HOME GUARANTY CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015
(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, 2016. 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 such 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, known also 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: a 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.

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 President of HGC approved the issuance of the financial statements of HGC for CY 2016 on May 12, 2017.

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

(a) Statement of Compliance with Philippine Financial Reporting Standards

The accompanying financial statements of HGC as of and for the years ended December 31, 2016 and 2015 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.

(b) 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).

(c) 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.

2.2. Adoption of New and Amended PFRS

2.2.1 Effective in 2016 that are relevant to the Corporation

The accounting policies adopted are consistent with those of the previous calendar year, except for the adoption of the following new and amended PFRS and Philippine Interpretations which the Corporation adopted effective annual periods beginning on or after January 1, 2016:

(i) Amendments to PAS 1, *Presentation of Financial Statements* – The amendments clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

(ii) Amendments to PAS 16, *Property, Plant and Equipment – Clarification of Acceptable Methods of Depreciation*, and PAS 38, *Intangible Assets – Classification of Acceptable Methods of Amortization* – The amendments and guidance clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances.

(iii) Amendment to PAS 19, *Employee Benefits* – The amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated that is important, and not the country where they arise. The assessment whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used. The amendment is retrospective but limited to the beginning of the earliest period presented.

(iv) Amendment to PAS 34, *Interim Financial Reporting* – The amendment clarifies what is meant by the reference in the standard to information disclosed elsewhere in the interim financial report. It further amends PAS 34 to require cross-reference from interim financial statements to the location of that information. The amendment is retrospective.

(v) Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Methods of Disposal* – The amendment clarifies that, when an asset (or disposal group) is reclassified from held for sale to hold for distribution, or vice versa, this does not constitute a change of plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as held for sale or held for distribution simply because the manner of disposal had changed. The amendment also rectifies an omission in the standard by explaining that the guidance on changes in plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not reclassified as held for sale.

(vi) Amendments to PFRS 7, *Servicing Contacts and Interim Financial Statements* – PFRS 7 provide guidance on what is meant by continuing involvement. The amendment on *Servicing Contracts* adds specific guidance to help management determine whether the terms of an arrangement to service is a financial asset which has been transferred constitute continuing involvement. This amendment is prospective with an option to apply retrospectively. A consequential amendment to PFRS 1 is included to give the same relief to first-time adopters. The amendment on *Interim Financial Statements* clarifies that the additional disclosure required by the amendments to PFRS 7, *Disclosure – Offsetting Financial Assets and Financial Liabilities* is not specifically required for all interim periods, unless required by PAS 34. The amendment is retrospective.

2.2.2 Effective 2016 that are not relevant to the Corporation

Other standards, amendments and interpretations which become effective for the calendar year beginning on January 1, 2016 are considered not relevant to the Corporation, as follows:

(i) Amendment to PAS 16, *Property, Plant and Equipment* and PAS 41, *Agriculture – Agriculture: Bearer Plants* – The amendments distinguish bearer plants from other biological assets as bearer plants are solely used to grow produce over their productive lives. Bearer plants are seen as similar to an item of machinery in a manufacturing process and therefore will be classified as Property Plant and Equipment and accounted for under PAS 16.

(ii) Amendment to PAS 27, *Separate Financial Statements – Equity Method in Separate* Financial *Statements* – The amendments reinstate the equity method option allowing entities to use the equity method in accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements.

(iii) Amendment to PFRS 10, *Consolidated Financial Statements,* PFRS 12, *Disclosures of Interest in Other Entities,* PAS 28 – *Investment* Entities*: Applying the Consolidation Exception* – The amendments clarify the application of the consolidated exception for investment entities and their subsidiaries.

(iv) Amendments to PFRS 11, *Joint Arrangement – Accounting for Acquisitions of Interest in Joint Operations* – The amendments provide specific guidance on accounting for the acquisition of an interest in a joint operation (JO) that is a business. The amendments address diversity in practice related to the accounting for these transactions.

(v) PFRS 14*, Regulatory Deferral Accounts* – PFRS 14 only applies to first-time adopters of PFRS that apply PFRS 1 and conduct rate-regulated activities. Rate regulation is a framework where the price that an entity charges to its customers for good and services are subject to oversight and/or approval by an authorized body.

2.2.3 Effective Subsequent to 2016 but not Adopted Early

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2016 which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Corporation's financial statements:

Effective annual periods beginning on or after January 1, 2017:

(i) Amendment to PAS 7, *Cash Flow Statements – Disclosure Initiative* – These amendments PAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure initiative, which continues to explore how financial statements disclosure can be improved.

(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.

Effective for reporting periods beginning or after January 1, 2018:

(iii) Amendments to PFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions* – These amendments clarify the accounting for cash-settled share-based payment transactions that include a performance condition, classification of share-based payment transactions with net settlement features and accounting for modifications of share-based payment transactions from cash –settled to equity-settled.

(iv) PFRS 9, *Financial Instruments* – PFRS 9 requires an entity to classify financial assets as subsequently measured at either amortized cost or fair value on the *basis* of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. A financial asset shall be measured at amortized cost if both of the following conditions are met: (a) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition, an entity may irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

A financial asset shall be measured at fair value unless it is measured at amortized cost.

A gain or loss on a financial asset that is measured at fair value shall be recognized in profit or loss. However, at initial recognition an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading. If an entity makes the election, it shall recognize in profit or loss dividends from that investment when the entity's right to receive payment of the dividend is established.

(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 or 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.

(vi) PFRS 15, *Revenue from Contract Customers* – 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 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.

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

(vii) PFRS 16 – *Leases* – The new accounting model under PFRS 16 requires a lessee to recognize a right-of-use asset and a lease liability. The right of 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 leases on-balance sheet for lessees under a single model, eliminating distinction between operating and 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.

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 loans and receivables and 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 as cash and cash equivalents and accounts and other receivables in the statement of financial position. 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. 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

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. Operating lease payments are recorded as expense on a straight-line basis in the SCI. 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.

2.5. Inventories

Inventories consist of supplies and materials as well as tangible items below the capitalization threshold of P15,000 which 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.

2.6. 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.

2.7. 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:

2.7.1 Technical Loss Reserves

For CY 2016, the Corporation provided a Technical loss reserves amounting to P1.79 million 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 P22.14 million, of which P8.55 million is recorded as Allowance for impairment - Guaranty call receivable and P13.59 million as Accumulated impairment losses – Non-current assets held for sale.

2.7.2 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, 2016 and 2015 under the above described coverages as follows:

Type of Coverage	2016	2015
Cash	60,592,977	80,993,416
Bond	142,981,354,908	116,088,212,275
Cash flow	5,797,317,663	3,466,844,839
Standard	328,028,722	359,821,363
	149,167,294,270	**119,995,871,893**

2.7.3 Contingent Liabilities – Others

(a) Unpaid Obligations

The Corporation has a possible obligation to Subic Bay Metropolitan Authority (SBMA) amounting to P727,912,610 as of December 31, 2009. 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 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, which provides that government funds or property shall be spent or used solely for public purposes.

(b) 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.

2.7.4 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.

2.7.5 Impaired 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.

Various non-current assets held for sale carried in the books at cost for P431 million have an appraised value of P304.354 million or an impairment of P127.150 million as of December 31, 2016. Details of impaired assets are shown below:

Foreclosed assets	Book value, December 31 2016	Appraised value/ Recoverable amount	Year appraised	Impairment
Tradition Homes	162,317,549	90,666,514	2016	(71,651,035)
South View Homes	111,816,826	91,764,750	2015	(20,052,076)
Hacienda Valley	62,845,500	59,865,000	2015	(2,980,500)
Margarita Eastville	53,584,500	43,071,500	2015	(10,513,000)
Margarita Nortville	29,654,555	9,709,500	2015	(19,945,055)
Sugarland (Divine Grace)	11,284,491	9,276,450	2014	(2,008,041)
	431,503,421	**304,353,714**		**(127,149,707)**

2.8. Recognition of Income

2.8.1. 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.

2.8.2. 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.

2.8.3. Other Service Income

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

2.8.4. Cumulative Changes in Fair Value of Investments

The unrealized gain is the difference between the face amount of the corporate securities and their quoted closing bid price. These securities with a total face amount of P16.68 million were valued at their fair market value of P16.85 million as of December 31, 2016.

The Corporation has re-evaluated its compliance with the requirements of PAS 12 to account for the deferred tax liability in the amount of P49,530 arising from the cumulative changes in fair value of investments and has accounted for the related deferred tax liability in 2017.

2.9. Property and Equipment

The property and equipment are stated at cost less accumulated depreciation. 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

An item of property and equipment, including the related accumulated depreciation is derecognized upon disposal. Any gain or loss on the disposal is reflected in the SCI.

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 (5) 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. 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.

2.12. Dividends

Pursuant to RA No. 7656 (2016) and its Revised Implementing Rules and Regulations of January 26, 2016, the Board of Directors of the HGC under Board Resolution No. 19-2017 declared cash dividends to the NG amounting to P120.89 million for CY 2016.

An additional dividend in the amount of P134.998 million has to be remitted in CY 2017 as a result of adjustment in the books of HGC.

2.13. Foreign Exchange

The Cash in bank – Foreign currency balance as of December 31, 2016 was reported at closing dollar exchange rate based on BSP Reference Exchange Rate Bulletin of P49.813 to $1.00 as of December 29, 2016. 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.

2.14. 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.

3. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2016	2015
Cash in banks	1,246,958,623	1,946,996,747
Cash with collecting officers/disbursing officers	1,375,042	14,898,538
Cash equivalents – time deposits	4,036,186,721	2,555,216,671
	5,284,520,386	**4,517,111,956**

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

4. INVESTMENTS

	2016	2015
4.1. Short-term		
10-year agrarian reform bonds	1,328,015	1,818,805
	1,328,015	**1,818,805**
4.2. Long-term		
Sinking fund – guaranty reserve	769,480,124	715,820,554
Other investments	855,835,853	841,219,356
	1,625,315,977	**1,557,039,910**

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 percent of income before financial charges. For 2016, additional reserve fund amounting to P43.37 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.

Other investments consist of the following:

	2016	2015
Investments in stocks – HCPTI		
Common shares	187,745,101	184,536,358
Preferred shares	667,473,252	656,065,498
Club A corporate shares – Tower Club, Inc.	617,500	617,500
	855,835,853	**841,219,356**

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.

5. INVESTMENT PROPERTY

This account consists of the following:

	Land	Building	Total
Cost			
January 1, 2016	8,004,871,453	49,299,061	8,054,170,514
Additions	-	-	-
Reclassification	1,261,043,504		1,261,043,504
December 31, 2016	9,265,914,957	49,299,061	9,315,214,018
Accumulated depreciation			
January 1, 2016	-	14,789,717	14,789,717
Depreciation	-	1,848,715	1,848,715
December 31, 2016	-	16,638,432	16,638,432
Net book value – December 31, 2016	**9,265,914,957**	**32,660,629**	**9,298,575,586**
Net book value – December 31, 2015	**8,004,871,453**	**34,509,344**	**8,039,380,797**

5.1. 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	2,025	282,491,000
Mandaluyong I and II Bliss Coronado, Hulo	27,359	602,000,000
Tejeros Bliss H. Santos St., Makati City	17,010	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
	215,840	**4,069,154,826**

The increase in the investment property account is due to the reclassification from non-current assets held for sale of Legacy Memorial Estates property located in Sto. Tomas, Batangas with a book value of P1,261,043,504. The HGC Board of Directors approved the mode of disposition through long-term operating lease.

5.2. 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.

6. RECEIVABLES – NET

This account consists of the following:

	2016	2015 (As restated)
6.1. Current		
Guaranty call receivable	17,294,696	17,995,122
Allowance for impairment loss	(854,573)	(1,317,790)
	16,440,123	16,677,332
Receivables from other GOCCs	46,507,309	47,322,347
Allowance for impairment loss	(245,777)	(245,777)
	46,261,532	47,076,570
Other receivables	219,474,471	123,623,644
Allowance for impairment loss	(22,163,568)	(22,163,568)
	197,310,903	101,460,076
Sales contract receivable	418,334,542	426,004,128
Loan receivable	4,898,851	4,930,839
Advances to officers and employees	21,309	-
Lease receivables	35,891,330	28,713,058
Interest receivables	15,524,989	9,572,869
Due from other funds	320,940,514	296,882,299
Local government agencies	7,364,079	7,364,079
Disallowances/Charges	111,837,414	111,841,989
	1,174,825,586	**1,050,523,239**
6.2. Non-current		
Guaranty call receivable	155,652,270	161,956,101
Allowance for impairment loss	(7,691,159)	(11,860,109)
	147,961,111	150,095,992
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	3,765,010,874	3,834,037,152
Loans receivable	44,089,664	44,377,548

	2016	2015 (As restated)
Lease receivables	211,554,203	240,267,268
Receivable from National Government Agencies	130,796,412	130,980,114
Due from National Housing Authority (NHA)	1,046,553,165	1,028,550,971
	5,373,539,053	**5,455,882,669**

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 P24.06 million represents the share of AKPF in the HGC's operating expenses for the operation of the CFG Program for CY 2016.

The *Receivable from NHA* account represents 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	1,317,790	179,002	642,219	854,573
Receivables from other GOCCs	245,777			245,777
Other receivables	22,163,568			22,163,568
	23,727,135	179,002	642,219	23,263,918
Non-current				
Guaranty call receivable	11,860,109	1,611,017	5,779,967	7,691,159
Notes receivable	2,286,698			2,286,698
	14,146,807	1,611,017	5,779,967	9,977,857
	37,873,942	**1,790,019**	**6,422,186**	**33,241,775**

7. INVENTORIES

The movements of this account during the year follow:

	2016	2015
January 1	877,876	503,108
Purchases during the year	3,151,567	2,513,320
Total	4,029,443	3,016,428
Cost of consumption during the year	(3,414,580)	(2,138,552)
December 31	**614,863**	**877,876**

8. OTHER CURRENT ASSETS

Breakdown of this account is as follows:

	2016	2015 (As restated)
Prepaid insurance	122,964	91,935
Withholding tax at source	12,914,705	14,932,187
Other prepaid expenses	3,277,146	2,521,594
	16,314,815	**17,545,716**

9. 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, 2016	53,797,172	48,062,770	24,443,893	28,720,258	31,630,915	186,655,008
Addition	-	18,201	505,856	-	39,997	564,054
Reclassification	-	-	-	(4,232,430)	-	(4,232,430)
Disposal	-	-	(715,984)	-	-	(715,984)
December 31	53,797,173	48,080,971	24,233,765	24,487,828	31,670,912	182,270,648
Accumulated depreciation						
January 1, 2016	27,318,703	41,314,351	13,891,789	25,065,578	24,122,570	131,712,990
Depreciation	1,630,967	714,651	895,784	799,957	5,300,011	9,341,370
Reclassification	-	-	-	(3,872,893)	-	(3,872,893)
Disposal	-	-	(633,770)	-	-	(633,770)
December 31	28,949,670	42,029,002	14,153,803	21,992,642	29,422,581	136,547,697
Net book value, December 31, 2016	**24,847,502**	**6,051,969**	**10,079,962**	**2,495,186**	**2,248,331**	**45,722,950**
Net book value, December 31, 2015	**26,478,469**	**6,748,419**	**10,552,104**	**3,654,680**	**7,508,345**	**54,942,017**

10. 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 carrying amount follows:

	2016	2015
Cost		
Balance, January 1	27,319,154	26,886,854
Addition	2,500,000	432,300
Balance, December 31	29,819,154	27,319,154
Accumulated Depreciation		
Balance, January 1,	20,776,308	16,242,211
Depreciation	4,708,299	4,534,097
Balance, December 31	25,484,607	20,776,308
Net Book Value, December 31	**4,334,547**	**6,542,846**

11. DEFERRED TAX ASSETS

This account consists of the following:

	2016	2015
Minimum corporate income tax (MCIT)	61,671,440	45,471,716
Net operating loss carry over (NOLCO)	-	117,587,390
Provision for impairment losses	37,256,100	20,878,520
	98,927,540	**183,937,626**

12. NON-CURRENT ASSETS HELD FOR SALE

Breakdown of this account is as follows:

	2016	2015
Foreclosed assets, at cost	7,732,650,190	8,366,657,403
Allowance for impairment losses	(924,916,529)	(171,242,280)
	6,807,733,661	**8,195,415,123**

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, and active program to locate a buyer and complete the plan have been initiated. Further, the asset is 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.

13. OTHER NON-CURRENT ASSETS

The breakdown of this account is as follows:

	2016	2015 (As restated)
13.1. AKPF	**3,054,135,130**	**3,020,469,555**
13.2. Trust Funds		
Department of Public Works and Highways (DPWH)/NHA – North Hills project	468,059,007	470,960,828
DPWH – FVR and Family Village project	202,200,499	202,085,120
Department of Transportation (DOTr)	242,169,598	242,253,395
DPWH – Baras project	87,707,905	87,707,738
Presidential Management Staff – C5 MRB	82,149,105	80,094,483
	1,082,286,114	**1,083,101,564**
13.3. Non-current		
Other prepaid expenses	20,858,394	20,858,395
Other assets	157,753,474	157,330,230
	178,611,868	**178,188,625**
	4,315,033,112	**4,281,759,744**

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:

	2016	**2015**
Pinesville	153,136,135	153,136,134
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	423,243	-
	157,753,474	**157,330,230**

14. FINANCIAL LIABILITIES

This account consists of the following:

	2016	**2015**
14.1. Current		
Due to officers and employees	740,882	628,385
Interest payable	389,065,764	183,978,473
HGC debenture bonds	5,712,392	130,854,785
	395,519,038	**315,461,643**
14.2. Non-current		
HGC debenture bonds	12,283,777	13,028,745
	12,283,777	**13,028,745**

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 2.700 per cent to 3.8617 per cent.

15. INTER-AGENCY PAYABLES

This account consists of the following:

	2016	2015 (As restated)
15.1 Current		
Due to BIR	1,297,093	1,636,082
Due to GSIS	1,346,471	1,382,438
Due to Pag-IBIG	1,284,303	1,279,163
Due to PhilHealth	94,525	100,425
Due to Other NGAs	45,650	907,555
Due to Other GOCCs	9,668,775	9,668,775
Income tax payable	188,469,757	-
	202,206,574	**14,974,438**
15.2 Non-current		
Due to Treasurer of the Philippines	11,463,794,904	11,463,794,904
	11,463,794,904	**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.

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 2016, HGC has collected P373.70 million for remittance to the BTr in 2017.

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, 2016, the total amount of unpaid interest is P389.07 million.

16. INTRA-AGENCY PAYABLES

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

	2016	2015 (As restated)
AKFP	549,313,641	548,214,599
HGC Provident Fund	747,265	1,992,153
DOF	3,518,154	3,518,154
Various	43,363,539	297,122
	596,942,599	**554,022,028**

17. TRUST LIABILITIES

This account pertains to the security deposits received from prospective buyers/lessee of HGC property.

18. DEFERRED CREDITS

This account consists of the following:

	2016	2015 (As restated)
18.1. Current		
Unearned insurance premium	504,505,006	363,392,581
Unearned income on installment sale	113,517,901	112,620,731
	618,022,907	**476,013,312**
18.2. Non-current		
Projects	1,179,546,110	1,223,067,182
Unearned income on installment sale	1,021,661,111	1,013,586,575
Insurance premium	1,069,778	420,451,756
Others	177,916,969	177,144,054
	2,380,193,968	**2,834,249,567**

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 credits – projects account represents various collections from buyers/clients. Included in the accounts are collections from buyers awaiting execution of sales documents; and various collections received that lacks appropriate information on the application of payments, i.e. principal, interest and penalty. The account shall be analyzed and reclassified to proper accounts. The breakdown of this account is as follows:

	2016	2015
Developmental projects	572,114,834	616,743,927
Retail accounts	183,802,016	187,030,090
Pinesville project	178,571,922	176,075,465
Bliss Development Corporation projects	102,098,102	103,276,156
Folio accounts	49,516,569	47,953,094
Cooperative Housing Program projects	10,852,301	10,833,301
Community Mortgage Program projects	6,694,255	6,413,240
Others	75,896,111	74,741,909
	1,179,546,110	**1,223,067,182**

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.

19. DEFERRED TAX LIABILITIES

Deferred tax liability account consists of the following:

	2016	2015
Unrealized foreign currency (gains) losses	129,435	89,613
	129,435	**89,613**

20. OTHER PAYABLES

This account consists of the following:

	2016	2015 (As restated)
Dividend payable	255,893,302	210,455,644
Other payables	5,130,038,655	4,990,469,693
	5,385,931,957	**5,200,925,337**

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 P11.07 million. The increase in other liability accounts was mainly due to the accrued interest on the guaranty obligations to SSS.

21. CAPITAL

The authorized capitalization of HGC under RA No. 580 as amended by Executive Order No. 535, RA No. 7835 and RA No. 8763 is P50 billion. The NG equity to the Corporation is included in the annual General Appropriation Act. Total capital released to HGC as of December 31, 2016 amounts to P15.073 billion.

For CY 2016, the Corporation did not receive any equity infusion from the NG.

22. DEFICIT

	2016	2015 (As restated)
Balance, January 1 as restated	(9,111,387,011)	(9,085,856,222)
Expired DTA – NOLCO (2012)	-	(68,432,360)
Expired DTA – MCIT (2012)	-	(12,138,498)
Net income	718,326,104	265,495,713
Dividends	(255,893,302)	(210,455,644)
Balance, December 31	**(8,648,954,209)**	**(9,111,387,011)**

In consonance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, the deficit for CY 2015 was restated as follows:

		2015
Balance at the beginning of the year as previously reported		(13,165,628,848)
Correction/adjustment of prior years' errors:		
Operating income	304,984	
Other income	6,927,229	
Personal services	(281,584)	
Maintenance and other operating expenses	(367,425)	
Project expenses	(310,239)	
Impairment loss	(1,871,285)	
Income tax benefit	6,216,120	
Donated capital	4,069,154,826	4,079,772,626
Balance at the beginning of the year as restated		(9,085,856,222)

23. REVALUATION SURPLUS

The P2.407 billion Revaluation Surplus relates to the revaluation of NGC-CEZ Commercial area immediately before its reclassification as investment property.

The Corporation has re-evaluated its compliance with the requirements of PAS 12, *Income Taxes* to account for the deferred tax liability arising in the amount of P722,232,612 from the revaluation surplus on its investment properties and has accounted for the related deferred tax liability in CY 2017.

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.

24. INCOME

24.1. Service and Business Income

	2016	2015 (As restated)
Guarantee income	1,516,931,977	969,568,122
Rent/lease income	171,448,089	160,970,528
Interest income- sales contract receivable	97,751,460	42,412,527
Interest income- loans and receivables	453,827	-
Fines and penalties- business Income	10,642,319	10,018,859
Other service income	287,394	297,067
Miscellaneous income	1,061,272	1,468,267
	1,798,576,338	**1,184,735,370**

24.2. Gains

	2016	2015
Gain on foreign exchange	132,742	127,651
Other gains- gain on sale of disposed assets	32,869,496	13,265,074
Gain on sale of property, plant and equipment	-	94,435
Gain on sale/redemption/transfer of investment	55,350	-
	33,057,588	**13,487,160**

24.3. Other Non-operating Income

	2016	2015
Interest income- available for sale (AFS) financial assets	5,416,247	5,681,250
Interest income- due from other banks	84,612,963	60,180,390
Dividend income		476,400
Reversal of impairment loss	18,849,117	
	108,878,327	**66,338,040**

25. EXPENSES

25.1. Personal Services

	2016	2015 (As restated)
Salaries and wages	52,398,573	51,074,078
Provident/welfare fund contribution	10,125,138	21,835,397
Retirement and life insurance premium	6,062,643	5,714,882
Year-end bonus	4,183,575	4,142,272
Representation allowance	1,791,519	3,370,631
Transportation allowance	1,922,762	3,398,871
Terminal leave benefits	26,794	334,834
Productivity incentive allowance	550,257	4,046,040
Personnel economic relief allowance	2,662,817	2,516,107
Clothing/uniform allowance	559,352	529,906

	2016	2015 (As restated)
Cash gift	550,257	525,687
PhilHealth contributions	521,846	502,212
Longevity pay	173,282	166,052
Pag-IBIG contributions	133,881	126,675
Employees compensation insurance premiums	133,699	125,620
Honoraria	4,940,819	2,616,548
Other bonuses and allowances	18,839,815	23,950,720
Other personnel benefits	2,863,707	2,486,135
	108,440,736	**127,462,667**

25.2. Maintenance and Other Operating Expenses

	2016	2015 (As restated)
Taxes, duties and licenses	96,340,255	63,446,197
Rent/lease expenses	33,522,666	31,070,547
Other professional services	18,700,199	21,208,133
Office supplies expense	10,610,695	9,755,020
Electricity expenses	7,154,551	7,492,694
Extraordinary and miscellaneous expenses	3,693,961	5,087,403
Auditing services	5,679,487	4,632,105
Janitorial services	5,119,893	4,872,696
Security services	5,200,972	5,999,618
Advertising, promotional and marketing expenses	787,774	964,125
Representation expenses	1,398,523	2,128,709
Fuel, oil and lubricants expenses	2,182,302	2,359,598
Repairs and maintenance – transportation equipment	1,804,957	1,800,740
Repairs and maintenance – leased assets improvements	933,417	1,284,660
Repairs and maintenance – other property, plant and equipment	230,289	55,352
Repairs and maintenance – machinery and equipment	887,259	214,846
Repairs and maintenance – furniture and fixtures	8,818	3,956
Telephone expenses	2,415,984	2,803,323
Travelling expenses – local	770,873	1,090,328
Other supplies and materials expenses	83,259	500,955
Insurance expenses	148,299	305,235
Donations	231,927	219,769
Consultancy services	3,510,732	952,331
Internet subscription expenses	732,159	689,617
Directors and committee member's fees	744,894	878,196
Fidelity bond premiums	368,032	221,131
Training expenses	1,551,949	1,135,536
Water expenses	379,389	307,315
Other general services	180,792	170,435
Printing and publication expenses	93,076	457,564
Subscription expenses	181,671	362,672
Postage and courier services	119,804	114,534
Cable, satellite, telegraph and radio expenses	27,451	132,661
Accountable forms expenses	31,833	39,558

	2016	2015 (As restated)
Legal services	67,395	69,007
Membership dues and contributions to organizations	57,754	47,910
Other maintenance and operating expenses – projects	102,550,850	82,062,947
Other maintenance and operating expenses	2,235,046	1,327,082
	310,739,187	**256,264,505**

Other Professional Services Account consists of payments for the services of employees contracted under job order basis and collection service fees. The Corporation tapped the services of a collection agency to assist in the collection of non-moving/inactive/past due receivable accounts.

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 amounting to P102.55 million.

The increase was mainly due to the payment of real property tax for the Manila Harbor lots amounting to P48.44 million.

25.3. Financial Expenses

	2016	2015
Interest expense on debenture bonds	555,462	344,147
Interest expense on guaranty obligations	198,793,808	198,793,808
Interest expense on NG advances	205,087,291	236,682,959
Documentary stamps expenses	5,922	-
Bank charges	268,582	92,245
	404,711,065	**435,913,159**

25.4. Non-cash Expenses

	2016	2015 (As restated)
Depreciation	14,401,890	16,385,316
Loss on sale of property, plant and equipment	82,214	50,352
Loss on sale/redemption/transfer of investment	-	496,673
Loss on sale of disposed assets	2,645,241	2,951,429
Impairment loss on non-current assets held for sale	71,651,035	43,742,191
Technical loss	1,790,020	2,560,723
	90,570,400	**66,186,684**

26. 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:

	2016	**2015**
Salaries	3,999,368	4,980,948
Other allowances and benefits	6,385,211	8,308,493
Extraordinary and miscellaneous expenses	1,147,200	705,600
	11,531,779	**13,995,041**

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

	2016	**2015**
Per diem	819,000	1,335,000
Performance-based incentive	768,000	376,800
Reimbursable expenses	594,119	1,658,613
	2,181,119	**3,370,413**

27. TAXATION

27.1. Gross Receipt Tax (GRT)

Effective January 1, 2004, Section 4 of RA No. 9238 (Amending certain sections of the National Internal Revenue Code 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 2016, the Corporation paid P75.845 million for five per cent GRT pursuant to the above provision.

27.2. Minimum Corporate Income Tax

Income tax was computed based on the MCIT rate of two per cent. Under RA No. 8424 entitled, “An Act amending the National Internal Revenue Code, as Amended and For Other Purposes”, the MCIT shall be imposed whenever a domestic corporation has zero taxable income or whenever the amount of MCIT is greater than the normal income tax due from such corporation.

27.3. 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 P18.005 million for CY 2016.

27.4. Current and Deferred Taxes

The components of tax expense are as follows:

	2016	2015
Reported in the SCI		
Current tax expense:		
Regular corporate income tax at 30%	188,469,757	-
Final tax at 20%	18,005,373	12,998,885
	206,475,130	12,998,885
Deferred tax expense (benefit):		
Relating to origination and reversal of temporary differences	101,249,631	100,238,957
	307,724,761	**113,237,842**

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

	2016	2015
Tax expense at 30% corporate tax	307,815,259	113,620,067
Adjustment for income subject to lower tax rates	(9,003,390)	(6,759,607)
Tax effects of:		
Non-taxable income	-	(142,920)
Non-deductible interest expense	8,912,892	6,520,302
Tax expense	**307,724,761**	**113,237,842**

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

	Statement of Financial Position		Profit or Loss	
	2016	2015	2016	2015
Deferred tax assets				
MCIT	61,671,440	45,471,717	-	-
NOLCO	-	117,587,390	117,587,389	114,091,536
Provision for technical loss	37,256,100	20,878,519	(16,377,581)	(13,890,874)
	98,927,540	183,937,626	101,209,808	100,200,662
Deferred tax liabilities				
Unrealized foreign currency gains (losses)	129,435	89,613	39,823	38,295
	129,435	89,613	39,823	38,295
Net deferred tax	**98,798,105**	**183,848,013**		
Deferred tax expense			**101,249,631**	**100,238,957**

28. COMPLIANCE WITH REVENUE REGULATIONS

28.1. 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 2016 and 2015. The taxes and licenses paid/accrued during the year are as follows:

(a) Withholding Taxes

	2016	2015
Withholding tax on compensation and benefits	17,762,615	16,488,769
Expanded withholding tax	3,842,275	3,606,145
Withholding tax – VAT	4,898,665	4,670,072
Withholding tax – Other Percentage Taxes	63,451	122,128
	26,567,006	**24,887,114**

(b) Other Taxes and Licenses

	2016	2015
Local		
Vehicle registration	90,387	101,262
Business tax	92,918	79,248
Corporate community tax	10,500	10,500
National		
Gross receipts tax	96,145,950	63,254,687
BIR annual registration	500	500
	96,340,255	**63,446,197**

(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.

28.2. 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

	2016	2015
Sale of goods/properties	1,518,280,643	52,333,255
Sale of services	108,847,606	972,081,456
Lease of properties	171,448,089	160,970,527
	1,798,576,338	**1,185,385,238**

(b) Cost of Services

	2016	2015
Salaries and employee benefits	108,440,736	119,029,369
Project expenses	102,550,850	82,076,384
	210,991,586	**201,105,753**

(c) Other Taxable Income Not Subjected to Final Tax

	2016	2015
Gain on sale of disposed asset	32,982,887	13,262,233
Gain on sale of securities	55,350	-
	33,038,237	**13,262,233**

(d) Itemized Deductions

	2016	2015
Interest	374,726,922	414,086,573
Taxes and licenses	96,340,255	63,446,197
Rental	33,522,666	31,070,547
Professional fees	18,700,199	21,186,490
Depreciation	14,401,890	16,385,316
Office supplies	11,000,534	9,787,320
Communication, light and water	10,829,339	11,425,610
Other services	5,746,882	4,632,105
Security services	5,200,972	5,999,618
Janitorial services	5,119,893	4,872,696
Repairs and maintenance	3,864,741	3,359,554
Management and consultancy fee	3,510,732	952,331
Losses	2,840,846	3,498,454
Fuel and oil	2,182,302	2,359,598
Training and seminars	1,551,949	1,135,536
Representation	1,456,278	2,128,708
Advertising	787,774	964,125
Transportation and travel	770,873	1,090,328
Director's fees	744,893	878,196
Fidelity bond premium	368,032	221,131
Charitable contribution	231,926	219,769
Insurance	148,299	305,235
Documentary stamps	5,922	-
Bank charges	268,582	92,245
Miscellaneous	6,109,799	8,137,562
	600,432,500	**608,235,244**

29. 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:

29.1. 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 as well as reduce guaranty for.

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:

   - Socialized – 40 per cent to guaranty capacity
   - Low cost – 40 per cent to guaranty capacity
   - Medium cost – 40 per cent to guaranty capacity
   - Open housing – 40 per cent to guaranty capacity

b. Adoption of prudent appraisal methods;

c. Establishment of reserves to absorb technical loss; and

d. Strict loan to collateral ratio requirement compliance.

29.2. 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.

29.3. 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.