Philequity Dollar Income Fund, Inc.
*(An Open-End Mutual Fund Company)*

Financial Statements
December 31, 2009 and 2008

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

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# INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philequity Dollar Income Fund, Inc.

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

## Management's Responsibility for the Financial Statements

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

## Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

SGV & Co
Ernst & Young



**Opinion**

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

We have also reviewed the translation of the financial statements mentioned above to Philippine Peso on the basis described in Note 2 to the financial statements. In our opinion, such financial statements have been properly translated on such basis.

SYCIP GORRES VELAYO & CO.

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

April 16, 2010

# PHILEQUITY DOLLAR INCOME FUND, INC.
## (An Open-End Mutual Fund Company)
# STATEMENTS OF FINANCIAL POSITION

| | **December 31, 2009** | | December 31, 2008 (As restated - Note 2) | | January 1, 2008 (As restated - Note 2) | |
|---|---|---|---|---|---|---|
| | **Functional Currency** | **Presentation Currency** | Functional Currency | Presentation Currency | Functional Currency | Presentation Currency |
| | ***(In U.S. Dollar)*** | ***(In Philippine Peso)*** | *(In U.S. Dollar)* | *(In Philippine Peso)* | *(In U.S. Dollar)* | *(In Philippine Peso)* |
| **ASSETS** | | | | | | |
| **Cash and Cash Equivalents** (Note 4) | **$4,438** | **₱206,201** | $573,810 | ₱27,267,435 | $463,128 | ₱19,118,032 |
| **Financial Assets at Fair Value through Profit or Loss** (Note 5) | **2,383,916** | **110,778,188** | 1,649,803 | 78,398,643 | 896,845 | 37,021,762 |
| **Loans and Receivables** | **12,161** | **565,140** | 39,397 | 1,872,136 | 1,028,162 | 42,442,536 |
| **Creditable Withholding Tax** | **13,453** | **625,037** | 13,453 | 558,345 | 13,453 | 558,345 |
| **Total Assets** | **$2,413,968** | **₱112,174,566** | $2,276,463 | ₱108,096,559 | $2,401,588 | ₱99,140,675 |
| **LIABILITIES AND EQUITY** | | | | | | |
| **Current Liabilities** | | | | | | |
| Payables | **$1,831** | **₱85,102** | $1,386 | ₱65,872 | $1,014 | ₱42,128 |
| **Equity** (Note 6) | | | | | | |
| Capital stock | **1,199,306** | **56,463,398** | 1,260,907 | 59,654,675 | 1,338,859 | 63,888,624 |
| Additional paid-in capital | **594,426** | **32,753,804** | 633,781 | 34,811,203 | 689,761 | 37,846,863 |
| Retained earnings | **618,405** | **33,507,466** | 380,389 | 22,955,554 | 371,954 | 22,842,906 |
| Cumulative translation adjustments | **–** | **(10,635,204)** | – | (9,390,745) | – | (25,479,846) |
| Total Equity | **2,412,137** | **112,089,464** | 2,275,077 | 108,030,687 | 2,400,574 | 99,098,547 |
| **Total Liabilities and Equity** | **$2,413,968** | **₱112,174,566** | $2,276,463 | ₱108,096,559 | $2,401,588 | ₱99,140,675 |
| **Net Asset Value Per Share** (Note 6) | **$0.043** | **₱1.985** | $0.038 | ₱1.811 | $0.038 | ₱1.551 |

*See accompanying Notes to Financial Statements.*

## PHILEQUITY DOLLAR INCOME FUND, INC.
**(An Open-End Mutual Fund Company)**

# STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | | | | |
|---|---|---|---|---|---|---|
| | **2009** | | 2008 | | 2007 | |
| | **Functional Currency** | **Presentation Currency** | Functional Currency | Presentation Currency | Functional Currency | Presentation Currency |
| | ***(In U.S. Dollar)*** | ***(In Philippine Peso)*** | *(In U.S. Dollar)* | *(In Philippine Peso)* | *(In U.S. Dollar)* | *(In Philippine Peso)* |
| **REVENUE** | | | | | | |
| Interest income (Notes 4 and 5) | **$129,711** | **₱6,191,319** | $137,342 | ₱6,188,896 | $164,932 | ₱7,292,426 |
| Net realized gain on sale of financial assets at fair value through profit or loss (FVPL) (Note 5) | **69,487** | **3,262,460** | 149 | 6,059 | 25,589 | 1,193,602 |
| Net unrealized gain (loss) on changes in fair value of financial assets at FVPL (Note 5) | **75,371** | **2,386,554** | (84,318) | (4,000,935) | (4,489) | (131,503) |
| Foreign exchange gains (losses) - net | **(295)** | **(14,126)** | (15,745) | (739,663) | (2,444) | (112,875) |
| | **274,274** | **11,826,207** | 37,428 | 1,454,357 | 183,588 | 8,241,650 |
| **EXPENSES** | | | | | | |
| Professional fees | **3,971** | **189,200** | 4,336 | 198,278 | 4,966 | 226,685 |
| Taxes and licenses | **1,196** | **57,026** | 3,657 | 150,416 | 2,177 | 105,978 |
| Commissions (Note 8) | **569** | **27,404** | 66 | 3,064 | 1,273 | 61,708 |
| Others | **1,541** | **75,578** | 1,336 | 59,883 | 1,717 | 86,161 |
| | **7,277** | **349,208** | 9,395 | 411,641 | 10,133 | 480,532 |
| **INVESTMENT INCOME BEFORE INCOME TAX** | **266,997** | **11,476,999** | 28,033 | 1,042,716 | 173,455 | 7,761,118 |
| **PROVISION FOR INCOME TAX** (Note 7) | | | | | | |
| Final | **5,040** | **238,471** | 10,134 | 438,576 | 13,777 | 584,275 |
| **INVESTMENT INCOME AFTER INCOME TAX** | **261,957** | **11,238,528** | 17,899 | 604,140 | 159,678 | 7,176,843 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | | | |
| Foreign exchange adjustments | **–** | **(1,244,459)** | – | 16,089,101 | – | (17,896,314) |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | **$261,957** | **₱9,994,069** | $17,899 | ₱16,693,241 | $159,678 | (₱10,719,471) |
| **EARNINGS PER SHARE** (Note 12) | **$0.0045** | **₱0.2074** | $0.0002 | ₱0.0096 | $0.0025 | ₱0.1119 |

*See accompanying Notes to Financial Statements.*

## PHILEQUITY DOLLAR INCOME FUND, INC.
**(An Open-End Mutual Fund Company)**

# STATEMENTS OF CASH FLOWS

| | **Years Ended December 31** | | | | | |
|---|---|---|---|---|---|---|
| | **2009** | | 2008 | | 2007 | |
| | **Functional Currency** | **Presentation Currency** | Functional Currency | Presentation Currency | Functional Currency | Presentation Currency |
| | ***(In U.S. Dollar)*** | ***(In Philippine Peso)*** | *(In U.S. Dollar)* | *(In Philippine Peso)* | *(In U.S. Dollar)* | *(In Philippine Peso)* |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | | |
| Investment income before income tax | **$266,997** | **₱11,476,999** | $28,033 | ₱1,042,716 | $173,455 | ₱7,761,118 |
| Adjustment for: | | | – | – | | |
| Interest income (Notes 4 and 5) | **(129,711)** | **(6,191,319)** | (137,342) | (6,188,896) | (164,932) | (7,292,426) |
| Net realized loss on sale of financial assets at fair value through profit or loss (FVPL) (Note 5) | **(69,487)** | **(3,262,460)** | (149) | (6,059) | (25,589) | (1,193,602) |
| Net unrealized loss (gain) on changes in fair value of financial assets at FVPL (Note 5) | **(75,371)** | **(2,386,554)** | 84,318 | 4,000,935 | 4,489 | 131,503 |
| Effect of change in foreign exchange rate | **–** | **(1,244,459)** | – | 16,089,101 | – | (17,896,314) |
| Operating income (loss) before working capital changes | **(7,572)** | **(1,607,793)** | (25,140) | 14,937,797 | (12,577) | (18,489,721) |
| Decrease (increase) in: | | | | | | |
| Financial assets at FVPL | **(589,255)** | **(26,797,223)** | (837,127) | (45,371,757) | 1,464,649 | 78,789,828 |
| Receivables | **–** | **–** | – | – | 18,292 | 896,849 |
| Creditable withholding tax | **–** | **–** | – | – | (2,065) | – |
| Increase (decrease) in payables | **445** | **19,230** | 372 | 23,744 | 120 | (1,738) |
| Income tax paid | **(5,040)** | **(238,471)** | (10,134) | (438,576) | (13,777) | (584,275) |
| Net cash provided by (used in) operating activities | **(601,422)** | **(28,624,257)** | (872,029) | (30,848,792) | 1,454,642 | 60,610,943 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | | |
| Proceeds from (issuance of) notes receivables | **–** | **–** | 1,000,000 | 41,280,000 | (1,000,000) | (41,280,000) |
| Interest received | **156,947** | **7,498,315** | 126,107 | 5,479296 | 197,398 | 9,102,622 |
| Net cash provided by (used in) investing activities | **156,947** | **7,498,315** | 1,126,107 | 46,759,296 | (802,602) | (32,177,378) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | | |
| Payments for redemptions of capital stock | **(182,273)** | **(8,679,250)** | (149,396) | (8,034,099) | (1,432,200) | (70,070,768) |
| Deposit for future stock subscriptions | **–** | **–** | – | – | (347,788) | (17,052,063) |
| Proceeds from subscriptions of capital stock | **57,376** | **2,743,958** | 6,000 | 272,998 | 146,920 | 7,000,306 |
| Net cash provided by used in financing activities | **(124,897)** | **(5,935,292)** | (143,396) | (7,761,101) | (1,633,068) | (80,122,525) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(569,372)** | **(27,061,234)** | 110,682 | 8,149,403 | (981,028) | (51,688,960) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **573,810** | **27,267,435** | 463,128 | 19,118,032 | 1,444,156 | 70,806,992 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 5) | **$4,438** | **₱206,201** | $573,810 | ₱27,267,435 | $463,128 | ₱19,118,032 |

*See accompanying Notes to Financial Statements.*

## PHILEQUITY DOLLAR INCOME FUND, INC.
**(An Open-End Mutual Fund Company)**

# STATEMENTS OF CHANGES IN EQUITY

| | **Years Ended December 31** | | | | | |
|---|---|---|---|---|---|---|
| | **2009** | | 2008 | | 2007 | |
| | **Functional Currency** | **Presentation Currency** | Functional Currency | Presentation Currency | Functional Currency | Presentation Currency |
| | ***(In U.S. Dollar)*** | ***(In Philippine Peso)*** | *(In U.S. Dollar)* | *(In Philippine Peso)* | *(In U.S. Dollar)* | *(In Philippine Peso)* |
| **CAPITAL STOCK** | | | | | | |
| Common stock - ₱1 par value | | | | | | |
| 100,000,000 authorized shares | | **₱100,000,000** | | ₱100,000,000 | | ₱100,000,000 |
| Issued and outstanding: | | | | | | |
| Balance at beginning of year | **$1,260,907** | **59,654,675** | $1,338,859 | 63,888,624 | $2,021,668 | 100,000,000 |
| Issuances | **29,247** | **1,398,634** | 3,478 | 157,409 | 84,332 | 4,015,028 |
| Redemptions | **(90,848)** | **(4,589,911)** | (81,430) | (4,391,358) | (767,141) | (40,126,404) |
| Balance at end of year | **1,199,306** | **56,463,398** | 1,260,907 | 59,654,675 | 1,338,859 | 63,888,624 |
| **ADDITIONAL PAID-IN CAPITAL** | | | | | | |
| Balance at beginning of year | **633,781** | **34,811,203** | 689,761 | 37,846,863 | 1,080,503 | 58,533,480 |
| Issuances | **28,129** | **1,345,324** | 2,522 | 115,589 | 62,587 | 2,985,278 |
| Redemptions | **(67,484)** | **(3,402,723)** | (58,502) | (3,151,249) | (453,329) | (23,671,895) |
| Balance at end of year | **594,426** | **32,753,804** | 633,781 | 34,811,203 | 689,761 | 37,846,863 |
| **RETAINED EARNINGS** | | | | | | |
| Balance at beginning of year | **380,389** | **22,955,554** | 371,954 | 22,842,906 | 424,007 | 21,938,532 |
| Total comprehensive income - Net investment income (Note 2) | **261,957** | **11,238,528** | 17,899 | 604,140 | 159,678 | 7,176,843 |
| Excess of redemption costs over the original selling price | **(23,941)** | **(686,616)** | (9,464) | (491,492) | (211,731) | (6,272,469) |
| Balance at end of year | **618,405** | **33,507,466** | 380,389 | 22,955,554 | 371,954 | 22,842,906 |
| **CUMULATIVE TRANSLATION ADJUSTMENTS** | | | | | | |
| Balance at beginning of year | **–** | **(9,390,745)** | – | (25,479,846) | – | (7,583,532) |
| Total comprehensive income - Foreign exchange adjustments | **–** | **(1,244,459)** | – | 16,089,101 | – | (17,896,314) |
| Balance at end of year | **–** | **(10,635,204)** | – | (9,390,745) | – | (25,479,846) |
| | **$2,412,137** | **₱112,089,464** | $2,275,077 | ₱108,030,687 | $2,400,574 | ₱99,098,547 |

*See accompanying Notes to Financial Statements.*

# PHILEQUITY DOLLAR INCOME FUND, INC.
**(An Open-End Mutual Fund Company)**

# NOTES TO FINANCIAL STATEMENTS

## 1. Corporate Information

Philequity Dollar Income Fund, Inc. (the Fund) was incorporated in the Philippines on March 4, 1999, as an open-end mutual fund company, the purposes of which are to, among others, engage in the sale of its capital stock and to invest such proceeds in dollar-denominated bonds and debt securities. As an open-end mutual dollar fund company, its outstanding shares of stock are redeemable anytime based on the Net Asset Value (NAV) per share at the time of redemption.

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

The accompanying financial statements of the Fund were approved and authorized for issue by the Board of Directors (BOD) on April 16, 2010.

## 2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements of the Fund have been prepared on a historical cost basis, except for financial assets at FVPL that have been measured at fair value. The financial statements are presented in US Dollar and in Philippine Peso, which are the Fund's functional and presentation currencies, respectively.

Statement of Compliance

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

Changes in Accounting Policies

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

PAS 1, *Presentation of Financial Statements*

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

The revised standard also requires the Fund to present a statement of financial position at the beginning of the earliest comparative period when (a) a new accounting policy is applied retrospectively; or (b) there is a retrospective restatement or reclassification. Thus, the Fund presented the statement of financial position as at January 1, 2008 as a result of the adoption of the amendment to PAS 32 and PAS 1. The adoption of the amendments to PAS 32 and PAS 1 did not have any impact to the assets and other liabilities of the Fund. As such, the Fund did not present related notes to the January 1, 2009 statement of financial position as the Fund believes such information is longer material relative to the comparative financial statements taken as a whole.

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

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

| Cut-off date | Functional Currency *(In U.S. Dollar)* | Presentation Currency *(In Philippine Peso)* |
|---|---|---|
| January 1, 2008 | $2,400,574 | ₱99,098,547 |
| December 31, 2008 | 2,275,077 | 108,030,687 |

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

Investment income amounted to $17,899 (₱0.6 million) and $159,678 (₱7.2 million) in 2008 and 2007, respectively, which were previously presented as 'Net Increase in Net Assets from Operation Attributable to Unitholders' are now presented as part of total comprehensive income in the statement of changes in equity.

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

PFRS 7 Amendments - *Improving Disclosures about Financial Instruments*
The amendments to PFRS 7, *Financial Instruments: Disclosures*, require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The fair value measurement disclosures are presented in Note 10. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 9.

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

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

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

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

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

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

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

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

*Determination of fair value*
At date of initial recognition and for every statement of financial position date, the fair value for financial instruments that are traded in active markets is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

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

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

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

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

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

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

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

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

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

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

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

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

As of December 31, 2009 and 2008, the Fund’s financial assets at FVPL comprise investments in government, corporate and sovereign bonds designated as at FVPL. These financial assets were designated since their performance are evaluated on fair value basis in accordance with its investment strategy.

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

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

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

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

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate 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. The amortization is included in the statement of comprehensive income.

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

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

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

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

As of December 31, 2009 and 2008, the Fund does not have any AFS investments outstanding.

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

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

Derecognition of Financial Assets and Liabilities

*Financial asset*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Impairment of Financial Assets

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

*Financial assets carried at amortized cost*

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

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

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

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

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

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

*Financial assets carried at cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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

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

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

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

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

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

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

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

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

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

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

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

<u>Revenue Recognition</u>
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.

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

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

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

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

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

Provisions
Provisions are recognized when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Fund expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain that the expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability.

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

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

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

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

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

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

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

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

Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognized but are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed when an inflow of economic benefits is probable.

Events after Reporting Date

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

Future Changes in Accounting Policies

The Fund will adopt the following standards and interpretations enumerated below when these become effective. The Fund, however, anticipates that adoption of these new and amended standards and interpretations will not have a material impact on the Fund's financial statements.

Effective in 2010

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Effective in 2012</u>

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

## 3. Significant Accounting Judgments and Estimates

Judgments
In the process of applying the Fund's accounting policies, management has made judgments, apart from those involving estimations, which have significant effect on the amounts recognized in the financial statements and accompanying notes. The judgments are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements.

*Determination of functional currency*
The functional currency of the Fund has been determined to be the US Dollar based on the economic substance of the underlying circumstances relevant to the Fund. The US Dollar is the currency of the primary economic environment in which the Fund operates. It is the currency that mainly influences the Fund's revenue and expenses.

*Fair value of financial assets*
Fair value determinations for the financial assets at FVPL are based generally on quoted prices. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in the fair value of these financial assets would affect net assets. The method and assumptions used to determine the fair values of financial assets and liabilities are disclosed in Note 10.

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

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

As of December 31, 2009 and 2008, no deferred tax assets are recognized in the statements of financial position. Deferred tax assets amounting to $35,521 (₱1.6 million) and $49,332 (₱2.2 million) as of December 31, 2009 and 2008, respectively, were not recognized because management believes that it is not probable that future taxable income will be available against which the deferred tax asset can be utilized (see Note 7).

## 4. Cash and Cash Equivalents

This account consists of:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Functional Currency** | **Presentation Currency** | Functional Currency | Presentation Currency |
| | ***(In U.S. Dollar)*** | ***(In Philippine Peso)*** | *(In U.S. Dollar)* | *(In Philippine Peso)* |
| Cash on hand and in banks | **$4,438** | **₱206,201** | $3,238 | ₱153,872 |
| Short-term deposits | – | – | 570,572 | 27,113,563 |
| | **$4,438** | **₱206,201** | $573,810 | ₱27,267,435 |

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

Interest income earned from cash and cash equivalents amounted to $3,779 (₱0.2 million), $34,305 (₱1.5 million) and $33,299 (₱1.4 million) in 2009, 2008 and 2007, respectively.

## 5. Financial Assets at FVPL

This account consists of investments in debt securities designated as at FVPL with the following composition:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Functional Currency** | **Presentation Currency** | Functional Currency | Presentation Currency |
| | ***(In U.S. Dollar)*** | ***(In Philippine Peso)*** | *(In U.S. Dollar)* | *(In Philippine Peso)* |
| Government bonds | **$2,166,034** | **₱100,653,448** | $1,145,660 | ₱54,441,744 |
| Corporate bonds | **217,882** | **10,124,740** | – | – |
| Sovereign bonds | – | – | 504,143 | 23,956,899 |
| | **$2,383,916** | **₱110,778,188** | $1,649,803 | ₱78,398,643 |

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

On December 16, 2009, the Fund acquired Power Sector Assets and Liabilities Management (PSALM) bonds with face value of $1.0 million (₱47.8 million). In exchange, the Fund transferred its National Power Corporation (NAPOCOR) bonds with fair value equal to the carrying amount of PSALM bonds.

The Fund incurred gains on changes in fair value of these investments amounting to $75,371 (₱2.4 million) in 2009 and losses amounting to $84,318 (₱4.0 million) and $4,489 (₱0.1 million) in 2008 and 2007, respectively.

Interest income earned from financial assets at FVPL amounted to $125,906 (₱6.0 million), $102,996 (₱4.7 million) and $150,971 (₱7.0 million) in 2009, 2008, and 2007, respectively.

There were no gain or loss on changes in fair value of these investments that is directly attributable to changes in credit risks.

## 6. **Equity**

As an open-end mutual fund company, the Fund stands ready at any time for redemptions on its outstanding capital stock at Net Asset Value (NAV) per share. NAV per share is computed by dividing net assets (total assets less total liabilities) by the number of shares issued and outstanding. The NAV per share as of December 31, 2009, 2008 and 2007 follows:

| | **2009** | | 2008 | | 2007 | |
|---|---|---|---|---|---|---|
| | **Functional Currency *(In US Dollar)*** | **Presentation Currency *(In Philippine Peso)*** | Functional Currency *(In US Dollar)* | Presentation Currency *(In Philippine Peso)* | Functional Currency *(In US Dollar)* | Presentation Currency *(In Philippine Peso)* |
| Net Asset Value attributable to holders of redeemable shares | **$2,412,137** | **₱112,089,464** | $2,275,077 | ₱108,030,687 | $2,400,574 | ₱99,098,547 |
| Number of shares outstanding | **56,463,398** | **56,463,398** | 59,654,675 | 59,654,675 | 63,888,624 | 63,888,624 |
| NAV per share | **$0.043** | **₱1.985** | $0.038 | ₱1.811 | $0.038 | ₱1.551 |

Capital Management

The Fund aims to provide investors with long-term capital appreciation. The investments of the Fund consist of dollar-denominated bonds issued by the Philippine or foreign governments and corporations.

The Fund's capital, consisting entirely of common shares, is variable and increases or decreases depending on the volume of subscriptions and redemptions made by its various investors or shareholders. The maximum number of shares that can be issued is determined by the Fund's authorized capital but may be increased by the Fund upon approval by the SEC. As a mutual fund, the Company stands ready to redeem shares from shareholders at any time upon the request of the latter at the prevailing NAV per Share of the Fund. The investment restrictions stated in Note 9 as mandated by the SEC and the Investment Company Act are the main limitations which the Company must adhere to in investing the capital provided by various shareholders. Moreover, the Investment Company Act states that investment companies are allowed to borrow or incur debt provided that there is at all times a 300% asset coverage for all its borrowings. In the event that the asset coverage falls below 300%, the investment company has three days within which to reduce its debt to bring the asset coverage back to at least 300%.

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

a) Stock purchases: three days after date of transaction
b) Redemptions from shareholders: maximum of seven days after date of transaction, as prescribed by the Investment Company Act Rule 35-1

As of December 31, 2009 and 2008, the member of holders of the Fund's outstanding redeemable is 50 and 41, respectively.

## 7. Income Taxes

RA 9337, *An Act Amending National Internal Revenue Code*, provides that the RCIT rate shall be 35.00% until December 31, 2008. Starting January 1, 2009, the RCIT rate shall be 30.00%.

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

The deferred tax assets amounting to $35,521 (₱1.6 million) and $49,332 (₱2.2 million) as of December 31, 2009 and 2008, respectively, on NOLCO and unrealized foreign exchange loss are not recognized in the statement of financial position as management believes that future taxable income will not be sufficient against which it can be utilized. The details of NOLCO and unrealized foreign exchange loss are as follows:

| | **2009** | | 2008 | | 2007 | |
|---|---|---|---|---|---|---|
| | **Functional Currency** | **Presentation Currency** | Functional Currency | Presentation Currency | Functional Currency | Presentation Currency |
| | ***(In U.S. Dollar)*** | ***(In Philippine Peso)*** | *(In U.S. Dollar)* | *(In Philippine Peso)* | *(In U.S. Dollar)* | *(In Philippine Peso)* |
| NOLCO for the year | **$7,277** | **₱349,208** | $15,548 | ₱675,857 | $108,086 | ₱4,476,954 |
| Unrealized foreign exchange loss | **295** | **14,126** | 15,745 | 739,663 | 2,444 | 112,875 |
| | **$7,572** | **₱363,334** | $31,293 | ₱1,415,520 | $110,530 | ₱4,589,829 |

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

| Year Incurred | Amount | Expired | Balance | Expiry Year |
|---|---|---|---|---|
| 2006 | ₱1,286,291 | ₱1,286,291 | ₱– | 2009 |
| 2007 | 4,476,954 | – | 4,476,954 | 2010 |
| 2008 | 675,857 | – | 675,857 | 2011 |
| 2009 | 349,208 | – | 349,208 | 2012 |
| | ₱6,788,310 | ₱1,286,291 | ₱5,502,019 | |

The reconciliation between the statutory income tax rates and effective income tax rate under functional currency is as follows (in percentages):

| | **2009** | 2008 | 2007 |
|---|---|---|---|
| Statutory income tax rates | **30.00%** | 35.00% | 35.00% |
| Income tax effects of: | | | |
| Interest income already subjected to final tax and tax-exempt income | **(14.11)** | (25.43) | (30.06) |
| Gain on sale of financial assets at FVPL | **(6.24)** | (0.03) | (5.82) |
| Effect of changes in unrecognized deferred tax assets | **0.95** | (19.68) | 8.38 |
| Loss on changes in fair value of financial assets at FVPL | **(8.53)** | 20.61 | 0.64 |
| Effect of change in tax rate | – | (4.01) | – |
| Effective income tax rates | **2.07%** | 6.46% | 8.14% |

## 8. Related Party Disclosures

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

Shares held by directors is seven as of December 31, 2009 and 2008.

The Fund has an existing Agreement with Philequity Management, Inc. (PMI). Pursuant to the terms of the Agreement, the Fund shall pay the following for services rendered by PMI:

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

b. Sales commission of a maximum of 3.5% of the cost of investment for every sale of the Fund's shares of stock. Sales commissions amounted to $569 (₱27,404), $66 (₱3,064) and $1,273 (₱61,708) in 2009, 2008 and 2007, respectively.

The Fund has no key management personnel. The key management functions are being handled by PMI.

On August 22, 2007, the Fund granted a loan with a face value of $1,000,000 to E-business Services, Inc. (E-biz), an affiliate. The notes receivable bears interest at the three-month London Interbank Offered Rate (LIBOR) plus 2%. Total interest income recognized in relation to the receivable amounted to $16,325 (₱0.7 million) and $53,762 (₱1.5 million) in 2008 and 2007, respectively. The notes receivable from E-biz matured on August 22, 2008.

## 9. Financial Risk Management Objectives and Policies

The Fund's principal financial instruments comprise cash and cash equivalents and financial assets through FVPL. The main purpose of these financial instruments is to seek long-term capital appreciation through investments in dollar-denominated bonds issued by the Philippine or foreign governments and corporations. The Fund has various other financial assets such as government, sovereign and corporate bonds, cash and cash equivalents and receivables and liabilities such as payables, which arise directly from its operations.

Governance Framework

The Fund has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity and operational risk. It also supports the effective implementation of policies.

The policies define the Fund's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets to the corporate goals and specify reporting requirements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

| | **2009** | 2008 |
|---|---|---|
| Financial assets at FVPL | | |
| Government bonds | **89.80%** | 50.36% |
| Sovereign bonds | **–** | 22.16 |
| Corporate bonds | **9.03** | – |
| Cash and cash equivalents | **0.18** | 25.22 |
| Total investments | **99.01%** | 97.74% |

The table below analyzes financial assets and liabilities as of December 31, 2009 and 2008 of the Fund into their relevant maturity groups based on the remaining period at the date of statement of financial position to their contractual maturities or expected repayment dates.

| | **2009** | | | | | |
|---|---|---|---|---|---|---|
| | **Up to 1 year** | | **2 - 5 years** | | **Total** | |
| | **Functional Currency** | **Presentation Currency** | **Functional Currency** | **Presentation Currency** | **Functional Currency** | **Presentation Currency** |
| **Other Financial Assets** | | | | | | |
| Financial assets at FVPL | | | | | | |
| Government bonds | **$–** | **₱–** | **$2,166,034** | **₱100,653,448** | **$2,166,034** | **₱100,653,448** |
| Corporate bonds | **217,882** | **10,124,740** | **–** | **–** | **217,882** | **10,124,740** |
| Loans and receivables | | | | | | |
| Cash and cash equivalents | **4,438** | **206,201** | **–** | **–** | **4,438** | **206,201** |
| Accrued interest | **12,161** | **565,140** | **–** | **–** | **12,161** | **565,140** |
| | **$234,481** | **₱10,896,081** | **$2,166,034** | **₱100,653,448** | **$2,400,515** | **₱111,549,529** |
| **Other Financial Liabilities** | | | | | | |
| Payables | **$1,831** | **₱85,102** | **$–** | **₱–** | **$1,831** | **₱85,102** |

| | 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 year | | 2 - 5 years | | Total | |
| | Functional Currency | Presentation Currency | Functional Currency | Presentation Currency | Functional Currency | Presentation Currency |
| **Financial Assets** | | | | | | |
| Financial assets at FVPL | | | | | | |
| Government bonds | $– | ₱– | $1,145,660 | ₱54,441,744 | $1,145,660 | ₱54,441,744 |
| Sovereign bonds | 504,143 | 23,956,899 | – | – | 504,143 | 23,956,899 |
| Loans and receivables | | | | | | |
| Cash and cash equivalents | 573,810 | 27,267,435 | – | – | 573,810 | 27,267,435 |
| Accrued interest | 39,397 | 1,872,136 | – | – | 39,397 | 1,872,136 |
| | $1,117,350 | ₱53,096,470 | $1,145,660 | ₱54,441,744 | $2,263,010 | ₱107,538,214 |
| **Other Financial Liabilities** | | | | | | |
| Payables | $1,386 | ₱65,872 | $– | ₱– | $1,386 | ₱65,872 |

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

As of December 31, 2009 and 2008, all financial liabilities of the Fund are contractually payable on demand at their face amounts.

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

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

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

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

| Volatility of investment portfolio | **2009** | 2008 |
|---|---|---|
| Philequity Dollar Income Fund, Inc. | **2.52%** | 1.0% |
| HSBC ADB | **12.55%** | 12.3% |

*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 its financial assets at FVPL, cash and cash equivalents and notes receivables.

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

*Fair value interest rate risk*
Fair value interest rate risk is the risk that the value of financial instruments will fluctuate because of changes in market interest rates. The Fund's fixed rate investments are exposed to such risk.

The sensitivity to a reasonably possible change in market interest rates of the Fund's profit before tax is from its investment in fixed rate investments carried at FVPL. The following table demonstrates the sensitivity to a reasonably possible change in interest rates for the year ended December 31, 2009 and 2008, with all other variables held constant, of the Fund's income before income tax.

| **2009** | | | 2008 | | |
|---|---|---|---|---|---|
| **Change in Price** | **Effect on Income Before Income Tax** | | Change in price | Effect on Income Before Income Tax | |
| | **Functional Currency** | **Presentation Currency** | | Functional Currency | Presentation Currency |
| **+2.21%** | **(1,858)** | **(88,903)** | +0.89% | $19,953 | ₱951,534 |
| **-2.21%** | **2,025** | **96,888** | -0.89% | (19,953) | (951,534) |

There is no other impact on the Fund's equity other than those already affecting income before income tax.

*Cash flow interest rate 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.

The sensitivity to a reasonably possible change in market interest rates of the Fund's profit before tax is approximated via the modified duration formula. The following table demonstrates the sensitivity to a reasonably possible change in interest rates for the year ended December 31, 2009 and 2008, with all other variables held constant, of the Fund's income before income tax.

| 2009 | | | 2008 | | |
|---|---|---|---|---|---|
| **Change in Price** | **Effect on Income Before Income Tax** | | Change in price | Effect on Income Before Income Tax | |
| | **Functional Currency** | **Presentation Currency** | | Functional Currency | Presentation Currency |
| **+2.21%** | **$198** | **₱9,448** | +0.89% | $19,953 | ₱951,534 |
| **-2.21%** | **(198)** | **(9,448)** | -0.89% | (19,953) | (951,534) |

There is no other impact on the Fund's equity other than those already affecting income before income tax.

*Foreign currency risk*
Foreign currency risk is the risk of earnings or capital arising from changes in foreign exchange rates. The Fund's exposure to this risk arises from its Peso-denominated expenses and liabilities. As of December 31, 2009 and 2008, the Fund does not have significant exposure to foreign currency risk.

## 10. Fair Value of Financial Instruments

The following tables set forth the carrying values and estimated fair values of financial assets recognized as of December 31, 2009 and 2008.

| | **2009** | | | |
|---|---|---|---|---|
| | **Carrying Value** | | **Fair Value** | |
| | **Functional Currency** | **Presentation Currency** | **Functional Currency** | **Presentation Currency** |
| | ***(In U.S. Dollar)*** | ***(In Philippine Peso)*** | ***(In U.S. Dollar)*** | ***(In Philippine Peso)*** |
| **Financial Assets** | | | | |
| Financial assets at FVPL | | | | |
| Government bonds | **$2,166,034** | **₱ 100,653,448** | **$2,166,034** | **₱ 100,653,448** |
| Sovereign bonds | **217,882** | **10,124,740** | **217,882** | **10,124,740** |
| | **$2,383,916** | **110,778,188** | **$2,383,916** | **110,778,188** |
| Loans and receivables: | | | | |
| Cash and cash equivalents | **4,438** | **206,201** | **4,438** | **206,201** |
| Accrued interest | **12,162** | **565,140** | **12,162** | **565,140** |
| Total loans and receivables | **16,600** | **771,341** | **16,600** | **771,341** |
| | **$2,400,516** | **₱111,549,529** | **$$2,400,516** | **₱$2,400,811** |
| **Other Financial Liabilities** | | | | |
| Payables | **$1,831** | **₱85,103** | **$1,831** | **₱85,103** |

| | 2008 | | | |
|---|---|---|---|---|
| | Carrying Value | | Fair Value | |
| | Functional Currency | Presentation Currency | Functional Currency | Presentation Currency |
| | *(In U.S. Dollar)* | *(In Philippine Peso)* | *(In U.S. Dollar)* | *(In Philippine Peso)* |
| **Financial Assets** | | | | |
| Financial assets at FVPL | | | | |
| Government bonds | $1,145,660 | ₱54,441,744 | $1,145,660 | ₱54,441,744 |
| Sovereign bonds | 504,143 | 23,956,899 | 504,143 | 23,956,899 |
| | 1,649,803 | 78,398,643 | 1,649,803 | 78,398,643 |
| Loans and Receivables: | | | | |
| Cash and cash equivalents | 573,810 | 27,267,435 | 573,810 | 27,267,435 |
| Accrued interest | 39,397 | 1,872,136 | 39,397 | 1,872,136 |
| Total loans and receivables | 613,207 | 29,139,571 | 613,207 | 29,139,571 |
| | $2,263,010 | ₱107,538,214 | $2,263,010 | ₱107,538,214 |
| **Other Financial Liabilities** | | | | |
| Payables | $1,386 | ₱65,872 | $1,386 | ₱65,872 |

Fair values of financial assets and liabilities are estimated as follows:

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

*Financial assets at FVPL*
Fair values of government, corporate and sovereign bonds are based on quoted prices. If market prices are not readily available or if the securities are not traded in an active market, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices 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 value hierarchy
The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments measured at fair value:

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

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

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

As of December 31, 2009, the Fund has financial assets at FVPL with carrying amount of $2.4 million (₱110.8 million) which are classified as Level 2. During 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

## 11. Segment Reporting

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

## 12. Earnings Per Share

| | **2009** | | 2008 | | 2007 | |
|---|---|---|---|---|---|---|
| | **Functional Currency *(In US Dollar)*** | **Presentation Currency *(In Philippine Peso)*** | Functional Currency *(In US Dollar)* | Presentation Currency *(In Philippine Peso)* | Functional Currency *(In US Dollar)* | Presentation Currency *(In Philippine Peso)* |
| Net investment income after tax (a) | **$261,957** | **₱11,238,528** | $17,899 | ₱604,140 | $159,678 | ₱7,176,843 |
| Weighted average number of outstanding shares of stock (b) | **58,924,168** | **58,924,168** | 62,844,115 | 62,844,115 | 64,139,961 | 64,139,961 |
| NAV per share | **$0.0044** | **₱0.1910** | $0.0002 | ₱0.0096 | $0.0025 | ₱0.1119 |