REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Corporate Government Sector
Cluster 2 – Social Security Services and Housing

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF TRUSTEES
Home Development Mutual Fund
Petron Mega Plaza
Makati City

We have audited the accompanying financial statements of Home Development Mutual Fund (Pag-IBIG Fund), which comprise the statement of financial position as at December 31, 2012, statement of comprehensive income, statement of changes in net worth and statement of cash flows for the year then ended, 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 International Financial Reporting Standards and for such internal control as management determine 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 audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 the basis for our unqualified audit opinion.

Unqualified Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Home Development Mutual Fund (Pag-IBIG Fund) as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note No. 39 to the financial statements which disclosed that on November 22, 2012, the Board of Trustees approved the incremental provision for impairment loss at the amount of P10 billion which reduced the Total Assets and Retained Earnings of the Fund by the same amount. This brought the coverage of the allowance to 40 per cent for housing loans over one year past due and for Real and Other Properties Acquired (ROPA).

The provision for impairment loss of P10 billion was recorded as a prior years' adjustment charged to Retained Earnings.

COMMISSION ON AUDIT

Atty. RESURRECION C. QUIETA
State Auditor V
Supervising Auditor

10 May 2013

Pag-IBIG FUND
(HOME DEVELOPMENT MUTUAL FUND)

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of the Pag-IBIG Fund is responsible for all information and representations on the consolidated financial statements as of December 31, 2012 and 2011. The financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines, and reflect amounts that are based on the best estimates and informed judgment of Management with appropriate consideration to materiality.

In this regard, Management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized.

YOLANDA L. ESPINAS
Vice President
Finance Group

EMMA LINDA B. FARIA
Deputy Chief Executive Officer
Support Services Cluster

ATTY. DARLENE MARIE B. BERBERABE
Chief Executive Officer

HOME DEVELOPMENT MUTUAL FUND
STATEMENT OF FINANCIAL POSITION
December 31, 2012
(Amount in Philippine Peso)

	Note	2012	2011
ASSETS			
Current Assets			
Cash and cash equivalents	4	4,114,542,131	9,072,776,142
Held for trading/Available for sale	5	5,706,789,980	1,583,631,421
Loans and receivables-net	6	84,685,611,614	96,397,664,760
Other current assets	7	250,410,672	463,211,707
		94,757,354,397	107,517,284,030
Non-current Assets			
Available-for-sale investments	8	23,698,892,657	24,639,330,324
Loans and receivables, net	9	183,691,356,736	165,428,670,106
Investment properties	10	10,392,686,491	5,775,472,213
Property and equipment, net	11	1,110,981,404	1,186,217,437
Intangible assets, net	12	171,677,218	218,468,511
Other assets	13	712,943,084	114,267,554
		219,778,537,590	197,362,426,145
TOTAL ASSETS		**314,535,891,987**	**304,879,710,175**
LIABILITIES AND NET WORTH			
Current Liabilities			
Current portion of members' equity	14	10,604,973,025	7,488,760,616
Accounts payable and accrued expenses	15	10,477,857,377	9,881,358,480
Loans payable	17	-	5,000,000,000
Bonds payable	18	-	2,000,000,000
Other current liabilities	16	2,369,320,440	3,258,990,471
		23,452,150,842	**27,629,109,567**
Non-current Liabilities			
Loans payable	17	5,000,000,000	5,000,000,000
Bonds payable	18	11,767,304,908	11,669,526,891
Other non-current liabilities	19	18,449,197,953	19,455,347,220
		35,216,502,861	**36,124,874,111**
TOTAL LIABILITIES		**58,668,653,703**	**63,753,983,678**
NET WORTH		**255,867,238,284**	**241,125,726,497**
TOTAL LIABILITIES AND NET WORTH		**314,535,891,987**	**304,879,710,175**

The notes on pages 7 to 36 form part of these Financial Statements.

HOME DEVELOPMENT MUTUAL FUND
STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2012
(Amounts in Philippine Peso)

	Note	2012	2011
INTEREST INCOME			
Loans and receivables	20	20,943,631,659	19,670,350,485
Trading and investment securities	21	1,869,699,825	1,604,634,622
Deposits with banks and others	22	123,468,630	158,665,779
		22,936,800,114	**21,433,650,886**
INTEREST EXPENSE			
Bonds payable	23	721,405,738	791,773,399
Loans payable	23	288,998,738	551,401,064
		1,010,404,476	**1,343,174,463**
NET INTEREST INCOME		**21,926,395,638**	**20,090,476,423**
OTHER INCOME			
Service fees	24	1,786,933,677	1,575,003,895
Trading and investment securities gains -net	25	159,137,562	1,211,914,070
Foreign exchange gains – net	26	-	10,791,591
Miscellaneous	27	370,013,578	565,646,098
		2,316,084,817	**3,363,355,654**
TOTAL OPERATING INCOME		**24,242,480,455**	**23,453,832,077**
OTHER EXPENSES			
Provision for impairment and other losses	29	4,302,928,323	5,912,652,981
Compensation and fringe benefits	28	3,371,335,098	2,726,981,449
Occupancy and equipment-related costs	31	530,361,115	440,110,184
Foreign exchange loss – net	26	249,147,771	-
Depreciation and amortization	29	236,583,181	393,909,620
Foreclosure and acquired asset management costs	30	233,810,079	144,441,090
Miscellaneous	32	2,067,464,424	1,876,507,274
TOTAL OPERATING EXPENSES		**10,991,629,991**	**11,494,602,598**
NET INCOME FOR THE YEAR		**13,250,850,464**	**11,959,229,479**
OTHER COMPREHENSIVE INCOME GAIN/(LOSS)			
Available-for-sale investments - equity securities		5,038,497	(1,923,433)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**13,255,888,961**	**11,957,306,046**

The Notes on pages 7 to 36 form part of these Financial Statements.

HOME DEVELOPMENT MUTUAL FUND
STATEMENT OF CHANGES IN NET WORTH
For the Year Ended December 31, 2012
(Amount in Philippine Peso)

	Members' Equity	Reserve for Losses	Donated Surplus	Retained Earnings	Total Net Worth
Note	(33)	(34)	(35)	(36,37 38 and 39)	
January 1, 2011	187,723,639,123	160,437,792	250,890	29,206,046,480	217,090,374,285
Collections	21,908,450,488	-	-	-	21,908,450,488
Dividends	7,882,129,926	-	-	(7,882,129,926)	-
Comprehensive income	-	-	-	11,957,306,046	11,957,306,046
Net movement of HFC/dormant accounts/ prior years' correction of errors	-	1,141,293	-	102,781	1,244,074
Provident claims/ TAV offsetting	(9,315,707,866)	-	-	-	(9,315,707,866)
Projected 20-year maturing TAVs reclassified to accounts payable-members	(515,940,530)	-	-	-	(515,940,530)
December 31, 2011	**207,682,571,141**	**161,579,085**	**250,890**	**33,281,325,381**	**241,125,726,497**
January 1, 2012	207,682,571,141	161,579,085	250,890	33,281,325,381	241,125,726,497
Collections	24,749,186,365	-	-	-	24,749,186,365
Dividends	8,491,052,930	-	-	(8,491,052,930)	-
Comprehensive income	-	-	-	13,255,888,961	13,255,888,961
Net movement of HFC/dormant accounts	-	-	-	-	-
prior years' correction of errors	-	1,832,418	-	31,782,673	33,615,091
Prior years' adjustments	-	-	-	(10,000,000,000)	(10,000,000,000)
MC-Unallocated dividends reclassified to Retained Earnings	(7,223,295,629)	-	-	7,223,295,629	-
Reserve for future claims				604,054,538	604,054,538
Provident claims/ TAV offsetting	(10,702,766,849)	-	-	-	(10,702,766,849)
Projected 20-year maturing TAVs reclassified to Accounts Payable-Members	(3,198,466,319)	-	-	-	(3,198,466,319)
December 31, 2012	**219,798,281,639**	**163,411,503**	**250,890**	**35,905,294,252**	**255,867,238,284**

The Notes on pages 7 to 36 form part of these Financial Statements.

HOME DEVELOPMENT MUTUAL FUND
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2012
(Amount in Philippine Pesos)

	Note	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Loan repayment - short-term loans		49,281,090,196	25,590,457,449
Loan repayment - end user loans		26,697,662,789	23,708,845,822
Loan repayment - institutional loans		1,300,235,343	1,413,160,924
Cash receipts from customers and employees		1,142,516,860	1,150,438,339
Loan releases - short-term loans		(51,385,517,019)	(25,291,561,140)
Loan releases - end user loans		(29,978,548,118)	(27,465,712,863)
Cash paid to suppliers and employees		(8,172,629,237)	(7,813,449,740)
Interest paid		(1,068,341,658)	(1,344,553,500)
Loan releases - institutional loans		(601,811,243)	(76,358,137)
Net cash used in operating activities		(12,785,342,087)	(10,128,732,846)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of available-for-sale investments		198,812,162,471	194,433,770,679
Proceeds from disposal of investment property		169,144,286	141,902,860
Proceeds from redemptions		59,933,725	30,740,177
Proceeds from disposal of property and equipment		241,990	994,170
Dividends received		190,200	1,367,572
Acquisition/rollover of available-for-sale investments		(202,613,859,132)	(197,181,031,136)
Acquisition of property and equipment		(60,516,500)	(125,853,587)
Acquisition of intangible assets		(6,006,803)	-
Net cash used in investing activities		(3,638,709,763)	(2,698,109,265)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from members' contributions		24,308,040,401	22,201,945,918
Proceeds from long - term borrowings		-	5,000,000,000
Repayment of long - term borrowings		(7,000,000,000)	(5,739,484,368)
Provident benefit claims		(5,833,843,370)	(5,292,908,208)
Net cash used in financing activities		11,474,197,031	16,169,553,342
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(4,949,854,819)	3,342,711,231
Effects of exchange rate changes on the balance of cash held in foreign currencies		(8,379,192)	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		9,072,776,142	5,730,064,911
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	**4,114,542,131**	**9,072,776,142**

The Notes on pages 7 to 36 form part of these Financial Statements.

HOME DEVELOPMENT MUTUAL FUND
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. CORPORATE INFORMATION

The Home Development Mutual Fund (HDMF), also known as the Pag-IBIG Fund, or the Fund, was created on June 11, 1978 by virtue of Presidential Decree No. 1530 to address two of the country's basic needs: generation of savings and provision of shelter for the Filipino workers.

Under this decree, two agencies administered Pag-IBIG Fund namely: (a) Social Security System (SSS) for the funds from private employees and (b) Government Service Insurance System (GSIS) for the funds from government workers. To meet the urgent need to consolidate all long-term, low-interest housing funds under the administration of a single agency to support the National Shelter Program of the then Ministry of Human Settlements, Executive Order No. 527 was issued on March 1, 1979, transferring the administration of Pag-IBIG Fund to National Home Mortgage Finance Corporation (NHMFC). As such, NHMFC took care of the administration, custody, disposal and utilization of the funds, including the authority to promulgate implementing rules and regulations pertaining to the aforesaid functions. On June 4, 1979, Executive Order No. 538 was issued merging the two funds into what is now known as Pag-IBIG Fund, which stands for Pagtutulungan sa Kinabukasan: Ikaw, Bangko, Industriya at Gobyerno. It remained under the administration of the NHMFC until Presidential Decree No. 1530 was amended by PD 1752 on December 14, 1980, making it an independent corporation with its own Board of Trustees.

Shortly after the administration of President Corazon C. Aquino came to power, Pag-IBIG contributions were suspended from May to July 1986. However, on August 1, 1986, former President Aquino issued Executive Order No. 35 directing the resumption of mandatory Pag-IBIG membership under more liberal terms. Contribution rate was reduced from three per cent to one per cent of fund salary for employees earning over P1,500. Employer share was cut from three per cent to a fixed rate of two per cent while the maximum fund salary was raised from P3,000 to P5,000.

January 1, 1987 marked the return of Pag-IBIG membership to a voluntary program under Executive Order No. 90. The next eight years witnessed the growth of Pag-IBIG Fund as a voluntary fund. On June 17, 1994, then President Fidel V. Ramos signed Republic Act 7742, which reverted Pag-IBIG membership to mandatory effective January 1, 1995.

On July 21, 2009, then President Gloria Macapagal-Arroyo signed into law Republic Act 9679, otherwise known as the "Home Development Mutual Fund Law of 2009". The new law and its Implementing Rules and Regulations (IRR) took effect on August 27, 2009 and November 3, 2009, respectively. It effectively repealed Presidential Decree Nos. 1530, 1752; and Executive Order Nos. 35 and 90. Its landmark provisions are those expanding the mandatory coverage of the Pag-IBIG Fund to include all employees compulsorily covered by the SSS and GSIS as well as Filipinos employed by foreign-based employer; exempting Pag-IBIG Fund employees from the coverage of the Salary Standardization Law; and restoration of tax exemption privileges.

Through the years, Pag-IBIG Fund has become the prime government financial institution tasked to continually perform two of the nation's basic concerns: generation of savings and provision of access to home financing to the workers. As such, it mobilizes an efficient, dynamic, regular and integrated nationwide savings system and at the same time enables low and middle-income families to realize their dream of having decent shelter.

The Corporate Headquarters is located at the Petron Mega Plaza Building, 358 Senator Gil J. Puyat Avenue, Makati City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of financial statements preparation

The accompanying financial statements have been prepared based on historical cost except for financial assets and financial liabilities expressed at fair value through profit and loss (FVPL), and investments available-for-sale (AFS) likewise measured at fair value.

The combined financial statements are presented in Philippine peso, and all values are rounded to the nearest peso except when otherwise indicated.

2.2 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), where practicable.

2.3 Basis of consolidation

The combined financial statements include the transactions of the Corporate Headquarters, and 40 branches in Luzon, Visayas, Mindanao and the National Capital Region.

The financial statements are prepared applying consistent accounting policies for like transactions and other events in similar circumstances. All inter-branch transactions and balances have been eliminated in the consolidation.

2.4 Accounting judgments and estimates

In the process of applying the Fund's accounting policies, management exercised judgment and estimates in determining the amounts recognized in the financial statements, with the most significant as follows:

a. Impairment losses on loans and receivables

The Fund reviews its loans and receivables semi-annually to assess whether an impairment loss should be recognized in the income statement. In particular, judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Fund makes judgments about the receivables' payment status. Loans and Receivables are assessed collectively to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

Unquoted Debt Instruments Classified as Loans (UDSCL) is assessed individually to determine any 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 (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

b. Impairment of available-for-sale investments

Equity investments classified as AFS investments 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 income - is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in equity.

c. IAS 39: Financial Instruments: Recognition and Measurement

Investment accounts are classified in accordance with IFRS categorization, i.e. (a) Held for Trading (b) Available for Sale Investments, and (c) Loans and Receivables.

However, adjustments pertaining to their valuation factored by the shift in amortization of premiums/discounts from straight line to effective interest rate have not been effected except for mark to market valuation and impairment of debt and equity securities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Fund provides money, goods or services directly to a debtor with no intention of trading the receivable. Such assets are carried at amortized cost using the effective interest method less any impairment in value. Interest earned on such loans and receivables is reported as interest income.

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 considered its interest rates as the market rates for housing loans as they are mandated by the government. Hence, the difference between the transaction price and fair value ("Day 1" difference) is not recognized in the Statement of Comprehensive Income.

d. Impairment of financial assets

Provision for impairment losses on Mortgage/Sales Contracts Receivables (MCR/SCR) and Wholesale Loans (WL) using the Expected Loss Model of Basel II is being adopted. With the issuance of the Non-Performing Assets Resolution Program (NPARP), provision of additional impairment allowance is necessary to ensure that adequate loan loss reserves are set up and maintained at a level sufficient to cover risks and absorb the losses incurred on the loan portfolio and other risky assets.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Cash and Cash Equivalents

Cash includes cash on hand and in banks, both foreign and local. Cash equivalents also include highly liquid investments acquired three months or less before maturity and subject to insignificant risk of change in value resulting from change in interest rates.

3.2 Receivables

Receivables are carried at book value minus provision for impairment, if any. They are classified into current and non-current.

Current portion refers to the aggregate principal amortizations due for the entire year succeeding the reporting year, zero to three months in arrears.

3.3 Held for Trading and Available-for-sale Investments

Held for Trading Investments (HFT) include Bonds and Other Debt Instruments such as Treasury Notes/Bonds and Philippine Dollar Denominated Bonds (ROPs) issued by the Bureau of the Treasury and the Republic of the Philippines are purchased with the intention of generating profit within a short period of not more than 90 days.

Available for Sale Investments (AFS) are those not classified as either Held to Maturity (HTM), Held for Trading (HFT) or Loans and Receivable (L&R). They include equities (quoted and unquoted) and debt instruments, which are not intended for trading in the short-term period of not more than 90 days but may be sold in response to liquidity requirements or changes in market conditions. Recorded under this category are Treasury Notes/Bonds and Philippine Dollar Denominated Bonds (ROPs) issued by the Bureau of the Treasury and Republic of the Philippines, Government Banks and Philippine Corporations.

Investment in Bonds and Other Debt Instruments are carried at cost. Cost of Bonds and Other Debt Instruments sold are accounted for using specific identification method.

Investment in stocks includes shares of stocks of companies listed in the Philippine Stock Exchange (PSE), which are carried at the lower of cost or market value. The market value of the stocks are computed every end of the month. If the market value is less than the cost, the difference is treated as Temporary Decline in the Market Value of Non-Current Equity Securities and is presented as reduction on the Statement of Comprehensive Income.

Cost of stocks sold is computed using the weighted average cost method.

3.4 Inventories

Inventories are carried at cost and accounted for using the First In First Out (FIFO) method. Tangible assets with serviceable life of more than one year but small enough to be considered as Property and Equipment, and items eventually treated as expense upon issuance are also included in this account.

3.5 Property and Equipment (PE)

In compliance with the provisions of Commission on Audit (COA) Circular Nos. 2003-007, 2004-003 and 2005-002 dated December 11, 2003, October 4, 2004 and April 14, 2005, respectively, Accounting Memorandum Order No. 2006-012 and 2008-03 were issued pertaining to the accounting of PE as follows:

PE is carried at cost less accumulated depreciation and amortization. Land is carried at cost.

The initial cost of the asset includes its purchase price and any incidental costs necessary in bringing the asset to working condition and location for its intended use.

Property under fabrication is stated at cost, which covers cost of construction and other direct costs, lodged to the Unused Materials Charged to Capital Outlay account. It is subsequently booked as PE upon completion of construction. The asset is not depreciated until such time it is completed and substantially available for its intended use.

Major repairs and improvements, renewals, and betterment, which extend the useful life of the PE, are recognized in the carrying amount of the property and depreciated accordingly. All other costs of repairs and maintenance are charged to operations as incurred.

Depreciation and amortization are calculated on straight-line basis over the estimated and/or remaining useful life of the asset.

Residual value of PE is set at ten per cent of the acquisition cost.

When an item of PE is sold or retired, its cost and accumulated depreciation and amortization are dropped from the books and any gain or loss resulting from the disposal is reported in the statement of comprehensive income.

Penalty for late delivery of PE purchased is accounted for as a reduction from the cost of PE.

3.6 IAS 38: Intangibles

Information Technology Software costs are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs, net of residual value, are amortized on a straight-line basis. Costs associated with maintaining the computer software program is recognized as expense when incurred.

3.7 IAS 40: Investment Property

Real and Other Properties Acquired, consisting of collaterals of cancelled Contract to Sell (CTS) and foreclosed properties with registered Certificate of Sale, though still under the redemption period, as well as those with titles already consolidated in favor of the Fund, are classified as Investment Properties and presented net of Allowance for Impairment Losses. Such allowance pertains to the difference between their carrying value and the amount recoverable from their disposal, which stood at P6.727 billion as of December 31, 2012.

3.8 Interest income recognition

Interest income on housing loans is recognized on accrual basis at month end. Interest on calamity loans under HDMF Circular No. 322 and multi- purpose loan under HDMF Circular 323 being piloted at Imus Branch are computed on a daily basis but recorded at month end. Recording of accrual stops once an account is over three months past due. Interest on existing multi-purpose loan covered by HDMF Circular 56-H is capitalized and recognized as income upon monthly amortization.

3.9 Foreign currency transactions

Foreign currency transactions are recorded based on the exchange rate on the date of transaction. Exchange rate difference arising from the settlement of monetary items or from reporting of foreign currency monetary items at rates other than the rate applied in recording the transaction or the rate adopted in previous financial statements are reported in the statement of comprehensive income.

Foreign currency transactions in US Dollar-denominated currency shall initially be translated into the functional currency using the spot exchange rate between the foreign currency and the functional currency on the date of the transaction.

However, all foreign currencies other than the US Dollar shall be translated to US Dollar currency first, using the exchange rates published by the Bangko Sentral ng Pilipinas (BSP), before translating the same to Philippine Peso using the exchange rate published by the Philippine Dealing and Exchange Corporation (PDEx).

4. CASH AND CASH EQUIVALENTS

This account is composed of the following:

	2012	2011
Checks and other cash items	240,791,944	188,228,223
Cash on hand	67,889,759	44,086,030
Revolving fund	2,357,713	2,955,700
Collecting officer	372,064	567,016
Petty cash fund	316,233	301,330
Change fund	77,500	67,500
	311,805,213	**236,205,799**
Cash in bank	2,004,499,698	1,930,505,499
Time deposits (3 months or less)	1,798,237,220	6,906,064,844
	4,114,542,131	**9,072,776,142**

Bank deposits on foreign currencies at December 31, 2012 were revalued based on the following rates at December 28, 2012: US$41.192 and CAN$41.4044.

5. HELD FOR TRADING/AVAILABLE-FOR-SALE

	2012	2011
Held for trading	5,706,789,980	1,562,076,408
Available-for-sale		
Bonds and Other Debt Instruments	-	21,555,013
	5,706,789,980	**1,583,631,421**

6. LOANS AND RECEIVABLES, CURRENT PORTION

	2012	2011
Loans Receivables		
Multi-purpose loans	37,513,649,024	32,593,539,557
Wholesale loans	4,433,700,975	4,061,390,181
Installment receivable	9,236,777	5,640,013
Miscellaneous receivable	5,887,139	5,579,433
	41,962,473,915	36,666,149,184
Allowance for impairment loss	(989,132,894)	(1,350,958,825)
	40,973,341,021	35,315,190,359
Mortgage contracts receivable	31,552,696,196	39,942,692,545
Allowance for impairment loss	(8,428,913,860)	(8,595,650,886)
	23,123,782,336	31,347,041,659
Sales contracts receivable	16,649,907,635	27,821,639,655
Allowance for impairment loss	(2,954,833,741)	(2,937,085,154)
	13,695,073,894	24,884,554,501

	2012	2011
Unquoted debt securities classified as loans	2,253,552,399	20,000,000
Allowance for impairment losses	(20,000,000)	-
	2,233,552,399	20,000,000
Accounts Receivable		
Developers	2,963,161,516	4,010,264,114
Accrued interest receivable	2,315,214,253	2,123,093,795
Borrowers	950,892,254	922,407,474
Others	171,763,752	174,194,012
Employers	115,655,700	131,689,952
Collecting agents	42,539,643	39,783,084
Officers and employees	13,289,482	10,924,846
Advances to officers and employees	1,495,775	170,168
	6,574,012,375	7,412,527,445
Allowance for impairment loss	(1,914,150,411)	(2,581,649,204)
	4,659,861,964	4,830,878,241
	84,685,611,614	**96,397,664,760**

The current Loans Receivable of P40,973,341,021 and P35,315,190,359 for CYs 2012 and 2011 respectively, includes past due accounts, zero to three months in arrears, of P9,343,336,660 and P9,414,466,700, respectively, for CYs 2012 and 2011 respectively which are immediately due and demandable.

6.1 Interest rate on Multi-Purpose Loans/Calamity Loans

The policies adopted in setting interest rates on multi-purpose loan are set out below:

Operative Dates	HDMF Circular	Description	Interest Rate
April 28, 2005	56-H	Revised Guidelines on the Pag-IBIG Multi-Purpose Loan(MPL) Program	10.75%
December 5, 2012	322	Amended Guidelines Implementing the Pag-IBIG Calamity Loan Program	5.95%
Upon availability of the Short Term Loans Management System	323	Revised Guidelines on the Pag-IBIG Multi-Purpose Loan (MPL) Program	10.50%

Mortgage Contracts Receivables represent loans to Pag-IBIG members that are backed-up by real estate mortgages (REM) under the various home lending programs of the Fund. The current Mortgage Contracts Receivable of P23,123,782,336 and P31,347,041,659 for CYs 2012 and 2011 respectively, includes past due accounts, zero to three months in arrears of P15,610,597,865 and P28,251,091,025 for CYs 2012 and 2011 respectively, which are immediately due and demandable.

Sales Contracts Receivables represent loans to Pag-IBIG members that are secured by Contract-to-Sell. The current Sales Contracts Receivable of P13,695,073,894 and P24,884,554,501 for CYs 2012 and 2011 respectively, includes past due accounts, zero to three months in arrears of P5,672,724,786 and P16,472,059,937 for CYs 2012 and 2011 respectively, which are immediately due and demandable.

6.2 Interest rate on Wholesale -Loans

Effective August 15, 2012, wholesale loans are charged with the following interest rate:

Product	Rate
1 --- Year Term, Fixed	7.125%
2 --- Year Term, Fixed	7.625%
3 --- Year Term, Fixed	8.375%

6.3 Interest rate on housing loans

The policies adopted in setting interest rates on housing loan are set out below:

Operative Dates	HDMF Circular	Description
April 1, 2009	247	Guidelines on the Pag-IBIG Fund End - User Home Financing Program
June 1, 2012	312	Guidelines on the Pag-IBIG Fund Affordable Housing Program
July 2, 2012	310	Amended Guidelines on the Pag-IBIG Fund End-User Home Financing Program
July 2, 2012	317	Program on the Conversion to Full Risk-Based Pricing Model

For Housing Loans outstanding prior to July 2, 2012 prevailing interest rates are as follows:

Loan Amount	Interest Rate
Up to 400,000	6%
Over 400,000 to 750,000	7%
Over 750,000 to 1,000,000	8.5%
Over 1,000,000 to 1,250,000	9.5%
Over 1,250,000 to 2,000,000	10.5%
Over 2,000,000 to 3,000,000	11.5%

Pursuant to HDMF Circular No. 310, “Amended Guidelines on the Pag-IBIG Fund End-User Home Financing Program” effective July 2, 2012 interest rates on retail housing loans were based on a pricing framework approved by the Board of Trustees on June 6, 2012. Said interest rates shall be re-priced periodically depending on the re-pricing period chosen by the borrower whether every three (3), five (5), ten (10) or fifteen (15) years. “Program on the Conversion to Full Risk-Based Pricing Model” under HDMF Circular No. 317 covering all borrowers with housing loan accounts taken out under Circular No. 247 or earlier Circulars as of date of application with interest rates more than the prevailing market rates can avail of the Full Risk Based Pricing Program subject to its terms and conditions.

HDMF Circular No. 285, “Extended Implementation of the Good Payor Incentive Program”, effective June 1, 2010, offers a two per cent discount or reduction on applicable interest rate for amortizations on housing loans paid on time. Said discount is also available for accounts one to six months past due that became up to date until December 31, 2007. Under HDMF Circular No. 290, the effectivity of the policy was extended to May 31, 2012.

Pursuant to HDMF Circular 280, accounts covered by the "Prompt Payment Discount for Updated Housing Loan Accounts That Underwent Loan Term Adjustment”, shall continue to enjoy the benefits of prompt payment discount, unless rendered ineligible by defaulting on monthly payment. Pursuant to Circular No. 309, the implementation of the Good Payor Incentive Program was again extended to July 1, 2012 or until the approval of the Guidelines on the Re-pricing of HDMF Housing Loans, whichever comes earlier.

HDMF Circular No. 312, “Guidelines on the Pag-IBIG Fund Affordable Housing Program” covering all accounts of eligible borrowers processed and taken out beginning June 1, 2012 provides that for the first 10 years of the loan, borrowers under each specific income cluster shall be charged with affordable interest rate as follows:

Details		Maximum Gross Monthly Income/Cluster Limit	
Income Cluster	Cluster 1 (NCR)	Up to P15,000	Up to P17,500
	Cluster 2 (Other Regions)	Up to P12,000	Up to P14,000
Loan Amount		Loans up to P400,000	Loans up to P750,000
Interest Rate		4.5%	6.5%

At the end of the 10-year period, the interest rates shall be re-priced based on the prevailing interest rate in the Fund’s pricing framework or it shall be increased by two per cent, whichever is lower. The borrower shall also be given the option to choose the succeeding re-pricing period, whether it will be every three (3), five (5), ten (10) and fifteen (15) years. The base rate for succeeding re-pricing shall be the interest rate for immediately preceding re-pricing period.

Unquoted Debt Securities Classified as Loans (UDSCL) consists of the following:

	2012	**2011**
LBP- Tier 2	1,700,000,000	-
DBP- Tier 2	500,000,000	-
LBP 10yr AR Bonds	33,552,399	-
Puerto Princesa Pabahay Bonds	20,000,000	20,000,000
Allowance for Impairment Loss	(20,000,000)	-
	2,233,552,399	**20,000,000**

On June 9, 2009, the Fund purchased at par ten-year LBP Unsecured Subordinated Notes, legible as Tier 2, with a face value of P1,000,000,000 bearing interest rate of 7.250% for the first five years and the set up interest rate from the fifth year up to maturity date. The LBP Unsecured Subordinated Notes may be redeemed at the option of the Issuer at par plus accrued and unpaid interest in 2014. The Fund designated the LBP Unsecured Subordinated Notes as Loans and Receivables- Unquoted Debt Securities Classified as Loans- (L&R-UDSCL), previously classified as held-to-maturity (HTM) financial asset. Interest Income (net) recognized on the LBP Unsecured Subordinated Notes amounted to P72,300,000 for each of the years ended December 31, 2012, 2011 and 2010 and P36,150,000 for the year ended December 31, 2009.

On January 27, 2012, the Fund purchased at par ten year LBP Unsecured Subordinated Notes, eligible as Tier 2, with a face value of P700,000,000 bearing a fixed interest rate of 5.875% for the first five years and the step-up interest rate of 1/8th % from the fifth year up to maturity date. The LBP Unsecured Subordinated Notes may be redeemed at the option of the Issuer at par plus accrued and unpaid interest in 2017. The Fund designated the LBP Unsecured Subordinated Notes as Loans and Receivables- Unquoted Debt Securities Classified as Loans- (L&R-UDSCL), previously classified as held-to-maturity (HTM) financial asset. Interest income (net) recognized on the LBP Unsecured Subordinated Notes amounted to P30,738,750 for the year ended December 31, 2012.

On March 22, 2012, the Fund purchased at par ten year DBP- Unsecured Subordinated Notes, eligible as Lower Tier 2 Capital, with a face value of P500,000,000 bearing a fixed interest rate of 5.750% callable after five years and one (1) day from the issue date. The DBP Unsecured Subordinated Notes may be redeemed at the option of the Issuer at par plus accrued and unpaid interest in 2017. The Fund designated the DBP- Unsecured Subordinated Notes as Loans and Receivables- Unquoted Debt Securities Classified as Loans- (L&R-UDSCL), previously classified as held-to-maturity financial asset. Interest income recognized on the DBP- Unsecured Subordinated Notes amounted to P21,486,111 for the year ended December 31, 2012.

In the years 2003 and 2004, the Fund invested in Agrarian Reform Ten-Year Bond issued by the Landbank of the Philippines (LBP) and approved by the Republic of the Philippines and the Monetary Board under the provisions of RA No. 6657 dated June 10,1988. By law, the bond is direct, unconditional and general obligation of the government of the Philippines. The Bonds may be used as payment for the agricultural land or other real properties purchased from the government and reparations goods; as security for loans applied for with government financial institutions and for such other purposes as provided under Paragraph (b.), No.4, Section 18 of RA No. 6657.

The LBP redeems one-tenth (1/10th) of the face value of the Bond annually on its anniversary date which commence one year from the date of issue until the Principal Sum is fully paid. It bears interest rates based on the average 91-day Treasury Bills rates, net of applicable withholding tax, payable every six months at the Head Office of LBP.

The Fund designated the Bonds as Loans and Receivables- Unquoted Debt Securities Classified as Loans (L&R-UDSCL), previously classified as Held-to-Maturity (HTM).

As of December 31, 2012, the Bonds total outstanding balance is P33,552,399, which includes P116,458 received from members in payment of their housing loans.

Interest Income (net) recognized on the Bonds amounted to P4,161,879 for the year ended December 31, 2012.

Puerto Princesa Pabahay bonds guaranteed by the Home Guaranty Corporation (HGC), which were fully subscribed by HDMF, were used to finance the housing project of members of the Visayan Association in Palawan (VISAPA). The city failed to redeem the bonds on its maturity on December 24, 1999. On December 6, 2012, the Fund received a proposal from the City Administrator of Puerto Princesa to settle the unpaid principal value of the bonds plus accrued interest. As of December 31, 2012, the proposed settlement plan of Puerto Princesa Pabahay Bonds, discussed with the Legal and General Counsel Group and Fund Management Group, is for approval of the Senior Management.

Accounts Receivable-Others represent the following:

	2012	2011
Accounts Receivable		
Others	132,810,784	99,578,695
Other Government Agencies	32,493,071	68,318,248
Banks	6,278,481	6,297,069
Brokers	125,547	-
Members	55,869	-
	171,763,752	**174,194,012**

7. OTHER CURRENT ASSETS

This account consists of the following:

	2012	2011
Inventories	122,452,349	96,728,236
Time Deposit	86,503,201	322,883,871
Prepaid expenses	40,567,490	42,711,968
Claims from disallowed payments	464,043	464,043
Claims from accountable officers	423,589	423,589
	250,410,672	**463,211,707**

Time Deposits refer to those placements with term of more than 90 days.

8. AVAILABLE-FOR-SALE INVESTMENTS

	2012	2011
Bond and other debt instruments	23,697,627,935	24,629,601,761
Stocks/equity securities	1,438,867	13,607,670
Allowance for impairment losses and allowance for decline in market value	(174,145)	(5,038,497)
Stock/securities of service enterprises	-	1,159,390
	23,698,892,657	**24,639,330,324**

9. LOANS AND RECEIVABLES, NON- CURRENT PORTION

	2012	2011
Loans and Receivables		
Multi-purpose loans	18,049,488,826	18,466,458,795
Wholesale	2,169,380,229	3,150,039,549
Miscellaneous receivable	26,703,027	21,898,104
Installment receivable	525,493	-
	20,246,097,575	21,638,396,448
Allowance for impairment loss	(1,502,093,119)	(1,054,830,342)
	18,744,004,456	20,583,566,106
Mortgage contracts receivable	100,855,709,218	88,669,902,655
Allowance for impairment loss	(14,763,958,461)	(8,851,314,582)
	86,091,750,757	79,818,588,073
Sales contracts receivable	84,062,282,366	65,442,905,324
Allowance for impairment loss	(5,206,680,843)	(416,389,397)
	78,855,601,523	65,026,515,927
	183,691,356,736	**165,428,670,106**

10. INVESTMENT PROPERTIES

	2012	2011
Real and other properties acquired	16,816,757,402	8,006,902,809
Allowance for impairment loss	(6,726,702,961)	(2,534,062,646)
	10,090,054,441	5,472,840,163
Land equity	302,632,050	302,632,050
	10,392,686,491	**5,775,472,213**

10.1 Real and Other Properties Acquired (ROPA)

Under IAS 40, ROPA is classified as Investment Property. Significant increases in ROPA and allowance for Impairment Loss of P8,809,854,593 and P4,192,640,315 was mainly due to reclassification of Items Under Litigation (IUL) amounting to P8,195,680,615 to IP ROPA as well as its corresponding Allowance for Impairment

Loss-IUL to Allowance for Impairment Losses-IP ROPA amounting to P3,816,792,504. At December 31, 2012, the asset consists of 60,699 accounts.

10.2 Land Equity

The property being held for rental yields and capital appreciation is located at the Manila Harbour Central Business District, Tondo, Manila. It consists of 18 lots with total area of 17,293.26 square meters. The property was acquired in December 1996 at the cost of P17,500 per square meter or a total of P302,632,050 as approved under Board Resolution No. 1234, Series of 1996.

All the 18 lots are on lease as follows:

Lessee	Blk/Lot	Area	Rental per sq. m.
Trans World	B15 L1-6	4,368.23	P 81.76
Trans World	B15 L7	5,167.53	124.32
YM Cargo	B18 L6	506.00	95.20
Sagawa Express	B18 L5	1,200.00	82.32
YM Cargo	B18 L7	419.48	70.56
Moreta Shipping Lines	B21 L5-12	5,632.02	76.33

Rental Income for CY 2012 amounted to P15,239,747, inclusive of Value Added Tax while expenses incurred on the properties include real estate taxes in the amount of P1,523,395.

11. PROPERTY AND EQUIPMENT (PE), NET

This account consists of the following:

	Land and Improvements	Building and Improvements	Transportation, Furniture, Fixtures, Equipment, Miscellaneous Assets	Leasehold Rights and Improvements	Total
Cost					
January 1, 2012	92,487,508	1,175,586,534	1,790,227,939	67,507,057	3,125,809,038
Addition	-	1,249,064	175,858,371	8,719,093	185,826,528
Restatements	(485,179)	(814,107)	(100,337,938)	(2,226,260)	(103,863,484)
Disposal	-	-	(28,406,524)	(2,954,000)	(31,360,524)
December 31, 2012	92,002,329	1,176,021,491	1,837,341,848	71,045,890	3,176,411,558
Accumulated Depreciation					
January 1, 2012	103,912	680,953,332	1,213,684,156	44,850,202	1,939,591,602
Restatements	(72,199)	(140,131)	(8,857,877)	(1,929,529)	(10,999,736)
Depreciation	11,366	20,565,659	137,152,809	7,804,220	165,534,054
Disposal	-	-	(26,267,158)	(2,428,608)	(28,695,766)
December 31, 2012	43,079	701,378,860	1,315,711,930	48,296,285	2,065,430,154
Net Book Value					
December 31, 2012	**91,959,250**	**474,642,631**	**521,629,918**	**22,749,605**	**1,110,981,404**
Net Book Value					
December 31, 2011	**92,383,596**	**494,633,202**	**576,543,782**	**22,656,857**	**1,186,217,437**

Restatements refer to reclassification or correction of previous years' transactions, which include transfer of PE from one branch to another, and head office to other branches or vice versa.

12. INTANGIBLE ASSETS

	2012	2011
Information technology software	553,371,566	534,860,100
Accumulated amortization	(381,694,348)	(316,391,589)
	171,677,218	**218,468,511**

13. OTHER ASSETS

This classification comprises the following:

	2012	2011
Bonds special reserve	515,582,714	-
Rental and other guarantee deposits	88,687,935	84,197,163
Unserviceable property and equipment	70,286,655	-
Other deferred charges	28,257,098	19,799,244
Investment in joint venture	10,128,682	10,128,682
Miscellaneous	-	142,465
	712,943,084	**114,267,554**

14. CURRENT PORTION OF MEMBERS' EQUITY

Members' Equity representing Total Accumulated Values (TAVs) which have reached the 20 year maturity at December 31, 2012 but have not been withdrawn, as well as those that will reach the same maturity by year 2013 are reclassified to Accounts Payable - Members at year end.

15. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of the following:

	2012	2011
Accounts payable	8,232,528,880	7,731,134,519
Accrued expenses	2,245,328,497	2,150,223,961
	10,477,857,377	**9,881,358,480**

Accounts payable are amounts payable to various entities and individuals. It also includes amount payable to developer/borrowers deducted from loan proceeds to defray expenses to be incurred upon conversion of the Contract to Sell to Real Estate Mortgage.

Accrued expenses are operating expenses already incurred at year end but have not yet been paid. It includes accumulated leave credits, performance incentives and retirement pay due to officers and employees.

16. OTHER CURRENT LIABILITIES

The details of this classification are as follows:

	2012	2011
Insurance payable [a]	1,087,503,222	1,005,462,024
Vouchers payable	587,260,518	555,608,229
Undistributed collections [b]	562,203,328	1,556,872,217
Withholding tax payable	68,957,827	75,741,456
GSIS / Pag-IBIG	15,000,012	14,178,665
Miscellaneous liabilities [c]	48,395,533	51,127,880
	2,369,320,440	**3,258,990,471**

[a] The insurance payable account pertains to insurance premiums of housing loan borrowers which were initially deducted from the housing loan proceeds and subsequently collected as part of the monthly amortizations representing insurance premium prepayments for remittance to the insurance pool.

[b] Inter-office transactions, which at month-end are in transit for transfer to the branches carrying the account, thus, remain floating in the Due to/from Accounts, are temporarily lodged to Undistributed Collections. These transactions are subsequently responded and allocated by the branch of destination. The account also include Posting Clearing Accounts at Kamias and Calapan Branches covering daily collections on Members' Contributions, Multi-Purpose Loan and Housing Loan repayments prior to allocation and posting to the members'/borrowers' account under the Interim System. Also included are remittances of Members' Contributions from local and foreign banks which remain unidentified, unallocated or unpostable at the close of the year. It is the Pag-IBIG Fund's policy that all identified collections must be allocated or posted to the subsidiary ledger within five days from receipt of the journal ticket by the operating unit concerned.

[c] Miscellaneous liabilities include payables to the Employees Provident Plan consisting of contributions and loan repayments, to the Pag-IBIG Employees' Labor Association for union dues and to the various suppliers covering refundable deposits.

17. LOANS PAYABLE

This account consists of payables to the following:

	2012	2011
Development Bank of the Philippines (DBP)	-	5,000,000,000
Government Service Insurance System (GSIS)	5,000,000,000	5,000,000,000
Total	5,000,000,000	10,000,000,000
Current portion	-	(5,000,000,000)
Non-current portion	**5,000,000,000**	**5,000,000,000**

The P5.000 billion GSIS loan, which bears a fixed interest rate of 4.75 per cent annually, will mature on December 15, 2031.

18. BONDS PAYABLE

	2012	2011
Bonds payable	12,000,000,000	14,000,000,000
Bond issue cost	(232,695,092)	(330,570,553)
Premium on bonds payable	-	97,444
Total	11,767,304,908	13,669,526,891
Current portion	-	(2,000,000,000)
Non-current portion	**11,767,304,908**	**11,669,526,891**

The outstanding housing bonds with interest of five per cent per annum, payable semi-annually, will mature on March 12, 2015.

19. OTHER NON-CURRENT LIABILITIES

	2012	2011
Deferred Credits [a]	18,449,197,953	19,455,347,220
	18,449,197,953	**19,455,347,220**

[a] Deferred credits refer to capitalized interest income on Multi-Purpose Loans and restructured housing loans which are credited to interest income upon amortization every month end. It also includes capitalized origination fees on loans processed prior to May 30, 2001, being amortized and credited as income over the term of the loan; unearned income from Housing Loans; and rental payments on foreclosed properties under the redemption period and Rent-to-Own arrangement.

20. INTEREST INCOME ON LOANS AND RECEIVABLES

The account comprise of interest income from the following:

	2012	2011
Loans and receivables		
Mortgage contracts receivable	8,557,585,055	7,627,168,331
Sales contracts receivable- CTS 2	6,219,333,086	6,075,003,201
Multi-purpose loans	5,808,833,466	5,641,531,250
Wholesale loans	220,917,665	322,785,285
Unquoted debt security classified as loans, net	136,903,893	3,862,418
Installment receivable	58,494	-
	20,943,631,659	**19,670,350,485**

21. INTEREST INCOME ON TRADING AND INVESTMENT SECURITIES

	2012	2011
Available-for-sale	1,685,807,412	1,437,324,148
Held for trading	183,892,413	167,310,474
	1,869,699,825	**1,604,634,622**

These include interest income from the Funds' investments in bonds and government securities.

22. INTEREST INCOME ON DEPOSITS WITH BANKS AND OTHERS

These represent interest earned from deposits of local and foreign currency denominated accounts in the various banks, either private or government.

23. INTEREST EXPENSE ON BONDS AND LOANS PAYABLE

This represents charges on the use of money by the Fund such as interest on bonds and borrowings.

24. SERVICE FEES

This account consists of:

	2012	2011
Penalties and other charges	912,999,038	685,166,383
Insurance service fees	634,544,467	616,012,510
Processing fees	155,717,619	149,987,742
Sales administration/ Mortgage origination fee	27,618,636	53,208,822
Miscellaneous service income	56,053,917	70,628,438
	1,786,933,677	**1,575,003,895**

Insurance Service Fees are fees collected from the insurance pool/companies by way of withholding from the remittance of insurance premiums for housing loans. A fee equivalent to 30 per cent and 35 per cent of the premiums remitted is deducted for MRI and Fire Insurance, respectively.

Sales Administration/Mortgage Origination Fees are fees collected as part of the monthly amortization of housing loan borrowers who availed of loans under HDMF Circular Nos. 147 and 148, respectively.

Miscellaneous Service Income includes fees for appraisal services on properties offered as collateral for loan with the Fund and forfeited commitment fee.

25. TRADING AND INVESTMENT SECURITIES GAINS (LOSSES) – NET

These represent realized gains on bond sale/exchange and sale of equities based on the difference between market value and book value of the said securities/equities.

For CY 2012, net realized trading gains on investments in Equities and Bonds and Other Debt Instruments amounted to P17.589 million and P141.391 million, respectively.

26. FOREIGN EXCHANGE GAINS (LOSSES) – NET

These represent foreign exchange differences arising from restatements of foreign currency–denominated assets (which are either added to revenue if foreign exchange gains are higher than foreign exchange losses or charged to operations if otherwise).

	2012	2011
Foreign exchange gains	185,913,310	312,152,404
Foreign exchange loss	(435,061,081)	(301,360,813)
	(249,147,771)	**10,791,591**

27. MISCELLANEOUS INCOME

	2012	2011
Income from acquired assets	7,835,995	12,526,773
Housing contributory fund	3,662,514	1,986,155
Other income	358,515,069	551,133,170
	370,013,578	**565,646,098**

Income from Acquired Assets represents earnings from rental or lease of acquired assets.

Housing Contributory Fund represents a portion of the loan amortization on housing loans extended by the National Home Mortgage Finance Corporation (NHMFC) to HDMF members, subsequently assigned to the Fund in 1992. This was founded on the premise that the few early borrowers favored by NHMFC's home lending policies should share such favor with future generations as well as future borrowers who are likely to borrow at a time when long term funds and present prevailing rates may no longer be available.

Other income includes gains arising from sale or disposal of acquired assets wherein the selling price is higher than the carrying value of the asset sold or disposed.

28. COMPENSATION AND FRINGE BENEFITS

	2012	2011
Lending costs - personal services	1,766,066,396	1,418,531,699
Fund administration costs–personal services	1,605,268,702	1,308,449,750
	3,371,335,098	**2,726,981,449**

29. PROVISION FOR IMPAIRMENT AND OTHER LOSSES/ DEPRECIATION AND AMORTIZATION

	2012	2011
Provision for impairment & other losses		
Lending costs	4,277,692,701	5,912,301,727
Fund administration costs	25,235,622	351,254
	4,302,928,323	**5,912,652,981**
Depreciation and amortization		
Fund administration costs	186,745,584	338,404,220
Lending costs	49,837,597	55,505,400
	236,583,181	**393,909,620**
	4,539,511,504	**6,306,562,601**

Impairment provision absorbs the potential future losses on the Funds' receivables and investment properties.

Depreciation and amortization represents periodic allocation of the cost, net of residual value, over the estimated useful life of the Funds' depreciable assets. Likewise, these also represent periodic recognition of the decline in the value of the Funds' investment properties.

Other losses include those that arise from sale or derecognition of the Funds' assets and discounts or reduction in interest on the account of eligible member-borrower under prompt payment discounts scheme.

30. FORECLOSURE AND ACQUIRED ASSET MANAGEMENT COSTS

	2012	2011
Lending Costs		
Foreclosure expenses	190,825,522	112,578,235
Acquired Assets:		
Taxes and licenses	19,995,198	5,983,336
Real estate taxes	9,113,687	11,354,749
Insurance premiums	3,665,208	3,581,280
Services miscellaneous	3,343,417	2,750,172
Securities services	2,632,161	5,650,602
Brokers fee	2,491,670	1,038,993

	2012	2011
Janitorial services	703,196	733,757
Repairs and maintenance	554,885	735,742
Publications	140,850	34,224
Fund administration costs		
Real estate taxes-acquired assets	344,285	-
	233,810,079	**144,441,090**

31. OCCUPANCY AND EQUIPMENT- RELATED COSTS

	2012	2011
Lending Costs		
Rent and association dues	146,429,856	124,451,927
Water, illumination and power	68,312,732	63,760,310
Fund Administration Costs		
Rent and association dues	221,143,358	175,597,673
Water, illumination and power	94,475,169	76,300,274
	530,361,115	**440,110,184**

32. MISCELLANEOUS EXPENSES

The breakdown of miscellaneous expenses is as follows:

	2012	2011
Lending Costs		
Other services	305,705,889	300,773,369
Fidelity and insurance premiums	127,662,009	72,057,707
Extraordinary and miscellaneous	98,719,963	86,952,273
Supplies and materials	85,585,245	83,337,933
Loan collection charges	57,088,766	78,411,316
Communication services	54,483,779	55,504,412
Traveling expenses	18,610,525	13,132,287
Transportation services	16,291,563	8,663,664
Taxes, duties and fees	8,403,591	6,448,366
Training and seminar expense	5,849,404	4,155,917
Repair and maintenance of government vehicles	3,729,718	3,347,379
Computer data processing costs	1,754,884	2,114,232
Interest subsidy	722,005	735,175
Bank charges and custodianship fees	651,261	232,946
Repair and maintenance of office premises and facilities	134,819	609,048
Consultants and specialists fees	31,750	46,929
Advertising and publication expense	25,536	227,732
	785,450,707	716,750,685
Fund Administration Cost		
Other services	417,712,779	401,250,496
Extraordinary and miscellaneous	143,626,504	119,787,944

	2012	2011
Advertising and publication	134,966,652	91,780,003
Auditing services	83,553,064	127,611,481
Supplies and materials	82,756,919	68,083,688
Communication expense	66,037,250	38,298,705
Computer data processing costs	63,075,247	55,847,847
Traveling expenses	36,950,486	33,694,781
Transportation services	19,250,304	19,641,982
Repair and maintenance of government vehicles	15,160,309	11,782,904
Consultants and specialists fees	13,853,867	26,434,401
Fidelity bond and insurance premiums	11,214,038	12,231,059
Training and seminar expense	10,236,075	4,751,851
Incentive fees	8,923,971	5,850,243
Bank charges and custodianship fees	4,130,257	15,290,994
Taxes, duties and fees	3,314,732	3,945,134
Grants, aids and contributions	2,544,165	1,453,539
Repair and maintenance of office premises and facilities	1,066,693	5,332,091
Other expenses	163,640,405	116,687,446
	1,282,013,717	1,159,756,589
	2,067,464,424	**1,876,507,274**

33. MEMBERS' EQUITY

This account reflects the equity of the members as owners of Pag-IBIG Fund, corresponding to members' contributions, employers' counterpart for employed members and the accumulated dividends. The account is reduced by the provident claims of members and offsetting of loans against the Total Accumulated Values (TAVs) with the aggregate amount of P10,702,766,849 and P9,315,707,866, for the CY2012 and CY2011, respectively.

34. RESERVE FOR LOSSES

The guarantee insurance premium of NHMFC originated accounts such as Folio I, P50 million, Overhang and Bagong Lipunan Sites Services (BLISS) are treated as reserve for credit losses and presented as part of the Fund's Net Worth. This is intended to absorb losses arising from the difference between the book value and appraised value of foreclosed properties determined at the point of consolidation of title, but only up to the extent of the balance of the said account. Any excess shall be charged to the usual Loss on Foreclosure account.

35. DONATED SURPLUS

This account refers to the lot, where La Union Branch's office building is located, was acquired by the Fund through donation from the provincial government of La Union on

October 27, 1997 and was recorded in the books at market value at the time of acquisition.

36. DIVIDENDS

The dividends in the amount of P8,491,052,930 and P7,882,129,926 were appropriated from its Retained Earnings representing 71 per cent of its Net Income of P11,959,229,479 and P11,101,591,446 for the year CYs 2011 and 2010, respectively.

37. RESERVE FOR FUTURE CLAIMS

Long outstanding unreconcilable items of P604,054,538 are lodged in this account for the settlement of valid future claims, subject to pertinent provisions of the Implementing Rules and Regulations of RA 9679, such as Rule XI, Section 1 “Unclaimed Savings/Dividends is defined as any amount standing to the credit of any member for a period of one year after termination of membership shall be regarded as unclaimed savings and shall be reclassified as an account payable to the former member by the Fund. If any, such amount standing to the credit remains unclaimed for a period of more than ten (10) years, the same shall be reverted to the Fund’s retained earnings”.

38. MC-UNALLOCATED DIVIDENDS RECLASSIFIED TO RETAINED EARNINGS

The Board approved to revert back the unallocated dividends in the amount of P7,223,295,629 to the Fund’s Retained Earnings per Board Resolution No. 2986.

39. PRIOR YEARS’ ADJUSTMENTS

On November 22, 2012, the Board of Trustees approved the incremental provision for impairment loss at the amount of P10.00 billion which reduced the Total Assets and Retained Earnings of the Fund by the same amount. This brought the coverage of the allowance to 40 per cent for housing loans over one year past due and for Real and Other Properties Acquired (ROPA).

40. FINANCIAL REPORTS

The combined financial statements were presented and noted by the HDMF Board of Trustees in its Board Meeting held last February 28, 2013. The Board of Trustees authorized the issuance of the Fund’s financial statements in the Board Meeting held on February 28, 2013.

41. SUPPLEMENTARY INFORMATION

Pag-IBIG Fund paid and accrued taxes, duties and license fees, to wit:

	2012	2011
Taxes, Duties and Fees		
Taxes and licenses – ROPA	19,995,198	5,983,337
Real estate taxes– ROPA	9,457,972	11,354,749
Real estate taxes-Properties	1,552,344	2,377,102
Withholding Taxes		
Tax on compensation and benefits	384,405,202	356,272,738
Creditable withholding taxes	115,031,002	105,948,043
Final withholding taxes	1,439,690	1,805,829
Final taxes	12,869,192	-
Miscellaneous taxes	4,092,904	831,509
	548,843,504	**484,573,307**

On September 28, 2011, BIR Revenue Memorandum Circular No. 43-2011 Circularizing Section 19 of Republic Act No. 9679, the "Home Development Mutual Fund Law of 2009" was issued highlighting the Funds' exemption from tax payments relative to the said law. Likewise, it also stated the Funds' exemption from the documentary stamp tax imposed under Title VII of the National Internal Revenue Code of 1997.

The taxes paid for ROPA covers tax assessment not paid by the borrowers prior to foreclosure of their properties assumed by the Fund to facilitate consolidation of title.

The Fund has no deficiency assessments and tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the Bureau of Internal Revenue.

42. RELATED PARTY DISCLOSURES

In the ordinary course of business, the Fund has loans and other transactions with certain related parties. Under the Fund's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

Outstanding balances at year-end are unsecured and the settlement occurs in cash. There are no provisions for impairment for related party balances as at December 31, 2012 and no related party transactions have been written off during the year.

43. RISK MANAGEMENT

43.1 Credit risk

Credit risk is the risk of loss arising from the borrowers' failure to discharge their contractual obligations.

To mitigate credit risk, the Fund has adopted the following initiatives:

a. Implementation of Borrowers Evaluation System (BES)

The key indicators for BES, which are based on Statistical Approach and Expert's opinion are: Occupation, Years of Employment, Gross Monthly Income, Type of Homeownership, Years of Stay in the Present Address and Loan Amount.

The assessment of the credit quality of housing portfolio taken out prior to July 2012 is based on the flow rate or payment behavior of the borrowers.

b. Adoption of the Single Borrower's Limit (SBL) for Wholesale Loans (WL) (Circular No. 306 dated April 10, 2012) – aims to mitigate risks and limit the losses in the event of a default by the Borrower/s and avoid a situation where a single loss will adversely affect the profitability/financial condition of the Fund.

The total amount of loans, credit accommodations and guarantees that may be extended to any person, partnership, association, corporation or other entity shall be at any point in time not to exceed 25 per cent of the Free Retained Earnings of the Fund.

Free Retained Earnings shall refer to the Retained Earnings after declaration of Dividends for the preceding year and net of the total capital valuation accounts.

Conversion to Full Risk Based Pricing Model (Circular 317 dated August 8, 2012) – a pricing framework wherein a market based and full risk-based pricing of housing loans shall cover the Fund's costs, its risks in terms of expected loss on default and reasonable spread.

43.2 Liquidity Risk

Liquidity risk is defined as the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the Fund may be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

Liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Fund's business operations or unanticipated events created by customer behavior or capital market conditions. The Fund seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

The adoption of the Capital Adequacy Framework establishes the minimum capital requirement considered in determining the amount of dividends to be declared. The Fund manages its liquidity by maintaining capital adequacy ratio of not less than 16 per cent as directed by the Board of Trustees during its 280th Board Meeting on December 21, 2011.

To supplement the Capital Adequacy Ratio (CAR), the Fund is currently developing policies to improve the Fund's risk management, governance and ability to absorb shocks arising from financial and economic stress via adoption of Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

43.3 Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risk can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

The Fund cannot be expected to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks.

Controls include effective segregation of duties, access-authorization and reconciliation procedure, staff training and assessment process, including the activities of internal audit and eventual implementation of the IISP.

43.4 Market Risk

Market risk is brought about by adverse movements in factors that affect the market value of instruments, products, and transactions in an institutions' overall portfolio. It arises from market making, dealing, and position taking in interest rate, foreign exchange and equity markets.

The Fund's adoption of the Full Risk Based Pricing Model (Circular 317 dated August 8, 2012) is also intended to provide an objective pricing model, reflective of the market.

44. EVENTS AFTER BALANCE SHEET DATE

44.1 Dividends

On February 28, 2013, the Board of Trustees approved the declaration of dividends for the year 2012 in the amount of P9,276,956,830 or 70 per cent of the Fund's Net Income which shall be credited proportionately to the Members' TAV. The dividend rate is equivalent to 4.17 per cent of the Fund's average members' equity.

44.2 Globe Asiatique Realty Holdings Corp. Cases

Status of cases filed against Globe Asiatique Realty Holdings Corp. (GARHC) and/or its President, Delfin Lee and its officers, employees and agents and the status of cases filed by GARHC against the Home Development Mutual Fund (HDMF) as of December 31, 2012 are as follows:

44.2.a. Criminal Cases

44.2.a.1 NBI/HDMF vs. Globe Asiatique Realty Holdings Corp./Delfin Lee, et al. (NPS No. XVI-INV-10J-00319)/People vs. Delfin Lee, et. al., (Crim. Case No. 18480, RTC Br. 142, San Fernando Pampanga)
The syndicated estafa case is pending before the Regional Trial Court, Branch 142, City of San Fernando, Pampanga. The President of the Republic of the Philippines approved the grant of reward money of Two Million Pesos for the arrest of accused Delfin S. Lee.

In a Resolution promulgated last 25 March 2013, Regional Trial Court (RTC), Branch 42 of San Fernando, Pampanga, Presiding Judge Maria Amifaith S. Fider-Reyes issued a Hold Departure Order (HDO) against Globe Asiatique officials and agents Delfin Sy Lee, Dexter Lim Lee, Christina Iliarte Sagun, Cristina Dela Cruz Salagan and Atty. Alex Madrino Alvarez.

44.2.a.2 NBI/Evelyn B. Niebres, et al. vs. Globe Asiatique Realty Holdings Corp./Delfin Lee, et al. (NPS No. XVI-INV-10L-00363) (Niebres case)

44.2.a.3 NBI/Jennifer Gloria, et al. vs. Globe Asiatique Realty Holdings Corp./Delfin Lee, et al. (NPS No. XVI-INV-11B-00063) (Gloria case)

44.2.a.4 NBI/Maria Fatima B. Kanoya, et al. vs. Globe Asiatique Realty Holdings Corp./Delfin Lee, et al. (NPS No. XVI-INV-IIC-00138) (Kanoya case)

The cases are pending before the Department of Justice. The DOJ issued an Omnibus Order directing the respondents to file their Counter-Affidavits on 22 March 2013 but Judge Rolando Mislang issued another TRO on the said criminal complaints.

44.2.b. Civil Case

44.2.b.1. Globe Asiatique Realty Holdings Corp., et al. vs. Home Development Mutual Fund, et al. (Civil Case No. 10-1120, RTC Br. 58, Makati City)

In the Resolution dated 30 January 2012, Judge Eugene C. Paras, Presiding Judge, Regional Trial Court, Branch 58, Makati City granted the Motion for Summary Judgment filed by GARHC.

In the Resolution dated 11 December 2012, Judge Paras denied the motions for reconsideration of the subject Summary Judgment filed by Ms. Faria, Atty. Berberabe and the HDMF.

On 18 January 2013, HDMF filed a Petition for Certiorari under Rule 65 of the 1997 Rules of Civil Procedure to the Court of Appeals to nullify the Resolutions of Judge Paras granting GARHC's Motion for Summary Judgment and denying the corresponding motions for reconsideration HDMF's for having been issued with grave abuse of discretion.

In a Resolution promulgated last 27 March 2013, the Court of Appeals issued a temporary restraining order against Judge Eugene S. Paras of Makati RTC preventing him from implementing his earlier decisions favoring Globe Asiatique (GA) and Delfin Lee.

44.2.c. <u>Court of Appeals/Supreme Court Cases</u>

44.2.c.1. Christina Sagun vs. Department of Justice, et al. (CA-G.R. SP No. 121346, Special Tenth Division, Court of Appeals)/Department of Justice, et al. vs. Christina Sagun (G.R. No. 205780, First Division, Supreme Court)

The CA denied HDMF's Motion for Reconsideration in the Resolution dated February 11, 2013 but the DOJ and HDMF filed a Petition for Review on Certiorari to the Supreme Court on 08 April 2013. In an Order dated 17 April 2013, issued by the First Division of the Supreme Court, through Chief Justice Maria Lourdes P.A. Sereno, the High Tribunal issued a Temporary Restraining Order (TRO) and stopped the Court of Appeals from implementing its Decision dated October 05, 2012 finding no probable cause against Cristina Sagun. The Supreme Court also enjoined the CA Resolution dated February 11, 2013 which quashed the *Information* in the syndicated estafa case pending before the RTC Branch 42 of San Fernando, Pampanga and ordered the lifting of the warrants of arrest against Cristina Sagun.

44.2.c.2. Atty. Darlene Marie B. Berberabe vs. Hon. Eugene C. Paras, et al. (CA-G.R. SP No. 123387, First Division, Court of Appeals)

On 12 October 2012, the CA promulgated the Decision penned by Justice Rodil V. Zalameda which dismissed the petition.

On 05 November 2012, the HDMF filed a Motion for Reconsideration of the Decision of the CA.

44.2.c.3. Delfin S. Lee and Dexter Lee vs. Hon. Leila M. De Lima, as Secretary of the Department of Justice, et al. (CA-G.R. SP No. 127932, Court of Appeals)

On 24 January 2013, the CA promulgated the Resolution penned by Justice Jane Aurora C. Lantion which dismissed the petition.

44.2.c.4. Delfin S. Lee vs. Ma. Amifaith S. Fider-Reyes, etc. (CA-G.R. SP No. 127553, Fifteenth (15th) Division, Court of Appeals)

44.2.c.5. Dexter Lee vs. Ma. Amifaith S. Fider-Reyes, etc. (CA-G.R. SP No. 127554, Fifth (5th) Division, Court of Appeals)

The HDMF filed Comment with Opposition in the said petitions.

44.2.c.6. Atty. Alex M. Alvarez vs. Secretary Leila De Lima, et al. (CA. GR. SP No. 122076, Ninth Division, Court of Appeals)

On April 30, 2012, the HDMF received a copy of the Withdrawal of Petition filed by Atty. Alex M. Alvarez, before the Court of Appeals.

44.2.c.7. Alex M. Alvarez vs. Hon. Maria Amifaith S. Fider-Reyes, et al. (CA-G.R. 127690, Sixth (6th) Division, Court of Appeals)

The HDMF opposed the said petition before the CA.

44.2.c.8. Nica L. Rosco vs. Home Development Mutual Fund (HDMF) or Pag-IBIG Fund and Globe Asiatique Realty Holdings Corporation (CA G.R. CV No. 99123, Court of Appeals)

44.2.c.9. Corazon P. Yutuc vs. Home Development Mutual Fund (HDMF) or Pag-IBIG Fund and Globe Asiatique Realty Holdings Corporation (CA G.R. CV No. 99122, Court of Appeals)

In the Resolution dated 28 February 2013, the Court of Appeals dismissed the appeal filed by Appellant Nica L. Rosco. Appellant Nica Rosco filed a Motion for Reconsideration. In the Yutuc case, our Motion to Dismiss is still pending.

44.2.c.10. Home Development Mutual Fund vs. Hon. Eugene C. Paras, et al. (CA-G.R. SP No. 128262, Eleventh Division, Court of Appeals)

In a Resolution promulgated last 27 March 2013, the Court of Appeals issued a temporary restraining order against Judge Eugene S. Paras of Makati RTC preventing him from implementing his earlier decisions favoring Globe Asiatique (GA) and Delfin Lee.

44.2.d. <u>TRO and Preliminary Injunction Cases</u>

44.2.d.1. Delfin S. Lee vs. Department of Justice (Civil Case No. 73115, RTC Br. 167, Pasig City)

On 05 September 2011, the Court issued an Order granting the Writ of Preliminary Injunction affecting the first syndicated estafa case and the Niebres case.

The Fund immediately filed an administrative complaint before the Office of the Court Administrator of the Supreme Court against Judge Mislang for issuance of the said TRO and Writ of Preliminary Injunction.

On October 04, 2011, the DOJ, through the OSG, challenged the Order through a Petition for Certiori before the Court of Appeals.

On 21 March 2013, Judge Mislang issued the third TRO affecting the Niebres case, Gloria and Kanoya cases.

On 10 April 2013, the Court issued an Order granting the Writ of Preliminary Injunction affecting the Niebres case, Gloria and Kanoya cases.

The DOJ, through the OSG, filed a Petition for Certiorari to question the new TRO and WPI issued by Judge Mislang.

44.2.d.2. Department of Justice vs. The Hon. Rolando Mislang, in his capacity as the Presiding Judge of the RTC, Branch 167, Pasig City and Delfin S. Lee (CA-G.R. SP No. 121594, Seventeenth Division, Court of Appeals)

The Court of Appeals (CA), in its Decision of 16 April 2012 penned by Associate Justice Franchito N. Diamante, annulled the preliminary injunction issued by Judge Rolando G. Mislang. This paved the way to the filing of the information against Lee and four other defendants before the RTC of Pampanga and the issuance of the corresponding Warrants for their arrest.

44.2.d.3. Delfin S. Lee vs. Department of Justice (G. R. No. 201360, Third Division, Supreme Court)

The Third Division of the Supreme Court issued a Resolution dated 04 July 2012, resolving among others to DENY the petition for review on certiorari and supplement thereto (with urgent application for the issuance of a temporary restraining order and/or writ of preliminary injunction) filed by Delfin S. Lee assailing the Decision dated 16 April 2012 of the Court of Appeals, Manila, in CA-G.R. SP No. 121594, for failure to show any reversible error in the challenged decision as to warrant the exercise of the Court’s discretionary appellate jurisdiction. Mr. Lee filed a Motion for Reconsideration on the said Resolution of the Court of Appeals.

The Supreme Court issued an Entry of Judgment that the said Resolution has, on January 02, 2013 become final and executory and is hereby recorded in the Book of Entries of Judgments.