TRADE AND INVESTMENT DEVELOPMENT CORPORATION OF THE PHILIPPINES
Philippine Export-Import Credit Agency
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017
(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 are 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.

On July 23, 2018, EO No. 58 was issued mandating the creation of a single entity handling the government guarantee system. Under the EO, within one year from the effectivity thereof, the Home Guaranty Corporation (HGC) and the PhilEXIM shall be merged with the latter as the surviving entity which shall be renamed as the Philippine Guarantee Corporation (PGC). Further, the guarantee-related functions, programs, funds, assets and liabilities of the Small Business Corporation (SBC) as well as the administration of the Agricultural Guarantee Fund Pool (AGFP) and the Industrial Guarantee and Loan Fund (IGLF) shall be transferred to PhilEXIM.

In accordance with Section 22 of PD No. 1080, as amended, TIDCORP is subject to the supervision and examination by the Bangko Sentral ng Pilipinas (BSP). Hence, TIDCORP is mandated to comply with pertinent BSP rules and regulations, particularly, those relating to non-bank financial institutions.

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 at and for the year ended December 31, 2018 (including the comparative financial statements as at and for the year ended December 31, 2017) were authorized for issue by the Corporation's Board of Directors (BOD) in its Special Meeting held on April 26, 2019.

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, 2018 and 2017 have been prepared in accordance with the Philippine Financial Reporting Standards (PFRSs) and applicable rules and regulations of the 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.

For this purpose, TIDCORP adopted starting January 1, 2018 the guidelines laid down under COA Circular No. 2017-004 dated December 13, 2017 on the preparation of financial statements and other financial reports and implementation of the PFRS by government corporations classified as Government Business Enterprises (GBEs). Under COA Circular No. 2015-003 dated April 16, 2015, TIDCORP is classified as a GBE. Accordingly, the Corporation modified the presentation of the prior years' amounts to conform to current year's presentation.

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 six years, TIDCORP's financial position and operational performance have declined as: (i) assets substantially dropped by P0.908 billion from P3.171 billion in CY 2012 to P2.263 billion in CY 2018; (ii) continued losses totalling to P580.081 million were incurred for the past four years; (iii) accumulated deficit was at P5.319 billion as at December 31, 2018; and (iv) non-performing loans ratio stood at 89.55 per cent of the gross loans receivable of P530.159 million as at December 31, 2018; and (v) non-earning guarantee portfolio totalled P2.892 billion as at December 31, 2018.

Nevertheless, Management believes that upon the full implementation of EO No. 58, PhilEXIM being the surviving entity, which shall be renamed as the PGC, will have a strong capital position, sufficient to operate and deliver its mandate through its core business under the guarantee program.

Initially, the additional equity infusion of P500.000 million from the National Government was already remitted to TIDCORP in August 2018 for the guarantee reserve fund. With the increase in the authorized capitalization to P50 billion from P10 billion, Management foresees continuing support from the National Government through additional equity infusion. Moreover, upon the merger with the HGC and the transfer of the guarantee-related assets and funds, the PGC is projected to have a total risk-weighted assets of P420 billion and P426 billion in CY 2019 and CY 2020, respectively, based on the capital adequacy framework of 7 per cent prescribed by the BSP Monetary Board (MB). Thus, TIDCORP will have the ability to discharge its liabilities and commitments in the normal course of business.

2.2. Adoption of new and amended PFRS

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

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

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

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

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

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

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

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

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

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

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

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

	Classification		**Carrying amount**	
	PAS 39	**PFRS 9**	**PAS 39**	**PFRS 9**
Cash and cash equivalents	Cash and cash equivalents	At amortized cost	P170,518,540	P170,518,540
Receivables	Loans and receivables	At amortized cost	1,127,160,097	1,127,160,097
Available for sale financial assets	Available for sale financial assets	At amortized cost	465,844,614	465,844,614
Held to maturity financial assets	Held to maturity investments	At FVTOCI	224,248,921	224,248,921

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

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

The Corporation's impairment method is based on pertinent BSP rules and regulations. However, the quantitative impact on a default guarantee account was based on the BSP MB-approved staggered booking of the deficiency in the valuation reserves.

Relative to the initial implementation of PFRS 9 in CY 2018, the Corporation has restated in the financial statements for the current and prior years covering material transactions affecting the credit exposures under its lending and guarantee programs. However, Management has elected to apply the exemption in PFRS 7.2.15 not to restate prior and current years, covering the following: (i) recognition of the direct transaction costs related to the credit portfolios under the lending and guarantee programs; and (ii) recognition of the origination fees received related to the credit portfolios under the lending and guarantee programs. The same were not considered anymore in light of the impracticability and immaterial impact of the transactions.

Likewise, the impact of PFRS 9 on a default account under a court-approved rehabilitation plan was not yet implemented in the current and comparative prior year reports.

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

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

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

PFRS 15 requires an entity to identify performance obligations on the basis of distinct promised goods or services. When another party is involved in providing goods or services to a customer, it requires an entity to determine whether it is the principal in the transaction or the agent on the basis of whether it controls the goods or services before they are transferred to the customer. When an entity grants a license to a customer that is distinct from other promised goods or services, the entity has to determine whether the license is transferred at a point in time or over time on the basis of whether the contract requires the entity to undertake activities that significantly affect the intellectual property to which the customer has rights.

(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.

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

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

(ii) *Amendments to PFRS 4, Insurance Contracts, regarding the implementation of PFRS 9, Financial Instruments.* These amendments provide two options for entities that issue insurance contracts. An option for companies that issue insurance contracts to recognize in OCI, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued; this is the so-called overlay approach and an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4; this is the so-called deferral approach.

(iii) *Annual Improvements to PFRS (2014 – 2016 Cycle).* The following improvements are not relevant to TIDCORP:

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

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

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

The following pronouncements were issued before the year ending December 31, 2018 and are mandatorily effective for annual periods beginning on or after January 1, 2019. Unless otherwise indicated, 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, 2019:

(i) *PFRS 16, Leases.* The new accounting model under PFRS 16 requires a lessee to recognize a 'right-of-use asset' and a lease liability. The right of use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. 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.

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

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

(iv) *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.

(v) *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.

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

- *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 recognize the income tax consequences of dividends where the transactions or events that generated distributable profits are recognized) 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.

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

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

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

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

(i) *PFRS 17, Insurance Contracts.* PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace *PFRS 4, Insurance Contracts,* which currently permits a wide variety of practices in accounting for insurance contracts. This new standard applies to all types of insurance contracts, regardless of type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements of PFRS 4, which are largely based on grandfathering of previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features, or the so-called variable fee approach; or

- A simplified approach mainly for short-duration contracts, or the so-called premium allocation approach.

Effectivity Deferred Indefinitely:

(i) *Amendments to PFRS 10, Consolidated Financial Statements, and to PAS 28, Investment in Associates and Joint Ventures – Sales or Contribution of Assets between an Investor and its Associates or*

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

2.3. Current versus non-current classification

The Corporation presents assets and liabilities in the statement of financial position (SFP) based on current and non-current classification.

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

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

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

2.4. Cash and cash equivalents

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

2.5. Financial instruments

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

2.5.1. Financial assets

a. *Classification and initial measurement*

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

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

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

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

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

b. *Subsequent measurement*

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

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

The Corporation classified cash and cash equivalents, receivables and investments in treasury bills as financial assets at amortized cost.

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

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

The Corporation classified investment in treasury bonds as financial assets at FVTOCI.

c. *Impairment of financial assets*

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

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

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

d. *Derecognition*

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

2.5.2. Financial liabilities

a. *Initial recognition and measurement*

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

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

b. *Subsequent measurement*

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

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

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

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

c. *Derecognition*

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

2.5.3. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the SFP, if and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the asset and settle the liability simultaneously. As at December 31, 2018 and 2017, there are no financial assets and liabilities that were offset.

2.6. Fair value measurement

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

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

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

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

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

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

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

The carrying values of the Corporation's financial assets and liabilities, particularly the FVTOCI securities, as reflected in the SFP and related notes approximate their respective Level 1 fair values of P420.722 million and P465.845 million as at December 31, 2018 and 2017, respectively.

2.7. Inventories

Inventories held for consumption are valued at the lower of cost or net realizable value. Cots of inventories include all costs of purchase and other costs incurred to bring the inventories to their present location and condition. Inventories are recognized as expense once issued, transferred, lost or disposed of.

2.8. Prepayment and other current assets

Prepayments and other current assets pertain to other resources controlled by the Corporation as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Corporation and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Corporation beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

2.9. Property and equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use.

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

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

Depreciation on property and equipment is calculated using the straight-line method to allocate the cost of each asset, net of residual value of five per cent, over its estimated useful lives (in years) as prescribed by COA Circular No. 2017-004, to wit:

Type of Property and Equipment	Estimated Useful Life
Building	30 to 50
Transportation equipment	5 to 15
Office equipment	5 to 15
Furniture, fixtures and books	2 to 15
Leased assets and improvements	Estimated useful life or term of lease, whichever is shorter
Others	2 to 15

Prior to CY 2018, the Corporation estimated the residual value of each asset at 10 per cent of the cost.

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

At each SFP date, the Corporation reviews the carrying amount of 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 statement of comprehensive income (SCI) as an impairment loss.

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

2.10. Semi-expendable property

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 are recorded under the Report on the Physical Count of Inventories for monitoring purposes.

2.11. Investment properties

Investment properties 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.

Investment properties are initially recorded at cost, which includes directly attributable costs incurred. Subsequent to initial recognition, investment properties, except land, are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Land is stated at cost less accumulated impairment losses, if any. Pursuant to COA Circular No. 2017-004, the estimated useful life, the estimated residual value and the method of depreciation used for PPE are applied to depreciable investment properties.

Investment properties 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 PFRS 9 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 investment property 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 investment are recognized in profit or loss in the period of the retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property 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 investment property, the Corporation accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

2.12. 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.

2.13. Impairment of non-financial assets

The Corporation assesses at each reporting date whether there is an indication that property and equipment, investment properties and intangible assets 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 property and equipment, after such reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

2.14. Provident Fund

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

2.15. Equity

Contributed capital 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.

Cumulative changes in fair value of investments arise from cumulative mark-to-market valuation of outstanding financial assets at FVTOCI.

2.16. 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 or 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 EIR, 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.

2.17. 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.

2.18. 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.

2.19. 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.

2.19.1. 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.

2.19.2. 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.

2.20. Related party transactions and relationships

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

As at December 31, 2018, TIDCORP had no related party transactions, except for the compensation provided to key management personnel, as follows:

	2018	2017
Basic salary	8,705,402	9,104,796
Allowances and other benefits	4,862,362	5,713,003
Others, including indirect benefits	2,964,499	3,939,483
Retirement benefits	3,190,724	-
	19,722,987	**18,757,282**

2.21. Foreign currency-denominated monetary assets

Actual foreign currency transactions are recorded initially based on prevailing rate or spot rate as at transaction date. The accounts are translated or converted into Philippine peso using the Philippine Dealing System Weighted Average Rate (PDSWAR) closing rate as at the 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.

2.22. 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 2.18 and relevant disclosures are presented in Notes 14 and 20.

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 FVTOCI 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 non-financial assets*

TIDCORP estimates the useful lives of premises, furniture, fixtures and equipment, investment properties 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 investment properties are analyzed in Note 8 while those of property and equipment are analyzed in Note 9.

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 at December 31, 2018 and 2017 is disclosed in Note 11.

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 exceed 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.

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 Treasury Operations 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 SFP 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 FVTOCI 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:

	2018	2017
Cash on hand	**10,650**	-
Revolving/Petty cash fund	**128,524**	152,313
Cash in bank		
Savings deposit	**4,106,898**	232,481
Foreign currency deposits	**1,466,200**	1,063,036
Special savings deposit	**75,177,000**	6,850,000
Treasury bills	**3,600,000**	162,220,710
	84,489,272	170,518,540

The placements in special savings accounts yield interest rates ranging at 1.375 to 3.25 per cent per annum.

6. FINANCIAL ASSETS

This account consists of the following:

	2018	2017
Investment in treasury bills	**764,785,350**	224,248,921
Investment in treasury bonds	**420,722,073**	465,844,614
	1,185,507,423	**690,093,535**

The Corporation's treasury bills are classified as at amortized cost while the treasury bonds are classified at FVTOCI.

As at December 31, 2018 and 2017, the accumulated net unrealized loss on these financial assets, which is reflected as fair value adjustments in the statement of changes in equity, amounted to P78.918 million and P47.333 million, respectively, net of deferred tax assets of P33.822 million and P20.285 million, respectively. The investments are classified as current assets with the intention to dispose anytime within 12 months from the SFP date. Details follow:

	Treasury Bonds	Retail Treasury Bonds	Total
Balance, January 1, 2017	355,653,865	121,299,135	476,953,000
Acquisitions/Additions	-	-	-
Sales/Reductions	-	-	-
Premium/Discount amortization	-	-	-
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**

	Treasury Bonds	Retail Treasury Bonds	Total
Acquisitions/Additions	-	-	-
Sales/Reductions	-	-	-
Premium/Discount amortization	-	-	-
Fair value gains (losses)	(23,060,833)	(22,061,708)	(45,122,541)
Balance, December 31, 2018	**327,967,356**	**92,754,717**	**420,722,073**

7. RECEIVABLES

This account consists of the following:

	2018	2017 (As restated)
7.1. Current		
Guarantee fees receivable	**37,291,000**	37,919,000
Due from National Government Agencies (NGAs)	**-**	500,000,000
Due from the Bureau of Internal Revenue (BIR)	**18,864,196**	18,263,028
Interest receivable – investments	**12,792,868**	7,835,929
Loans receivable	**4,153,846**	18,057,984
Lease payments receivable	**2,765,150**	2,488,759
Interest receivable – loans	**2,228,835**	2,447,397
Other receivables	**798,714**	187,111
	78,894,609	587,199,208
Allowance for doubtful accounts	**(1,255,778)**	(1,394,161)
Loans receivable – discount	**-**	(65,903)
	(1,255,778)	(1,460,064)
	77,638,831	585,739,144

7.2. Non-current		
Receivable from subrogated claims	**2,506,988,223**	2,506,987,910
Loans receivable	**526,087,694**	590,766,450
Guarantee fees receivable	**170,853,011**	208,144,012
Accounts receivable – clients	**12,829,919**	11,938,059
Lease payments receivable	**8,942,255**	11,634,107
Sales contract receivable	**-**	-
Other receivables	**5,049,818**	5,279,231
	3,230,750,920	3,334,749,769
Allowance for doubtful accounts	**(2,813,208,533)**	(2,793,328,816)
Total	**417,542,387**	541,420,953

Guarantee fees receivable represents guarantee fees due from the guaranteed obligations of the Corporation within one year from the SFP date.

Due from NGAs represents the additional capital infusion from the National Government released by the DBM to the BTr in November 2017 for the account of TIDCORP which was transferred from the BTr to TIDCORP in August 2018.

Receivables from the BIR represent 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.

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

	2018	2017 (As restated)
Treasury bonds	**4,973,430**	4,951,764
Treasury bills	**4,888,889**	-
Retail treasury bonds	**1,155,833**	1,155,833
Philippine interest reduction bonds	**1,725,571**	1,725,571
Special savings deposit	**47,568**	1,184
Foreign currency denominated time deposit	**1,577**	1,577
	12,792,868	7,835,929

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

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), expected to be collected within one year from the SFP date.

Interest receivable – loans represents accrued interest receivable from loans receivable with current status as at SFP date. BSP Circular No. 941, series of 2017 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.

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. Details follow:

	2018	2017 (As restated)
Loans receivable	**526,087,694**	590,766,450
Allowance for impairment	**(287,320,261)**	(268,332,717)
	238,767,433	322,433,733

Receivables from subrogated claims represent 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.

Guarantee fees receivable represents guarantee fees due beyond one year from the SFP date until maturity of the guaranteed obligations of the Corporation.

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), expected to be collected beyond one year from the SFP date.

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

	Balance, 1/1/2018	Additional Provision	Recoveries/ Write-offs/ Adjustments	Balance, 12/31/2018
Receivable from subrogated claims	**2,506,987,910**	316	(3)	2,506,988,223
Loans receivable	**268,332,716**	43,814,295	(24,826,750)	287,320,261
Accounts receivable – clients	**11,938,059**	912,068	(20,208)	12,829,919
Other receivables	**5,251,368**	-	-	5,251,368
Lease payments receivable	**818,751**	-	-	818,751
Guarantee fees receivable	**12**		(1)	11
	2,793,328,816	**44,726,679**	**(24,846,962)**	**2,813,208,533**

	Balance, 1/1/2017	Additional Provision	Recoveries/ Write-offs/ Adjustments	Balance, 12/31/2017
Receivable from subrogated claims	2,506,987,910	-	-	2,506,987,910
Loans receivable	252,817,706	24,088,622	(8,573,612)	268,332,716
Accounts receivable – clients	8,898,909	3,039,150	-	11,938,059
Advances to officers and employees	5,251,368	-	-	5,251,368
Lease payments receivable	818,751	-	-	818,751
Guarantee fees receivable	12	-	-	12
	2,774,774,656	**27,127,772**	**(8,573,612)**	**2,793,328,816**

8. 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:

	2018	2017 (As restated)
Cost		
Balance, January 1	**78,018,906**	120,801,244
Additions	**7,848,826**	13,127,400
Disposal/Retirement	**(2,320,000)**	(55,909,738)
Balance, December 31	**83,547,732**	78,018,906

	2018	2017 (As restated)
Accumulated depreciation		
Balance, January 1	**10,193,180**	28,107,173
Depreciation	**1,882,445**	1,593,451
Disposal/Retirement	**(365,400)**	(19,507,444)
Balance, December 31	**11,710,225**	10,193,180
Accumulated impairment		
Balance, January 1	**20,752,622**	20,752,622
Impairment	**4,115,680**	-
Disposal/Retirement	**(1,954,600)**	-
Balance, December 31	**22,913,702**	20,752,622
	48,923,805	47,073,104

The appraised value of the above assets totalled P125.758 million and P154.440 million as at December 31, 2018 and 2017, respectively based on appraisals conducted in 2010 to 2018.

9. 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	14,057,192	36,055,269	152,474,438
Adjustments	-	-	(44,451)	-	(44,451)
January 1, 2017, as restated	87,456,709	14,905,268	14,012,741	36,055,269	152,429,987
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	15,132,301	36,380,067	153,874,345
Additions	-	-	-	-	-
Disposal/Retirement	-	-	(34,460)	-	(34,460)
December 31, 2018	**87,456,709**	**14,905,268**	**15,097,841**	**36,380,067**	**153,839,885**
Accumulated depreciation					
January 1, 2017, as reported	35,006,666	10,920,056	12,742,313	20,545,299	79,214,334
Adjustments	-	-	(39,104)	-	(39,104)
January 1, 2017, as restated	35,006,666	10,920,056	12,703,209	20,545,299	79,175,230
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	12,991,122	24,113,067	86,190,946
Depreciation	3,267,716	394,192	452,396	1,812,048	5,926,352
Disposal/Retirement	-	-	(27,286)	-	(27,286)
December 31, 2018	**41,012,789**	**11,735,876**	**13,416,232**	**25,925,115**	**92,090,012**
Accumulated impairment					
January 1, 2017	-	942,785	723,533	1,753,978	3,420,296
Adjustments	-	-	-	(1,393)	(1,393)

	Building	Transportation Equipment	Office Equipment	IT Equipment	Total
January 1, 2017, as restated	-	942,785	723,533	1,752,585	3,418,903
Impairment	-	-	-	-	-
Disposal/Retirement	-	-	-	-	-
December 31, 2017	-	942,785	723,533	1,752,585	3,418,903
Impairment	-	-	-	-	-
Disposal/Retirement	-	-	-	-	-
December 31, 2018	**-**	**942,785**	**723,533**	**1,752,585**	**3,418,903**
Net book value, 12/31/2017	49,711,636	2,620,799	1,417,646	10,514,415	64,264,496
Net book value, 12/31/2018	**46,443,920**	**2,226,607**	**958,076**	**8,702,367**	**58,330,970**

Based on appraisals conducted in November 2018 and November 2017, the property and equipment has total appraised value of P181.581 million and P182.896 million, respectively. Details follow:

	2018	2017
Building	**170,216,000**	170,200,000
Land transportation	**5,270,000**	5,667,300
Equipment, furniture and fixtures	**6,095,390**	7,028,330
	181,581,390	182,895,630

10. INTANGIBLE ASSETS

This account represents the automated systems developed and launched by the Corporation from 2008 to 2018 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:

	2018	2017
Balance, January 1	**733,417**	**900,296**
Additions	**-**	**-**
Disposal	**-**	**-**
Amortization	**(166,880)**	**(166,879)**
Balance, December 31	**566,537**	**733,417**

The automated systems primarily comprised of the following:

10.1. 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.

10.2. Central Liability System (CLS)

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

11. CURRENT AND DEFERRED TAXES

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

	2018	2017
Reported in profit or loss		
Current tax expense:		
Regular corporate income tax at 30%	**-**	-
Final tax at 20% and 7.50%	**9,964,630**	6,379,581
	9,964,630	6,379,581
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(75,977,909)**	(63,476,323)
	(66,013,279)	(57,096,742)
Reported in OCI		
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(13,536,762)**	20,285,449

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:

	2018	2017
Tax on pre-tax profit at 30%	**(66,033,835)**	(57,068,465)
Adjustment for income subjected to lower tax rates	**(14,841,902)**	(9,563,968)
Tax effects of non-deductible interest expense	**4,897,828**	3,156,110
	(75,977,909)	(63,476,323)

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

	Statement of Financial Position		**Profit or Loss**	
	2018	2017	**2018**	2017
Deferred tax assets				
Unearned income	**6,531,017**	6,643,827	**(112,810)**	(175,039)
Bad debts	**243,284,653**	206,375,733	**36,908,919**	43,743,109
Impairment losses	**1,234,704**	1,192,581	**42,123**	-
Accrued expenses	**7,851,235**	2,270,296	**5,629,594**	2,087,441
Minimum corporate income tax	**-**	48,652	**-**	-

	Statement of Financial Position		Profit or Loss	
	2018	2017	**2018**	2017
Net operating loss carry-over	**67,701,170**	49,266,893	**33,402,305**	17,831,236
Unrealized foreign currency gains (losses)	**-**	3,486	**(3,486)**	3,486
Unrealized gains (losses) – OCI	**33,822,211**	20,285,449	**-**	-
	360,424,990	286,086,917	**75,866,645**	63,490,233
Deferred tax liability				
Unrealized foreign currency gains (losses)	**(19,706)**	-	**(19,706)**	16,419
Prepaid expenses	**(404,118)**	(535,088)	**130,970**	(30,329)
	(423,824)	(535,088)	**111,264**	(13,910)
Net deferred tax assets	**360,001,166**	285,551,829		
Deferred tax income (expense)			**75,977,909**	63,476,323

As at December 31, 2018, Management believes that sufficient taxable profits will be available against which TIDCORP's deductible temporary differences can be utilized. When EO No. 58 shall have been fully implemented by CY 2019, TIDCORP, which shall be renamed as the PGC, is projected to yield profits in CYs 2019 and 2020 of P3.12 billion and P1.56 billion, respectively.

Details of the Corporation's MCIT as at December 31, follow:

Minimum Corporate Income Tax				
Year Incurred	**Amount**	**Used/Expired**	**Balance**	**Expiry Year**
2018	-	-	-	2021
2017	-	-	-	2020
2016	-	-	-	2019
2015	48,652	48,652	-	2018
	48,652	**48,652**	**-**	

Details of the Corporation's NOLCO as at December 31, follow:

Net Operating Loss Carryover				
Year Incurred	**Amount**	**Used/Expired**	**Balance**	**Expiry Year**
2018	111,341,018	-	111,341,018	2021
2017	59,437,455	-	59,437,455	2020
2016	54,892,094	-	54,892,094	2019
2015	50,055,607	50,055,607	-	2018
	275,726,174	**50,055,607**	**225,670,567**	

12. OTHER ASSETS

This account consists of the following:

	2018	2017 (As restated)
12.1. Current		
Prepaid rent	**178,590**	207,105
Prepaid insurance	**886,735**	1,365,046
Other prepayments	**4,338,770**	3,835,007
	5,404,095	5,407,158

12.2. Non-current		
Foreign currency – In Trust for the BTr	**19,353,835**	18,128,555
Miscellaneous assets	**3,400,962**	3,400,962
Other prepayments	**2,126,286**	2,126,287
	24,881,083	23,655,804

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$367,078 as at end 2018 converted at P52.724 per US$1.00 and US$363,130 as at 2017 converted at the of rate P49.923 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$167,078 from April 26, 2002 to December 31, 2018 and US$163,130 up to December 31, 2017.

Miscellaneous assets consist of the following assets of the Corporation:

	2018	2017
Paintings and other assets	**3,114,463**	3,114,463
Premium reserve fund	**286,499**	286,499
	3,400,962	3,400,962

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.

13. FINANCIAL LIABILITIES

This account consists of the following:

	2018	2017 (As restated)
13.1. Current		
Loans payable	**771,637,500**	812,250,000
Guarantee liability	**636,157,853**	534,472,889
Accrued expenses	**15,251,537**	11,055,550
Due to officers and employees	**9,676,941**	11,535,698
Interest payable	**7,182,256**	4,613,781
Accounts payable – suppliers and contractors	**3,522,070**	2,851,391
Due to Provident Fund	**1,313,047**	1,251,870
Others	**229,246**	133,546
	1,444,970,450	1,378,164,725

	2018	2017 (As restated)
13.2. Non-current		
Guarantee liability	**136,000,545**	168,628,927
	136,000,545	168,628,927

Loans payable represents the short-term loan/line with the LBP with outstanding balance of P812.250 million as at December 31, 2017 from P855.000 million as at 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 President of the Philippines 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.

Guarantee liability refers to the liability under the financial guarantee contracts issued by the Corporation. It includes the provision for default guarantees amounting to P603.529 million and P500.241 million, as at December 31, 2018 and 2017, respectively, pursuant to PFRS 9 covering one account as well as the pro-rata share of banks from TIDCORP's collections/recoveries and proceeds from the sale of acquired assets from default accounts under the Guarantee Program. The non-current portion amounts to P136.000 million and P168.629 million, respectively, as at December 31, 2018 and 2017.

Accrued expenses represent maintenance and other operating expenses already incurred but remained unpaid as of SFP date. As at December 31, 2018, accrued expenses totalled P11.394 million, of which, P5.102 million was set-up for prior years and P6.293 million was set-up for the current year. As at December 31, 2017, accrued expenses totalled P7.874 million, all of which, was set-up for the current year. Details follow:

	2018	2017 (As restated)
Audit fees and other services	**12,881,019**	8,062,635
Janitorial services	**645,000**	1,290,000
Telephone	**377,906**	71,800
Printing services	**335,000**	322,784
Electricity	**235,953**	89,840
Rent/Lease	**142,575**	-
Staff, training and development	**120,000**	720,000
Repairs and maintenance	**116,568**	150,000
Others	**397,516**	348,491
	15,251,537	11,055,550

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

	2018		2017	
	Principal amount	**Interest Obligation**	Principal amount	Interest obligation
Three-month PDST-F plus spread, subject to monthly re-pricing	**352,212,500**	**2,792,971**	361,000,000	2,489,296
ROP guarantee	**419,425,000**	**4,389,285**	451,250,000	2,124,485
	771,637,500	**7,182,256**	812,250,000	4,613,781

Due to Provident Fund represents the amount payable to TIDCORP Provident Fund for unremitted employee contributions, employer share as well as loan payments deducted from employee salaries.

14. PROVISION

The provision totalling to P13.770 million as at December 31, 2018 pertains to the amount of reasonable monthly rentals and interest awarded by the Regional Trial Court (RTC) of Muntinlupa City to Peninsula Enterprises and Realty Development Corporation (PERDC) in the unlawful detainer case filed by the latter against TIDCORP. The case stemmed from the failure of Freshtex Philippines, Inc. (FPI), a former client, from settling its rentals due to PERDC. The collaterals of FPI, which were already foreclosed by TIDCORP, were stored at the leased premises of PERDC to date.

Initially, the Metropolitan Trial Court (MeTC), while ordering TIDCORP to vacate the leased premises, denied PERDC's claim for payment of reasonable monthly rentals. The RTC, however, reversed the MeTC in its Decision dated October 23, 2018 and directed the payment of monthly reasonable compensation for the use of the leased promises reckoned from March 20, 2015 until the subject property is fully vacated with interest of 6 per cent per annum until fully paid. TIDCORP has filed a Motion for Partial Reconsideration on December 20, 2018 with respect to the award of monthly reasonable compensation.

15. INTER-AGENCY PAYABLE

This account represents payable to national and other government agencies including TIDCORP statutory and employee contributions.

	2018	2017 (As restated)
Due to BIR	**6,151,014**	5,209,001
Due to Government Service Insurance System	**1,117,248**	1,027,226
Due to Pag-IBIG	**98,469**	101,319
Due to PhilHealth	**70,049**	63,988
Due to Bureau of the Treasury (BTr)	**-**	2,254,930
Due to NGAs	**17,598**	17,598
	7,454,378	8,674,062

Due to BTr represents the guarantee fee amounting to P2.255 million for the outstanding loan of TIDCORP with the LBP guaranteed by the National Government covering: (i) the period November 10, 2017 to May 14, 2018 for P180.500 million of the loan; and (ii) the period November 29, 2017 to May 28, 2018 for the remaining balance of P270.750 million.

16. TRUST LIABILITIES

This account consists of 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$367,078 converted at the rate of P52.724 per US$1.00 and US$363,130 as at December 31, 2017 converted at the rate of P49.923 per US$1.00 *(see Note 12.2).*

17. 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:

	2018	2017 (As restated)
17.1. Current		
Guarantee fees	**21,770,058**	22,146,090
Unearned interest revenue – guarantees	**4,662,618**	3,686,875
Receivable from compromise agreements	**-**	1,030,125
Deferred interest, penalties and other charges on which acquired assets on default accounts were applied	**87,509**	87,509
	26,520,185	26,950,599

17.2. Non-current		
Unearned interest revenue – guarantees	**34,852,455**	39,515,073
Deferred interest, penalties and other charges on which acquired assets on default accounts were applied	**8,592,890**	3,312,176
	43,445,345	42,827,249

18. OTHER PAYABLES

This account consists of current miscellaneous deposits of P2.081 million and P2.081 million as at December 31, 2018 and 2017, respectively. These deposits include bidders' and performance bonds collected from suppliers and contractors as well as down payment from buyers on the sale of acquired assets.

19. EQUITY

19.1. Contributed capital

The authorized capital stock of the Corporation is P50.000 billion as provided under Section 3 of EO No. 58 issued on July 23, 2018. Previously, 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, both as at December 31, 2018 and 2017. In August 2018, TIDCORP received an additional equity infusion from the National Government of P500.000 million.

19.2. 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.

19.3. Cumulative changes in fair value of investments

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

19.4. Capital Adequacy Ratio

TIDCORP, being a non-bank financial institution, is being regulated by the BSP pursuant to Section 22 of PD No. 1080, as amended. As such, the Corporation is mandated to comply with the Capital Adequacy Ratio (CAR) prescribed by the BSP. Under the new 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, its CAR must not be lower than three per cent and by January 1, 2012 should be at five per cent.

As at December 31, 2018, CAR registered at 4.97 per cent, below the required benchmark approved by the BSP of seven 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 additional equity infusion of P500.000 million based on the FY 2017 General Appropriations Act (GAA).

Moving forward, with the implementation of the EO No. 58, PhilEXIM, which shall be renamed as the PGC, is projected to register eight and 10 per cent CAR in CYs 2019 and 2020, respectively. The estimated increase in CAR will be brought in by: (i) transfer of assets and funds from HGC, SBC, AGFP and IGLF under the EO; and (ii) the additional equity infusion from the National Government of P2.000 billion which shall be proposed for the FY 2020 GAA. Thus, the Corporation will have more leeway in delivering its guarantee mandate.

20. CONTINGENCIES

20.1. 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 at December 31, 2018 and 2017 amounted to P8.853 billion and P8.938 billion, respectively.

As at December 31, 2018 and 2017, 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 the account of Philippine Phosphate Fertilizer Corporation (PhilPhos), 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 RTC. The proceedings were later on transferred to the Tacloban City 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.

On April 16, 2018, the Rehabilitation Court granted the Motion of PhilPhos on its Rehabilitation Plan. TIDCORP filed its Motion for Reconsideration but was denied by the Court. A Petition for Certiorari before the Court of Appeals was filed on June 29, 2018 through the Office of the Government Corporate Counsel. To date, TIDCORP is closely monitoring the implementation of the provisions of the court-approved New Revised Rehabilitation Plan.

Per BSP Report of Examination as at 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 52.40 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.

On December 27, 2018, the BSP MB approved the request of TIDCORP for staggered booking of the deficiency in allowance for ECL aggregating P932.978 million for the PhilPhos accounts but over a period of five years through monthly recognition in the books of P15.600 million allowance to commence within 30 days from receipt of the BSP Notice of Approval and every month thereafter, until the entire P932.978 million is fully booked. As at December 31, 2018 and 2017, the total recorded allowance for bad debts amounted to P601.063 million and P497.770 million, respectively.

20.2. Legal cases

TIDCORP is a party to various legal proceedings. In six of these proceedings, judgments were rendered in favor of the Corporation and some were already issued with writs of execution. Management, based on these judgments, has intensified the implementation of the asset hunt and other strategies to recover the Corporation's claims against the pertinent accounts. To date, Management's actions proved unsuccessful.

However, the Corporation continues to explore and adopt measures to enforce the final judgments and/or claims thereon. If the judgments are successfully executed, the same could redound to recoveries of receivables in an estimated amount of P83.071 million.

20.3. 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) as at December 31, 2018 *(see Note 27.1)*.

21. REVENUE

21.1. Service and business income

	2018	2017 (As restated)
Guarantee income	**34,608,159**	39,200,594
Interest income	**65,225,040**	47,639,667
Fines and penalties	**360,155**	6,746,097
Processing fees	**221,000**	225,000
Lease income	**19,048**	141,597
	100,433,402	**93,952,955**

Interest income consists of the interests earned on: (i) various deposits and investments maintained by the Corporation; and (ii) guarantee and loans receivable including restructured accounts, as follows:

	2018	2017 (As restated)
Investments and deposits		
Investment in treasury bills	**18,139,524**	4,658,524
Investment in treasury bonds	**23,633,333**	23,606,250
Deposits	**7,700,150**	3,615,121
	49,473,007	31,879,895
Guarantee and loans receivable		
Direct lending	**5,103,782**	8,778,159
Guarantees	**3,686,874**	-
Wholesale lending	**-**	655,651
Remedial/Restructured loans	**6,961,377**	6,325,962
	15,752,033	15,759,772
	65,225,040	47,639,667

21.2. Gains

	2018	2017
Gain (loss) on sale of acquired assets	**-**	58,347,478
Foreign exchange gains (losses)	**65,487**	1,866
	65,487	58,349,344

Foreign exchange gains (losses) represents the foreign exchange differential arising from the settlement or translation of foreign-currency denominated items. For the years ended December 31, 2018 and 2017, the closing rates used were P52.724 per US$1 and P49.923 per US$1, respectively, representing the PDSWAR as of last working day of the period.

21.3. Other non-operating income

	2018	2017
Gain (loss) on insurance claim	**3,460,000**	**-**
Other income	**7,859**	**3,834**
	3,467,859	**3,834**

22. EXPENSES

22.1. Personnel services

This account consists of the following:

	2018	2017 (As restated)
Salaries and wages	**41,832,334**	43,754,187
Bonus and incentives	**13,461,922**	15,936,487
Other benefits	**14,125,302**	15,692,762
Provident Fund contribution	**10,457,208**	10,937,631
GSIS contribution	**4,899,648**	5,241,098
Terminal pay	**1,399,455**	4,269,775
Hospitalization	**1,485,562**	1,604,602
PHIC contribution	**424,971**	385,263
HDMF contribution	**94,620**	100,800
ECC contribution	**94,193**	100,600
Overtime pay	**-**	5,209
	88,275,215	98,028,414

22.2. Maintenance and other operating expenses

	2018	2017 (As restated)
Traveling expenses		
Traveling expenses – local	**1,386,064**	1,211,078
Traveling expenses – foreign	**72,433**	6,099
	1,458,497	1,217,177
Training and scholarship expenses		
Training expenses	**464,476**	1,688,482

	2018	2017 (As restated)
Supplies and materials expenses		
Office supplies	**420,813**	491,032
Fuel, oil and lubricants	**756,759**	701,028
Semi-expendable machinery and equipment	**12,436**	-
Other supplies and materials	**21,507**	37,353
	1,211,515	1,229,413
Utility expenses		
Water	**43,877**	54,322
Electricity	**5,249,932**	5,306,366
	5,293,809	5,360,688
Communication expenses		
Postage and courier services	**91,622**	98,114
Telephone	**2,445,521**	2,509,218
Internet subscription	**698,880**	739,144
	3,236,023	3,346,476
Professional services		
Legal services	**51,610**	1,463
Auditing services	**5,247,934**	5,304,221
Other professional services	**75,000**	21,500
	5,374,544	5,327,184
General services		
Janitorial services	**4,879,817**	6,988,444
Security services	**810,598**	931,767
	5,690,415	7,920,211
Repairs and maintenance		
Investment property	**1,329,294**	359,113
Buildings and other structures	**31,881**	13,192
Machinery and equipment	**1,261,979**	2,714,436
Transportation equipment	**347,827**	335,228
	2,970,981	3,421,969
Taxes, insurance and other fees		
Taxes, duties and licenses	**6,083,561**	8,547,179
Insurance expenses	**2,012,773**	1,965,423
	8,096,334	10,512,602
Other MOOE		
Advertising, promotional and marketing	**954,335**	1,020,015
Printing and publication	**335,000**	374,192
Representation	**522,371**	486,442
Rent/Lease	**921,390**	855,224
Membership dues and contributions	**1,000**	-
Subscription	**172,889**	271,785
Litigation/Acquired assets	**157,221**	315,079
Documentary stamps	**2,980,444**	-
Others	**139,020**	344,339
	6,183,670	3,667,076

	2018	2017 (As restated)
	39,980,264	43,691,278

22.3. Financial expenses

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 P771.638 million and P812.250 million in 2018 and 2017, respectively.

	2018	2017
Interest and other finance charges	**42,745,792**	40,977,604
ROP guarantee	**4,051,377**	4,817,556
Bank charges	**128,048**	211,229
	46,925,217	46,006,389

22.4. Non-cash expenses

	2018	2017
Depreciation		
Investment property	**1,882,445**	1,593,451
Buildings and other structures	**3,267,716**	2,738,406
Machinery and equipment	**2,108,981**	3,688,987
Transportation equipment	**394,191**	421,629
Furniture, fixtures and books	**155,464**	180,425
	7,808,797	8,622,898
Amortization		
Intangible assets	**166,880**	166,879
Impairment loss		
Loans and receivables	**123,029,731**	143,974,413
Investment property	**4,115,679**	-
	127,145,410	143,974,413
Losses		
Loss on sale of property and equipment	**7,175**	-
Loss on retirement of equipment	**-**	5,471
Others	**13,770,572**	-
	13,777,747	5,471
	148,898,834	152,769,661

The other losses pertain to the provision recognized for the amount of reasonable monthly rentals and interest thereon awarded by the RTC of Muntinlupa to PERDC in the unlawful detainer case it filed against the Corporation *(see Note 14).*

23. 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 15 per cent and 7.50 per cent on foreign currency deposits in 2018 and 2017, respectively. Details follow:

	2018	2017 (As restated)
Interest on investment and deposits	**49,473,007**	31,879,895
Final tax	**(9,964,630)**	(6,379,581)
	39,508,377	25,500,314

24. PRIOR PERIOD ADJUSTMENTS AND RECLASSIFICATIONS

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

	As reported, 12/31/2017	Adjustments		As restated, 12/31/2017
		Debit	Credit	
Receivables – current				
Interest receivable	10,283,325	-	1,214,239	9,069,086
Guarantee fees receivable	-	37,919,000	-	37,919,000
Inventories				-
Office supplies inventory	(214,211)	918,544	-	704,333
Receivables – non-current				-
Loans receivable	322,760,863	-	327,129	322,433,734
Inter-agency receivable	946,406	-	918,544	27,862
Guarantee fees receivable	12	208,144,000	-	208,144,012
Property, Plant and Equipment				
Furniture, fixtures and books	955,575	-	3,954	951,621
Investment property	40,762,029	6,311,075	-	47,073,104
Deferred tax assets	288,564,775	-	2,477,858	286,086,917
Accrued expenses				
Accrued expenses – MOOE	7,873,538	-	3,182,012	11,055,550
Accrued expenses – PS	4,732,443	-	6,406,814	11,139,257
Inter-agency payables				
Due to BIR	4,947,719	-	261,282	5,209,001
Trust liabilities				
Customers' deposits payable	15,352,489	12,369,803	-	2,922,686
Unearned income – current				
Unearned Interest Revenue	-	-	3,686,874	3,686,874
Unearned income – non-current				
Unearned Interest Revenue	-	-	39,515,073	39,515,073
Other payables				
Guarantee liability – current	-	-	34,232,126	34,232,126
Guarantee liability – non-current	-	-	168,628,927	168,628,927
Business income				
Interest income	47,097,513	-	542,154	47,639,667
Penalties	6,688,955	-	57,143	6,746,098

	As reported, 12/31/2017	Adjustments Debit	Credit	As restated, 12/31/2017
Expenses				
Terminal leave benefits	4,639,101	-	369,326	4,269,775
Auditing services	5,350,227	-	46,006	5,304,221
Depreciation – Investment property	781,479	811,972	-	1,593,451
Impairment Loss – Loans and Receivable	145,810,361	-	1,835,948	143,974,413
Deficit	(5,020,748,126)	-	2,768,985	(5,017,979,141)
	(4,113,415,527)	**266,474,394**	**266,474,394**	**(3,619,652,353)**

The nature of material prior period adjustments and reclassifications effected for CY 2017 ending and beginning balances are as follows:

a. Guarantee liability were recognized based on guarantee fees for the entire contract period or until maturity at fair value for existing guaranteed obligations amounting to P202.861 million and P238.773 million in January 1 and December 31, 2017, respectively with corresponding entry on guarantee fees receivable of P246.063 million and P284.610 million in December 31, 2017 and December 31, 2016, respectively.

b. Accrued expenses for personnel services for the monetized value of leave credits were set up in the amount of P6.407 million and P6.776 million, respectively, as at January 1 and December 31, 2017. Accrued expenses for unpaid audit fees as at December 31, 2017 and December 31, 2016 were also set-up in the amount of P3.182 million and P3.228 million, respectively.

c. Adjustment was made in the acquisition of foreclosed properties based on fair value at P8.544 million as at January 1, 2017 with corresponding adjustments in the accumulated depreciation of P2.233 million and P1.421 million as at December 31, 2017 and December 31, 2016, respectively.

25. 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			
	2017	Cash Flows	Repayment	Renewal	Accrual	2018
Loans payable	812,250,000	(40,612,500)	(1,263,500,000)	1,263,500,000	-	771,637,500
Interest payable	4,613,781	(40,177,317)	-	-	42,745,792	7,182,256
	816,863,781	**(80,789,817)**	**(1,263,500,000)**	**1,263,500,000**	**42,745,792**	**778,819,756**

			Non-cash Changes			
	2016	Cash Flows	Repayment	Renewal	Accrual	2017

			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**

26. CONSOLIDATION OF THE GUARANTEE PROGRAMS OF THE NATIONAL GOVERNMENT

On July 23, 2018, 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 President of the Philippines signed and issued EO No. 58 (i) approving the merger of PhilEXIM and HGC with PhilEXIM as the surviving entity; (ii) transferring the guarantee functions, programs and funds of the SBC, and the administration of the AGFP and the IGLF to PhilEXIM; and (iii) renaming PhilEXIM as the PGC upon said merger.

Under a centralized approach, the National Government seeks to 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. Previously, 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 PhilEXIM under the DOF.

Under the EO, the authorized capital stock of PhilEXIM was increased from P10.000 billion to P50.000 billion. The equity contributions of the National Government to the HGC, IGLF and AGFP shall be transferred to PhilEXIM to form part of its paid-up capital. PhilEXIM and SBC shall also be reorganized to reflect their new mandates. The full implementation of the EO is expected to be completed within one year from its effectivity.

27. 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.

27.1. 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, final investment income, business and fringe benefits taxes

For the year 2018 and 2017, the Corporation paid or accrued a total amount of P18.980 million and P23.342 million, respectively for income taxes, business tax (gross receipts tax) and fringe benefit tax, as follows:

	2018	2017
Income tax	**732,942**	5,467,574
Final investment income tax	**9,964,630**	6,379,581
Gross receipts tax	**5,095,302**	7,708,985
Fringe benefit tax	**3,186,656**	3,786,025
	18,979,530	23,342,165

b. Documentary stamp taxes

Documentary stamp taxes remitted or paid in 2018 and 2017 pertaining to loan instruments executed with clients and with banks for corporate borrowings amounted to P6.112 million and P3.650 million, respectively.

c. Taxes and licenses

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

	2018	2017
Gross receipts tax	**2,793,714**	4,669,674
Fringe benefit tax	**3,186,656**	3,781,491
Municipal license and permits	**10,500**	10,500
Real estate taxes and others	**103,191**	96,014
	6,094,061	8,557,679

d. Withholding taxes

The details of total withholding taxes for the year 2018 and 2017 are shown below:

	2018	2017
Compensation and benefits	**5,121,084**	9,799,943
Expanded withholding taxes	**1,177,987**	1,305,854
Government money payments	**2,471,456**	2,934,249
	8,770,527	14,040,046

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. A follow-up letter to inquire the status of the case was transmitted to BIR in July 2018.

27.2. 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 2018 and 2017 statements of profit or loss.

a. *Taxable revenues*

The composition of the Corporation's taxable revenues for the years ended 2018 and 2017 are presented below.

	2018		2017	
	Final Tax Rate	**Regular Tax Rate**	Final Tax Rate	Regular Tax Rate
Rendering of services	**49,473,007**	**50,560,117**	31,879,895	119,241,611

b. *Deductible cost of services*

Deductible costs of services for the years ended 2018 and 2017 comprise of the following:

	2018	2017
	Regular Tax Rate	Regular Tax Rate
Direct charges – salaries, wages and benefits	**59,115,946**	69,704,026
Direct charges – interest and financial expenses	**27,466,037**	35,834,239
Direct charges – depreciation	**6,093,231**	7,866,553
Direct charges – material, supplies and facilities	**3,992,306**	4,526,890
Direct charges – rental	**778,815**	855,224
Direct charges – others	**5,796,587**	5,608,812
	103,242,922	124,395,744

c. *Taxable non-operating and other income*

The details of non-operating and other income for the year ended December 31, 2018 and 2017 are as follows:

	2018	2017
	Regular Tax Rate	Regular Tax Rate
Gain from acquired assets	**3,460,000**	-
Actual foreign exchange gain	**1,394**	8,015
	3,461,394	8,015

d. Itemized deductions

The amounts of itemized deductions for the year ended December 31, 2018 and 2017 are as follows:

	2018	2017
	Regular Tax Rate	Regular Tax Rate
Salaries and allowances	**26,126,010**	24,007,475
Taxes and licenses	**9,063,305**	8,547,179
Janitorial and messenger services	**4,234,817**	5,698,444
Communication, light and water	**4,352,769**	4,352,769
Insurance	**1,967,421**	1,965,422
Miscellaneous	**6,804,500**	9,720,047
	52,548,822	54,291,336