ 858,616
ACCUMULATED LOSS	2	(137,676)	(177,749)
OTHER ACCOUNTABILITIES	9	6,013	8,978
TOTAL ACCOUNTABILITIES		\$ 460,218	\$ 689,845

See Notes to Financial Statements.

**BANK OF COMMERCE, INC.
TRUST SERVICE GROUP
UNIT INVESTMENT TRUST FUND**

**DIVERSITY DOLLAR BOND FUND
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2025
(With Comparative Figures for the Year Ended December 31, 2024)
(Amounts in United States Dollars)**

	Notes	2025	2024
INCOME			
Interest income on:			
Financial assets at fair value through profit or loss (FVTPL)	7	\$ 23,637	\$ 36,055
Deposits in banks	6	3,022	5,629
Net fair value gains on financial assets at FVTPL	7	18,752	-
		45,411	41,684
EXPENSES			
Trust fees	10, 12	5,257	8,479
Taxes	11	460	934
Net fair value losses on financial assets at FVTPL	7	-	75,605
Others		2,000	1,454
		7,717	86,472
NET INCOME (LOSS)		\$ 37,694	(\$ 44,788)

* The Fund has no other comprehensive income (loss) transactions in 2025 and 2024.

See Notes to Financial Statements.

**BANK OF COMMERCE, INC.
TRUST SERVICE GROUP
UNIT INVESTMENT TRUST FUND**

**DIVERSITY DOLLAR BOND FUND
STATEMENT OF CHANGES IN ACCOUNTABILITIES
FOR THE YEAR ENDED DECEMBER 31, 2025
(With Comparative Figures for the Year Ended December 31, 2024)
(Amounts in United States Dollars)**

	<u>Notes</u>	<u>2025</u>	<u>2024</u>
PRINCIPAL FUND BALANCE			
Principal	2		
Balance at beginning of year		\$ 858,616	\$ 1,199,958
Contributions		1,917,687	1,673,032
Withdrawals		(2,184,422)	(2,014,374)
Balance at end of year		<u>591,881</u>	<u>858,616</u>
Accumulated loss	2		
Balance at beginning of year		(177,749)	(138,886)
Net income (loss)		37,694	(44,788)
Withdrawals-income		<u>2,379</u>	<u>5,925</u>
Balance at end of year		(<u>137,676</u>)	(<u>177,749</u>)
Total Principal Fund Balance		<u>454,205</u>	<u>680,867</u>
OTHER ACCOUNTABILITIES			
Balance at beginning of year	9	8,978	2,419
Net accruals (payments)		(2,965)	6,559
Balance at end of year		<u>6,013</u>	<u>8,978</u>
TOTAL ACCOUNTABILITIES		<u>\$ 460,218</u>	<u>\$ 689,845</u>

See Notes to Financial Statements.

**BANK OF COMMERCE, INC.
TRUST SERVICE GROUP
UNIT INVESTMENT TRUST FUND**

**DIVERSITY DOLLAR BOND FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025**

*(With Comparative Figures as of and for the Year Ended December 31, 2024)
(Amounts in United States Dollars)*

1. CORPORATE MATTERS

1.1 General

The Trust Services Group (the TSG) holds the mandate for the trust and fiduciary business of Bank of Commerce (the Bank). The authority to perform trust and other business is the power conferred by the General Banking Act and existing laws to the Bank which has been specifically qualified and authorized to engage in trust operations on January 15, 1965 under Republic Act No. 337, as amended, and Section 4404 of the Manual of Regulations, Book IV, as promulgated by the Monetary Board of the Bangko Sentral ng Pilipinas (BSP).

The TSG is organizationally, operationally and functionally separate and distinct from the other departments and businesses of the Bank. Under local regulations, the TSG is allowed to perform asset management in its capacity as Trustee or Investment Manager.

One of the UITFs set up by the TSG is the Diversity Dollar Bond Fund (DDBF) which was launched on March 11, 2005. The DDBF is a US dollar-denominated bond trust fund, which is invested in US dollar-denominated time deposits and Eurobonds. It is made available in units of participation where unitholders have a pro-rata interest in the entire fund. Each unitholder shall have uniform rights and privileges as any other unitholder. The minimum investment in the DDBF is \$1,000. The Net Asset Value per unit (NAVpu) of the Fund as at the last trading day of 2025 and 2024 is \$2.11 and \$1.99, respectively.

The TSG's office is located at the 15th Floor, San Miguel Properties Centre, No. 7 St. Francis Street, Mandaluyong City.

1.2 Approval of Financial Statements

The financial statements of DDBF operated by the TSG as at and for the year ended December 31, 2025 (including the comparative financial statements as of and for the year ended December 31, 2024) were authorized for issue by the Board of Directors (BOD), through the Trust and Investment Committee (TIC) on May 20, 2026.

2. MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 *Basis of Preparation of Financial Statements*

(a) *Statement of Compliance with the Guidelines in the Preparation of Audited Financial Statements for Trust Institutions*

The financial statements of the DDBF operated by the TSG have been prepared in accordance with the Guidelines in the Preparation of Audited Financial Statements for Trust Institutions (the Guidelines) for the financial reporting period beginning January 1, 2008 as set out under BSP Circular No. 653. The Guidelines have adopted PFRS Accounting Standards except for the following items enumerated below and in the succeeding page:

- Presentation of statement of cash flows which is required as part of the basic financial statements under PFRS Accounting Standards but is not required under the Guidelines;
- Presentation of each component of income and expense recognized in other comprehensive income in the statements of changes in accountabilities which is no longer allowed to be presented per PFRS Accounting Standards but is required by the Guidelines; and,
- Application of provisions of PFRS Accounting Standards only to trust accounts still outstanding as of the end of reporting period.

PFRS Accounting Standards are adopted by the Financial and Sustainability Reporting Standards Council (FSRSC) from the pronouncements issued by the International Accounting Standards Board (IASB), and approved by the Philippine Board of Accountancy.

Pursuant to the Guidelines, the audited financial statements shall comprise of the following:

- Statements of financial position as of the end of the period;
- Statements of comprehensive income for the period;
- Statements of changes in accountabilities, which shall show a reconciliation of the net carrying amount at the beginning and end of the period of the following accounts: (i) principal; (ii) accumulated income; and (iii) net unrealized gains/(losses) on fair value through other comprehensive income (FVOCI) securities, separately disclosing the change in each of the foregoing accounts;
- Notes, which shall comprise a summary of material accounting policies and other disclosure requirements provided under PFRS Accounting Standards.

The financial statements were prepared from the transactions recorded in the books of accounts maintained by the TSG for the DDBF. The financial statements have been prepared using the measurement bases specified by PFRS Accounting Standards as presented for adoption by a Trust Institution under the Guidelines for each type of asset, accountability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) *Presentation of Financial Statements*

The financial statements of the DDBF are presented in accordance with PAS 1, *Presentation of Financial Statements*, as modified by the Guidelines. The DDBF presents all items of income, expenses and other comprehensive income (loss), if any, in a single statement of comprehensive income.

(c) *Functional and Presentation Currency*

These financial statements are presented in United States Dollars (USD), the DDBF's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated. Items included in the financial statements of the DDBF are measured using the DDBF's functional currency. Functional currency is the currency of the primary economic environment in which the DDBF operates.

2.2 Adoption of New and Amended PFRS Accounting Standards

(a) *Effective in 2025 that is Relevant to the DDBF*

The DDBF adopted for the first time amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability*, which are mandatorily effective for annual periods beginning on or after January 1, 2025. The amendments require entities to assess whether a currency is exchangeable and to determine a spot exchange rate when exchangeability is lacking. These amendments also mandate the disclosure of information that enables users of financial statements to understand the impact of a currency not being exchangeable. The amendments had no significant impact on the financial statements of the DDBF.

(b) *Effective Subsequent to 2025 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2025, which are adopted by the FSRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and unless otherwise indicated, none of these are expected to have significant impact on the DDBF's financial statements:

- (i) PFRS 9 and PFRS 7 (Amendments), *Financial Instruments, and Financial Instruments: Disclosures – Amendments to the Classification and Measurement of Financial Instruments* (effective from January 1, 2026). These amendments clarify and refine the classification and measurement guidance in PFRS 9, particularly when to derecognize financial liabilities (generally on settlement date) and introduce an accounting policy option to derecognize certain liabilities earlier when settled via electronic payment systems if specified conditions are met. These also clarify contractual cash flow assessments for financial assets with contingent [including Environmental, Social and Governance (ESG) goal-linked] features and provide guidance on non-recourse assets and contractually linked instruments. Correspondingly, PFRS 7 adds enhanced disclosures for instruments with contingent/ESG-linked terms and for equity instruments designated at fair value through other comprehensive income (FVOCI).
- (ii) PFRS 18, *Presentation and Disclosure in Financial Statements* (effective from January 1, 2027). The new standard impacts the classification of profit or loss items (i.e., into operating, investing and financing categories) and the presentation of subtotals in the statement of profit or loss (i.e., operating profit and profit before financing and income taxes). The new standard also changes the aggregation and disaggregation of information presented in the primary financial statements and in the notes. It also introduces required disclosures about management-defined performance measures. The amendments, however, do not affect how an entity recognizes and measures its financial condition, financial performance and cash flows.

2.3 *Financial Instruments*

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the financial instrument.

(a) *Financial Assets*

Regular purchases and sales of financial assets are recognized on their trade date (i.e., the date that the TSG commits to purchase or sell the asset).

(i) *Classification, Measurement and Reclassification of Financial Assets*

The TSG classifies its financial assets in the following categories: financial assets at amortized cost or financial assets at fair value through profit or loss (FVTPL).

Financial Assets at Amortized Cost

Where the business model is to hold assets to collect contractual cash flows, TSG assesses whether the financial instruments' cash flows represent solely payment of principal and interest (SPPI). In making this assessment, TSG 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 (FVTPL).

The DDBF's financial assets at amortized cost are presented in the statements of financial position as Deposits in Banks and accrued interest receivables which is recorded as part of Other Assets in the statements of financial position.

Financial Assets at Fair Value Through Profit or Loss

The DDBF's financial assets at FVTPL include government securities and corporate bonds which are held for trading purposes or designated as at FVTPL.

The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

Interest earned on these investments is reported under Interest Income account in the statements of comprehensive income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

(ii) *Impairment of Financial Assets*

The DDBF assesses its expected credit losses (ECL) on a forward-looking basis associated with its financial assets carried at amortized cost. Recognition of credit losses or impairment is no longer dependent on the DDBF's identification of a credit loss event. Instead, the DDBF considers a broader range of information in assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The DDBF measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments which are measured as 12-month ECL:

- all current loan accounts, except restructured loans;
- debt securities that are identified to have 'low credit risk' at the reporting date; and,
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for credit losses is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments). 'Stage 2' financial instruments also include those loan accounts and facilities where the credit risk has improved and have been reclassified from 'Stage 3'. A lifetime ECL shall be recognized for 'Stage 3' financial instruments, which include financial instruments that are subsequently credit-impaired, as well as purchased or originated credit impaired assets.

The TSG' definition of credit risk and information on how credit risk is mitigated are disclosed in Note 4.3.

(iii) Measurement of ECL

The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) 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.

(iv) Derecognition of Financial Assets

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the DDBF neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the DDBF recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If the DDBF retains substantially all the risks and rewards of ownership of a transferred financial asset, the DDBF continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(b) Classification and Measurement of Financial Liabilities

Financial liabilities, which include other accountabilities (except tax-related payables), are recognized when the DDBF becomes a party to the contractual terms of the instrument.

2.4 Income and Expense Recognition

A contract with a customer that results in a recognized financial instrument in the DDBF financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15, *Revenue from Contracts with Customers*. In such case, the DDBF first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

Expenses are recognized in the statement of comprehensive income upon utilization of the assets or services or at the date these are incurred.

2.5 Principal Fund Balance

Principal consists of pooled contributions from investors, reduced by the amounts of withdrawals.

Accumulated income (loss) includes all current and prior period results of operations as reported in the statements of income and statements of changes in accountabilities, reduced by the amount of income withdrawals.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The DDBF's financial statements, prepared in accordance with the Guidelines, require management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates and the differences could be significant.

(a) Application of ECL to Financial Assets at Amortized Cost

The TSG use external benchmarking and historical loss rates to calculate ECL for all financial assets at amortized cost. The allowance for impairment is based on the ECL associated with the PD of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized.

The TSG has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

(b) *Evaluation of Business Model Applied and Testing the Cash Flow Characteristics of Financial Assets in Managing Financial Instruments*

The TSG developed business models which reflect how it manages the DDBF portfolio of financial instruments. These business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the TSG) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the TSG considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, the TSG assesses whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, it considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the TIC can explain the reasons for those sales and why those sales do not reflect a change in DDBFs' investment objective for the business model.

(c) *Determination of Functional Currency*

The TSG exercised its judgment in determining the functional currency of the DDBF such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant thereto. In making this judgment, the TSG considered the following:

- (i) the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which the sales price for its financial instruments and services are denominated and settled);
- (ii) the currency in which funds from financing activities are generated; and,
- (iii) the currency in which receipts from operating activities are usually retained.

Based on the economic substance of the underlying circumstances relevant to the DDBF, the functional currency of the DDBF have been determined to be in USD. These is the currency of the primary economic environment in which the DDBF operates. Thus, mainly influence the income and costs arising from the DDBF's operations.

(d) *Recognition of Provisions and Contingencies*

Provisions are recognized when the DDBF has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the TSG expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is charged to current operations, net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Judgment is exercised by management to distinguish between provisions and contingencies. Relevant disclosures are presented in Note 13.

4. RISK MANAGEMENT POLICIES AND OBJECTIVES

The TSG risk management framework seeks to foster the continuous monitoring of the risk environment and an integrated evaluation of risks and their interdependencies. It includes the responsibility for exercising and implementing risk approval instructions and effective monitoring of all risks such as credit, market, and liquidity risk.

The TSG believes that effective risk management shall not only minimize potential or actual losses but will likewise optimize earnings. Its risk mission and objectives target periodic, consistent and accurate measurement of risks for more effective management. It is also an objective to always consider risk and return on all transactions and exposures to ensure adequate returns on principal contributions. Risk mitigation strategies form part of risk management activities.

As duly constituted and authorized by the BOD, the TIC has management oversight for establishing and maintaining a sound risk management system for the TSG. The TSG is responsible for developing and implementing adequate policies, procedures and practices for trust and fiduciary activities, which are consistent with the objectives, risk tolerances and intent of the BOD. Likewise, the TIC ensures that the policies and procedures consistently address material areas of risk, and are reviewed frequently, and modified when necessary to remain appropriate, sound and responsive to significant changes in the DDBF's activities. Moreover, the TIC approves and reviews the institutional tolerance for risks such as setting counterparty limits, investment limits, and trader's limits, business strategies and risk philosophy.

4.1 Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, equity prices and other market changes. The exposure of the DDBF to market risk emanates from its foreign exchange transactions, debt and equity securities.

VAR serves as the TSG's key metric in the measurement of risk arising from market price changes of financial assets and foreign currency exposures. Given data for the market risk factors over a 1-year period (260 business days), VAR is the maximum probable loss that may be incurred from positions exposed to market risk. The maximum probable loss is calculated from simulations of daily profit and losses assuming that historical movements in market risk factors will recur, subject to a 99% confidence level and a 1-day holding period.

The TSG's VAR methodology is based on the widely used historical simulation method but with a modification on the usual assumption of equal probabilities in the simulation data points. Profit and loss simulations derived from older data are given less importance by assigning them with progressively lower probabilities of occurrence when used in the calculation of the maximum probable loss.

The table below summarizes the results of the DDBF's VAR calculations as at December 31, 2025.

	<u>VAR%</u>
<u>2025</u>	
Per account type:	
Discretionary	3.81%
Directional	3.24%
Retirement*	4.75%
DDBF	2.44%

**Values under Retirement Funds currently cover discretionary retirement funds under TSG.*

4.1.1 Interest Rate Risk

Interest risk refers to the sensitivity of fixed-income securities to interest rate fluctuations. The TSG uses duration which measures the sensitivity of the price of a debt instrument to a change in interest rate to quantify and manage this risk. The TSG controls the level of interest risk it undertakes by setting limits on duration of portfolios.

4.2 Liquidity Risk

Liquidity risk is the risk due to inability of the DDBF to sell or convert assets into immediate cash or instances where conversion to cash is possible but at a loss. The DDBF's other accountabilities amounting to \$6,013 and \$8,978 as of December 31, 2025 and 2024, respectively, are due within one year from the end of the reporting period.

4.3 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default, and arises from investing and other activities undertaken by the DDBF. The TSG manages credit risk through a system of policies and authorities that govern the processes and practices of all credit-originating and borrowing relationship management units.

The TSG shares with and follows the credit and risk management policies of the Bank. The TSG's primary element of credit risk management is the detailed risk assessment of every credit exposure associated with the counterparty. Risk assessment procedures consider both the creditworthiness of the counterparty and the risks related to the specific type of underlying credit exposures as mandated in the circulars issued by the BSP. The risk assessment not only affects the structuring of the transaction and the outcome of the credit decision, but also influences the monitoring procedure applied to the ongoing exposures. Moreover, the TSG seeks approval from the TIC with regard to credit risk parameters and counterparty limits of trust investments.

The Internal Credit Risk Rating System (ICRRS) assigns a score to each account based on a combination of quantitative and qualitative factors. The scores assigned to each obligor is equivalent to the risk associated to each individual. The scoring model is reviewed and validated by external parties regularly to ensure that the model is risk ranking properly. The risk rating is used as one of the measures of the Bank's risk appetite and as a factor in impairment calculation.

Based on the evaluation of the facility risk factor (FRF), the borrower risk rating (BRR) can be upgraded or downgraded to come up with the final credit risk rating (CRR). Such CRR is eventually used in the determination of the ECL.

Generally, the maximum credit risk exposure of financial assets December 31, 2025 and 2024 is the carrying amount of the financial assets as shown in the statements of financial position, as summarized below. The maximum exposure is shown at gross, before the effect of mitigation through the use of any master netting and collateral agreements.

Maximum exposures for financial instruments represent the maximum risk exposure as at respective reporting dates but not the maximum risk exposure that could arise in the future as a result of changes in value.

<i>(Amounts in USD)</i>	Notes	2025	2024
Deposits in banks	6	52,105	89,200
Other assets	8	10,003	20,986
		62,108	110,186

4.3.1 Exposure to Credit Risk

Credit risk arises from the possibility that a borrower may fail to meet its contractual obligations. In compliance with BSP requirements, the TSG employs a credit risk rating system aligned with global standards. Borrowers are evaluated independently based on financial condition, industry outlook, and management quality. Financial condition is assessed through ratio analysis using the most recent financial information. Industry analysis considers significant political, regulatory, and technological developments affecting the borrower's business. Management quality reflects the borrower's experience, strategy, and governance practices.

These factors are assigned corresponding weights to arrive at an overall borrower risk rating:

Section	Maximum Points	Section Rating
Financial Condition	240	40%
Industry Analysis	210	30%
Management Quality	150	30%
Total	600	100%

There are several rating factors per section which can earn points depending on the four (4) quality judgment levels as follows:

Good	- 30 points
Satisfactory	- 20 points
Still acceptable	- 10 points
Poor	- 0 point

If there is no available information for a specific factor, a rating of “Poor” will be given.

The BRR is used to determine the credit quality of the TSG’s corporate accounts. Loan accounts are classified according to a 1-10 rating scale based on BRR results, as follows:

Category	Final Score	Equivalent Risk Rating	Calculated BRR
High Grade	>177	Excellent	1
	150 - 176	Strong	2
	123 - 149	Good	3
Standard Grade	96 - 122	Satisfactory	4
	68 - 95	Acceptable	5
	<68	Watchlist	6
Substandard Grade		Special Mention	7
		Substandard	8
Impaired		Substandard	8
		Doubtful	9
		Loss	10

High Grade or accounts with BRR of 1-3 are loans where the risk of the Bank are good to excellent in terms of risk quality and where the likelihood of the non-payment of obligation is less likely to happen.

Standard Grade or accounts with BRR of 4-6 are loans where the risk of the Bank ranges from satisfactory to acceptable with some form of weakness and where repayment capacity needs to be watched.

Substandard Grade or accounts with BRR of 7-8 are loans still in current status but observed to have potential weaknesses and require a closer observation than the accounts under the Standard rating since if weaknesses are uncorrected, repayment of the loan may be affected increasing the credit risk to the Bank.

Past due but not impaired are those accounts for which contractual principal and interest payments were past due but the Bank still believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Bank.

Impaired accounts are loans classified by the Bank as Substandard, Doubtful and Loss where there are experiences of past due accounts and there are well-defined weaknesses where collection or liquidation of obligation may be or is already jeopardized.

The BRR can be subject to an upgrade/downgrade on the basis of the following:

Group Affiliation:

- (a) When a borrower belongs to a group of companies, it can be upgraded up to the rating of the parent company provided that the parent company has a BRR of 4 or better.
- (b) If the BRR of the subsidiary is better than the parent, a downgrade can be considered especially if the parent has a BRR of 5 or worse.
- (c) If the parent has a BRR of 5 or lower and the subsidiary was also rated 5 or worse, it can retain its own rating.
- (d) If there are criteria such as the medium and long-term outlook, special risks that can grievously affect the company and outweigh the other criteria, a possible downgrade can be considered.
- (e) Companies with rapid expansion without a strong driving force or only on account of a single customer are also potential for downgrading.

Facility Risk Factor:

- (a) The FRF is an adjustment in the BRR that considers the transactional influence. It takes into account the quality of each facility. It is important to note that a Borrower can have only 1 BRR but several FRF for its multiple facilities. FRF evaluates the different security arrangements; the quantity and the quality of the collateral cover for each facility.
- (b) Collaterals are assessed at the net realizable value in a liquidation scenario. In evaluating the worthiness of the collateral, the quality of the documentation and the possible subordination of the Bank's claim should also be considered.

4.3.2 Credit Quality Analysis

Credit risk rating is an integral part of TSG's management of credit risk. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. An ICRRS for the DDBF was approved by the TIC on June 26, 2018 and by the BOD on July 31, 2018. This system aims to institutionalize a standard borrower risk rating based on the borrower's creditworthiness determined by both quantitative and qualitative factors in order to maintain an accurate and consistent risk rating across its credit portfolio. Risk ratings are assessed annually for non-impaired and impaired accounts.

5. FAIR VALUE MEASUREMENT AND DISCLOSURES

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS Accounting Standards, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

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

The level within which an asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, 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.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the TSG use valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

(a) *Financial Instruments Measured at Fair Value*

The DDBF's financial assets measured at fair value pertain to government and corporate bonds classified as financial assets at FVTPL. The fair values of these financial assets, categorized under Level 1 of the fair value hierarchy, amounted to \$398,110 and \$579,659 in 2025 and 2024, respectively (see Note 7).

The fair values of the TSG debt securities, which are categorized within Level 1 are as follows:

- For USD-denominated government debt securities issued by the Philippine government, fair value is determined based on the reference price per Bloomberg which used Bloomberg Valuation Service (BVAL). These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithms of direct observations or observed comparables.

- The fair value of the Trust Accounts' debt securities, which consist of corporate bonds is estimated by reference to quoted bid price in Bloomberg at the end of the reporting period and is categorized within Level 1. Otherwise, debt securities held in a private company not traded or registered through Philippine Dealing & Exchange are included in Level 3 since its market value is not quoted in an active market, hence, measured by reference to the fair value of a comparable instrument adjusted for inputs internally developed by management.

(b) *Financial Instruments at Amortized Cost*

The TSG measures financial assets at amortized cost if both of the following conditions are met:

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

In performing this assessment, the TSG analyzes whether the instrument's contractual cash flow profile aligns with the characteristics of a standard lending arrangement, meaning that the periodic payments are limited to principal and an interest component that reflects the time value of money, the borrower's credit risk, and other fundamental lending exposures, together with a return margin that is appropriate for such risks and consistent with conventional lending practices.

6. DEPOSITS IN BANKS

This account consists of savings deposit and time deposit with the Bank amounting to \$52,105 and \$89,200 as at December 31, 2025 and 2024, respectively. Savings deposit placements do not earn interest rate per annum because placement in savings accounts were tagged as non-interest bearing.

Interest income from deposits in bank amounted to \$3,022 and \$5,629 in 2025 and 2024, respectively, and is presented as part of Income in the statements of comprehensive income.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

This account consists of quoted debt securities which are held for trading. As at December 31, 2025 and 2024, financial assets at FVTPL amounted to \$398,110 and \$579,659, respectively.

The DDBF recognized net fair value gains of \$18,752 in 2025 and net fair value losses of \$75,605 in 2024, which are presented as Net Fair Value Gains on Financial Assets at FVTPL and Net Fair Value Losses on Financial Assets at FVTPL, respectively, in the statements of comprehensive income.

Interest income received from financial assets at FVTPL amounted to \$23,637 and \$36,055 in 2025 and 2024, respectively, which is presented under Income on the statements of comprehensive income.

8. OTHER ASSETS

The balance of this account consists of accrued interest receivables arising from holding of quoted debt securities measured at FVTPL amounting to \$10,003 and \$20,986 in December 31, 2025 and 2024, respectively.

9. OTHER ACCOUNTABILITIES

The balance of this account consists of the following:

<i>(Amounts in USD)</i>	<u>2025</u>	<u>2024</u>
Accrued trust fees and audit fees	6,013	8,823
Other liabilities	<u>-</u>	<u>155</u>
	<u>6,013</u>	<u>8,978</u>

Accrued trust fees are the trust fees payable by the DDBF to the Trust itself in connection with its investment management services.

Other liabilities represent other payables that remain outstanding at year-end, which are expected to be settled within one year.

10. TRUST FEES

Trust fees are charged against the income of the DDBF based on a certain percentage of the principal fund balance or the total market value of the trust assets being managed. Trust fees amounting to \$5,257 and \$8,479 in 2025 and 2024, respectively, incurred by the TSG in managing the DDBF that are paid to the Bank.

Trust fees are charged to the DDBF at the rate of 0.25% to 1.50% in 2025 and 2024.

11. FINAL TAX

This represents final withholding taxes of 20.0% on the USD-denominated income of the DDBF accruing to the trustors. For the years ended December 31, 2025 and 2024, final tax reported amounted to \$460 and \$934, respectively.

12. RELATED PARTY TRANSACTIONS

The Bank, through the TSG, is considered by the DDBF as a related party on the basis of the management role performed by the TSG for the DDBF. The DDBF maintains bank deposit account with the Bank, which is presented as part of Deposit in Banks in the statements of financial position (see Note 6).

Trust fees earned by the TSG are reported as part of the Bank's service charges, fees and commission account. For the years ended December 31, 2025 and 2024, trust fees from all Trust and Managed Funds reported by the TSG in its statements of comprehensive income amounted to \$3,310,010 and \$3,350,578, respectively. Specifically, the TSG earned trust fees from the DDBF amounting to \$5,257 and \$8,479 in 2025 and 2024, respectively.

Accrued trust fees of the DDBF amounted to \$4,649 and \$8,331 as at December 31, 2025 and 2024, respectively.

13. COMMITMENTS AND CONTINGENT ACCOUNTABILITIES

In the normal course of business, the TSG enters into various commitments and incurs contingent liabilities that are not presented in the accompanying financial statements. The TSG does not anticipate any material losses as a result of these commitments and contingent liabilities.

There were no off-balance sheet commitments and contingent liabilities as at December 31, 2025 and 2024.

14. EVENTS AFTER THE REPORTING PERIOD

In 2026, the Bank's BOD approved the change in the fund name of UITF from Diversity Dollar Bond Fund to BankCom Dollar Long Term Bond Fund. The BSP subsequently approved these changes on February 6, 2026. The new fund names will take effect on April 1, 2026.