Philequity Peso Bond Fund, Inc.
(An Open-End Mutual Fund Company)

Financial Statements

December 31, 2009 and 2008 and
Years Ended December 31, 2009, 2008 and 2007

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

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SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philequity Peso Bond Fund, Inc.

We have audited the accompanying financial statements of Philequity Peso Bond Fund, Inc. (an open-end mutual fund company), which comprise the statements of financial position as at December 31, 2009 and 2008, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philequity Peso Bond Fund, Inc. as of December 31, 2009 and 2008, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Christian G. Lauron
Partner
CPA Certificate No. 95977
SEC Accreditation No. 0790-A
Tax Identification No. 210-474-781
PTR No. 2087541, January 4, 2010, Makati City

March 31, 2010

PHILEQUITY PESO BOND FUND, INC.
(An Open-End Mutual Fund Company)

STATEMENTS OF FINANCIAL POSITION

	December 31, 2009	December 31, 2008 (As restated - Note 2)	January 1, 2008 (As restated - Note 2)
ASSETS			
Cash and Cash Equivalents (Note 4)	**₱27,682,756**	₱1,616,916	₱11,390,170
Financial Assets at Fair Value through Profit or Loss (Note 5)	**71,373,643**	110,394,213	177,857,981
Loans and Receivables (Note 6)	**36,068,118**	36,936,653	6,914,479
Total Assets	**₱135,124,517**	₱148,947,782	₱196,162,630
LIABILITIES AND EQUITY			
Current Liabilities			
Payables	**₱123,234**	₱110,507	₱52,052
Income tax payable	**45,362**	–	–
Total Current Liabilities	**168,596**	110,507	52,052
Equity (Note 7)			
Capital stock	**56,806,942**	66,735,183	90,065,250
Additional paid-in capital	**31,644,005**	41,744,534	65,366,964
Retained earnings	**46,504,974**	40,357,558	40,678,364
Total Equity	**134,955,921**	148,837,275	196,110,578
Total Liabilities and Equity	**₱135,124,517**	₱148,947,782	196,162,630
Net Asset Value Per Share (Note 7)	**₱2.38**	₱2.23	₱2.18

See accompanying Notes to Financial Statements.

PHILEQUITY PESO BOND FUND, INC.
(An Open-End Mutual Fund Company)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2009	2008	2007
INVESTMENT INCOME			
Interest income (Notes 4, 5 and 6)	**₱8,357,027**	₱18,506,628	₱15,812,649
Net unrealized gain (loss) on changes in fair value of financial assets at FVPL (Note 5)	**1,022,881**	204,147	(714,224)
Dividend income	**855,271**	1,006,261	865,419
Net realized gain (loss) on sale of financial assets at fair value through profit or loss (FVPL) (Note 5)	**(226,496)**	(10,034,601)	(1,565,934)
Other income	**168,750**	100	–
	10,177,433	9,682,535	14,397,910
EXPENSES			
Professional fees	**189,200**	196,453	257,475
Taxes and licenses	**171,567**	126,449	220,064
Dues and fees	**20,000**	20,000	52,600
Documentary stamp tax	**12,704**	476,528	12,154
Others (Note 9)	**73,822**	85,465	153,284
	467,293	904,895	695,577
INVESTMENT INCOME BEFORE INCOME TAX	**9,710,140**	8,777,640	13,702,333
PROVISION FOR INCOME TAX (Note 8)			
Final	**1,248,797**	3,501,519	3,162,530
Current	**45,362**	–	–
	1,294,159	3,501,519	3,162,530
INVESTMENT INCOME AFTER INCOME TAX	**8,415,981**	5,276,121	10,539,803
OTHER COMPREHENSIVE INCOME	**–**	–	–
TOTAL COMPREHENSIVE INCOME	**₱8,415,981**	₱5,276,121	₱10,539,803
EARNINGS PER SHARE (Note 13)	**₱0.15**	₱0.04	₱0.12

See accompanying Notes to Financial Statements.

PHILEQUITY PESO BOND FUND, INC.
(An Open-End Mutual Fund Company)

STATEMENTS OF CHANGES IN EQUITY

	Years Ended December 31		
	2009	2008	2007
CAPITAL STOCK			
Common stock - ₱1 par value			
100,000,000 authorized shares	**₱100,000,000**	₱100,000,000	₱100,000,000
Issued and outstanding			
Balance at the beginning of the year	**66,735,183**	90,065,250	92,892,492
Issuances	**2,519,037**	95,273,968	1,980,744
Redemptions	**(12,447,278)**	(118,604,035)	(4,807,986)
Balance at the end of the year	**56,806,942**	66,735,183	90,065,250
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	**41,744,534**	65,366,964	67,107,274
Issuance	**3,308,252**	111,650,873	2,203,476
Redemptions	**(13,408,781)**	(135,273,303)	(3,943,786)
Balance at the end of the year	**31,644,005**	41,744,534	65,366,964
RETAINED EARNINGS			
Balance at the beginning of the year	**40,357,558**	40,678,364	31,454,113
Total comprehensive income (Note 2)	**8,415,981**	5,276,121	10,539,803
Excess of redemption costs over the original selling price	**(2,268,565)**	(5,596,927)	(1,315,552)
Balance at the end of the year	**46,504,974**	40,357,558	40,678,364
	₱134,955,921	₱148,837,275	₱196,110,578

See accompanying Notes to Financial Statements.

PHILEQUITY PESO BOND FUND, INC.
(An Open-End Mutual Fund Company)

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Investment income before income tax	**₱9,710,140**	₱8,777,640	₱13,702,333
Adjustments for:			
Interest income	**(8,357,027)**	(18,506,628)	(15,812,649)
Net realized loss (gain) on sale of financial assets at fair value through profit or loss (FVPL) (Note 5)	**226,496**	10,034,601	1,565,934
Amortization of bond premium (Note 6)	**122,309**	28,050	–
Dividend income	**(855,271)**	(1,006,261)	(865,419)
Net unrealized loss (gain) on change in fair value of financial assets at FVPL (Note 5)	**(1,022,881)**	204,147	714,224
Operating loss before working capital changes	**(176,234)**	(468,451)	(695,577)
Proceeds from sale of financial assets at FVPL	**110,131,177**	312,690,079	90,017,698
Acquisitions of financial assets at FVPL	**(70,314,222)**	(255,437,008)	(106,099,752)
Decrease (increase) in loans and receivables	**728,694**	(789,047)	–
Increase (decrease) in payables	**12,727**	58,455	(2,068,857)
Net cash generated from (used for) operations	**40,382,142**	56,054,028	(18,846,488)
Interest received from cash equivalents and financial assets at FVPL	**6,184,288**	19,036,708	16,570,181
Dividends received	**932,498**	987,488	1,159,781
Income taxes paid	**(1,248,797)**	(3,501,519)	(3,162,530)
Net cash provided by (used in) operating activities	**46,250,131**	72,576,705	(4,279,056)
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisitions of unquoted debt securities	**–**	(30,207,485)	–
Interest received from unquoted debt securities	**2,113,044**	406,950	–
Net cash provided by (used in) investing activities	**2,113,044**	(29,800,535)	–
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments for redemptions of shares	**(28,124,624)**	(259,474,265)	(10,067,324)
Proceeds from subscriptions of shares	**5,827,289**	206,924,841	4,184,220
Net cash used in financing activities	**(22,297,335)**	(52,549,424)	(5,883,104)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**26,065,840**	(9,773,254)	(10,162,161)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,616,916**	11,390,170	21,552,331
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱27,682,756**	₱1,616,916	₱11,390,170

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Philequity Peso Bond Fund, Inc. (the Fund) is incorporated in the Philippines and is registered with the Securities and Exchange Commission (SEC) on February 24, 1999 as an open-end mutual fund. The Fund is engaged in, among others, selling its capital stock and investing the related proceeds in high-yield debt instruments.

On June 29, 2007, the Board of Directors (BOD) approved the change of the corporate name of the Fund from Philequity Money Market Fund, Inc. to Philequity Peso Bond Fund, Inc. Subsequently, on August 24, 2007, the Securities and Exchange Commission (SEC) approved the change of the corporate name of the Fund.

The registered address of the Fund is 2004-A, East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City.

The financial statements of the Fund were approved and authorized for issue by the Board of Directors (BOD) on March 31, 2010.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements of the Fund have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) that have been measured at fair value. The financial statements are presented in Philippine Peso, which is the Fund's functional and presentation currency. All values are rounded to the nearest peso unit, unless otherwise stated.

Statement of Compliance
The financial statements of the Fund have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except that the Fund has adopted the following PFRS and Philippine Interpretations which became effective beginning January 1, 2009.

PAS 1, *Presentation of Financial Statements*
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in a single statement, or in two linked statements. The Fund chose to present a single statement of comprehensive income and to change the title of the statement of assets and liabilities to statement of financial position.

The Fund does not have any components of other comprehensive income. Therefore, total comprehensive income is equal to the investment income or loss after tax reported for all periods presented.

The revised standard also requires the Fund to present a statement of financial position at the beginning of the earliest comparative period when (a) a new accounting policy is applied retrospectively; or (b) there is a retrospective restatement or reclassification. Thus, the Fund presented the statement of financial position as at January 1, 2008 as a result of the adoption of the amendment to PAS 32 and PAS 1. The adoption of the amendments to PAS 32 and PAS 1 did not have any impact to the assets and other liabilities of the Fund. As such, the Fund did not present related notes to the January 1, 2008 statement of financial position as the Fund believes such information is no longer material relative to the comparative financial statements taken as a whole.

Amendments to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria.

The Fund's redeemable common shares have all the features and have met all the conditions for classification as equity instruments during December 31, 2009 and 2008.

As a result of the adoption of these amendments, the Fund has reclassified the following amounts from financial liabilities ('Net Assets Attributable to Unitholders' account) to equity:

Cut-off date	Amount
January 1, 2008	₱196,110,578
December 31, 2008	148,837,275

Investment income amounted to ₱5.3 million and ₱10.5 million in 2008 and 2007, respectively, which were previously presented as, 'net increase (decrease) in net asset from operation attributable to unitholders' are now presented as part of total comprehensive income in the statement of changes in equity.

The adoption of these amendments did not have any impact to the assets and other liabilities of the Fund.

PFRS 7 Amendments - *Improving Disclosures about Financial Instruments*
The amendments to PFRS 7, *Financial Instruments: Disclosures*, require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The fair value measurement disclosures are presented in Note 12. The liquidity risk disclosures are presented in Note 11.

PFRS 8, *Operating Segments*
PFRS 8 replaced PAS 14, *Segment Reporting*, upon its effective date. This standard requires the disclosure of information about the Fund's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Fund. For management purposes, the Fund is organized into one business unit. The Fund concluded that the operating segments determined in accordance with PFRS 8 are the same as the business segments previously identified under PAS 14.

Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives* and PAS 39, *Financial Instruments: Recognition and Measurement*
This amendment to Philippine Interpretation IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. PAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at FVPL. The adoption of the amendment did not have a significant impact to the financial statements of the Fund.

The adoption of these amendments did not have any impact to the assets and other liabilities of the Fund.

The issuance of and amendments to the following PAS and Philippine Interpretations did not have any impact on the accounting policies, financial position or performance of the Fund:

- PAS 23, *Borrowing Cost* (Revised)
- PFRS 1 and PAS 27 Amendments - *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- PFRS 2 Amendments - *Vesting Conditions and Cancellations*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*
- Amendments to PFRS 2008
- Amendments to PFRS 2009 - PAS 18, *Revenue*

<u>Cash and Cash Equivalents</u>
Cash includes cash in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less at recognition date and that are subject to an insignificant risk of change in value.

<u>Financial Instruments</u>
Date of recognition
Financial instruments within the scope of PAS 39 are recognized in the statement of financial position when the Fund becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets and liabilities within the time frame established by regulation or convention in the marketplace are recognized using the trade date accounting.

Initial recognition of financial instruments
All financial instruments are initially recognized at fair value. The initial measurement of financial instruments includes transaction costs, except for financial instruments at FVPL.

The Fund classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments, and loans and receivables. Financial liabilities are classified either as financial liabilities at FVPL or other financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of fair value
At date of initial recognition and for every statement of financial position date, the fair value for financial instruments that are traded in active markets is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.
For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Fund recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Fund determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial instruments at FVPL
Financial instruments at FVPL include financial assets and financial liabilities that are:

- acquired and held for trading purposes
- designated upon initial recognition as at FVPL; and
- stand-alone or bifurcated embedded derivative financial instruments not designated as effective hedging instruments

Financial assets and financial liabilities are classified as held for trading if they are acquired for the purposes of selling and repurchasing in the near term.

Financial assets and financial liabilities may be designated by management on initial recognition at FVPL when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis;
- The assets and liabilities are part of a group of financial assets, liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Subsequent changes in fair value are recognized in the statement of comprehensive income. Interest earned or dividends received are recorded in interest income or dividend income, respectively. Interest incurred is recorded as interest expense in the statement of comprehensive income.

Derivative financial instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative is separated from the host contract and accounted for as derivative if all the following conditions are met:

1. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
2. a separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and
3. the hybrid or combined instrument is not measured at fair value with fair value changes charged through profit or loss.

The Fund assesses whether embedded derivatives are required to be separated from host contracts when the Fund first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contracts that significantly modifies the cash flows that would otherwise be required.

As of December 31, 2009 and 2008, the Fund does not have any outstanding financial liabilities at FVPL and any stand-alone or bifurcated embedded derivatives.

As of December 31, 2009 and 2008, the Fund's financial assets at FVPL comprise investments in debt securities.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Fund's management has the positive intention and ability to hold to maturity. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the statement of comprehensive income when the HTM investments are derecognized and impaired, as well as through the amortization process. The effects of restatement on foreign currency-denominated HTM investments are also recognized in the statement of comprehensive income.

If the Fund were to sell more than an insignificant amount of HTM investments before maturity (other than in specific circumstances), the entire category would be tainted and reclassified as AFS investments. Furthermore, the Fund would be prohibited from classifying any financial asset as an HTM investment for the following two years.

The Fund has no outstanding HTM investments as of December 31, 2009 and 2008.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as other financial assets or designated as AFS investment or financial assets at FVPL. Classified under loans and receivables are cash and cash equivalents, receivables and unquoted debt securities.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the EIR method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in the statement of comprehensive income.

The losses arising from impairment of such loans and receivables are also recognized in the statement of comprehensive income.

AFS investments
AFS investments are non-derivative financial assets which are designated as such or do not qualify to be classified as financial assets at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS investments are subsequently measured at fair value. AFS investments are measured at fair value with gains and losses being recognized as other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is included in operating income.

The Fund evaluates its AFS investments whether the ability and intention to sell them in the near term is still appropriate. When the Fund is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the Fund may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intention and ability to hold these assets for the foreseeable future or maturity. The reclassification to HTM investment is permitted only when the entity has the ability and intent to hold the financial asset until maturity.

As of December 31, 2009 and 2008, there are no outstanding AFS investments.

Other financial liabilities
Issued financial instruments or their components, which are neither held for trading nor designated at FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Fund having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in "Foreign exchange gains (losses) - net" account in the statement of comprehensive income.

Other financial liabilities include liabilities arising from operations or borrowings. Classified under other financial liabilities are accrued expenses and payables.

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

- the rights to receive cash flows from the asset have expired;
- the Fund retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Fund has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Fund's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where 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 the statement of comprehensive income.

Impairment of Financial Assets
The Fund assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
For loans and receivables and HTM investments, the Fund first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Fund determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of comprehensive income. Interest income continues to be recognized based on the original EIR of the asset. The financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Provision for impairment and credit losses' in the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type and past due status.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Fund and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Fund to reduce any differences between loss estimates and actual loss experience.

AFS investments
For AFS investments, the Fund assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS investment, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of comprehensive income - is removed from equity and recognized in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of comprehensive income. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS investment, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in the statement of comprehensive income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

Offsetting Financial Instruments
Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Capital Stock and Redeemable Shares
A puttable financial instrument is classified as an equity instrument if it has all of the following features:

- It entitles the holder to a pro-rata share of the Fund's net assets in the event of the Fund's liquidation;
- The instrument is in the class of instruments that is subordinate to all other classes of instruments;
- All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- The instrument does not include any contractual obligation to deliver cash or another financial asset other than the holder's right to a pro-rata share of the Fund's net assets; and
- The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund over the life of the instrument.

In addition to the instrument having all the above features, the Fund must have no other financial instrument or contract that has:

- Total cash flows based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund; and
- The effect of substantially restricting or fixing the residual return to the puttable instrument holders.

The Fund's redeemable common shares meet the definition of puttable instruments classified as equity instruments under revised PAS 32. Consequently, the Fund's redeemable shares, which were previously classified as financial liabilities, have been reclassified as equity instruments. Comparative figures have been restated.

The Fund continuously assesses the classification of the redeemable shares. If the redeemable shares cease to have all the features or meet all the conditions set out above, the Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognized in equity. If the redeemable shares subsequently have all the features and meet the conditions set out above, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

The issuance, acquisition and resale of redeemable shares are accounted for as equity transactions. Upon sale of shares, the consideration received is included in equity. Redemptions on the other had are recorded as charges against equity.

Retained Earnings
Amounts included in retained earnings include accumulated investment income of previous periods reduced by excess of redemption costs over the original selling price of redeemed shares.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured.

Net realized gain or loss on sale of financial assets at FVPL
Gain or loss on sale of financial assets at FVPL is determined at the time of sale transaction calculated as the difference between the net sales proceeds and the net book value.

Net unrealized gain or loss on change in fair value of financial asset, at FVPL
Net unrealized gain or loss on changes in fair value of financial assets at FVPL is determined as the change due to revaluation of investments as of statement of financial position date.

Dividends
Dividends are recognized when the Fund's right to receive payment is established.

Interest income
Interest income is recognized as the interest accrues taking into account the effective yield on the asset.

Expenses
Expenses are recognized when services are used or expenses are incurred and the expenses can be reliably measured.

Earnings per Share
Earnings per share is calculated by dividing net investment income after tax for the year by the weighted average number of outstanding shares of stock during the year.

Provisions
Provisions are recognized when the Fund has a present obligation (legal or constructive) as a result of a past event, 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 Fund expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain that the expense relating to any provision is presented in the statement of income, 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.

Foreign Currency Translations
Transactions in foreign currencies are recorded in Philippine Peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the exchange rate at reporting date. Foreign exchange gains and losses are taken to the statement of comprehensive income.

Income Taxes
Current tax
Current income tax liabilities for the current and prior periods are measured at the amounts expected to be paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted at reporting date.

Deferred tax
Deferred income tax is provided on all temporary differences at reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of excess MCIT over RCIT and NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax law) that have been enacted or substantially enacted at reporting date.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Current tax and deferred tax relating to items recognized directly in equity is also recognized directly in equity and not in the statement of income.

<u>Contingent Liabilities and Contingent Assets</u>
Contingent liabilities are not recognized in the notes to the financial statements but these are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the notes to financial statements but disclosed when an inflow of economic benefits is probable.

<u>Events After Reporting Date</u>
Events that provide additional information about the Fund's assets and liabilities at reporting date (adjusting event) is reflected in the notes to financial statements. Events after the reporting date that are not adjusting events are disclosed when material to the notes to financial statements.

<u>Future Changes in Accounting Policies</u>
The Fund will adopt the following standards and interpretations enumerated below when these become effective. The Fund, however, anticipates that adoption of these new and amended standards and interpretations will not have a material impact on the Fund's financial statements.

Effective in 2010

- PFRS 3 (Revised), *Business Combinations* and PAS 27 (Amended), *Consolidated and Separate Financial Statements*
  The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The amended PAS 27 requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be re-measured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 must be applied prospectively and will affect future acquisitions and transactions with non-controlling interests. Amended PAS 27 must be applied retrospectively subject to certain exceptions.

- PFRS 2 (Amendments), *Share-based Payment* - Group Cash-settled Share-based Payment Transactions
  This amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions.

- PAS 39 (Amendments), *Financial Instruments: Recognition and Measurement* - Eligible Hedged Items
  This amendment addresses only the designation of a one-sided risk in a hedged item and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*
  This interpretation provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability and the consequences of doing so.

- Philippine Interpretations IFRIC 9, *Reassessment of Embedded Derivatives*, and PAS 39, Financial Instruments: *Recognition and Measurement*, Amendments - Embedded Derivatives
  This Amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. PAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as a fair value through profit or loss.

Improvement to PFRS

The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning on or after January 1, 2010 except for the amendment to PFRS 2 which will be effective for annual periods beginning on or after July 1, 2009. The Fund has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- PFRS 2, *Share-based Payments*
  The improvement clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3 (Revised), *Business Combinations*.

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
  This improvement clarifies that when a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.

- PFRS 8, *Operating Segments* - Information
  This improvement clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by chief operating decision maker.

- PAS 1, *Presentation of Financial Statements*
  The improvement clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows*
  The improvement explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*
  The improvement removes the specific guidance on classifying land as a lease. The amendment now requires that leases of land are classified as either “finance” or “operating” in accordance with the general principles of PAS 17. The amendments will be applied prospectively.

- PAS 36, *Impairment of Assets*
  The improvement clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets*
  The improvement clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also, it clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments: Recognition and Measurement*
  This improvement clarifies that (a) a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (b) the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and (c) gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
  The improvement clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
  The improvement states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

<u>Effective in 2012</u>

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on stage of completion.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRS requires the Fund to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

Fair Value of Financial Instruments

Where the fair values of financial assets and liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments. The methods and assumptions used to determine fair values of financial instruments is disclosed in Note 11.

Estimates

Recognition of deferred tax assets

The carrying amounts of deferred tax assets at each reporting date are reviewed and are reduced to the extent that there is no longer sufficient taxable income available to allow all or part of the deferred tax assets to be utilized. The Fund's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the forecasted taxable income of the following reporting period. This forecast is based on the Fund's past results and future expectations on revenue and expenses.

The Fund did not recognize deferred tax asset on excess MCIT over RCIT amounting to ₱40,391 as of December 31, 2009. Management believes that the benefit from excess MCIT over RCIT will not be utilized in the future prior to its expiration in 2012 (see Note 8).

4. Cash and Cash Equivalents

This account consists of:

	2009	2008
Cash in banks	**₱225,121**	₱312,685
Short-term deposits	**27,457,635**	1,304,231
	₱27,682,756	₱1,616,916

Cash in banks earn interest at the respective bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Fund, and earn interest at the respective short-term deposit rates.

In 2009, 2008 and 2007, interest income earned on short-term deposits and cash in banks amounted to ₱0.9 million, ₱4.7 million, and ₱0.9 million, respectively.

5. Financial Assets at Fair Value Through Profit or Loss

This account consists of:

	2009	2008
Investments in:		
Government and corporate debts		
Treasury notes	**₱51,697,340**	₱50,166,067
Corporate bonds	**19,676,303**	45,216,680
Treasury bonds	–	–
Preferred shares of stock	–	15,011,465
	₱71,373,643	₱110,394,212

Part of the risk management process of the Fund is the analysis and monitoring of the real economic position including those investments that are not actively traded. Moreover, the performance of the Fund is being measured or evaluated on a fair value basis.

Investments in government and corporate debts and preferred shares are designated as 'Financial assets at FVPL' and are carried at fair values. The Fund incurred gain (loss) on market valuation on these investments amounting ₱1.0 million, ₱0.2 million and (₱0.7 million) in 2009, 2008 and 2007, respectively.

As of December 31, 2009, 2008 and 2007, interest income earned on government and corporate debts amounted to ₱4.6 million, ₱12.1 million and ₱14.9 million, respectively.

Dividends received from preferred share of stock amounted to ₱0.8 million, ₱1.0 million and ₱0.9 million in 2009, 2008 and 2007, respectively.

6. Loans and Receivables

This account consists of:

	2009	2008
Unquoted debt securities	**₱30,117,478**	₱30,179,434
Notes receivable	**4,000,000**	4,000,000
Accrued interest	**1,950,640**	1,890,945
Dividend receivable	–	77,227
Other receivable	–	789,047
	₱36,068,118	₱36,936,653

Unquoted debt securities pertain to investments in private corporate bonds that are not quoted in an active market and were acquired at a premium over its face amount. These notes have a coupon interest rate of 7.25% which is paid semi-annually and will mature in September 2011.

As of December 31, 2009 and 2008, amortization of premium over face amount is ₱122,309 and ₱28,050, respectively, and are included in the "Interest income" account in the statements of comprehensive income. The balances of unamortized premium over face amount are ₱0.1 million and ₱0.2 million as of December 31, 2009 and 2008, respectively.

Interest income earned from unquoted debt securities amounted to ₱2.1 million and ₱1.0 million in 2009 and 2008, respectively.

Notes receivable relates to a short-term loan granted to a private corporation, which bears a coupon interest rate of 20%, for a period of one year. In 2008, these loans were renewed until November 2009. In 2009, these loans were renewed until August and December 2010. Total interest income recognized in relation to the loan amounted to ₱0.7 million and ₱0.8 million in 2009 and 2008.

There were no interest income earned in 2007 from loans and receivable.

7. Equity

As an open-end mutual fund company, the Fund stands ready at any time for redemptions on its outstanding capital stock at Net Asset Value (NAV) per share. NAV per share is computed by dividing net assets (total assets less total liabilities) by the number of shares issued and outstanding.

	2009	2008	2007
Net Asset Value attributable to holders of redeemable shares (which is equal to total equity)	**₱134,955,921**	₱148,837,275	₱196,110,578
Number of shares outstanding	**56,806,942**	66,735,183	90,065,250
NAV per share	**₱2.38**	₱2.23	₱2.18

Capital Management

The primary objective of the Fund's capital management is to ensure that the return objectives stated in its prospectus are achieved.

The Fund's capital, consisting entirely of common shares, is variable and increases or decreases depending on the volume of subscriptions and redemptions made by its various investors or shareholders. The maximum number of shares that can be issued is determined by the Fund's authorized capital but may be increased by the Fund upon approval by the SEC. As an open minded mutual fund, the Fund stands ready to redeem shares from shareholders at any time upon the request of the latter at the prevailing NAV per share of the Fund. The investment restrictions stated in Note 10, as mandated by the SEC and the Investment Fund Act are the main limitations which the Fund must adhere to in investing the capital provided by various shareholders. Moreover, the Investment Fund Act states that "investment companies are allowed to borrow or incur debt provided that there is at all times a 300% asset coverage for all its borrowings. In the event that the asset coverage falls below 300%, the investment Fund has three days within which to reduce its debt to bring the asset coverage back to at least 300%."

As of December 31, 2009 and 2008, the Fund does not have any outstanding debt. Any liabilities reflected therein are short-term in nature and generally reflect amounts that are due for settlement with its counterparties or its investors within the standard settlement periods prescribed for each transaction:

a) Stock purchases: date of transaction +3days
b) Redemptions from shareholders: maximum date of transaction +7 days, as prescribed by the Investment Fund Act Rule 35-1

As of December 31, 2009 and 2008, the number of holder of the Fund's redeemable shares is 70 and 51, respectively.

8. Income Tax

Republic Act No. 9337, *An Act Amending National Internal Revenue Code*, provides that the RCIT rate shall be 35.00% until December 31, 2008. Starting January 1, 2009, the RCIT rate shall be 30.00%.

The regulations also impose the MCIT of 2% on modified gross income and allow a NOLCO. The NOLCO and the excess of the MCIT over the RCIT may be applied against taxable income and the income tax liability, respectively, over a three year period from the year of inception.

The balance of NOLCO as of December 31, 2009 and 2008 may be used by the Fund as additional deduction against future taxable income. The balances of NOLCO, with their corresponding expiry dates, are as follows:

Year Incurred	Amount	Used	Balance	Expiry Year
2006	₱591,839	₱591,839	₱–	2009
2007	573,326	573,326	–	2010
2008	651,488	651,488	–	2011
	₱1,816,653	₱1,816,653	₱–	

The Fund did not recognize deferred tax asset on excess MCIT over RCIT amounting to ₱40,391 as of December 31, 2009. Management believes that the benefit from excess MCIT over RCIT will not be utilized in the future prior to its expiration in 2012.

The reconciliation between the Fund's provision for income tax computed at the statutory income tax rates to the provision for income tax shown in the statement of income is summarized as follows:

	2009	2008	2007
Income tax at statutory tax rate	**₱2,913,042**	₱3,072,174	₱4,795,817
Tax effects of:			
Interest income subjected to final tax	**(624,398)**	(2,626,139)	(2,371,898)
Applied NOLCO	**(544,996)**	378,860	200,664
Net unrealized loss (gain) on change in fair value of financial assets at FVPL	**(306,864)**	(71,451)	249,978
Dividend income exempt from tax	**(256,581)**	(352,192)	(302,897)
Net realized loss on sale of debt instruments exempt from tax	**67,949**	3,037,124	548,077
Excess of MCIT over RCIT	**40,391**	–	–
Nondeductible expense	**5,616**	–	42,789
Effect of change in tax rate	–	63,143	–
	₱1,294,159	₱3,501,519	₱3,162,530

9. Related Party Disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These include: (a) individuals owning, directly or indirectly through one or more intermediaries, control, or are controlled by, or under common control with, the Fund; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Fund that gives them significant influence over the Fund and close members of the family of any such individual.

As of December 31, 2009 and 2008, seven shares of the Fund are held by directors.
The Fund has an existing agreement with Philequity Management, Inc. (PMI), one of the subsidiaries of the Vantage Equities, Inc. (formerly iVantage Corporation), a listed Fund who has a major investment in the Fund. Pursuant to the terms of the agreement, the Fund pays the following for services rendered by PMI:

a. Annual management fee of a maximum of 1.5% of the monthly average NAV of the Fund's assets. The NAV shall be determined in accordance with the procedures agreed upon by both parties. As of December 31, 2009 and 2008, the payment of management fee has not yet been made effective by the Fund and PMI.

b. Sales commission of a maximum of 3.5% of the cost of investment for every sale of the Fund's shares of stock. Sales commission amounted to ₱13,679, ₱63,037 and ₱25,915 in 2009, 2008 and 2007, respectively, are included in 'Other expenses' in the statement of comprehensive income.

The Fund has no key management personnel. The key management functions are being handled by PMI, at no cost to the Fund.

10. Financial Risk Management Objectives and Policies

The Fund's principal financial instruments comprised of cash and cash equivalents, financial assets through FVPL and receivables. The main purpose of these financial instruments is to seek long-term capital appreciation through investments in peso-denominated government securities, commercial paper, corporate bonds, promissory notes and other debt instruments of varying tenors. The Fund has various other financial assets and liabilities such as interest and dividend receivables and payables, which arise directly from its operations.

Governance Framework
The Fund has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity and operational risk. 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.

Regulatory Framework
The operations of the Fund are also subject to the regulatory requirements of the SEC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g. investment portfolios, capital requirements, etc.).

Financial Risk

The Fund is exposed to financial risk through its financial assets and liabilities. The most important components of this financial risk are credit risk, liquidity risk, and market risk. The BOD reviews and approves policies for managing these risks and they are summarized below:

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Fund manages the level of credit risk it accepts through a comprehensive credit risk policy setting out the assessment and determination of what constitutes credit risk for the Fund; setting up exposure limits for each counterparty or group of counterparties, geographical and industry segments; availing of right of offset where counterparties are both debtors and creditors; establishing guidelines on obtaining collateral and guarantees; reporting credit risk exposures and breaches to the monitoring authority; monitoring compliance with credit risk policy and reviewing credit risk policy for pertinence and to keep up with the changing environment.

The Fund further restricts its credit risk exposure by entering into master netting arrangements with counterparties with which it transacts significant volumes of transactions. Such arrangements do not generally result in the offsetting of assets and liabilities, as transactions are usually settled on gross basis. However, the credit risk associated with such balances is reduced in the event of a default, when such balances are settled on a net basis. The situation may however change substantially within a short period following the reporting date because the exposure is affected by transactions subject to the arrangement.

With respect to investment securities, if any, the Fund secures satisfactory credit quality by setting maximum limits for portfolio securities with a single or group of issuers. The Fund also transacts only with institutions with high credit worthiness.

The Fund sets the maximum amounts and limits that may be advanced to or placed with individual corporate counterparties, which are set by reference to their long-term ratings.

The Fund's maximum exposure to credit risk before considering the effect of collateral and other credit enhancements is limited to the carrying value of its financial assets as of reporting date. As of December 31, 2009 and 2008, the Fund does not have any off-balance sheet exposures to credit risk.

As of December 31, 2009 and 2008, these financial assets are viewed by management as in good credit standing considering the collectability of the receivables and the credit history of the counterparties. There are no past due or impaired financial assets as of December 31, 2009 and 2008.

The Fund has no significant credit concentration risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2009 and 2008.

Liquidity risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; counterparties failing to repay a contractual obligation; or the inability to generate cash inflows as anticipated.

The Fund is exposed to daily cash redemptions of redeemable participating shares. It therefore invests the majority of its assets in investments that are traded in an active market and can be readily disposed of while it invests only a limited proportion of its assets in investments not actively traded on a stock exchange. The Fund is exposed to the risk of being unable to meet its payment obligations to redeeming shareholders when they fall under normal and stress circumstances.

To limit this risk, the Fund strictly complies with Investment Fund Act Rule 35-1 (Rule) which requires all Investment Companies/Mutual Funds to invest at least 10% of its net assets in liquid assets. This Rule defines such assets as (a) treasury notes or bills, certificates of indebtedness issued by the Bangko Sentral ng Pilipinas which are short-term, and other government securities; and (b) savings or time deposits with government or commercial banks in the name of the Fund.

The following table sets out the different investments as of December 31, 2009 and 2008 and their respective percentages to total net assets of the Fund:

	2009	2008
Treasury notes	**38.30%**	33.71%
Investments in corporate bonds	**36.89**	50.66
Cash and cash equivalents	**20.51**	1.09
Preferred shares	–	10.09
Notes receivable	**2.96**	2.69
Total investments	**98.66%**	98.24%

The table below analyzes financial assets and financial liabilities of the Fund into their relevant maturity groups based on the remaining period at the reporting date to their contractual maturities**.**

	2009			
	Up to a Year	**2–5 Years**	**Over 5 Years**	**Total**
Financial Assets				
Financial assets at FVPL				
Government and corporate bonds				
Treasury notes	**₱–**	**₱–**	**₱51,697,340**	**₱51,697,340**
Corporate bonds	**–**	**4,011,731**	**15,664,572**	**19,676,303**
Preferred shares	**–**	**–**	**–**	**–**
Loans and receivables				
Cash and cash equivalents	**27,682,755**	**–**	**–**	**27,682,755**
Unquoted debt securities	**–**	**30,117,478**	**–**	**30,117,478**
Notes receivables	**4,000,000**	**–**	**–**	**4,000,000**
Accrued interest	**1,950,640**	**–**	**–**	**1,950,640**
	₱33,633,395	**₱34,129,209**	**₱67,361,912**	**₱135,124,516**
Other Financial Liabilities				
Payables	**₱123,234**	**₱–**	**₱–**	**₱123,234**

	2008			
	Up to a Year	2–5 Years	Over 5 Years	Total
Financial Assets				
Financial assets at FVPL				
Government and corporate bonds				
Corporate bonds	₱–	₱45,216,680	₱–	₱45,216,680
Treasury notes	50,166,067	–	–	50,166,067
Preferred shares	15,011,465	–	–	15,011,465
Loans and receivables				
Cash and cash equivalents	1,616,916	–	–	1,616,916
Unquoted debt securities	–	30,179,434	–	30,179,434
Notes receivables	4,000,000	–	–	4,000,000
Accrued interest	1,890,945	–	–	1,890,945
Dividend receivables	77,227	–	–	77,227
Other receivables	789,047	–	–	789,047
	₱73,551,667	₱75,396,114	₱–	₱148,947,781
Other Financial Liabilities				
Payables	₱110,507	₱–	₱–	₱110,507

It is unusual for a Fund to predict the requirements of funding with absolute certainty as theory of probability is applied on contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of liabilities are thus based on management's best estimate based on statistical techniques and past experience.

Market Risk

Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Fund is exposed to the risk that the value of the Fund's financial assets will be adversely affected by the fluctuations in the price level or volatility of one or more of the said assets. The two main components of the risks recognized by the Fund are systematic risk and unsystematic risk.

Systematic risk is the variability in price caused by factors that affect all securities across all markets (e.g. significant economic or political events). As an illustration, when a country's general political and economic situations are perceived to be in turmoil, the stock market, in general, experiences a lack of trading interest that will result in thin volume trading and narrow price volatility. Such situations will trigger a downward momentum for both the stock prices and trading volumes until the political and/or economic condition normalizes. As a consequence, the redemption prices of redeemed shares may be lower than the prices at which the shares were originally purchased. Investors who redeem their shares during this time may not recover the full cost of their investments.

Unsystematic risk is the variability in price caused by factors which are specific to the particular issuer (corporation) of the shares of stock. Through proper portfolio diversification, this risk can be minimized as losses on one particular stock may be off set by gains in another.

To further mitigate these risks, the Fund ensures that the investment portfolio is adequately diversified taking into consideration the size of the portfolio. The effectivity of the diversification of the portfolio may be evaluated by comparing the volatility of the portfolio versus the volatility of the HSBC Local Bond Index (Index) for the Philippines, which is a basket of all outstanding Peso-denominated government bonds. As shown below, the portfolio volatility of the investment portfolio as of December 31, 2009 and 2008, as measured by its annualized daily standard deviation is lower than the volatility of the said Index:

Volatility of investment portfolio	**2009**	2008
PMMF (the Fund)	**0.88%**	0.02%
HSBC Local Bond Index	**5.30%**	6.94%

Interest Rate Risk
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Fund's exposure to market risk for changes in interest rates relates primarily to the Fund's financial assets at FVPL, cash and cash equivalents and notes receivables.

The Fund's market risk policy requires it to manage interest rate risk by maintaining appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest-bearing financial assets.

Refer to table below for simulation of measurable changes as of December 31, 2009 and 2008, using modified duration at 100 basis points as an approximation:

	Effect on Pre-Tax Equity	
Basis points change in interest rates	**2009**	2008
+100	**(₱939,839)**	(₱1,760,032)
–100	**960,139**	1,817,610

The impact on the Fund's equity excludes the impact of transactions affecting the statement of comprehensive income.

Foreign currency risk
As of December 31, 2009 and 2008, the Fund does not have any exposure to changes in foreign exchange rates as there are no financial assets or financial liabilities denominated in a currency other than the Philippine Peso.

Equity price risk
As of December 31, 2009 and 2008, the Fund does not have any exposure to changes in equity price risk as the Fund does not have any investments in equity securities.

11. **Fair Value of Financial Instruments**

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arms-length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flows models and option pricing models, as appropriate.

Set out below is a comparison by category of carrying amounts and fair values of the Fund's financial assets and liabilities that are carried in the financial statements as of December 31, 2009 and 2008:

	2009		2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Financial assets at FVPL				
Government and corporate bonds				
Treasury notes	**₱51,697,340**	**₱ 51,697,340**	₱50,166,067	₱ 50,166,067
Corporate bonds	**19,676,303**	**19,676,303**	45,216,680	45,216,680
Treasury bonds	–	–	–	–
Preferred shares	–	–	–	15,011,465
	71,373,643	**71,373,643**	95,382,747	110,394,212
Loans and receivables:				
Unquoted debt securities	**30,117,478**	**31,388,182**	30,179,434	31,484,640
Cash and cash equivalents	**27,682,755**	**27,682,755**	1,616,915	1,616,915
Notes receivable	**4,000,000**	**4,000,000**	4,000,000	4,000,000
Accrued interest	**1,950,640**	**1,950,640**	1,890,945	1,890,945
Dividend receivables	–	–	77,227	77,277
	63,750,873	**65,021,577**	38,553,568	39,858,774
	₱135,124,516	**₱136,395,220**	₱148,947,781	₱150,252,986
Other Financial Liabilities				
Payables	**₱123,234**	**₱123,234**	₱110,507	₱110,507

The methods and assumptions used by the Fund in estimating fair values of financial assets and financial liabilities are as follows:

Financial assets at FVPL
Fair values are generally based on quoted market prices. If market prices are not readily available or if the securities are not traded in an active market, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Cash and cash equivalents, loans and receivables payables
Due to the short-term nature of these instruments, fair values approximate carrying values.

Unquoted debt securities
Fair values are estimated using either values obtained from independent parties offering pricing services, adjusted quoted market prices of comparable investments or using the discounted cash flow method.

Fair value hierarchy
The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments measured at fair value:

Level 1: quoted (unadjusted) prices in active markets for identified assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2009, the Fund has financial assets at FVPL with carrying amount of ₱71.3 million which are classified as Level 2. During 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

12. Segment Reporting

For management purposes, the Fund is organized into one main operating segment, which invests in equity securities and debt instruments. All of the Fund's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the Fund as one segment. The financial results from this segment are equivalent to the financial statements of the Fund as a whole.

13. Earnings Per Share

	2009	2008	2007
Net investment income after tax (a)	**₱8,415,981**	₱5,276,121	₱10,539,803
Weighted average number of outstanding shares of stock (b)	**57,870,509**	131,144,478	90,675,679
Earnings per share (a/b)	**₱0.15**	₱0.04	₱0.12