ALFM Euro Bond Fund, Inc.

Notes to Financial Statements
Unaudited Interim Financial Statements
As at March 31, 2024
and Comparative Interim Statements of March 31, 2024 and 2023
(All amounts are in Euro, unless otherwise stated)

1 General information

ALFM Euro Bond Fund, Inc. (the "Fund") was incorporated in the Philippines primarily to establish and carry on the business of an open-end investment company. It was registered on August 5, 2005 with the Philippine Securities and Exchange Commission (SEC) under the Investment Company Act of 1960 (Republic Act No. 2629) and the Securities Regulation Code (Republic Act 8799).

The Fund aims to provide its shareholders a steady stream of income by investing in foreign currency denominated fixed income instruments. As an open-end investment company, the Fund stands ready at any time to redeem its outstanding shares at a value defined under the Fund's prospectus (Note 9).

The Fund is registered as an issuer of securities with the SEC under Section 12 of the Securities Regulation Code (SRC). In compliance with the SRC, the Fund is required to file registration statements for each instance of increase in authorized shares. The last registration statement filed by the Fund for an increase in authorized shares and permit to offer securities for sale were approved by the SEC on May 30, 2007 and December 20, 2007, respectively (Note 8).

The Fund's registered office is BPI Head Office Building, Ayala Avenue corner Paseo de Roxas, Makati City while its principal place of business is at 7th Floor, BPI Buendia Center, Sen. Gil J. Puyat Ave., Makati City.

The Fund has no employees. The principal management and administration functions of the Fund are outsourced from BPI Investment Management, Inc. (BIMI) until March 31, 2023. Effective April 1, 2023, such functions were transferred to BPI Wealth - A Trust Corporation ("BPI Wealth" or the "Fund Manager") (Note 10).

Approval of the financial statements

These financial statements have been approved and authorized for issuance by the Fund's Board of Directors (BOD) on March 26, 2024. There are no material events that occurred from March 26 to March 27, 2024.

2 Cash in bank

The account at March 31, 2024 and December 31, 2023 consists of €2,647,918 and €1,679,426 respectively.

3 Short-term investments

Short-term investments as at December 31, 2023 consist of placements in time deposits with maturities of more than three (3) months but not more than one (1) year and bear interest at prevailing market rates.

4 Financial assets at fair value through profit or loss

The account at March 31, 2024 and December 31, 2023 consists of held for trading investments in:

	March 31, 2024		December 31, 2023	
	Interest rates (%)	Amount	Interest rates (%)	Amount
Philippine sovereign bonds	0.875 - 1.75	2,066,870	0.875 - 1.200	1,730,973
Mutual funds (Offshore investments)	-	1,712,171	-	1,693,421
Latin America sovereign bonds	1.125 - 1.625	951,817	1.125 - 1.625	963,400
Asia Pacific government bonds	3.750	562,273	3.750	577,449
European corporate bonds	-	-	-	-
		5,293,132		4,965,243

The maturity patterns of the debt securities follow:

	March 31, 2024	December 31, 2023
Due in one year or less	1,712,171	1,693,421
Due after one year through five years	1,958,468	1,984,594
Longer than 5 years	1,622,492	1,287,228
	5,293,132	4,965,243

Details of income (losses) from financial assets at fair value through profit or loss for the quarter ended March 31 follow:

	March 31, 2024	March 31, 2023
Interest income	14,766	13,484
Other changes		
Net realized (losses) gains	(2,999)	6,929
Net unrealized gains (losses)	15,271	-
	27,038	20,413

5 Investment securities at amortized cost, net

The account at March 31, 2024 and December 31, 2023 consists of:

	March 31, 2024		December 31, 2023	
	Interest rates (%)	Amount	Interest rates (%)	Amount
Philippine sovereign bonds	0.700 - 1.750	2,903,848	0.700 - 1.750	2,903,676
Asia Pacific government bonds	1.450 - 3.750	1,996,080	1.450 - 3.750	2,003,310
European corporate bonds	0.978	1,492,697	0.978	1,491,420
US corporates	2.125	204,645	1.379 - 2.125	708,789
Latin America sovereign bonds	1.625	505,807	1.625	506,510
Asia Pacific corporate bonds	1.546	201,645	1.546	201,827
		7,304,722		7,815,532
Allowance for impairment		(75)		(94)
		7,304,647		7,815,438

The maturity pattern of investment securities at amortized cost (gross of allowance for impairment) follows:

	March 31, 2024	December 31, 2023
Due in one year or less	1,403,289	1,406,493
Due after one year through five years	5,293,444	4,503,629
Due after five years	607,989	1,905,410
	7,304,722	7,815,532

Interest income earned from investment securities for the quarter ended March 31, 2024 amounts to €19,236 (March 31, 2023 - €23,249).

6 Management and distribution fees payable and other liabilities

The account at March 31, 2024 and December 31, 2023 consists of:

	Note	March 31, 2024	December 31, 2023
Management and distribution fees payable to related parties	10	4,832	4,126
Withholding taxes payable			761
Others		5	-
		4,837	4,887

Management and distribution fees payable and other liabilities are considered current as at March 31, 2024 and December 31, 2023.

7 Redeemable shares

The details of the Fund's authorized shares at March 31, 2024 and December 31, 2023 follow:

Number of shares	80,000
Par value per share	P10,000 (€144.36)
Amount	€11.5 million

The movements in the number of redeemable shares for the period ended March 31, 2024 and December 31, 2023 follow:

	March 31, 2024	December 31, 2023
Issued and outstanding shares, beginning	71,789	73,257
Issuance of shares	168	3,498
Redemption of shares	(1,036)	(4,966)
Issued and outstanding shares, ending	70,921	71,789

Details of issuances and redemptions of the Fund's redeemable shares for the period ended March 31, 2024 and December 31, 2023 follows:

	March 31, 2024	December 31, 2023
Issuances of shares	36,046	737,922
Redemptions of shares	(222,018)	(1,049,578)

As at March 31,2024, the Fund has 602 shareholders (March 31, 2023 - 649).

On February 8, 2006, the BOD and shareholders approved to increase the Fund's authorized share capital from 20,000 shares to 6 million shares with par value of P10,000 per share, which will be applied in tranches.

The SEC approved on October 13, 2006 the first tranche in the increase of authorized share capital from 20,000 shares to 50,000 shares with par value of P10,000 per share.

The SEC approved on May 30, 2007 and December 20, 2007 the second tranche in the increase in authorized share capital from 50,000 shares to 80,000 shares at P10,000 per share and the permit to offer securities for sale, respectively.

Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of outstanding redeemable shares and the corresponding shares for the amount of deposit for future subscriptions received during the year, if any.

The information used in the computation of basic and earnings (loss) per share for the quarter ended March 31 follows:

	March 31, 2024	March 31, 2023
Net (loss) income for the quarter	33,878	22,558
Weighted average number of shares outstanding during the quarter	71,422	73,875
Basic and earnings (loss) per share	0.47	0.31

The following are the features of redeemable shares:

i. The Shares have identical rights and privileges, including voting rights. Each Share entitles the holder thereof to one vote at any meeting of Shareholders of the Fund. Shareholders shall have cumulative voting rights for the election of the Fund's directors.
ii. Each Shareholder of the Fund shall be entitled to require the Fund to purchase, but not in the event and to the extent that the Fund has no assets legally available for such purpose whether arising out of capital, paid-in surplus or other surplus, net profits or otherwise, all or any part of the Shares outstanding in the name of such Shareholder in the books of the Fund, but only at the Redemption Price as of the valuation day on which a Redemption Order is made.
iii. Shareholders have no pre-emptive right.
iv. Dividends payable out of the surplus profits of the Fund may be declared at such time as the BOD shall determine. No dividend shall be declared which shall impair the capital of the Fund. Stock dividends may be declared in accordance with law. The Fund may pay dividends in cash, property or in additional shares.
v. Shareholders have appraisal right.

8 Net Asset Value (NAV) for share subscriptions and redemptions

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

In accordance with the provisions of the Fund's prospectus and risk management policy, the Fund sets up provision for market risk on its investment portfolio which is adjusted from the PFRS NAV to arrive at the Fund's NAV for purposes of share subscriptions and redemptions ("trading NAV"). The policy which has been adopted for the best interest of the Fund's investors is designed to protect the Fund against sharp fluctuations, thereby allowing the Fund to meet its investment objective, which is to generate a steady stream of income through investments in a diversified portfolio of high-grade fixed-income instruments. The allowance for market risk shall be subject to the BOD's periodic review.

The movement in accumulated adjustment for market risk follows:

	March 31, 2024	December 31, 2023
At Beginning	156,236	163,629
(Reversal of) provision for market risk during the year	(45,808)	(7,393)
At Ending	110,428	156,236

Reconciliation of the Fund's PFRS NAV to its trading NAV at March 31, 2024 and December 31, 2023 is provided below:

	Note	March 31, 2024	December 31, 2023
PFRS NAV		15,398,933	15,550,990
Allowance for market risk		(110,428)	(156,236)
Recognition of income tax payable		861	861
Recognition of deferred income tax (asset) liability		(32,781)	(32,781)
Trading NAV		15,256,585	15,362,833

In accordance with the provisions of the Fund's prospectus, financial assets at fair value through profit or loss are valued based on the last traded market prices in the computation of the NAV for purposes of share issuances and redemptions ("trading NAV").

The Fund computes its trading NAV per share by dividing the trading NAV as at reporting date by the number of issued and outstanding shares during the year including shares for issuances covered by deposits for future subscriptions, if any.

The trading NAV per share at March 31, 2024 and December 31, 2023 is calculated as follows:

	Note	March 31, 2024	December 31, 2023
Trading NAV		15,256,585	15,362,833
Total number of shares issued and outstanding	8	70,921	71,789
Trading NAV per share		215	214

As disclosed in Note 1, the Fund is an open-end investment company which stands ready at any time to redeem its outstanding shares at a value defined under its prospectus (trading NAV). Any changes in the value of the shareholders' investment are reflected in the increase or decrease in the Fund's trading NAV.

9 Related party transactions

As at December 31, 2022, BIMI was the fund manager and investment advisor of the Fund. In consideration of the services, the Fund pays BIMI a fee of not more than 0.375% per annum of the Fund's average daily trading NAV.

Effective April 1, 2023, BIMI transferred all its rights, interests, and obligations as fund manager and advisor of the Fund to BPI Wealth. Hence, on effective date, the management function over the Fund is performed by BPI Wealth. Meanwhile, BIMI retained the distribution and transfer agency functions.

BPI Wealth, as the fund manager, shall formulate and implement the investment strategy, provide and render management, technical, and administrative services, whereby authorizing BPI Wealth to purchase and sell investment securities for the account of the Fund. As investment advisor, BPI Wealth is tasked to render services which include investment research and advice; the preparation of economic, industry, market, corporate, and security analyses; and assistance and recommendations in the formulation of investment guidelines. In consideration for the above services, the Fund pays BPI Wealth a fee of not more than 0.188% per annum of the Fund's Trading NAV, net of distribution fees payable to designated distributors and licensed sales agents.

As at December 31, 2022, the Fund has distribution agreements with subsidiaries of BPI, namely, BIMI and BPI Capital Corporation (BPI Capital). Under the terms of the agreement, BIMI and BPI Capital are appointed as co-distributors to perform principally all related daily functions in connection with the marketing and the growth of the level of assets of the Fund for a fee of 0.1625% p.a. based on the outstanding daily balance of the Fund's shares distributed. Such agreements were effective year after year unless terminated by each party.

Effective April 1, 2023, the Fund has appointed BIMI as principal distributor with the authority to appoint sub-distributors on behalf of the fund. Under the terms of the agreement, BIMI and/or its sub-distributors perform daily functions related to the marketing and the growth of the level of assets of the Fund. The related party sub-distributor is BPI Capital. As compensation for the services rendered, BIMI shall be entitled to a distribution fee equivalent to 0.138% per annum based on the trading NAV of the Fund, net of sub-distribution fees to designated sub-distributors / licensed sales agents.

The table below summarizes the Company's transactions and balances with its related parties:

March 31, 2024	Transactions	Outstanding balances	Terms and conditions
Management and distribution fees			
BPI Wealth & BIMI	14,254	4,832	The outstanding balance is unsecured, unguaranteed, non-interest bearing and payable in cash a month after the management and distribution fees are incurred. The amounts have been paid in the subsequent month after the reporting date.
	14,254	4,832	

December 31, 2023	Transactions	Outstanding balances	Terms and conditions
Management and distribution fees			
BPI Wealth	32,117	2,999	The outstanding balance is unsecured, unguaranteed, non-interest bearing and payable in cash a month after the management and distribution fees are incurred. The amounts have been paid in the subsequent month after the reporting date.
BIMI	25,984	1,127	
BPI Capital	-	-	
	58,101	4,126	

The directors and officers of the Fund are entitled to receive a per diem allowance in the amount of €95 (P5,000) for every Board meeting attended. Excluded in the payment of per diem allowances are directors and officers of the Fund who are also officers of the Fund Manager. For the quarter ended March 31, 2024 total remunerations paid, net of tax, to directors and officers charged to profit or loss is €136 (March 31, 2023 - €84) and is presented under other professional fees in the statements of comprehensive income. As at reporting date, there were no outstanding balances related to these fees.

10 Custodian agreements

As at March 31, 2024 and December 31, 2023, the Fund has an existing custodian agreement with Bank of New York (BONY) for custodial services of the Fund's proprietary assets and/or the assets owned in the Philippines. The Fund pays its custodian a fixed monthly custodian fee.

Custodian fee as of March 31, 2024 amounts to €424 (March 31, 2023 - €559).

11 Critical accounting estimates and judgments

Estimates, assumptions and judgments used in preparing the financial statements 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. The accounting judgments that have significant risks of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Classification of investment securities

The Fund follows the guidance of PFRS 9 in classifying financial assets at initial recognition whether it will be subsequently measured at fair value through other comprehensive income, at amortized cost, or at fair value through profit or loss. The Fund determines the classification based on the contractual cash flow characteristics of the securities and on the business model it uses to manage these securities. The Fund determines whether the contractual cash flows associated with the securities are solely payments of principal and interest on the principal amount outstanding.

Impairment of financial assets at amortized cost (Notes 2, 3 and 5)

Under PFRS 9, the measurement of the expected credit loss (ECL) allowance for financial assets measured at amortized cost and fair value through other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as: (a) determining criteria for significant increase in credit risk; (b) choosing appropriate models and assumptions for the measurement of ECL; (c) establishing the number and relative weightings of forward-looking scenarios and the associated ECL; and (d) establishing groups of similar financial assets for purposes of measuring ECL.
The Fund measures ECL using probability of default, exposure at default and loss given default on its financial assets at amortized cost, including other receivables. Management considers both historical analysis and forward-looking information in determining any ECL.

12 Financial risk and capital management

12.1 Strategy in using financial instruments

The Fund’s activities expose it to a variety of financial risks: interest rate risk, foreign exchange risk, credit risk and liquidity risk. 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 financial risks is carried out by the Fund Manager under the policies approved by the BOD of the Fund. The BOD approves written principles for overall risk management as well as written policies covering specific areas. Any prospective investment is limited to the type of investments described in the prospectus of the Fund thereby limiting the exposure of the Fund to the risk inherent on investments approved by the investors. The Fund also monitors and adheres to regulatory limits and restrictions to mitigate risks.

The Fund has established risk management functions with clear terms of reference and with the responsibility for developing policies on financial risks. It also supports the effective implementation of policies. The policies define the Fund’s identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets to the corporate goals and specify reporting requirements.

The Fund’s objective is to exceed the performance of the 3-month German Treasury Bills by investing in a diversified portfolio of Euro denominated fixed income instruments issued by foreign and local entities.

12.2 Interest rate risk

The Fund trades in financial instruments, taking positions in traded and over-the-counter instruments, to take advantage of short-term market movements primarily in the bond markets. Trading positions are reported at estimated market value with changes reflected in profit or loss. Trading positions are subject to various risk factors, which include primarily exposures to changes in interest rates.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Fund takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates primarily on its fair value interest rate risk.

The Fund's fair value interest rate risk exposure principally relates to debt securities classified as financial assets at fair value through profit or loss whose values fluctuate as a result of changes in interest rates or factors specific to the issuer. The Fund's interest-bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Fund Manager moderates this risk through a careful selection of securities and other financial instruments within specified limits. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. 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 BOD.

The Fund's fair value interest rate risk is managed through diversification of the investment portfolio ratios by exposures. The Fund is also actively managed via portfolio duration management, yield curve positioning, credit diversification, portfolio quality and liquidity management.

The Fund also sets up a provision for market risk on its investment portfolio which is adjusted from the Fund's NAV to protect the Fund from market price fluctuations (Note 9). To estimate its exposure to market risk, the Fund Manager computes the statistical "value at risk" (VAR) of its investments. The VAR measurement estimates the maximum loss due to adverse market movements that could be incurred by a portfolio during a given holding period with a given level of confidence. The Fund Manager uses a one month holding period, estimated as the number of days required to liquidate the investment portfolio, and a 99% degree of confidence in the computation of VAR. As such, there remains 1% statistical probability that the portfolio's actual loss could be greater than the VAR estimate.

12.3 Foreign currency risk

The Fund is affected by the movements in foreign exchange rates when the Fund's fixed income securities are settled in another currency, such as the US Dollar. To mitigate foreign exchange risk, the Fund Manager closely monitors the movements in the spot market.

Foreign exchange (losses) gains for the quarter ended March 31 consist of:

	March 31, 2024	March 31, 2023
Realized foreign exchange (loss) gains	48	(30)
Unrealized foreign exchange (loss) gains	2	(24)
	50	(54)

As at March 31, 2024 and December 31, 2023, the unrealized foreign exchange loss relates to USD currency denominated cash in bank. There are no outstanding foreign currency denominated fixed income securities as at December 31, 2023 and 2022.

The Fund assessed the impact of changes in USD - Euro exchange rate during the quarter ended March 31, 2024 and December 31, 2023 in demonstrating sensitivities to a possible reasonable change in Euro exchange rate.

12.4 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 to the other party by failing to discharge an obligation.

The Fund manages the level of credit risk it accepts through setting up of exposure limits by each counterparty or group of counterparties. The maximum investment of the Fund in any single enterprise shall not exceed an amount equivalent to fifteen percent (15%) of the Fund's NAV except obligations of the Philippine government or its instrumentalities, provided that in no case shall the total investment of the Fund exceeds ten percent (10%) of the outstanding securities of any one investee company. Credit risk is minimized through diversification or by investing in a variety of investments belonging to different sectors or industries.

The maximum exposure to credit risk before any credit enhancements at March 31, 2024 and December 31, 2023 is the carrying amount of the financial assets as set out below:

	March 31, 2024	December 31, 2023
Cash in bank	2,647,918	1,679,426
Short-term investments	-	1,000,000
Financial assets at fair value through profit or loss	5,293,132	4,965,243
Investment securities at amortized cost, net	7,304,647	7,815,438
Other receivables	126,153	63,850
	15,371,850	15,523,957

As at March 31, 2024 and December 31 2023, the Fund’s financial assets as shown in the table above are fully performing. There were no renegotiated financial assets as at March 31, 2024 and December 31 2023.

Pursuant to the guidelines issued by the SEC, the Fund is allowed to invest in debt instruments registered and traded in an organized market in another country which are rated at least “BBB” by a reputable credit rating agency. For unrated securities, a rating is assigned using an approach that is consistent with that used by rating agencies.

The Fund’s cash in bank and short-term investments are placed with a reputable local universal bank with solid financial standing.

The Fund’s other receivables are primarily composed of accrued interest receivable which has the same credit quality as the related debt securities.

12.5 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.

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

The Fund also manages its liquidity by investing predominantly in securities that it expects to be able to liquidate within 7 days or less. It therefore invests the majority of its assets in investments that are traded in an active market and can be readily disposed of. The Fund’s financial assets at fair value through profit or loss and cash and cash equivalents can be liquidated within 7 days from transaction date.

Furthermore, the Fund has the ability to borrow in the short term to settle its obligations when necessary. No such borrowings have arisen in March 31, 2024 and December 31, 2023.

The Fund’s financial liabilities pertain to management and distribution fees payable which are contractually due in less than one (1) month. The Fund expects to settle its obligations in accordance with the maturity date.

12.6 Capital management

The capital of the Fund is represented by total equity as shown in the statement of financial position. The Fund’s BOD and the Fund Manager monitor capital on the basis of the Fund’s total net asset or total equity. The Fund’s total NAV or total equity can change significantly on a daily basis as the Fund is subject to daily subscriptions and redemptions at the discretion of shareholders. The Fund’s objectives when managing capital are as follows:

(i) Safeguard the Fund’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders;

(ii) Maintain a strong capital base to support the development of the investment activities of the Fund; and

(iii) Comply with the minimum subscribed and paid-in capital of P50 million required for investment companies under the Investment Company Act of 1960.

As at March 31, 2024 and December 31, 2023, the Fund is in compliance with the minimum required capital for investment companies.

In order to maintain or adjust the capital structure, the Fund's policy is to perform the following:

(i) Monitor the level of daily subscriptions and redemptions relative to the assets it expects to be able to liquidate within 7 days; and

(ii) Redeem and issue new shares in accordance with the Fund's prospectus, which include the ability to restrict redemptions and require certain minimum holdings and subscriptions.

12.7 Fair value estimation

The fair value of Investment securities at amortized cost, net as at December 31, 2023 amounts to €7,819,502 (2022 - €8,136,087). The fair value of Investment securities at amortized cost, net is based on market prices or broker/dealer price quotations and classified under Level 1 of the fair value hierarchy. 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.

There were no transfers between the fair value hierarchy during the years ended March 31, 2024 and December 31, 2023.

13 Summary of material accounting policies

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

13.1 Basis of preparation

The financial statements of the Fund have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS) and interpretations of the Philippine Interpretations 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 (formerly known as the Financial Reporting Standards Council) and adopted by the SEC.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of these financial statements in conformity with PFRS requires the use of certain accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies. There are no areas where assumptions and estimates are significant to the financial statements of the Fund as at reporting date. The areas involving a higher degree of judgment or complexity are disclosed in Note 14.

Changes in accounting policy and disclosures

(a) Amendments to existing standards adopted by the Fund

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

Amendments to PAS1, 'Presentation of Financial Statements', and PFRS Practice Statement 2

The amendment requires 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 this amendment, 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 this amendment resulted to changes in the accounting policies disclosure in Note 14 series.

(a) New standards, interpretations and amendments not yet adopted

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

13.2 Financial assets

13.2.1 Recognition and initial measurement

Financial assets are recognized when the Fund 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. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Transaction costs that are directly attributable to the acquisition of financial assets at fair value through profit or loss are expensed immediately at initial recognition.

13.2.2 Classification and subsequent measurement

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

As at March 31, 2024 and December 31, 2023, the Fund has no financial assets under FVOCI category and equity investments.

The classification for debt instruments are described below:

Debt instruments

Classification and subsequent measurement of debt instruments depend on the Fund's business model for managing the asset and the cash flow characteristics of the asset.Based on these factors, the Fund classifies its debt instruments into one of the following measurement categories:

- *Amortized cost*
  Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at fair value through profit or loss, are measured at amortized cost. The carrying amount of these assets is adjusted by any ECL allowance recognized and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. Amortized cost financial assets include cash and cash equivalents, short-term investments, investment securities at amortized cost, net and loans and receivables.

  Deposits held at call with banks and short-term highly liquid investments are presented as cash equivalents with maturities of three months or less from the date of acquisition.

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

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

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

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

13.2.3 Impairment

The Fund assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost. The Fund recognizes a loss allowance for such losses at each reporting date. 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 are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the instrument's original effective interest rate. For impaired financial assets with drawn and unwithdrawn components, ECL also reflect any credit losses related to the portion of the loan commitment that is expected to be drawn down over the remaining life of the instrument.

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

Impairment of other financial assets

The Fund applies the PFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for other financial assets.

To measure the ECL, other financial assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of receivables over a period of 36 months before reporting dates and corresponding historical credit losses experienced within this period. The forward-looking information on macroeconomic factors are considered insignificant in calculating impairment of other financial assets.

13.3 Financial liabilities

Classification and measurement

The Fund classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss and financial liabilities at amortized cost.

Financial liabilities at fair value through profit or loss comprise two sub-categories: financial liabilities classified as held for trading and financial liabilities designated by the Fund as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial liabilities designated at fair value through profit or loss are those that are not classified as held-for-trading but are managed and their performance is evaluated on a fair value basis. Gains and losses arising from changes in fair value are included in profit or loss. The Fund has no financial liabilities that are classified at fair value through profit loss as at March 31, 2024 and December 31, 2023.

Financial liabilities that are not classified as at fair value through profit or loss fall into the second category and are initially recognized at fair value plus transaction costs. After initial measurement, these financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities measured at amortized cost include management and distribution fees payable.

Derecognition of financial liabilities

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

13.4 Redeemable shares

The shares issued by the Fund are redeemable at the holder’s option and are classified as equity. The consideration received for the issuance of shares is based on NAV per share at the transaction date. The amount of consideration pertaining to the par value of the shares issued is recognized as redeemable shares and the excess of the consideration received over the par value is recognized as share premium.

The Fund classifies puttable financial instruments that meet the definition of a financial liability as equity where certain strict criteria are met. Those criteria include: (i) the puttable instruments must entitle the holder to a pro-rata share of net assets; (ii) the puttable instruments must be the most subordinated class and the features of that class must be identical; (iii) there must be no contractual obligations to deliver cash or another financial asset other than the obligation on the issuer to repurchase; and (iv) the total expected cash flows from the puttable instrument over its life must be based substantially on the profit or loss of the issuer. Should the redeemable shares' terms or conditions change such that they do not comply with those criteria, the redeemable shares 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 shares can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's trading NAV (Note 9) calculated in accordance with the Fund's prospectus. Any excess of subscriptions over the par value of shares issued is shown as share premium. The excess of redemption amount over the par value of shares redeemed are first applied against the related share premium and then to the related retained earnings.

13.5 Foreign currency transactions and translations

Functional and presentation currency

Subscriptions and redemptions of the Fund's redeemable shares are denominated in Euro. The primary activity of the Fund is to invest in Euro-denominated fixed-income instruments. The performance of the Fund is measured and reported to the investors in Euro. The BOD considers the Euro as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in Euro, which is the functional and presentation currency.

13.6 Income tax

The tax expense for the period comprises current and deferred tax.

Current income tax

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

The Fund's interest income from its investments in Philippine debt securities, cash and cash equivalents and short-term investments are subject to final withholding tax. Such income is presented gross of taxes paid or withheld and the related tax is presented in the statement of total comprehensive income as income tax expense. Sale of financial assets at fair value through profit or loss relating to Philippine debt securities is tax exempt if maturity period of related debt instrument is more than 5 years and taxable if maturity period of related debt instrument is 5 years of less. Interest income and sale of financial assets at fair value through profit or loss relating to global debt securities are taxable.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss.

DTA are recognized for all deductible temporary differences and carry-forward of unused tax losses (NOLCO) to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The Fund reassesses at each reporting date the need to recognize a previously unrecognized DTA.

Deferred income tax liabilities are provided on taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except where the timing of the reversal of the temporary differences is controlled by the Fund and it is probable that the temporary difference will not reverse in the foreseeable future.