Philam Managed Income Fund, Inc.

(An Open-End Mutual Fund Company)

Financial Statements
As at December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013

Independent Auditor's Report

To the Board of Directors and Shareholders of
Philam Managed Income Fund, Inc.
(An Open-End Mutual Fund Company)
17 F Philam Life Head Office, Net Lima Building
5th Avenue corner 26th St. Bonifacio Global City
Taguig 1634, Philippines

Report on the Financial Statements

We have audited the accompanying financial statements of Philam Managed Income Fund, Inc., which comprise the statements of financial position as at December 31, 2013 and 2012, and the statements of total comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Philam Managed Income Fund, Inc. as at December 31, 2013 and 2012, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

Report on Bureau of Internal Revenue Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 13 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

Zaldy D. Aguirre
Partner
CPA Cert No. 105660
P.T.R. No. 0024447, issued on January 3, 2014, Makati City
SEC A.N. (individual) as general auditors 1176-A, Category A; effective until January 4, 2015
SEC A.N. (firm) as general auditors 0009-FR-3; effective until August 15, 2015
TIN 221-755-698
BIR A.N. 08-000745-77-2012, issued on February 9, 2012; effective until February 8, 2015
BOA/PRC Reg. No. 0142, effective until December 31, 2016

Makati City
April 4, 2014

Philam Managed Income Fund, Inc.
(An Open-End Mutual Fund Company)

Statements of Financial Position
December 31, 2013 and 2012
(All amounts in thousands of Philippine Peso)

	Notes	2013	2012
A S S E T S			
Cash and cash equivalents	5	63,662	32,459
Due from Philam Asset Management, Inc.	11	543	-
Total assets		64,205	32,459
LIABILITIES AND EQUITY			
LIABILITIES			
Accounts payable and accrued expenses	6	2,918	119
Due to Philam Asset Management, Inc.	11	-	20
Total liabilities		2,918	139
EQUITY	7		
Share capital		532	282
Share premium		51,693	23,936
Retained earnings		9,062	8,102
Total equity		61,287	32,320
Total liabilities and equity		64,205	32,459

The notes on pages 1 to 20 are an integral part of these financial statements.

Philam Managed Income Fund, Inc.
(An Open-End Mutual Fund Company)

Statements of Total Comprehensive Income
For each of the three years in the period ended December 31, 2013
(All amounts in thousands of Philippine Peso, except per share amounts)

	Notes	2013	2012	2011
INCOME				
Interest	8	1,894	3,413	1,944
Other		100	58	-
		1,994	3,471	1,944
EXPENSES				
Fees and other charges	9	366	205	676
Management fees	11	214	253	163
Taxes and licenses		47	50	55
Other		27	15	20
		654	523	914
PROFIT BEFORE INCOME TAX		1,340	2,948	1,030
INCOME TAX EXPENSE	10	380	682	389
PROFIT FOR THE YEAR		960	2,266	641
OTHER COMPREHENSIVE INCOME		-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		960	2,266	641
BASIC AND DILUTED EARNINGS PER SHARE	7	0.0183	0.0244	0.0150

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Philam Managed Income Fund, Inc.
(An Open-End Mutual Fund Company)

Statements of Changes in Equity
For each of the three years in the period ended December 31, 2013
(All amounts in thousands of Philippine Peso)

	Note	Share capital	Share premium	Retained earnings	Total
Balance at January 1, 2011		193	15,945	5,195	21,333
Comprehensive income					
Profit for the year		-	-	641	641
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	641	641
Transactions with shareholders	7				
Issuance of shares		1,721	189,218	-	190,939
Redemption of shares		(1,074)	(118,022)	-	(119,096)
Total transactions with shareholders		647	71,196	-	71,843
Balance at December 31, 2011		840	87,141	5,836	93,817
Comprehensive income					
Profit for the year		-	-	2,266	2,266
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	2,266	2,266
Transactions with shareholders	7				
Issuance of shares		6,035	677,706	-	683,741
Redemption of shares		(6,593)	(740,911)	-	(747,504)
Total transactions with shareholders		(558)	(63,205)	-	(63,763)
Balance at December 31, 2012		282	23,936	8,102	32,320
Comprehensive income					
Profit for the year		-	-	960	960
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	960	960
Transactions with shareholders	7				
Issuance of shares		2,747	308,466	-	311,213
Redemption of shares		(2,497)	(280,709)	-	(283,206)
Total transactions with shareholders		250	27,757	-	28,007
Balance at December 31, 2013		532	51,693	9,062	61,287

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Philam Managed Income Fund, Inc.
(An Open-End Mutual Fund Company)

Statements of Cash Flows
For each of the three years in the period ended December 31, 2013
(All amounts in thousands of Philippine Peso)

	Notes	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before income tax		1,340	2,948	1,030
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Due from PAMI		(543)	-	-
Decrease (increase) in:				
Accounts payable and accrued expenses		2,799	(55)	108
Due to PAMI		(20)	7	(1)
Net cash generated from operations		3,576	2,900	1,139
Final tax paid	10	(380)	(682)	(389)
Net cash from operating activities		3,196	2,218	750
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of shares	7	311,213	683,741	190,939
Payments for shares redeemed	7	(283,206)	(747,504)	(119,096)
Net cash generated from (used in) financing activities		28,007	(63,763)	71,843
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		31,203	(61,545)	72,593
CASH AND CASH EQUIVALENTS	5			
January 1		32,459	94,004	21,411
December 31		63,622	32,459	93,004

The notes on pages 1 to 20 are an integral part of these financial statements.

Philam Managed Income Fund, Inc.
(An Open-End Mutual Fund Company)

Notes to Financial Statements
As at December 31, 2013 and 2012 and for each of the
three years in the period ended December 31, 2013
(In the notes, all amounts are shown in thousands of Philippine Peso unless otherwise stated)

Note 1 - General information

Philam Managed Income Fund, Inc. (the "Fund") is an open-end mutual fund company engaged in the sale of its shares of stock, the proceeds of which are invested in fixed income investments. It was registered on February 27, 2006 with the Securities and Exchange Commission ("SEC") under the Investment Company Act of 1960 or Republic Act 2629 and The Revised Securities Act or Batas Pambansa Blg. 178. As an open-end mutual fund company, its outstanding shares are redeemable anytime at the holder's option based on the net asset value ("NAV") per share at the time of redemption.

The Fund is registered as an issuer of securities with the SEC under Section 12 of the Securities Regulation Code ("SRC"). In compliance with the SRC, the Fund is required to file registration statements for each instance of increase in authorized shares. The Fund did not file for an increase in authorized shares since it was registered with the SEC.

The Fund's registered office address, which is also its principal place of business, is located at 17F Philam Life Head Office, Net Lima Building, 5th Avenue corner 26th St., Bonifacio Global City, Taguig 1634, Philippines.

The Fund has no employees. Philam Asset Management, Inc. ("PAMI"), a wholly-owned subsidiary of The Philippine American Life and General Insurance Company, acts as the Fund manager. PAMI also serves as adviser, administrator and distributor of the Fund and provides management, distribution and all required operational services.

The financial statements have been approved and authorized for issue by the Fund's Board of Directors ("BOD") on April 1, 2014. There are no material events that occurred subsequent to April 1, 2014 until April 4, 2014.

Note 2 - Summary of significant accounting policies

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

2.1 Basis of preparation

The financial statements of the Fund have been prepared in accordance with Philippine Financial Reporting Standards ("PFRS"). The term PFRS, in general, includes all applicable PFRS, Philippine Accounting Standards ("PAS") and interpretations of the Philippine Interpretations Committee ("PIC"), Standing Interpretations Committee ("SIC") and International Financial Reporting Interpretations Committee ("IFRIC") which have been approved by the Financial Reporting Standards Council ("FRSC") and adopted by the SEC.

The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies. The area involving a higher degree of judgment or complexity is disclosed in Note 4. There are no areas where assumptions and estimates are significant to the financial statements.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Fund

The following standard has been adopted by the Fund effective January 1, 2013 and has a material impact on the Fund:

- *PFRS 13, Fair Value Measurement* (effective January 1, 2013). This new standard aims to improve consistency and reduce complexity by providing a clarified definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements, which are largely aligned with IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within PFRS. Apart from the additional disclosures required by PFRS 13, there is no other significant impact on the financial statements as the current fair value measurement followed by the Fund is already consistent with the requirements of the new standard. See Note 3 for the disclosures required by the new standard.

There are no other standards and amended standards that became effective for the first time for the financial year beginning January 1, 2013 that had a material impact on the Fund's financial statements.

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

A number of new standards and amendments to standards and interpretations are effective beginning after January 1, 2013, and have not been early adopted by the Fund. The relevant standard and the assessment of its impact is discussed below:

- *PFRS 9, Financial Instruments*. This new standard addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of PAS 39, Financial Instruments: Recognition and Measurement, that relate to the classification and measurement of financial instruments, and hedge accounting. PFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the PAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch. PFRS also details the changes in requirements to hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. The mandatory effective date of PFRS 9, which is for annual periods beginning January 1, 2015 has been deferred and left open pending the finalization of the impairment classification and measurement requirements. The Fund has yet to assess the full impact of PFRS 9 and intends to adopt PFRS 9 upon completion of the IASB project. The Fund will also consider the impact of the remaining phases of PFRS 9 when issued.

There are no other standards, amendments and interpretations that are not yet effective that would be expected to have a material impact on the Fund's financial statements.

2.2 Cash and cash equivalents

Cash and cash equivalents are deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less from date of acquisition.

2.3 Financial instruments

Date of recognition

Financial instruments are recognized in the statements 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 within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Initial recognition of financial instruments

Financial instruments not carried at fair value through profit or loss ("FVTPL") are initially recognized at fair value plus transaction costs. Financial instruments carried at FVTPL are initially recognized at fair value, and transaction costs are recognized as expense in profit or loss.

Day 1 profit

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" profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where variables are made of data which are not observable, the difference between the transaction price and model value is only recognized in profit or loss 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 profit amount.

Classification of financial instruments

The Fund classifies its financial assets in the following categories: (a) financial assets at FVTPL, (b) held-to-maturity, (c) loans and receivables and (d) available-for-sale ("AFS"). The Fund classifies its financial liabilities at FVTPL or as other financial liabilities at amortized cost. The classification depends on the purpose for which the financial instruments were acquired or incurred and whether they are quoted in an active market. Management determines the classification of the Fund's financial instruments at initial recognition. The Fund does not hold any financial assets under categories (a), (b) and (d) during and at the end of each reporting period. The Fund does not hold any financial liabilities at FVTPL during and at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS or at FVTPL. This accounting policy applies to cash and cash equivalents, accrued income and Due from PAMI.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. 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 Interest income in profit or loss. The losses arising from impairment of such loans and receivables are recognized in Income tax expense in profit or loss.

Other financial liabilities at amortized cost

Issued financial instruments or their components, which are not designated as financial liabilities at FVTPL 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 the Fund's own equity shares.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

This accounting policy applies to accounts payable and accrued expenses (excluding taxes payable) and due to PAMI.

2.4 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

There are no non-financial assets as at December 31, 2013 and 2012.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations, 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 listed 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.

PFRS 13 specifies a hierarchy of valuation techniques used on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Fund's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp., etc.).

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

The carrying amounts of the Fund's financial assets and liabilities at amortized cost are assumed to be their fair values considering their short term maturities. The Fund holds no financial instruments that are measured at fair value as at reporting dates.

Impairment of financial assets

The Fund assesses at each reporting date whether 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 (a "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 debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets at amortized cost

For loans and receivables which are carried at amortized cost, 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 an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics such as type of borrower, collateral type, past-due status and term, and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to profit or loss. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost had the impairment not been recognized at the reversal date.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. If an instrument 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.

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 right to receive cash flows from the asset has 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 right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its right to receive cash flows from an asset 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.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the Fund's statements 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.

2.5 Share capital

The Fund issues shares, which are redeemable at the holder's option and are classified as equity in accordance with PAS 32, Financial Instruments: Presentation. Each share has the following features which support the equity classification:

- It entitles the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation;
- The share has no priority over other claims to the assets of the Fund on liquidation, and it does not need to be converted into another instrument before it is classified as such; and
- All shares impose a contractual obligation on the Fund to deliver a pro rata share of its net assets on liquidation.

In addition, the Fund has 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 (excluding any effects of such instrument or contract); and
- the effect of substantially restricting or fixing the residual return to the shareholders.

Should the redeemable shares' terms or conditions change such that they do not comply with the strict criteria as mentioned above, the redeemable shares would be reclassified to a financial liability from the date the instrument ceases to meet the criteria. The financial liability would be measured at the instrument's fair value at the date of reclassification. Any difference between the carrying value of the equity instrument and fair value of the liability on the date of reclassification would be recognized in equity.

Redeemable shares can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's trading NAV calculated in accordance with the Fund's regulations. Redeemed shares are not cancelled and may be reissued in the future.

Share premium

Sales of shares are recorded by crediting Share capital at par value and Share premium for the amount received in excess of the par value; redemptions are recorded by debiting those accounts. In the event that the Share premium balance is exhausted as a result of redemptions, the Retained earnings account is reduced by redemptions in excess of par.

2.6 Revenue recognition

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Fund reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at original effective interest rate of the instrument, and accretes the discount as interest income. Interest income on impaired financial asset carried at amortized cost is recognized using the original effective interest rate.

Other income

Other income is recognized when earned and the Fund's right to receive payment is established.

2.7 Expenses

Expenses are recognized in the year in which they are incurred.

2.8 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Fund by the weighted average number of shares outstanding during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

As at December 31, 2013 and 2012, there are no dilutive potential shares.

2.9 NAV per share

NAV per share is computed by dividing net assets attributable to shareholders (total assets less total liabilities) by the total number of shares issued and outstanding at the reporting date.

2.10 Taxation

The Fund is domiciled in the Philippines. Under the existing tax laws of the Philippines, a documentary stamp tax, included under Taxes, licenses and other fees in profit or loss, is payable by the Fund on original issue and subsequent sale or transfer of its redeemable shares.

The Fund has interest income from bank deposits which are subject to final withholding tax. Such income is presented at gross amount and the related final tax is presented as part of Income tax expense in profit or loss.

2.11 Current and deferred income tax

Income tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in other comprehensive income or equity, in which case, the tax is also recognized directly in other comprehensive income or equity.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred income tax ("DIT") is provided, using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, DIT liabilities are recognized for all taxable temporary differences and DIT assets are recognized for all deductible temporary differences and the carry-forward benefits of unused tax losses (net operating loss carry over or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that taxable profit will be available against which the DIT assets can be utilized.

DIT liabilities are recognized in full for all taxable temporary differences, except to the extent that the DIT liability arises from the initial recognition of goodwill.

The carrying amount of DIT asset is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the DIT asset to be utilized. The Fund reassesses at each reporting date the need to recognize a previously unrecognized DIT.

DIT assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

DIT assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the DIT assets and liabilities relate to income taxes levied by the same taxation authority and where there is an intention to settle the balances on a net basis.

2.12 Related party relationships and transactions

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

2.13 Functional and presentation currency

The Fund is not engaged in foreign currency transactions at reporting dates. Subscriptions and redemptions of the Fund's redeemable shares are denominated in Philippine Peso. The performance of the Fund is measured and reported to the investors in Philippine Peso. The BOD considers the Philippine Peso as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in Philippine Peso, which is the Fund's functional and presentation currency.

2.14 Events after the reporting date

Post year-end events that provide additional information about the Fund's financial position at reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

Note 3 - Capital and financial risk management

3.1 Governance framework

The primary objective of the Fund's risk and financial management framework is to protect the Fund from events that hinder the sustainable achievement of the Fund's performance objectives, including failing to exploit opportunities. The Fund recognizes the critical importance of having efficient and effective risk management systems in place.

BOD has approved the Fund's risk management policies and meets regularly to approve on any commercial, regulatory and own organizational requirements in such policies. The policies define the Fund's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of investment strategy to the corporate goals and specify reporting requirements.

3.2 Capital management

The Fund's objectives for managing capital are: (a) to invest the capital in investments meeting the description and risk exposure indicated in its prospectus; (b) to achieve consistent returns while safeguarding capital; and (c) to maintain sufficient liquidity to meet the expenses of the Fund and to meet redemption requests as they arise.

As provided by Investment Company Act of 1960, the Fund's minimum required capitalization amounts to P50 million. The Fund's existing capitalization is more than the amount required by the SEC.

The Fund considers the net assets attributable to shareholders as its capital (or total equity as shown in the statements of financial position). As at December 31, 2013, the net assets attributable to shareholders amounted to P61,287 (2012 - P32,320) (Note 7).

3.3 Regulatory framework

The operations of the Fund are also subject to the regulatory requirements of the SEC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions. Until the SEC shall, by order, provide otherwise, the Fund shall not sell securities short or invest in any of the following:

a. margin purchase of securities (investments in partially paid shares are excluded);
b. commodity future contracts;
c. precious metals;
d. unlimited liability investments;
e. short selling of currencies;
f. short selling of investments; and
g. other investments as the SEC shall, from time to time prescribe.

Any changes in the Fund's investment objective should be with notice and prior approval of the SEC. An investment company shall not change its investment objective without the approval from the majority of the Fund's shareholders.

In addition, the SEC also provides maximum limits on exposure to counterparties, maintenance of a certain level of liquid assets and conditions for incurring borrowings (Note 3.5).

The Fund is fully compliant with the above regulatory requirements as at December 31, 2013 and 2012.

3.4 Financial instruments

The following table sets forth the carrying amounts of financial assets and liabilities which approximate fair value as at December 31:

	2013	2012
Financial assets		
Loans and receivables		
Cash and cash equivalents	63,662	32,459
Due from Philam Asset Management, Inc.	543	-
Total financial assets	64,205	32,459
Financial liabilities		
Accounts payable and accrued expenses		
(excluding taxes payable)	2,909	116
Due to PAMI	-	20
Total financial liabilities	2,909	136

3.5 Financial risk

The Fund may invest in SEC-registered debt papers or other certificate of indebtedness/obligations, issuers of whom had been determined as financially sound and approved by the Investment Committee of the Fund manager.

The Fund is exposed to financial risk through its financial assets. The most important risk components are credit risk and liquidity risk. The Fund has limited exposure to market risk as at reporting dates.

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 setting up of exposure limits by each counterparty or group of counterparties. Effective July 2013, the maximum investment of the Fund in any single enterprise shall not exceed an amount equivalent to fifteen percent (15%) of the Fund's NAV except obligations of the Philippine government or its instrumentalities, provided that in no case shall the total investment of the Fund exceeds ten percent (10%) of the outstanding securities of any one investee company. The Fund also transacts only with institutions with high credit rating or standing.

In addition, the Fund manages the level of credit risk it accepts through reporting of credit risk exposures, monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment. The Fund cannot lend to individual borrowers.

The Fund manager's high-grade credit process combines top down and bottom up elements reflecting the observation that the weaker the credit quality, the more security specific risk comes to dominate overall portfolio risk. The bottom up element focuses on the analysis of individual credits. The top down element focuses on the analysis of sectors. In order to manage risk, the high-grade portfolios combine diversification rules with a number of filters designed to help avoid downgrade and default candidates. Key to the Fund's credit process is the minimization of the impact from security default or downgrade.

The following table provides information regarding the maximum credit risk exposure and credit quality of financial assets of the Fund:

At December 31, 2013	A1-Aa3*	Ba2*	Total*
Cash and cash equivalents	63,571	91	63,662

At December 31, 2012	A1-Aa3*	Ba2*	Total*
Cash and cash equivalents	32,016	443	32,459

**Based on Moody's rating.*

Cash and cash equivalents are maintained with universal and commercial banks to minimize credit risk exposure.

As at December 31, 2013 and 2012, there are no past due or impaired financial assets.

Liquidity risk

Liquidity or funding risk is the risk that the Fund 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; or counterparty failing on repayment of a contractual obligation; or inability to generate cash inflows as anticipated.

The Fund is exposed to daily cash redemptions of its issued shares. It therefore invests the majority of its assets in investments that are traded in an active market and can be readily disposed of.

The Fund manages liquidity through specifying minimum proportion of funds to meet emergency calls. Unless otherwise prescribed by the SEC, at least five percent (5%) of the fund shall be invested in liquid/semi-liquid assets effective July 2013 such as:

a. Treasury notes or bills, Bangko Sentral ng Pilipinas ("BSP") certificate of indebtedness which are short-term, and other government securities or bonds and such other evidences of indebtedness or obligation, the servicing and repayment of which are fully guaranteed by the Republic of the Philippines.

b. Savings or time deposits with government-owned banks or commercial banks, provided that in no case shall any such savings or time deposits account be accepted or allowed under a "bearer", "numbered" account or other similar arrangement.

The Fund may not incur any further debt or borrowings unless at the time of its occurrence or immediately thereafter, there is an asset coverage of at least 300% for all its borrowings. In the event that such asset coverage shall fall below 300%, the Fund shall, within three days thereafter, reduce the amount of borrowings to an extent that the asset coverage of such borrowings shall be at least 300%. The Fund has not breached the said asset coverage requirement as at December 31, 2013 and 2012.

In addition, the Fund manages liquidity through reporting of liquidity risk exposures, monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

All financial assets are considered current. All financial liabilities (Note 3.4) are expected to be settled within 12 months after reporting date.

Note 4 - Critical accounting judgment in applying accounting policies

Judgment used in preparing the financial statements is continually evaluated and is based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The accounting judgment that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is discussed below.

Unrecognized DIT assets (Note 10)

DIT asset from NOLCO has not been recognized because the Fund believes that there will be no sufficient future taxable profit against which benefit from NOLCO can be utilized. The Fund assesses the unrecognized DIT asset and will recognize a previously unrecognized DIT asset to the extent that it has become probable that future taxable income will allow the DIT asset to be recovered.

As at December 31, 2013, unrecognized DIT assets from NOLCO amounted to P580 (2012 - P484) (Note 10).

Note 5 - Cash and cash equivalents

The account at December 31 consists of:

	2013	2012	2011
Cash in banks	4,830	1,542	4,003
Short-term placements	58,832	30,917	90,001
	63,662	32,459	94,004

Cash in banks earns interest at prevailing bank deposit rates. At December 31, 2013, short-term deposits have average maturity of 30 days and carry effective interest rates ranging from 0.5% to 2.0% (2012 - 3.53% to 3.59%). Interest earned from cash and cash equivalents is disclosed in Note 8.

Note 6 - Accounts payable and accrued expenses

This account at December 31 consists of:

	2013	2012
Accounts payable	2,787	63
Accrued expenses	131	56
	2,918	119

Accounts payable include withholding taxes, documentary stamp tax payable, other payables and payable to investors due to redemptions that have been contracted for but not yet settled as at the reporting date.

Accrued expenses mainly represent accruals for transfer charges, legal fees, marketing and administration fees.

Note 7 - Net assets attributable to shareholders

The details of the account at December 31 are as follows:

	2013	2012	2011
Share capital - P0.01 par value			
Authorized - 100,000,000 shares	532	282	840
Share premium	51,693	23,936	87,141
Retained earnings	9,062	8,102	5,836
	61,287	32,320	93,817

The movements in the number of issued and outstanding shares follow:

	2013	2012	2011
Issued and outstanding, January 1	28,238,331	83,960,867	19,297,907
Issuances of shares	274,653,606	598,503,199	172,069,904
Redemptions of shares	(249,699,287)	(654,225,735)	(107,406,944)
Issued and outstanding, December 31	53,192,650	28,238,331	83,960,867

Earnings per share amounts as at December 31 are computed as follows:

	2013	2012	2011
Profit for the year	960	2,266	641
Weighted average number of shares outstanding during the year (in thousands)	52,340	92,693	42,766
Basic and diluted earnings per share	0.0183	0.0244	0.0150

As at December 31, 2013, the Fund has 30 shareholders (2012 - 27 shareholders).

NAV per share at December 31 is computed as follows:

	2013	2012	2011
Net assets attributable to shareholders (or total equity)	61,287	32,320	93,817
Number of shares (in thousands)	53,193	28,238	83,961
NAV per share	1.1521	1.1446	1.1174

Note 8 - Interest income

The account consists of interest income arising from cash and cash equivalents amounting to P1,894 for the year ended December 31, 2013 (2012 - P3,413; 2011 - P1,944).

Note 9 - Fees and other charges

The details of the account for the years ended December 31 follow:

	Note	2013	2012	2011
Directors' fees		282	143	221
Transfer charges		38	30	27
Professional fees		25	7	416
Administration fees	12	21	25	12
		366	205	676

Directors' fees pertain to per diem received by each director and allocation for bonuses.

Transfer charges pertain to the fees paid to the transfer agent bank for the record keeping of individual shareholdings and the issuance and cancellation of stock certificates.

Professional fees include charges for audit and legal services provided to the Fund.

Administration fees are the amounts paid to the Fund's accountant for services rendered which include, among others, the preparation and maintenance of books of accounts and computation of NAV (Note 12).

Note 10 - Income tax

Income tax expense represents final tax withheld from interest earned from cash and cash equivalents.

Details of the Fund's NOLCO, which is available for offset against future taxable income, follow:

Year of Incurrence	Year of Expiration	2013	2012
2013	2016	553	-
2012	2015	466	466
2011	2014	914	914
2010	2013	232	232
2009	2012	-	940
		2,165	2,552
Expired NOLCO		(232)	(940)
		1,933	1,612
Income tax rate		30%	30%
Unrecognized DIT asset		580	484

The reconciliation of the income tax expense computed at statutory income tax rate to actual income tax expense follows:

	2013	2012	2011
Profit before income tax	1,340	2,948	1,030
Income tax at statutory tax rate of 30%	402	884	309
Adjustments for:			
Interest income subject to final tax	(189)	(342)	(194)
NOLCO	167	140	274
Actual income tax expense	380	682	389

Note 11 - Related party transactions

The Fund has a management and distribution agreement with PAMI, whereby the latter is appointed as the Fund's investment manager. PAMI also functions as the principal distributor of the Fund. As such, it takes charge of the sales and marketing of the Fund shares to prospective investors.

The table below summarizes the Fund's transactions and balances with PAMI.

	Transactions *(Charges to profit or loss)*	Outstanding balance [*Due from (Due to PAMI)]*	Outstanding balance's terms and conditions
Management fees			
Fund manager			
December 31, 2013	214	543	- Management fees are computed as one-forty eighth (1/48) of one percent (1%) of the NAV per month determined on a daily basis - Outstanding balance is payable in cash within the following month and unsecured and non-interest bearing
December 31, 2012	253	(20)	
December 31, 2011	163	(13)	

Due from PAMI in 2013 resulted from excess billings of exit fees that need to be refunded to the Fund. The amount is net of the Fund's liability from unpaid management fees.

Note 12 - Fund accounting services

On July 1, 2008, the Fund and Deutsche Bank entered into a fund accounting agreement wherein Deutsche Bank shall perform administrative functions, which include, among others, the preparation and maintenance of books of accounts and computation of NAV. As compensation for services rendered, Deutsche Bank shall be entitled to an administration fee equivalent to 0.0275% per annum based on the NAV of the Fund.

For the year ended December 31, 2013, administration fees amounted to P21 (2012 - P25; 2011 - P12). As at December 31, 2013 and 2012, there are no outstanding administrative fees payable to Deutsche Bank.

Note 13 - Supplementary information required by the Bureau of Internal Revenue (BIR)

The following information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

I. Supplementary information required by RR No. 15-2010

The following information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

(a) Supplementary information required by Revenue Regulations No. 15-2010

Below is the additional information required by RR No. 15-2010.

(i) All other local and national taxes

All other local and national taxes paid and accrued for the year ended December 31, 2013 consist of:

	Paid	Accrued	Total
Municipal taxes	32	-	32
Documentary stamp tax	13	1	14
Community tax	1	-	1
	46	1	47

The above local and national taxes are charged under Taxes and licenses in profit or loss in the statements of total comprehensive income.

Accrued documentary stamp tax as at December 31, 2013 is included under Accounts payable and accrued expenses in the statements of financial position.

(ii) Withholding taxes

Withholding taxes paid and accrued and/or withheld for the year ended December 31, 2013 consist of:

	Paid	Accrued	Total
Expanded withholding tax	207	8	215

Accrued expanded withholding tax as at December 31, 2013 is lodged under Accounts payable and accrued expenses in the statements of financial position.

(iii) Tax assessments and cases

As at December 31, 2013, taxable years 2012, 2011 and 2010 are open for tax examinations.

There are no pending tax cases as at December 31, 2013.

(b) Supplementary information required by RR No. 19-2011

Below is the information required by RR No. 19-2011 that is relevant to the Fund for the year ended December 31, 2013.

(i) *Sales/receipts/fees*

The Fund's income as shown in the statements of total comprehensive income is subject to final tax of 20%.

(ii) *Cost of sales/services*

Direct charges	Amount
Management fees	214
Transfer charges	38
Administration fees	21
Documentary stamp tax	14
	287

The above cost of sales/services is subject to regular tax rate of 30%. There are no direct costs subject to special tax rates.

(iii) *Non-operating and taxable other income*

There are no non-operating and taxable other income subject to tax.

(iv) *Itemized deductions*

Nature of expense	Amount
Director's fees	282
Taxes and licenses (excluding documentary stamp tax)	33
Professional fees	25
Marketing fees	10
Bank charges	2
Others	15
	367

There are no itemized deductions subject to the special tax rates.

(v) *Taxes and licenses*

The details of the Fund's taxes and licenses, including documentary stamp tax, are presented in section (I) of this note.

(vi) *Other information*

All other information prescribed to be disclosed by the BIR has been included in this note.

Philam Managed Income Fund, Inc.
(An Open-End Mutual Fund Company)
Reconciliation of Retained Earnings
As at December 31, 2013

Items	Amount
Unappropriated Retained Earnings, beginning	P 8,102
Adjustments	-
Unappropriated Retained Earnings, as adjusted, beginning	8,102
Net Income based on the face of AFS	960
Less: Non-actual/unrealized income net of tax	
• Equity in net income of associate/joint venture	-
• Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)	-
• Unrealized actuarial gain	-
• Fair value adjustment (M2M gains)	-
• Fair value adjustment of Investment Property resulting to gain Adjustment due to deviation from PFRS/GAAP-gain	-
• Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	-
Add: Non-actual losses	
• Depreciation on revaluation increment (after tax)	-
• Adjustment due to deviation from PFRS/GAAP – loss	-
• Loss on fair value adjustment of investment property (after tax)	-
Net Income Actual/Realized	960
Unappropriated Retained Earnings, as adjusted, ending	9,062

Philam Managed Income Fund Inc.
Schedule H - Capital Stock
December 31, 2013

Titles of Issue	Number of shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees
Redeemable Shares	100,000,000	53,192,650	-	-	-