HOME GUARANTY CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL INFORMATION

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

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

With the enactment of its new Charter, RA No. 8763, otherwise known as the Home Guaranty Corporation Act of 2000, the corporate life of HGC was extended for another 50 years and the Corporation's authorized capital stock was increased from P2.5 billion to P50 billion, out of which, only P15.073 billion were actually received from the National Government as of December 31, 2015. 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; and

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

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

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

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

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.

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

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

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

With the enactment of its new charter, the HGC is relieved of its peripheral task involving registration, supervision and adjudication of Homeowners' Associations. This function has been transferred to the Housing and Land Use Regulatory Board. The Corporation is also vested with a new mandate that will ensure its active involvement in the development of the secondary market for housing mortgages, bonds, debentures, notes and securities. Further, RA No. 8763 compels the Corporation to give preferential attention and incentives to socialized 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	:	President, HGC
Member	:	Three (3) others appointed by the President of the Philippines

The policies of the Board are implemented into action by the President with the assistance of the Executive Vice President and five Vice Presidents.

In 2009, the Board adopted Board Resolution No. 33-2009 dated July 30, 2009 authorizing the President to issue the financial statements of HGC and AKPF – CFG Component for the calendar year ending December 31, 2008 and every year thereafter. Pursuant thereto, the President of HGC approved the issuance of the financial statements of HGC for CY 2015 on March 21, 2016.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of Financial Statement Preparation

(a) Statement of Compliance with Philippine Financial Reporting Standards

The accompanying financial statements of HGC as of and for the years ended December 31, 2015 and 2014 have been prepared by applying accounting policies in accordance with the Philippine Financial Reporting Standards (PFRS). PFRS are issued by the Financial Reporting Standards Council (FRSC) and approved by the Philippine Board of Accountancy (BOA) based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

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

(b) Presentation of Financial Statements

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

(c) Functional and Presentation Currency

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

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

2.2. Adoption of New and Amended PFRS

2.2.1 Effective in 2015 that are Relevant to the Corporation

In 2015, the HGC adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after July 1, 2014, for its annual reporting beginning January 1, 2015:

PAS 19 (Amendment):	Employee Benefits – Defined Benefit Plans – Employee Contributions
Annual Improvements:	Annual Improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle)

Discussed below are the relevant information about these amendment and improvements:

(i) *PAS 19 (Amendment), Employee Benefits-Defined Plans–Employee Contributions.* The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or a straight-line basis) for the gross benefit. The amendment did not have a significant impact on the Corporation's financial statements.

(ii) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2021 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Corporation but had no material impact on the Corporation's financial statements as these amendments mere clarify the existing requirements:

Annual improvements to PFRS (2010-2012 Cycle)

- PAS 16 (Amendment), *Property, Plant and Equipment, and PAS 38, (Amendment), Intangible Assets.* The amendments clarify that when an item of property, plant and equipment and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

Annual Improvements to PFRS (2011-2013 Cycle)

- PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of and accounted for in accordance with PAS 39, *Financial Instruments: Recognition and Measurement, or* PFRS 9, *Financial Instruments,* regardless of whether they meet the definition of financial assets of financial liabilities as defined in PAS 32, *Financial Instruments: Presentation*.

- PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationships of PFRS 3, *Business Combinations*, and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset in accordance with PAS 40 or a business combination in accordance with PFRS 3.

2.2.2 Effective in 2015 that are not Relevant to the Corporation

The following annual improvements to PFRS are mandatory for accounting periods beginning on or after July 1, 2014 but are not relevant to the Corporation's financial statements:

PFRS (2010-2012 Cycle)

PFRS 2 (Amendments)	Share-based Payment – Definition of Vesting Condition
PFRS 3 (Amendments)	Business Combinations – Accounting for Contingent Consideration in a Business Combination
PFRS 8 (Amendments)	Operating Segments–Aggregation of Operating Segments, and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets
PFRS 24 (Amendments)	Related Party Disclosures – Key Management Personnel

PFRS (2011-2013 Cycle)

PFRS 3 (Amendments)	Business Combinations – Scope Exceptions for Joint Ventures

2.2.3 Effective Subsequent to 2015 but not Adopted Early

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2015 which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Corporation's financial statements:

(i) *PAS 1 (Amendment), Presentation of Financial Statements-Disclosure Initiative effective from January 1, 2016.* The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

(ii) PAS 16 (Amendment), Property, Plant and Equipment and PAS 38 (Amendment), Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization effective from January 1, 2016. The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendment also provides guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.

(iii) PAS 27 (Amendment), Separate Financial Statements – Equity Method in Separate Financial Statements effective from January 1, 2016. This amendment introduces a third option which permits an entity to account for its investments in subsidiaries, joint ventures and associates under the equity method in its separate financial statements in addition to the current options of accounting those investments at cost or in accordance with PAS 39 or PFRS 9, *Financial Instruments*. As of the end of the reporting period, the Corporation has no plan to change the accounting policy for its investments in its subsidiaries and associates.

(iv) PFRS 9 (2014), Financial Instruments effective from January 1, 2018. This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This 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 loss 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 other comprehensive income 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 other comprehensive income.

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 other comprehensive income rather than in profit or loss.

The Corporation does not expect to implement and adopt any version of PFRS 9 until its effective date. In addition, management is currently assessing the impact of PFRS 9 on the financial statements of the Corporation and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

2.3 Financial Assets

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

2.3.1 Loans and Receivables

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

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

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

2.3.2 AFS Financial Assets

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

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

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

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

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

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

2.3.3 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 in the statement of comprehensive income.

(b) HGC as lessee

HGC entered into a lease agreement with the owner of the building for the lease of a five-storey building where HGC holds office. The duration of the contract of lease is for a period of ten years from June 1, 2007 up to May 31, 2017. Operating lease payments are recorded as expense and recognized in the statement of comprehensive income. Improvements made on the leased property are capitalized and booked under Leasehold improvements account and amortized over the remaining term of lease.

2.4 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 statement of comprehensive income. 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.

2.5 Events After the End of the Reporting Period

The Board of Directors of the HGC under Board Resolution No. 04-2016 dated February 18, 2016, approved the conveyance of the HGC's Philippine National Railways Air Rights and Paco Mall property to the National Government (NG) through the Department of Finance (DOF) at appraised value of P3.22 billion by way of dacion en pago, in partial settlement of HGC's outstanding obligations to the NG.

2.6 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 different from these estimates.

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

2.6.1 Technical Loss Reserves

For CY 2015, the Corporation provided a Technical loss reserves amounting to P2.56 million for the anticipated losses to be incurred in the disposition of acquired 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 P25.8 million, of which P14.6 million is recorded as Allowance for impairment losses of

Accounts Receivable-guaranty call and P11.2 million as Allowance for impairment losses of Foreclosed assets.

2.6.2 Contingent Liabilities – Outstanding Guaranty

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

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

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

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

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

Total outstanding guaranty as of December 31, 2015 and 2014 under the above described coverages as follows:

Type of Coverage	2015	2014
Cash	80,993,416	12,206,320,054
Bond	116,088,212,275	82,857,527,083
Cash flow	3,466,844,839	1,976,723,104
Standard	359,821,363	209,955,631
Total	**119,995,871,893**	**97,250,525,872**

2.6.3 Contingent Liabilities - Others

(a) Unpaid Obligations

The Corporation has a probable obligation to Subic Bay Metropolitan Authority (SBMA) amounting to P727,912,610 as of December 31, 2009. The obligation pertains to unpaid base rent, service fees, power bills, horse insurance and medical services for the various leased properties at Subic Bay Freeport Zone chargeable against Financial Building Corporation (FBC).

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

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

The obligation with SBMA is the subject of an on-going court case before the Regional Trial Court of Olongapo City involving the Corporation, FBC and SBMA, entitled FBC vs. SBMA and HGC. It is the Corporation's position that it should not be compelled to pay for the obligations of FBC as these are in the nature of private debts of the latter. Payment of private debts by the Corporation is contrary to public policy. Any agreement to that effect would be void and would violate Section 4(2) of the Government Auditing Code, which provides that government funds or property shall be spent or used solely for public purposes.

(b) Pending Legal Cases

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

2.6.4 Unserviceable Assets

Included in the other assets account are the transferred construction materials to HGC from the defunct Bliss Development Corporation (BDC) purchased prior to 1993 amounting to P2.8 million. Allowance for impairment losses amounting to P2,575,806 was provided by BDC before the assets was turned over to HGC. These materials are damaged and obsolete. Under Memorandum dated July 4, 2013, the HGC Management requested the relief from property accountability from COA as basis for dropping the unserviceable assets from the books of accounts. However, said request was returned by COA to HGC per Memorandum dated July 15, 2013 due to insufficiency of documents. Efforts are being made to comply with all the documentary requirements with COA.

2.6.5 Impaired Assets

Various Other Garnished/Foreclosed Assets carried in the books at cost for P1.71 billion have an appraised value of P594 million or an impairment of P1.117 billion as of December 31, 2015. Gain or loss on impairment, however, shall be recognized in the profit or loss upon disposition of the assets.

Details of impaired acquired assets as shown below:

Foreclosed assets	Book value 2015	Appraised value/ Recoverable amount	Year appraised	Impairment
Legacy Memorial Estates	1,261,043,504	388,105,000	2015	(872,938,504)
Tradition Homes	162,317,549	67,748,500	2013	(94,569,049)
South View Homes	111,816,826	12,815,000	2015	(99,001,826)
Hacienda Valley	62,845,500	59,865,000	2015	(2,980,500)
Margarita Eastville	53,584,500	43,071,500	2015	(10,513,000)

Foreclosed assets	Book value 2015	Appraised value/ Recoverable amount	Year appraised	Impairment
Margarita Nortville	29,654,555	9,709,500	2015	(19,945,055)
Imperial-San Pablo	18,955,840	4,850,000	2014	(14,105,840)
Sugarland (Divine Grace)	11,284,491	8,786,500	2014	(2,497,991)
Total	**1,711,502,765**	**594,951,000**		**(1,116,551,765)**

Paragraph 60 of Philippine Accounting Standards 36 states that an impairment loss shall be recognized immediately in profit and loss, unless the asset is carried at reduced amount in accordance with another Standard (for example, amount in accordance with the revaluation model in PAS 16). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that of other Standard.

2.7 Recognition of income

2.7.1 Insurance 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 Insurance premium monthly.

2.7.2 Interest Income

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

2.7.3 Other Service Income

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

2.7.4 Dividend Income

These represents cash dividends earned on investment of 200,000 shares of Petron Preferred shares at a rate of P2.382 per share received quarterly amounting to P0.476 million.

2.7.5 Unrealized Gain from AFS Investments

The unrealized gain is the difference between the face amount of the corporate securities and their quoted closing bid price. These securities with a total face amount of P16.68 million were valued at their fair market value of P17.31 million as of December 31, 2015.

Two hundred thousand shares of Petron Preferred shares with Face Value of P20.36 million and Power Sector Assets and Liabilities Management bond with P10.00 million were redeemed on April 2015.

2.8 Property and Equipment

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

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

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

2.9 Dividends

Pursuant to Section 6-A of RA No. 7656, the Board of Directors of the HGC under Board Resolution No. 10-2016 declared cash dividends to the NG amounting to P210.45 million for CY 2015.

2.10 Foreign Exchange

The Cash in bank – Foreign currency balance as of December 31, 2015 was reported at closing dollar exchange rate based on BSP Reference Exchange Rate Bulletin of P47.166 to $1. Foreign exchange differences are recognized in the statement of comprehensive income as gain or loss on foreign exchange. All transactions are recorded using the applicable exchange rate at the time of the transaction.

2.11 Gain on Sale of Disposed Assets

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

3. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2015	2014
Cash in banks	1,946,996,747	1,407,817,583
Cash with collecting officers/disbursing officers	14,898,538	8,823,682
Cash equivalents – time deposits	2,555,216,671	2,559,292,341
	4,517,111,956	**3,975,933,606**

Cash equivalents are short-term investments in High-Yield Savings Accounts or Special Savings Account with maturities of three months or less.

The significant increase in cash in banks was a result of the redemption of short-term investments the proceeds of which were reinvested in High-Yield Savings Account.

4. INVESTMENTS

	2015	2014 (As restated)
4.1. Short-term		
Sinking fund – zeroes	-	17,217,196
10 – year agrarian reform bonds	1,818,805	2,002,456
	1,818,805	19,219,652
4.2. Long-term		
Sinking fund – Guaranty reserve	715,820,553	707,422,679
Stocks	840,601,856	848,601,856
	1,556,422,409	1,556,024,535

The P17.217 million balance of the sinking fund-zeroes as of December 31, 2014 was used as partial payment for the outstanding guarantee fee with the Bureau of the Treasury.

In 2008, the Corporation set up a Guaranty reserve fund amounting to P453 million to answer for guaranty calls. Additional reserve fund amounting to P127.32 million was added to the fund in 2014 representing five percent of income before financial charges for the period covering 2008 to 2014. The funds are invested in corporate securities and short term deposits. The increase in the fund represents income earned from said investments.

The Investments in stocks account consists of the following:

	2015	2014
Subscribed shares of HGC (Subic) Corporation (HSC)	-	8,000,000
Harbour Centre Port Terminal, Inc. (HCPTI)		
Common shares	184,536,358	184,536,358
Preferred shares	656,065,498	656,065,498
	840,601,856	**848,601,856**

The Governance Commission for GOCCs (GCG) issued Memorandum Order No. 2014-21 to implement the abolition of HSC through an amendment of HSC's Articles of Incorporation to shorten its corporate life under Section 120 of Batas Pambansa Bilang 68.

In compliance with the above directive from the GCG, HGC Management effectuated the abolition of HSC.

The investment in shares of stocks of 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.

5. INVESTMENT PROPERTY

This account consists of the following:

	Land	Building	Total
Cost			
January 1, 2015	8,004,871,453	49,916,561	8,054,788,014
Additions	-	-	-
December 31, 2015	8,004,871,453	49,916,561	8,054,788,014
Accumulated depreciation			
January 1, 2015	-	12,941,003	12,941,003
Depreciation	-	1,848,714	1,848,714
December 31, 2015	-	14,789,717	14,789,717
Net book value – December 31, 2015	**8,004,871,453**	**35,126,844**	**8,039,998,297**
Net book value – December 31, 2014	**8,004,871,453**	**36,975,558**	**8,041,847,011**

5.1. Land

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

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

Location	Area (m^2)	Appraised value
Pasig Bliss, Col. Licsi St. Pasig City	14,274	139,885,000
Muntinlupa Bliss Bo. Putatan, Muntinlupa	11,643	56,647,000
Makati Bliss, Davila(Manlo), Vito Cruz, Makati City	2,025	282,491,000
Mandaluyong I and II Bliss Coronado, Hulo	27,359	602,000,000
Tejeros Bliss H. Santos St., Makati City	17,010	298,523,000
Guadalupe Bliss	101,484	1,522,260,000
Paco Bliss	2,053	61,590,000
C-5	39,992	1,105,758,826
	215,840	**4,069,154,826**

5.2. Building

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

5.3. Tower Club, Inc. – Club A corporate shares

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 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:

	2015	2014 (As restated)
6.1. Current		
Accounts receivable guaranty call (net of allowance for impairment losses of P1,459,880 in 2015 and P2,382,666 in 2014)	16,668,726	18,537,709
Accounts receivable installment	430,977,358	437,723,189
Other receivables (net of allowance for impairment losses of P22,163,568 in 2015 and 2014)	100,715,995	122,333,155
Government owned and controlled corporations (net of allowance for impairment losses of P245,777 in 2015 and 2014)	47,076,570	47,076,570
Lease receivables	28,713,058	12,859,205

	2015	2014 (As restated)
Interest receivable	9,572,869	1,698,205
Due from other funds	296,882,298	262,408,460
Local government agencies	7,364,079	7,364,079
Disallowances/Charges	111,837,414	111,920,712
	1,049,808,367	**1,021,921,284**

6.2. Non-current

Accounts receivable guaranty call (net of allowance for impairment losses of P13,138,923 in 2015 and P21,443,991 in 2014)	150,018,533	166,839,381
Accounts receivable installment	3,878,796,221	3,939,508,698
Lease receivables	240,267,268	268,980,326
National government agencies	130,987,372	130,799,980
Notes receivable (net of allowance for impairment losses of P2,286,698 in 2015 and 2014)	27,573,624	27,566,886
Due from National Housing Authority (NHA)	1,028,550,971	1,028,550,970
	5,456,193,989	**5,562,246,241**

The *Accounts Receivable-Guaranty Call* was restated to take-up approved loan restructuring of various retail accounts. On the other hand, *Accounts Receivable-Install*ment was restated to recognize the reversal of 50% car loan subsidy of Mr. Kevin Kho and Mr. Cadano as well as recognition of approved loan restructuring of various retail and developmental accounts.

The 10 per cent of the *Accounts receivable-Guaranty* call and *Installment receivable* are presented as current assets while the 90 per cent as non-current assets.

The balance of *Receivable from Government Owned and Controlled Corporation* in 2014 was restated to consider reclassification of accounts.

The *Lease receivables account* represents the receivables from Guru Property Development and Management Corporation over the lease of Monumento Plaza (now called Victory Mall) Leasehold Rights classified as current and non-current receivables.
The increase in *Due from other funds account* amounting to P33.36 million represents the share of AKPF in the HGC's operating expenses for the operation of the CFG Program for CY 2015.

Receivables from Disallowances/Charges account was restated due to double take up of disallowed separation benefits of Ms. Elizabeth Patron and Mr. Florencio Rapada.

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.

7. INVENTORIES

The movements of this account during the year follow:

	2015	2014
January 1	503,108	781,109
Add: Purchases during the year	2,513,320	1,992,751
Total	3,016,428	2,773,860
Less: Cost of consumption during the year	2,138,552	2,270,752
December 31	**877,876**	**503,108**

Inventories consist of supplies and materials that are valued at cost using the weighted average method.

8. PREPAYMENTS

Breakdown of this account is as follows:

	2015	2014 (As restated)
8.1. Current		
Prepaid insurance	91,935	94,497
Other prepaid expenses	17,453,781	34,671,812
	17,545,716	**34,766,309**
8.2. Non-current		
Other prepaid expenses	20,858,395	20,858,395
	20,858,395	**20,858,395**

Other prepaid expenses were restated to consider the adjustment in the recording of Deferred Tax Asset from Net Operating Loss Carry Over (NOLCO) and Minimum Corporate Income Tax (MCIT). The account includes creditable withholding taxes on sale of acquired assets as follows:

	2015	2014
Total income tax due	19,950,834	13,226,838
Less: Total tax credits	34,337,043	45,113,215
Net tax payable (overpayment)	**(14,386,209)**	**(31,886,377)**

9. PROPERTY AND EQUIPMENT

This account is composed of the following:

Particulars	Land Improvements	IT Equipment	Office Furniture, Fixtures and Equipment	Motor Vehicles	Leasehold Improvements	Total
Cost						
January 1, 2015	53,797,173	73,483,220	24,077,398	30,855,881	31,630,915	213,844,587
Addition	-	1,898,702	366,495	3,058,840	-	5,324,037
Disposal	-	-	-	(5,194.463)	-	(5,194.463)
December 31, 2015	53,797,173	75,381,922	24,443,893	28,720,258	31,630,915	213,974,161
Accumulated Depreciation						
January 1, 2015	25,687,734	56,148,895	12,777,513	27,155,569	18,822,555	140,592,266
Depreciation	1,630,967	5,941,765	1,114,276	3,997,008	5,300,015	17,984,031
Reclassification	-	-	-	-	-	-
Disposal	-	-	-	(6,086,999)	-	(6,086,999)
December 31, 2015	27,318,701	62,090,660	13,891,789	25,065,578	24,122,570	152,489,298
Net Book Value – December 31, 2015	**26,478,472**	**13,291,262**	**10,552,104**	**3,654,680**	**7,508,345**	**61,484,863**
Net Book Value – December 31,2014 (As restated)	**28,109,439**	**17,334,326**	**11,299,885**	**3,700,312**	**12,808,360**	**73,252,322**

10. DEFERRED TAX ASSET

Deferred tax asset account consists of the following:

	2015	**2014**
Minimum Corporate Income Tax	45,471,716	37,659,379
Net Operating Loss Carry Over	117,587,390	300,111,287
Provision for Impairment Losses	1,539,742	771,525
	164,598,848	**338,542,191**

11. OTHER ASSETS

Breakdown of these accounts are as follows:

		2015	**2014 (As restated)**
11.1.	**Foreclosed properties**		
	Foreclosed assets, at cost	8,359,230,579	8,363,179,406
	Allowance for impairment losses	(125,628,805)	(115,800,748)
		8,233,601,774	**8,247,378,658**
11.2.	**AKPF**	**3,020,469,555**	**2,986,034,713**

		2015	2014 (As restated)
11.3.	**Assets Held in Trust**		
	Department of Public Works and Highways (DPWH)/National Housing Authority (NHA) –North Hills project	470,960,827	470,822,514
	Department of Public Works and Highways – FVR and Family Village project	202,085,121	201,937,183
	Department of Transportation and Communication (DOTC)	242,253,395	242,327,396
	DPWH – Baras project	87,707,738	87,707,552
	Presidential Management Staff–C5 MRB	80,094,483	80,094,150
		1,083,101,564	**1,082,888,795**
11.4.	**Other assets – various**	**157,330,231**	**157,330,231**
		12,494,503,124	**12,473,632,397**

The *Foreclosed properties* represent the book value of various called projects as follows:

i. Funded through the issuance of Asset Participation Certificates (APC);

ii. Foreclosed accounts/projects with expired redemption period or with waiver of redemption rights; or

iii. Projects 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.

Included in the foreclosed assets account are the properties of the Smokey Mountain Asset Pool project with a book value of P858.94 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 net decrease in Foreclosed assets account was due to the following:

Particulars	Amount
Disposition of various properties	(34,270,151)
Adjustments in the cost of sales of disposed assets	(2,427,158)
Reclassification from Accounts receivable – Guaranty call to foreclosed asset account	29,475,221
Capitalized expenses for various projects	3,273,261
	(3,948,827)

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

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 A*ssets held-in-trust account* represents 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, DOTC 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.

12. PAYABLE AND OTHER LIABILITY ACCOUNTS

This account consists of the following:

	2015	2014 (As restated)
Other liability accounts, current	4,996,242,539	4,958,901,014
Intra-agency payables, current	554,022,028	552,153,451
Other deferred credits, current	476,023,040	419,258,976
Inter-agency payables	14,974,178	155,100,645
Interest payable	183,978,473	52,242,419
Dividend payable	210,455,644	86,743,805
Due to officers and employees	628,385	491,673
	6,436,324,287	**6,224,891,983**

The *Other liability 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' totalling to P210,938,727. The increase in other liability accounts was mainly due to the accrued interest on the guaranty obligations to SSS.

Intra-agency payables consist of amounts due to the AKPF and the HGC Provident Fund.

Inter-agency payables consist of amounts due to BTr, BIR, GSIS, Pag-IBIG, Philhealth, Other NGAs and GOCCs.

Interest payable represents interest on the P12 billion advances from the National Government.

Dividend Payable was restated to take up additional cash dividend of P14.22 million for CY 2014

13. BONDS PAYABLE

This account consists of the following:

		2015	2014
13.1.	**Current**		
	HGC debenture bonds	130,854,785	100,000,000
13.2.	**Non-current**		
	HGC debenture bonds	13,028,745	136,567,178
		143,883,530	**236,567,178**

The HGC debenture bonds were issued by the Corporation in payment of call on HGC guaranty.

14. DUE TO NATIONAL TREASURY – Bureau of the Treasury

The account represents the advances from the National Government 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. As of December 31, 2015, HGC has remitted to the BTr the total amount of P762.64 million from the collections of disposed identified assets. The repayment was applied to the interest amounting to P226.43 million and the balance to principal.

The interest on the NG Advances is computed quarterly based on the average rate of the 364 Treasury bill of the preceding quarter. As of December 31, 2015, the total amount of unpaid interest is P183,978,473.

For CY 2015, HGC has collected P150.72 million for remittance to the BTr in 2016.

15. DEFERRED TAX LIABILITY

Deferred tax liability account consists of the following:

	2015	2014
Unrealized Foreign currency (gain) losses	89,613	51,318
	89,613	51,318

16. TRUST LIABILITIES

	2015	2014 (As restated)
Trust – projects	1,223,603,287	1,197,167,925
Trust – insurance premium	420,451,755	408,356,510
Other trust liabilities	177,142,909	174,250,816
	1,821,197,951	**1,779,775,251**

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

	Amount
Developmental projects	616,775,149
Retail accounts	187,259,550
Pinesville project	176,075,465
Bliss Development Corporation projects	103,551,579
Folio accounts	47,953,094
Cooperative Housing Program projects	10,833,301
Community Mortgage Program projects	6,413,240
Others	74,741,909
	1,223,603,287

Trust - insurance premium account is reclassified to income-financing fees upon regularization of the enrolled accounts.

The *Other trust liabilities 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 trust liabilities accounts were restated due to reclassifications of various collections to its proper accounts.

17. UNEARNED INCOME

This account represents gain on sale of acquired 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 acquired assets when collected based on the gross profit rate.

18. CAPITAL

The authorized capitalization of HGC under RA No. 580 as amended by Executive Order (EO) No. 535, RA No. 7835 and RA No. 8763 is P50 billion. The NG equity to the Corporation is included in the annual General Appropriation Act (GAA). Total capital released to HGC as of December 31, 2015 amounts to P15.073 billion.

For CY 2015, the Corporation did not receive any equity infusion from the NG.

19. DEFICIT

	2015	2014 (As restated)
Balance, January 1, as restated	(13,165,628,848)	(13,187,888,744)
Expired DTA-NOLCO (2012)	(65,731,954)	-
Expired DTA-MCIT (2012)	(12,138,498)	-
Net income (loss)	302,416,195	109,003,701
Dividends	(210,455,644)	(86,743,805)
Balance, December 31	**(13,151,538,749)**	**(13,165,628,848)**

In consonance with PAS No. 8 – Accounting Policies, Changes in Accounting Estimates and Errors, the deficit for CY 2014 was restated as follows:

	2014
Balance at the beginning of the year as previously reported	(12,998,348,987)
Correction/adjustment of prior years' errors	(189,539,757)
Balance as restated	**(13,187,888,744)**

The correction/adjustment on prior years' errors consists of the following:

	Amount
Operating income	1,036,981
Other income	(15,233,023)
Personal services	(3,392,867)
Maintenance and other operating expenses	(1,110,724)
Project expenses	(193,308,872)
Income tax expense	(48,272)
Income tax Benefit	22,517,020
	(189,539,757)

20. REVALUATION SURPLUS

The account represents increase in the carrying amount of the investment property account, specifically the NGC-CEZ commercial area amounting to P2.407 billion.

21. EXPENSES

21.1 Personal Services

	2015	2014 (As restated)
Salaries and wages	51,141,104	50,316,477
Provident fund benefits	21,865,558	21,161,698
Life and retirement insurance contributions	5,722,926	5,532,598
Year-end bonus	4,142,273	3,915,036
Representation allowance	3,419,381	3,385,151
Transportation allowance	3,406,371	3,355,195
Additional compensation	1,889,102	1,835,956
Terminal leave benefits	334,834	151,485
Productivity incentive allowance	4,046,039	2,161,556
Personnel economic relief allowance	630,404	612,422
Clothing/uniform allowance	529,906	508,697
Cash gift	525,686	509,574
Philhealth contributions	502,212	480,687
Longevity pay	166,052	170,010
Pag-IBIG contributions	126,675	127,754
ECC contributions	125,620	121,523
Honoraria	2,553,548	2,283,840
Other bonuses and allowances	15,415,543	17,378,175
Other personnel benefits	2,486,135	2,422,555
	119,029,369	**116,430,389**

21.2 Maintenance and Other Operating Expenses

	2015	2014 (As restated)
Taxes, duties and licenses	63,446,197	45,558,486
Rent expenses	31,070,547	29,510,527
Other professional services	21,186,490	26,891,107
Depreciation	16,385,316	17,213,581
Office supplies	9,747,761	9,690,427
Electricity expenses	7,492,694	8,450,759
Auditing services	4,632,105	5,427,639
Janitorial services	4,872,696	4,662,890
Security services	5,999,618	4,593,135
Advertising expenses	964,125	4,154,210
Extraordinary expenses	3,612,243	3,377,832
Representation expenses	2,128,708	3,582,764
Gasoline, oil & lubricants expenses	2,359,598	3,302,815
Repairs and maintenance	3,359,554	3,500,444
Telephone expenses	2,803,323	2,731,531
Traveling expenses	1,090,328	1,525,523
Insurance expenses	305,235	472,898
Donations	219,769	234,260

	2015	2014 (As restated)
Consultancy services	952,331	263,119
Cable, satellite, telegraph/radio expenses	822,278	567,849
Council/board members benefits	878,196	620,961
Fidelity bond premiums	221,131	329,688
Training expenses	1,135,536	1,032,494
Water expenses	307,315	313,773
General services	170,435	185,901
Printing and binding expenses	457,564	125,050
Subscription expenses	362,672	293,562
Postage and deliveries	114,534	203,247
Accountable forms	39,558	35,082
Legal services	69,007	69,829
Membership, dues and contributions	47,910	56,571
Miscellaneous expenses	3,303,198	4,392,180
	190,557,972	**183,370,134**

21.3 Other Professional Services Account

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

21.4 Other MOOE – Projects

This account includes expenses incurred in the maintenance, protection and preservation of foreclosed/acquired assets such as repairs, real property taxes, security services, fire insurance, appraisal, publication, documentary stamps and other related expenses amounting to P82.07 million.

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

21.5 Compensation of Key Management Personnel

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

	2015	2014
Salaries	4,980,948	4,967,926
Other allowances and benefits	8,308,493	6,257,923
Extraordinary and miscellaneous expenses	705,600	1,938,600
	13,995,041	**13,164,449**

On the other hand, the remuneration received by the Board of Directors during the year was as follows:

	2015	2014
Per diem	1,335,000	900,000
Performance Based Incentive	376,800	-
Reimbursable expenses	1,658,613	2,783,684
	3,370,413	**3,683,684**

22. TAXATION

22.1 Gross Receipt Tax (GRT)

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

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

For CY 2015, the Corporation paid P63.25 million for five per cent GRT pursuant to the above provision.

22.2 Minimum Corporate Income Tax (MCIT)

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

22.3 Final Tax

The final tax refers to the 20 per cent tax on interest earned from HGC's investment in government securities and bank deposits amounting to P12.99 million for CY 2015.

22.4 CURRENT AND DEFERRED TAXES

The components of tax expense are as follows:

	2015	2014
Reported in Statement of Comprehensive Income:		
Current tax expense:		
Regular Corporate Income Tax @ 30%	-	-
Final Tax @ 20% and 7.5%	12,998,885	10,385,265
	12,998,885	**10,385,265**
Deferred tax expense (income)		
Relating to origination and reversal of temporary differences	116,062,021	35,439,140
	129,060,906	**45,824,405**

Reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the statement of comprehensive income follows:

	2015	2014 (As amended)
Tax expense at 30% Corporate Tax	**129,443,131**	**46,448,432**
Adjustment for income subject to lower tax rates	(6,759,607)	(5,193,260)
Tax effects of:		
Non-taxable income	(142,920)	(571,680)
Non-deductible interest expense	6,520,302	5,140,913
Tax Expense	**129,060,906**	**45,824,405**

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

	Statement of Financial Position		Profit or Loss	
	2015	**2014**	**2015**	**2014**
Deferred Tax Assets:				
MCIT	45,471,716	37,659,379		
NOLCO	117,587,390	300,111,287	116,791,943	36,035,895
Provision for Technical Loss	1,539,742	771,525	(768,217)	(599,801)
Total	164,598,848	338,542,191	116,023,726	35,436,094
Deferred Tax Liabilities:				
Unrealized Foreign currency gain(losses)	89,613	51,318	38,295	3,046
Total	89,613	51,318	38,295	3,046
Net Deferred Tax Asset	**164,509,235**	**338,490,873**		
Deferred Tax Expense			**116,062,021**	**35,439,140**

23. COMPLIANCE WITH REVENUE REGULATIONS

23.1 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 2015 and 2014.

The taxes and licenses paid/accrued during the year are as follows:

(a) Withholding Taxes

	2015	2014
Withholding Tax on compensation and benefits	16,488,769	15,696,540
Expanded withholding tax	3,606,145	3,668,079
Withholding Tax-VAT	4,670,072	4,737,826
Withholding Tax-Other Percentage Taxes	122,128	190,195
	24,887,114	**24,292,640**

(b) Other Taxes and Licenses

	2015	2014
Local		
Vehicle registration	101,262	52,518
Business tax	79,248	59,869
Corporate Community Tax	10,500	10,500
National		
Gross receipt tax	63,254,687	45,435,099
BIR annual registration	500	500
	63,446,197	**45,558,486**

(c) Claims for Tax Credit

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

23.2 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

	2015	2014
Sale of goods/properties	52,333,255	39,510,373
Sale of services	972,081,456	657,048,171
Lease of properties	160,970,527	142,135,101
	1,185,385,238	**838,693,645**

(b) Cost of Services

	2015	2014
Salaries and employee benefits	119,029,369	111,660,464
Project expenses	82,076,384	81,864,667
	201,105,753	**193,525,131**

(c) Other Taxable Income Not Subjected to Final Tax

	2015	2014
Gain on sale of disposed asset	**13,262,233**	**16,173,365**

(d) Itemized Deductions

	2015	2014
Interest	414,178,818	360,169,775
Taxes and licenses	63,446,197	45,558,486
Rental	31,070,547	29,510,527
Professional fees	21,186,490	26,891,107
Depreciation	16,385,316	17,006,021
Communication, light and water	11,425,610	12,167,665
Office supplies	9,787,320	10,144,122
Other services	4,632,105	5,495,218
Janitorial services	4,872,696	4,662,890
Security services	5,999,618	4,593,135
Advertising	964,125	4,154,210
Representation	2,128,708	3,682,015
Repairs and maintenance	3,359,554	3,500,393
Fuel and oil	2,359,598	3,302,815
Losses	3,498,454	3,110,045
Transportation and travel	1,090,328	1,545,993
Training and seminars	1,135,536	979,495
Director’s fees	878,196	620,961
Insurance	305,235	472,898
Fidelity bond premium	221,131	329,688
Management and consultancy fee	952,331	263,119
Charitable contribution	219,769	259,260
Miscellaneous	8,137,562	8,110,113
	608,235,244	**546,529,951**

24. 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:

24.1 Market Risks

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

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

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

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

a) Diversification of portfolio:
   - Socialized : 40% to guaranty capacity
   - Low Cost : 30% to guaranty capacity
   - Medium Cost : 20% to guaranty capacity
   - Open Housing : 10% to guaranty capacity

b) Adopt prudent appraisal methods
c) Establish reserves to absorb technical loss
d) Strict loan to collateral ratio requirement compliance

24.2 Credit Risk

Credit risk refers to the risk that a 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
    - Credit ratio of not more than 30% or 40% of borrower's Net Disposable Income
    - 10%, 20% and 30% down payment depending on type of housing package (Contract to Sell (CTS) accounts)
    - Seasoning period depending on percentage of down payment (CTS account)
b) Due diligence before accepting enrollment
c) Post-Audit

24.3 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.