



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Corporate Government Sector
Cluster A - Financial

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, which comprise the statement of financial position as at December 31, 2010, statement of comprehensive income, statement of changes in net worth and statement of cash flow 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 qualified audit opinion.

Basis for Qualified Opinion

As discussed in item no. 1 of the Observations and Recommendations portion of the audit report, the balances between the subsidiary and general ledgers of four major accounts, namely: the Members Equity, Multi-Purpose Loan, Mortgage Contracts Receivable, and Sales Contracts Receivable have been unreconciled. The variances as at December 31, 2010 amounted to P1.215 billion, P881.853 million, P274.885 million, and P11.525 million, respectively. This is due to the uncompleted clean up and reconciliation process of the Fund in preparation for the migration to the target system under the Integrated Information System Project. The non-reconciliation of these two accounting records casts doubt on the accuracy and validity of said receivable and equity accounts considering the significance of the variances. The inability of the HDMF to reconcile its subsidiary and general ledger balances and to update the postings or the allocation of member's contributions and collections of loan amortizations to their individual subsidiary ledger accounts may adversely affect the quality of services to its members, to the detriment of the latter's interest.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Home Development Mutual Fund (HDMF) as at December 31, 2010, 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 30 to the financial statements which disclosed the status of the criminal case filed by the HDMF, through the National Bureau of Investigation against the Globe Asiatique Realty Holdings Corporation (GARHC), the administrative cases filed by HDMF against several officers of its Pampanga Branch and Northern Luzon Group; and the civil case filed by GARHC against HDMF. It also revealed the revocation by the Housing and Land Use Regulatory Board of GARHC's Certificate of Registration and License to Sell for its Xevera-Mabalacat Subdivision projects. Such filing of cases and revocation of registration and license are the offshoot of the irregularities committed on the loan take-outs covering at least 798 housing loan borrowers with a total loan value of P349.835 million as discussed under item no. 3 of the Observations and Recommendations.

COMMISSION ON AUDIT


FIDELIA M. TAN
State Auditor V
Supervising Auditor

19 July 2011

HOME DEVELOPMENT MUTUAL FUND
STATEMENT OF FINANCIAL POSITION
December 31, 2010
(In Philippine Peso)

	Note	2010	2009 (As restated)
A S S E T S			
Current Assets			
Cash and cash equivalents	4	5,730,064,911	3,071,832,791
Investments	10	321,391,263	2,888,074,828
Loans receivable, net	5	33,017,622,287	28,193,400,738
Mortgage contracts receivable, net	6	29,780,837,162	22,038,567,241
Sales contracts receivable, net	7	21,063,561,254	17,868,126,255
Accrued interest receivable		1,399,515,377	1,541,632,419
Advances to officers and employees		1,005,320	21,769
Accounts receivable, net	8	5,832,434,430	1,689,298,921
Other current assets	9	137,671,787	113,749,459
		97,284,103,791	77,404,704,421
Non-Current Assets			
Loans receivable, net	5	19,167,600,293	24,358,231,279
Mortgage contracts receivable, net	6	56,919,579,310	48,244,436,570
Sales contracts receivable, net	7	68,308,153,054	65,665,011,856
Investments	10	20,963,778,991	18,307,004,983
Items under litigation, net	11	8,004,968,769	8,547,641,024
Real and other properties acquired, net	12	5,668,804,121	5,854,382,759
Property and equipment, net	13	1,600,709,117	1,623,416,066
Other assets	14	73,168,029	79,536,876
		180,706,761,684	172,679,661,413
TOTAL ASSETS		277,990,865,475	250,084,365,834
LIABILITIES AND NET WORTH			
Current Liabilities			
Accounts payable and accrued expenses	16	16,476,537,209	11,586,653,793
Other current liabilities	17	1,703,443,774	1,738,345,025
Current portion of long-term liabilities	18	3,576,733,551	10,576,733,551
Undistributed collections	19	1,294,461,262	873,093,506
		23,051,175,796	24,774,825,875
Non-Current Liabilities			
Long-term liabilities	18	20,739,894,625	9,739,484,368
Unearned income	20	17,109,420,769	16,313,543,172
		37,849,315,394	26,053,027,540
TOTAL LIABILITIES		60,900,491,190	50,827,853,415
NET WORTH		217,090,374,285	199,256,512,419
TOTAL LIABILITIES AND NET WORTH		277,990,865,475	250,084,365,834

The notes on pages 7 to 33 form part of these financial statements.

HOME DEVELOPMENT MUTUAL FUND
STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2010
(In Philippine Peso)

	Note	2010	2009
INCOME			
Interest income on:			
Loans		12,204,522,130	10,474,787,939
Sales contracts receivable		5,945,255,135	5,095,813,084
Investments in bonds and other debt instruments		1,048,061,529	1,597,729,102
Bank deposits		202,383,060	111,275,187
Government securities		8,652,083	24,486,434
Penalties and other charges		601,073,266	557,963,098
Insurance service fees		527,642,419	423,882,076
Processing fees		206,442,822	240,769,707
Miscellaneous service income		99,518,561	59,988,032
Gain from sale of stocks		58,900,734	51,419,051
Mortgage/sales administration/origination fees		36,972,986	49,665,542
Income from acquired assets		21,078,908	14,127,941
Housing contributory fund		5,192,174	5,195,893
Other income		1,429,990,917	1,352,279,410
		22,395,686,724	20,059,382,496
EXPENSES			
Lending costs	21	8,012,008,360	5,511,627,703
Fund administration costs	22	2,925,164,273	2,439,248,692
		10,937,172,633	7,950,876,395
OPERATING INCOME			
		11,458,514,091	12,108,506,101
Other expenses	23	356,922,645	104,949,410
NET INCOME FOR THE YEAR		11,101,591,446	12,003,556,691
OTHER COMPREHENSIVE INCOME			
Available-for-sale investments - Equity securities		74,551,504	99,960,233
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		11,176,142,950	12,103,516,924

The notes on pages 7 to 33 form part of these financial statements.

HOME DEVELOPMENT MUTUAL FUND
STATEMENT OF CHANGES IN NET WORTH
For the Year Ended December 31, 2010
(In Philippine Peso)

	Members' Equity	Reserve for Losses	Donated Surplus	Retained Earnings	Total
Note	24, 27	25	26	27	
January 1, 2009	165,497,942,148	154,651,498	250,890	20,894,733,267	186,547,577,803
Prior to restatement - available-for-sale					
Investments- Equity securities	-	-	-	(177,626,801)	(177,626,801)
January 1, 2009 as restated	165,497,942,148	154,651,498	250,890	20,717,106,466	186,369,951,002
Effect of change in accounting policy				(6,260,495,361)	(6,260,495,361)
Collections	17,452,649,710			-	17,452,649,710
Dividends	8,533,340,903	-	-	(8,533,340,903)	-
Comprehensive income	-	-	-	12,103,516,924	12,103,516,924
Net movement of HFC/dormant accounts	-	1,792,227	-	34,187	1,826,414
Provident claims/ TAV offsetting	(7,114,897,882)	-	-	-	(7,114,897,882)
Projected 20-year maturing TAVs					
Relassified to accounts payable-member:	(3,296,038,388)	-	-	-	(3,296,038,388)
December 31, 2009	181,072,996,491	156,443,725	250,890	18,026,821,313	199,256,512,419
January 1, 2010	181,072,996,491	156,443,725	250,890	18,026,821,313	199,256,512,419
Collections	19,246,878,727	-	-	-	19,246,878,727
Dividends	7,882,129,926	-	-	(7,882,129,926)	-
Comprehensive income	-	-	-	11,176,142,950	11,176,142,950
Net movement of HFC/dormant accounts/					
prior years' correction of error		3,994,067		3,082,217	7,076,284
Provident claims/ TAV offsetting	(8,919,454,397)	-	-	-	(8,919,454,397)
Projected 20-year maturing TAVs					
relassified to accounts payable-members	(3,676,781,698)	-	-	-	(3,676,781,698)
December 31, 2010	195,605,769,049	160,437,792	250,890	21,323,916,554	217,090,374,285

The notes on pages 7 to 33 form part of these financial statements.

HOME DEVELOPMENT MUTUAL FUND
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2010
(In Philippine Peso)

	Note	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		758,742,739	1,045,468,035
Paid to suppliers and employees		(5,528,102,471)	(4,732,463,134)
Interest paid		(1,351,112,261)	(1,359,125,870)
Net cash used in operating activities		(6,120,471,993)	(5,046,120,969)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment maturities		485,246,856,995	243,209,189,767
Loan repayment - multi purpose loans		39,053,443,023	39,863,682,902
Loan repayment - retail housing		23,718,945,926	22,836,031,194
Loan repayment - institutional loans		2,745,349,609	2,965,817,342
Disposal of acquired assets		191,236,483	216,580,951
Redemption proceeds		42,939,046	87,336,872
Dividends received		11,385,318	6,638,284
Proceeds from sale of property and equipment		611,001	233,465
Fund transfer to/from head office/operating units		-	(127,000,000)
Fund transfer to/from banks		8,200,000	(25,000,000)
Investment placements/roll-over		(483,876,561,353)	(225,870,470,187)
Loan releases - multi purpose loans		(35,967,805,840)	(45,088,852,589)
Loan releases- retail housing		(38,773,183,460)	(44,996,960,738)
Loan releases - institutional loans		(2,504,823,102)	(4,078,568,188)
Purchase of property and equipment		(74,642,294)	(124,725,222)
Net cash used in investing activities		(10,178,048,648)	(11,126,066,147)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from members' contributions		19,785,240,896	17,353,688,097
Proceeds from long term borrowings		11,602,963,559	3,000,000,000
Provident benefit claims payments		(4,944,155,190)	(4,512,642,732)
Repayment of long term borrowings	18	(7,487,296,504)	(576,733,551)
Net cash provided by financing activities		18,956,752,761	15,264,311,814
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		2,658,232,120	(907,875,302)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		3,071,832,791	3,979,708,093
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	5,730,064,911	3,071,832,791

The notes on pages 7 to 33 form part of these financial statements.

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

1. BACKGROUND

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 the 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 percent to one percent of fund salary for employees earning over P1,500. Employer share was cut from three percent to a fixed rate of two percent 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 the nature of 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 No. 1530, Presidential decree No. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements have been prepared in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), where practicable. The Board approved and authorized the issuance of Financial Statements per Board Resolution No. 2848 dated April 14, 2011.

2.2. Basis of Consolidation

The consolidated financial statements include the transactions of the Corporate Headquarters, and 38 branches in Luzon, Visayas, Mindanao and the National Capital Region.

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

2.3 Changes in Accounting Policies

The following accounting standards under IAS/IFRS have been adopted to the extent that they are applicable:

- **IAS 1: Presentation of Financial Statements**

Paragraph 60, which states that a liability shall be classified as current when it is expected to be settled in the entity's normal operating cycle, is due to be settled within twelve months after the balance sheet date and the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. On this premise, the Fund reclassified the Total Accumulated Value of members amounting to P 6.973 billion whose membership terms shall have matured by end of 2011 into a liability account on December 31, 2010.

- **IAS 39: Financial Instruments: Recognition and Measurement**

- Effective July 31, 2010, Investment accounts were classified in accordance with IFRS categorization except for the adjustments

pertaining to their valuation factored by the shift in amortization of premium/discounts from straight line to effective interest rate, mark to market valuation and impairment of debt and equity securities.

- On December 30, 2010, provision of impairment losses for Mortgage/Sales Contracts Receivables and Institutional Loans using the Expected Loss Model of Basel II was adopted, bringing the allowance for impairment loss to P 10.372 billion and P 0.344 billion, respectively.
 - Impairment for Accounts Receivable Developers and Items Under Litigation recognized in accordance with IAS 39 amounted to P 1.624 billion and P 6.710 billion, respectively.
- IAS 40: Investment Property
 - Impairment loss is recognized when the carrying value of the Real and Other Property Acquired is more than the amount recoverable from its sale thus, allowance for impairment loss for 2010 amounted to P2.534 billion.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Cash and Other 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, past due 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.

The past due portion refers to the principal balance of receivables over three months in arrears.

The non-current portion refers to the aggregate principal amortizations net of current and past due portion of receivable accounts.

3.3 Allowance for impairment loss

Allowance for impairment loss is set up to absorb potentially uncollectible receivables associated with the lending operations of the Pag-IBIG Fund.

For past due Multi-Purpose Loans and Accrued Interest on Loans, allowance are maintained at 100 per cent of the outstanding balance at year-end approved by the Board on December 22, 2006 as per Resolution No. 2371, Series of 2006.

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 Property and Equipment as follows:

PE are 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 construction 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.

Residual value of PE is set at 10 per cent of the acquisition cost.

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

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 income statement.

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

3.6 Interest income recognition

Interest income on housing-related loans is recognized on accrual basis except in the case of non-performing loans where it is recognized as current income upon realization.

Interest due on Multi-purpose Loan (MPL) is capitalized and recognized as income upon amortization.

3.7 Interest rate on institutional loans

Developmental Loan Program – The loan bears interest rate defined as the prevailing market rate (on Friday preceding the date of release of proceeds) of either of the following for which the developer may select: 3-year Treasury Notes plus three percent; or 91-day Treasury Bills plus five percent. The Philippine Dealing System Treasury-Fixing (PDST-F) yield is also used as an alternative basis in determining interest rate of Treasury Notes.

Medium/High-Rise Condominium Building (MHRB) and Pag-IBIG City Projects - The loan bears interest rate defined as the prevailing market rate (on Friday preceding the date of release of proceeds) of 2-year Treasury Notes, plus three percent during the six months marketing period, and five per cent thereafter.

Group Land Acquisition and Development (GLAD) Program - The interest rate on the total loan of the community association for land acquisition and site development is nine percent per annum. Once the loan share of the community association's member is converted into lot purchase loan, the interest rate is adjusted to rates under housing loan guidelines prevailing at the time of loan availment.

For projects including house construction, the interest rate is based on the individual beneficiary's total loan entitlement in accordance with the rates prevailing per housing loan guidelines at the time of housing loan availment. This rate is charged once loan releases for house construction are effected.

House Construction Financing Line - The loan bears interest rate defined as the prevailing market rate (on Friday preceding the date of release of proceeds) of 2-year Treasury Notes, plus three percent. The PDST-F yield rate may be used as an alternative basis to Treasury Notes in determining interest rates.

Pag-IBIG Local Government Housing Program - The loan bears interest rate of nine per cent per annum.

Developers' Credit Facility - The developers are charged the interest at the rate of fourteen per cent per annum.

Interest rates for institutional loans are in accordance with the rates prescribed in the respective programs. In no case, however, shall the said interest rates fall below the rate of eight and a half per cent.

3.8 Interest rate on housing loans

The prevailing interest rate, in force by virtue of Circular 247, "Amended Guidelines on the Pag-IBIG Fund End-User Home Financing Program" effective April 1, 2009, 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%

HDMF Circular No. 285, "Extended Implementation of the Good Payor Incentive Program", effective June 1, 2010, offers a two per cent (2%) discount or reduction on applicable interest rate for amortizations on housing loans paid on time as well as for accounts with past due amortization from one to six months that were updated until December 31, 2007. Under HDMF Circular No. 290, the policy is effective until May 31, 2012. Pursuant to HDMF Circular No. 280, "Prompt Payment Discount for Updated Housing Loan Accounts That Underwent Loan Term Adjustment", covered accounts shall continue to enjoy the benefits of prompt payment discount should borrowers avail of loan term adjustment, unless rendered ineligible by defaulting on monthly payment.

To provide an affordable housing loan program as well as promote home ownership by extending financial support to beneficiaries, HDMF Circular No. 277, "Amended Guidelines Implementing the Pag-IBIG Interest Subsidy Program for Socialized Housing Loan Borrowers" was issued covering loan take outs from July 1, 2009 to June 30, 2014. Five hundred beneficiaries chosen monthly by raffle draw from among the qualified borrowers shall be entitled to an interest subsidy of one and a half per cent (1.5%) per annum for five years from the due date of first amortization after the raffle draw.

Further, to alleviate the debt burden of members in Region I, II and III, Pag-IBIG Fund implemented HDMF Circular No. 286 "Moratorium on Housing Loan Amortization Payments of HDMF Borrowers in Areas Directly Affected by Typhoon Juan". Member-borrowers with up to date membership contribution as well as short term and housing loan payments at point of application qualified for the three months moratorium covering the period November 2010 to January 2011.

3.9 Interest rate on Multi-Purpose Loans

The loan bears interest at the rate of 10.75 per cent per annum for the duration of the loan term.

3.10 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 Income.

As assets maintained in foreign currencies are revalued, members' equity in foreign currencies are also revalued. Revaluation of accounts in foreign currencies as at year-end was based on the following rates as at December 31, 2010: US\$ 43.885 and CAN\$ 43.8544.

4. CASH AND CASH EQUIVALENTS

This account is composed of the following:

	2010	2009 (As restated)
Cash on hand	253,407,008	260,849,649
Cash in banks	5,476,657,903	2,810,983,142
	5,730,064,911	3,071,832,791

5. LOANS RECEIVABLE

This account consists of loans granted under the following programs:

	2010	2009 (As restated)
Multi-purpose loans	47,250,758,708	47,899,231,895
NHMFC-Unified home lending-restructured loan	1,991,081,510	2,128,176,253
Developers interim financing	1,275,725,864	1,078,067,589
Developmental loans	751,481,371	741,169,833
Medium-High rise building	572,263,685	122,084,386
Loan to National Housing Authority	412,500,000	412,500,000
Group land acquisition and development program	273,126,852	282,536,311
Pag-IBIG City	272,886,795	227,637,327
Restructured loans—institutional loans	141,874,886	396,601,936
Housing construction facility	117,477,873	122,085,650
Loan to local government units	47,617,892	49,432,471
Receivable from officers	28,231,202	28,367,603
Developers' credit facility	25,523,251	25,865,151
Rental housing construction	16,667,582	31,399,228
Acquired assets	6,553,533	8,210,492
	53,183,771,004	53,553,366,125
Current portion	(33,796,182,909)	(28,939,223,134)
Non-current portion	19,387,588,095	24,614,142,991

Current portion	33,796,182,909	28,939,223,134
Allowance for impairment	(778,560,622)	(745,822,396)
Current portion, net	33,017,622,287	28,193,400,738
Non-current portion	19,387,588,095	24,614,142,991
Allowance for impairment	(219,987,802)	(255,911,712)
Non-current portion, net	19,167,600,293	24,358,231,279

The Loans Receivable (LR) – Multi-Purpose include Provident Loans and LR-Calamity Loans in the amount of P 124,900 and P 261,194, respectively.

LR – National Home Mortgage Finance Corporation (NHMFC)–Unified Home Lending (UHL)-Restructured Loans (RL) represents the approved loan restructuring per Board Resolution No. 1974 series of 2003 on the loan granted by the Fund to NHMFC under the UHL Program. As at December 31, 2010, loan balance stood at P4,023,379,795, which is inclusive of deferred interest and penalties of P2,032,298,285. For the period January 2003 to December 2010, total payments received, inclusive of the amount of P116,776,721 covered by the offsetting arrangement with NHMFC and P80,741 representing excess payments for Coryville applied to Low-Delinquent accounts, amounted to P3,099,927,417 of which P2,502,534,992 was applied to principal and P 597,392,424 was applied to interest. The total payments also include the proceeds from the sale of high delinquency accounts for P517,465,128.

Current portion of Loans Receivable are those collectible within the next accounting period, inclusive of past due accounts which are immediately due and demandable while the non-current portion is expected to be collected after the succeeding accounting period which includes accounts in good standing and with no payment deficiency.

Past Due portion of Loans Receivable for 2010 and 2009 amounted to P9,189,163,051 and P 6,313,542,331, respectively.

As at December 31, 2010 and December 31, 2009, Allowance for Impairment Loss amounted to P 344,284,165 and P 332,356,868 while Institutional Loans are carried at P 5,898,227,561 and P 5,617,556,135 respectively.

6. MORTGAGE CONTRACTS RECEIVABLE

This account consists of the following:

	2010	2009 (As restated)
Mortgage contracts receivable	94,501,704,052	75,574,891,300
Current portion	(35,521,261,221)	(26,523,736,152)
Non-current portion	58,980,442,831	49,051,155,148

Current portion	35,521,261,221	26,523,736,152
Allowance for impairment	(5,740,424,059)	(4,485,168,911)
Current portion, net	29,780,837,162	22,038,567,241
Non-current portion	58,980,442,831	49,051,155,148
Allowance for impairment	(2,060,863,521)	(806,718,578)
Non-current portion, net	56,919,579,310	48,244,436,570

The account represents loans to Pag-IBIG members that are backed-up by real estate mortgages under the various home lending programs of the Fund.

Current portion of Mortgage Contracts Receivable are those collectible within the next accounting period, inclusive of past due accounts which are immediately due and demandable while the non-current portion is expected to be collected after the succeeding accounting period which includes accounts in good standing and with no payment deficiency.

Past Due portion of Mortgage Contracts Receivable for 2010 and 2009 amounted to P 22,725,933,859 and P 18,197,402,600, respectively.

As at December 31, 2010 and December 31, 2009, Allowance for Impairment Loss amounted to P 7,801,287,580 and P 5,291,887,489 while the mortgage portfolio's net book value registered to P 86,700,416,472 and P 70,283,003,811 respectively.

7. SALES CONTRACTS RECEIVABLE

This account consists of the following:

	2010	2009 (As restated)
Sales contracts receivable	91,942,825,987	86,240,003,503
Current portion	(23,056,055,632)	(20,018,241,298)
Non-current portion	68,886,770,355	66,221,762,205
Current portion	23,056,055,632	20,018,241,298
Allowance for impairment	(1,992,494,378)	(2,150,115,043)
Current portion, net	21,063,561,254	17,868,126,255
Non-current portion	68,886,770,355	66,221,762,205
Allowance for impairment	(578,617,301)	(556,750,349)
Non-current portion, net	68,308,153,054	65,665,011,856

This account has two categories:

Sales Contracts Receivable (SCR) I pertains to high yielding receivables purchased from various developers intended to provide them with liquidity mechanism. The

purchase is with recourse, substitution, buy-back feature and a cash flow guarantee that ensures full remittance of the monthly interest and principal.

Sales Contract Receivable II consists of receivables from borrowers under the home lending program using the Contract to Sell (CTS) as primary debt instrument.

Current portion of Sales Contracts Receivable are those collectible within the next accounting period, inclusive of past due accounts which are immediately due and demandable while the non-current portion is expected to be collected after the succeeding accounting period which includes accounts in good standing and with no payment deficiency.

Past due portion of Sales Contracts Receivable for CYs 2010 and 2009 amounted to P 14,222,510,753 and P 12,756,894,224, respectively.

As at December 31, 2010 and December 31, 2009, Allowance for Impairment Loss amounted to P 2,571,111,679 and P 2,706,865,392 while the SCR portfolio's net book value registered to P 89,371,714,308 and P 83,533,138,111 respectively.

8. ACCOUNTS RECEIVABLE

This account is composed of the following:

	2010	2009 (As restated)
Accounts receivable (AR)		
Developers	6,289,913,735	399,046,361
Borrowers	789,833,616	914,206,253
Employers	148,043,005	169,922,472
Others	103,841,739	90,197,904
Brokers	39,600,073	-
Collecting agents	37,529,197	164,544,756
Other government agencies	30,341,903	12,609,930
Officers and employees	10,861,452	10,860,135
Banks	6,387,826	6,466,210
Dividends receivable	-	1,916,627
	7,456,352,546	1,769,770,648
Allowance for impairment	(1,623,918,116)	(80,471,727)
	5,832,434,430	1,689,298,921

Pursuant to HDMF Circular No. 237 "Revised Omnibus Guidelines Implementing the Pag-IBIG Takeout Mechanism under the Developers' CTS/REM Scheme, accounts subject to buyback shall be lodged to Accounts Receivable (AR) upon issuance of the Notice of Buyback. The buyback provision is the right of recourse of Pag-IBIG Fund against the developer for the latter's (a) breach of warranty to convert the security eligible accounts from CTS to REM and violation of pertinent

laws and applicable Pag-IBIG housing loan guidelines and regulations; and (b) failure to buyback accounts of defaulting borrowers. Default is referred herein as the failure of the borrower to pay any three monthly amortizations.

The AR - Developers include the buyback value of loan accounts in the amount of P2,206,725,666 demandable from Globe Asiatique Realty Holdings Corporation (GARHC) as at December 31, 2010.

As at December 31, 2010 and December 31, 2009, Allowance for Impairment Loss amounted to P 1,623,918,116 and P 80,471,727 respectively.

9. OTHER CURRENT ASSETS

This account consists of the following:

	2010	2009 (As restated)
Inventories	98,298,101	83,914,075
Prepaid expenses	39,190,883	28,688,704
Prepaid tax	182,803	1,146,680
	137,671,787	113,749,459

These include inventories such as postage stamps, stationery and office supplies, computer supplies, maintenance materials and supplies, printed forms, medicine/ medical supplies and other stocks of goods which are held for administrative purposes.

The Prepaid expenses include prepayments expected to benefit the Fund at a future period but not beyond one year, to be amortized monthly.

10. INVESTMENTS

The account is composed of the following:

	2010	2009 (As restated)
Held to maturity		
Investment in government securities	158,492,323	462,861,125
Time deposit	162,898,940	2,425,213,703
Current Portion	321,391,263	2,888,074,828
Held for trading	231,383,932	-
Available for sale		
Bonds and other debt investments	20,192,794,626	17,678,392,067
Equity securities	177,585,874	335,550,799

Loans and receivables – unquoted debt classified as loans	49,542,353	51,205,773
Investment property	302,632,050	302,632,050
Joint venture	12,955,220	16,890,862
	20,966,894,055	18,384,671,551
Less: Allowance for temporary decline in market value of investment in non- marketable equity securities	(3,115,064)	(77,666,568)
Non-Current Portion	20,963,778,991	18,307,004,983

Effective July 31, 2010 investments were reclassified in accordance with IFRS categorization. However, adjustments to principal value due to shift in amortization of premium/discounts from Straight Line to Effective Interest Rate (EIR) computations, Mark-to-market valuation and impairment of Debt and Equity Securities and other activities towards full implementation of IFRS will be by end of year 2011.

Likewise, adjustments for the decline in market value of unquoted securities are lodged to Temporary Decline in Non-Marketable Equity Securities (INMES) with a corresponding set-up of allowance reflected in the Statement of Changes in Net Worth.

Held to Maturity – Investment in Government Securities

Investments in Government Securities under Hold-out Agreement (HOA) are categorized as follows:

a. Under Escrow Agreement

On February 11, 2010, Government Securities with initial Face Value of P1.056B was transferred from the Bureau of Treasury- Registry of Scripless Securities (BTr-Ross) account of Pag-IBIG Fund into BTr-Ross of Land Bank of the Philippines-Trust Banking Group (LBP- TBG) by way of Sans Consideration. This serves as deposit requirement to the Escrow Account No. 36218 TA 01 under the Escrow Agreement dated February 3, 2010, executed by and among the Pag-IBIG Fund, Rizal Commercial Banking Corporation (RCBC), Land Bank of the Philippines-Trust Banking Group (LBP –TBG), and Globe Asiatique Realty Holdings Corporation (GARHC) for its G.A. Sky Suites Project. All coupon payments, proceeds and income realized from investment/re-investment thereof from lodgment date shall be credited to the Escrow Account. On December 3, 2010, a notice of termination was issued to LBP-TBG to terminate the Escrow Account No. 36218 TA 01 under the said agreement. However, the LBP will only terminate the Escrow Agreement and execute transfer instructions upon payment of escrow fees. As at December 31, 2010, escrow fees amounting to P 1,922,750 remains unpaid by GARHC. Pag-IBIG Fund is still negotiating with LBP on the termination of the Escrow Agreement sans payment by GARHC.

b. Under Pledge for Domestic Stand-by Letters of Credit (DSLCS)

Government Securities categorized as Available For Sale (8-75-831) with a total Face Value of P 1.850B lodged to the RoSS Account of Pag-IBIG Fund with BTr-RoSS were assigned to LBP by way of pledge transaction as collateral to the DSLC issued by LBP-Public Sector Unit for various developers. These are covered by Memoranda of Agreement executed with the developers, and Deeds of Assignment on Government Securities by and between Pag-IBIG Fund and LBP.

Held for Trading and Available for Sale – Bonds and Other Debt Instruments

Investments in Bonds and Other Debt Instruments are carried at cost.

These include investments in Treasury Bonds/Notes issued by the Bureau of the Treasury and bonds issued by other government agencies as well as investments in dollar denominated bonds issued by the Republic of the Philippines and other Philippine corporations. Further, these are classified as either Held for Trading or Available for Sale.

Cost of bonds and other debt instruments sold are accounted for using the specific identification method.

Available for Sale – Equity Securities

Investments in Stocks

Investments in Stocks 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 in Net Worth.

These include investments in shares of stocks of listed companies in the Philippine Stock Exchange.

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

Investment in Mutual Fund

Investment in Mutual Fund is carried at the lower of cost or market value - Net Asset Value (NAV). If the NAV computed every end of the month 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 in Net Worth. Investment in Mutual Fund represents investment in Kabuhayan Mutual Fund issued by the Mutual Fund Company of the Philippines, Inc., incorporated on December 7, 1995, operated and managed by the Mutual Fund Management Company of the Philippines, Inc. It is an open-end investment company with shares offered primarily to Filipinos where the Pag-IBIG Fund is one of the original investors.

The Kabuhayan Mutual Fund is a balance fund which provides moderate risk and returns through investments in equity and fixed income securities of Philippine

companies and debt obligations of the Republic of the Philippines and its instrumentalities.

Investment Property

The Investment Property is located at the Manila Harbour Central Business District, Tondo, Manila. It consists of 18 lots with a total area of 17,293.26 sq. m. which is held for rental yields and capital appreciation. The property is carried at the conversion cost in December 1996 at P17,500 per sq. m. or a total of P302,632,050 as approved under Board Resolution No. 1234 of Series of 1996.

In 2010, the Committee on Manila Harbour Centre has requested for the appraisal by two independent appraisers for the purpose of determining the new minimum rental rates. The lots were appraised by Professional Asset Valuers Inc. and Royal Asia Appraisal Corporation at total appraised values of P344,320,575 and P221,240,196, respectively. Pag-IBIG Fund shall present the property at fair values upon full adoption of the IFRS.

As at December 31, 2010, 10 lots covering 11,661.24 sq. m. or 67.43 per cent are on lease while the remaining eight lots covering 5,632.02 sq. m. or 32.57 per cent are available for lease. The Term of Reference is being revised in preparation for public bidding to prospective lessees.

Rental Income for 2010 amounted to P4,842,033, exclusive of Value Added Tax while expenses incurred on occupied lots which generated income included real estate taxes in the amount of P1,242,113.

Real estate taxes pertaining to the unoccupied portion which did not generate income amounted to P647,849. Locator's fee of P1.00 per square meter accrued on the property and is payable to the Property Manager. Locator's fee accruing for the duration of lease is payable by the lessee.

11. ITEMS UNDER LITIGATION

As at December 31, 2010 and December 21, 2009, the account had the following balances:

	2010	2009 (As restated)
Items under litigation	14,715,320,947	15,392,626,289
Allowance for impairment	(6,710,352,178)	(6,844,985,265)
	8,004,968,769	8,547,641,024

These are past due housing loan accounts for which settlement are pursued through foreclosure proceedings, triggered by the filing of the Petition for Extra Judicial Foreclosure. The amount represents the outstanding principal balance and

booked accrued interests of past due housing loan receivables classified as Items Under Litigation. Foreclosure/litigation expenses are recorded as outright expenses, while the documentary stamp tax, and Capital Gains Tax related to foreclosure are capitalized. Foreclosure expenses are collected and recouped from the borrowers upon redemption of foreclosed properties or availment of the loan restructuring program.

As at December 31, 2010 and December 31, 2009, Allowance for Impairment Loss amounted to P 6,710,352,178 and P 6,844,985,265 respectively.

12. REAL AND OTHER PROPERTIES ACQUIRED (ROPA)

As at December 31, 2010 and December 31, 2009, the account had the following balances:

	2010	2009 (As restated)
ROPA	8,202,866,767	8,434,840,066
Allowance for impairment	(2,534,062,646)	(2,580,457,307)
	5,668,804,121	5,854,382,759

ROPA consisting of 35,309 accounts pertain to assets acquired through foreclosure or dacion en pago, the titles of which were consolidated in the name of Pag-IBIG Fund and through cancellation of Contract-to-Sell of accounts lodged in Sales Contracts Receivable due to default in payment of the monthly installment.

These assets are recorded after consolidation of title in favor of HDMF or Cancellation of Contract to Sell, based on the book value or appraised value, whichever is lower. Book value pertains to the outstanding principal balance, recorded accrued interest, documentary stamps, and capital gains tax. For cases where appraised value is lower than the book value, a loss is recognized for the difference by debiting the Loss on Foreclosure account. Where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

As at December 31, 2010 and December 31, 2009 impairment totaled to P2,534,062,646 and P 2,580,457,307, respectively.

13. PROPERTY AND EQUIPMENT

This account consists of the following:

	Land, Building and Improvements	Transportation, Furniture, Fixtures , Equipments, IT, Miscellaneous Assets, Books	Leasehold Rights and Improvements	Total
Cost				
January 1, 2010	1,268,361,838	2,107,088,008	57,790,510	3,433,240,356
Addition	3,754,256	241,243,570	8,389,247	253,387,073
Restatements/ Adjustments	(219,737)	(30,925)	(1,132,512)	(1,383,174)
Disposal	(2,626,311)	(166,921,511)	(63,315)	(169,611,137)
December 31, 2010	1,269,270,046	2,181,379,142	64,983,930	3,515,633,118
Accumulated Depreciation				
January 1, 2010	448,572,614	1,328,586,496	32,665,180	1,809,824,290
Restatements/ Adjustments	(285,602)	(7,874,930)	(225)	(8,160,757)
Depreciation	44,868,674	211,869,419	6,839,173	263,577,266
Disposal		(150,253,483)	(63,315)	(150,316,798)
December 31, 2010	493,155,686	1,382,327,502	39,440,813	1,914,924,001
Net Book Value -				
December 31, 2010	776,114,360	799,051,640	25,543,117	1,600,709,117
Net Book Value -				
December 31, 2009	819,789,224	778,501,512	25,125,330	1,623,416,066

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

14. OTHER ASSETS

This account is comprised of the following:

	2010	2009 (As restated)
Rental and other guarantee deposits	50,593,318	48,416,231
Other deferred charges	20,383,563	28,927,160
Stocks/securities of service enterprises	1,159,390	1,153,631
Contingent assets		
Claims from accountable officers	423,589	423,589

Claims from disallowed payments	465,704	467,904
Miscellaneous	142,465	148,361
	73,168,029	79,536,876

These are assets of the Fund which are relatively small in value combined into a single category rather than listing each item separately. These include deposits subject to refund, made to secure or guaranty compliance with certain requirements in a transaction engaged by the Pag-IBIG Fund. These also cover advance payment for expenses which remain unconsumed or unutilized at the end of the accounting period which cannot be classified under the specific asset accounts.

15. ALLOWANCE FOR IMPAIRMENT LOSSES

Movements in the allowance for impairment losses are as follows:

	2010	2009 (As restated)
Balance, January 1, 2010		
Loans receivable	1,001,734,108	835,156,268
Mortgage contracts receivable	5,291,887,489	2,588,500,165
Sales contract receivable	2,706,865,392	2,266,611,610
Accrued interest receivable	542,721,900	441,371,527
Accounts receivable	80,471,727	17,991,283
Items under litigation	6,844,985,265	3,164,335,042
Real and other properties acquired	2,580,457,307	1,802,124,653
	19,049,123,188	11,116,090,548
Provisions (recoveries) during the year		
Loans receivable	(3,185,684)	128,333,302
Mortgage contracts receivable	2,509,400,091	629,142,286
Sales contract receivable	(135,753,713)	953,025,277
Accrued interest receivable	36,144,921	101,350,373
Accounts receivable	1,543,446,389	62,480,444
Items under litigation	(134,633,087)	(86,637,766)
Real and other properties acquired	(46,394,661)	(115,156,639)
	3,769,024,256	1,672,537,277
Provisions (recoveries) charged to Retained earnings		
Loans receivable	-	38,244,538
Mortgage contracts receivable	-	2,074,245,038
Sales contract receivable	-	(512,771,495)
Items under litigation	-	3,767,287,989
Real and other properties acquired	-	893,489,293
	-	6,260,495,363

Balance, December 31, 2010		
Loans receivable (Note 5)	998,548,424	1,001,734,108
Mortgage contracts receivable (Note 6)	7,801,287,580	5,291,887,489
Sales contract receivable (Note 7)	2,571,111,679	2,706,865,392
Accrued interest receivable	578,866,821	542,721,900
Accounts receivable (Note 8)	1,623,918,116	80,471,727
Items under litigation (Note 11)	6,710,352,178	6,844,985,265
Real and other properties acquired (Note 12)	2,534,062,646	2,580,457,307
	22,818,147,444	19,049,123,188

The movements in allowance for impairment losses for short term and housing loan receivables by class are as follows:

	2010			2009 As restated		
	Multi Purpose Loans	Institutional Loans	Total	Multi Purpose Loans	Institutional Loans	Total
January 1, 2010	669,377,240	332,356,868	1,001,734,108	567,785,831	267,370,437	835,156,268
Provisions (recoveries) during the year	(15,112,981)	11,927,297	(3,185,684)	101,591,409	26,741,893	128,333,302
Provisions (recoveries) charged to Retained Earnings					38,244,538	38,244,538
December 31, 2010	654,264,259	344,284,165	998,548,424	669,377,240	332,356,868	1,001,734,108

	2010			2009 As restated		
	Mortgage Contracts Receivable	Sales Contracts Receivable	Total	Mortgage Contracts Receivable	Sales Contracts Receivable	Total
January 1, 2010	5,291,887,489	2,706,865,392	7,998,752,881	2,588,500,165	2,266,611,610	4,855,111,775
Provisions (recoveries) during the year	2,509,400,091	(135,753,713)	2,373,646,378	629,142,286	953,025,277	1,582,167,563
Provisions (recoveries) charged to Retained Earnings				2,074,245,038	(512,771,495)	1,561,473,543
December 31, 2010	7,801,287,580	2,571,111,679	10,372,399,259	5,291,887,489	2,706,865,392	7,998,752,881

16. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of the following:

	2010	2009 (As restated)
Accounts payable	14,036,703,185	9,604,815,630
Accrued expenses	2,439,834,024	1,981,838,163
	16,476,537,209	11,586,653,793

Accounts payable includes the reclassified Members' Equity in the amount of P6,972,820,086 representing Members' Total Accumulated Value which have reached the 20 year maturity at December 31, 2010 but have not been withdrawn and also those that will reach the 20 year maturity by 2011.

Likewise, a total amount of P3,296,038,388 was provided for under Accounts Payable for 2009, thereby restating the amount from P6,608,777,242 to P9,604,815,630.

Accrued expenses are operating expenses already incurred as at year end but have not yet been paid. The substantial increase in 2010 covers the accrual for retirement pay of Pag-IBIG Fund Officers and Employees in the amount of P239,250,657.

17. OTHER CURRENT LIABILITIES

Details of this account are as follows:

	2010	2009 (As restated)
Insurance payable	1,031,554,568	1,103,790,663
Vouchers payable	548,127,159	530,208,070
Miscellaneous liabilities	57,462,030	48,249,635
Withholding tax payable	53,566,788	44,822,611
GSIS / Pag-IBIG	12,733,229	11,274,046
	1,703,443,774	1,738,345,025

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.

18. LONG TERM LIABILITIES

This account consists of payables to the following:

	2010	2009 (As restated)
Bonds payable		
Bond flotation	14,000,000,000	9,000,000,000
Less: Bond issue cost	422,856,192	-
	13,577,143,808	9,000,000,000
Loans payable		
Development Bank of the Philippines	5,000,000,000	5,000,000,000
Social Security System	2,739,484,368	3,316,217,919
Land Bank of the Philippines	3,000,000,000	3,000,000,000
	24,316,628,176	20,316,217,919
Current portion	(3,576,733,551)	(10,576,733,551)
Non-current portion	20,739,894,625	9,739,484,368

Pag-IBIG Fund continues to explore novel ways to generate funds for its shelter programs and to ensure the steady flow of funds for housing. It floated the P2.000 billion Kaunlaran ng Bayan Housing Bonds on March 26, 2007. The Housing Bonds which pay 5 per cent interest will mature in February 2012. The P12.000 billion bonds was auctioned on March 11, 2010 to pay-off the maturing P7.000 billion bonds in May 2010 and to finance the housing programs. The instrument priced at five per cent per annum will mature on March 12, 2015.

The P5.000 billion Development Bank of the Philippines loan availed in 1996 was renewed in 2008 and will mature on August 25, 2012. From the fixed rate of 8.75 per cent per annum, the interest rate is now subject to annual repricing based on the one-year PDST-F Rate plus a spread of 0.7 per cent.

Also in 1996, Pag-IBIG Fund obtained loans from the SSS in the aggregate principal amount of P9.5 billion which were used to finance housing loans granted under the UHLP program for members of both SSS and Pag-IBIG Fund. On June 16, 2005, the SSS loan was restructured with a fixed rate of 7.6151 per cent per annum payable quarterly to mature in July 2015.

To take advantage of the low interest climate on the P3.000 billion Land Bank of the Philippines Short Term Loan Line, P2.000 billion loan was renewed on November 17, 2010 at the rate of 4.0423 per cent while the remaining P1.000 billion was renewed on December 10, 2010 at the rate of 3.0115 per cent to mature on November 11, 2011 and December 05, 2011, respectively.

19. UNDISTRIBUTED COLLECTIONS

This account consists of the following:

	2010	2009 (As restated)
Posting clearing account -		
Members' Contribution	668,356,989	199,241,394
Housing loans	527,412,830	522,091,969
Unidentifiable collections	43,018,668	96,941,433
Multi-purpose loans	26,420,910	30,146,510
Posting clearing account - others	19,232,779	14,878,200
Other housing related transactions	8,257,968	9,013,623
Members' contributions	1,561,921	581,180
Insurance claims	199,197	199,197
	1,294,461,262	873,093,506

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. Posting Clearing Account are used to record daily collections on Members' Contributions, Multi-Purpose Loans and Housing Loans prior to allocation and posting to the members'/borrowers' account. The account also includes remittances of Members' Contributions from local and foreign banks which remain unidentified, unallocated or unpostable as of 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.

The insurance claims represent payments from the insurance pool for the account of deceased borrowers which have not been posted to the subsidiary ledger due to incomplete information.

20. UNEARNED INCOME

	2010	2009 (As restated)
Unearned interest - MPL	8,599,905,762	8,826,672,821
Housing related/others	7,761,807,810	6,657,669,699
Real and other properties acquired	370,085,712	433,656,457
Mortgage/sales contracts receivable	347,966,284	308,849,310
Developers	28,838,506	85,965,234
Institutional Loans	555,946	410,095
Premiums on Bonds Payable	260,749	319,556
	17,109,420,769	16,313,543,172

This account refers 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 Related and Real and Other Properties Acquired covering rental prepayments of foreclosed properties, and those collected from Rent-to-Own arrangement on Investment Properties.

Further, interest income on wholesale loans collected but not yet earned as well as premiums recognized as a result of sale of bonds that are amortized over the life of the bond are likewise lodged to this account.

21. LENDING COSTS

The lending costs pertain to direct costs identifiable with the income generating programs of the Pag-IBIG Fund - housing loans and short term loans, as follows:

	2010	2009 (As Restated)
Personal Services		
Salaries, wages and incentives	947,302,341	548,618,807
GSIS Premiums/Pag-IBIG contributions	260,102,649	182,318,889
Commutable allowances/fringe benefits	227,873,518	218,203,778
Overtime pay and night premiums	21,335,405	17,295,004
	1,456,613,913	966,436,478
Maintenance and Other Operating Expenses		
Impairment loss	3,780,897,080	1,628,213,482
Interest and dividends	1,540,825,009	1,377,804,724
Other services	299,878,773	317,343,905
Depreciation/amortization/losses	197,833,821	263,414,602
Rent and association dues	114,141,449	109,564,188
Loan collection charges/management fees	107,772,908	94,808,739
Fidelity bond and insurance premiums	88,557,681	318,217,373
Extraordinary and miscellaneous expenses	87,138,034	97,827,308
ROPA – other expenses	79,631,035	60,204,213
Supplies and materials	70,670,579	71,834,794
Water, illumination and power	68,167,715	58,087,132
Communication services	54,151,172	46,845,521
Foreclosure expenses	26,943,056	60,395,372
Traveling expenses	16,562,120	13,330,219
Transportation services	6,985,684	6,586,694
Trainings and seminars	6,245,306	2,319,921
Taxes, duties and fees	3,166,863	2,930,096
Repairs and maintenance - vehicles	2,454,132	3,635,316
Computer data processing costs	2,437,402	2,812,159
Repairs and maintenance – office premises	354,862	121,759

Consultants' and specialists' fees	289,111	494,907
Bank charges and custodianship fees	250,275	247,983
Advertising and publication	40,380	356,896
Grants, subsidies and contributions	-	7,793,922
	6,555,394,447	4,545,191,225
	8,012,008,360	5,511,627,703

22. FUND ADMINISTRATION

Fund Administration costs are expense items associated with the upkeep and maintenance of Members' Total Accumulated Values (TAVs) and other operating expenses such as those related to savings generation, marketing and enforcement, provident claims, fund management and other administrative services, in such amounts and/or limits as the Board of Trustees may deem appropriate but not exceeding two percent of the previous year's Net Fund Assets.

For the year 2010, the fund administration costs aggregated P2,925,164,273 or 1.28 per cent of prior year's net fund assets of P228,605,578,347 substantially lower than the statutory limit of two per cent per Section 21 of R.A. No. 9679. Details are presented below:

	2010	2009 (As restated)
Personal Services		
Salaries, wages and incentives	1,038,127,579	519,436,647
GSIS premiums/Pag-IBIG contributions	249,910,591	168,694,272
Commutable allowances/fringe benefits	231,065,922	249,168,586
Overtime pay and night premiums	19,823,506	17,185,911
Directors and committee members' fees	473,000	813,000
	1,539,400,598	955,298,416
Maintenance and Other Operating Expenses		
Other services	364,458,302	380,088,940
Depreciation/amortization/losses	205,166,971	164,465,118
Net loss on foreign exchange	146,554,123	35,223,678
Extraordinary and miscellaneous expenses	131,733,514	143,921,854
Rent and association dues	121,617,167	116,435,603
Advertising and publication	90,888,744	76,665,933
Water, illumination and power	69,658,057	55,565,492
Supplies and materials	68,599,071	58,064,836
Communication services	36,111,914	31,952,362
Traveling expenses	35,624,780	30,329,655
Computer data processing costs	30,321,168	23,481,240
Auditing services	19,035,328	36,688,132
Repairs and maintenance – vehicles	13,601,462	11,452,216

Transportation services	13,420,189	10,253,953
Fidelity bond and insurance premiums	8,779,236	14,271,412
Trainings and seminars	7,604,755	3,402,188
Taxes, duties and fees	7,172,047	201,275,329
Consultants' and specialists' fees	6,467,971	4,757,252
Bank charges and custodianship fees	5,561,976	5,559,064
Loan collection charges/management fees	3,468,250	18,212,577
Grants, subsidies and contributions	2,204,631	11,050,610
Repairs and maintenance – office premises	1,694,380	592,441
Impairment loss	(3,980,361)	50,240,391
	1,385,763,675	1,483,950,276
	2,925,164,273	2,439,248,692

23. OTHER EXPENSES

This account consists of the following

	2010	2009 (As restated)
Death benefits	108,011,232	102,911,654
Compulsory /optional retirement	248,911,413	2,037,756
	356,922,645	104,949,410

The Death benefit is paid to the beneficiaries of deceased Fund members which is equivalent to P6,000 or the amount of the deceased members' TAV which ever is lower.

24. MEMBERS' EQUITY

This account reflects the members' equity as owners of the Pag-IBIG Fund, corresponding to members' contributions and employers' counterpart for employed members as well as the accumulated dividends. The account is reduced by the provident claims of members and offsetting of loans against Total Accumulated Values (TAVs). In 2010, the TAV withdrawal amounted to P4,993,629,780.

On February 3, 2010, HDMF Circular No. 276, "Guidelines Implementing the Modified Pag – IBIG II (MP2) Membership Program" was issued to give Pag-IBIG I members, whose gross monthly income exceeds P5,000, another savings option, a five-year membership scheme with a yield higher than those given under their existing membership with the Fund. Dividends declared for the current year under this scheme is 5.5 per cent pursuant to HDMF Circular No. 284, "Dividend Rate for MP2 Program".

25. RESERVE FOR LOSSES

The guarantee insurance premium of National Home Mortgage Finance Corporation originated accounts such as Folio I, P50 million, Overhang and Bagong Lipunan Sites Services (BLISS) are treated as reserve funds and is presented as part of the Fund's Net Worth.

26. DONATED SURPLUS

This account refers to the lot acquired by the Fund through donation from the provincial government of La Union on October 27, 1997 where La Union Branch's office building was erected, recorded in the books at market value at the time of acquisition.

27. DIVIDENDS

The Fund set aside P7,882,129,926 or 71 per cent of its Net Income after Tax as dividends for the year 2010, which shall be credited proportionately to the Members' TAV. The dividend rate is equivalent to 4.11 per cent of the Fund's average members' equity.

28. FINANCIAL REPORTS

The combined financial statements were presented and noted by the HDMF Board of Trustees in its Special Board Meeting held last February 21, 2011. Further, the Board approved and authorized the issuance of Financial Statements reflecting balances of Net Income, Retained Earnings, Members' Equity and other accounts as adjusted after dividend declaration per Board Resolution No. 2848 dated April 18, 2011.

29. SUPPLEMENTARY INFORMATION

HDMF paid and accrued taxes, duties and license fees, to wit:

	2010	2009 As restated
Documentary Stamp Tax on loan instruments	79,698,630	9,848,496
Taxes, Duties and Fees		
Real Estate Taxes-Properties	4,171,647	7,217,527
Real Estate Taxes-ROPA	7,294,759	36,843,289
Other current taxes	-	185,546,255
Miscellaneous taxes	2,766,155	8,021,832
ROPA	25,553,331	5,057,918
Final taxes	258,495,403	405,920,304

Withholding Taxes		
Tax on compensation and benefits	287,353,509	119,990,056
Creditable Withholding Taxes	106,250,395	100,957,328
Final Withholding Taxes	1,606,065	1,206,380
	773,189,894	880,609,385

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.

30. EVENTS AFTER BALANCE SHEET DATE

Status of cases relative to the Globe Asiatique Realty Holdings Corporation (GARHC) Xevera accounts is as follows:

Criminal Cases

National Bureau of Investigation (NBI)/ Home Development Mutual Fund (HDMF) vs. Globe Asiatique Realty Holdings Corp./Delfin Lee, et al. (NPS No. XVI-INV-10J-00319)

Nature and Respondents:

In October 2010, the NBI/HDMF filed a Complaint for Syndicated Estafa constituting Economic Sabotage defined and penalized under Art. 315 (2)(a) of the Revised Penal Code, in relation to Sec. 1 of Presidential Decree No. 1689, with the Department of Justice (DOJ) against Delfin Lee and 17 other Globe Asiatique Realty Holdings Corp. (GARHC) officers, employees, and agents, for using fake buyers and fraudulent documents to deceive the Fund into releasing loan proceeds to GARHC.

Status:

On March 15, 2011, the Department of Justice (DOJ) Investigating Panel has terminated the conduct of clarificatory hearings on the said syndicated estafa case. In view thereof, the complaint case is now awaiting for the issuance of a resolution.

Civil Case

Globe Asiatique Realty Holdings Corp., et al. vs. Home Development Mutual Fund, et al. (Civil Case No. 10-1120)

Nature and Respondents:

GARHC filed a case for Specific Performance and Damages, Civil Case No. 10-1120 entitled *Globe Asiatique, et al. vs. HDMF, et al.*, currently pending before the Regional Trial Court, Makati City, Branch 58 seeking, among others, for HDMF to still continue with its contractual relations with GARHC.

Status:

HDMF filed a Motion for Reconsideration to the Order dated May 30, 2011 of the Court granting the Motion for Leave (To: Admit Attached Complaint-in-Intervention) of Tessie G. Wang, an alleged replacement buyer of the property of GARHC.

The hearing of the said Motion for Reconsideration was reset to September 19, 2011 as the Court is presently conducting an inventory of its cases.

Administrative Case

Administrative cases have been filed against several Pag-IBIG Fund officers of the HDMF Pampanga Branch and Northern Luzon Group. The said administrative cases are currently on-going.

Housing and Land Use Regulatory Board Cases

In Re: Globe Asiatique Realty Holdings Corp. represented by its Chairman & President Delfin S. Lee.

On 15 April 2011, the Housing and Land Use Regulatory Board (Northern Tagalog Region) issued an Order declaring, among others, the revocation of Globe Asiatique's Certificate of Registration and License to Sell (CR/LS) for its Xevera-Mabalacat Subdivision projects. In the Order dated 22 June 2011, the HLURB denied the Motion for Reconsideration filed by GARHC on the Order dated 15 April 2011.