TRADE AND INVESTMENT DEVELOPMENT CORPORATION OF THE PHILIPPINES
Philippine Export-Import Credit Agency

NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016
(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL/CORPORATE INFORMATION

The Trade and Investment Development Corporation of the Philippines (TIDCORP), formerly known as the Philippine Export and Foreign Loan Guarantee Corporation (PHILGUARANTEE), is a wholly-owned government financial institution attached to the Department of Finance (DOF). Established on January 31, 1977 by virtue of Presidential Decree (PD) No. 1080, PHILGUARANTEE was renamed TIDCORP and granted expanded functions by Republic Act (RA) No. 8494 on February 12, 1998. To strengthen its role in the development and expansion of international trade, as well as to effectively respond to the economic requirements of the country, TIDCORP was designated as the Philippine Export-Import Credit Agency by virtue of Executive Order (EO) No. 85 on March 18, 2002.

TIDCORP's corporate objective is to contribute to the country's economic development as the Philippine Export-Import Credit Agency providing guarantees, credits, insurance and technical assistance services. Its mission is to stimulate, increase and develop the export of goods and services by assuring speedy and unobstructed access to trade finance for viable exporters, especially the small and medium enterprises and to help generate employment in the export sector. Moreover, its programs and services also aim to support projects in priority areas of the National Government where the country has distinct advantage and where foreign exchange may be generated and/or saved.

Pursuant to PD No. 1080, as amended by RA No. 8494, TIDCORP's expanded functions are the following:

a. To promote and facilitate the entry of foreign loans into the country for development purposes having special regard to the needs of export-oriented industries, industries registered with the Board of Investments, public utilities, and industries the promotion of which is encouraged by government policy;

b. To guarantee loans granted by Philippine banking and financial institutions to qualified exporters, producers of export products, and contractors with approved service contracts abroad;

c. To facilitate and assist in the implementation of approved service contracts abroad entered into by Philippine entities, enterprises, or corporations with foreign exchange earning potentials, by providing counter-guarantees to Philippine banks and financial institutions issuing stand-by Letters of Credit or of Letters of Guarantee for the performance of said service contracts;

d. To meet requests from domestic entities, enterprises, and corporations to assist them in the coordination of their development and expansion plans with a view to achieving better utilization of their resources;

e. To provide technical assistance in the preparation, financing and execution of development or expansion of programs, including the formulation of specific project proposals; and

f. To undertake such actions that is consistent with the primary purposes of the Corporation.

The payment of obligations incurred by TIDCORP under the provisions of PD No. 1080, as amended, is fully guaranteed by the Government of the Republic of the Philippines pursuant to Section 9 thereof.

The registered office address of the Corporation is at 17th Floor Citibank Tower, Citibank Plaza, Valero St., Makati City.

The financial statements of the Corporation as of and for the year ended December 31, 2017 (including the comparative financial statements as of and for the year ended December 31, 2016) were authorized for issue by the Corporation's Board of Directors (BOD) on March 23, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation of financial statements

(a) Statement of compliance with Philippine Financial Reporting Standards

The financial statements of TIDCORP for the years ended December 31, 2017 and 2016 have been prepared in accordance with the Philippine Financial Reporting Standards (PFRSs) and applicable rules and regulations of the Bangko Sentral ng Pilipinas (BSP). PFRSs are issued by the Financial Reporting Standards Council and approved by the Philippine Board of Accountancy based on International Financial Reporting Standards issued by the International Accounting Standards Board.

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*. TIDCORP presents all items of income and expenses and other comprehensive income (OCI) in a single statement.

(c) *Functional and presentation currency*

These financial statements are presented in Philippine pesos, TIDCORP's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated. Items included in the financial statements of TIDCORP 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 which 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.

For the past five years, TIDCORP's financial position and operational performance have declined as: (i) assets substantially dropped by P1.004 billion from P3.171 billion in CY 2012 to P2.167 billion in CY 2017; (ii) continued losses totalling to P407.246 million were incurred for the past three years; (iii) accumulated deficit was at P5.154 billion as at December 31, 2017; and (iv) non-performing loans ratio stood at 83.45 per cent of the gross loans receivable of P615.703 million as at December 31, 2017; and (v) non-earning guarantee portfolio totalled P2.892 billion as at December 31, 2017.

Nevertheless, Management believes that TIDCORP will have sufficient capital to operate over the next 12 months. An additional capital infusion from the National Government was released by the DBM in November 2017 and credited to the BTr for the account of the Corporation *(See Notes 13.1 and 20.1).* The remaining P4.038 billion unpaid subscription of the National Government was also included under the proposed Corporate Operating Budget submitted to the DBM. Moreover, the National Government, through the DOF, is planning to consolidate the various guarantee programs of the government by 2018 with TIDCORP as the surviving institution which will result in increasing the Corporation's paid-in capital stock to an estimated P26.640 billion *(See Note 28).*

Management acknowledges that uncertainties remain as to the occurrence of the above events that may affect the Corporation's ability to continue as a going concern. Despite this however, the payment of obligations incurred by TIDCORP is fully guaranteed by the Government of the Republic of the Philippines pursuant to Section 9 of PD No. 1080, as amended.

2.2. Adoption of new and amended PFRS

(a) *Effective in 2017 that are relevant to the Corporation*

The Corporation adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

(i) *Amendments to PAS 7, Cash Flow Statements – Disclosure Initiative.* These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. Management has adopted these amendments by presenting reconciliation between the opening and ending balances of liabilities arising from financing activities which includes both cash and non-cash changes as presented in Note 27.

(ii) *Amendments to PAS 12, Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses.* These amendments clarify the requirements for recognizing deferred tax assets on unrealized losses. The amendments clarify accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. These amendments have no significant impact to the Corporation.

(b) Effective in 2017 that are not relevant to the Corporation

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

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

(c) Effective subsequent to 2017 but not adopted early

The following pronouncements were issued before the year ending December 31, 2017 and are mandatorily effective for annual periods beginning on or after January 1, 2018. Unless otherwise indicated, the TIDCORP 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, 2018:

(i) *PFRS 9 (2014), Financial Instruments.* This standard will replace 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 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 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.

Management is currently assessing the impact of PFRS 9 (2014) on the financial statements of the Corporation. A comprehensive study of the potential impact of this standard will be conducted prior to its mandatory adoption date to assess the impact of all changes.

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

(iii) *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.

(iv) *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.

(v) *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.

(vi) *Annual Improvements to PFRS (2014 – 2016 Cycle).* The following improvements are relevant to TIDCORP 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.

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

(vii) *PFRS 16, Leases.* The new accounting model under PFRS 16 requires a lessee to recognize a óright-of-use assetô and a lease liability. The right of use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating distinction between operating and finance leases. Lessor accounting however remains unchanged and the distinction between operating and finance lease is retained.

(viii) *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.

(ix) *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.

(x) *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.

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

(xi) *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.

(xii) *Annual improvements to PFRS (2015 – 2017 Cycle).* The following improvements are relevant to TIDCORP but will have no material impact on its financial statements as these merely clarify existing requirements:

- *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.

- *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.

Effectivity Deferred Indefinitely:

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

2.3. Financial assets

2.3.1. Classification and measurement

Financial assets, which are recognized when TIDCORP becomes a party to contractual terms of the financial instrument, are classified into the following categories: (a) financial assets at FVTPL; (b) loans and receivables; (c) available-for-sale (AFS) financial assets;

and (d) held-to-maturity (HTM) investments. Management determines the classification upon initial recognition based on the purpose for which the financial instruments were acquired and their characteristics.

Purchases and sales of financial assets are recognized on their settlement date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss.

Currently, TIDCORP's financial assets are categorized as loans and receivables, AFS financial assets and HTM investments. A more detailed description of the three financial asset categories follows.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These arise when TIDCORP provides money, goods or services directly to the debtor with no intention of trading the receivables.

Loans and receivables include loans to customer and all receivables from customers and banks. Those with maturities of less than one year are included in the current assets, and those with maturities greater than twelve months after the statement of financial position (SFP) date are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Any change in value of loans and receivables is recognized in profit and loss, except for reclassified financial assets under PAS 39 and PFRS 7.

(b) AFS financial assets

AFS financial assets are non-derivative financial assets that are either designated as available for sale that the Corporation's management purchased and held indefinitely and will be available to be sold when the need for liquid funds arises during operating cycle or those that do not qualify for inclusion in any of the other categories of financial assets.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in OCI, net of any effects arising from income taxes. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in OCI is reclassified from equity to profit and loss.

(c) HTM investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Corporation's management has the positive intention and ability to hold to maturity. These investments are carried at amortized cost using the effective interest rate method, less impairment in value. Gains and losses are recognized in the statement of comprehensive income (SCI) when the HTM are derecognized and impaired, as well as through the amortization process.

2.3.2. Impairment of financial assets

TIDCORP assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, there is objective evidence that carrying amount exceeds the amount to be recovered through use or sale of the asset. If such evidence exists and the loss can be reliably estimated, any impairment loss is recognized in the SCI.

TIDCORP recognizes impairment loss based on the category of financial assets as shown below.

(a) Carried at amortized cost – loans and receivables

TIDCORP assesses whether objective evidence of impairment exists individually for financial assets in accordance with existing BSP regulations. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's 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. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss.

If a loan and receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, TIDCORP may measure impairment on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosures less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics, i.e., on the basis of TIDCORP's or BSP's grading process that considers asset type, industry, collateral type, status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodologies and assumptions used for estimating future cash flows are reviewed regularly by TIDCORP to reduce any differences between loss estimates and actual loss experience.

Per the BSP Manual of Regulations for Non-Bank Financial Institutions (MORNBFI), non-performing loans shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for 30 days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing.

In the case of loans payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three or more installments are in arrears. In the case of loans payable in daily, weekly or semi-monthly installments, the entire outstanding balance of the loan/receivable shall be considered as past due when the total amount of arrearages reaches 10 per cent of the total loan/receivable balance. Restructured loans shall be considered non-performing except when as of restructuring date, it has an updated principal and interest payments and it is fully secured by real estate with loan value of up to 60 per cent of the appraised value of real estate security and the insured improvements and such other first class collaterals.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognized as an income in the SCI. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

Whenever possible, TIDCORP seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate. The difference between the carrying value of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in profit or loss as part of Impairment Losses account.

TIDCORP's provisioning of valuation reserves on bad debts is pursuant to BSP Circular No. 855 issued October 29, 2014.

(b) Carried at fair value – AFS financial assets

When a decline in the fair value of an AFS financial asset has been recognized in OCI and there is objective evidence that the asset is impaired, the cumulative loss ï measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss ï is reclassified to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Reversal of impairment losses is recognized in OCI, 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.

2.3.3. Items of income and expense related to financial assets

Gains and losses arising from changes in the fair value of AFS financial assets are recognized in OCI until the financial asset is derecognized or impaired, at which time the cumulative gain or loss previously recognized in OCI shall be reclassified to profit or loss.

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

2.3.4. Derecognition of financial assets

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. If TIDCORP neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If TIDCORP retains substantially all the risks and rewards of ownership of a transferred financial asset, TIDCORP continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.4. Fair value measurement

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

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

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

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

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

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

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

The carrying values of the Corporation's financial assets and liabilities, particularly the AFS securities, as reflected in the SFP and related notes approximate their respective Level 1 fair values of P465.845 million and P476.953 million as of December 31, 2017 and 2016, respectively.

2.5. Property and equipment

Property and equipment (PE) include office condominium, transportation and equipment which are carried at cost less accumulated depreciation and any impairment in value. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation on asset is calculated using the straight-line method to allocate the cost of the asset net of residual value of 10 per cent of cost over its estimated useful life. The Corporation estimates the expected useful life of PE, within the following life spans, as prescribed by COA Circular No. 2015-007:

Type of PE	Estimated Useful Life
Buildings	30 to 50 years
Transportation equipment (i.e. motor vehicles)	5 to 15 years
Office equipment	5 to 15 years
Furniture, fixtures and books	2 to15 years
Leased assets and improvements	Whichever is shorter between the useful life of the leased asset or improvement and the lease term
Other property, plant and equipment	2 to 15 years

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

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

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

2.6. Semi-expendable property

Pursuant to COA Circular Nos. 2015-007 and 2016-006 dated October 22, 2015 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 PE.

Semi-expendable property or those tangible items with cost below the capitalization threshold are initially recorded at cost. These items are recognized as expense in full upon issuance to end users but recorded under the Report on the Physical Count of Inventories for monitoring purposes.

2.7. Investment properties

Investment properties (IPs) are properties held either to earn rental income or for capital appreciation or for 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, if any. Depreciation on asset is calculated using the straight-line method to allocate the cost of the assets net of residual value of 10 per cent of cost over its estimated useful life.

IPs include real and other properties acquired (ROPA) in settlement of loans and receivables under the Direct Lending and Guarantee Programs, through foreclosure or *dacion* in payment. These properties are initially booked at the carrying amount of the loan (i.e., outstanding loan balance less allowance for credit losses computed based on PAS 39 provisioning requirement which take into account the fair market value of the collateral) plus booked accrued interest less allowance for credit losses, plus transaction costs incurred upon acquisition (e.g., non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property). Maintenance and other carrying costs subsequent to the foreclosure or acquisition of such property are taken up as expenses. Realized gain on sale thereof is credited to income.

Pursuant to the BSP Circular No. 520 dated March 20, 2006, TIDCORP adopted the following policies in accounting for ROPA:

a. Land and buildings are accounted for using the cost model under PAS 40, *Investment Property*;

b. Other non-financial assets shall be accounted for using the cost model under PAS 16, *Property Plant and Equipment*;

c. Buildings and other non-financial assets are depreciated over the remaining useful life of the assets, which shall not exceed ten years and three years from the date of acquisition, respectively; and

d. Land, buildings and other non-financial assets shall be subject to the impairment provisions of PAS 36, *Impairment of Assets*.

The appraisal of all ROPA is made at least every other year to determine whether impairment exists. Immediate re-appraisal is conducted on ROPA which materially declined in value. If the recoverable amount/appraised value of ROPA is less than its carrying amount, the difference is recognized in the SCI as Impairment loss.

An IP is derecognized upon disposal or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses on the retirement or disposal of an IP are recognized in profit or loss in the period of the retirement or disposal.

Transfers are made to or from IP only when there is a change in use. For a transfer from IP to owner's occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner's occupied property becomes an IP, the Corporation accounts for such property in accordance with the policy stated under PE up to the date of change in use.

2.8. Intangible assets

Intangible assets include acquired licenses and internally developed software which are recognized if, and only if it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Corporation and the cost or fair value of the asset can be measured reliably.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Capitalized costs are amortized on a straight-line basis over the expected useful life of five years. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

Costs that are directly attributable to the development phase of new customized software for information technology and telecommunications systems are recognized as intangible assets if, and only if, the Corporation can demonstrate all of the following recognition requirements:

a. The technical feasibility of completing the intangible asset so that it will be available for use or sale;

b. The intention to complete the intangible asset and use or sell it;

c. The ability to use or sell the intangible asset;

d. The intangible asset will generate probable future economic benefits or service potential;

e. The availability of adequate technical, financial and other resources necessary to complete the development and to use or sell the intangible asset; and

f. Ability to measure reliably the expenditure attributable to the intangible asset during development.

Development costs not meeting these criteria for capitalization are expensed as incurred.

2.9. 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.

2.10. Financial liabilities

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

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

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

2.11. Provident Fund

TIDCORP has a Provident Fund for the benefit of its employees. The contributions made to the Fund consist of the employeesô share at 5 per cent of basic salary which is withheld from the monthly payroll and the employerõs share at 25 per cent of basic salary which is charged to Provident Fund Contributions.

2.12. Equity

Capital stock represents the value of capital paid by the National Government. Retained earnings (Deficit) represent all current and prior period results of operations as disclosed in profit and loss, reduced by the amount of dividends declared.

Net unrealized fair value gains (losses) on AFS securities arise from cumulative mark-to-market valuation of outstanding AFS securities.

2.13. Revenue and expense recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Corporation and the revenues can be reliably measured. In addition, the specific recognition criteria that follow must also be met before revenue is recognized:

(a) Income from guarantee operations

Guarantee fees are collected in advance upon issuance of the guarantee and periodically thereafter, based on outstanding guaranteed loan. The accounting treatment for guarantee fee income follows the accrual basis. Guarantee fees collected in advance are charged to unearned income and is distributed/amortized over the period covered by the guarantee fee.

Commitment fees are collected in advance upon issuance of the guarantee based on the undrawn balances of guaranteed loan. The accounting treatment for commitment fees is the same as that of the guarantee fee income. Processing fees are recognized upon collection.

Interest and penalties due to delay in the payment of guarantee fees and advances are recognized as income upon collection.

(b) Income from direct lending operations

Interest and similar income derived from financial instruments measured at amortized cost and interest-bearing financial instruments is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

Interest income, processing fees and penalties due on delayed payment are recognized upon collection.

Cost and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred. Finance costs are reported in profit or loss on accrual basis.

2.14. Leases

The Corporation determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Leases are accounted for as follows:

(a) TIDCORP 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.

(b) TIDCORP as lessor

Leases wherein the Company substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Company's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Company's net investment outstanding in respect of the finance lease.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

2.15. 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.

2.16. Income taxes

Tax expense recognized in the profit or loss comprises the sum of deferred tax and current tax not recognized in OCI or directly in equity, if any.

2.16.1. Current tax

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.

2.16.2. Deferred tax

Deferred tax is accounted for using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward 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 tax asset can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates and tax laws have been enacted or substantively enacted at the end of each reporting period.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which TIDCORP expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in OCI or directly in equity. In this case, the tax is also recognized in OCI or directly in equity, respectively.

2.17. Events after the end of the reporting period

Any post-year-end event that provides additional information about TIDCORP'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.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

TIDCORP's financial statements prepared in accordance with PFRS require 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 differ from these estimates and the differences could be significant.

3.1. Critical management judgments in applying accounting policies

In the process of applying the Corporation's accounting policies, Management has used its judgment and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

(a) Impairment losses on loans, advances and contingent liabilities

The Corporation reviews its problem loans, advances and contingent liabilities at each reporting date to assess whether an allowance for impairment should be recorded in the profit or loss. In particular, judgment by Management is required in the estimation of amount and timing of future cash flows when determining the level of allowance required. Guided by the MORNBFI and the related amendments thereto, such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

(b) Recognition of provisions and contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.15 and relevant disclosures are presented in Note 21.

3.2. Use of estimates

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period:

(a) Estimating impairment of financial assets

TIDCORP reviews its AFS securities and loans and other receivables portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, TIDCORP makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the financial asset or a portfolio of similar financial assets. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

(b) *Estimating useful lives of PE and IP*

TIDCORP estimates the useful lives of premises, furniture, fixtures and equipment, IPs and other properties based on the period over which the assets are expected to be available for use. The estimated useful lives of premises, furniture, fixtures and equipment, investment properties and other properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of IPs are analyzed in Note 9 while those of PE are analyzed in Note 10.

(c) *Determining realizable amount of deferred tax assets*

TIDCORP reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The carrying value of deferred tax assets, which management assessed to be utilized within the next two to three years, as of December 31, 2017 and 2016 is disclosed in Note 12.

3.3. Foreign currency-denominated monetary assets

The Corporation’s accounting for foreign currency-denominated monetary assets is guided by PAS 21, *The Effects of Changes in Foreign Exchange Rates*. Actual foreign currency transactions are recorded initially based on prevailing rate/spot rate as of transaction date. These accounts are translated/converted into Philippine peso using the Philippine Dealing System Weighted Average Rate (PDSWAR) closing rate as of SFP date. Foreign exchange differences arising from the settlement of monetary items or on translation of monetary items are recognized in the SCI in the period in which they arise.

4. RISK MANAGEMENT

Risk is inherent in the TIDCORP’s activities but it is managed through a process of on-going identification, assessment/measurement, control and monitoring subject to the risk limits and management action trigger mechanism. The Corporation recognizes the importance of risk management to ensure its long term viability. Management shall see to it that the risk management functions are implemented in all business units of the organization. This process of risk management is critical to the entity’s continuing overall viability and each individual within the Corporation is accountable for the risk exposures relating to his or her responsibilities.

The Corporation is exposed to credit risk, liquidity risk, market risk, operational risk and regulatory risk. The Corporation's overall risk management program focuses on these risk areas and should regularly formulate risk management strategies and policies to mitigate/minimize potential adverse effects on its financial and operational performances.

In line with the thrust of Management to improve the overall viability of the Corporation, the BOD approved the creation of the Finance and Business Development Committee (FBDC) which is mandated to assist the BOD perform efficiently and effectively its oversight role with respect to TIDCORP's financial management and business development consistent with its mandate under its Charter and relevant government policies.

The FBDC's major tasks are to review the Corporation's business plans and business strategies and its annual budget; evaluate financial condition and operating performance, provide guidance to Management, particularly to the Business Revenue Group, through the Board, in formulating specific marketing and business development activities consistent with its approved business plan.

The FBDC is also mandated to provide necessary guidance to the Management, through the BOD, in formulating strategies and/or specific action plans to (a) improve/strengthen TIDCORP's capital structure and overall financial condition, specifically on its borrowing, investing and related financing activities; (b) recover exposures/liquefy acquired assets and/or properly dispose non-performing assets of the Corporation; and (c) regularly check the status and availability of program funds to ensure adequate and appropriate allocation of resources to back up the funding requirements of credit and guarantee proposals in the pipeline and recommend to the BOD alternative sources of funds to support the operations and programs of TIDCORP.

4.1. Risk management structure

(a) Board level

(i) Board of Directors. The BOD is responsible for the overall risk management approach and for approving the risk principles and strategies.

(ii) Risk Oversight Committee (ROC). This Committee shall be responsible for the following:

- Performing oversight risk management functions specifically in the areas of managing credit, market, liquidity, operational, legal, reputational and other risks of the Corporation, and crisis management, which shall include receiving from Senior Management periodic information on risk exposures and risk management activities;

- Developing the Risk Management policy of the Corporation, ensuring compliance with the same and ensure that the risk management process and compliance are embedded throughout the operations of TIDCORP, especially at the Board and Management levels; and

- Providing quarterly reporting and updating the Board on key risk management issues as well as ad hoc reporting and evaluation on investment proposals.

(iii) *Credit Committee (CreCom).* This Committee shall be responsible for the following:

- Ensure that the credit policies set by the Board are implemented;

- Review, assess, and recommend changes or amendments to the adequacy of TIDCORP's existing credit policies and its overall credit administration/implementation, such as but not limited to the general compliance with existing guidelines and procedures;

- Review the quality of TIDCORP's guarantees and direct lending portfolios assuring adherence to policies and guidelines and monitoring progress toward achieving corporate objectives without prejudice to the review to be conducted by an independent body/regulator;

- Review and approve or deny all applications for direct lending and/or guarantee involving amounts that fall within the amount limitations set by the Board for the Committee;

- Review and recommend/endorse to the Board all applications for direct lending and guarantee involving amounts that exceeds the amount limitations set by the Board for the Committee;

- Advise on any matter of significance relating to credit including recommendations to the Board of changes in guarantee and direct lending policies or directions;

- Review and assess the Committee's Charter periodically and recommend any proposed changes to the Board for approval and shall conduct annual assessment of its own performance; and

- Perform such other functions that the Board may delegate from time to time or as may be required by law.

(iv) *Audit Committee.* This Committee shall be responsible for the following:

- Overseeing, monitoring and evaluating the adequacy and effectiveness of TIDCORP's internal control system, engage and provide oversight of the Corporation's internal and external auditors, and coordinate with the Commission on Audit (COA);

- Reviewing and approving audit scope and frequency, the annual internal audit plan, quarterly, semi-annual and annual financial statements before submission to the Board, focusing on changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from the audit, going concern assumptions, compliance with accounting standards, and compliance with tax, legal, regulatory and COA requirements;

- Receiving and reviewing reports of internal and external auditors and regulatory agencies, and ensuring that Management is taking appropriate corrective actions, in a timely manner in addressing control and compliance functions with regulatory agencies;

- Ensuring that internal auditors have free and full access to all the Corporation's records, properties and personnel relevant to and required by its function and that the internal audit activity shall be free from interference in determining its scope, performing its work and communicating its results; and

- Developing a transparent financial management system that will ensure the integrity of internal control activities throughout the organization through a procedures and policies handbook that will be used by the entire organization.

(b) *Management level*

(i) *The Senior Management Committee (SMC).* The SMC is a standing advisory body responsible for providing sound and strategic guidance, advice, policies and guidelines on key matters or issues affecting the operations of TIDCORP, and periodically evaluates and monitors the implementation of strategies or action plans that the BOD or Management has approved.

(ii) *Risk Management Office (RMO).* The role of the RMO is to assist and support management in attaining and maintaining a high quality risk asset process as well as healthy and sound portfolio quality that would result to the attainment of the Corporation's objectives as to profitability, service efficiency and product delivery.

(iii) *Office of the Chief Risk Officer.* The Chief Risk Officer shall be responsible for the following:

- Integrate risk management into the business activities of the Corporation;

- Ensure that the Corporation manages adequately credit, market, liquidity, legal, operational and other risks:

  a. Review compliance with existing risk asset management policies, regulations, plans and procedures, and

  b. Provide feedback to Management and/or marketing units on potential losses or gains in risk asset management operations based on periodic financial analysis to gauge the credit health of the Corporation and identify sound credit alternatives.

- Advise the BOD in areas of risk exposures and risk management activities of the Corporation.

(iv) *Internal Audit Office (IAO).* Risk management processes throughout the Corporation are audited by the IAO that examines both the adequacy of the procedures and compliance with procedures. IAO discusses the results of the assessments with management and reports its findings and recommendations to the Audit Committee and the BOD. The IAO shall be responsible for the following:

- Examine and evaluate the adequacy and effectiveness of the internal control systems at various operations and activities of the Corporation;

- Review compliance with legal and regulatory requirements and approved Corporation's policies and procedures;

- Examine the quality of credit portfolio and periodically updates Management on the status thereof;

- Appraise performance and economical and efficient use of corporate resources;

- Recommend measures to safeguard the assets of the Corporation;

- Review the accuracy and reliability of the Corporation's accounting records and financial reports, including that of other entities where the Corporation has financial interest or where it may have review and monitoring authority through contractual agreements or covenants; and

- Suggest/Recommend to Management measures to address the inherent flaws/defects in the systems and operations of the different organizational units of the Corporation.

4.2. Risk mitigation

(a) Credit risk

Credit risk is the risk that a guaranteed obligor or direct lending client of the TIDCORP will fail to meet its obligations in accordance with the agreed terms. The goal of credit risk management is to create shareholder value by ensuring the credit risk exposures generate returns in excess of the cost of the underlying capital while at the same time supporting government economic development priorities and thrusts in sectors covered by its mandate.

Credit risk arises from the Corporation's guarantees and direct lending business, comprising of off-SFP commitments and on-SFP portfolio.

Credit risk is addressed at the operational level by specific processes and procedures as contained in TIDCORP's Risk Asset Management Manual (RAMM) and through the Credit Policy Memoranda (CPMs) issued from time to time. The Corporation's credit assessment process includes the determination of a credit risk rating or score for the borrower. For this purpose, it implements its own Internal Credit Risk Rating System (ICRRS). The Corporation manages and controls credit risk by setting limits on the amount of risk it is willing to accept. Counterparty limits are established by the use of a credit classification system which assigns each counterparty a risk rating. The credit quality review process allows the Corporation to assess the potential loss as a result of the risks it is exposed to and take immediate corrective actions on the same.

(b) Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To mitigate risk, management has arranged diversified funding sources in addition to its core revenue base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding, if required.

To address this risk, Management incorporated in its Business Plan the Contingency Funding Plan (CFP) which was approved by the Board in February 2008, with the following objectives:

- To define the level of crisis that the BOD intends for the Corporation to survive without external assistance and that the same crisis level does not escalate to a point that it cannot survive.

- To articulate in advance what to do, when, how and by whom to manage a crisis or liquidity situation to avert any escalation of the same with the minimum of financial impact.

The concept is to manage a crisis fast enough but to mitigate also the risks of escalation and prevent the exacerbation of the crisis by slow and wrong decision. The CPF covers the following areas: (a) Survivable Liquidity Stress Level; (b) Activation and Crisis Management Process; (c) Senior Management Crisis Committee; (d) Contingency Funding Strategy; (e) Communications; (f) Management Information System Requirements; and (g) Other Specific Crisis Management Preparation Requirements.

As a result of the shift by the Corporation from HTM to AFS securities, TIDCORP maintains a portfolio of highly marketable securities that can be easily liquidated in the event of unforeseen interruption of cash flow. Likewise, due to the dynamic nature of the underlying businesses, the Fund Management Department of the Corporation maintains flexibility in funding by keeping committed credit lines available.

(c) Market risk

Market risk is essentially the risk of loss on the Corporation’s statement of financial position positions and asset/liability structure due to price or interest rate changes; that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange and equity prices.

In general, market risk is identified when a product is approved for introduction into the Corporation’s portfolios, as well as when the actual risk-taking transaction is consummated. In the product approval process, the aim is to perform a thorough analysis, evaluation and documentation of the market risk exposure arising from the product, if any, and to ensure such is within the strategic parameters and risk tolerance guidelines of the Corporation.

In order to address this, the Treasury Operations Department is tasked to closely monitors the behavior of the market in terms of prevailing interest rates and mark-to-market valuation of TIDCORP’s AFS government securities

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events – whether deliberate, accidental or natural.

TIDCORP undertakes the identification/assessment of operational risk through (a) products, systems and process development; (b) business continuity planning; and (c) audits.

Control and mitigation of operational risks are undertaken through (a) control mitigation activities, such as segregation of duties, clear documentation of procedures, physical assets and information access control and verification and reconciliation; and (b) continuity planning.

Operational risk is addressed through approved documentations of processes in back office/support functions. Emphasis is placed on controls to guide day-to-day processes.

5. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2017	2016 (As restated)
Cash on hand	**-**	19,774
Revolving/petty cash fund	**152,313**	129,101
Cash in bank		
Foreign currency deposits	**1,063,036**	980,237
Savings deposit	**232,481**	741,099
Treasury bills	**162,220,710**	-
Special savings deposit	**6,850,000**	461,425,000
	170,518,540	463,295,211

This account includes placements in Treasury bills with maturity of less than 90 days from date of acquisition and with interest rates ranging at 2.05 to 2.45 per cent per annum.

6. SHORT-TERM HELD-TO-MATURITY INVESTMENTS

This account consists of short-term HTM investments in Treasury bills totalling to P224,248,922 as of December 31, 2017, and which have terms ranging from 104 to 133 days and effective interest rates of 2.20 to 2.47 per cent per annum.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account is composed of the following:

	Treasury Bonds	**Retail Treasury Bonds**	**Total**
Balance, January 1, 2016	358,248,758	217,638,855	575,887,613
Acquisitions/Additions	-	-	-
Sales/Reductions	-	(100,000,000)	(100,000,000)
Fair value gains (losses)	(2,594,893)	3,660,280	1,065,387
Balance, December 31, 2016	**355,653,865**	**121,299,135**	**476,953,000**
Acquisitions/Additions	-	-	-
Sales/Reductions	-	-	-
Fair value gains (losses)	(4,625,676)	(6,482,710)	(11,108,386)
Balance, December 31, 2017	**351,028,189**	**114,816,425**	**465,844,614**

The Corporationõs AFS investments are stated at their fair values. As at December 31, 2017 and 2016, the accumulated net unrealized loss on AFS investments, which is reflected as fair value adjustments in the statement of changes in equity, amounted to P47.333 million and P39.557 million, respectively, net of deferred tax assets of P20.285 million and P16.953 million, respectively. These investments are classified as current assets with the intention to dispose anytime within 12 months from the SFP date.

8. LOANS AND RECEIVABLES

8.1. Current

This account consists of the following:

	2017	2016
Loans receivable ï current	**18,057,984**	30,224,865
Interest receivable on investments	**7,835,929**	8,339,087
Accounts receivable ï current	**280,298**	5,779,087
Interest receivable ï loans	**2,447,397**	1,846,914
	28,621,608	46,189,953
Allowance for doubtful accounts	**179,921**	294,894
Loans receivable ï discount	**65,903**	735,576
	245,824	1,030,470
	28,375,784	45,159,483

Loans receivable – current represents the outstanding balance of loan releases to clients under the Retail Direct Lending (RDL) and the Wholesale Lending Programs (WLP).

Accounts receivable represents trade receivables from clients under the different program offerings, namely: guarantee, direct lending, and credit insurance programs, including default accounts to be collected within one year.

Guarantee fees receivable represents guarantee fees due on the interest portion of the guaranteed obligations of the Corporation from one account.

Interest receivable on loans represents accrued interest receivable from loans receivable with current status as at SFP date. Section 4 of BSP Circular No. 202, series of 1999 provides that no accrual of interest income is allowed if a loan has become non-performing. Interest on non-performing loans shall be taken up as income only when actual collections thereon are received.

Interest receivable on investments represents accrued interest receivable from investments in government-issued debt instruments, government bank products and other investments, broken down as follows:

	2017	2016
Treasury bonds	**4,951,764**	6,107,597
Retail Treasury bonds	**1,155,833**	-
Philippine interest reduction bonds	**1,725,571**	1,725,571
Special savings deposit	**1,184**	504,342
Foreign currency denominated time deposit	**1,577**	1,577
	7,835,929	8,339,087

8.2. Non-current

This account consists of the following:

	2017	2016
Loans receivable ï non-current, net	**322,760,862**	348,840,807
Accounts receivable ï clients, net	**-**	1,033,986
Receivable from subrogated claims, net	**-**	-
	322,760,862	349,874,793

Loans receivable – non-current, net represents the long-term portion of the outstanding balance of the loans receivable originated by the Corporation under the RDL and WLP. In 2017, total loan releases amounted to P37.214 million, loan collections/recoveries amounted to P45.614 million and the amortization of loans receivable discounts amounted to P0.66 million. Details follow:

	2017	2016
Loans receivable	**597,644,753**	606,378,310
Allowance for doubtful accounts	**(274,883,891)**	(257,537,503)
	322,760,862	348,840,807

Receivables from subrogated claims represents advances made by TIDCORP to creditor-banks on assumption of the guaranteed portion of the loan and interest as well as other charges related thereto and the restructured accounts of defaulting clients under the Guarantee Program. As a result of the call on the guarantees issued in favor of the creditor-banks, TIDCORP settled advances on these default accounts aggregating to P2.766 billion for the principal and interest amortizations covering the period from December 2006 to December 2015 for large and SME accounts. The guarantee accommodations for these accounts were issued during the period 1979 to 2007 while the claim payments cover the period from 1980 to 2016. The balance of the accounts totalling to P2,506,987,910 as of both December 31, 2017 and 2016 have been fully provided for with allowance.

8.3. Allowance for doubtful accounts

Movements in the allowance for doubtful accounts for loans and receivables are as follows:

	Balance, 1/1/2017	Additional Provision	Recoveries/ Write-offs/ Adjustments	Balance, 12/31/2017
Loans receivable – short-term	294,894	-	(114,973)	179,921
Loans receivable – long-term	257,537,503	25,920,000	(8,573,612)	274,883,891
Accounts receivable – clients	8,898,909	-	3,039,150	11,938,059
Receivable from subrogated claims	2,506,987,910	-	-	2,506,987,910
	2,773,719,216	**25,920,000**	**(5,649,435)**	**2,793,989,781**

	Balance, 1/1/2016	Additional Provision	Recoveries/ Write-offs/ Adjustments	Balance, 12/31/2016
Loans receivable – short-term	507,443	500,000	(712,549)	294,894
Loans receivable – long-term	176,742,145	31,000,000	49,795,358	257,537,503
Accounts receivable – clients	8,898,909	-	-	8,898,909
Receivable from subrogated claims	2,506,987,910	-	-	2,506,987,910
	2,693,136,407	**31,500,000**	**49,082,809**	**2,773,719,216**

9. INVESTMENT PROPERTY

This account represents the cost of acquired assets or ROPA by the Corporation through *dacion* in payment or foreclosure in settlement of loans under the Direct Lending and Guarantee programs, as follows:

	2017	2016 (As restated)
Cost		
Balance, January 1	**112,257,244**	101,082,823
Additions	**13,127,400**	12,084,421
Disposal/Retirement	**(55,909,738)**	(910,000)
Balance, December 31	**69,474,906**	112,257,244
Accumulated depreciation		
Balance, January 1	**26,686,220**	23,163,558
Depreciation	**781,479**	3,850,262
Disposal/Retirement	**(19,507,444)**	(327,600)
Balance, December 31	**7,960,255**	26,686,220
Accumulated impairment		
Balance, January 1	**20,752,622**	20,752,622
Impairment	**-**	-
Disposal/Retirement	**-**	-
Balance, December 31	**20,752,622**	20,752,622
	40,762,029	64,818,402

The appraised value of the above assets totalled P154.440 million and P229.363 million as of December 31, 2017 and 2016, respectively based on appraisals conducted in 2010 to 2016.

10. PROPERTY AND EQUIPMENT

This account consists of the following:

	Building	Transportation Equipment	Office Equipment	IT Equipment	Total
Cost					
January 1, 2017, as reported	87,456,709	14,905,268	14,178,042	35,250,709	151,790,728
Adjustments	-	-	(120,850)	804,560	683,710
January 1, 2017, as restated	87,456,709	14,905,268	14,057,192	36,055,269	152,474,438
Additions	-	-	1,128,780	334,780	1,463,560
Disposal/Retirement	-	-	(9,220)	(9,982)	(19,202)
December 31, 2017	87,456,709	14,905,268	15,176,752	36,380,067	153,918,796
Accumulated depreciation					
January 1, 2017, as reported	35,006,666	10,920,056	12,863,193	20,545,299	79,335,214
Adjustments	-	-	(120,880)	-	(120,880)
January 1, 2017, as restated	35,006,666	10,920,056	12,742,313	20,545,299	79,214,334
Depreciation	2,738,407	421,628	295,206	3,574,206	7,029,447
Disposal/Retirement	-	-	(7,293)	(6,438)	(13,731)
December 31, 2017	37,745,073	11,341,684	13,030,226	24,113,067	86,230,050
Accumulated impairment					
January 1, 2017	-	942,785	723,533	1,753,978	3,420,296
Impairment	-	-	-	-	-
Disposal/Retirement	-	-	-	-	-
December 31, 2017	-	942,785	723,533	1,753,978	3,420,296
Net book value, December 31, 2017	**49,711,636**	**2,620,799**	**1,422,993**	**10,513,022**	**64,268,450**
Net book value, December 31, 2016	52,450,043	3,042,427	591,346	13,755,992	69,839,808

Based on appraisals conducted in November 2017 and October 2016, the total PE has appraised value of P182.896 million and P145.041 million, respectively. Details follow:

	2017	2016
Building	**170,200,000**	119,590,000
Land transportation	**5,667,300**	8,940,000
Equipment, furniture and fixtures	**7,028,330**	16,510,707
	182,895,630	145,040,707

11. INTANGIBLE ASSETS

This account represents the automated systems developed and launched by the Corporation from 2008 to 2017 covering backroom operations in line with the corporate initiative to improve turn-around time and benchmark with real-time processing through the automation of major processes, as follows:

	2017	2016
Balance, January 1, as reported	**900,296**	1,386,296
Adjustment/Reclassification	**-**	(441,320)
Balance, January 1, as adjusted	**900,296**	944,976
Additions	**-**	76,200
Disposal	**-**	-
Amortization	**(166,879)**	(120,880)
Balance, December 31	**733,417**	**900,296**

The automated systems primarily comprised of the following:

11.1. Financial Information System (FIS)

FIS is the General Ledger system that will consolidate all financial transactions of the Corporation and consequently provide Management with accurate, timely and complete financial reports. It is composed of the different modules, namely, Oracle Inventory, Oracle Purchasing and Oracle Financials. The FIS was developed in 2012 to automate the processing and consolidation of all financial transactions of the Corporation.

11.2. Central Liability System (CLS)

CLS is the automated system covering the loan management processes on credit application, evaluation, investigation and approval.

12. CURRENT AND DEFERRED TAXES

The components of tax expense relating to profit or loss and OCI follow:

	2017	2016
Reported in profit or loss		
Current tax expense:		
Regular corporate income tax at 30%	**-**	-
Final tax at 20% and 7.50%	**6,379,581**	6,338,624
	6,379,581	6,338,624
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(63,476,323)**	(119,895,171)
	(57,096,742)	(113,556,547)

	2017	2016
Reported in OCI		
Deferred tax expense (income) relating to origination and reversal of temporary differences	**20,285,449**	16,952,933

A reconciliation of tax on pre-tax profit computed at the applicable statutory rates to tax expense reported in the statements of profit or loss follows:

	2017	2016
Tax on pre-tax profit at 30%	**(57,068,465)**	(113,524,696)
Adjustment for income subjected to lower tax rates	**(9,563,968)**	(9,508,172)
Tax effects of non-deductible interest expense	**3,156,110**	3,137,697
	(63,476,323)	(119,895,171)

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

	Statement of Financial Position		Profit or Loss	
	2017	2016	**2017**	2016
Deferred tax assets				
Unearned income	**6,643,827**	6,818,866	**(175,039)**	(4,065,620)
Bad debts	**206,375,733**	162,632,624	**43,743,109**	106,423,030
Impairment losses	**1,192,581**	1,192,581	**-**	-
Accrued expenses	**4,748,154**	2,660,713	**2,087,441**	898,816
Minimum corporate income tax	**48,652**	48,652	**-**	-
Net operating loss carry-over	**49,266,893**	31,435,657	**17,831,236**	16,467,628
Unrealized foreign currency gains (losses)	**3,486**	-	**3,486**	-
Unrealized gains (losses) – OCI	**20,285,449**	16,952,933	**-**	-
	288,564,775	221,742,026	**63,490,233**	119,723,854
Deferred tax liability				
Unrealized foreign currency gains (losses)	**-**	(16,419)	**16,419**	(16,419)
Prepaid expenses	**(535,088)**	(504,759)	**(30,329)**	187,736
	(535,088)	(521,178)	**(13,910)**	171,317
Net deferred tax assets	**288,029,687**	221,220,848		
Deferred tax income (expense)			**63,476,323**	119,895,171

13. OTHER ASSETS

13.1. Current

This account covers non-trade receivables and other assets as follows:

	2017	2016 (As restated)
Subscriptions receivable	**500,000,000**	-
Receivables from the Bureau of Internal Revenue (BIR)	**18,263,028**	12,795,453
Prepaid expenses	**4,362,967**	2,741,860
Lease payments receivable	**2,488,759**	1,837,752
Accounts receivable ï officers and employees	**662,813**	552,365
Prepaid documentary stamp tax	**288,190**	424,429
Advances to officers and employees	**-**	10,000
Office supplies and other inventory	**(214,211)**	(264,574)
	525,851,546	18,097,285

Subscriptions receivable represents the additional capital infusion per NCA-BMB-C-17-0018380 dated November 9, 2017 released by the Department of Budget and Management (DBM) per SARO-BMB-C-17-0019166, of even date, and credited to the Bureau of Treasury (BTr) for the account of TIDCORP.

Receivables from the BIR represents tax credits (payments either through cash or creditable withholding tax in excess of tax due) for corporate income tax elected to be carried forward to the next taxable period.

13.2. Non-current

This account consists of the following:

	2017	2016 (As restated)
Foreign currency ï In Trust for the BTr	**18,128,555**	17,919,956
Lease payments receivable ï car plan	**10,815,357**	10,356,918
Miscellaneous assets	**6,159,294**	6,139,946
Premium reserve fund	**286,499**	286,499
Due from Provident Fund	**27,862**	27,862
Sales contract receivable	**-**	14,080,000
Accounts receivable ï National Government, net	**-**	-
	35,417,567	48,811,181

Foreign currency – In Trust for the BTr represents a foreign currency deposit unit (FCDU) time deposit with Land Bank of the Philippines (LBP) held in trust under the name of TIDCORP for the account of the BTr, which has an outstanding balance of US$363,130 as at 2017 converted at the of rate P49.923 per US$1.00 and US$359,746 as at end 2016 converted at P49.813 per US$1.00. This arose from court cases in the United States of America filed against TIDCORP related to a default account under the Guarantee Program of the Corporation which was turned over to the National Government in 1989 pursuant to Administrative Order (AO) No. 64 dated March 24, 1988 and Deed of Transfer dated March 31, 1989.

The DOF and BTr released US$5.000 million on April 26, 2002 per DOF letter-instruction to BTr of even date. However, the final settlement agreement between TIDCORP and Fidelity Partners, Inc. amounted to only US$4.800 million, thus, a balance of US$0.200 million. Over the years, TIDCORP administered the fund by maintaining the same in time deposit accounts yielding net interest income of US$163,130 from April 26, 2002 to December 31, 2017 and US$159,745 up to December 31, 2016.

Lease payments receivable covers outstanding receivables from TIDCORP officers who availed of car plan under lease-purchase agreement with TIDCORP, pursuant to the guidelines issued by the Office of the President of the Philippines (OP), to wit:

	2017	2016
Lease payments receivable	**11,634,107**	11,175,668
Allowance for bad debts	**(818,750)**	(818,750)
	10,815,357	10,356,918

Miscellaneous assets consist of the following assets of the Corporation:

	2017	2016
Paintings and other assets	**3,114,463**	3,114,463
Deposit to various contractors	**1,490,287**	1,487,321
Due from National Government Agencies	**918,544**	902,162
Tower club corporate membership	**636,000**	636,000
	6,159,294	6,139,946

Premium reserve fund represents TIDCORP's 40 per cent pro-rata share in its 20 per cent retention of the gross insurance premiums collected under the Credit Insurance Program which is set aside as reserves to cover future claims.

Accounts receivable – National Government represents various advances made covering legal fees for the account of the National Government pursuant to Board Resolution No. 1094 dated March 29, 1996, net of required valuation reserves. The balance of the account of P6,765,588 as of both December 31, 2017 and 2016 had been fully provided for with allowance.

13.3. Allowance for doubtful accounts

Movements in the allowance for doubtful accounts for other asset accounts are as follows:

	Balance, 1/1/2017	Additional Provision	Recoveries/ Write-offs/ Adjustments	Balance, 12/31/2017
Accounts Receivable – Nat'l Gov't	6,765,588	-	-	6,765,588
Lease payments receivable	818,750	-	-	818,750
	7,584,338	**-**	**-**	**7,584,338**

	Balance, 1/1/2016	Additional Provision	Recoveries/ Write-offs/ Adjustments	Balance, 12/31/2016
Accounts Receivable – Nat'l Gov't	6,765,588	-	-	6,765,588
Lease payments receivable	-	818,750	-	818,750
	6,765,588	**818,750**	**-**	**7,584,338**

14. ACCOUNTS PAYABLE

This account represents trade payables of the Corporation, broken down as follows:

	2017	2016 (As restated)
Pari-passu payable ï banks	**500,240,763**	**374,700,967**
Accounts payable ï clients	**78,111**	**89,659**
Accounts payable ï banks	**8,213**	**7,125**
Refund of processing fees	**-**	**14,850**
COFACE/COGERI	**862**	**862**
Inventory clearing	**(250,090)**	**(259,270)**
	500,077,859	**374,554,193**

Pari-passu payable – banks represents the provision for default guarantees pursuant to PAS 37 covering one account as well as the pro-rata share of banks from TIDCORPôs collections/recoveries and proceeds from the sale of acquired assets from default accounts under the Guarantee Program.

Refund of processing fees represents processing fees for refund to prospective clients who have cancelled their application in TIDCORPôs various program offerings.

COFACE represents the share of Compagnie Francaise Dô Assurance Pour Le Commerce Exterieur (COFACE), TIDCORPôs reinsurer under the Credit Insurance Program, in the buyersô credit limit application fees covering the cost of credit information verification conducted on the foreign buyers of the clients under the Credit Insurance Program of the Corporation.

Inventory clearing is a holding account that represent supplies inventory that has been received but not yet invoiced, or invoiced and not yet received.

15. ACCRUED EXPENSES

This account represents expenditures already incurred but remained unpaid as of SFP date. As of December 31, 2017, accrued expenses totalled P12.606 million, of which, P1.392 million was set-up for prior years and P11.213 million was set-up for the current year. As of December 31, 2016, accrued expenses totalled P5.389 million, of which, P1.404 million was set-up for prior years and P3.985 million was set-up for the current year.

	2017	2016 (As restated)
Personal services	**4,732,443**	1,567,289
Maintenance and other operating expenses		
Audit fees and other services	**4,880,623**	1,464,264
Janitorial services	**1,290,000**	958,441
Staff, training and development	**720,000**	-
Printing services	**322,784**	398,000
Electricity	**89,840**	76,137
Promotional and marketing expenses	**77,000**	327,990
Administration expense	**-**	77,500
Legal fees and other services	**-**	31,618
Others	**493,292**	487,456
	12,605,982	5,388,695

16. LOANS PAYABLE

This account represents the short-term loan/line with the LBP with outstanding balance of P812.250 million as of December 31, 2017 from P855.000 million as of December 31, 2016. The credit facility with LBP, initially granted on July 17, 2008 for P200.000 million and gradually increased to P2.200 billion in August 2014, is availed and renewed through promissory notes with terms not to exceed 180 days.

As security for the payment of the loan/line, including interests, penalties, fees and other charges, as well as the exact and faithful performance and observance of the terms and conditions of the promissory notes, P361.000 million worth of TIDCORP's rights, titles and interest on and over deposits, money market placements and/or government securities have been assigned to LBP.

As endorsed by the DOF, the OP approved the renewal of TIDCORP's Special Authority to borrow under its existing short-term borrowing facilities of up to P2.200 billion for a tenor of one year from Government Financial Institutions with ROP guarantee, in accordance with Section 14, General Provisions of RA No. 10633 or the FY 2014 General Appropriations Act, and Section (a) of RA No. 8494, subject to pertinent laws, rules and regulations.

17. INTEREST PAYABLE

This account represents the interest obligation of the Corporation in connection with the short-term loan line with LBP as follows:

	2017		2016	
	Principal amount	**Interest obligation**	Principal amount	Interest obligation
Three-month PDST-F plus spread, subject to monthly re-pricing	**361,000,000**	**2,489,296**	380,000,000	2,349,245
ROP guarantee	**451,250,000**	**2,124,485**	475,000,000	1,784,522
	812,250,000	**4,613,781**	855,000,000	4,133,767

18. UNEARNED INCOME

This account represents guarantee fees and interest income collected in advance from various accounts under the Direct Lending and Guarantee Programs, installment sales, capitalized interest on restructured accounts as well the interest, penalties and other charges on which proceeds from the foreclosure/*dacion* of assets were applied. Details of the account follow:

18.1. Current

	2017	2016
Guarantee fees	**22,146,090**	22,604,554
Receivable from compromise agreements	**1,030,125**	5,830,125
Interest income ï lending	**-**	125,000
Deferred interest, penalties and other charges on which acquired assets on default accounts were applied	**87,509**	87,509
	23,263,724	28,647,188

18.2. Non-current

	2017	2016 (As restated)
Receivable from compromise agreements	-	-
Deferred interest, penalties and other charges on which acquired assets on default accounts were applied	**3,312,176**	3,637,855
	3,312,176	3,637,855

19. OTHER PAYABLES

This account consists of the following:

	2017	2016 (As restated)
Trust liabilities ï BTr	**18,128,555**	17,919,956
Client's deposit	**15,352,489**	52,432,297
Miscellaneous deposits	**2,331,535**	4,110,232
Trust liabilities	**1,229,349**	1,216,946
Reinsurance premium payable	**46,360**	46,360
Other current liabilities	**12,912,482**	10,288,349
	50,000,770	86,014,140

Trust liabilities – BTr represents an FCDU time deposit account with the LBP held in trust under the name of TIDCORP for the account of the BTr, which has an outstanding principal balance of US$363,130 as of December 31, 2017 converted at the rate of US$1.00 is to P49.923, and US$359,745 as of December 31, 2016 converted at the rate of US$1.00 is to P49.813 *(See Note 13.2).*

Miscellaneous deposit includes biddersô and performance bonds collected from suppliers and contractors as well as down payment from buyers on the sale of acquired assets.

Client's deposit covers excess guarantee fees, advance collection of credit insurance premiums, deposits on the sale of acquired assets and interest and penalties collected from clients under the various program offerings of the Corporation which shall be applied to future fees due.

Trust liabilities represents TIDCORP and insurerõs 40 per cent share in premium reserve fund based on gross insurance premium set aside to cover future claims.

Reinsurance premium payable represents the share of COFACE in the gross insurance premium by virtue of the Reinsurance Agreement.

Other current liabilities consist of the following:

	2017	2016
Accounts payable ï trade	**5,123,920**	2,424,045
Bureau of Internal Revenue	**3,373,783**	3,644,538
Withholding tax ï employees	**1,573,935**	1,221,878
Provident fund ï contributions and loans payable	**1,251,870**	1,289,414
Government Service Insurance System (GSIS)	**1,027,226**	1,187,495
Accounts payable ï non-trade	**396,441**	327,783
Home Development Mutual Fund (HDMF)	**101,319**	120,346
Philippine Health Insurance Corporation (PHIC)	**63,988**	72,850

	2017	2016
	12,912,482	10,288,349

20. EQUITY

20.1. Capital stock

On January 11, 1985, PD No. 1962, further amending Section 7 of PD No. 550, as amended by PD No. 1080, was issued increasing the authorized capital stock of the Corporation from P2.000 billion to P10.000 billion which is fully subscribed by the Government of the Philippines.

The paid-in capital amounted to P5.962 billion and P5.462 billion as of December 31, 2017 and 2016, respectively. The increase of P500 million represents the additional subscription payment released by DBM to the BTr in November 2017 for the account of TIDCORP *(See Note 13.1).*

20.2. Deficit

This account represents the net of accumulated profits and losses from prior years' operations and the result of the transfer of non-performing assets of P5.220 billion and related real and contingent liabilities of P2.709 billion and P3.651 billion, respectively, to the National Government pursuant to AO No. 64 dated March 24, 1988 and Deed of Transfer dated March 8, 1989.

20.3. Net unrealized gains (losses) on AFS financial asset

This represents the net effect of unrealized gains (losses) on AFS investment portfolio of the Corporation. Accordingly, the net unrealized fair value gains (losses) on the AFS, net of deferred tax is presented as a separate item under equity.

20.4. Capital Adequacy Ratio

Under the new Capital Adequacy Ratio (CAR) framework, TIDCORP's CAR was set at seven per cent, five per cent of which should be Tier 1 capital by December 31, 2012. During the transition period beginning 2011, the CAR must not be lower than three per cent and by January 1, 2012 should be at five per cent.

As at December 31, 2017, CAR was at 7.13 per cent, a marked improvement from previous years as a result of the booking of the equity infusion of P500 million based on RA No. 10924 or the FY 2017 General Appropriations Act. As at December 31, 2016, CAR registered at 3.61 per cent, below the required benchmark approved by the BSP – Monetary Board (MB) of seven percent due to delays in the receipt of the projected equity infusion from the National Government.

21. CONTINGENCIES

21.1. Guarantees outstanding

This is an off-book contingent account representing guarantees outstanding in favor of the foreign and/or domestic banks/financial institutions for loans they extended to clients/borrowers. Outstanding guarantees for general facility as of December 31, 2017 and 2016 amounted to P8,937,950,000 and P9,045,514,431, respectively.

For short-term guarantee cover, guarantees are recorded upon issuance of the guarantee, while for long-term guarantee cover, the contingent liability is equal to the drawdowns/availments from the guarantee facility recorded within the accounting period.

As of December 31, 2017 and 2016, the guaranteed principal obligations under the contingent liability account is inclusive of the P191.700 million interest covered by TIDCORP’s guarantee corresponding to the guaranteed principal obligations of one account, as provided in the Guarantee Agreement with the lenders and borrowers.

On September 16, 2015, a guaranteed account in the amount of P2.892 billion, of which P0.192 billion represents interest, filed a Petition for Voluntary Rehabilitation with the Ormoc City Regional Trial Court (RTC). The proceedings was later on transferred to the Tacloban RTC, a commercial court, based on the ruling of the Court of Appeals in favor of a creditor who opposed that the Ormoc City RTC is not a commercial court.

On September 22, 2015, the Presiding Judge issued a Commencement Order declaring the account to be under rehabilitation pursuant to RA No. 10142, otherwise known as the Financial Rehabilitation and Insolvency Act of 2010.

Per BSP Report of Examination as of December 31, 2015, Philphos’ total guaranteed exposure of P2.892 billion was classified as Doubtful-Loss. Based on updated figures, this requires a total provision for bad debts P1.944 billion, net of the TIDCORP’s 52.4 per cent share or P947.338 million in the latest valuation of the Mortgage Trust Indenture. Starting CY 2016, the deficiency in the provision was booked on staggered basis over a period of ten years.

As of December 31, 2017 and 2016, the recorded allowance for bad debts amounted to P497.77 million and P372.235 million, respectively, with deficiency of P1.446 billion which was proposed for booking over a period of seven years in the books of a proposed TIDCORP subsidiary commencing in CY 2018. The creation of a subsidiary is in line with the DOF recommendation to the Governance Commission for GOCCs (GCG) on the planned consolidation of the guarantee functions, programs and funds of the Agricultural Guarantee Fund Pool (AGFP), Industrial Guarantee and Loan Fund (IGLF), Small Business Corporation (SBC) and Home Guaranty Corporation (HGC) and TIDCORP, with TIDCORP as the surviving institution *(See Note 28).*

The implementation of the staggered booking of the provision over a period of seven years is still subject to the approval of the BSP – MB.

21.2. Legal cases

TIDCORP is a party to various legal proceedings. Based on the status of these cases as at December 31, 2017 and 2016, the Management believes that these have no material impact on the financial statements of TIDCORP.

21.3. BIR Final Assessment Notice

On January 13, 2015, TIDCORP received Preliminary Assessment Notice (PAN) and Final Assessment Notice (FAN) from the BIR for deficiencies on income tax, expanded withholding tax, withholding tax on compensation and final withholding of value-added tax for the taxable year 2011 totaling to P113.921 million. Protest letters against these notices were filed on February 12, 2015 and June 29, 2015, respectively. TIDCORP is still awaiting the decision of the Revenue District Office (RDO) *(See Note 29.1).*

22. REVENUE

22.1. Operating income

	2017	2016 (As restated)
Guarantee, commitment and processing fees	**39,400,594**	105,944,784
Interest on investments and deposits	**31,879,895**	31,693,904
Interest and penalties on loans	**17,335,144**	16,873,531
Gain (loss) on sale of acquired assets	**58,347,478**	(582,400)
Gain (loss) on sale of investments	**-**	256,934
Insurance premium and commission	**-**	135,807
Lease income	**141,597**	7,505,612
Miscellaneous income	**4,596,429**	10,726,929
	151,701,137	172,555,101

Interest income on investments and deposits consists of the interests earned on the various deposits and investments maintained by the Corporation, as follows:

	2017	2016
AFS financial assets	**23,606,250**	25,728,819
HTM investments	**4,658,524**	-
Deposits	**3,615,121**	5,965,085
	31,879,895	31,693,904

Interest and penalties on loans represents interest earned on current loans receivable and penalty charges collected on restructured loans, receivables from subrogated claims and other receivables, as follows:

	2017	2016 (As restated)
Direct lending	**8,827,894**	8,727,744
Wholesale lending	**655,651**	2,549,884
Remedial/Restructured loans	**7,851,599**	5,595,903
	17,335,144	16,873,531

Gain (loss) on sale of investment represents the realized trading gains on the sale of AFS investment portfolio of the Corporation.

	2017	2016
Purchase price/Maturity value	-	100,000,000
Unrealized loss as of beginning of year	-	(5,349,001)
Unrealized gain for the current year	-	5,605,935
	-	256,934

Miscellaneous income represents processing fees from the guarantee and lending programs, pre-termination fees from a guaranteed account, interest and penalty charges collected from restructured loans and other receivables classified as default accounts.

22.2. Other income

	2017	2016 (As restated)
Gain (loss) on retirement of equipment	**(5,471)**	-
Foreign exchange gains (losses)	**1,866**	72,831
Other income	**3,833**	16,844
	228	89,675

Foreign exchange gains (losses) represents the foreign exchange differential arising from the settlement or translation of foreign-currency denominated items. Foreign exchange gains/losses resulting from translation/revaluation of foreign currency monetary items is determined at each SFP date using the PDSWAR as of last working day of the month/closing date. For the periods ended December 31, 2017 and 2016, the closing rates used were P49.923 per US$1 and P47.813 per US$1, representing the PDSWAR as of last working day of the period.

23. PERSONAL SERVICES

This account consists of the following:

	2017	2016
Salaries and wages	**43,754,187**	43,550,132
Bonus and incentives	**16,571,487**	12,308,384
Other benefits	**15,057,762**	14,682,385
Provident Fund contribution	**10,937,631**	10,887,535
GSIS contribution	**5,241,098**	5,226,016
Terminal pay	**4,639,101**	1,857,408
Hospitalization	**1,604,602**	2,128,339
PHIC contribution	**385,263**	385,806
HDMF contribution	**100,800**	101,699
ECC contribution	**100,600**	101,374
Overtime pay	**5,209**	47,426

	98,397,740	91,276,504

24. INTEREST AND FINANCIAL CHARGES

This pertains to paid and accrued interests on loans payable to creditor-bank as well as guarantee fees due to the National Government relative to ROP guarantee on the Corporation's borrowings with the LBP of P812.250 million and P855.000 million in 2017 and 2016, respectively.

	2017	2016
Loans payable	**40,977,604**	43,265,324
ROP guarantee	**4,817,556**	6,545,401
	45,795,160	49,810,725

25. FINAL TAX

This account represents the final tax on interest income from investments and deposits at the rate of 20 per cent on peso-denominated placements and at 7.50 per cent on foreign currency deposits. Details follow:

	2017	2016 (As restated)
Interest on investments and deposits	**31,879,895**	31,693,905
Final tax	**(6,379,581)**	(6,338,624)
	25,500,314	25,355,281

26. PRIOR PERIOD ADJUSTMENTS AND RECLASSIFICATIONS

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

	As reported, 12/31/2016	Adjustments		As restated, 12/31/2016
		Debit	Credit	
Cash and cash equivalents				
Foreign currency – In trust for the BTr	17,919,956	-	17,919,956	-
Other current assets				
Receivables from BIR	12,451,480	343,973	-	12,795,453
Other non-current assets				
Foreign currency – In trust for the BTr	-	17,919,956	-	17,919,956
Sales contract receivable	-	14,080,000	-	14,080,000
Property and equipment				
IT equipment	35,250,709	804,560	-	36,055,269
Office equipment	14,178,042	-	120,850	14,057,192

	As reported, 12/31/2016	Adjustments Debit	Adjustments Credit	As restated, 12/31/2016
Accumulated dep'n – office equipment	12,863,193	120,880	-	12,742,313
Deferred tax asset	221,860,416	-	118,390	221,742,026
Accounts payable				
Accounts payable – clients	74,911	-	14,748	89,659
Accounts payable – supplies	2,375	2,375	-	-
Fixed assets clearing	(804,590)	-	804,590	-
Others – refund	(12,962)	-	12,962	-
Accrued expenses				
Personal services	6,371,399	4,804,110	-	1,567,289
Maintenance and other operating expenses	5,129,912	1,361,321	52,815	3,821,406
Non-current unearned income				
Deferred interest, penalties and other charges	3,016,263	-	621,592	3,637,855
Other payables				
Client's deposit	47,492,900	-	4,939,397	52,432,297
Operating income				
Interest and penalties on loans	15,420,212	-	1,453,319	16,873,531
Lease income	7,530,946	25,334	-	7,505,612
Expenses				
Depreciation expense	9,663,926	1,673,014	-	11,336,940
Other services	8,826,903	-	156,611	8,670,292
Rent, light and water	6,608,636	-	6,608,636	-
GSIS contribution	5,327,390	-	101,374	5,226,016
Audit fees and services	3,833,977	-	472,031	3,361,946
Communication expense	3,509,051	-	6,350	3,502,701
Administration expense	3,306,866	-	21,504	3,285,362
Licenses and taxes	2,398,872	26,407	-	2,425,279
Business development expense	2,248,783	-	24,297	2,224,486
Amortization expense	1,793,894	-	1,673,014	120,880
Representation expense	778,430	-	1,580	776,850
Legal fees and other services	680,800	-	568,381	112,419
Fuel, oil and lubricants	607,390	-	11,466	595,924
Miscellaneous expense	219,379	-	46,672	172,707
Consultancy expense	187,356	-	42,528	144,828
Rent expense	-	1,039,049	-	1,039,049
Light and water	-	5,533,280	-	5,533,280
ECC contribution	-	101,374	-	101,374
Deficit, 1/1/2016	(4,770,695,455)	-	12,042,570	(4,758,652,885)
	(4,321,958,640)	**47,835,633**	**47,835,633**	**(4,294,815,113)**

The nature of material prior period adjustments and reclassifications effected for CY 2016 are as follows:

a. Sales contract receivable was restated due to the application of prior period collections of P14,080,000 as lease payments relative to the repurchase of an acquired asset by a client who was not able to fully pay for the same as provided under the contract to repurchase.

b. The FCDU time deposit account with the LBP held in trust under the name of TIDCORP for the account of the BTr, with an outstanding balance of P17,919,956 as of December 31, 2016 (US$359,745 converted at the rate of US$1.00 to P49.813) was reclassified from "Cash and cash equivalents" to "Other non-current assets" since the same is not held for the purpose of meeting short-term cash commitments *(See Note 13.2).*

c. Accrued expenses for personal services and maintenance and other operating expenses of P4,804,110 and P1,361,321, respectively, over set-up in CY 2016 were reversed.

27. CASH FLOWS ARISING FROM FINANCING ACTIVITIES

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

			Non-cash changes			
	2016	**Cash Flows**	**Repayment**	**Renewal**	**Accrual**	**2017**
Loans payable	855,000,000	(42,750,000)	(1,667,250,000)	1,667,250,000	-	812,250,000
Interest payable	4,133,767	(40,497,590)	-	-	40,977,604	4,613,781
	859,133,767	**(83,247,590)**	**(1,667,250,000)**	**1,667,250,000**	**40,977,604**	**816,863,781**

			Non-cash changes			
	2015	**Cash Flows**	**Repayment**	**Renewal**	**Accrual**	**2016**
Loans payable	900,000,000	(45,000,000)	(1,755,000,000)	1,755,000,000	-	855,000,000
Interest payable	3,661,778	(42,793,335)	-	-	43,265,324	4,133,767
	903,661,778	**(87,793,335)**	**(1,755,000,000)**	**1,755,000,000**	**43,265,324**	**859,133,767**

28. PLANNED CONSOLIDATION OF THE GUARANTEE PROGRAMS OF THE NATIONAL GOVERNMENT

In line with the State's policy to rationalize the operations of government agencies and GOCCs in order to strengthen their financial capabilities, to improve delivery of services, to achieve economic efficiency and to support the government's development thrust, the DOF in a letter dated August 31, 2017 recommended to the GCG the consolidation by CY 2018 of the issuance of government guarantees and the guarantee programs of the AGFP, IGLF, SBC, HGC and TIDCORP with TIDCORP as the surviving institution.

At present, the Department of Agriculture oversees the AGFP; IGLF is under the National Economic and Development Authority; HGC under the Housing and Urban Development Coordinating Council; SBC under the Department of Trade and Industry; and TIDCORP under the DOF. Under a centralized approach, the National Government will have a more comprehensive oversight of its guarantees to effectively identify, monitor and control risks, implement necessary measures to manage risks and provide appropriate capital against those risks.

Integral to the planned consolidation is the restructuring of TIDCORP which would involve: (a) the creation of a TIDCORP subsidiary, through SEC registration, that will function as a Board of Liquidators to assume, dispose and liquidate TIDCORP’s non-performing accounts/assets and outstanding loan with the LBP; and (b) the increase of TIDCORP’s authorized capital stock from P10.000 billion to P50.000 billion and current paid-up capital stock from P5.962 billion to P26.640 billion to allow higher absorptive capacity to guarantee under its expanded mandate.

In October 2017, the GCG approved the recommendation and, accordingly, endorsed to the OP the planned consolidation, including a draft EO, for approval by the President of the Philippines.

29. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below is the supplementary information which is required by the BIR under its existing Revenue Regulations (RRs) to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

29.1. Requirements under RR No. 15-2010

On December 28, 2010, RR No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the notes to financial statements information on taxes, duties and license fees paid or accrued during the year.

(a) Income, business, final investment income and fringe benefits taxes

For the year 2017 and 2016, the Corporation paid/accrued a total amount of P22.395 and P16.145 million, respectively for income taxes, business tax (gross receipts tax) and fringe benefit tax as follows:

	2017 (In millions)	2016 (In millions)
Income tax	**5.468**	1.103
Gross receipts tax	**7.788**	7.995
Final investment income tax	**6.380**	6.339
Fringe benefit tax	**2.759**	0.708
	22.395	16.145

(b) Documentary stamp taxes

Documentary stamp taxes remitted/paid in 2017 and 2016 pertaining to loan instruments executed with clients and with banks for corporate borrowings amounted to P4.254 million and P4.625 million, respectively.

(c) Taxes and licenses

The details of the taxes and licenses account are broken down as follows:

	2017 (In millions)	2016 (In millions)
Gross receipts tax	**4.670**	1.604
Fringe benefit tax	**3.781**	0.740
Municipal license and permits	**0.011**	0.011
Real estate taxes	**0.009**	0.035
Miscellaneous	**0.076**	0.035
	8.547	2.425

(d) Withholding taxes

The details of total withholding taxes for the year 2017 and 2016 are shown below:

	2017 (In millions)	2016 (In millions)
Compensation and benefits	**10.469**	11.644
Expanded withholding taxes	**1.364**	1.473
Government money payments	**3.091**	3.385
Final withholding taxes	**-**	-
	14.924	16.502

(e) Deficiency tax assessments and tax cases

PAN and FAN for deficiency in income tax, expanded withholding tax, withholding tax on compensation and final withholding of value added tax for taxable year 2011 totaling to P113.921 million were received in 2015. This assessment was disputed and a protest was filed with a request for reinvestigation on February 11, 2015, pursuant to RR No. 12-99 on *"Implementing the Provisions of the National Internal Revenue Code of 1997 Governing the Rules on Assessment of National Internal Revenue Taxes, Civil Penalties and Interest."*

On June 29, 2015, the protest was forwarded to RDO No. 50 and the Corporation was requested to submit necessary documents. Accordingly, on July 10, 2015 TIDCORP forwarded the related documents to RDO No. 50. The Corporation is still awaiting the decision of the RDO.

29.2. Requirements under RR No. 19-2011

RR No. 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.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR, hence, may not be the same as the amounts of revenues reflected in the 2017 and 2016 statements of profit or loss.

(a) Taxable revenues

The composition of the Corporation's taxable revenues for the years ended 2017 and 2016 are presented below.

	2017		2016	
	Final Tax Rate	**Regular Tax Rate**	Final Tax Rate	Regular Tax Rate
Rendering of services	**31,879,895**	**119,241,611**	31,693,905	126,223,456

(b) Deductible cost of services

Deductible costs of services for the years ended 2017 and 2016 comprise the following:

	2017	2016
	Regular Tax Rate	Regular Tax Rate
Direct charges – salaries, wages and benefits	**69,704,026**	67,178,005
Direct charges – interest and financial expenses	**35,834,239**	37,315,596
Direct charges – depreciation	**7,866,553**	7,486,677
Direct charges – material, supplies and facilities	**4,526,890**	4,772,336
Direct charges – rental	**855,224**	1,039,049
Direct charges – others	**5,608,812**	10,624,272
	124,395,744	128,415,935

(c) Taxable non-operating and other income

The details of non-operating and other income for the year ended December 31, 2017 and 2016 are as follows:

	2017	2016
	Regular Tax Rate	Regular Tax Rate
Gain on sale of investment	**-**	256,934
Actual foreign exchange gain	**8,015**	19,862
	8,015	276,796

(d) Itemized deductions

The amounts of itemized deductions for the year ended December 31, 2017 and 2016 are as follows:

	2017	2016
	Regular Tax Rate	Regular Tax Rate
Salaries and allowances	**24,007,475**	23,881,767
Taxes and licenses	**8,547,179**	2,398,872
Janitorial and messenger services	**5,698,444**	6,330,637
Communication, light and water	**4,352,769**	4,781,709
Insurance	**1,965,422**	2,080,426
Miscellaneous	**9,720,047**	13,503,000
	54,291,336	52,976,411