HOME GUARANTY CORPORATION
ISO 9001:2015; ISO 27001:2013
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017
(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 P15.573 billion were actually received from the National Government (NG) as at December 31, 2018. 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, also known as the Social Housing Support Fund Act of 1990.

In carrying out and fulfilling its 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 was 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 five Vice Presidents. As at December 31, 2018, the Management Services Group Vice President acts as Officer-In-Charge of HGC by virtue of Board Resolution No. 46-2018 dated September 13, 2018.

Pursuant to Board Resolution No. 05-2019 dated February 28, 2019, the Board of Directors authorized the Officer-in-Charge (OIC) of HGC to perform any and all acts necessary to implement the issuance of the financial statements of HGC for CYs 2018 and 2017. The OIC authorized to issue the comparative financial statements as at and for the year ended December 31, 2018, including the comparative financial statements as at and for the year ended December 31, 2017 on June 25, 2019.

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 summarized 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 at and for the years ended December 31, 2018 and 2017 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, expenses and other comprehensive income in a single statement of comprehensive income (SCI).

HGC adopts the guidelines laid down under COA Circular No. 2017-004 dated December 13, 2017 on the preparation of financial statements and other financial reports and implementation of the PFRS by government corporations classified as Government Business Enterprises (GBEs), as well as the Revised Chart of Accounts for Government Corporations.

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.

d. *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.

On July 23, 2018, the President of the Republic of the Philippines issued Executive Order (EO) No. 58 which mandates the creation of a single entity handling the government guarantee system. Under the EO, the HGC shall be merged with the Philippine Export-Import Credit Agency (PhilEXIM), including all its guarantee functions, programs, personnel, assets and liabilities. The PhilEXIM shall be the surviving entity in the merger and shall be renamed as the Philippine Guarantee Corporation (PHILGUARANTEE). Moreover, all the guarantee-related functions, programs, funds, assets and liabilities of the Small Business Corporation (SBC), as well as the administration of the Agricultural Guarantee Fund Pool (AGFP) and the Industrial Guarantee and Loan Fund (IGLF) shall be transferred to PHILGUARANTEE. The provisions of the EO are directed to be fully implemented within one (1) year from its effectivity.

2.2 Adoption of New and Amended PFRS

The accounting policies adopted in the preparation and presentation of the financial statements are consistent with prior years, except for the new and amended PFRS, as follows:

a. *Effective in 2018 that are relevant to the Corporation*

(i) *PFRS 9 (2014), Financial Instruments.* This standard replaces PAS 39*, Financial Instruments – Recognition and Measurement*, and PFRS 9 (2009, 2010 and 2013) versions. This new standard contains, among others, the following:

- Three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

- An expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and

- A new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through OCI if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in OCI.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in OCI rather than in profit or loss.

Based on analysis of HGC's business model and the contractual cash flow characteristics of its financial assets and liabilities as at December 31, 2018, Management concluded that all of its financial assets and liabilities shall be classified under the new classification categories of PFRS 9.

The following table shows the original classification categories under PAS 39 and the new classification categories under PFRS 9 for each class of HGC's financial assets as at January 1, 2018:

	Classification		Carrying amount	
	PAS 39	PFRS 9	PAS 39	PFRS 9
Cash and cash equivalents	Cash and cash equivalents	At amortized cost	1,018,815,214	1,018,815,214
Receivables	Loans and receivables	At amortized cost	2,324,167,250	2,324,167,250
Available for sale financial assets	Available for sale financial assets	At amortized cost	5,491,098,149	5,491,098,149
Held to maturity financial assets	Held to maturity investments	At FVOCI	535,853,687	535,853,687

The accounting for financial liabilities remains largely the same as it was under PAS 39.

Likewise, the adoption of PFRS 9 has fundamentally changed the Corporation's accounting for loan impairment loss by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) model. PFRS 9 requires the entity to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of the originated credit impaired, the allowance is based on the change in the ECLs over the life of the asset.

(ii) *PFRS 15, Revenue from Contract Customers.* The standard replaces PAS 18, *Revenue*, PAS 11, *Construction Contracts* and the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes,* IFRIC 15, *Agreement for the Construction of Real Estate,* IFRIC 18, *Transfer of Assets from Customers,* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services.* The new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principles in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

(iii) Based on Management's assessment and study of the Corporation's significant revenue streams, namely guarantee fees and interest income, the adoption of PFRS 15 has no significant impact on the Corporation's revenue recognition. The financial guarantee contracts generally undertake to provide a single performance obligation at a fixed price. Thus, the allocation of transaction price to the single performance obligation is not applicable. On the other hand, interest income from various financial assets is covered by PFRS 9, previously by PAS 39.

(iv) *Amendments to PFRS 15, Revenue from Contracts with Customers – Clarification to PFRS 15.* The amendments address three topics: identifying performance obligations, principal versus agent considerations and accounting for licenses of intellectual property. The amendments also provide some transition relief for modified contracts and completed contracts.

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.

(v) *Amendment to PAS 40, Transfer of 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.

b. *Effective in 2018 that are not relevant to the Corporation*

(i) *Amendments to PFRS 2, Share-based Payment – Classification and Measurement of Share-based Payment Transactions*. These amendments clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment transactions, the accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and the effect of a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

(ii) *Amendments to PFRS 4, Insurance Contracts, regarding the implementation of PFRS 9, Financial Instruments.* These amendments provide two options for entities that issue insurance contracts. An option for companies that issue insurance contracts to recognize in OCI, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued; 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.

(iii) *IFRIC 22, 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 that 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.

c. *Effective subsequent to 2018 but not adopted early*

The following pronouncements were issued before the year ending December 31, 2018 and are mandatorily effective for annual periods beginning on or after January 1, 2019. Unless otherwise indicated, HGC does not expect that future adoption of these pronouncements will have a significant impact on its financial statements.

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

(i) *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.

(ii) *Amendments to PAS 19, Employee Benefits – Plan Amendment, Curtailment or Settlement.* The amendments specify how companies remeasure a defined benefit plan when a change - an amendment, curtailment or settlement - to a plan takes place during a reporting period. It requires entities to use the updated assumptions from this remeasurement to determine current service cost and net interest cost for the remainder of the reporting period after the change to the plan.

(iii) *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.

(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.

(v) *Annual improvements to PFRS (2015 – 2017 Cycle).* The following improvements are not relevant to HGC:

- *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.

- *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.

- *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 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.

Effective for reporting periods beginning on or after January 1, 2020:

(i) *Amendments to PFRS 3, Business Combinations – Definition of a Business.* The amendments clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

(ii) *Amendments to PAS 1, Presentation of Financial Statements*, and *PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material.* The amendments refine the definition of material in PAS 1 and align the definition used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgments.

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.

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 or 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 Current versus Non-current Classification

The Corporation presents assets and liabilities in the Statement of Financial Position (SFP) based on current and non-current classification.

An asset is current when it is: (i) expected to be realized or intended to be sold or consumed in normal operating cycle; (ii) held primarily for the purpose of trading; (iii) expected to be realized within 12 months after reporting date; or cash or cash equivalents, unless restricted from being exchanged or used to settle a liability for at least 12 months after reporting date. All other assets are classified as non-current.

A liability is current when: (i) it is expected to be settled in the normal operating cycle; (ii) it is held primarily for the purpose of trading; (iii) it is due to be settled within 12 months after reporting date; or (iv) there is no unconditional right to defer the settlement of the liability for at least 12 months after reporting date. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities, respectively.

2.4 Cash and Cash Equivalents

Cash includes cash on hand and cash in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and that are subject to insignificant risk of change in value.

2.5 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Corporation recognizes a financial instrument in the SFP when, and only when, the Corporation becomes a party to the contractual provisions of the instrument.

a. Financial Assets

(i) *Classification and initial measurement*

Financial assets are classified, at initial recognition, as either subsequently measured at amortized cost, at FVOCI, or at FVPL. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Corporation's business model for managing them. The Corporation initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or at FVOCI, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Corporation's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Corporation commits to purchase or sell the asset.

As at December 31, 2018, the Corporation's financial assets comprise of financial assets at amortized cost and financial assets at FVOCI.

The Corporation classified cash and cash equivalents, receivables, investments in AR Bonds and treasury bills as financial assets at amortized cost; while other investments such as investment in stocks-HCPTI and Club A corporate shares – Tower Club, Inc. are classified as financial assets at FVOCI.

(ii) *Subsequent measurement*

Financial assets are measured at amortized cost if both of the following conditions are met: (i) the asset is held within the Corporation's business model, the objective of which is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets are measured at FVOCI if both of the following conditions are met: (i) the asset is held within the Corporation's business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and (ii) the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at FVOCI are subsequently measured at fair value. Interest income calculated using the EIR method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

(iii) *Impairment of financial assets*

The Corporation recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Corporation expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months *(a 12-month ECL).* For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default *(a lifetime ECL).*

In addition, the Corporation considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(iv) *Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when: (i) the right to receive cash flows from the asset has expired; or (ii) the Corporation has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and either the Corporation has transferred substantially all the risks and rewards of the asset, or the Corporation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

b. 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 the profit or loss and in the SCI.

(i) *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, either as: (i) financial liabilities at FVPL; (ii) loans and borrowings; (iii) payables; or (iv) derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Corporation's financial liabilities as at December 31, 2018 include accounts and other payables, loans and borrowings, and liabilities arising from outstanding financial guarantee contracts.

(ii) *Subsequent measurement*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings, accounts payable and accrued expenses.

On the other hand, after initial recognition, financial guarantee contracts are subsequently measured at the higher of: (i) the amount of the loss allowance determined in accordance with PFRS 9; and (ii) the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of PFRS 15.

(iii) *Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged or canceled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss.

c. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the SFP, if and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the asset and settle the liability simultaneously.

2.6 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.

2.7 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. On June 7, 2018, the lease was further renewed for a period of one (1) year with the option to renew thereafter, to commence on June 1, 2018 up to May 31, 2019 and with a reduced lease space from 4,763.80 sqm. to 4,528.80 sqm.

2.8 Inventories

Inventories, consisting of supplies and materials, as well as tangible items below the capitalization threshold of P15,000, are being 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.

2.9 Property, Plant and Equipment

The property, plant and equipment (PPE) 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.

Pursuant to COA Circular Nos. 2017-004 and 2016-006 dated December 13, 2017 and December 29, 2016, respectively, a capitalization threshold of P15,000 is applied as the minimum cost of an individual asset to be recognized as PPE. Tangible items below the capitalization threshold are accounted for as semi-expendable property.

Subsequent expenditures for additions, major improvements and renewals are capitalized when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. All other repairs and maintenance are charged to expense in the year they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate the cost of each asset, net of residual value of ten (10) per cent, over its estimated useful lives (in years), to wit:

Asset	Estimated Useful Life
Land improvements	20 to 30 years
Office furniture and equipment	5 to 15 years
Transportation equipment	5 to 15 years
IT equipment and software	5 years
Leasehold improvements	Estimate useful life or term of lease, whichever is shorter.
Others	2 to 15 years

Depreciation shall be for one month if the PPE 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 PPE, 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 SCI when the item is derecognized.

2.10 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.

IPs 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 per cent of cost over its estimated useful life.

2.11 Non-current Assets Held For Sale

Non-current assets are classified as held-for-sale if it is highly probable that these will 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 is 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 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.

2.13 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 exist 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.

2.14 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.

2.15 Recognition of Income

a. 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.

b. 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. 409, series of 2003 dated October 14, 2003.

c. Other Business Income

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

2.16 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 at actual sales date. Also, the account includes amortization of unearned income on installment sales based on collection of principal portion of monthly amortization.

2.17 Related Party Transactions and Relationships

Related parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making the financial and operating decisions. Related parties include key management personnel who are persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

2.18 Foreign Exchange

The Cash in bank-foreign currency balance as at December 31, 2018 was reported at closing dollar exchange rate based on BSP Reference Exchange Rate Bulletin of P52.724 to $1.00 as at December 28, 2018. 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.

2.19 Events after the End of the Reporting Period

Any post-year-end event that provides additional information about HGC's financial position at the end of reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

2.20 Provisions and Contingencies

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized but are disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

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

The Corporation provides technical loss reserves 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 P19.74 million, of which P7.13 million is recorded as Allowance for impairment–guaranty call receivable and P12.61 million as Accumulated impairment losses–non-current assets held for sale.

3.2 Contingent Liabilities – Outstanding Guaranty

HGC is obligated to pay the call on 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 at December 31, 2018 and 2017 under the above described coverages as follows:

Type of Coverage	2018	2017
Cash	**42,846824**	62,715,232
Bond	**188,897,566,606**	151,738,536,957
Cash flow	**10,260,799,460**	12,781,507,158
Standard	**327,321,939**	117,943,014
	199,528,534,829	164,700,702,361

As at December 31, 2018 and 2017, the aggregate amount of the Corporation's outstanding obligations is at 19.88 times and 19.45 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

a. Unpaid Obligations

The Corporation has a possible obligation to Subic Bay Metropolitan Authority (SBMA) amounting to P610.255 million as at December 31, 2018. 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.

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 National Housing Authority (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 P2.803 million. Allowance for impairment losses amounting to P2.600 million was provided by BDC before the assets were turned over to HGC. These materials are damaged and obsolete.

Under Memorandum dated July 4, 2013, the HGC Management requested for 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 of 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:

	2018	2017 (Restated)
Cash in banks	**570,152,130**	721,043,725
Cash with collecting officers/disbursing officers	**1,992,519**	35,611,060
Cash equivalents – time deposits	**-**	262,160,429
	572,144,649	1,018,815,214

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 2018 as well as payment of taxes ascribed to the recognized gain on the conveyance of the PNR Air rights and Paco Mall to the National Government.

5. FINANCIAL ASSETS

	2018	2017
5.1 Current		
Investments in 10-year agrarian reform bonds	**1,328,015**	1,328,015
Investments in Treasury Bills-Local	**866,649,031**	-
Time deposit	**3,457,003,415**	4,131,669,561
	4,324,980,461	4,132,997,576
5.2 Non-current		
Investments in sinking fund – guaranty reserve	**1,166,117,688**	850,054,867
Other investments	**535,853,687**	855,835,853
	1,701,971,375	1,705,890,720

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 2018, additional reserve fund amounting to P61.68 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:

	2018	2017
Investments in stocks – HCPTI		
Common shares	**117,499,492**	187,745,101
Preferred shares	**417,736,695**	667,473,252
Club A corporate shares – Tower Club, Inc.	**617,500**	617,500
	535,853,687	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. RECEIVABLES – NET

This account consists of the following:

	2018	2017 (As restated)
6.1 Current		
Guaranty call receivable	**16,570,168**	714,091
Allowance for impairment loss	**(713,632)**	(713,632)
	15,856,536	459
Receivables from other GOCCs	**46,507,310**	46,507,310
	46,507,310	46,507,310
Other receivables	**134,789,158**	133,739,452
Allowance for impairment loss	**(48,166,431)**	(48,166,431)
	86,622,727	85,573,021
Sales contract receivable	**375,458,111**	24,210,889
Loan receivable	**2,870,920**	4,375,597
Due from officers and employees	**-**	132,983
Lease receivables	**30,148,711**	29,909,436
Interest receivables	**41,938,538**	24,004,739
Due from other funds	**371,789,646**	345,706,449
Local government agencies	**7,364,079**	7,364,079
Disallowances/charges	**119,184,128**	112,168,245
	948,754,133	547,872,417
	1,097,740,706	679,953,207
6.2 Non-current		
Guaranty call receivable	**149,131,515**	6,426,816
Allowance for impairment loss	**(6,422,685)**	(6,422,685)
	142,708,830	4,131
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	**3,379,123,001**	217,898,001
Loans receivable	**25,838,276**	39,380,370
Lease receivables	**151,496,055**	181,644,767
Receivable from National Government Agencies	**130,843,216**	131,159,985
Due from NHA	**1,803,729,758**	1,046,553,165
	5,491,030,306	1,616,636,288
	5,661,312,760	1,644,214,043

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 *Other Receivables* account includes receivable from a financing corporation amounting to P5.057 million. HGC filed a complaint affidavit against the concerned parties but was dismissed. A Petition for Review was filed by HGC with the Department of Justice which is still awaiting decision.

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.

Accrual of interest on various High-Yield Savings Accounts (HYSA), Special Savings Account (SSA), and Treasury bills account for the increase in *Interest Receivables*.

The increase in *Due from Other Funds* account amounting to P26.03 million is mainly due to the share of AKPF in the HGC's operating expenses for the operation of the CFG Program for CY 2018.

The rise in *Disallowances/Charges* account is due to the recognition of the Notice of Disallowance on the implementation of the 2008 Amended Motor Vehicle Lease Purchase Plan that has become final and executory as decided by the Commission on Audit.

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.

For CYs 2018 and 2017, there has been no movement in the allowances for impairment loss of receivables.

Several adjustments/restatements were made to Receivables-net account as at December 31, 2017 balances, as follows:

	As reported, 12/31/2017	**Adjustments/ restatements**	**As restated, 12/31/2017**
Current			
Guaranty call receivable	316,780	397,311	714,091
Allowance for impairment loss	(83,470)	(630,162)	(713,632)
Guaranty call receivable - net	**233,310**	**(232,851)**	**459**
Other receivables	128,781,575	4,957,877	133,739,452
Allowance for impairment loss	(22,409,346)	(25,757,085)	(48,166,431)
Other receivables - net	**106,372,229**	**(20,799,208)**	**85,573,021**
Sales contract receivable	**64,157,604**	**(39,946,715)**	**24,210,889**
Receivables – Disallowances/Charges	**112,047,793**	**120,453**	**112,168,246**
Due from Other Funds	**345,091,730**	**614,720**	**345,706,450**

	As reported, 12/31/2017	Adjustments/ restatements	As restated, 12/31/2017
Non-Current			
Guaranty call receivable	2,851,021	3,575,795	6,426,816
Allowance for impairment loss	(751,230)	(5,671,455)	(6,422,685)
Guaranty call receivable - net	**2,099,791**	**(2,095,660)**	**4,131**
Sales contract receivable	**577,418,437**	**(359,520,436)**	**217,898,001**

7. INVENTORIES

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

	2018	2017 (As restated)
January 1	**229,945**	614,863
Purchases during the year	**3,035,605**	2,625,414
Total	**3,265,550**	3,240,277
Cost of consumption during the year	**(2,791,430)**	(3,010,332)
December 31	**474,120**	229,945

8. NON-CURRENT ASSETS HELD FOR SALE

Breakdown of this account is as follows:

	2018	2017 (As restated)
Foreclosed assets, at cost	**6,538,101,974**	10,245,202,180
Allowance for impairment losses	**(718,621,640)**	(887,757,352)
	5,819,480,334	9,357,444,828

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 P441.72 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.

Fair value changes in the said account recognized in the SCI are as follows:

	Impairment Loss	**Reversal of impairment loss**
Hacienda Valley, Bataan	(4,967,200)	-
Subic, Zambales		
Triboa Properties (Lot 1-A, Lot 1-C, and Lot 5)		160,856,255
Cluster 249		1,993,596
	(4,967,200)	**162,849,851**

9. OTHER CURRENT ASSETS

Breakdown of this account is as follows:

	2018	2017
Prepayments:		
Withholding tax at source	**186,528,708**	18,758,893
Prepaid rent	**3,902,064**	3,449,135
Prepaid insurance	**1,090,296**	1,082,335
Other prepaid expenses	**1,585,328**	2,306,336
	193,106,396	25,596,699
Guaranty deposits:		
Rent	**10,451,958**	10,451,958
Fuel, oil, and lubricants	**150,000**	150,000
	10,601,958	10,601,958
Other assets – net:		
Other assets	**162,706**	423,243
Accumulated impairment losses	**(102,706)**	(239,263)
	60,000	183,980
	203,768,354	36,382,637

Guaranty Deposits are non-interest bearing security deposits/cash bond which are refundable upon expiration or termination of the Contract/Agreement.

The *Other Assets* account pertains to unserviceable motor vehicle reclassified as such pending disposal.

10. INVESTMENT PROPERTY

This account consists of the following:

	Land	Building	Total
Cost			
December 31, 2018	9,265,914,957	49,299,061	9,315,214,018
Accumulated depreciation			
January 1, 2018	-	18,487,147	18,487,147
Depreciation	-	1,848,715	1,848,715
December 31, 2018	-	20,335,862	20,335,862
Net book value – December 31, 2018	**9,265,914,957**	**28,963,199**	**9,294,878,156**
Net book value – December 31, 2017	9,265,914,957	30,811,914	9,296,726,871

10.1 Land

Land includes a property located in the National Government Center – Commonwealth Enterprise Zone (NGC-CEZ) commercial area which was previously conveyed to the Corporation upon call on guaranty in the amount of P1.528 billion and with a total appraised value of P3.936 billion as at December 31, 2018. 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 by BDC upon merging, details as follows:

Location	Area(m^2)	Cost
Guadalupe Bliss	101,484	1,522,260,000
C-5	39,992	1,105,758,826
Mandaluyong I and II Bliss Coronado, Hulo	27,359	602,000,000
Tejeros Bliss H. Santos St., Makati City	14,647	298,523,000
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
Paco Bliss	2,053	61,590,000
	216,083	**4,069,154,826**

Further, the Legacy Memorial Estate (LME) property located at Brgy. Anastacia Sto. Tomas Batangas with a book value of P1.261 billion also comprise this account.

10.2 Building

The property with a cost of P49.299 million 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.

11. PROPERTY, PLANT 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, 2018	53,797,173	56,185,889	24,530,016	25,002,828	31,670,912	191,186,818
Addition	-	519,000	507,798	9,045,960	-	10,072,758
Reclassification	-	-	-		-	-
Disposal	-	-	-	-	-	-
December 31	53,797,173	56,704,889	25,037,814	34,048,788	31,670,912	201,259,576
Accumulated depreciation						
January 1, 2018	30,580,636	43,608,866	14,714,477	22,035,525	31,670,912	142,610,416
Depreciation	1,630,967	1,873,171	543,751	365,668		4,413,557
Reclassification	-	-	-	-	-	-
Disposal	-	-	-	-	-	-
December 31	32,211,603	45,482,037	15,258,228	22,401,193	31,670,912	147,023,973
Net book value, December 31, 2018	**21,585,570**	**11,222,852**	**9,779,586**	**11,647,595**	**-**	**54,235,603**
Net book value, December 31, 2017	23,216,537	12,577,023	9,815,538	2,967,304	-	48,576,402

12. 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:

	2018	2017
Cost		
Balance, January 1	**31,016,124**	29,819,154
Addition	**-**	1,196,970
Balance, December 31	**31,016,124**	31,016,124
Accumulated Amortization		
Balance, January 1,	**27,512,823**	25,484,607
Amortization	**1,314,236**	2,028,216
Balance, December 31	**28,827,059**	27,512,823
Net Book Value, December 31	**2,189,065**	3,503,301

13. DEFERRED TAX ASSETS

This account consists of the following:

	2018	2017 (As restated)
Provision for impairment losses	**226,498,122**	224,419,596
	226,498,122	224,419,596

14. OTHER NON-CURRENT ASSETS

The breakdown of this account is as follows:

	2018	2017 (As restated)
AKPF	**3,155,319,802**	3,105,840,962
Trust Funds		
Department of Public Works and Highways (DPWH)/NHA – North Hills project	**468,220,624**	467,998,821
DPWH – FVR and Family Village project	**244,146,807**	242,169,258
Department of Transportation (DOTr)	**207,030,552**	202,311,920
DPWH – Baras project	**87,707,886**	87,707,720
Presidential Management Staff – C5 MRB	**83,359,350**	83,510,675
	1,090,465,219	1,083,698,394
Other assets		
Guaranty deposits	**10,176,555**	8,913,349
Other assets	**5,060,294**	126,790,705
Accumulated impairment losses	**(326,748)**	-
	14,910,101	135,704,054
	4,260,695,122	4,325,243,410

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 comprises of the following:

	2018	2017
Bliss Development Corporation (BDC)	**2,802,709**	2,802,709
Cooperative	**963,316**	963,316
APEC Villa	**866,198**	-
LIT Southern MintCor	**428,071**	428,071
Pinesville	**-**	122,596,609
	5,060,294	126,790,705
Accumulated impairment losses-APEC Villa	**(326,748)**	**-**
	4,733,546	126,790,705

15. FINANCIAL LIABILITIES

This account consists of the following:

	2018	2017
15.1 Current		
Interest payable	**719,538,939**	464,433,420
HGC debenture bonds	**4,967,425**	7,316,352
Due to officers and employees	**732,242**	696,548
	725,238,606	472,446,320
15.2 Non-current		
HGC debenture bonds	**2,384,857**	7,352,282
	2,384,857	7,352,282

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:

	2018	2017
16.1 Current		
Income tax payable	**181,341,473**	257,830,734
Due to other GOCCs	**9,668,594**	9,668,594
Due to BIR	**2,202,362**	5,296,961
Due to GSIS	**1,642,335**	3,932,134
Due to Pag-IBIG	**1,290,262**	1,288,231
Due to PhilHealth	**111,363**	137,125
Due to other NGAs	**122,505**	265,413
	196,378,894	278,419,192

	2018	2017
16.2 Non-current		
Due to Treasurer of the Philippines	**7,041,592,654**	10,463,794,904
	7,041,592,654	10,463,794,904

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. The P3.422 billion decrease is due to the conveyance of the Paco Mall and PNR Air rights through *Dacion En Pago* in the amount of P3.222 billion and cash payment in the amount of P200 million, accounted for as partial payment of the NG advances.

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 at December 31, 2018, the total amount of unpaid interest is P719.54 million.

17. TRUST LIABILITIES

The current portion of the account pertains to the security deposits received from prospective buyers/lessee of HGC property and the amounts due to AKPF and HGC Provident Fund, while the non-current portion pertains to the assets held in trust of various Trust Funds.

	2018	2017
17.1 Current		
Guaranty/security deposits payables	**18,951,181**	27,138,963
Due to other funds		
AKPF	**557,980,390**	552,683,341
DOF	**3,518,154**	3,518,154
HGC Provident Fund	**1,324,055**	1,641,111
HGC Employees Association (HGCEA)	**44,572**	-
Various	**55,803,050**	52,968,579
	618,670,221	610,811,185
	637,621,402	637,950,148
17.2 Non-Current		
AKPF	**3,155,319,802**	3,105,840,962
Trust Funds		
DPWH/NHA – North Hills project	**468,220,624**	467,998,821
DOTr	**244,146,807**	242,169,258
DPWH – FVR and Family Village project	**207,030,552**	202,311,920
DPWH – Baras project	**87,707,886**	87,707,720
Presidential Management Staff (PMS) – C5 MRB	**83,359,350**	83,510,675
	1,090,465,219	1,083,698,394
	4,245,785,021	4,189,539,356

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.

Due to Other Funds–Various account consists of the following:

	2018	2017
PMS	51,643,428	51,097,907
DOTr	3,512,072	1,517,779
DPWH – FVR	383,193	96,531
North Hills	44,665	36,670
Others	219,692	219,692
	55,803,050	**52,968,579**

18. DEFERRED CREDITS/UNEARNED INCOME

This account consists of the following:

	2018	2017 (As restated)
18.1 Current		
Unearned insurance premium	**564,995,094**	571,249,480
Unearned income on installment sale	**116,535,278**	8,138,456
Deferred finance lease revenue	**8,570,006**	9,821,831
Unearned BDC income	**8,324,185**	7,882,125
Unearned Mortgage Redemption Insurance (MRI) income	**82,853**	-
	698,507,416	597,091,892
18.2 Non-current		
Unearned income on installment sale	**1,048,817,501**	119,227,426
Projects	**941,407,004**	496,924,034
Unearned BDC income	**74,917,670**	70,939,127
Other deferred credits - CLOP	**24,934,755**	26,248,732
Deferred finance lease revenue	**20,457,955**	29,027,961
Other deferred credits - direct deposits	**6,997,610**	12,568,557
Insurance premium	**3,153,603**	8,078,745
Excess of book value over cost	**-**	184,034
Miscellaneous	**519,333**	334,107
	2,121,205,431	763,532,723

Unearned Insurance Premium account 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:

	2018	2017 (As Restated)
Developmental projects	**367,933,036**	219,437,924
Pinesville project	**182,468,079**	181,527,265
Retail accounts	**156,312,802**	-
BDC projects	**102,875,298**	-
Folio accounts	**53,547,280**	13,731,397
Cooperative Housing Program projects	**10,852,301**	10,852,301
Community Mortgage Program projects	**7,399,516**	2,153,236
Others	**60,018,692**	69,221,911
	941,407,004	496,924,034

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. PROVISIONS

This account consists of:

	2018	2017
Estimated liability for guaranty operations	**2,688,404**	1,053,934
	2,688,404	1,053,934

20. DEFERRED TAX LIABILITIES

Deferred tax liability account consists of the following:

	2018	2017
Revaluation Surplus	**722,232,612**	722,232,612
Unrealized foreign currency (gains) losses	**173,350**	131,093
	722,405,962	722,363,705

21. OTHER PAYABLES

This account consists of the following:

	2018	2017 (As restated)
Dividends payable	**1,151,623,735**	412,852,372
Other payables	**5,267,216,309**	5,134,475,528
	6,418,840,044	5,547,327,900

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 P29.340 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 P50 billion, divided into 50 million 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 at December 31, 2018 amounts to P15.573 billion. For CY 2018, the Corporation received P500 million equity infusion from the NG.

23. 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 property 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. DEFICIT

This account consists of the following:

	2018	2017 (As restated)
Balance, January 1 as restated	**(7,964,684,035)**	(8,214,311,584)
Net income	**2,265,818,477**	527,481,986
Dividends	**(1,151,623,735)**	(277,854,437)
Balance, December 31	**(6,850,489,293)**	(7,964,684,035)

In consonance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, the deficit for CY 2017 was restated as follows:

		2017 (As restated)
Balance at the beginning of the year as previously reported		(8,547,075,441)
Correction/adjustment of prior years' errors:		
Operating income	9,172,918	
Other income	198,534,756	
Personal services	(4,190,237)	
Maintenance and other operating expenses	(24,491,524)	
Project expenses	(32,936,972)	
Income Tax	186,674,916	332,763,857
Balance at the beginning of the year as restated		**(8,214,311,584)**

25. INCOME

25.1. Service and Business Income

	2018	2017 (As restated)
Guarantee income	**1,634,692,009**	1,307,965,951
Rent/lease income	**229,992,814**	201,781,193
Interest income – due from other banks	**121,027,603**	84,801,943
Interest income – sales contract receivable	**28,602,006**	32,634,497

	2018	2017 (As restated)
Fines and penalties - business income	**12,306,119**	8,607,634
Interest income – finance lease	**9,821,831**	-
Interest income – loans and receivables	**244,452**	332,196
Interest income – available for sale (AFS) financial assets	**-**	387,500
Other business income	**152,549**	168,915
	2,036,839,383	1,636,679,829

25.2. Gains

	2018	2017 (As restated)
Gain on sale of disposed assets	**2,018,990,767**	20,310,494
Gain on foreign exchange	**156,839**	5,524
	2,019,147,606	20,316,018

25.3. Other Non-operating Income

	2018	2017 (As restated)
Reversal of impairment loss – NCAHS	**162,849,851**	11,318,877
Reversal of impairment loss – other Assets – motor vehicle	**35,165**	-
	162,885,016	11,318,877
Miscellaneous income	**425,182**	721,792
	163,310,198	12,040,669

26. EXPENSES

26.1. Personnel Services

	2018	2017 (As restated)
Salaries and wages	**65,817,812**	63,718,514
Provident/welfare fund contribution	**12,915,060**	12,152,615
Other bonuses and allowances	**10,521,587**	20,378,164
Retirement and life insurance premium	**7,664,591**	7,291,569
Year-end bonus	**5,435,100**	5,034,495
Personnel economic relief allowance	**2,435,523**	2,575,801
Honoraria	**2,201,508**	3,228,430
Representation allowance	**1,639,491**	1,659,014
Transportation allowance	**1,639,491**	1,815,967
Terminal leave benefits	**1,015,214**	61,073
Clothing/uniform allowance	**616,742**	539,854
PhilHealth contributions	**616,380**	528,793
Cash gift	**515,307**	531,472

	2018	2017 (As restated)
Productivity incentive allowance	**492,706**	527,972
Pag-IBIG contributions	**121,594**	129,180
Employees compensation insurance premiums	**121,323**	129,180
Longevity pay	**-**	169,553
Other personnel benefits	**7,210,535**	2,904,123
	120,979,964	123,375,769

26.2. Maintenance and Other Operating Expenses

	2018	2017
Traveling expenses		
Traveling expenses – local	**1,392,367**	1,377,588
Training and scholarship expenses		
Training expenses	**990,817**	1,027,798
Supplies and materials expenses		
Fuel, oil and lubricants	**2,706,324**	2,236,585
Office supplies	**2,506,213**	8,804,927
Accountable forms expenses	**31,642**	36,412
Semi-expendable machinery and equipment	**29,776**	-
Other supplies and materials	**237,902**	241,433
	5,511,857	11,319,357
Utility expenses		
Electricity	**7,384,483**	6,822,334
Water	**365,345**	327,622
	7,749,828	7,149,956
Communication expenses		
Telephone	**2,333,326**	2,281,713
Internet subscription	**705,156**	708,287
Postage and courier services	**239,082**	187,626
	3,277,564	3,177,626
Confidential, intelligence and extraordinary expenses		
Extraordinary and miscellaneous expenses	**3,044,286**	2,908,886
Professional services		
Auditing services	**4,593,759**	6,015,568
Consultancy Services	**675,765**	5,109,870
Legal services	**96,869**	92,656
Other professional services	**18,867,479**	16,286,908
	24,233,872	27,505,003

	2018	2017
General services		
Security services	**4,799,380**	4,638,858
Janitorial services	**3,726,594**	5,046,220
Other General Services	**141,149**	180,534
	8,667,123	9,865,612
Repairs and maintenance		
Transportation equipment	**1,586,168**	1,587,772
Lease assets improvement	**1,005,953**	1,036,921
Machinery and equipment	**694,972**	783,813
Furniture and fixtures	**-**	6,413
Other property, plant, and equipment	**79,692**	117,701
	3,366,785	3,532,620
Taxes, insurance and other fees		
Taxes, duties and licenses	**112,331,523**	85,584,957
Taxes, duties and licenses-final tax	**20,618,561**	12,575,910
Fidelity bond premiums	**346,493**	322,692
Insurance expenses	**236,912**	213,227
	133,533,489	98,696,786
Other MOOE		
Rent/Lease	**42,061,671**	37,252,703
Directors and committee member's fees	**951,963**	912,116
Representation	**741,861**	484,781
Printing and publication	**659,967**	46,199
Advertising, promotional and marketing	**92,612**	75,678
Subscription	**53,915**	161,446
Donations	**49,723**	122,890
Documentary stamps	**23,892**	190,703
Membership dues and contributions	**10,170**	23,577
Others-project expenses	**49,377,853**	100,132,549
Others	**9,668,899**	15,080,685
	103,692,526	154,483,327
	295,460,514	321,044,559

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

	2018	2017
Interest expense on NG advances	**378,695,519**	275,367,657
Interest expense on guaranty obligations	**198,721,096**	198,796,808

	2018	2017
Interest expense on debenture bonds	**354,060**	552,014
Bank charges	**25,900**	67,455
	577,796,575	474,783,934

26.4. Non-cash Expenses

	2018	2017 (As restated)
Depreciation	**5,663,161**	7,296,907
Impairment loss on non-current assets held for sale	**4,967,200**	-
Loss on guaranty – expected credit loss	**1,634,470**	737,754
Amortization	**1,188,132**	1,846,277
Impairment loss on other assets	**326,748**	-
Loss on sale of disposed assets	**312,570**	1,148,565
Technical loss	**-**	834,700
	14,092,281	11,864,203

27. RECLASSIFICATIONS AND ADJUSTMENTS

Several accounts in the 2017 financial statements were restated or reclassified to conform with the 2018 presentation as follows:

	As reported, 12/31/2017	Adjustments		As restated, 12/31/2017
		Debit	Credit	
Receivables-current				
Guaranty call receivable	316,780	397,311		714,091
Allowance for impairment – guaranty call	(83,470)		630,162	(713,632)
Sales contract receivable	64,157,604	598,872	40,545,587	24,210,889
Inter-agency receivables	345,091,730	614,719		345,706,449
Disallowances	112,047,793	120,452		112,168,245
Other receivables	128,781,574	4,957,878		133,739,452
Allowance for impairment – other assets	(22,409,346)		25,757,085	(48,166,431)
Inventories				
Office supplies inventory	300,815		70,870	229,945
Other Current Assets				
Prepaid insurance	1,797,167		714,832	1,082,335
Other prepayments	2,022,536	283,800		2,306,336
Accumulated impairment losses – motor vehicle	-		239,263	(239,263)
Non-current assets held for sale	9,774,321,923	470,880,257		10,245,202,180
Receivables-non-current				
Guaranty call receivable	2,851,021	3,575,795		6,426,816
Allowance for impairment – guaranty call	(751,230)		5,671,455	(6,422,685)
Sales contract receivable	577,418,437	5,389,851	364,910,287	217,898,001
Transportation equipment				
Motor vehicle	24,487,828	515,000		25,002,828
Accumulated depreciation	22,014,399		21,126	22,035,525

	As reported, 12/31/2017	Adjustments		As restated, 12/31/2017
		Debit	Credit	
Deferred tax asset	37,428,499	186,991,097		224,419,596
Other non-current assets				
Other assets	157,330,231		30,539,525.29	126,829,155
Other assets – held-in-trust – AKPF	3,095,275,752	10,565,210		3,105,840,962
Due to other NGAs	4,216		261,197	265,413
Income tax payable	247,812,883		10,017,851	257,830,734
Provisions				
Estimated liability for guaranty	-		1,053,934	1,053,934
Unearned income – current				
Unearned insurance premium	569,772,763		1,476,717	571,249,480
Unearned income on installment sales	13,247,492	5,109,036		8,138,456
Other payables				
Dividends payable	412,494,341		358,031	412,852,372
Other payables	5,105,127,557		29,347,971	5,134,475,528
Other deferred credits – non current				
Trust insurance premium	8,837,293	758,548		8,078,745
Trust projects	519,743,404	22,819,370		496,924,034
Other deferred credits – CLOP	26,255,945	7,213		26,248,732
Unearned income – non-current				
Excess of book value over cost	133,033,375	132,849,341		184,034
Trust liabilities				
Trust liabilities – held-in-trust – AKPF	3,095,275,752		10,565,210	3,105,840,962
Business income				
Guarantee income	1,308,787,108	821,157		1,307,965,951
Rent/lease income	191,335,766		10,445,427	201,781,193
Interest income	32,576,826		57,671	32,634,497
Penalties	8,564,135		43,499	8,607,634
Miscellaneous income	720,210		1,582	721,792
Gain				
Gain on sale of disposed assets	20,152,012		158,482	20,310,494
Expenses				
Salaries and wages	63,649,356	69,158		63,718,514
Personnel economic relief allowance (PERA)	2,574,196	1,902	297	2,575,801
Transportation allowance (TA)	1,816,177		210	1,815,967
Clothing/uniform allowance	526,379	13,475		539,854
Other bonuses and allowances	18,341,862	2,036,302		20,378,164
Cash gift	527,972	3,500		531,472
Year end bonus	5,009,511	24,984		5,034,495
Retirement and life insurance premium	7,285,719	5,850		7,291,569
Pag-IBIG contributions	129,080	100		129,180
PhilHealth contributions	528,131	662		528,793
Employees compensation insurance premiums	129,080	100		129,180
Provident/welfare fund contribution	12,142,865	9,750		12,152,615
Other personnel benefits	2,742,115	162,008		2,904,123
Travelling expenses – local	1,355,812	21,775		1,377,587
Office supplies expense	8,791,522	13,405		8,804,927
Telephone expenses	2,444,262		162,549	2,281,713
Printing and publication expenses	38,952	7,247		46,199
Rent/lease expenses	36,589,439	663,264		37,252,703
Legal services	86,706	5,950		92,656

	As reported, 12/31/2017	Adjustments		As restated, 12/31/2017
		Debit	Credit	
Auditing services	6,030,694		15,126	6,015,568
Consultancy services	4,983,870	126,000		5,109,870
Janitorial services	5,002,172	44,048		5,046,220
Other professional services	16,118,832	168,076		16,286,908
Repairs and maintenance – machinery and equipment	1,100,174		198,660	901,514
Taxes, duties and licenses	85,582,437	5,040	2,520	85,584,957
Insurance expenses	172,895	40,332		213,227
Other maintenance and operating expenses	5,351,402	9,729,283		15,080,685
Other maintenance and operating expenses – projects	95,625,595	4,506,955		100,132,550
Depreciation – transportation equipment	19,805	21,126		40,931
Loss on guaranty – expected credit loss	-	737,754		737,754
Deficit	(8,288,936,683)	199,190,881	523,443,529	(7,964,684,035)

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:

	2017	Cash flows	Non-cash changes			2018
			Repayment	Renewal	Accrual	
Due to Treasurer of the Philippines	10,463,794,904	200,000,000	3,222,202,250	-	-	**7,041,592,654**
Other payables BTR	342,751,412	100,000,000	-	-	-	**242,751,412**
Interest payable on bonds		633,383	-	-	633,383	**-**
Interest payable	464,433,420	123,590,000	-	-	378,695,519	**719,538,939**
HGC debenture bonds	7,316,352	7,316,352	-	-	4,967,424	**4,967,424**
Dividend payable	412,494,341	412,852,372	-	-	1,151,981,766	**1,151,623,735**
	11,690,790,429	844,392,107	3,222,202,250	-	1,536,278,092	**9,160,474,164**

	2016	Cash flows	Non-cash changes			2017
			Repayment	Renewal	Accrual	
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/OIC, Vice President and the Vice Presidents of various operating groups. The remuneration of key management personnel during the year is shown on the next page:

	2018	2017
Salaries	**7,312,425**	5,749,977
Other allowances and benefits	**6,129,143**	5,117,464
Extraordinary and miscellaneous expenses	**1,245,600**	627,007
	14,687,168	11,494,448

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

	2018	2017
Per diem	**1,053,000**	1,002,000
Performance-based incentive	**-**	-
Reimbursable expenses	**1,397,390**	854,942
	2,450,390	1,856,942

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 2018, the Corporation paid P107.713 million for five per cent GRT pursuant to the above provision inclusive of December 2017 and prior year adjustment amounting to P11.566 million and P20.300 million respectively.

30.2 Regular Corporate Income Tax (RCIT)

Income tax is 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 P20.619 million for CY 2018.

30.4 Current and Deferred Taxes

The components of tax expense are as follows:

	2018	2017
Reported in the SCI		
Current tax expense:		
Regular corporate income tax at 30%	**944,532,630**	207,040,860
Final tax at 20%	**20,618,561**	12,575,910
Adjustment for Prior years	**(46,212,490)**	298,295
	918,938,701	219,915,065
Deferred tax expense (benefit):		
Relating to origination and reversal of temporary differences	**46,829,236**	3,146,910
	965,767,937	223,061,975

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

	2018	2017
Tax expense at 30% corporate tax	**969,475,924**	227,609,142
Adjustment for income subject to lower tax rates	**(15,689,720)**	(12,980,922)
Tax effects of:		
Non-taxable income	**-**	-
Non-deductible interest expense	**11,981,733**	8,433,755
Tax expense	**965,767,937**	223,061,975

The breakdown of tax expense are as follows:

	2018	2017
Income Tax expense	**945,149,376**	210,486,065
Final Tax	**20,618,561**	12,575,910
	965,767,937	223,061,975

The net deferred tax assets (liabilities) relate to the following as at December 31,2018:

	Statement of Financial Position		Profit or Loss	
	2018	2017 (As restated)	**2018**	2017
Deferred tax assets				
Provision for impairment / technical / expected credit loss	**226,498,122**	224,419,596	**46,786,979**	3,145,253
	226,498,122	224,419,596	**46,786,979**	3,145,253
Deferred tax liabilities				
Unrealized foreign currency gains(losses)	**173,350**	131,093	**42,257**	1,657
Revaluation Surplus	**722,232,612**	722,232,612	**-**	-
	722,405,962	722,363,705	**42,257**	1,657
Net deferred tax	**(495,907,840)**	(506,018,227)		
Deferred tax expense			**46,829,236**	3,146,910

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 2018 and 2017.

a. Withholding Taxes

	2018	2017
Withholding tax on compensation and benefits	**14,783,271**	19,087,081
Withholding tax – VAT	**4,969,283**	5,031,662
Expanded withholding tax	**4,055,985**	3,544,238
Withholding tax – Other Percentage Taxes	**95,365**	50,328
	23,903,904	27,713,309

Amount comprises withholding and remittance for the month of January to November plus unpaid withholding tax for the month of December remitted in January 2019.

b. Other Taxes and Licenses

	2018	2017
Local		
Business tax	**46,318**	37,733
Vehicle registration	**35,385**	89,105
Corporate community tax	**10,500**	10,500
National		
Gross receipts tax	**112,238,819**	85,307,676
BIR annual registration	**500**	500
	112,331,522	85,445,514

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 Revenue District Office (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

	2018	2017
Sale of goods/properties	**96,681,604**	44,269,425
Sale of services	**1,634,581,282**	1,309,819,048
Lease of properties	**225,482,010**	191,315,650
	1,956,744,896	1,545,404,123

b. Cost of Services

	2018	2017
Salaries and employee benefits	**129,857,029**	123,941,321
Project expenses	**59,712,822**	98,797,171
	189,569,851	222,738,492

c. Other Taxable Income Not Subjected to Final Tax

	2018	2017
Gain on sale of disposed asset	**2,183,275,829**	22,344,598
Gain on sale of securities	**15,984**	-
	2,183,291,813	22,344,598

d. Itemized Deductions

	2018	2017
Interest	**537,831,566**	446,603,963
Taxes and licenses	**112,323,821**	85,582,436
Losses	**46,599,949**	1,115,609
Rental	**42,366,739**	36,589,439
Professional fees	**18,608,947**	16,118,832
Communication, light and water	**10,654,799**	10,490,130
Depreciation	**5,663,161**	9,149,104
Security services	**4,099,316**	4,638,858
Janitorial services	**3,286,849**	5,002,172
Office supplies	**2,822,046**	9,577,135
Fuel and oil	**2,706,324**	2,236,585
Repairs and maintenance-labor	**1,564,404**	1,492,512
Transportation and travel	**1,392,367**	1,353,212
Amortization	**1,188,132**	-
Repairs and maintenance-materials	**1,105,274**	2,238,768
Training and seminars	**990,817**	1,036,048
Director’s fees	**951,963**	912,117
Management and consultancy fee	**855,765**	4,983,870
Representation and Entertainment	**763,011**	274,402
Insurance	**386,464**	117,618
Fidelity bond premium	**346,493**	322,692
Advertising	**92,612**	99,255
Charitable contribution	**49,723**	122,890
Bank charges	**25,900**	67,455
Documentary stamps	**23,892**	190,703
Miscellaneous	**6,679,622**	8,440,822
Other services	**174,864**	6,117,400
	803,554,820	654,874,027