STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Philequity Peso Bond Fund, Inc.** is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2013 and 2012, including the additional components attached therein, in accordance with the accounting principles generally accepted in the Philippines as prescribed in Note 2 to the financial statements. This responsibility includes designing and implementing internal controls 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.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

Sycip, Gorres, Velayo and Co., the independent auditors, appointed by the stockholders, has examined the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signed this 27th day of March, 2014.

IGNACIO B. GIMENEZ
Chairman & President
CTC No.: 34410091
January 08, 2014
Quezon City
TIN: 228-111-486

VIOLETA O. LUYM
Treasurer
CTC No.: 22773990
January 24, 2014
Mandaluyong City
TIN: 109-731-437

SUBSCRIBED AND SWORN to me before this APR 04 2014 QUEZON CITY at Pasig City, affiants exhibiting to me their Community Tax Certificates.

ATTY. TOMAS F. DULAY JR.
NOTARY PUBLIC
Until December 31, 2014
ADM MATTER #. NP-061-2014-2015
PTR# [illegible]01-02 /01-07-14 Q.C.
IBP# [illegible] CY-2014 Q.C.
Roll [illegible] 03/13-01
TIN [illegible]16
Add. [illegible] St. Proj. 4 Q.C.
MCLE [illegible]

Doc. No. 270
Page No. 54
Book No. 98
Series of 2014

SGV
Building a better working world

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1226 Makati City
Philippines

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Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philequity Peso Bond Fund, Inc.
2004-A East Tower, Philippine Stock Exchange Centre
Exchange Road, Ortigas Center
Pasig City

Report on the Financial Statements

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, 2013 and 2012, 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, 2013, and a summary of significant accounting policies and other explanatory information.

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

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 auditor's 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 auditor considers 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 at December 31, 2013 and 2012, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 17 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philequity Peso Bond Fund, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Michael C. Sabado
Partner
CPA Certificate No. 89336
SEC Accreditation No. 0664-AR-2 (Group A),
March 26, 2014, valid until March 25, 2017
Tax Identification No. 160-302-865
BIR Accreditation No. 08-001998-73-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225212, January 2, 2014, Makati City

March 27, 2014

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

	December 31 2013	2012
ASSETS		
Cash and cash equivalents (Note 6)	**₱98,829,616**	₱18,089,234
Financial assets at fair value through profit or loss (Note 7)	**160,513,545**	150,283,151
Loans and receivables (Notes 8)	**1,934,590**	1,792,416
Other asset	**89,523**	89,523
	₱261,367,274	₱170,254,324
LIABILITIES AND EQUITY		
Liabilities		
Accrued expense and other liabilities (Notes 9 and 14)	**₱632,869**	₱833,502
Equity		
Capital stock (Note 10)	**76,230,550**	56,417,640
Additional paid-in capital	**117,024,230**	52,936,099
Retained earnings (Note 10)	**67,479,625**	60,067,083
	260,734,405	169,420,822
	₱261,367,274	₱170,254,324
Net Asset Value per Share (Note 10)	**₱3.4203**	₱3.0030

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		
	2013	2012	2011
INVESTMENT INCOME			
Interest income (Notes 6, 7, 8 and 9)	**₱9,724,522**	₱13,860,964	₱19,913,537
Net gain on financial assets at fair value through profit or loss (Note 7)	**13,071,251**	5,661,798	10,513,193
Dividend income	**994,075**	132,682	–
	23,789,848	19,655,444	30,426,730
EXPENSES			
Professional fees	**462,627**	490,846	421,915
Taxes and licenses	**378,390**	293,534	878,022
Dues and fees	**20,000**	20,000	20,000
Interest expense (Note 9)	**–**	–	5,046,178
Others (Note 12)	**46,196**	39,039	159,928
	907,213	843,419	6,526,043
INVESTMENT INCOME BEFORE INCOME TAX	**22,882,635**	18,812,025	23,900,687
PROVISION FOR INCOME TAX (Note 13)	**1,944,903**	1,529,120	3,798,638
TOTAL COMPREHENSIVE INCOME	**₱20,937,732**	₱17,282,905	₱20,102,049
Earnings Per Share (Note 16)	**₱0.2747**	₱0.3063	₱0.2023

See accompanying Notes to Financial Statements.

BUREAU OF INTERNAL REVENUE
RDO NO. 043A
EAST PASIG CITY
RECEIVED
APR 12 2014
BY: ELNA V. DELLUTA

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

STATEMENTS OF CHANGES IN EQUITY

	Number of Shares Outstanding (Note 10)	Capital Stock (Note 10)	Additional Paid-in Capital	Retained Earnings	Total Equity
Balance at January 1, 2013	**56,417,640**	**₱56,417,640**	**₱52,936,099**	**₱60,067,083**	**₱169,420,822**
Shares issued during the year	**43,503,471**	**43,503,471**	**108,801,448**	**–**	**152,304,919**
Shares redeemed during the year	**(23,690,561)**	**(23,690,561)**	**(44,713,317)**	**(13,525,190)**	**(81,929,068)**
Total comprehensive income	**–**	**–**	**–**	**20,937,732**	**20,937,732**
Balance at December 31, 2013	**76,230,550**	**₱76,230,550**	**₱117,024,230**	**₱67,479,625**	**₱260,734,405**
Balance at January 1, 2012	99,359,684	₱99,359,684	₱112,600,833	₱65,692,249	₱277,652,766
Shares issued during the year	22,715,623	22,715,623	43,096,328	–	65,811,951
Shares redeemed during the year	(65,657,667)	(65,657,667)	(102,761,062)	(22,908,071)	(191,326,800)
Total comprehensive income	–	–	–	17,282,905	17,282,905
Balance at December 31, 2012	56,417,640	₱56,417,640	₱52,936,099	₱60,067,083	₱169,420,822
Balance at January 1, 2011	94,701,523	₱94,701,523	₱91,670,421	₱59,057,272	₱245,429,216
Shares issued during the year	250,537,682	250,537,682	391,533,498	–	642,071,180
Shares redeemed during the year	(245,879,521)	(245,879,521)	(370,603,086)	(13,467,072)	(629,949,679)
Total comprehensive income	–	–	–	20,102,049	20,102,049
Balance at December 31, 2011, as restated	99,359,684	₱99,359,684	₱112,600,833	₱65,692,249	₱277,652,766

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		
	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Investment income before income tax	**₱22,882,635**	₱18,812,025	₱23,900,687
Adjustments for:			
Net unrealized loss (gain) on changes in fair value of financial assets at fair value through profit or loss (Note 7)	**(5,968,495)**	9,444,136	(10,003,914)
Interest expense (income) on deposits for future stock subscription (Note 9)	**–**	(4,680,964)	5,046,178
Amortization of premium of unquoted debt security (Note 8)	–	–	1,653,833
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Financial assets at fair value through profit or loss	**(4,261,899)**	153,414,075	13,978,173
Loans and receivables	**(142,174)**	3,895,224	(100,327)
Other asset	–	–	(89,523)
Increase (decrease) in accrued expenses and other liabilities	**(200,633)**	549,172	(580,441)
Net cash generated from operations	**12,309,434**	181,433,668	33,804,666
Income taxes paid	**(1,944,903)**	(1,529,120)	(4,106,729)
Net cash provided by operating activities	**10,364,531**	179,904,548	29,697,937
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity of unquoted debt security (Note 8)	**–**	–	77,000,000
Proceeds from sale of unquoted debt security	**–**	–	4,300,000
Acquisition of unquoted debt security	**–**	–	–
Net cash provided by investing activities	**–**	–	81,300,000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares	**152,304,919**	65,811,951	642,071,180
Payments for redemptions of shares	**(81,929,068)**	(191,326,800)	(629,949,679)
Payments for redemptions of deposits for future stock subscription (Note 9)	**–**	(56,294,445)	(247,953,531)
Net cash provided by (used in) financing activities	**70,375,851**	(181,809,294)	(235,832,030)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**80,740,382**	(1,904,746)	(124,834,093)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**18,089,234**	19,993,980	144,828,073
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱98,829,616**	₱18,089,234	₱19,993,980
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDEND			
Interest received	**₱9,582,348**	₱17,756,049	₱21,416,515
Dividend received	**994,075**	132,682	–
Interest paid	–	–	323,715

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 SEC approved the change of the corporate name of the Fund.

Philequity Management, Inc. (PEMI) serves as the fund manager 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 BOD on March 27, 2014.

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, the Fund's functional currency, and all values are rounded to the nearest peso except when otherwise indicated.

Presentation of Financial Statements
The Fund presents its statement of financial position in order of liquidity. An analysis regarding recovery (asset) or settlement (liability) within 12 months from the reporting date (current) and beyond 12 months from the reporting date (noncurrent) is presented in Note 11.

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial year, except for the following new and amended Philippine Accounting Standards (PAS) and PFRS which were adopted as of January 1, 2013.

The following new and amended standards and interpretations do not have any impact on the accounting policies, financial position or performance of the Fund:

New and Revised Standards

- PFRS 10, *Consolidated Financial Statements*
- PFRS 11, *Joint Arrangements*
- PFRS 12, *Disclosure of Interests on Other Entities*
- PAS 19, *Employee Benefits* (Revised)
- PAS 27, *Separate Financial Statements* (as revised in 2011)
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
- PFRS 1, *First-time Adoption of International Financial Reporting Standards - Government Loans* (Amendments)

Annual Improvements to PFRSs (2009-2011 cycle)

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
- PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
- PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
- PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*

PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a) The gross amounts of those recognized financial assets and recognized financial liabilities;
b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c) The net amounts presented in the statement of financial position;
d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    ii. Amounts related to financial collateral (including cash collateral); and
e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments affect disclosures only and have no impact on the Fund's financial position or performance. The Fund does not have financial instruments that are set-off in accordance with PAS 32 or subject to an enforceable master netting arrangement or similar agreement. However these amendments would be considered for future transactions.

PFRS 13, *Fair Value measurement*
It establishes a single source of guidance under PFRS for all fair value measurements. It does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13.

Application of PFRS 13 has not materially impacted the fair value measurements of the Fund. Fair Value Information is disclosed in Note 5.

PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income* (Amendments)
The amendments to the standard change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The Fund has no items of other comprehensive income.

Summary of Significant Accounting Policies

Cash and Cash Equivalents
This includes cash in banks and cash equivalents. Cash equivalents represent short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placements and which are subject to an insignificant risk of changes in value.

Financial Instruments - Initial Recognition and Subsequent Measurement
Date of recognition
Financial instruments within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, 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 on the settlement date.

Initial recognition of financial instruments
Financial instruments are initially recognized at fair value of the consideration given. 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, available-for-sale (AFS) investments, held-to-maturity (HTM) investments and loans and receivables. Financial liabilities are classified either as financial liabilities at FVPL or other financial liabilities carried at amortized cost or 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.

As of December 31, 2013 and 2012, the Fund has financial assets at FVPL and loans and receivables.

Determination of fair value
The Fund measures financial instruments at fair value at each statement of financial position date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the statement of financial position on a recurring basis, the Fund determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

'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 an observable market, the Fund recognizes the difference between the transaction price and fair value (a 'Day 1 difference') in the profit or loss in the statement of comprehensive income unless it qualifies for recognition as some other type of asset.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss 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' amount.

Financial assets and financial liabilities 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 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 one or more embedded derivatives which significantly modify the cash flow that would otherwise be required by the contract.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recognized in the profit or loss in the statement of comprehensive income. Interest earned or incurred is recorded in interest income or expense, respectively.

As of December 31, 2013 and 2012, the Fund’s financial assets at FVPL consists of investments in government securities, corporate bonds and quoted equity security.

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 financial assets held-for-trading, designated at FVPL or classified as AFS investments.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest 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 effective interest rate (EIR). The amortization is included under ‘Interest income’ in the profit or loss in the statement of comprehensive income. The losses arising from impairment of such loans and receivables are also recognized as ‘Provision for (reversal of) impairment and credit losses’ in the profit or loss in the statement of comprehensive income.

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 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 EIR.

Other financial liabilities include liabilities arising from operations or borrowings.

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

- 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 ownership and retained control over the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control over 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 liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. 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 profit or loss in the statement of comprehensive income.

Impairment of Financial Assets
The Fund assesses at each reporting date whether there is objective evidence that a financial asset or a 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 a 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
If there is objective evidence that an impairment loss on financial assets carried at amortized cost (i.e. receivables) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original EIR. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss shall be recognized in profit or loss in the statement of comprehensive income. The asset, together with the associated allowance accounts, is written-off when there is no realistic prospect of future recovery.

The Fund first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss in the statement of comprehensive income to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is 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. This is not generally the case with master netting agreements where the related assets and liabilities are presented gross in the statement of financial position.

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 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 are recorded as charges against equity.

Share Issuance Costs
Share issuance costs such as sales load fee are deducted against 'Additional paid-in capital'. If 'Additional paid-in capital' is not sufficient to absorb the share issuance costs, any excess is charged against 'Retained earnings'.

Retained Earnings
The amounts in retained earnings include accumulated investment income from previous periods reduced by excess of redemption costs over the original issuance price of redeemed shares.

NAV Per Share
NAV per share is computed by dividing net assets (total assets less total liabilities) by the total number of redeemable shares issued and outstanding.

The Fund is organized into one main operating segment which invests in debt instruments. All of the Fund's activities are interrelated and interdependent. 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.

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, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The Fund assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognized:

Net gain on financial assets at FVPL
This item includes two components (a) Net realized gain or loss on sale of financial assets at FVPL and (b) Net unrealized gain or loss on changes in fair value of financial assets at FVPL.

Net realized gain or loss on sale of financial assets at FVPL is determined at the time of the sale transaction calculated as the difference between the net sales proceeds and the average cost per share sold or acquisition cost of the instruments.

Net unrealized gain or loss on changes in fair value of financial assets at FVPL comprises changes in the fair value of financial assets for the year and from reversal of prior year's unrealized gains and losses for financial instruments which were realized in the reporting period.

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

Dividend income
Dividend is recognized when the Fund's right to receive payment is established.

Expense Recognition
Expenses are recognized when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized when incurred.

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 profit or loss in the statement of comprehensive 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. Increase in provision due to time value of money is recorded as interest expense.

Contingent Liabilities and Contingent Assets
Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the statement of financial position but are disclosed when an inflow of economic benefits is probable.

Income Taxes
Current income 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 substantively enacted at the reporting date.

Deferred tax
Deferred tax is provided using the balance sheet liability method on all temporary differences, with certain exceptions, at the 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 unused tax credits from the excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carryforward of unused tax credits from excess MCIT and unused NOLCO can be utilized. Deferred tax assets, however, are 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 tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in profit or loss or other comprehensive income.

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

Events After the Reporting Date

Post-year-end events that provide additional information about the Fund’s assets and liabilities at reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements, when material.

Standards Issued but not yet Effective

Standards issued but not yet effective up to date of issuance of the Fund’s financial statements are listed below. The Fund intends to adopt these standards when they become effective. Except when otherwise indicated, the Fund does not expect the adoption of these new and amended standards and interpretations to have significant impact on its financial statements.

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities* (Amendments)

These amendments to PAS 32 clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Fund’s financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Fund's financial position or performance.

Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)
These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Fund as it does not have any investment entities.

Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Fund does not expect that IFRIC 21 will have material financial impact in future financial statements.

PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Fund has not entered into derivative transactions during the current period.

PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. This amendment is not relevant to the Fund as it does not have defined benefit plans.

Annual Improvements to PFRSs (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to PFRSs:

PFRS 2, *Share-based Payment - Definition of Vesting Condition*
The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Fund as it has no share-based payments.

PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Fund does not expect that this amendment will have material financial impact in future financial statements.

PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Fund's financial position or performance. The Fund does not expect that this amendment will have material financial impact in future financial statements.

PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*
The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The Fund does not expect that this amendment will have material financial impact in future financial statements.

PAS 24, *Related Party Disclosures - Key Management Personnel*
The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose

the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Fund's financial position or performance.

PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*
The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

b) The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Fund's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of ' Effective PFRSs'*
The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Fund as it is not a first-time adopter of PFRS.

PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively.

PFRS 13, *Fair Value Measurement - Portfolio Exception*
The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively. The amendment has no significant impact on the Fund's financial position or performance.

PAS 40, *Investment Property*
The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no impact on the Fund's financial position or performance.

PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39, *Financial Instruments: Recognition and Measurement* in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date and may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Fund will not adopt the standard before the completion of the limited amendments and the second phase of the project.

Philippine Interpretation IFRIC-15, *Agreement 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. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB)

and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Fund.

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, if any. Future events may occur which may 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

a. *Going concern*
   The Fund has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. The management of the Fund is not aware of any material uncertainties that may cast significant doubts upon the Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

b. *Classification of financial instruments*
   The Fund exercises judgment in classifying a financial instrument, or its component, on initial recognition either as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, financial liability or equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of financial position.

c. *Fair values 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 discounted cash flow technique. Discount rates were derived from observable market data where possible and based on judgments which include considerations of liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Estimates

The key assumptions concerning the future and other key sources of estimation and uncertainty as of reporting date that have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is as follows:

Recognition of deferred tax assets

The Fund assesses the carrying amounts of deferred tax assets at the reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

The temporary difference in NOLCO for which the Fund did not recognize deferred tax asset is disclosed in Note 13.

4. Financial Risk Management Objectives and Policies

The Fund's principal financial instruments comprise cash and cash equivalents and financial assets at FVPL. 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 loans and receivable and accrued expenses and other liabilities, which arise directly from its operations.

Governance Framework
The Fund has established a risk management function under Treasury department 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, setting of limits structure to ensure the appropriate quality and diversification of assets, and specification of reporting requirements.

Regulatory Framework
The operations of the Fund are subject to the regulatory requirements of the SEC and are governed by the provision in its prospectus that incorporated relevant investment rules and regulations such as the Investment Company Act (ICA) and the Anti-Money Laundering Law.

The Fund's investment activities are guided by the following limitations/restrictions indicated in its prospectus:

- Unless the applicable Philippine laws, rules, regulations, and orders of the SEC provide otherwise, the Fund shall not sell securities short nor invest in any of the following: margin purchase of securities, commodity futures contract, precious metals and unlimited liability investments.
- The Fund shall not incur any further debt or borrowings unless at the time of its incurrence or immediately thereafter, there is a net asset coverage of at least 300.00% for all its borrowings, or such net asset coverage as the Philippine laws and regulations may prescribe. In the event that such asset coverage shall fall below 300.00%, the Fund shall within three days thereafter or such period as the applicable Philippine laws and regulations may require, reduce the amount of borrowings to an extent that the net asset coverage shall be at least 300.00% or the coverage required by law.
- Unless permitted by applicable Philippine laws, rules or regulations, the Fund shall not participate in an underwriting or selling group in connection with the public distribution of securities, except its own capital stock.
- The Fund shall not invest in real estate properties and developments.
- The Fund shall not invest in any company for the purposes of exercising control or management.
- The Fund shall not issue or sell senior securities of which it is the issuer.

- The Fund shall not extend loans to individuals. Loans or credit extensions to corporations shall be limited to commercial papers and bonds registered with the SEC, or subject of a grant of exemption therefrom, and which have been preapproved by the BOD.
- The Fund shall not invest in the securities of other investment companies.
- The Fund shall not purchase from or sell to any of its officers or directors, or to any of the officers or directors of its investment adviser/s, manager or distributor/s or firm/s of which any of them are members, any security other than the capital stock of the Fund.
- The total operational expenses of the Fund shall not exceed 10.00% of its total investment fund, total net worth or total NAV as shown in the previous year's audited financial statements, or such other limitations as may be prescribed by the applicable Philippine laws or regulations.

Risk Management Policies
The Fund is exposed to financial risk through its financial assets and liabilities. The most significant components of financial risk are credit risk, liquidity risk and market risk. The BOD reviews and approves policies for managing the aforementioned risks and 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.

Maximum exposure to credit risk
The Fund's maximum exposure to credit risk is limited to the carrying value of its financial assets as of reporting date. The Fund does not hold any collateral or other credit enhancements that will mitigate credit risk exposure.

Credit quality per class of financial assets
As of December 31, 2013 and 2012, these financial assets are viewed by management as high grade and there are no past due or impaired financial assets.

The Fund's basis in grading its financial assets follows:
High grade cash and cash equivalents are short-term placements and working cash fund placed, invested, or deposited in local banks belonging to the top twenty banks in terms of resources and profitability.

High grade accounts are accounts considered to be of high value. The counterparties have a remote likelihood of default and have consistently exhibited good paying habits.

Standard grade accounts are active accounts with propensity of deteriorating to mid-range age buckets. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

Substandard grade accounts are accounts which have probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up actions and extended payment terms.

Offsetting of financial assets and liabilities
The amendments to PFRS 7, which is effective January 1, 2013, requires the Company to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements.

As of December 31, 2012 and 2012, the Company does not have financial instruments that can be offset under enforceable master netting agreements or similar agreements.

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. The Fund is exposed to the risk of being unable to meet its payment obligations to redeeming shareholders. It therefore invests the majority of its assets in investments that are traded in an active market and can be readily liquidated.

To limit this risk, the Fund strictly complies with ICA Rule 35-1 which requires all Investment Companies/Mutual Funds to invest at least ten percent of its net assets in liquid/semi-liquid assets. This Rule defines such assets as (a) Treasury notes or bills, certificates of indebtedness issued by the Bangko Sentral ng Pilipinas (BSP) 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, 2013 and 2012 and their respective percentages to total net assets of the Fund:

	2013	2012
Government securities	**47.43%**	72.26%
Cash and cash equivalents	**37.90%**	10.68%
Quoted equity security	**7.11%**	5.41%
Corporate bonds	**7.02%**	11.04%
	99.46%	99.39%

The tables below analyze financial assets and liabilities of the Fund as of December 31, 2013 and 2012 into their relevant maturity groups based on remaining contractual undiscounted cash flows:

	December 31, 2013						
	On demand	Less than one month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial Assets							
Financial assets at FVPL:							
Government securities	₱–	₱151,125	₱287,625	₱1,340,625	₱7,122,375	₱146,017,126	₱154,918,876
Corporate bonds	–	59,023	112,334	514,048	4,625,444	15,507,787	20,818,636
Quoted equity security	18,525,644	–	–	–	–	–	18,525,644
Loans and receivables:							
Cash and cash equivalents	1,488,801	97,346,223	–	–	–	–	98,835,024
Other receivables	–	5,000	–	–	–	–	5,000
	20,014,445	97,561,371	399,959	1,854,673	11,747,819	161,524,913	293,103,180
Financial Liabilities							
Accrued expenses and other liabilities*	–	608,262	–	–	–	–	608,262
Redeemable shares	260,734,405						260,734,405
Net Asset (Liability)	(₱240,719,960)	₱96,953,109	₱399,959	₱1,854,673	₱11,747,819	₱161,524,913	₱31,760,513

Excludes government-related payables

	December 31, 2012						
	On demand	Less than one month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial Assets							
Financial assets at FVPL:							
Government securities	₱–	₱2,123,702	₱–	₱3,918,702	₱24,169,615	₱205,650,022	₱235,862,041
Corporate bonds	–	14,750	50,769	1,100,924	18,260,318	1,118,000	20,544,761
Quoted equity security	9,161,390	–	–	–	–	–	9,161,390
Loans and receivables:							
Cash and cash equivalents	824,418	17,266,638	–	–	–	–	18,091,056
Other receivables	–	5,000	–	–	–	–	5,000
	9,985,808	19,410,090	50,769	5,019,626	42,429,933	206,768,022	283,664,248
Financial Liabilities							
Accrued expenses and other liabilities*	–	824,322	–	–	–	–	824,322
Redeemable shares	169,420,822	–	–	–	–	–	169,420,822
Net Asset (Liability)	(₱159,435,014)	₱18,585,768	₱50,769	₱5,019,626	₱42,429,933	₱206,768,022	₱113,419,104

**Excludes government-related payables*

As of December 31, 2013 and 2012, all financial liabilities of the Fund subject to liquidity risk are contractually payable at their face amounts. The Fund considers its cash equivalents, financial assets at FVPL and loans receivables as liquidity risk management tools. These financial instruments may be liquidated or sold by the Fund anytime the need for immediate funding arises.

As of December 31, 2013 and 2012, the Fund has available credit line amounting to ₱20.00 million.

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). Unsystematic risk, on the other hand, is the variability in price caused by factors which are specific to the particular issuer (corporation) of the debt security. Through proper portfolio diversification, this risk can be minimized as losses on one particular debt security may be offset 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 effectiveness of the diversification of the portfolio may be evaluated by comparing the volatility of the portfolio versus the volatility of the Hongkong Shanghai Banking Corporation (HSBC) Local Bond Index (Index) for the Philippines, which is a basket of all outstanding Peso-denominated government bonds.

The table below shows the comparison of the volatility of the investment portfolio as of December 31, 2013 and 2012 measured by the Fund's annualized daily standard deviation and volatility of the HSBC Local Bond Index.

Volatility of investment portfolio	**2013**	2012
The Fund	**7.39%**	4.65%
HSBC Local Bond Index	**5.17%**	3.64%

a. *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 equivalent and loans and 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.

b. *Equity Price Risk*
The Fund's price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally listed equity securities held for trading.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market. The Fund's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plan and limits on investments.

The table below demonstrates how the change in the investment portfolio affects income before income tax and equity with a reasonably possible change in the PSE index for the years ended December 31, 2013 and 2012 with all other variables held constant, of the Fund's income before income tax. There is no other impact on the Fund's equity account other than those already affecting the profit or loss in the statements of comprehensive income:

	Percentage change in the PSE index	
Effect on income before income tax	**+2.69%**	**–2.69%**
2013	**₱404,304**	**(₱404,304)**

	Percentage change in the PSE index	
Effect on income before income tax	+2.37%	–2.37%
2012	₱193,241	(₱193,241)

c. *Fair value interest rate risk*
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's fixed rate investments and receivables in particular are exposed to such risk.

Refer to table below for simulation of measurable changes as of December 31, 2013 and 2012 using modified duration at 100 basis points as an approximation:

	Effect on Pre-Tax Income	
Basis points change in interest rates	**2013**	2012
+100	**(₱12,237,933)**	(₱12,228,432)
–100	**13,985,746**	14,064,320

d. *Cash flow interest rate risk/reinvestment risk*
Cash flow interest rate risk is the risk that cash flows from a financial instrument will fluctuate because of changes in market interest rates. The Fund's floating rate investments are exposed to such risk.

As of December 31, 2013 and 2012, the Fund does not have exposure to cash flow interest rate risk as the Fund does not have any floating rate financial instruments.

5. 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 arm's 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.

The methods and assumptions used by the Fund in estimating the fair values:

Cash and cash equivalents, accrued interest receivable and other receivables
The carrying amounts approximate the fair values due to short-term maturity of these instruments.

AFS investments and financial assets at FVPL
Fair values are generally based on quoted market prices. For the Fund's equity and fixed income investments, fair values are determined based on quoted bid price in the PSE and fixing rates of the Philippine Dealing Exchange, respectively. 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.

Accrued expenses and other liabilities
The carrying amounts approximate fair values considering that these are due and demandable.

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.

The following table summarizes the carrying amounts and the fair values by level of the fair value hierarchy of the Fund's financial assets and liabilities as at December 31, 2013:

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities recognized as of December 31, 2013 and 2012:

	2013				
		Fair value measurement using			
	Carrying Value	Quoted prices in active markets (Level 1)	Observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)	Total Fair Value
Assets measured at fair value:					
Financial assets at FVPL					
Equity Securities	**₱18,525,644**	**₱18,525,644**	**₱–**	**₱–**	**₱18,525,644**
Debt Securities					
Government	**123,675,001**	**123,675,001**	**–**	**–**	**123,675,001**
Private	**18,312,900**	**–**	**18,312,900**	**–**	**18,312,900**

	2012				
		Fair value measurement using			
	Carrying Value	Quoted prices in active markets (Level 1)	Observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)	Total Fair Value
Assets measured at fair value:					
Financial assets at FVPL					
Equity Securities	₱9,161,390	₱9,161,390	₱–	₱–	₱9,161,390
Debt Securities					
Government	122,419,811	122,419,811	–	–	122,419,811
Private	18,701,951	–	18,701,951	–	18,701,951

As of December 31, 2013 and 2012, there are no transfers into and out of Level 1 and Level 2 fair value hierarchy. There are also no changes in the valuation techniques of financial instruments Level 3 fair value hierarchy.

6. Cash and Cash Equivalents

This account consists of:

	2013	2012
Cash in banks	**₱1,488,801**	₱824,418
Short-term placements	**97,340,815**	17,264,816
	₱98,829,616	₱18,089,234

Cash in banks earn interest at the respective bank deposit rates. Short-term placements 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. The Fund earns interest rates per annum ranging from 0.25% to 2.38% and from 2.13% to 2.38%, and from 1.75% to 4.25% in 2013, 2012, and 2011 respectively.

In 2013, 2012 and 2011, interest income earned from short-term placements and cash in banks amounted to ₱0.33 million, ₱0.41 million and ₱0.73 million, respectively.

7. Financial Assets at FVPL

This account consists of investments in:

	2013	2012
Government securities	**₱123,675,001**	₱122,419,810
Corporate bonds	**18,312,900**	18,701,951
Quoted equity security	**18,525,644**	9,161,390
	₱160,513,545	₱150,283,151

As of December 31, 2013 and 2012, the carrying value of financial assets at FVPL includes fair value gains of ₱5.97 million and fair value losses of ₱9.44 million, respectively.

Net gain on financial assets at FVPL consists of:

	2013	2012	2011
Net realized gain on sale of financial assets at FVPL	**₱7,102,756**	₱15,105,934	₱509,279
Net unrealized gain (loss) on changes in fair value of financial assets at FVPL	**5,968,495**	(9,444,136)	10,003,914
	₱13,071,251	₱5,661,798	₱10,513,193

Details on gains realized from investments sold during the year are as follows:

	2013	2012	2011
Proceeds	**₱271,337,330**	₱531,614,209	₱626,554,512
Cost of debt securities	**(264,234,574)**	(516,508,275)	(626,045,233)
Net realized gain on sale of financial assets at FVPL	**₱7,102,756**	₱15,105,934	₱509,279

In 2013, 2012 and 2011, government securities bear an annual coupon interest rates ranging from 6.13% to 8.00%, from 6.13% to 8.13% and from 6.30% to 8.15%, respectively. In 2013, 2012 and 2011, corporate bonds bear annual coupon interest rates ranging from 6.13% to 9.10%, from 7.38% to 9.10% and from 7.38% to 9.10%, respectively.

In 2013, 2012 and 2011, interest income earned on government securities and corporate bonds amounted to ₱9.40 million, ₱8.77 million and ₱16.58 million, respectively.

8. Loans and Receivables

This account consists of:

	2013	2012
Accrued interest receivable	**₱1,929,590**	₱1,787,416
Other receivables	**5,000**	5,000
	₱1,934,590	₱1,792,416

The Fund had unquoted debt security which matured in September 2011 with proceeds amounting to ₱77.00 million. This pertains to investment in a private bond that was acquired at a premium over its face amount and has an interest rate of 7.25% per annum. Interest income on unquoted debt security amounted to ₱2.60 million net of premium amortization amounting to ₱1.65 million in 2011.

Interest income consists of:

	2013	2012	2011
Cash and cash equivalents (Note 6)	**₱326,231**	₱413,090	₱731,415
Financial assets at FVPL (Note 7)	**9,398,291**	8,766,910	16,582,851
Deposit for future stock subscription (Note 9)	–	4,680,964	–
Unquoted debt security	–	–	2,599,271
	₱9,724,522	₱13,860,964	₱19,913,537

9. Accrued Expenses and Other Liabilities and Deposits for Future Subscription

Accrued Expenses and Other Liabilities
This account consists of:

	2013	2012
Financial liabilities:		
Accounts payable	**₱447,100**	₱697,404
Accrued expenses	**118,095**	123,288
Due to PEMI (Note 14)	**43,067**	3,630
	608,262	824,322
Nonfinancial liabilities:		
Documentary stamp tax payable	**23,213**	8,824
Withholding tax payable	**1,394**	356
	24,607	9,180
	₱632,869	₱833,502

Accounts payable includes payable to shareholders for unpaid redemption proceeds and subscriptions without confirmation from investors. Subscription is confirmed once the required subscription documents are submitted. Once confirmed, these subscriptions are reclassified to equity.

Deposits for Future Stock Subscription
Deposits for future stock subscription pertain to total consideration received in excess of the authorized capital of the Fund with the purpose of applying the same as payment for future issuance of redeemable shares.

In 2010, the Fund received deposits for future stock subscription of ₱304.25 million for shares totaling 117,256,815 from new third-party investors.

On March 16, 2011, the BOD approved the proposal to amend the Articles of Incorporation to increase its authorized capital stock from 100,000,000 to 500,000,000 common shares with par value of ₱1 par value per share. As of December 31, 2012, the Fund is in the process of preparing the application documents to file the application for increase in authorized capital stock with the SEC. The Fund was not able to comply with all the requirements set by FRB No. 006 dated February 16, 2012 and as revised on January 24, 2013. Thus, the Fund classifies the deposits for future stock subscription as a liability.

At every reporting date, the Fund revalues the deposits for future stock subscription (DFFS) based on the prevailing NAV per share. Any changes in the value of the deposits for future stock subscription at every reporting date or date of redemption and their corresponding initial cost is recorded under interest income or interest expense for the period.

	2013	2012	2011
Beginning of the year	**₱–**	₱60,975,409	₱303,882,762
Redemptions*	–	(56,294,445)	(247,629,816)
Interest expense (income)	–	(4,680,964)	4,722,463
Ending of the year	**₱–**	₱–	₱60,975,409
Number of shares	–	–	21,820,573

**Pertains to book value of DFFS redeemed*

Total number of shares redeemed under deposits for future stock subscription amounted to nil, 21,820,573 shares and 95,436,242 shares in 2013, 2012 and 2011, respectively.

10. **Equity**

Capital Stock
The Fund's capital stock consists of:

	2013		2012	
	Shares	**Amount**	Shares	Amount
Common - ₱1.00 par value				
Authorized	**100,000,000**		100,000,000	
Issued and outstanding	**76,230,550**	**₱76,230,550**	56,417,640	₱56,417,640

The authorized number of shares registered with the SEC on February 24, 1999 amounts to 100,000,000 with a par value of ₱1.00 per share.

As of December 31, 2013 and 2012, the total number of stockholders of the Company is 404 and 184, respectively.

NAV Per Share
As an open-end mutual fund company, the Fund stands ready at any time to redeem the outstanding capital stock at NAV per share.

The shares are entitled to payment of a proportionate share of the Fund's NAV on the redemption date or upon winding up of the Fund. The Fund's issued and outstanding shares are redeemed at their NAV calculated in accordance with redemption requirements. The total expected cash outflow on redemption of all the shares equals the Fund's equity. Issuance, repurchase and resale of redeemable shares is based on the prevailing NAV per share at the date of the transaction.

	2013	2012
NAV attributable to holders of redeemable shares	**₱260,734,405**	₱169,420,822
Number of shares outstanding	**76,230,550**	56,417,640
NAV per share	**₱3.4203**	₱3.0030

Capital Management
The Fund's investment objective is to seek long-term capital appreciation through investment primarily in various debt securities issued by the Philippine government and corporations, while taking into consideration the liquidity and safety of its investments to protect the interest of its investors.

Due to the Fund's nature as an open-end mutual fund, its capital, consisting entirely of common shares, is variable and increases or decreases depending on the volume of subscriptions and redemptions made by its various 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. The investment restrictions of the Fund are discussed in Note 4.

The 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: three days after date of transaction; and

b) Redemptions from shareholders: maximum of seven days after date of transaction as prescribed by the ICA Rule 35-1.

As of December 31, 2013 and 2012, the number of shareholders of the Fund's redeemable shares is 404 and 184, respectively.

There are no changes made in the objectives and policies during the years ended December 31, 2013, 2012 and 2011.

Minimum Capital Requirement
As an investment company registered with the SEC, the Fund must continually comply with the minimum subscribed and paid-up capital of ₱50.0 million as required under Section 12, *Structure and Capitalization of Investment Companies* of ICA. As of December 31, 2013, 2012 and 2011, the Fund has complied with this externally imposed capital requirement.

Retained Earnings
Under the Corporation Code of the Philippines (the Code), a stock corporation is prohibited from retaining surplus profits in excess of 100.00% of its paid-in capital stock, except when qualified by any reasons mentioned in the Code. Paid-in capital stock is the amount of outstanding capital stock and paid-in capital or premium over the par value of shares.

As of December 31, 2013 and 2012, the Fund is in compliance with this requirement. There is no retained surplus profit in excess of 100.00% of paid-in capital stock.

11. Maturity Analysis

The following table shows an analysis of assets and liabilities, analyzed according to whether they are expected to be recovered or settled within one year from reporting date:

	2013			2012		
	Within One Year	**More than One Year**	**Total**	Within One Year	More than One Year	Total
Financial Assets						
Cash and cash equivalents	**₱98,829,616**	**₱–**	**₱98,829,616**	₱18,089,234	₱–	₱18,089,234
Financial assets at FVPL:						
Government securities	**123,675,001**	–	**123,675,001**	122,419,810	–	122,419,810
Corporate bonds	**18,312,900**	–	**18,312,900**	18,701,951	–	18,701,951
Quoted equity security	**18,525,644**	–	**18,525,644**	9,161,390	–	9,161,390
Receivables (Note 8):		–				
Accrued interest receivables	**1,929,590**	–	**1,929,590**	1,787,416	–	1,787,416
Other receivables	**5,000**	–	**5,000**	5,000	–	5,000
	261,277,751		**261,277,751**	170,164,801	–	170,164,801
Nonfinancial Assets						
Other assets	**89,523**	–	**89,523**	89,523	–	89,523
	₱261,367,274	**₱–**	**₱261,367,274**	₱170,254,324	₱–	₱170,254,324
Financial Liabilities						
Accrued expenses and other liabilities	**₱608,262**	**₱–**	**₱608,262**	₱824,322	₱–	₱824,322
Nonfinancial Liabilities						
Withholding tax payable	**1,394**	–	**1,394**	356	–	356
Documentary stamp tax payable	**23,213**	–	**23,213**	8,824	–	8,824
	₱632,869	**₱–**	**₱632,869**	₱833,502	₱–	₱833,502

12. Other expenses

Breakdown of other expenses is as follows:

	2013	2012	2011
Transaction cost	**₱23,833**	₱–	₱
Directors' fee	**10,000**	20,000	30,000
Office Supplies	**4,500**	–	–
Bank charges	**3,564**	1,278	2,204
Printing and reproduction	**3,125**	4,390	4,938
Filing fees	–	5,050	–
Transfer fees	–	2,725	3,375
Insurance expense	–	1,512	–
Custodian fee	–	77	11,265
Trustee fee		–	108,040
Miscellaneous	**1,174**	4,007	106
	₱46,196	₱39,039	₱159,928

13. Income Tax

Provision for income tax consists of:

	2013	2012	2011
Final tax	**₱1,944,903**	₱1,529,120	₱3,462,816
RCIT	–	–	335,822
	₱1,944,903	₱1,529,120	₱3,798,638

Republic Act (RA) No. 9337, *An Act Amending National Internal Revenue Code*, provides that RCIT rate shall be 35.00% until December 31, 2008. Starting January 1, 2009, the RCIT rate shall be 30.00%. The National Internal Revenue Code (NIRC) of 1997 provides for rules on the imposition of a 2.00% MCIT on modified gross income. The MCIT and NOLCO may be applied against the Fund's income tax liability and taxable income, respectively, over a three-year period from the year of inception. Moreover, starting July 1, 2008, the Optional Standard Deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT.

The Fund did not recognize deferred tax assets on its NOLCO amounting to ₱0.53 million and ₱0.25 million, as of December 31,2013 and 2012, respectively. The fund believes that it will not be able to utilize its NOLCO before its expiration.

The NOLCO that can be claimed as deduction against normal taxable income, with their corresponding expiry dates, are as follows:

Year Incurred	Amount	Expired	Balance	Expiry Year
2012	₱843,420	₱–	₱843,420	2015
2013	907,213	–	907,213	2016
	₱1,750,633	₱–	₱1,750,633	

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

	2013	2012	2011
Income tax at statutory tax rate	**₱6,864,790**	₱5,643,608	₱7,170,206
Tax effects of:			
Net gain on financial assets at FVPL	**(3,921,376)**	(1,698,539)	(3,153,956)
Interest income subjected to final tax	**(972,452)**	(764,561)	(1,731,465)
Dividend income exempt from tax	**(298,223)**	(39,805)	–
Change in unrecognized DTA - NOLCO	**272,164**	253,026	–
Nontaxable income	**–**	(1,864,609)	–
Nondeductible expense	**–**	–	1,513,853
	₱1,944,903	₱1,529,120	₱3,798,638

14. Related Party Disclosures

Parties are considered to be related if one party has the ability to, directly or indirectly, 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. Transactions are based on terms agreed by related parties. Other related parties include PEMI and other funds being managed by PEMI.

Related party transactions and balances as of and for the years ended December 31, 2013 and 2012 follows:

	2013		
	Amount/Volume	**Outstanding Balance**	**Terms and Conditions**
Other Related Party			
Sales commission for remittance	**₱320,100**	**₱43,067**	**Due the following month, non-interest bearing and unsecured.**

	2012		
	Amount/Volume	Outstanding Balance	Terms and Conditions
Other Related Party			
Sales commission for remittance	₱70,560	₱3,630	Due the following month, non-interest bearing and unsecured.

	2011		
	Amount/Volume	Outstanding Balance	Terms and Conditions
Other Related Party			
Sales commission for remittance	₱44,483	₱4,217	Due the following month, non-interest bearing and unsecured.
Reimbursement to PEMI for various expenses	20,766	20,766	Due the following month, non-interest bearing and unsecured.

Due to PEMI is included under 'Accrued expenses and other liabilities' account in the statements of financial position.

Terms and conditions of transactions with related parties
Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. An impairment assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates. In 2013, 2012 and 2011, no provisions for credit losses were provided for the related parties' transactions.

Compensation of key management personnel
The Fund has no key management personnel. The key management functions are being handled by PEMI.

The table below shows the details of the number of shares held by the directors as of December 31, 2013 and 2012:

	2013	2012	2011
Balance at January 1	**8,613,271**	7	7
Subscriptions	**2,841**	8,613,264	–
Withdrawals	**(8,613,264)**	–	–
	2,848	8,613,271	7

The subscriptions and withdrawals are attributable to the change in number and members of the board rather than the change in investment of the directors.

15. Segment Reporting

The table below analyzes the Fund's revenue streams per investment type:

	2013	2012	2011
Financial assets at FVPL - debt securities	**₱22,469,542**	₱14,428,708	₱27,096,044
Financial assets at FVPL - quoted equity security	**994,075**	132,682	–
Short-term placements and cash in banks	**326,231**	413,090	731,415
Deposits for future stock subscription	–	4,680,964	2,599,271
Others	**8,824**	–	–
	₱23,798,672	₱19,655,444	₱30,426,730

16. Earnings per Share

Earnings per share is calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year (adjusted for any stock dividends).

The following table reflects the net income and share data used in the earnings per share computations:

	2013	2012	2011
Net income	**₱20,937,732**	₱17,282,905	₱20,102,049
Divided by weighted average number of common shares	**76,230,550**	56,417,640	99,359,684
	₱0.2747	₱0.3063	₱0.2023

There were no potential dilutive common shares for the periods ended December 31, 2013, 2012 and 2011.

17. Supplementary Information Required Under Revenue Regulations No.15-2010

Supplementary Information Required Under RR No. 15-2010
The Fund also reported and/or paid the following types of taxes for the year:

Taxes and Licenses
In 2013, the Fund reported and/or paid the following taxes and licenses fees:

Municipal permits	₱144,785
Documentary stamp tax	217,766
Community tax	7,950
Fire safety clearance	2,064
Annual registration	5,500
Barangay clearance	325
	₱378,390

Withholding Taxes
As of December 31, 2013, total remittances and balance of withholding taxes follow:

	Total Remittances	Balance
Final withholding taxes	₱65,245	₱–
Expanded withholding taxes	38,658	1,394
	₱103,903	₱1,394