HOME GUARANTY CORPORATION
ISO 9001:2015; ISO 27001:2013
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016
(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL INFORMATION

The Home Guaranty Corporation (HGC), a government-owned and controlled corporation, is tasked to operate a credit guaranty program in support of government's effort to promote home ownership. Since its creation on September 15, 1950 as the Home Financing Commission with the passage of Republic Act (RA) No. 580 and later as Home Insurance and Guaranty Corporation, HGC has institutionalized a viable system of credit guarantees that have become an integral component of the shelter program of the government.

HGC stands alone and unique in this field of housing finance. No other government institution or instrumentality, for lack of enabling law, can provide the risk cover and tax incentives that HGC is authorized to extend. The Corporation provides risk guarantees and fiscal incentives for housing credits extended by banks, investors and other financial institutions, thereby stimulating the flow of funds from both the government and private sectors for housing and urban development.

With the enactment of its new Charter, RA No. 8763, otherwise known as the Home Guaranty Corporation Act of 2000, the corporate life of HGC was extended for another 50 years and the Corporation's authorized capital stock was increased from P2.5 billion to P50 billion, out of which, only P15.073 billion were actually received from the National Government (NG) as of December 31, 2017. Specifically, HGC has the following mandates:

a. To guaranty the payment of any and all forms of mortgages, loans and other forms of credit facilities and receivables arising from financial contracts exclusively for residential purposes and the necessary support facilities;

b. To assist private developers to undertake socialized, low and medium cost mass housing projects by encouraging private funds to finance the housing projects through a viable system of long term mortgages, guarantees and other incentives;

c. To promote homebuilding and landownership, giving primary preference to the homeless and underprivileged sectors of the society;

d. To promote housing by the aided self-help method;

e. To pursue the development and sustainability of a secondary mortgage market for housing;

f. To supervise and regulate building and loan associations pursuant to Chapter X, Section 94 of RA No. 8791 (The General Banking Law of 2000); and

g. To administer the Cash Flow Guaranty (CFG) System of the Abot-Kaya Pabahay Fund (AKPF) pursuant to RA No. 6846, also known as the Social Housing Support Fund Act of 1990.

In carrying out and fulfilling its above stated mandates, the Corporation offers the following guaranty programs:

a. Developmental loan guaranty: a guaranty facility covering loans extended for the development of subdivisions, townhouses, dormitories, apartments and other residential dwellings;

b. Retail loan guaranty: guaranty coverage on loans/credit facility extended for the purchase/acquisition of a single-family residence;

c. Guaranty for securitization schemes: guaranty coverage on securities or financial instruments backed-up by a pool of assets such as receivables from loans/mortgages and/or real estate properties; and

d. Cash flow guaranty: guaranty coverage on socialized housing loans extended by the Social Security System (SSS), the Government Service Insurance System (GSIS), the Home Development Mutual Fund (HDMF) or Pag-IBIG Fund and their accredited financial institutions.

The borrowings and guaranty obligations of the Corporation both as to principal and interest are guaranteed by the Republic of the Philippines subject to the following limitations:

a. Guaranty obligations, not to exceed 20 times the Corporation's capital and surplus; and

b. Corporate borrowings, not to exceed the aggregate amount of principal obligations of all accounts guaranteed.

With the enactment of its new charter, the HGC is relieved of its peripheral task involving registration, supervision and adjudication of Homeowners' Associations. This function has been transferred to the Housing and Land Use Regulatory Board. The Corporation is also vested with a new mandate that will ensure its active involvement in the development of the secondary market for housing mortgages, bonds, debentures, notes and securities. Further, RA No. 8763 compels the Corporation to give preferential attention and incentives to socialize and low cost housing.

The Corporation is governed by a Board of Directors composed of seven members, including the Chairman as follows:

Chairman	:	Secretary, Department of Finance
Vice-chairman	:	Chairman, Housing and Urban Development Coordinating Council
Member	:	Director General, National Economic and Development Authority
Member	:	Four others appointed by the President of the Philippines. The President shall be elected by the members of the Board from the four members appointed.

The policies of the Board are implemented into action by the President with the assistance of the Executive Vice President and five Vice Presidents. As of December 31, 2017, the Executive Vice President acted as the Officer-In-Charge being the next-in-rank from the Office of the President of HGC.

In 2009, the Board adopted Board Resolution No. 33-2009 dated July 30, 2009 authorizing the President to issue the financial statements of HGC and AKPF-CFG Component for the calendar year ending December 31, 2008 and every year thereafter. Pursuant thereto, the Executive Vice President, OIC-Office of the President of HGC approved the issuance of the financial statements of HGC for CY 2017 on April 24, 2018.

The Corporation has its registered office at 335 Jade Building, Sen. Gil J. Puyat Avenue, Makati City.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Corporation are as follows:

2.1. Basis of Financial Statement Preparation

- *Statement of Compliance with Philippine Financial Reporting Standards*

The accompanying financial statements of HGC as of and for the years ended December 31, 2017 and 2016 have been prepared by applying accounting policies in accordance with the Philippine Financial Reporting Standards (PFRS). PFRS are issued by the Financial Reporting Standards Council (FRSC) and approved by the Philippine Board of Accountancy (BOA) based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

- *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, Presentation of Financial Statements. HGC presents all items of income and expenses in a single statement of comprehensive income (SCI).

- *Functional and Presentation Currency*

These financial statements are presented in Philippine peso, HGC's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of HGC are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Corporation operates.

- *Going Concern Basis of Accounting*

The financial statements were prepared on a going concern basis. The going concern basis assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

2.2. Adoption of New and Amended PFRS

Discussed below are the relevant information about these amendments and improvements.

2.2.1 Effective in 2017 that are relevant to the Corporation

(i) *Amendments to PAS 7, Cash Flow Statements - Disclosure Initiative*. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financial activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statements disclosure can be improved. Management has adopted these amendments by presenting reconciliation between the opening and ending balances of liabilities arising from financing activities which includes both cash and non-cash changes as presented in Note 28.

(ii) *Amendments to PAS 12. Income Taxes - Recognition of Deferred tax Assets for Unrealized Losses*. These amendments clarify the requirements for recognizing deferred tax assets on unrealized losses. The amendments clarify accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. Management has adopted these amendments as presented in Note 30.4.

2.2.2 Effective in 2017 that are not relevant to the Corporation

The annual improvement to PFRS 12, *Disclosure of Interests in Other Entities* is mandatorily effective for annual periods beginning on or after January 1, 2017 but is not relevant to the Corporation's financial statements:

(i) *Annual Improvements to PFRS (2014 – 2016 Cycle) – PFRS 12, Disclosure of Interest in Other Entities.* The amendments states that an entity need not present a summary of financial information for interests in subsidiaries, associates, or joint ventures that are classified as held for sale. These amendments have no significant impact to the financial statements of the Corporation.

2.2.3 Effective in 2018 but not adopted early

The pronouncement listed below is issued but not yet effective. Unless otherwise indicated, the Corporation does not expect that the future adoption of these pronouncements will have a significant impact on its financial statements.

Effective annual periods beginning on or after January 1, 2018:

(i) *Amendment to PAS 40, Investment Property - Reclassification to and from Investment Property*. These amendments provide that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property.

(ii) *PFRS 15, Revenue from Contract*- The amendments address three topics: identifying performance obligations, principal versus agent considerations and licensing. PFRS 15 requires an entity to identify performance obligations on the basis of distinct promised goods or services. When another party is involved in providing goods or services to a customer, it requires an entity to determine whether it is the principal in the transaction or the agent on the basis of whether it controls the goods or services before they are transferred to the customer. When an entity grants a license to a customer that it is distinct from other promised goods or services, the entity has to determine whether the license is transferred at a point in time or over time on the basis of whether the contract requires the entity to undertake activities that significantly affect the intellectual property to which the customer has rights.

(iii) *IFRIC 22, Foreign Currency Transactions and Advance Consideration*- Interpretation on Foreign Currency Transactions and advance Consideration. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

(iv) *Annual improvements to PFRS 2014 - 2016 Cycle*. The following improvements are relevant to HGC but will have no material impact on its financial statements as these merely clarify existing requirements:

- *Amendments to PFRS 1, First-time Adoption of PFRS*. The amendments deleted short-term exemptions for first-time adopters regarding PFRS 7, Financial Instruments – Disclosures, PAS 19, Employee Benefits and PFRS 10.

- *Amendments to PAS 28, Investments in Associates and Joint Ventures*. The amendments clarify that the election to measure at FVTPL an investment in an associate or a joint venture is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

(v) *Amendments in Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts*- The amendments to PFRS 4 provide two Options for entities that issue insurance contracts. An option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income and expenses arising from designated financial assets; this is the so-called overlay approach and an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4; this is the so-called deferral approach. Management is currently assessing the impact of PFRS 9 (2014) on the financial statements of the Corporation. A comprehensive study of the potential impact of this standard will be conducted prior to its mandatory adoption date to assess the impact of all changes.

2.2.4 Effective for reporting periods beginning or after January 1, 2019

(i) *Amendments to PAS 28, Investment in Associates – Long-term Interests in Associates and Joint Ventures.* These amendments clarify that an entity applies PFRS 9, Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

(ii) *Amendments to PFRS 9, Financial Instruments – Prepayment Features with Negative Compensation.* These amendments confirm that when a financial liability measured at amortized cost is modified without this resulting in de-recognition, a gain or loss should be recognized immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rates.

(iii) *PFRS 16, Leases - The new accounting model under PFRS 16 Requires a lessee to recognized a right-of-use asset and a lease liability*. The right to use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. This will typically produce a front-loaded expense profile as an assumed linear depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period. The new standard brings most lease on-balance sheet for lessees under a single model, eliminating distinction between operating finance leases.

Lessor accounting however remains unchanged and the distinction between operating and finance lease is retained. PFRS 16 is likely to have a significant impact on the financial statements of a number of lessees. The new standard will affect both the balance sheet and related ratios, such as debt/equity ratios. Depending on the particular industry and the number of lease contracts previously classified as operating leases under PAS 17, the new approach will result in a significant increase in debt on the balance sheet.

(iv) *IFRIC 23, Uncertainty Over Income Tax Treatments*. This IFRIC clarifies how the recognition and measurement requirements of PAS 12, Income Taxes, are applied where there is uncertainty over income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

2.2.5 Effective for reporting periods beginning on or after January 1, 2021

(i) *PFRS 17, Insurance Contracts.* This standard replaces PFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. PFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

(ii) *Annual Improvements to PFRS 2015 - 2017 Cycle*. The following Improvements are relevant to HGC but has no material impact on its financial statements as these merely clarify existing requirements:

- *Amendments to PAS 12, Income Taxes - Tax Consequences of Dividends*. The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.

- *Amendment to PAS 23, Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

- *Amendments to PFRS 3, Business Combinations and PFRS 11, Joint Arrangements – Re-measurement of Previously Held Interests in a Joint Operation*. The amendments to PFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it re-measures previously held interests in that business. The amendments to PFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not re-measure previously held interests in that business.

2.2.6 Effectivity Deferred Indefinitely

(i) *Amendments to PFRS 10, Consolidated Financial Statements, and to PAS 28, Investment in Associates and Joint Ventures – Sales or Contribution of Assets between an Investor and its Associates or Joint Venture*. The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

2.3. Financial Assets

Financial assets are recognized only when HGC becomes a party to the contractual terms of the financial instrument. Financial assets other than those designated and effective as hedging instruments are classified into the following: (i) loans and receivables, and (ii) available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. Regular purchases and sales of financial assets are recognized on their trade date. A more detailed description of HGC's financial assets is as follows:

2.3.1. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when HGC provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the reporting period which are classified as non-current assets.

The HGC's financial assets categorized as loans and receivables are presented in the statement of financial position either as: (i) Cash and Cash Equivalents, and (ii) Accounts and Other Receivables. Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that HGC will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

2.3.2. AFS Financial Assets

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets under the Other Financial Assets account in the statement of financial position unless management intends to dispose of the investment within 12 months from the reporting period. The HGC's AFS financial assets include equity securities and corporate bonds.

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported separately in equity. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income.

Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance costs or Finance income account in the SCI.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party.

2.4. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (a) in the principal market for the asset or liability, or (b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that the market participants act in their best economic interest.

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

a. Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

b. Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and,

c. Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

2.5. Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys to use the asset.

(a) HGC as lessor

Leases where the Corporation transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee are classified as finance lease. Lease receivables are recognized at an amount equal to the total consideration of the contract. On the other hand, leases where the Corporation does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating lease. Lease rentals received are recognized as income on a straight-line basis in the SCI.

(b) HGC as lessee

Leases which do not transfer to the Corporation substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred. Improvements made on the leased property are capitalized and booked under Leasehold improvements account and amortized over the useful life of the asset or the remaining lease term, whichever is shorter.

HGC entered into a lease agreement with the owner of the building for the lease of a five-storey building where HGC holds office. The duration of the contract of lease is for a period of ten years from June 1, 2007 up to May 31, 2017. Under Board Resolution No. 16-2017 dated April 19, 2017, HGC's Board approved a limited Lease Agreement for one year, renewable for another year, under the same terms and conditions of the existing Lease Agreement.

2.6. Inventories

Inventories consist of supplies and materials as well as tangible items below the capitalization threshold of P15,000 are held for consumption in the ordinary course of operations of the Corporation. These items are measured at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

Inventories are recognized as expense when deployed for utilization or consumption in the ordinary course of operations of the Corporation.

2.7. Property and Equipment

The property and equipment (PE) are stated at cost less accumulated depreciation and impairment, if any. Only additional expenses that will enhance usefulness of assets are capitalized and amortized over the remaining life of the asset, otherwise these are charged to operations. Depreciation is computed on a straight-line method based on the estimated useful lives of the assets as follows:

Asset	Estimated Useful Life
Land improvements	20 to 30 years
Office furniture and equipment	5 to 10 years
Transportation equipment	7 years
IT equipment and software	5 years
Leasehold improvements	Over the remaining lease term

Depreciation shall be for one month if the PE is available for use on or before the 15th day of the month. Otherwise, depreciation shall be for succeeding month. Major repairs/renovations are depreciated over the remaining useful life of the related asset. The assets' useful lives are reviewed, and adjusted if appropriate, at each SFP date.

At each SFP date, the Corporation reviews the carrying amount of the tangible assets to determine whether there are any indicators of impairment. If indicators of impairment exist then the recoverable amount of an asset is estimated. If the recoverable amount of an asset is less than its carrying amount, the difference is recognized in the SCI as an impairment loss.

An item of PE, including the related accumulated depreciation and impairment losses, if any, is derecognized upon disposal or when no future economic benefits or service potential is expected from its use or disposal. The gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the item is derecognized.

2.8. Investment Property

Investment properties (IPs) are properties held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

IP are initially recorded at cost, which includes directly attributable costs incurred. It is subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation on asset is calculated using the straight-line method to allocate the cost of the assets net of residual value of ten percent of cost over its estimated useful life.

2.9. Non-current Assets Held For Sale

Non-current assets are classified as held-for-sale if it is highly probable that they be recovered primarily through sale rather than through continuing use. Such assets are generally measured at the lower of their carrying amount and fair value less cost to sell.

The Corporation recognizes impairment loss for any initial or subsequent write-down of the asset to fair value less cost to sell. Gain on any subsequent increase in fair value less costs to sell of an asset is recognized to the extent of the cumulative impairment loss that has been recognized.

If the Corporation has classified an asset as held-for-sale, but the criteria for it to be recognized as such no longer met, the Corporation shall cease to classify the asset as held for sale. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale of the asset does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Corporation's control and there is sufficient evidence that it remains committed to sell the asset.

2.10. Intangible Assets

Intangible assets acquired by the Corporation and have definite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses. These costs, net of estimated residual value, are amortized using the straight-line method over their estimated useful lives of five years.

Subsequent expenditure is capitalized only when it increases the future service potential of the asset to which it relates. Otherwise, such cost is recognized as expense when incurred.

2.11. Impairment of non-financial assets

The Corporation assesses at each reporting date whether there is an indication that PE may be impaired. If any such indication exists or when annual impairment testing for a non-financial asset is required, the Corporation makes an estimate of the non-financial asset's recoverable amount. Recoverable amount is the higher of a non-financial asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the non-financial asset does not generate cash inflows that are largely independent of those from other or groups of non-financial assets.

When the carrying amount of a non-financial asset exceeds its recoverable amount, the non-financial asset is considered impaired and is written down to its recoverable amount. An impairment loss is charged against operations in the year in which it arises.

An impairment assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exists or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the SCI. For PE, after such reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

2.12. Financial liabilities

Financial liabilities which include bank loans, trade and other payables (except government-related obligations) are recognized when HGC becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability, except those that are capitalized, are recognized as an expense in profit or loss as an expense in the SCI under the caption "Interest and financial charges".

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer) or the Corporation does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.13. Income Taxes

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

Deferred tax is provided, using the balance sheet method on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the balance sheet method, with certain exemptions, deferred tax liabilities are recognized for all temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred income tax asset can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is probable that sufficient taxable profit will be made available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the SCI. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities are charged or credited directly to equity.

2.14. Recognition of Income

2.14.1. Guaranty Premiums

The Corporation uses the accrual basis of accounting for premium on credit insurance/guaranty. HGC guarantee fees are collected upon issuance of the Certificate of Guaranty. The guaranty premium rates range from 0.75 per cent to 1.5 per cent for retail loans and 1.5 per cent to 2.0 per cent for developmental loans. Amounts collected are credited to deferred income account and amortized to guarantee income monthly.

2.14.2. Interest Income

Interest on loans and other interest-bearing instruments are recognized on the basis of the accrual method of accounting. No interest is accrued on past-due accounts, in accordance with Bangko Sentral ng Pilipinas (BSP) Circular No. 202, series of 1999 dated May 19, 1999.

2.14.3. Other Business Income

Application, audit, enrollment and processing fees are directly credited to other business income account when collected.

2.15. Gain on Sale of Disposed Assets

The gain on sale of disposition of acquired assets is the difference between the selling price and the book value or carrying amount of the asset as of actual sales date. Also, the account includes amortization of unearned income on installment sales based on collection of principal portion of monthly amortization.

2.16. Dividends

Pursuant to RA No. 7656 and its Revised Implementing Rules and Regulations of January 26, 2016, the Board of Directors of the HGC under Board Resolution No. 23-2018 declared cash dividends to the NG amounting to P277.496 million for CY 2017. It was remitted to NG through the Bureau of Treasury (BTr) under Check No. 2968841 dated June 11, 2018.

Also, an additional cash dividend amounting to P134.998 million for CY 2016 was remitted to the NG through BTr under Check No. 2968840 dated June 11, 2018.

2.17. Foreign Exchange

The Cash in bank - Foreign currency balance as of December 31, 2017 was reported at closing dollar exchange rate based on BSP Reference Exchange Rate Bulletin of P49.9230 to $1.00 as of December 29, 2017. Foreign exchange differences are recognized in the SCI as gain or loss on foreign exchange. All transactions are recorded using the applicable exchange rate at the time of the transaction.

3. SIGNIFICANT JUDGMENTS AND ESTIMATES

The preparation of the Company's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately be different from these estimates.

In the process of applying the company's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

3.1. Technical Loss Reserves

For CY 2017, the Corporation provided a Technical loss reserves amounting to P835 thousand for the anticipated losses to be incurred in the disposition of foreclosed assets. This is based on the severity of loss rate as recommended by the Actuary on the total retail guaranty calls paid. The Corporation started setting up the reserves in 2007. Total technical loss reserves to date amounts to P13.39 million, of which P834,700 is recorded as Allowance for impairment - Guaranty call receivable and P12.56 million as Accumulated impairment losses – Non-current assets held for sale.

3.2. Contingent Liabilities – Outstanding Guaranty

HGC is obligated to pay call on the guaranty in the event that the borrower/mortgagor is in default of its monthly amortization as follows:

a. Cash guaranty coverage: call payment shall be in cash;

b. Bond guaranty coverage: call payment shall be in the form of HGC debenture bond, regardless of the period or timing of the default;

c. Cash flow guaranty coverage: call payment shall be in the form of amortizing debenture bond. The debenture bond shall cover the scheduled monthly amortizations at HGC's guaranteed interest rate; and

d. Standard guaranty coverage: combination of bond and cash. Call payment is in the form of HGC debenture bond if default occurs within the first five years of guaranty coverage and call payment is in the form of cash if default occurs after five years of guaranty coverage.

Total outstanding guaranty as of December 31, 2017 and 2016 under the above described coverages as follows:

Type of Coverage	2017	2016
Cash	62,715,232	60,592,977
Bond	151,738,536,957	142,981,354,908
Cash flow	12,781,507,158	5,797,317,663
Standard	117,943,014	328,028,722
	164,700,702,361	**149,167,294,270**

As of December 31, 2017 and 2016, the aggregate amount of the Corporation's outstanding obligations is at 19 times and 17 times, respectively, of the capital and surplus of the Corporation, which is within the limit set under Section 18(b) of RA No. 8763 relative to the guaranty by the Republic of the Philippines of the guaranty obligations of the Corporation.

3.3. Contingent Liabilities – Others

3.3.1. Unpaid Obligations

The Corporation has a possible obligation to Subic Bay Metropolitan Authority (SBMA) amounting to P511,477,253 as of December 31, 2017. The obligation pertains to unpaid base rent, service fees, power bills, horse insurance and medical services for the various leased properties at Subic Bay Freeport Zone chargeable against Financial Building Corporation (FBC).

Under the Court-approved Compromise Agreement (CA) between HGC and FBC, the latter shall be responsible for all its legal obligations with SBMA up to the turn-over to HGC of its share of all the assets free from any liens and encumbrances. In case HGC is made to pay any legal obligation of FBC to SBMA, FBC shall indemnify/reimburse HGC for such payment.

The SBMA, who is not a party to the CA, refused to recognize the assignment of the lease unless the base rent is paid. To settle the issue, HGC, upon the approval of the HGC Board, entered into a Memorandum of Agreement (MOA) with SBMA stating that the parties can further negotiate and compromise as to the final amount of HGC's obligation to be settled.

The obligation with SBMA is the subject of an on-going court case before the Regional Trial Court of Olongapo City involving the Corporation, FBC and SBMA, entitled FBC vs. SBMA and HGC. It is the Corporation's position that it should not be compelled to pay for the obligations of FBC as these are in the nature of private debts of the latter. Payment of private debts by the Corporation is contrary to public policy. Any agreement to that effect would be void and would violate Section 4(2) of the Government Auditing Code of the Philippines, otherwise known as Presidential Decree No. 1445, which provides that government funds or property shall be spent or used solely for public purposes.

3.3.2. Pending Legal Cases

There are pending legal cases where the Corporation is either a party defendant or plaintiff. These are ejectment and other civil cases involving claims against some of the assets acquired by the Corporation.

Also, undated Notice from the First Division of the Supreme Court was released with finality allowing the Project Manager/Developer's lawsuit to recover the residual value of the Smokey Mountain Asset Pool after its liquidation from NHA and HGC over the defaulted guaranteed housing project.

3.4. Unserviceable Assets

Included in the other assets account are the transferred construction materials to HGC from the defunct Bliss Development Corporation (BDC) purchased prior to 1993 amounting to P2.8 million. Allowance for impairment losses amounting to P2.6 million was provided by BDC before the assets was turned over to HGC. These materials are damaged and obsolete. Under Memorandum dated July 4, 2013, the HGC Management requested the relief from property accountability from COA as basis for dropping the unserviceable assets from the books of accounts. However, said request was returned by COA to HGC per Memorandum dated July 15, 2013 due to insufficiency of documents. Efforts are being made to comply with all the documentary requirements with COA.

3.5. Impairment of Assets

Paragraph 20 of PFRS 5 provides that an entity shall measure a non-current asset (or disposal group) classified as held for sale at lower of its carrying amount and fair value less costs to sell.

The Corporation recognizes impairment loss for any initial or subsequent write-down of the asset to fair value less cost to sell. Gain on any subsequent increase in fair value less costs to sell of an asset is recognized to the extent of the cumulative impairment loss that has been recognized.

4. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2017	2016 (Restated)
Cash in banks	721,043,725	1,246,958,622
Cash with collecting officers/disbursing officers	35,611,060	1,375,043
Cash equivalents – time deposits	262,160,429	1,182,388,373
	1,018,815,214	**2,430,722,038**

Cash equivalents are short-term investments in High-Yield Savings Accounts (HYSA) or Special Savings Account (SSA) with maturities of three months or less, which earn interests at rates ranging from 1.3 to 2.0 per cent per annum.

The significant decrease in cash in bank was primarily due to investment placement in HYSA and/or SSA in CY 2017. On the other hand, time deposits with maturities beyond 90 days amounting to P2,853,798,348 previously reported as cash and cash equivalents were reclassified to short-term investments (See Note 5.1).

5. INVESTMENTS

	2017	2016 (Restated)
5.1 Short-term		
10-year agrarian reform bonds	1,328,015	1,328,015
Time deposit	4,131,669,561	2,853,798,348
	4,132,997,576	**2,855,126,363**
5.2 Long-term		
Sinking fund – guaranty reserve	850,054,867	769,480,124
Other investments	855,835,853	855,835,853
	1,705,890,720	**1,625,315,977**

In 2008, HGC set up a Guaranty reserve fund amounting to P453 million to answer for guaranty calls. Additional reserve fund was added to the fund in subsequent years equivalent to five per cent of income before financial charges. For 2017, additional reserve fund amounting to P71.54 million was added to the fund. The funds are invested in corporate securities and short term deposits. Further increase in the fund represents income earned from said investments.

Remaining Power Sector Assets and Liabilities Management Corporation Bonds were redeemed in April 2017.

Other investments consist of the following:

	2017	2016
Investments in stocks – HCPTI		
Common shares	187,745,101	187,745,101
Preferred shares	667,473,252	667,473,252
Club A corporate shares – Tower Club, Inc.	617,500	617,500
	855,835,853	**855,835,853**

The investment in shares of stocks of Harbour Center Port Terminal, Inc. (HCPTI) is the subject of a Civil Case filed with Regional Trial Court, Branch 90, Quezon City against HCPTI for registration of shares in the name of HGC. The case was filed on March 3, 2009. HGC filed a motion of summary judgment for resolution on May 28, 2012. The motion was denied and the case is scheduled for presentation of plaintiff's evidence.

In January 2010, the Corporation purchased Club A corporate shares in Tower Club, Inc. for P617,500 in consonance with the public relation activities of the Corporation. Ownership of a share represents an undivided interest in the assets of Tower Club, which principally consists of title over the facilities and other assets of the Club and a 25-year leasehold right over the 33rd and 34th Floors and their appurtenance parking units in the Philamlife Tower.

6. INVESTMENT PROPERTY

This account consists of the following:

	Land	Building	Total
Cost			
January 1, 2017	9,265,914,957	49,299,061	9,315,214,018
Additions	-	-	-
Reclassification	-	-	-
December 31, 2017	9,265,914,957	49,299,061	9,315,214,018
Accumulated depreciation			
January 1, 2017	-	16,638,433	16,638,433
Depreciation	-	1,848,714	1,848,714
December 31, 2017	-	18,487,147	18,487,147
Net book value – December 31, 2017	**9,265,914,957**	**30,811,914**	**9,296,726,871**
Net book value – December 31, 2016	**9,265,914,957**	**32,660,628**	**9,298,575,585**

6.1 Land

Land includes a property located in the National Government Center – Commonwealth Enterprise Zone (NGC-CEZ) commercial area with a total appraised value of P3,935,716,627. The assets are being disposed through outright sale, long-term leases, joint venture or any variant scheme. To date, 31,093.06 square meters of the 229,855 square meters are the subject of long term leases for 20 to 25 years.

The account also includes Urban BLISS projects which were transferred and conveyed to HGC, details as follows:

Location	Area(m^2)	Appraised value
Pasig Bliss, Col. Licsi St. Pasig City	14,274	139,885,000
Muntinlupa Bliss, Bo. Putatan, Muntinlupa	11,643	56,647,000
Makati Bliss, Davila (Manlo), Vito Cruz, Makati City	4,631	282,491,000
Mandaluyong I and II Bliss Coronado, Hulo	27,359	602,000,000
Tejeros Bliss H. Santos St., Makati City	14,647	298,523,000
Guadalupe Bliss	101,484	1,522,260,000
Paco Bliss	2,053	61,590,000
C-5	39,992	1,105,758,826
	216,083	**4,069,154,826**

Further, the Legacy Memorial Estate (LME) property located at Brgy. Anastacia Sto. Tomas Batangas valued at P1,261,043,504 also comprise this account.

6.2 Building

The property with a cost of P49,299,061 is the Commonwealth Market, a two-storey building with a basement, located at Block 6, CEZ, Commonwealth Avenue, Quezon City. The Commonwealth Market is under long-term lease to 3A Boys Corporation.

7. RECEIVABLES – NET

This account consists of the following:

	2017	2016 (As restated)
7.1 Current		
Guaranty call receivable	316,780	17,472,730
Allowance for impairment loss	(83,470)	(151,759)
	233,310	17,320,971
Receivables from other GOCCs	46,507,309	46,507,309
	46,507,309	46,507,309
Other receivables	128,781,574	212,790,716
Allowance for impairment loss	(22,409,346)	(22,409,346)
	106,372,228	190,381,370
Sales contract receivable	64,157,604	421,302,850
Loan receivable	4,375,597	4,898,852
Advances to officers and employees	-	21,309
Due from Officers and Employees	132,983	-
Lease receivables	29,909,436	35,891,330
Interest receivables	24,004,739	15,524,989
Due from other funds	345,091,730	320,940,514

	2017	2016 (As restated)
Local government agencies	7,364,079	7,364,079
Disallowances/Charges	112,047,793	111,837,414
	587,083,961	917,781,337
	740,196,808	**1,171,990,987**
7.2 Non-current		
Guaranty call receivable	2,851,021	157,254,567
Allowance for impairment loss	(751,230)	(1,365,829)
	2,099,791	155,888,738
Notes receivable	29,860,322	29,860,322
Allowance for impairment loss	(2,286,698)	(2,286,698)
	27,573,624	27,573,624
Sales contract receivable	577,418,437	3,791,725,650
Loans receivable	39,380,370	44,089,664
Lease receivables	181,644,767	211,554,203
Receivable from National Government Agencies	131,159,985	130,796,412
Due from National Housing Authority (NHA)	1,046,553,165	1,046,553,165
	1,976,156,724	5,224,719,094
	2,005,830,139	**5,408,181,456**

The *Guaranty call receivable account* was restated to take - up reclassification of various retail accounts. On the other hand, Sales contract receivable was restated to recognize approved loan restructuring of various retail and developmental accounts.

The 10 per cent of the Guaranty call receivable, Sales contract receivable and Loans receivable are presented as current assets while the 90 per cent as non-current assets.

The *Lease receivables* account represents the receivables from Guru Property Development and Management Corporation over the lease of Monumento Plaza (now called Victory Mall) Leasehold Rights classified as current and non-current receivables.

The increase in *Due from other funds* account amounting to P24.15 million is mainly due to the share of AKPF in the HGC's operating expenses for the operation of the CFG Program for CY 2017.

The *Receivable from NHA* account represents as advances of the Smokey Mountain Asset Pool which has been assigned and conveyed to HGC by virtue of call on HGC guaranty.

Reconciliation of the movements in the allowances for impairment loss follows:

	Balance, January 1, as restated	Additional Provision	Recovery/ Reversal	Balance, December 31
Current				
Guaranty call receivable	151,759	83,470	151,759	83,470
Other receivables	22,409,346	-	-	22,409,346
	22,561,105	**83,470**	**151,759**	**22,492,816**
Non-current				
Guaranty call receivable	1,365,829	751,230	1,365,829	751,230
Notes receivable	2,286,698			2,286,698
	3,652,527	**751,230**	**1,365,829**	**3,037,928**
	26,213,632	**834,700**	**1,517,588**	**25,530,744**

Several adjustments/restatements were made to Receivables-net account as of December 31, 2016 balances, as follows:

	As reported, 12/31/2016	Adjustments/ restatements	As restated, 12/31/2016
Current			
Guaranty call receivable	17,294,696	178,034	17,472,730
Allowance for impairment loss	(854,573)	702,814	(151,759)
Guaranty call receivable - net	**16,440,123**	**880,848**	**17,320,971**
Other receivables	219,474,471	(6,683,755)	212,790,716
Allowance for impairment loss	(22,163,568)	(245,778)	(22,409,346)
Other receivables - net	**197,310,903**	**(6,929,533)**	**190,381,370**
Sales contract receivable	**418,334,542**	**2,968,308**	**421,302,850**
Non Current			
Guaranty call receivable	155,652,270	1,602,297	157,254,567
Allowance for impairment loss	(7,691,159)	6,325,330	(1,365,829)
Guaranty call receivable - net	**147,961,111**	**7,927,627**	**155,888,738**
Sales contract receivable	**3,765,010,874**	**26,714,776**	**3,791,725,650**

8. INVENTORIES

The movements of this account during the year are as follows:

	2017	2016
January 1	614,863	877,876
Purchases during the year	2,625,414	3,151,567
Total	3,240,277	4,029,443
Cost of consumption during the year	(2,939,462)	(3,414,580)
December 31	**300,815**	**614,863**

9. OTHER CURRENT ASSETS

Breakdown of this account is as follows:

	2017	2016 (As restated)
Prepaid insurance	1,797,167	1,308,802
Prepaid rent	3,449,134	-
Withholding tax at source	18,758,894	12,914,704
Other prepaid expenses	2,022,536	3,277,147
	26,027,731	**17,500,653**

10. PROPERTY AND EQUIPMENT

This account is composed of the following:

Particulars	Land Improvements	IT Equipment	Office Furniture, Fixtures and Equipment	Motor Vehicles	Leasehold Improvements	Total
Cost						
January 1, 2017	53,797,173	48,080,969	24,233,764	24,487,828	31,670,912	182,270,646
Addition	-	8,264,800	296,251	-	-	8,561,051
Reclassification	-	(159,880)	-	-	-	(159,880)
Disposal	-	-	-	-	-	-
December 31	53,797,173	56,185,889	24,530,015	24,487,828	31,670,912	190,671,817
Accumulated depreciation						
January 1, 2017	28,949,669	42,029,002	14,153,803	21,992,641	29,449,627	136,574,743
Depreciation	1,630,967	1,579,864	560,674	21,757	2,221,285	6,014,547
Reclassification	-	-	-	-	-	-
Disposal	-	-	-	-	-	-
December 31	30,580,636	43,608,866	14,714,477	22,014,398	31,670,912	142,589,290
Net book value, December 31, 2017	**23,216,537**	**12,577,023**	**9,815,538**	**2,473,430**	**-**	**48,082,528**
Net book value, December 31, 2016	**24,847,504**	**6,051,967**	**10,079,961**	**2,495,187**	**2,221,285**	**45,695,904**

11. INTANGIBLE ASSETS

This account pertains to the purchase cost or capitalized development cost of Information Technology Software amortized over the expected useful life of five years.

Reconciliation of the carrying amount is as follows:

	2017	2016
Cost		
Balance, January 1	29,819,154	27,319,154
Addition	1,196,970	2,500,000
Balance, December 31	31,016,124	29,819,154
Accumulated Amortization		
Balance, January 1,	25,484,607	20,776,308
Amortization	2,028,216	4,708,299
Balance, December 31	27,512,823	25,484,607
Net Book Value, December 31	**3,503,301**	**4,334,547**

12. DEFERRED TAX ASSETS

This account consists of the following:

	2017	2016
Minimum corporate income tax (MCIT)	-	61,671,441
Provision for impairment losses	37,428,499	37,256,100
	37,428,499	**98,927,541**

13. NON-CURRENT ASSETS HELD FOR SALE

Breakdown of this account is as follows:

	2017	2016
Foreclosed assets, at cost	9,774,321,923	7,727,946,184
Allowance for impairment losses	(887,757,352)	(924,916,529)
	8,886,564,571	**6,803,029,655**

The *Non-current assets held for sale* account represents the book value of various called projects as follows: (a) funded through the issuance of Asset Participation Certificates (APC); (b) with expired redemption period or with waiver of redemption rights; or (c) under dacion en pago, the titles of which had already been consolidated in the name of HGC.

These are considered real estate inventory available for sale to recover HGC's exposure on the projects as a result of payment of call on the guaranty.

Also, the assets are available for immediate sale in its present condition subject only to the terms that are unusual and customary for sales of such assets and its sale is highly probable.

The sale of assets is highly probable because HGC is committed to a plan to sell the assets. Further, the assets are actively marketed for sale at a price that is reasonable in relation to the current market value.

Included in the foreclosed assets account are the properties of the Smokey Mountain Asset Pool project with a book value of P878.91 million. The titles of the lots are already transferred in the name of HGC. However, the titles bear the annotation of adverse claim of a developer, claiming among others, that the said developer is entitled to the residual value of the properties.

The foreclosed property was restated to take up reclassification of various collections and adjustment of sales.

14. OTHER NON-CURRENT ASSETS

The breakdown of this account is as follows:

	2017	2016 (As restated)
14.1 AKPF	**3,095,275,752**	**3,054,135,130**
14.2 Trust Funds		
Department of Public Works and Highways (DPWH)/NHA – North Hills project	467,998,821	468,059,006
DPWH – FVR and Family Village project	202,311,920	202,200,500
Department of Transportation (DOTr)	242,169,258	242,169,598
DPWH – Baras project	87,707,720	87,707,905
Presidential Management Staff – C5 MRB	83,510,675	82,149,105
	1,083,698,394	**1,082,286,114**
14.3 Non-current		
Other prepaid expenses	19,515,307	20,858,395
Other assets	157,753,473	157,753,473
	177,268,780	**178,611,868**
	4,356,242,926	**4,315,033,112**

The *AKPF account* represents the total assets less total liabilities or the Fund balance of the CFG Component of the AKPF which is administered by the HGC pursuant to RA No. 6846. A separate set of books is being maintained and separate Financial Statements are prepared by HGC to support the balance of this account.

The Trust Fund accounts represent funds held by HGC as the designated Trustee for various housing/resettlement projects.

The HGC, since 1992, has been designated as Trustee of other government agencies, such as DPWH, NHA, and DOTr for funds used to acquire and develop resettlement/relocation sites affected by their projects. The funds entrusted were disbursed in accordance with the provisions of the Trust Agreement and existing COA rules and regulations. A separate set of books are being maintained and separate Financial Statements are prepared by HGC for each fund.

Other assets account comprise of the following:

	2017	2016
Pinesville	153,136,135	153,136,135
LIT Southern MintCor	428,071	428,071
Cooperative	963,316	963,316
Bliss Development Corporation (BDC)	2,802,709	2,802,709
Unserviceable motor vehicles	423,242	423,242
	157,753,473	**157,753,473**

15. FINANCIAL LIABILITIES

This account consists of the following:

	2017	2016
15.1 Current		
Due to officers and employees	696,547	740,882
Interest payable	464,433,421	389,065,764
HGC debenture bonds	7,316,352	5,712,392
	472,446,320	**395,519,038**
15.2 Non-current		
HGC debenture bonds	7,352,282	12,283,777
	7,352,282	**12,283,777**

Interest payable represents interest on the P12 billion advances from the NG.

The *HGC debenture bonds* were issued by the Corporation in payment of call on HGC guaranty at variable interest rates ranging from 2.845 per cent to 3.8617 per cent.

16. INTER-AGENCY PAYABLES

This account consists of the following:

	2017	2016 (As restated)
16.1 Current		
Due to BIR	5,296,961	1,297,093
Due to GSIS	3,932,134	1,346,471
Due to Pag-IBIG	1,288,231	1,284,304
Due to PhilHealth	137,125	94,525
Due to Other NGAs	4,216	394,189

	2017	2016 (As restated)
Due to Other GOCCs	9,668,594	9,668,774
Income tax payable	247,812,883	229,649,830
	268,140,144	**243,735,186**

16.2 Non-current

Due to Treasurer of the Philippines	10,463,794,904	11,463,794,904
	10,463,794,904	**11,463,794,904**

Due to Treasurer of the Philippines account represents the advances from the NG for the settlement of the P12 billion zero-coupon bonds.

Partial settlement totaling P1.2 billion was made in CY 2017 inclusive of P100 million on interest and P100 million guarantee fee.

The Corporation has identified assets with a book value of P16.47 billion to settle the NG advances. The proceeds from sale/collections from these assets shall be used to settle advances of the NG. For CY 2017, HGC has collected P323.59 million for remittance to the BTr in 2018.

The interest on the NG Advances is computed quarterly based on the average rate of the 364-day Treasury bill of the preceding quarter. As of December 31, 2017, the total amount of unpaid interest is P464.43 million.

17. INTRA-AGENCY PAYABLES

Intra-agency payables primarily consist of amounts due to the AKPF and the HGC Provident Fund, as follows:

	2017	2016 (As restated)
AKPF	552,683,341	549,313,641
HGC Provident Fund	1,641,111	747,265
DOF	3,518,154	3,518,154
Various	52,968,579	43,383,715
	610,811,185	**596,962,775**

18. TRUST LIABILITIES

The current portion on the account pertains to the security deposits received from prospective buyers/lessee of HGC property (See Note 18.1) while the non-current portion pertains to the assets held in trust of various Trust Funds (See Note 18.2).

	2017	2016 (As restated)
18.1 Current		
Guaranty/Security Deposits Payables	27,138,963	23,686,756
	27,138,963	**23,686,756**
18.2 Non-Current		
AKPF	**3,095,275,752**	**3,054,135,130**
Trust Funds		
Department of Public Works and Highways (DPWH)/NHA – North Hills project	467,998,821	468,059,006
DPWH – FVR and Family Village project	202,311,920	202,200,499
Department of Transportation (DOTr)	242,169,258	242,169,598
DPWH – Baras project	87,707,720	87,707,905
Presidential Management Staff – C5 MRB	83,510,675	82,149,105
	1,083,698,394	**1,082,286,113**
	4,178,974,146	**4,136,421,243**

As discussed in Note 14, this pertains to *AKPF account* representing total liabilities of the CFG Component of the AKPF which is administered by the HGC pursuant to RA No. 6846.

Also, the Trust Funds accounts represent funds held by HGC as the designated Trustee of other government agencies for the acquisition and development of various housing/resettlement projects affected by the government projects such as DPWH, NHA and DOTr.

The funds entrusted were disbursed in accordance with the provisions of the Trust Agreement and existing COA rules and regulations.

19. DEFERRED CREDITS/UNEARNED INCOME

This account consists of the following:

	2017	2016 (As restated)
19.1 Current		
Deferred finance lease revenue	9,821,831	-
Unearned insurance premium	569,772,763	504,505,006
Unearned income on installment sale	13,247,492	90,792,674
Unearned BDC income	7,882,125	7,766,358
	600,724,211	**603,064,038**
19.2 Non-current		
Deferred finance lease revenue	29,027,961	38,849,792
Insurance premium	8,837,293	1,069,778
Projects	519,743,404	1,170,762,569

	2017	2016 (As restated)
Other deferred credits- CLOP	26,255,945	30,729,537
Other deferred credits- direct deposits	12,568,557	14,085,526
Unearned income on installment sale	119,227,426	817,134,070
Unearned BDC income	70,939,127	69,897,222
Excess of book value over cost	133,033,375	133,034,261
Miscellaneous	334,107	67,646
	919,967,195	**2,275,630,401**

Unearned insurance premium represents the unamortized portion of the guaranty premium received.

Unearned income on installment sale account represents gain on sale of disposed assets where the down payment is less than 25 per cent of installment sale. The unearned income is amortized and recognized as gain on sale of disposed assets when collected based on the gross profit rate.

Deferred finance lease revenue account represents the difference between the sum of the total rentals due to the lessor and the initial carrying value of the lessor's receivable to be amortized over the lease term.

Deferred credits – projects account represents temporary accounts for various collections from buyers/clients awaiting execution of sales documents and various collections lacking appropriate information on the application of payments, such as Sales contract receivables, Interest on installment sales, Fines and penalties, Unearned income on installment sales as well as the applicable tax expenses and tax payable accounts. The account shall be analyzed and shall be reclassified upon submission of the complete documents by the buyers to proper accounts. The breakdown of this account is as follows:

	2017	2016 (As Restated)
Developmental projects	235,557,294	564,544,178
Retail accounts	-	182,641,522
Pinesville project	181,527,265	178,571,922
Bliss Development Corporation projects	-	102,045,711
Folio accounts	13,731,397	49,516,569
Cooperative Housing Program projects	10,852,301	10,852,301
Community Mortgage Program projects	2,153,236	6,694,255
Others	75,921,911	75,896,111
	519,743,404	**1,170,762,569**

Deferred credits – insurance premium account is reclassified to guarantee income upon regularization of the enrolled accounts.

The *Other deferred credits account* consists mainly of collections from contracts of lease with option to purchase (CLOP) and excess of book value over cost on the acquisition of BDC. Collections from CLOP are applied as down payment when the lessee exercises his option to purchase. Otherwise, these are forfeited and recognized as income by the Corporation.

The deferred credits accounts were restated due to reclassifications of various collections to its proper accounts.

20. DEFERRED TAX LIABILITIES

Deferred tax liability account consists of the following:

	2017	**2016**
Unrealized foreign currency (gains) losses	131,093	129,436
Revaluation Surplus	722,232,612	-
	722,363,705	**129,436**

21. OTHER PAYABLES

This account consists of the following:

	2017	**2016 (As restated)**
Dividend payable	412,494,341	255,893,301
Other payables	5,105,127,557	5,134,396,126
	5,517,621,898	**5,390,289,427**

The *Other payables account* consists mainly of the recognized liability for call on HGC guaranty which has been approved for payment by the HGC Board. The rights to the property securing the guaranteed obligation have been conveyed to and/or claims of the mortgagee against the mortgagor have been assigned to the Corporation.

The account was restated to take-up various expenses of prior years' totaling to P7.96 million. The increase in other liability accounts was mainly due to the accrued interest on the guaranty obligations to SSS.

22. CAPITAL

Under RA No. 580 as amended by Executive Order No. 535, RA No. 7835 and RA No. 8763, the Corporation shall have an authorized capital stock of Fifty Billion pesos (P50,000,000,000.00), divided into Fifty Million (50,000,000.00) shares of common stock with a par value of One Thousand Pesos (P1,000.00) per share.

The NG equity to the Corporation is included in the annual General Appropriation Act. Total capital released to HGC as of December 31, 2017 amounts to P15.073 billion. For CY 2017, the Corporation did not receive any equity infusion from the NG.

23. DEFICIT

	2017	2016 (As restated)
Balance, January 1 as restated	(8,547,075,441)	(8,982,122,504)
Net income	535,635,165	690,940,363
Dividends	(277,496,407)	(255,893,300)
Balance, December 31	**(8,288,936,683)**	**(8,547,075,441)**

In consonance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, the deficit for CY 2016 was restated as follows:

		2016
Balance at the beginning of the year as previously reported		(9,111,387,011)
Correction/adjustment of prior years' errors:		
Operating income	6,239,333	
Other income	119,061,370	
Personal services	(91,725)	
Maintenance and other operating expenses	5,898,233	
Project expenses	(1,842,704)	129,264,507
Balance at the beginning of the year as restated		**(8,982,122,504)**

24. REVALUATION SURPLUS

The P1.685 billion Revaluation Surplus relates to the revaluation of NGC-CEZ Commercial area in the amount of P2.407 billion immediately before its reclassification as investment property, net of deferred tax liability totaling to P722.233 million.

Portion of the revalued investment properties will be used as a settlement of the Corporation's unpaid guaranty obligation to SSS on its on-going negotiation with the latter to counter the effect of reduction in equity brought about by deferred tax liability recognition.

25. INCOME

25.1. Service and Business Income

	2017	2016 (As restated)
Guarantee income	1,308,787,108	1,516,931,977
Rent/lease income	191,335,766	171,448,089
Interest income- sales contract receivable	32,576,826	97,777,186
Interest income- loans and receivables	332,196	453,827
Interest income- available for sale (AFS) financial assets	387,500	5,416,247
Interest income- due from other banks	84,801,943	84,612,963

	2017	2016 (As restated)
Fines and penalties- business Income	8,564,135	10,647,504
Other business income	168,915	287,394
	1,626,954,389	**1,887,575,187**

25.2. Gains

	2017	2016
Gain on foreign exchange	5,524	132,742
Other gains- gain on sale of disposed assets	20,152,012	32,869,496
Gain on sale/redemption/transfer of investment	-	55,350
	20,157,536	**33,057,588**

25.3. Other Non-operating Income

	2017	2016
Miscellaneous income	720,210	1,062,233
Reversal of impairment loss	11,318,877	18,849,117
	12,039,087	**19,911,350**

26. EXPENSES

26.1. Personal Services

	2017	2016 (As restated)
Salaries and wages	63,649,356	52,386,287
Provident/welfare fund contribution	12,142,865	10,122,521
Retirement and life insurance premium	7,285,719	6,061,073
Year-end bonus	5,009,511	4,183,910
Honoraria	3,228,431	4,940,819
Personnel economic relief allowance	2,574,196	2,662,778
Transportation allowance	1,816,177	1,922,867
Representation allowance	1,659,014	1,791,519
PhilHealth contributions	528,131	521,942
Productivity incentive allowance	527,972	550,257
Cash gift	527,972	550,257
Clothing/uniform allowance	526,379	562,852
Longevity pay	169,553	173,282
Pag-IBIG contributions	129,080	133,881
Employees compensation insurance premiums	129,080	133,699
Terminal leave benefits	61,072	(4,006)
Other bonuses and allowances	18,341,862	20,877,276
Other personnel benefits	2,742,115	2,863,707
	121,048,485	**110,434,921**

26.2. Maintenance and Other Operating Expenses

	2017	2016 (As restated)
OMOE - projects	95,625,595	104,084,311
Taxes, duties and licenses	85,582,437	96,335,508
Rent/lease expenses	36,589,439	33,522,666
Other professional services	16,118,832	18,678,044
Taxes, duties and licenses-Final Tax	12,575,911	18,005,373
Office supplies expense	8,791,522	10,610,695
Electricity expenses	6,822,334	7,154,551
Auditing services	6,030,694	5,679,487
Other maintenance & operating expense (OMOE)	5,351,402	2,235,046
Janitorial services	5,002,172	5,077,074
Consultancy services	4,983,870	3,510,732
Security services	4,638,858	5,200,972
Extraordinary and miscellaneous expenses	2,908,886	3,664,141
Telephone expenses	2,444,262	2,339,743
Fuel, oil and lubricants expenses	2,236,585	2,182,302
Repairs and maintenance – transportation equip’t	1,587,772	1,787,457
Travelling expenses – local	1,355,812	762,482
Repairs and maintenance – leased assets improvements	1,036,921	930,833
Training expenses	1,027,798	1,557,724
Repairs and maintenance – machinery & equip’t	982,473	887,259
Directors and committee member's fees	912,117	744,894
Internet subscription expenses	708,287	732,159
Representation expenses	484,781	1,409,463
Water expenses	327,622	379,389
Fidelity bond premiums	322,691	368,032
Other supplies and materials expenses	241,433	83,259
Documentary stamps expenses	190,703	5,922
Postage and courier services	187,626	119,861
Other general services	180,534	180,792
Insurance expenses	172,895	109,605
Subscription expenses	161,446	181,671
Donations	122,890	231,927
Repairs and maintenance – other PPE	117,701	230,289
Legal services	86,706	67,395
Advertising, promotional and marketing exp.	75,678	787,774
Printing and publication expenses	38,952	92,886
Accountable forms expenses	36,412	31,833
Membership dues and contributions to org.	23,577	57,754
Repairs and maintenance – furniture and fixtures	6,413	8,819
Cable, satellite, telegraph and radio expenses	-	27,451
	306,092,039	**330,057,575**

Other Professional Services Account consists of payments for the services of employees contracted under job order basis and investment service fees.

Other MOOE – Projects account includes expenses incurred in the maintenance, protection and preservation of foreclosed/acquired assets such as repairs, real property taxes, security services, fire insurance, appraisal, publication, documentary stamps and other related expenses.

26.3. Financial Expenses

	2017	2016
Interest expense on NG advances	275,367,657	205,087,291
Interest expense on guaranty obligations	198,796,808	198,793,808
Interest expense on debenture bonds	552,014	555,462
Bank charges	67,455	268,582
	474,783,934	**404,705,143**

26.4. Non-cash Expenses

	2017	2016 (As restated)
Depreciation	7,275,782	10,138,550
Amortization	1,846,277	4,282,273
Loss on sale of disposed assets	1,148,565	28,532,663
Impairment loss on non-current assets held for sale	-	71,651,035
Loss on sale of property, plant and equipment	-	82,214
Technical loss	834,700	-
	11,105,324	**114,686,735**

27. RECLASSIFICATIONS AND ADJUSTMENTS

Several accounts in the 2016 financial statements were restated or reclassified to conform with the 2017 presentation as follows:

Account	As reported, 12/31/2016	Adjustments/ Restatements	As restated, 12/31/2016
Interest income-sales contract Receivable	97,751,459	25,727	97,777,186
Fines and penalties - business income	10,642,319	5,185	10,647,504
Miscellaneous income	1,061,272	961	1,062,233
Salaries and wages	52,398,573	(12,286)	52,386,287
Provident/welfare fund contribution	10,125,138	(2,617)	10,122,521
Retirement and life insurance premium	6,062,643	(1,570)	6,061,073
Terminal leave benefits	26,794	(30,800)	(4,006)
Personnel economic relief allowance (PERA)	2,662,817	(156)	2,662,661
Year end bonus	4,183,575	335	4,183,910
Transportation allowance (TA)	1,922,762	105	1,922,867
Clothing/uniform allowance	559,352	3,500	562,852
PhilHealth contributions	521,846	96	521,942
Other bonuses and allowances	18,839,815	2,037,578	20,877,393
Representation expenses	1,398,523	10,940	1,409,463
Training expenses	1,551,949	5,775	1,557,724
Postage and courier services	119,804	57	119,861

Account	As reported, 12/31/2016	Adjustments/ Restatements	As restated, 12/31/2016
Depreciation-leased assets improvements	4,820,444	18,932	4,839,376
Loss on sale of disposed assets	2,645,241	25,887,423	28,532,663
Taxes, duties and licenses	96,340,255	(4,747)	96,335,508
Other professional services	18,700,199	(22,155)	18,678,044
Janitorial services	5,119,893	(42,819)	5,077,074
Telephone expenses	2,415,984	(76,241)	2,339,743
Travelling expenses-local	770,873	(8,391)	762,482
Insurance expenses	148,299	(38,694)	109,605
Printing and publication expenses	93,076	(190)	92,886
OMOE-projects	102,550,850	1,533,461	104,084,311
Guaranty call receivable	17,294,697	178,033	17,472,730
Allowance for impairment- guaranty call	(854,573)	72,653	(781,920)
Sales contract receivable	418,334,542	2,968,308	421,302,850
Prepaid insurance	122,964	1,185,838	1,308,802
Guaranty call receivable	155,652,270	1,602,297	157,254,567
Allowance for impairment-guaranty call receivable	(7,691,159)	653,875	(7,037,284)
Sales contract receivable	3,765,010,874	26,714,776	3,791,725,650
Other receivables	219,474,471	(6,683,755)	212,790,716
Non-current assets held for sale	7,732,650,191	(4,704,006)	6,803,029,655
Accumulated depreciation	29,422,581	27,046	29,449,627
Due to other National Government Agencies	45,650	348,539	394,189
Other payables	5,130,038,655	4,357,471	5,134,396,126
Income tax payable	188,469,757	41,180,073	229,649,830
Trust projects	1,179,546,110	(8,783,542)	1,170,762,568
Unearned Income on installment sale	1,057,506,009	149,579,265	907,926,745
Unearned BDC income	77,673,002	(9,422)	77,663,580
Deferred Finance Lease Revenue	-	38,849,792	38,849,792

28. CASH FLOWS ARISING FROM FINANCING ACTIVITIES

Pursuant to the requirements of PAS 7, below is the reconciliation between the opening and ending balances of liabilities arising from financing activities which includes both cash and non-cash changes:

			Non-cash changes			
	2016	Cash flows	Repayment	Renewal	Accrual	2017
Due to Treasurer of the Philippines	11,463,794,904	1,000,000,000	-	-	-	10,463,794,904
Other payables-BTR	442,751,412	100,000,000	-	-		342,751,412
Interest payable on bonds	593,565	593,565	-	-	-	-
Interest payable	389,065,764	200,000,000	-	-	275,367,657	464,433,420
HGC debenture bonds	5,712,392	135,169,790	-	-	136,773,750	7,316,352
Dividend payable	255,893,301	120,895,366	-	-	277,496,406	412,494,341
	12,557,811,338	**1,556,658,721**	**-**	**-**	**689,637,813**	**11,690,790,429**

29. RELATED PARTY TRANSACTIONS

The key management personnel of HGC are the President, Executive Vice President and the Vice Presidents of various operating groups. The remuneration of key management personnel during the year was as follows:

	2017	2016
Salaries	5,749,977	3,999,368
Other allowances and benefits	5,064,058	6,385,211
Extraordinary and miscellaneous expenses	627,007	1,147,200
	11,441,042	**11,531,779**

Meanwhile, the total remuneration received by the Board of Directors during the year, follows:

	2017	2016
Per diem	1,002,000	819,000
Performance-based incentive	-	768,000
Reimbursable expenses	854,942	594,119
	1,856,942	**2,181,119**

30. TAXATION

30.1. Gross Receipt Tax (GRT)

Effective January 1, 2004, Section 4 of RA No. 9238 (Amending certain sections of the National Internal Revenue Code (NIRC) of 1997) imposed the GRT on banks and other non-bank financial intermediaries. Further, Section 122 of the NIRC of 1997 states that:

> *Section 122 - Tax on Other Non-Bank Financial Intermediaries - there shall be collected a tax of five per cent (5%) on the gross receipts derived by other non-bank financial intermediaries doing business in the Philippines, from interest, commissions, discounts and all other items treated as gross income under the NIRC code.*

For CY 2017, the Corporation paid P85.308 million for five per cent GRT pursuant to the above provision.

30.2. Regular Corporate Income Tax (RCIT)

Income tax for CY 2017 totaling P207.041 million was computed based on the RCIT rate of thirty per cent as provided under Section 27 of the NIRC stating that effective January 1, 2009, the rate of income tax shall be 30 per cent.

30.3. Final Tax

The final tax refers to the 20 per cent tax on interest earned from HGC's investment in government securities and bank deposits amounting to P12.575 million for CY 2017.

30.4. Current and Deferred Taxes

The components of tax expense are as follows:

	2017	2016
Reported in the SCI		
Current tax expense:		
Regular corporate income tax at 30%	207,040,860	188,469,757
Final tax at 20%	12,575,911	18,005,373
Adjustment for Prior years	298,294	
	219,915,965	**206,475,130**
Deferred tax expense (benefit):		
Relating to origination and reversal of temporary differences	3,146,910	101,249,631
	223,061,975	**307,724,761**

The income tax expense (benefit), as reported in the SCI in the amount of P210.486 million, is net of final tax totaling to 12.576 million.

Reconciliation of tax on pre-tax profit computed at the applicable statutory rates to tax expense reported in the SCI follows:

	2017	2016
Tax expense at 30% corporate tax	227,609,142	307,815,259
Adjustment for income subject to lower tax rates	(12,980,922)	(9,003,390)
Tax effects of:		
Non-taxable income	-	-
Non-deductible interest expense	8,433,755	8,912,892
Tax expense	**223,061,975**	**307,724,761**

The net deferred tax assets (liabilities) relate to the following as of December 31:

	Statement of Financial Position		Profit or Loss	
	2017	2016	2017	2016
Deferred tax assets				
MCIT	-	61,671,440	-	-
NOLCO	-	-	-	117,587,389
Provision for technical loss	37,428,499	37,256,101	3,145,253	(16,377,581)
	37,428,499	98,927,541	3,145,253	101,209,808
Deferred tax liabilities				
Unrealized foreign currency gains (losses)	131,093	129,436	1,657	39,823
Revaluation Surplus	722,232,612	-	-	-
	722,363,705	129,436	1,657	39,823
Net deferred tax	**(684,935,206)**	**98,798,105**		
Deferred tax expense			**3,146,910**	**101,249,631**

31. FINANCIAL RISK MANAGEMENT

The various programs/operations of the Corporation are exposed to various financial risks such as market risk, credit risk, and liquidity risk.

The financial risks are identified, measured and monitored through various control mechanisms to adequately assess market conditions to avoid adverse impact to the Corporation. The risk management policies are summarized below:

31.1. Market Risks

HGC is exposed to fluctuations in interest rates that could affect the cash flows from time deposits and government securities at the time of maturity and reinvestment of individual financial instrument. These fluctuations could affect the fair values of financial assets and financial liabilities and HGC's ability to support its obligations upon call on HGC guaranty.

To mitigate *interest rate risk*, HGC maintains a diversified investment portfolio mix with duration of investment ranging from 31 days to 360 days.

Also, the guaranty operations of HGC is affected by recession, decline in property values and major natural disaster, such as flooding and earthquake, decline in income of home borrowers, loss of jobs, increase in interest rate and political turmoil, which may result to possible increase in guaranty calls and/or decline in guaranty enrollments.

Hence, to mitigate the risk on the marketability of guaranty operations, HGC employed the following mitigating measures to avoid the risk:

a. Diversification of portfolio, to wit:

    - At least 70% for Socialized and Low Cost housing packages, and
    - Not exceeding 20% and 10% for Medium and Open housing, respectively.

b. Adoption of prudent appraisal methods;

c. Establishment of reserves to absorb technical loss; and

d. Strict loan to collateral ratio requirement compliance.

31.2. Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to HGC. The Corporation's exposure to credit risk consists principally of (a) fixed income government securities; (b) term deposits with government financial institutions; and (c) installment receivables from sale of acquired real estate assets.

The following measures are undertaken by the Management to mitigate each exposure of HGC to credit risk:

a. HGC's investment policy only permits holding of securities issued by the NG or any of its instrumentalities;

b. Time deposits are placed with government financial institutions only; and

c. Strict compliance to credit checks on buyers of acquired assets to determine capacity to pay. Moreover, title to the property passes to the buyer only upon full payment of the selling price.

There is also a credit risk under the clients lending to non-credit worthy borrowers due to relaxing of credit ratio, low equity requirement, waiver of seasoning period, absence of credit checking and background investigation of borrowers, and lack of due diligence to paying capacity of borrowers.

HGC observes the following risk mitigants, in order to void these risks:

a. Strict implementation of HGC policies, to wit:

   - Credit ratio of not more than 30 or 40 per cent of borrower's Net Disposable Income;
   - 10, 20 or 30 per cent down payment depending on type of housing package for Contract to Sell (CTS) accounts; and
   - Seasoning period depending on the percentage of down payment for CTS accounts.

b. Due diligence before accepting enrollment; and

c. Post-audit.

31.3. Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet HGC's cash and funding requirements in support of the guarantee extended on the housing loans granted by banks, developers and other financial institutions. To manage HGC's liquidity risk, Management ensures that it will have cash, demand and term deposits and marketable securities to meet its guaranty requirements.

HGC's principal sources of funds are cash generated from (a) additional equity infusion from the NG; (b) guaranty premium of client banks, developers and other financial institutions; (c) interest earned on investments; (d) Amortization/lease payment from installment buyers; and (e) proceeds from sale of acquired assets. These sources support HGC's financial obligation to guaranty housing loans granted by banks, developers and other financial institutions.

In the event that the investment portfolio must be drawn upon, it is the corporate policy that all investments are easily disposable in the secondary securities market. In the event that sovereign guaranty of the Republic of the Philippines shall be called upon, Management shall ensure that the provisions of Administrative Order No. 10 dated August 14, 1998 are strictly complied with.

In addition, HGC guaranty operations also has a liquidity risk on (a) properties conveyed not marketable, thus, not easily sold; and (b) if calls will reach 10 per cent of the guaranty portfolio, HGC may not be able to serve calls on the guaranty.

HGC manages these risks by due diligence, post-audit, limit on grant of cash guaranty to manageable level, promote bond guaranty, hasten disposition, strict penalty for non-compliant clients: cancellation of guaranteed accounts or guaranty line, and establish a system to determine and monitor the guaranty portfolio at risk or "*value at risk"* every quarter so that sufficient funds will be sourced to pay calls at any point in time.

32. COMPLIANCE WITH REVENUE REGULATIONS

32.1. Tax Compliance

In compliance with the requirements set forth by BIR Revenue Regulation (RR) No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable years 2017 and 2016. The taxes and licenses paid/accrued during the year are as follows:

(a) Withholding Taxes

	2017	2016
Withholding tax on compensation and benefits	19,087,081	17,762,615
Expanded withholding tax	3,544,238	3,842,275
Withholding tax – VAT	5,031,662	4,898,665
Withholding tax – Other Percentage Taxes	50,328	63,451
	27,713,309	**26,567,006**

(b) Other Taxes and Licenses

	2017	2016
Local		
Vehicle registration	89,105	90,387
Business tax	37,733	92,918
Corporate community tax	10,500	10,500
National		
Gross receipts tax	85,307,676	96,145,950
BIR annual registration	500	500
	85,445,514	**96,340,255**

(c) Claims for Tax Credit

HGC has a pending request for tax credit in the amount of P50 million representing erroneous tax payments to BIR RDO No. 49 (Makati) on December 28, 2007 for the capital gains tax on the 105 lots located in Vitas, Tondo, Manila. The subject request is under review by the said government agency.

32.2. Requirements under Revenue Regulation No. 19-2011

Revenue Regulation 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and services, itemized deductions and other significant tax information, to be disclosed in the notes to financial statements.

(a) Taxable Revenues

	2017	2016
Sale of goods/properties	44,269,425	1,518,280,643
Sale of services	1,309,819,048	108,847,606
Lease of properties	191,315,650	171,448,089
	1,545,404,123	**1,798,576,338**

(b) Cost of Services

	2017	2016
Salaries and employee benefits	123,941,321	108,440,736
Project expenses	98,797,171	102,550,850
	222,738,492	**210,991,586**

(c) Other Taxable Income Not Subjected to Final Tax

	2017	2016
Gain on sale of disposed asset	22,344,598	32,982,887
Gain on sale of securities	-	55,350
	22,344,598	**33,038,237**

(d) Itemized Deductions

	2017	2016
Advertising	99,255	787,774
Charitable contribution	122,890	231,926
Communication, light and water	10,490,130	10,829,339
Depreciation	9,149,104	14,401,890
Director’s fees	912,117	744,893
Fuel and oil	2,236,585	2,182,302
Insurance	117,618	148,299
Interest	446,603,963	374,726,922
Janitorial services	5,002,172	5,119,893
Losses	1,115,609	2,840,846
Management and consultancy fee	4,983,870	3,510,732
Miscellaneous	8,440,822	6,109,799
Office supplies	9,577,135	11,000,534
Other services	6,117,400	5,746,882
Professional fees	16,118,832	18,700,199
Rental	36,589,439	33,522,666
Repairs and maintenance	1,492,512	3,864,741
Repairs and maintenance	2,238,768	-
Representation and Entertainment	274,402	1,456,278
Security services	4,638,858	5,200,972
Taxes and licenses	85,582,437	96,340,255
Training and seminars	1,036,048	1,551,949
Transportation and travel	1,353,212	770,873
Fidelity bond premium	322,691	368,032
Documentary stamps	190,703	5,922
Bank charges	67,455	268,582
	654,874,027	**600,432,500**