

**PHILIPPINE GUARANTEE CORPORATION**  
(formerly known as the Trade and Investment Development Corporation of the Philippines)  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2022 and 2021  
(All amounts in Philippine Peso unless otherwise stated)

**1. GENERAL INFORMATION**

**1.1. Incorporation and Operations**

The Philippine Guarantee Corporation (PHILGUARANTEE) is the government-owned and controlled corporation (GOCC) resulting from the merger and consolidation of five Philippine guarantee programs and agencies (PGPAs) effective as of August 31, 2019, pursuant to Executive Order (EO) No. 58 dated July 23, 2018. PHILGUARANTEE is the renamed Trade and Investment Development Corporation of the Philippines (TIDCORP), the surviving entity in the amalgamation of the PGPAs.

TIDCORP was originally established as the Philippine Export and Foreign Loan Guarantee Corporation on January 31, 1977 by virtue of Presidential Decree (PD) No. 1080. It was granted expanded functions under 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 (PhilEXIM) by virtue of EO No. 85 dated March 18, 2002.

Pursuant to PD No. 1080, as amended by RA No. 8494, the expanded functions of TIDCORP follow:

- 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.

Being the principal agency for state guarantee finance of the Philippines, the primary objective of PHILGUARANTEE is to perform its development financing role through the provision of credit guarantees in support of trade and investments, exports, infrastructure, energy, tourism, agricultural business/modernization, housing, micro-, small-, and medium-sized enterprises (MSMEs), and other priority sectors of the economy, with the end view of facilitating and promoting socio-economic and regional development.

Consistent with the above mandate, the Corporation, directly or through the funds under its trust and/or administration, offer the following guarantee facilities or programs:

- a. SME Credit Guarantee Facility (SCGF) – covers loans granted to SMEs engaged in export trade, manufacturing, import substitutes, trading activities, and industries in the list of Investment Priorities Plan (IPP) of the Board of Investments (BOI).
- b. MSME Credit Guarantee Program (MCGP) – a sub-program under the SCGF, covers loans extended to MSMEs affected by the COVID-19 pandemic. As a pandemic response program, the MCGP was offered until December 31, 2021 only.

Under its Resolution No. 244 dated January 25, 2022, the Board of Directors (BOD) approved the termination of the MCGP, the inclusion of microenterprises as among the eligible borrowers for guarantee under the SCGF, and renaming of SCGF to MSME Credit Guarantee Facility.

- c. Medium and Large Enterprises – Credit Guarantee Facility (MLE-CGF) – covers loans granted to hospitals and healthcare institutions, logistics, public utilities and telecommunications, transportation, industries in the list of IPP of the BOI, as well as industries mentioned under RA No. 11494, or the “Bayanihan to Recover as One Act” (Bayanihan 2).
- d. Sustainable Energy Credit Guarantee Facility (SECGF) – covers loans extended by private banks to any entity, enterprise or corporation organized or licensed to do business in the Philippines engaged in renewable energy and energy efficiency development under the National Renewable Energy Program of the Department of Energy (DOE).

Under its Resolution No. 271 dated March 29, 2022, the BOD approved the SECGF, including its features, to assist, sustain and develop renewable and energy-efficient resources as part of the Corporation’s commitment to support the energy sector.

- e. Housing Retail Guarantee Facility (HRGF) – covers loans and credit facility extended for the purchase/acquisition and/or construction of a single-family residence. The guarantee may either be under a standard, bond or cash flow guarantee coverage.

- f. Unsecured Small Housing Loans Guarantee Facility (USHLGF) – covers unsecured small loans wherein the proceeds are used for housing-related purposes.
- g. Developmental Loan Guarantee – covers loans extended for the development of subdivisions, townhouses, dormitories, apartments and other residential dwellings. The facility was suspended since CY 2020.

Under its Resolution No. 259 dated February 22, 2022, the BOD approved the guidelines for the operation of a related and new Housing Developers Credit Guarantee Program, which shall cover loans to housing developers for their permanent working capital and development expenses.

- h. Cash Flow Guarantee (CFG) on Asset-backed Securities – covers securities or financial instruments for financing of housing developments. The Corporation shall pay the defaulting accounts from the pool of assets backing up the securities.
- i. CFG on Socialized Housing Loans – covers socialized housing loans extended by the Social Security System (SSS), the Government Service Insurance System (GSIS), Home Development Mutual Fund (HDMF or Pag-IBIG) and their accredited financial institutions (AFIs). The facility is offered through the CFG component of the Abot-Kaya Pabahay Fund (AKPF), which is under the trusteeship and administration of the Corporation.
- j. Agriculture Credit Guarantee – covers unsecured loans of small farmers and fisherfolks (SFF) or farmers and/or fisherfolks organizations whose majority members are SFF to finance palay and other food crops or commodities production and other food production-related activities. The facility is offered through the Agricultural Guarantee Fund Pool (AGFP), which is under the administration of the Corporation.
- k. Electric Cooperative – Partial Credit Guarantee (EC-PCG) – covers commercial loans to selected electric cooperatives for the financing of electric power distribution system upgrades and emergency capital expenditure requirements. The Corporation is the exclusive Program Manager of the EC-PCG Program under which the facility is offered.

Attached to the Department of Finance (DOF), the Corporation is subject to the supervision and examination by the Bangko Sentral ng Pilipinas (BSP) in accordance with Section 22 of PD No. 1080, as amended. Thus, the Corporation 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 17<sup>th</sup> Floor, BDO Towers Valero, 8741 Paseo de Roxas Street, Makati City until February 2023 and at 22<sup>nd</sup> to 24<sup>th</sup> Floors, BPI-Philam Life Building, 6811 Ayala Avenue, Makati City starting March 2023.

## 1.2. Consolidation of PGPAs

Pursuant to EO No. 58, TIDCORP or PhilEXIM was merged with the Home Guaranty Corporation (HGC) with the former as the surviving entity which is renamed as PHILGUARANTEE. Moreover, the guarantee-related functions, programs, funds, assets and liabilities of the Small Business Corporation (SBC) as well as the Industrial Guarantee and Loan Fund (IGLF) were transferred to TIDCORP. Likewise, the administration of the AGFP was transferred to TIDCORP, including the penalties pertaining to the AGFP pursuant to RA No. 10000.

Consistent with the powers vested in him under Section 2 of EO No. 58, the Secretary of Finance declared August 31, 2019 as the effective date of the merger and consolidation of the five PGPAs in his Memorandum Circular No. 001-2019 dated September 3, 2019.

Below are the brief backgrounds of the former HGC and the transferred functions, funds and programs:

### *a. Home Guaranty Corporation*

The former HGC was a GOCC tasked to operate a credit guarantee program in support of the government's effort to promote home ownership. Since its creation on September 15, 1950 as the Home Financing Commission by virtue of RA No. 580 and later as Home Insurance and Guaranty Corporation, HGC has institutionalized a system of credit guarantees that has become an integral part of the government's shelter program.

Pursuant to its Charter, RA No. 8763 or the "Home Guaranty Corporation Act of 2000," HGC provided risk guarantees and fiscal incentives for housing credits extended by banks, investors and other financial institutions, thereby stimulating the flow of funds from both the government and private sectors for housing and urban development.

Specifically, the former HGC had the following mandates under Section 5 of RA No. 8763:

- To guaranty the payment in favor of any natural or juridical person, of any and all forms of mortgages, loans and other forms of credit facilities and receivables arising from financial contracts exclusively for residential purposes and the necessary support facilities thereto;
- To assist private developers to undertake socialized, low and medium cost mass housing projects by encouraging private funds to finance such housing projects through a viable system of long-term mortgages, guaranties and other incentives;
- To promote homebuilding and land ownership, giving primary preference to the homeless and underprivileged sectors of the society;

- To promote housing by the aided self-help method whereby families with some outside aid build their own houses with their own labor; to provide technical guidance to such families; to guaranty loans to such families on first liens on house and land with such other security and conditions as the Corporation shall determine; and
- To pursue the development and sustainability of a secondary mortgage market for housing as the primarily strategy to encourage private sector participation in housing finance.

Additionally, the former HGC performed the following functions as provided in other special laws:

- To supervise and regulate building and loan associations pursuant to Section 94 of RA No. 8791, or “The General Banking Law of 2000,” and
- To administer and control the CFG system of the AKPF, a fund established with the objectives of enhancing affordability of low-cost housing by low-income families, providing developmental financing for low-cost housing projects, and eliminating risks for the funding agencies involved in housing, pursuant to RA No. 6846, or the “AKPF Act.”

*b. Guarantee Function and Programs of the Small Business Corporation*

Established on January 24, 1991 under RA No. 6977, as amended, the SBC is a government financial institution tasked to provide access to finance, financial management and capacity building to MSMEs. It offers a wide array of financial services, including among others guarantee, direct and indirect lending, financial leasing, secondary mortgage, venture capital operations and the issuance of debt instruments for compliance with the mandatory allocation provision.

Pertinently, Section 11 of RA No. 6977, as amended, provides that the SBC shall guarantee loans obtained by qualified small enterprises, local and/or regional associations, small enterprises and industries, private voluntary organizations and/or cooperatives. It may also provide second level guarantee, i.e., reinsurance, on the credit and/or investment guarantees made by credit guarantee associations and other institutions in support of small entrepreneurs.

At the time of the issuance of EO No. 58, the SBC also managed the Credit Risk Guarantee Fund (CRGF) aside from operating its regular guarantee facility. The CRGF, a component of the Yolanda Comprehensive Rehabilitation and Recovery Plan, is a credit guarantee program that provides assistance to MSMEs affected by Typhoon Yolanda in accessing credit from financial institutions for the recovery and rehabilitation of their businesses.

*c. Industrial Guarantee and Loan Fund*

The IGLF was established by an Agreement between the Governments of the United States of America (USA) and the Philippines under Counterpart Project Agreement No. 32 dated July 15, 1952 for the purpose of encouraging the establishment and expansion of financially, technically, and economically viable cottage, small and medium enterprises that would contribute to the country's economic development and a more equitable distribution of income.

Previously managed by the Development Bank of the Philippines (DBP), the IGLF was primarily engaged in project-based lending programs providing loanable funds to accredited participating financial institutions for re-lending to eligible MSMEs and viable privately-owned productive enterprises.

*d. Agricultural Guarantee Fund Pool*

The AGFP was established by virtue of Administrative Order (AO) No. 225 dated April 1, 2008, as amended by AO No. 225-A dated May 26, 2008, to mitigate the risks involved in agriculture lending thereby facilitating the provision of credit in the agriculture sector. It was placed in trust with the Land Bank of the Philippines (LBP) for the purpose of providing guarantee cover to participating financial institutions and other parties in extending financing to rice farmers under a common Rice Program and various food production programs.

**1.3. Approval of Financial Statements**

The financial statements of the Corporation as at and for the year ended December 31, 2022 (including the comparative financial statements as at and for the year ended December 31, 2021) were approved and authorized for issue by the BOD on June 30, 2023 under Board Resolution No. 388, s. 2023.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. 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 PHILGUARANTEE have been prepared in accordance with the Philippine Financial Reporting Standards (PFRSs). PFRSs are issued by the Financial and Sustainability Reporting Standards Council (FSRSC), previously the Financial Reporting Standards Council (FRSC) until September 2022, and approved by the Philippine Board of Accountancy (BOA) based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

As a GOCC classified as a Commercial Public Sector Entity (CPSE), the Corporation is required to adopt the PFRSs as its applicable financial reporting framework pursuant to Commission on Audit (COA) Circular No. 2015-003 dated April 16, 2015, as modified under COA Circular No. 2022-003 dated January 24, 2022. Likewise, BSP Circular No. 494 dated September 20, 2005, as reiterated in BSP Circular No. 1011 dated August 14, 2018, mandates BSP-supervised financial institutions to adopt in all respects the PFRSs in the preparation of its audited financial statements for financial reporting.

These financial statements have been prepared using the measurement bases specified by PFRSs 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 PAS 1, *Presentation of Financial Statements*. PHILGUARANTEE presents all items of income and expenses and other comprehensive income (OCI) in a single statement of comprehensive income (SCI).

For this purpose, the Corporation adopts the guidelines laid down under COA Circular No. 2017-004 dated December 13, 2017 on the preparation of financial statements and other financial reports and implementation of PFRS by government corporations classified as CPSEs, unless Management believes that a different classification and presentation of the accounts provide information that is reliable and more relevant to users of the financial statements.

The Corporation also presents a third statement of financial position (SFP) as of the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that have a material effect on the information in the SFP at the beginning of the preceding period. The related notes to the third SFP are not required to be disclosed.

*c. Functional and Presentation Currency*

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

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

*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.

## 2.2. Accounting for the Consolidation of PGPAs

### a. Merger of TIDCORP and HGC

The pooling of interests method as exemplified in Philippine Interpretations Committee (PIC) Q&A No. 2012-01, as amended by PIC Q&A Nos. 2015-01 and 2018-13, was applied in accounting for the merger between TIDCORP and HGC. Management believes that the merger between the two GOCCs essentially involved entities under common control, which is excluded from the scope of PFRS 3, *Business Combinations*.

A business combination is a “common control combination” if the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. This means that the same party or parties have the ultimate control over the combining entities or businesses both before and after the business combination.

As wholly-owned government corporations, TIDCORP and HGC are both under the ultimate control of the National Government (NG) both before and after the merger and this control is irrefutably not transitory. The merger itself is directed by the President of the Philippines by virtue of his power of control over all executive departments, bureaus and offices, including GOCCs, under Section 17, Article VII of the 1987 Philippine Constitution.

In PIC Q&A No. 2011-02 dated August 24, 2011, the consensus is that common control business combinations shall be accounted for using either: (i) the pooling of interests method; or (ii) the acquisition method in accordance with PFRS 3. Where the acquisition method of accounting is selected, the transaction must have a commercial substance from the perspective of the reporting entity.

Management considers the merger between TIDCORP and HGC to be without commercial substance, thus, warranting the application of the pooling of interests method. While it is true that the merger resulted in TIDCORP gaining control of the resources of HGC, the merger did not involve the payment of consideration because there was no party with an entitlement to the net assets of the former HGC. Likewise, the merger was merely imposed on the two GOCCs by the NG which basically combined its resources.

The application of the pooling of interests method to the merger between TIDCORP and HGC involved the following:

- a. The assets and liabilities of the merged GOCCs are reflected in the financial statements at their carrying amounts. No adjustments were made to reflect fair values, or recognize any new assets or liabilities, at the date of the merger that otherwise would have been done under the acquisition method. Adjustments were recorded only to achieve uniform accounting policies.



- b. No goodwill was recognized as a result of the merger. Intangible assets and contingent liabilities were recognized only to the extent that they were recognized by the merged corporations in accordance with applicable PFRS.
- c. The income statement reflects the results of the merged corporations for the full year, irrespective of when the merger took place.
- d. Comparative financial information were restated for the periods prior to the merger to reflect the combination as if it had occurred at the beginning of the earliest period presented in the financial statements regardless of the actual date of the combination.

*b. Other than the Merger with HGC*

Funds under the trust and/or administration of the Corporation, namely, AGFP, AKPF and CRGF, are not consolidated in these financial statements as the funds were not merged to nor are controlled by it. Instead, separate sets of books of accounts and financial statements are maintained and prepared, respectively, for each fund (*Note 2.25*). Only the total assets of the funds are reciprocally presented and accounted for as non-current “Other Assets” (*Note 14*) and non-current “Trust Liabilities” (*Note 18*) in these financial statements.

Conversely, the guarantee-related assets and liabilities transferred from the IGLF and SBC, excluding those pertaining to the CRGF, which already pertain to and are controlled by the Corporation, are already reflected in these financial statements. Balances of the transferred accounts as at August 31, 2019 follow:

	IGLF	SBC	Total
Assets	6,983,377,480	35,000,000	7,018,377,480
Liabilities	201,533,356	0	201,533,356
Equity	6,781,844,124	35,000,000	6,816,844,124

### **2.3. Adoption of New and Amended PFRSs**

Except with respect to the following new and amended PFRS, the accounting policies adopted in the preparation and presentation of the financial statements are consistent with those of prior years. Unless otherwise indicated, these new and amended standards were adopted as at January 1, 2022 and their adoption did not have a significant impact on the financial statements.

*a. Effective in 2022 that are Relevant to the Corporation*

- (i) *Amendments to PFRS 3, Business Combinations – Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the

*Conceptual Framework for Financial Reporting* issued on March 29, 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential “Day 2” gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, or Philippine Interpretation IFRIC 21, *Levies*, if incurred separately. At the same time, the amendments added a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

- (ii) *Amendments to PAS 16, Property, Plant and Equipment – Proceeds Before Intended Use.* The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendments must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

- (iii) *Amendments to PAS 37, Provisions, Contingent Liabilities and Contingent Assets – Onerous Contract, Costs of Fulfilling a Contract.* The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach.” The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded, unless they are explicitly chargeable to the counterparty under the contract.

- (iv) *Annual Improvements to PFRS (2018 – 2020 Cycle)*

- *Amendments to PFRS 9, Financial Instruments – Fees in the “10 per cent” Test for Derecognition of Financial Liabilities.* The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting year in which the entity first applies the amendment.

*b. Effective in 2022 that are Not Relevant to the Corporation*

*(i) Annual Improvements to PFRS (2018 – 2020 Cycle)*

- *Amendments to PFRS 1, First-time Adoption of Philippine Financial Reporting Standards – Subsidiary as a First-time Adopter.* The amendment permits a subsidiary that elects to apply Paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply Paragraph D16(a) of PFRS 1.
- *Amendments to PAS 41, Agriculture – Taxation in Fair Value Measurements.* The amendment removes the requirement in Paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41. This will ensure consistency with the requirements in PFRS 13.

**2.4. PFRS Issued but not yet Effective**

The following pronouncements were issued and adopted by the FSRSC before the year ending December 31, 2022 and are mandatorily effective for annual periods beginning on or after January 1, 2023. The Corporation intends to adopt these standards when they become effective. Except as otherwise indicated, the Corporation does not expect that future adoption of these pronouncements will have a significant impact on its financial statements.

*a. Effective Beginning on or After January 1, 2023*

- (i) Amendments to PAS 1, Presentation of Financial Statements, and PFRS Practice Statement 2, Disclosure of Accounting Policies.* The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:
- Replacing the requirement for entities to disclose their "significant" accounting policies with a requirement to disclose their "material" accounting policies; and
  - Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments are effective for annual periods beginning on or after January 1, 2023, with early adoption permitted.

- (ii) Amendments to PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Accounting Estimates.* The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and

changes in accounting policies and the correction of errors. The amendments also clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted.

- (iii) *Amendments to PAS 12, Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction.* The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 to transactions that occur on or after the beginning of the earliest comparative period presented.

*b. Effective Beginning on or After January 1, 2024*

- (i) *Amendments to PAS 1, Presentation of Financial Statements – Classification of Liabilities as Current or Non-current.* The amendments clarify Paragraphs 69 to 76 of PAS 1, to specify the requirements for classifying liabilities as current or non-current. The amendments:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the SFP date;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are originally effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. However, in November 2021, the IASB tentatively decided to defer the effective date to no earlier than January 1, 2024.

- (ii) *Amendments to PFRS 16, Lease Liability in a Sale and Leaseback.* The amendments specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right of use retained.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. Earlier adoption is permitted and that fact must be disclosed.

*c. Effective Beginning on or After January 1, 2025*

- (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.

On December 15, 2021, then FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission, which deferred the implementation of PFRS 17 by two years after its effective date as decided by the IASB.

*d. Deferred Effectivity:*

- (i) *Amendments to PFRS 10, Consolidated Financial Statements, and to PAS 28, Investments in Associates and Joint Ventures – Sales or Contribution of Assets between an Investor and its Associates or Joint Venture.* The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, then FRSC deferred the original effective date of January 1, 2016 of the said amendments until the IASB completes its

broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

## **2.5. Current and Non-current Classification**

The Corporation presents assets and liabilities in the 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 (iv) cash or cash equivalents, unless restricted from being exchanged or used to settle a liability for at least 12 months after reporting date. All other assets are classified as non-current.

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

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

## **2.6. 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.

## **2.7. Financial Instruments**

Financial instruments are recognized in the SFP when, and only when, the Corporation becomes a party to the contractual provisions of the instrument. For purposes of classifying financial instruments, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria under PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

### *a. Financial Assets*

#### *(i) Classification and Initial Measurement*

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

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

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

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

*(ii) Subsequent Measurement*

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

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

The Corporation’s financial assets at amortized cost as at December 31, 2022 and 2021 are presented in the SFP as cash and cash equivalents, loans and receivables, investment securities at amortized cost, guaranty deposits and investment in sinking fund.

Financial assets at FVOCI are subsequently measured at fair value. Interest income calculated using the EIR method, foreign exchange revaluation and impairment losses or reversals are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

The Corporation’s financial assets at FVOCI as at December 31, 2022 and 2021 consist of investment in treasury bonds and in unquoted equity securities.

*(iii) Impairment of Financial Assets*

The Corporation recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at FVPL. The Corporation

considers past events, current conditions, and forecasts of future economic conditions in assessing impairment.

The Corporation calculates ECLs based on probability-weighted estimates to measure cash shortfalls. A cash shortfall is 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 the original effective interest rate. 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.

For credit guarantees, cash shortfalls are the expected payments to reimburse the client-AFIs for the credit loss that it incurs less any amount that the Corporation expects to receive from the former, i.e., the unearned guarantee fees or the unamortized portion of the upfront guarantee fees received.

ECLs are recognized in three stages based on whether there has been a significant increase in credit risk (SICR) of a financial asset as follows:

Stage	Characteristics	ECL Assessment
Stage 1	Credit exposures that are considered “performing” and with no SICR since initial recognition or with low credit risk	12-month or Lifetime ECL
Stage 2	Credit exposures that are considered “under-performing” or not yet non-performing but with SICR since initial recognition	Lifetime ECL
Stage 3	Credit exposures with objective evidence of impairment, thus, considered as “non-performing”	Lifetime ECL

Lifetime ECL are the ECL that result from all possible default events over the expected life of the credit exposure, irrespective of the timing of the default while the 12-month ECL pertains to the portion of lifetime ECL that result from default events on credit exposure that are possible within the 12 months after the reporting date.

In measuring the ECL, the Corporation takes into consideration an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

In assessing whether there is an SICR of a credit exposure, the Corporation compares the risk of a default occurring on the credit exposure as at the reporting date with the risk of default occurring as at the date of initial recognition, and considers reasonable and supportable information that is available without undue cost or effort, that is indicative of SICR since initial recognition.



The date of initial recognition is the date that the Corporation becomes a party to the contractual provisions of the financial instruments. For financial guarantee contracts, the date that the Corporation becomes a party to the commitment is considered to be the date of initial recognition for the purposes of applying the impairment requirements.

At a minimum, there is a significant increase in credit risk when contractual payments of borrowers have been past due for at least 30 days. For credit guarantees, the management of the accounts are with the client-AFIs, thus assessment and recognition of SICR is only possible upon receipt of a guarantee call/claim. Under current program guidelines, client-AFIs may file guarantee calls/claims only after the account has been classified as past due for at least six months.

The Corporation adopts the definition of “default” as defined by the BSP. Thus, the Corporation considers a credit exposure in past due (Stage 2 – Underperforming) and in default (Stage 3 – Non-performing) when the borrower is past due on its contractual payments for more than 30 days and 90 days, respectively.

As a part of a qualitative assessment of whether a customer is in default, the Corporation also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Corporation carefully considers whether the event should result in treating the customer as defaulted.

Calculation of ECL is a function of the probability of default (POD), exposure-at-default (EAD), and loss-given default (LGD) with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information, where available without undue cost or effort, and through the use of experienced credit judgment.

- POD is an estimate of the likelihood that a credit exposure will not be repaid. POD will be based on historical data and estimated based on current market conditions, and reasonable and supportable information about future economic conditions. For credit guarantees, POD is the 3-year moving average historical default rate or payout rate of the portfolio.
- LGD is an estimate of the percentage of loss that the Corporation will incur in the event that the borrower defaults on its obligations after considering all recoveries and costs.
- EAD is the expected value of the credit exposure at the time of default with consideration on the expected changes in the credit exposure after the reporting date, including repayments of principal and interest.

PFRS 9 notes that entities, in the estimation of allowance for ECL, should use reasonable and supportable forward-looking information where

available without undue cost or effort. However, when information that is more forward-looking than past due status is not available without undue cost or effort, an entity may use past due information to determine whether there have been SICR since initial recognition. PFRS 9 likewise notes that information on individual asset level may not be available and a collective assessment for groups of financial assets may be necessary to ensure that SICR is recognized in a timely manner and not only after the instrument becomes past due.

Under these contexts, the Corporation uses historical loss patterns in the estimation of allowances for ECLs. Historical averages are calculated and adjusted, if necessary, to take into account reasonable and supportable information that is available, without undue cost or effort, at the reporting date about current conditions and forecasts of future economic conditions using experienced credit judgments.

Outstanding credit guarantees under Stage 1 are collectively assessed with Lifetime ECL taking into consideration that the individual account management and monitoring, and the contractual cash flow obligations of the guaranteed borrowers are still with the client-AFIs.

The Corporation's credit exposures are currently segmented according to program portfolio i.e., housing credit guarantees and MSME credit guarantees, to facilitate the determination of credit risks in a timely manner. Granular segmentation of housing guarantee portfolio per program and per housing loan package yielded no material similarity on credit risk characteristics as some programs and housing loan package has no history of default. Prospectively and as the Corporation build up the historical loss pattern on MSME credit guarantee portfolio, the MSME credit guarantee portfolio will be assessed based on the actual loss and recovery rates of client-AFIs.

#### *(iv) Reclassification*

The Corporation can only reclassify financial assets if the objective of its business model for managing those financial assets changes. A change in the objective of the Corporation's business model will be effected only at the beginning of the next reporting period following the change in the business model.

#### *(v) 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.

When the Corporation has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Corporation continues to recognize the transferred asset to the extent of its continuing involvement.

Financial assets are written off either partially or in their entirety only when there is no realistic prospect of future recovery and the related collateral, if any, has been realized or is without recoverable value. If a write-off is later recovered, any amounts formerly charged are credited to "Miscellaneous Income" in the SCL.

Approval of the BOD is sufficient to effect the write-off of credit-related receivables and advances. However, further authority from COA is required to write-off non-credit-related receivables and advances pursuant to COA Circular No. 2016-005 dated December 19, 2016.

*(vi) Modification of Financial Assets*

The Corporation likewise derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that substantially, it becomes a new asset, with the difference between its carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

The Corporation considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, the Corporation considers the following factors, among others: (i) change in currency; (ii) introduction of an equity feature; (iii) change in counterparty; and (iv) if the modification results in the asset no longer considered SPPI.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a "new" financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Corporation records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

On March 25, 2020, RA No. 11469, or the "Bayanihan to Heal as One Act" (Bayanihan 1), was enacted. Bayanihan 1 provides that all covered

institutions shall implement a 30-day grace period for all loans with principal and/or interest and lease amortization falling due within the Enhanced Community Quarantine period without incurring interest on interest, penalties, fees and other charges.

Subsequently, on September 11, 2020, Bayanihan 2 was enacted. Under Bayanihan 2, a one-time 60-day grace period is granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interests, penalties, fees, or other charges and thereby extending the maturity of the said loans. Furthermore, a minimum 30-day grace period shall also be granted by covered institutions to all payments due within the period of community quarantine on rent and utility-related expenditures without incurring penalties, interest and other charges.

Based on Management's assessment, the modifications in the contractual cash flows as a result of the offer by the Corporation of the reliefs provided under Bayanihan 1 and 2 are not substantial and therefore do not result in the derecognition of the affected financial assets.

*b. Financial Liabilities*

*(i) Classification and Measurement*

Financial liabilities are classified, at initial recognition as financial liabilities at FVPL, loans and borrowings, payables, or 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, 2022 and 2021 include accounts and other payables, customer and guaranty deposits, bonds payable, loans payable, advances from the NG, lease liability and liabilities arising from financial guarantees issued.

*(ii) Subsequent Measurement*

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

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

As at December 31, 2022 and 2021, this category generally applies to interest-bearing bonds payable, loans payable, advances from the NG and lease liability.

### *(iii) Financial Guarantees*

The Corporation provides financial guarantees in the ordinary course of business. Financial guarantees are initially recognized in the financial statements at fair value, and the initial fair value is amortized over the life of the financial guarantee contracts in accordance with PFRS 15, *Revenue from Contracts with Customers*. The financial guarantee is subsequently carried 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 PFRS 15.

### *(iv) Derecognition*

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

The Corporation considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of or greater than 10 percent.

Similar with financial assets, when the modification of a financial liability is not considered substantial, the Corporation records a modification gain or loss based on the change in cash flows discounted at the original EIR.

### *c. Offsetting of Financial Instruments*

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

As at December 31, 2022 and 2021, there are no financial assets and liabilities that were offset.

## **2.8. 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. A fair value measurement of a non-

financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Corporation uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

- a. Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- b. Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- c. Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

## **2.9. Inventories**

Inventories held for consumption are valued at the lower of cost or net realizable value. Costs of inventories include all costs of purchase and other costs incurred to bring the inventories to their present location and condition, and are accounted for using the moving average cost method. Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense once deployed for utilization or consumption in the ordinary course of operations, lost or disposed of.

Inventories include semi-expendable property, or those tangible items with costs below the capitalization threshold for property and equipment. These items are recognized as expense in full upon issuance to end users but are recorded in the Report on the Physical Count of Inventories for monitoring purposes.

## **2.10. Prepayments and Other Assets**

Prepayments and other 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.

## 2.11. 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 No. 2022-004 dated May 31, 2022, a capitalization threshold of P50,000 is applied as the minimum cost of an individual asset to be recognized as property and equipment. 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 as prescribed by COA Circular No. 2017-004 dated December 13, 2017, to wit:

Type of Property and Equipment	Estimated Useful Life in Years
Building	30 to 50
Land improvements	20 to 30
Transportation equipment	5 to 15
Office, IT and communication equipment	5 to 15
Furniture, fixtures and books	2 to 15
Leased assets and improvements	Estimate useful life or term of lease, whichever is shorter
Others	2 to 15

Depreciation shall be for one month if the item of property and equipment is available for use on or before the 15<sup>th</sup> 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 the end of each reporting period.

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

An item of 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.

## **2.12. 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.

Investment properties include real and other properties acquired (ROPA) in settlement of loans and receivables through foreclosure or *dacion* in payment. Foreclosed properties are classified under investment properties upon: (i) entry of judgment in case of judicial foreclosure; (ii) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or notarization of the Deed of Dacion in case of *dacion* in payment.

ROPA 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 takes into account the fair market value of the collateral, plus booked accrued interest less allowance for credit losses, plus transaction costs incurred upon acquisition. 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.

Consistent with BSP Circular No. 520 dated March 20, 2006, the Corporation adopts 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 investment property is made at least every other year to determine whether impairment exists. Immediate re-appraisal is conducted on investment property that materially declined in value. If the recoverable amount or



appraised value of investment property is less than its carrying amount, the difference is recognized in the SCI as impairment loss.

An investment property, including the related accumulated depreciation and any impairment losses, 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.

### **2.13. Non-current Assets Held for Sale**

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Corporation's control and there is sufficient evidence that the Corporation remains committed to its plan to sell the asset.

Assets classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding finance costs and income tax expense. Assets classified as held for sale are not subject to depreciation or amortization. Gains or losses arising from the sale or remeasurement of assets held for sale are recognized in profit or loss.

An asset that ceases to be classified as held for sale is measured at the lower of: (i) its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held-for-sale; and, (ii) its recoverable amount at the date of the subsequent decision not to sell. Any adjustment to the carrying amount of an asset that ceases to be classified as held for sale resulting in either a gain or loss, is recognized in profit or loss. An impairment loss is also recognized for any initial or subsequent write-down of the assets held for sale to fair value less cost to sell, to the extent that it has not been previously recognized in profit or loss.

On the other hand, any gain from any subsequent increase in fair value less costs to sell of an asset up to the extent of the cumulative impairment loss that has been previously recognized is recognized in profit or loss.

#### **2.14. Intangible Assets**

Intangible assets 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.

Intangible assets are initially measured at cost. Subsequent to initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any.

Leasehold rights with finite lives are amortized using the straight-line method over their estimated useful lives of 37 to 47 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

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.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss.

#### **2.15. Impairment of Non-financial Assets**

The Corporation assesses at each reporting date whether there is an indication that a non-financial asset, i.e., property and equipment, investment properties and intangible assets, among others, 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 also 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.

## **2.16. 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, even if the timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

When time value of money is material, long-term provisions are discounted to their present values using a pre-tax rate that reflects market assessments and the risks specific to the obligation. The increase in provision due to passage of time is recognized as interest expense.

Where the Corporation expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain and at an amount not exceeding the related provision. The expense relating to any provision is presented in profit or loss, net of any reimbursement.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized but are disclosed in the financial statements, except if 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.

## **2.17. Equity**

Government equity represents the amount of the equity contribution of the NG, whether in cash or in kind, as approved under the Corporation's Charter, PD No. 1080, as amended.

Retained earnings (Deficit) represent all current and prior period results of operations as disclosed in profit and loss, reduced by the amount of dividends required to be declared and remitted to the NG pursuant to the RA No. 7656, or the "Dividends Law."

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

## **2.18. Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. The five-step model follows: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; (v) recognize revenue when (or as) the entity satisfies a performance obligation.

Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires the Corporation to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with customers. The standard also specifies the accounting for incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The following specific recognition criteria, which did not materially change from PAS 18, *Revenue*, must also be met before revenue is recognized:

### *a. Revenue Within the Scope of PFRS 15*

#### *(i) Fees and Commissions*

Fees earned for the provision of services over a period of time, such as guarantee fees, related commitment fees and management fees, are accrued over that period as the customer simultaneously receives and consumes the benefits provided by the Corporation. Specifically, guarantee fees received in advance are recognized as income on a straight-line basis over the expected life of the related financial guarantee contracts.

Fees arising from negotiating or participating in the negotiation of a transaction, such as commission income, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

*(ii) Fines and Penalties*

Fines and penalties are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

*(iii) Other Income*

Income from the sale of services, such as consultancy fees, is recognized upon completion of service. Income from sale of properties is recognized upon completion of the earnings process and the collectability of the sales price is reasonably assured under "Gains" in the SCI.

*b. Revenue Outside the Scope of PFRS 15*

*(i) Interest Income*

Interest on financial instruments measured at amortized cost and FVOCI are recognized based on the EIR method of accounting. The EIR method is a method of calculating the amortized cost of a financial asset or a financial liability, and allocating the interest income or interest expense over the relevant period.

The EIR is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset has been written down as a result of an impairment loss, interest income is recognized thereafter using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

*(ii) Recovery on Written-off Assets*

Income arising from collections on accounts or recoveries from impairment of items previously written-off are recognized in the year of recovery.

*(iii) Dividend Income*

Dividend income is recognized when the Corporation's right to receive the payment is established.

*(iv) Lease Income*

Rental income arising on leased premises is accounted for on a straight-line basis over the lease terms of on-going leases.

Collections from accounts which did not qualify for revenue recognition are treated as customer's deposit included as part of "Deferred Credits/Unearned Income" (Note 19) in the SFP.

## **2.19. Expense Recognition**

Expenses are decreases in economic benefits during the year in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the entity.

Costs and expenses are recognized in profit or loss upon utilization of the assets or services, or at the date those are incurred, unless identifiable with a particular fund under the Corporation's trust and/or administration. In such case, the expense is allocated to and charged against said fund pursuant to the Corporation's "Costs/Expenses Allocation Policy for Administered/Managed Funds and Programs."

Interest expenses are recognized in profit or loss using the EIR method of accounting.

## **2.20. Leases**

### *a. The Corporation as Lessee*

The Corporation considers whether a contract is, or contains a lease at the inception of a contract. A lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

As a practical expedient and as prescribed under COA Circular No. 2021-009 dated October 1, 2021, the Corporation does not separate non-lease components from lease components. Instead, the Corporation accounts for each lease component and any associated non-lease component as a single lease component.

At commencement date of the lease, the Corporation recognizes a right-of-use (ROU) asset and a corresponding lease liability on the SFP, except for short-term leases, i.e. leases with a lease term of 12 months or less, and leases of low value assets, consistent with COA Circular No. 2021-009. For these leases, the Corporation recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease liability is measured at the present value of the unpaid lease payments, discounted using the interest rate implicit in the lease (if readily available) or the Corporation's incremental borrowing rate. Incremental borrowing rate is the rate of interest that the Corporation would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment.

Lease payments included in the measurement of the lease liability consists of fixed payments, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, lease liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in the fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the ROU asset, or profit and loss if the ROU asset is already reduced to zero.

ROU asset is measured at cost, which consist of the initial measurement of the lease liability, any initial direct costs incurred, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date.

The Corporation depreciates ROU assets on a straight-line basis using the expected useful life or lease term whichever is shorter. The Corporation also assesses the ROU asset for impairment when any such indicators exist.

*b. The Corporation as Lessor*

Leases wherein the Corporation 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.

Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

## **2.21. Income Taxes**

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

Current tax assets or liabilities comprise those claims from, or obligations to, tax 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 periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is 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 the Corporation 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.

Deferred tax assets and deferred tax liabilities are offset if the Corporation has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes related to the same entity and the same taxation authority.

## **2.22. Employee Benefits**

Considerations given by the Corporation in exchange for services rendered by employees or for the termination of employment are recognized and measured as follows:

### *a. Post-employment Defined Contribution Plan*

A defined contribution plan is a post-employment benefit plan under which the Corporation pays fixed contributions to an independent entity. The Corporation will have no legal or constructive obligation to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred.



Prior to the merger, TIDCORP and the former HGC maintained defined contributory Provident Funds covering all regular employees. Contributions to the funds consist of the employees' share which is withheld from the monthly payroll, and the employer's share which is charged to "Provident Fund Contributions" (Note 25.1) at the following rates of basic salary:

	Employee's Share	Employer's Share
TIDCORP Provident Fund	5 per cent	25 per cent
HGC Provident Fund	5 per cent	20 per cent

Both Provident Funds were maintained by the Corporation after the merger. In view of the observation of COA that payment by the Corporation of employer's share was without approval of the President of the Philippines, thus lacks legal basis, the Corporation ceased contributing to the TIDCORP Provident Fund effective August 1, 2019. Further, employer's share contribution to the HGC Provident Fund has been limited to incumbent employees absorbed from the former HGC.

However, after confirmation by the Governance Commission for GOCCs (GCG) that, upon the merger, the HGC Provident Fund may be implemented by PHILGUARANTEE as the surviving entity, the BOD approved on December 20, 2022 to continue the HGC Provident Fund in favor of all PHILGUARANTEE's plantilla personnel effective February 1, 2020 at the rate of employee's and employer's share then applicable. Subsequently, in accordance with EO No. 150, s. 2021, the employee's and employer's share in contributions were reduced to 3 per cent and 10 per cent, respectively, of the basic salary effective June 2022.

*b. Short-term Benefits*

Short-term employee benefits include wages, salaries, bonuses, and non-monetary benefits provided to current employees, which are expected to be settled before 12 months after the end of the reporting period during which employee services are rendered. The undiscounted amount of the benefits expected to be paid in respect of services rendered by employees in an accounting period is recognized in profit or loss during that period and any unsettled amount at the end of the reporting period is included as part of "Due to Officers and Employees" presented under "Financial Liabilities" (Note 15) in the SFP.

*c. Termination Benefits*

Termination benefits are payable when employment is terminated by the Corporation before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits, and the payment of the benefit by the Corporation is authorized by law. The Corporation recognizes termination benefits at the earlier of: (i) when it can no longer withdraw the offer of such benefits; and (ii) when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

*d. Compensated Absences*

Compensated absences are recognized for the number of paid leave days remaining at the end of the reporting period. They are recorded as “Leave Benefits Payable” and presented under “Provisions” (*Note 20*) in the SFP at the undiscounted amount that the Corporation expects to pay as a result of the unused entitlement.

**2.23. Foreign Currency Transactions and Translations**

The accounting records of the Corporation are maintained in Philippine Peso. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing at transaction dates. Assets and liabilities denominated in foreign currencies are translated to Philippine Peso at the prevailing Bankers Association of the Philippines closing rates at the SFP date.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

**2.24. Related Party Transactions and Relationships**

Related party transactions are transfers of resources, services or obligations between the Corporation and its related parties, regardless of whether a price is charged.

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. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

Related parties include key management personnel who are persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director, whether executive or otherwise, of that entity.

**2.25. Funds under Trust and/or Administration**

The Corporation acts as trustee and/or administrator pursuant to law or agreements that result in the holding of funds on behalf of other entities. The resources, liabilities and income or loss arising thereon are generally excluded from these financial statements as these do not pertain to the Corporation.

Instead, separate sets of books of accounts and financial statements are maintained and prepared, respectively, for each fund, and only the total assets of the funds are reciprocally presented and accounted for as non-current “Other Assets” (*Note 14*) and non-current “Trust Liabilities” (*Note 18*) in these financial statements.

## **2.26. Events After the Reporting Period**

Any post-year-end event that provides additional information about the Corporation's financial position at the end of the 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**

The preparation of the Corporation's financial statements in accordance with PFRSs requires Management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately vary from these estimates.

### **3.1. Critical Management Judgments in Applying Accounting Policies**

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

#### *a. Common Control Business Combination*

Management considers the merger between TIDCORP and HGC as a common control business combination because there was no change in the ultimate control of the NG over the affected GOCCs. In directing the merger, the NG basically combined its resources, hence, a business combination without commercial substance.

#### *b. Classification of Financial Assets*

The Corporation classifies and measures its financial assets depending on the business model for managing those financial assets and whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

##### *(i) Business Model Test*

The Corporation developed business models which reflect how it manages its portfolio of financial instruments. The Corporation's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments and not on an instrument-by-instrument basis.

In determining the classification of a financial instrument, the Corporation evaluates in which business model a financial instrument or a portfolio of financial instruments belongs to taking into consideration the objectives of each business model established by the Corporation as those relate to the Corporation's investment and trading strategies.

*(ii) Cash Flow Characteristic Test*

In determining the classification of financial assets, the Corporation assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows, unless it is a variable interest rate that represents time value of money and credit risk, does not meet the amortized cost criteria.

*c. Application of ECL to Financial Assets*

The Corporation uses the general approach to calculate ECL for all debt instruments carried at amortized cost and FVOCI, together with financial guarantee contracts. The allowance for impairment is based on the ECLs associated with the probability of default of a financial instrument in the next 12 months, unless there has been a SICR since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized.

The Corporation has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

*d. Classification of Leases*

The Corporation has entered into a significant number of lease agreements as lessor. Judgment was exercised by Management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements.

In determining whether the lease arrangements qualify as a finance lease, the following factors have been considered: (i) the lease provides the lessee an option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable; (ii) the lease transfers ownership of the property at the end of the lease; and (iii) the lease term approximates the estimate useful life of the asset being leased.

*e. Recognition of Provisions and Contingencies*

Judgment is exercised by Management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in *Note 2.16* and relevant disclosures are presented in *Notes 20 and 23*. In dealing with the Corporation's various legal proceedings, the Corporation's estimate of the probable costs that may arise from claims

and contingencies has been developed in consultation and coordination with the Corporation's internal and outside counsels acting in defense of the Corporation's legal cases and are based upon the analysis of probable results.

### **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. Estimation of ECL on Financial Assets*

When measuring allowance for ECL for relevant categories of financial assets, Management applies judgment in defining the criteria in assessing whether a financial asset has experienced SICR since initial recognition, and in the estimation of the contractual cash flows due from counterparty and those that the Corporation would expect to receive, taking into account the cash flows from the realization of collateral, if any.

The Corporation's ECL calculations are outputs of complex models with a number of underlying assumptions about future economic conditions and credit behavior of counterparties. The computation of the ECL also considers the use of reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other that may result in different levels of loss allowance.

The gross carrying amounts of financial assets as at December 31, 2022 and 2021 and the related allowances for credit losses are disclosed in *Notes 5, 6, 7 and 14*.

#### *b. Estimation of Useful Lives of Non-financial Assets*

The Corporation estimates the useful lives of property and equipment, ROU asset, investment properties and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets 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, property and equipment, ROU asset, and intangible assets as at December 31, 2022 and 2021 are disclosed in *Notes 10, 11, 12 and 13*, respectively.

#### *c. Recognition of Deferred Tax Assets*

The Corporation 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 asset to be utilized. Significant judgment is applied by Management to determine the amount of deferred tax assets that can be recognized based on the likely timing and level of the Corporation's future taxable income.

The carrying amount of deferred tax assets as at December 31, 2022 and 2021 is disclosed in *Note 26*.

*d. Estimation of Impairment Losses of Non-financial Assets*

The Corporation assesses impairment on its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Corporation considers important which could trigger an impairment review include (i) significant underperformance relative to expected historical or projected future operating results; (ii) significant changes in the manner of use of the acquired assets or the strategy for overall business; and (iii) significant negative industry or economic trends.

Impairment losses are recognized whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for cash-generating unit to which the asset belongs.

The carrying amounts of non-financial assets subject to impairment as at December 31, 2022 and 2021 are disclosed in *Notes 10, 11, 12, and 13*.

#### **4. RISK MANAGEMENT OBJECTIVES AND POLICIES**

Risks are inherent in the business activities of the Corporation as well as in the business environment in which it operates. Among its identified risks are credit risk, liquidity risk, market risk, operational risk and regulatory risk. These risks are managed through a risk management framework and governance structure that provides comprehensive controls and management of major risks on an on-going basis.

Risk management is the process by which the Corporation identifies its key risks, obtains consistent and understandable risk measures, decides which risks to take on or reduce and how this will be done, and establishes procedures for monitoring the resultant risk positions. The objective of risk management is to protect the Corporation from events that hinder the sustainable achievement of the Corporation's performance objectives including failing to exploit opportunities.

The Corporation recognizes the importance of risk management in ensuring its continuing overall viability. Management, with the oversight of the BOD, shall see to it that the risk management functions are implemented in all business units of the organization. Moreover, each individual within the Corporation is expected to proactively manage and is accountable for the risk exposures inherent to their respective area.

## 4.1. Risk Management Structure

### a. Board Level

- (i) *Board of Directors*. The BOD, which meets monthly, is responsible for the overall risk management approach and for approving the risk principles and strategies.
- (ii) *Risk Oversight Committee (ROC)*. This Committee, which meets monthly, is responsible for the following:
  - Oversee the enterprise risk management or governance framework, and ensure that there is periodic review of the effectiveness of the risk management systems and recovery plans, including ensuring that corrective actions are promptly implemented to address risk management concerns;
  - Ensure that current and emerging risk exposures are consistent with the Corporation's strategic direction and overall risk appetite, including assessing the overall status of adherence to the risk appetite based on the quality of compliance with the limit structure, policies and procedures relating to risk management and control, and performance of management, among others;
  - Responsible for the appointment, remuneration and dismissal of the Chief Risk Officer (CRO), and ensure that the risk management function has adequate resources and effectively oversees the risk-taking activities of the Corporation;
  - Approve the risk governance framework, subject to the final approval by the BOD, including the review and approval of policies pertaining or in relation to risk management, and oversight of Management's implementation thereof;
  - Provide adequate separation of duties in the risk management process to avoid potential conflicts of interest, including seeing to it that risk measurement, monitoring and control functions are sufficiently independent for position-taking functions; and
  - Provide quarterly reporting and updating to the BOD on key risk management issues.
- (iii) *Corporate Governance Committee (CGC)*. This Committee, which meets monthly, is responsible for the following:
  - Oversee the periodic performance evaluation of the BOD and its committees and Management, including conduct of annual self-evaluation of their performance and review effectiveness of all Committees in fulfilling their responsibilities and duties as set out in their respective charters;

- Oversee the continuing education program for the BOD, including on-boarding or orientation program for first time directors and annual continuing education for all directors;
- Recommend the manner by which the BOD's performance may be evaluated and propose objective performance criteria to be approved by the BOD;
- Recommend to the BOD set of corporate governance principles and programs, including policies and guidelines/manuals as prescribed by regulating agencies;
- Review and endorse to the BOD realignments/organizational restructuring as recommended by Management; and
- Periodically review and update the Code of Ethics and Business Conduct, the Manual of Corporate Governance and the Charter of the Governance Committee.

(iv) *Executive Credit Guarantee Committee (ECGC, formerly Credit Committee)*. This Committee, which meets monthly, is responsible for the following:

- Ensure that the credit policies set by the BOD are implemented and complied with;
- Review, assess, and recommend changes or amendments to the adequacy of Corporation's existing credit policies and its overall credit administration and implementation;
- Review the quality of Corporation's guarantee 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 or regulator;
- Review and approve or deny all applications for guarantee involving amounts that fall within the amount limitations set by the BOD for the Committee;
- Review and endorse to the BOD all applications for guarantee involving amounts that exceed the amount limitations set by the BOD for the Committee; and
- Advise on any matter of significance relating to credit including recommendations to the BOD of changes in guarantee policies or directions.

(v) *Audit Committee*. This Committee, which meets quarterly, is responsible for the following:



- Oversee, monitor and evaluate the adequacy and effectiveness of the Corporation's internal control system, engage and provide oversight of the Corporation's internal and external auditors, and coordinate with COA;
- Ensure the development by Management of 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;
- Review and approve the quarterly, semi-annual and annual financial statements before submission to the BOD, focusing on changes in the accounting policies and practices, major judgmental areas, significant adjustments resulting from audits, going concern assumptions, compliance with accounting standards as well as with tax, legal, regulatory and COA requirements;
- Review and endorse for the BOD's approval the Internal Audit Charter, Internal Audit Office (IAO) organizational structure, annual audit plans, audit scope and frequency, and the IAO operating budget;
- Receive and review reports of internal and external auditors and regulatory agencies, and ensure that Management is taking appropriate corrective actions, in a timely manner in addressing control and compliance functions with regulatory agencies; and
- Ensure 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 IAO is free from interference in determining its scope, performing its work and communicating its results.

(vi) *IT Steering Committee.* This Committee which meets quarterly, is responsible for the following:

- Review and recommend IT strategies, policies and plans regarding overall IT strategy and direction, appropriate responses to IT-related developments or feedbacks, and processes for the development of IT policies, the monitoring of IT-related concerns, and the identification and evaluation of future IT systems requirements;
- Ensure IT policies and plans are aligned with the Corporation's mandate and business plans and are compliant with internal and auditing standards, existing government policies and thrusts, industry standards, best practices and enhanced risk management standards;

- Review and recommend an internal corporate communication plan to create or increase awareness of the Corporation's IT strategies, policies, significant activities and changes in IT-related processes and systems;
- Review the progress of IT projects by comparing the project status reports to plans, evaluating IT project proposals, implementation or completion, analyzing lessons learned based on project successes and failures, and evaluating the impact of revisions or changes in plans on on-going commitment, support and resources; and
- Review and approve Management-recommended major IT project deliverables by ensuring these meet the acceptance criteria and that user recommendations are taken into consideration.

*b. Management Level*

- (i) *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 the Corporation, and periodically evaluates and monitors the implementation of strategies or action plans that the BOD or Management has approved.
- (ii) *Management Credit Guarantee Committee (MCGC)*. The MCGC, which meets at least once a month, adopts the same functions as the Board-level ECGC. It was created to proactively involve Management in resolving guarantee and business issues. Along with the ECGC, the MCGC oversee and assess credit risks inherent to the Corporation's guarantee activities. Specifically, it has authority to:
  - Review and approve or deny all applications for guarantee involving amounts that fall within the amount limitations set by the BOD for the Committee; and
  - Review and endorse to the ECGC all applications for guarantee involving amounts that exceed the amount limitations set by the BOD for the Committee.
- (iii) *Assets and Liabilities Committee*. This Committee, which meets at least once a month, is responsible for the overall management of the Corporation's liquidity, market, and financial position related risks. It monitors the Corporation's liquidity position and reviews the impact of strategic decisions on liquidity. It is responsible for managing liquidity risks and ensuring exposures remain within tolerance levels. Other primary responsibility, among others, is ensuring that the Corporation holds sufficient liquid assets to meet short-term funding needs.

(iv) *Enterprise Risk Management Office (ERMO)*. The duties of the ERMO are as follows:

- Develop, implement and update the enterprise management plan or framework of the Corporation;
- Develop, review and update all risk policies and programs, including providing assistance to all business units in reviewing and updating their respective department/office registry;
- Conduct the review of the various risk programs in place including the risk appetite and criteria, risk registry and risk mitigation measures;
- Examine the quality of the Corporation's guarantee portfolio and periodically update the BOD, ROC and Management on its performance and levels;
- Provide inputs and recommendations to the BOD through the ROC as well as Management regarding risk exposures, as well as on matters on credit, market, liquidity, legal and operational risks;
- Prepare and implement information security standards and policies, including its proper monitoring, review and updating, and conducting periodic assessment to identify weaknesses and vulnerabilities in information security-related policies and plans of the Corporation; and
- Propose and review credit policies as part of ensuring proper credit risk management parameters that are observed by the Corporation, including proposing recommendations on existing credit policies upon review and observation and providing inputs to the ROC and Management in relation to addressing credit policy implementation and deficiencies.

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

- Oversee the risk management function and support the development of the risk appetite of the Corporation and translating the risk appetite into a risk limit structure;
- Propose enhancements to risk management policies, processes and systems to ensure that the Corporation's risk management capabilities are sufficiently robust and effective to fully support strategic objectives and risk-taking activities; and
- Advise the BOD in areas of risk exposures and risk management activities of the Corporation.

(vi) *Corporate Management and Standards Office (CMSO)*. The duties of the CMSO are as follows:

- Develop, review and update the corporate compliance program of the Corporation, including undertaking compliance testing to determine effectiveness and relevance of compliance program and activities;
- Responsible for reporting to the BOD through the CGC all compliance-related activities, actions and recommendations, as well as Management's compliance reporting in relation to requirements or directives of regulatory bodies;
- Execute, review and update the Corporation's programs, plans and implementing activities on data protection, freedom of information and anti-red tape or ease of doing business laws, rules and regulations of the government;
- Monitor and update the annual performance scorecard of the Corporation on a quarterly basis, and report the status of the same to the Governance Commission for GOCCs (GCG);
- Secure and maintain a quality management system with the end view of institutionalizing standards, process improvement and organizational productivity, including championing efforts to secure quality management recognition; and
- Conduct systems and methods study and diagnostics to identify functional gaps and determine improvement and innovation of functional areas.

(vii) *The Compliance Officer*. The Compliance Officer shall be responsible for the following:

- Monitor compliance by the Corporation with the requirements under RA No. 10149, or the "GOCC Governance Act of 2011," the Corporation's Manual of Corporate Governance and the rules and regulations of the appropriate government agencies; and
- Report any violations found to the BOD and recommend the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation.

(viii) *Internal Audit Office*. The IAO is primarily responsible for the examination and evaluation of the adequacy and effectiveness of the agency's governance, risk management, and internal controls, as well as the quality of performance in carrying out assigned responsibilities

to achieve the agency's defined goals and objectives. Specifically, the IAO is 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
- Recommend to Management measures to address the inherent flaws or 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 borrower of the Corporation 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 the Corporation's mandate.

Credit risk arises from the Corporation's outstanding credit guarantees, housing loans through sales contract receivable and remaining direct lending portfolio, comprising of off-balance sheet commitments and on-balance sheet portfolio.

The ROC provides oversight functions relating to formulation of policy framework to manage credit exposures and implementation of policies and procedures. Reports are regularly provided to the ROC and BOD, thus making relevant information available to them in their oversight of the risk-taking activities.

Credit risk is addressed at the operational level by specific program guidelines, processes and procedures as contained in the Corporation's Enterprise Risk Governance Framework, Risk Asset Management Manual and through Credit Policy Memoranda issued, reviewed and updated from time to time.

Credit policies are formulated and implemented to manage the Corporation's credit risk exposure within acceptable levels while pursuing its developmental mandate. Risk exposures are monitored on a portfolio level to ensure all credit exposures are within approved limits and provide warning signal should there be portfolio deterioration. The functional units have the primary responsibility for detecting, preventing, and initiating early actions on potential account deterioration.

The Corporation manages and controls credit risk by setting limits on the amount of risk it is willing to accept. The credit approval process flow defines a series of sequential, logical steps that involves the actions of various independent units/committees. Thus, no unit has control of the entire process nor does any single person/unit have the sole authority to approve credits.

*(i) Credit Risk Assessment*

The Corporation's credit assessment process includes accreditation of partner banks and other financial institutions, assessment of eligibility of prospective guaranteed borrowers, and pre-enrollment credit risk assessment of prospective borrowers. The latter includes the assessment of the borrowers projected capacity to pay, as well as credit risk scoring and internal credit risk rating for non-housing loan borrowers. For this purpose, the Corporation implements its own Credit Scoring Models (CSM) and Internal Credit Risk Rating System (ICRRS) as follows:

- **CSM 1** – for credit guarantee exposures in MSMEs with aggregate loans of P3.000 million and below, including loans from other creditors. Definition of credit risk rating (CRR) tier is described below:

CRR Points		Rating Description
9 to 10	Satisfactory	Satisfactory in terms of risk quality. The repayment of the guaranteed loan is considered safe; with stable source of repayment; principals have good credit background.
7 to 8	Good	Capacity to repay the guaranteed loan and interests seemed adequate; acceptable borrowers though credit background and/or business experience seems not favorable.
5 to 6	Substandard	Source of repayment of the guaranteed loan is not adequate. Credit background and/or business experience of principals are not favorable.

Exposures with rating of CRR-7 and above are considered Passed/Unclassified/Stage 1 accounts, while those with rating of CRR-6 and below are Classified accounts considered as not desirable risks and therefore require stringent attention. New accounts with rating of CRR-6 and below are not recommended for credit approval.

- **CSM 2** – for credit guarantee exposures in MSMEs with aggregate loans of more than P3.000 million but less than P10.000 million, including loans from other creditors. Definition of CRR tier is described below:

CRR Points		Rating Description
9 to 10	Satisfactory	Satisfactory in terms of risk quality. The repayment of the guaranteed loan is considered safe; with stable source of repayment; principals have good credit background.
6 to 8	Good	Capacity to repay the guaranteed loan and interests seemed adequate; acceptable borrowers though credit background and/or business experience seems not favorable.
5	Substandard	Source of repayment of the guaranteed loan is not adequate. Credit background and/or business experience of principals are not favorable.

Exposures with rating of CRR-6 and above are considered Pass/Unclassified/Stage 1 accounts, while those with rating of CRR-5 are Classified accounts considered as not desirable risks and therefore require stringent attention. New accounts with rating of CRR-5 are not recommended for credit approval.

- **ICRRS** – for credit guarantee exposures in medium and large enterprises with aggregate loans of P10.000 million and above, including loans from other creditors. The ICRRS covers two rating factors, namely, Borrower's Risk Rating (BRR) and Exposure Risk Rating (ERR).

BRR involve factors that affect the inherent credit quality of each borrower. The BRR is an assessment of the credit worthiness of the borrower without considering the type or amount of the facility or its security arrangements.

BRR		Rating Description
1	Excellent (AAA)	Guaranteed borrowers with a nil probability of going into default in the coming year. These guaranteed borrowers have a high degree of stability, substance and diversity.

BRR		Rating Description
		This type of borrowers has very strong debt service capacity and conservative balance sheet leverage (vis-à-vis the industry in which the borrower operates). They are of the highest quality under virtually all economic conditions.
2	Strong (AA)	<p>This category applies to type of borrowers with a low probability of going into default in the coming year. The company normally has a comfortable degree of stability, substance and diversity. Under normal market conditions, borrowers in this category have good access to public markets in raising funds.</p> <p>Companies in this category have a strong market and financial position with a history of successful performance. The overall debt service capacity is deemed very strong. The critical balance sheet ratios (vis-à-vis that of the industry) are conservative.</p>
3	Good (A)	<p>This category covers the smaller corporations with limited access to public capital markets or access to alternative financial markets. This access is however limited to favorable economic and/or market conditions.</p> <p>This type of borrower, where the probability of default is still quite low, bears the characteristics of some degree of stability and substance. However, this type of borrower may be susceptible to cyclical changes, and more concentration of business risk, by product or by market, may be present.</p> <p>Typical for this type of borrower is the combination of comfortable asset protection and an acceptable balance sheet structure (vis-à-vis that of the industry). The debt service capacity remains strong.</p>
4	Fair (BBB)	<p>Represents those borrowers where clear risk elements exist and the probability of default is somewhat greater. The probability is reflected in volatility of earnings and overall performance.</p> <p>Borrowers in this category normally have limited access to public financial markets. These borrowers should be able to withstand normal business cycles but any prolonged unfavorable economic period would create deterioration beyond acceptable levels.</p> <p>Typical for this kind of borrowers is the combination of reasonably sound assets and cash flow protection. The debt service capacity is considered adequate. The borrower has reported profits for the past fiscal year and is expected to report profit in the current year.</p>



BRR	Rating Description
5	Acceptable (BB)
	<p>The risk elements are sufficiently pronounced, although the guaranteed borrower should still be able to withstand normal business cycles. Any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.</p> <p>This category will apply where the risk is still acceptable for the following reasons:</p> <ul style="list-style-type: none"> <li>• There is sufficient cash flow either historically or expected for the future in spite of an economic downturn combined with asset protection.</li> <li>• An existing borrower where the nature of the exposure represents a higher risk because of extraordinary developments but a decreasing risk within an acceptable period can be expected.</li> </ul>
6	Watchlist (B)
	<p>Borrowers under this category are currently vulnerable to non-payment and are dependent upon favorable business, financial and economic conditions in order to meet its financial commitment on the obligation. In the event of unfavorable industry or company-specific risk factors, adverse business, financial or economic conditions, the borrower is not likely to have the capacity to meet its financial commitment on the obligation.</p> <p>These are borrowers where the credit exposure is not at risk of loss at the moment, but the performance of the borrower has weakened and unless present trends are reversed, could lead to losses.</p>
7	Especially Mentioned (CCC)
	<p>These are credit guarantee exposures that have potential weaknesses that deserve Management's close attention. If left uncorrected, these weaknesses may affect the repayment of the credit guarantee exposure and thus increase the credit risk to the Corporation.</p> <p>Some degree of structural weakness may be found in virtually any aspect of the credit arrangement or type of exposure, and the presence of one (or more) need not be indicative of an overall credit weakness deserving criticism. Basic characteristics include, but are not limited to, the following:</p> <ul style="list-style-type: none"> <li>• Deficiencies in underwriting, documentation, structure and/or credit administration that can compromise the Corporation's ability to control credit relationship if economic or other events adversely affect the borrower;</li> <li>• Continuous renewal and/or extension without reduction in principal, except when the capacity to pay of the borrower has been clearly re-established;</li> </ul>

BRR	Rating Description
8	Substandard (CC)
	<p data-bbox="922 237 1419 478"> <ul style="list-style-type: none"> <li>• Adverse economic or market conditions, that in the future may affect the borrower's ability to meet scheduled repayments; or</li> <li>• Intermittent delays or inadequate repayment of principal, interest or periodic amortizations of credit exposure to the Corporation or participating financial institutions, where such information is available.</li> </ul> </p> <p data-bbox="922 512 1419 699">These are credit guarantee exposures that have well-defined weakness/es, that may jeopardize repayment or liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.</p> <p data-bbox="922 726 1419 777">Basic characteristics include any of the following:</p> <p data-bbox="922 783 1419 1247"> <ul style="list-style-type: none"> <li>• Weak financial condition and results of operation that lead to the borrower's inability to generate sufficient cash flow for debt servicing, except for start-up firms which shall be evaluated on a case-to-case basis;</li> <li>• Past due secured credit guarantee exposures where properties offered as collateral have been found with defects as to ownership or with other adverse information;</li> <li>• Breach of any key financial covenant or agreement that will adversely affect the capacity to pay the borrower; or</li> <li>• Classified as "Especially Mentioned" as of the last credit review without adequate corrective action.</li> </ul> </p>
9	Doubtful (C)
	<p data-bbox="922 1276 1419 1463">These are credit guarantee exposures that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable. However, the exact amount remains undeterminable as yet.</p> <p data-bbox="922 1491 1419 1593">Classification as "Loss" is deferred because of specific pending factors which may strengthen the assets. Some basic characteristics include any of the following:</p> <p data-bbox="922 1600 1419 1841"> <ul style="list-style-type: none"> <li>• Secured credit guarantee exposures where properties offered as collateral are either subject to an adverse claim rendering settlement of the credit guarantee exposure through foreclosure doubtful or whose values have materially declined without the borrower offering additional collateral for the credit obligation/s to cover the deficiency; or</li> </ul> </p>

BRR		Rating Description
		<ul style="list-style-type: none"> <li>• Credit guarantee exposures wherein the possibility of loss is extremely high but because of certain important and reasonable pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until the next credit review.</li> </ul>
10	Loss (D)	<p>These are credit guarantee exposures which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the credit guarantee exposures may have some recovery or salvage value.</p> <p>This serves as a transitional category for credit guarantee exposures which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future. Their basic characteristics include any of the following:</p> <ul style="list-style-type: none"> <li>• When the borrower's and co-maker's/guarantor's whereabouts are unknown, or they are insolvent, or their earning power is permanently impaired; or</li> <li>• Where the collaterals securing the credit guarantee exposures are without recoverable values.</li> </ul>

On the other hand, ERR covers security/collateral arrangements and other similar risk-influencing factors of each credit transaction. It is computed as the average of the facility risk and security risk factors.

ERR Scale	Risk Quality	Description/Assumptions
1 to 3	Low to medium risk	At ERR-4 and above, the account is secured by real estate mortgage (REM) in prime location with at least 60 percent loan-to-collateral value or combination of REM and chattel mortgage (CHM).
4 to 5	Medium risk	The account is secured by REM not in prime location with 60 percent loan-to-collateral value or a combination of REM and CHM.
6	Medium risk	The account is secured by at least a CHM with 50 per cent loan-to-collateral value.
7	High risk	The account is secured by confirmed receivables.
8	High risk	The account is secured by marketable securities with price volatility.
9 to 10	High risk	The account is clean with Joint and Solidary Suretyship (JSS), Continuing Suretyship Agreement (CSA), Deed of Assignment (DOA) and Mortgage Redemption Insurance/Fire Redemption Insurance (MRI/FRI).

Table below shows the combination of BRR and ERR that are within and outside the risk asset acceptance criteria (RAAC) limits of the Corporation:

Within RAAC (Acceptable Risk)		Outside RAAC (Not Desirable Risk)	
BRR of	With ERR of	BRR of	With ERR of
1	1 to 7	1	8 to 10
2	1 to 7	2	8 to 10
3	1 to 7	3	8 to 10
4	1 to 6	4	7 to 10
5	1 to 3	5	4 to 10
6	1 to 2	6	3 to 10
		7 to 10	1 to 10

Borrowers with BRR and ERR ratings outside the RAAC are considered not desirable risks and therefore require stringent attention or not acceptable for credit approval.

*(ii) Collateral and Other Credit Enhancements*

In line with the Corporation's mandate to provide credit enhancements to MSMEs and other marginalized sectors of the economy, guaranteed loans to MSMEs may or may not be secured by collaterals.

The principal types of collaterals accepted by the Corporation include, but are not limited to, mortgages and CTS over real estate properties, mortgages on chattels, hold-out on financial instruments/assets, such as debt securities and deposits, assignment of receivables, and credit life or MRI.

The Corporation takes possession and management of collaterals only upon payment of guarantee claims.

*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 this 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.

Moreover, Management incorporated a Liquidity Contingency Plan (LCP) in the Liquidity Risk Management Manual stating the Corporation's intended response to any imminent, or occurring, liquidity shortfall resulting from claims on the Corporation's guarantees, or from any other unexpected obligations. The concept of the LCP is to manage a crisis fast enough to

mitigate the risks of escalation and prevent the exacerbation of the crisis by slow and wrong decisions.

The Corporation also maintains a portfolio of highly marketable securities that can be easily liquidated in the event of unforeseen interruption of cash flow. Due to the dynamic nature of the underlying businesses, the Funds and Investments Department (FID) of the Corporation closely monitors the movement and behavior of the market in order to avail of high-yielding investments. The Corporation also maintains flexibility in funding by keeping committed credit lines available.

*c. Market Risk*

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in the institution's overall investment portfolio. The risk arises from market-making, dealing, and position-taking on interest rates.

The Corporation, under the provisions of its Charter and that of the former HGC, is authorized to invest funds not needed for current operations in government treasury bills, notes and bonds either directly issued or guaranteed by the government or government financial institutions, or in notes and other debt instruments with a credit classification of "AA".

Given the limitations on the type of investments that the Corporation may enter into, the Corporation's market risk exposure is mainly on the impact of market price volatility on investments in government securities.

The FID is tasked to closely monitor the behavior of the market in terms of prevailing interest rates, market prices, yield-to-maturity rates, and mark-to-market valuation of the Corporation's government securities measured at FVOCI.

*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. It includes the risk of loss arising from various types of human or technical error, settlement or payment failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

The operational risk in products, activities, processes and systems are being identified and assessed by the Corporation through: (i) risk and control self-assessment (RCSA); (ii) products, systems and process development; and (iii) audits.

RCSAs are self-assessment exercises facilitated by the ERMO whereby functional units identify and assess the operational risks relating to processes for which they are responsible. It also involves evaluating the

effectiveness of existing controls, prioritizing the top risks faced by the Corporation, and if necessary, establishing action plans to address any identified control gaps. RCSA takes into account the likelihood of risk events, the impact of risk events, and information relating to risk incidents.

Control and mitigation of operational risks are undertaken through: (i) control mitigation activities, such as segregation of duties, clear documentation of procedures, physical assets and information access control and verification, and reconciliation; and (ii) continuity planning. Operational risk is addressed through approved documentation of processes in back office and support functions. Emphasis is placed on controls to guide day-to-day processes.

*e. Regulatory Risk*

Regulatory risk refers to the potential for the Corporation to suffer financial loss due to mid-stream changes in regulatory regime affecting current position and/or strategy.

The CMSO, overseen and coordinated by the Compliance Officer, is the primary control process for regulatory risk issues. The CMSO is committed to safeguard the integrity of the Corporation by maintaining a high level of regulatory compliance. It is responsible for communicating and disseminating new rules and regulations to all units, assessing and addressing identified compliance issues, performing periodic compliance testing, and reporting compliance findings to the CGC and the BOD.

## 5. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2022	2021 (As Restated)
Cash on hand	8,506,626	191,772
Cash in bank – local currency	127,689,022	25,218,143
Cash in bank – foreign currency	232,591	190,507
Cash equivalents	50,534,417	1,060,241,071
	<b>186,962,656</b>	<b>1,085,841,493</b>

*Cash in banks* earn interest at prevailing interest rates. Cash in bank excludes garnished amount of P4.405 million in CY 2021 as ordered by the Regional Trial Court (RTC) Branch 206, Muntinlupa City relative to an unlawful detainer case filed against the Corporation. The amount was reduced to PP3.798 million in CY 2022 in view of COA Decision No. 2022-398 dated January 28, 2022 (*Note 14*) partially granting the pertinent petition for money claim of the judgment-creditor.

*Cash equivalents* are made for various periods of up to three months depending on the immediate cash requirements of the Corporation, and earn interest ranging from 1.16 to 2.29 percent per annum in CY 2022 and 1.10 to 1.86 per cent per annum in CY 2021.

## 6. INVESTMENTS

This account consists of the following:

	2022	2021 (As Restated)
<b>Current</b>		
Financial assets at FVOCI	1,323,872,285	4,771,442,278
Investment securities at amortized cost	3,327,075,135	5,291,835,927
	<b>4,650,947,420</b>	<b>10,063,278,205</b>
<b>Non-current</b>		
Financial assets at FVOCI	11,277,233,141	8,466,888,707
Investment securities at amortized cost	4,036,563,986	1,328,015
Investment in sinking fund	2,669,101,798	4,222,479,542
Others	3,660,000	3,660,000
	<b>17,986,558,925</b>	<b>12,694,356,264</b>

*Financial assets at FVOCI* consists of:

	Current	Non-current	Total
<b>As at December 31, 2022</b>			
Treasury bonds	1,317,974,116	10,740,594,248	12,058,568,364
Unquoted equity securities	5,898,169	536,638,893	542,537,062
	<b>1,323,872,285</b>	<b>11,277,233,141</b>	<b>12,601,105,426</b>
<b>As at December 31, 2021</b>			
Treasury bonds	4,765,544,109	7,930,249,814	12,695,793,923
Unquoted equity securities	5,898,169	536,638,893	542,537,062
	<b>4,771,442,278</b>	<b>8,466,888,707</b>	<b>13,238,330,985</b>

Investments in treasury bonds which are held to collect and dispose anytime, carry interest rates per annum ranging from 2.375 to 9.250 per cent in CY 2022 and 2.375 to 6.375 per cent in CY 2021. Details of the movements in the account follow:

	2022	2021 (As Restated)
Balance, January 1	12,695,793,923	3,240,901,868
Acquisitions or additions	2,009,677,386	12,278,623,860
Sales or reductions	(2,027,870,702)	(2,552,071,480)
Fair value losses	(619,032,243)	(271,660,325)
<b>Balance, December 31</b>	<b>12,058,568,364</b>	<b>12,695,793,923</b>

As at December 31, 2022 and 2021, the accumulated net unrealized losses on these financial assets, which are reflected as fair value adjustments in the statement of changes in equity, amounted to P662.024 million and P182.051 million, respectively, net of deferred tax asset of P220.675 million and P81.616 million, respectively.

The unquoted equity securities classified as at FVOCI include corporate club shares and investments in non-marketable equity securities, as follows:

	<b>2022</b>	2021 (As Restated)
Investment in HCPTI shares	<b>535,236,187</b>	535,236,187
Corporate club shares, net	<b>617,500</b>	617,500
Other share investments, net	<b>6,683,375</b>	6,683,375
	<b>542,537,062</b>	542,537,062

The investment in shares of Harbour Centre Port Terminal, Inc. (HCPTI) were among the assets assigned and conveyed in CY 2003 by the Smokey Mountain Asset Pool (SMAP), through its trustee Planters Development Bank (PDB), to the former HGC for and in consideration of the latter's assumption and payment of its guaranty obligations. Details follow:

	<b>2022</b>	2021
Preferred shares	<b>417,736,695</b>	417,736,695
Common shares	<b>117,499,492</b>	117,499,492
	<b>535,236,187</b>	535,236,187

The shares are the subject of a civil case for mandamus filed on March 3, 2009 before the RTC Branch 90 (later re-raffled to Branch 222), Quezon City against HCPTI to compel the latter to register the shares in the name of the former HGC. The RTC rendered a Decision on November 25, 2020 dismissing the case which the Corporation appealed before the Court of Appeals (CA) and is awaiting decision of said court as at year-end. The appeal is one of the cases that will be dismissed once the MOA dated February 16, 2021 between the Corporation and R-II Builders, Inc. (R-II Builders) is fully implemented (*Note 23.2*).

The corporate club shares in Tower Club, Inc. (TCI) were acquired in CY 2010 in consonance with the public relation activities of the former HGC. Ownership of a share represents an undivided interest in the assets of TCI which principally consists of title over the facilities and other assets of the Club and a 25-year leasehold right over two floors and their appurtenant parking units at the Philamlife Tower in Makati City.

Other share investments pertain to shares of the Nationwide Development Corporation (NADECOR) which were previously classified under investment in sinking fund.

*Investment securities at amortized cost* pertains to the Corporation's held to collect placements in time deposits and government securities with maturities of more than three months from the date of acquisition. These securities have interest rates per annum ranging from 1.685 to 8.000 percent in CY 2022 and 1.313 to 1.950 percent in CY 2021. Details follow:

	<b>2022</b>	2021 (As Restated)
Treasury bills	<b>2,204,587,584</b>	765,217,140
Time deposits	<b>1,120,415,863</b>	3,247,767,616
Treasury and other bonds	<b>4,038,635,674</b>	1,280,179,186
	<b>7,363,639,121</b>	5,293,163,942



*Investment in sinking fund* refers to the guarantee reserve fund (GRF) established by the former HGC in CY 2008 at an initial amount of P453.000 million to answer for guarantee calls pursuant to Article 20 of the Implementing Rules and Regulations (IRR) of RA No. 8763. Consistent with the IRR, amounts equivalent to not less than five percent of income before financial charges were added to the fund in subsequent years. Further increase in the sinking fund represents income earned from temporarily investing the fund primarily in government securities and short-term deposits.

The composition of the fund as at December 31, 2022 and 2021 as well as movements in the fund during the year are as follows:

	2022	2021
Balance, January 1	4,222,479,542	1,442,688,143
Additional contributions	0	3,581,321,804
Withdrawals and utilizations	(1,553,377,744)	(801,530,405)
<b>Balance, December 31</b>	<b>2,669,101,798</b>	<b>4,222,479,542</b>
High-yield savings account	0	1,772,479,748
Treasury bonds	2,669,101,798	2,449,999,794
	<b>2,669,101,798</b>	<b>4,222,479,542</b>

The GRF has been significantly reduced in CY 2022 in view of Opinion No. 140 dated July 27, 2022 issued by the Office of the Government Corporate Counsel (OGCC) where it can be inferred that the provisions for an identified account's court-approved CY 2018 New Revised Rehabilitation Plan (NRRP) remain valid, binding, and effective (*Note 23.2*). Under the NRRP, debt forgiveness will amount to 50 per cent of the account's principal obligations to its creditors. As a result, the GRF allocation for said account was reduced from P3.291 billion to P1.696 billion.

*Other investments* as at December 31, 2022 and 2021 primarily pertain to the equity contribution of P3.660 million to the Tacloban City Credit Surety Fund (CSF) as part of the compliance by the Corporation with the outstanding commitments of then IGLF to various CSF cooperatives (*Note 23.3*).

## 7. RECEIVABLES

This account consists of the following:

	2022	2021 (As Restated)
<b>Current</b>		
Loans and receivables	832,184,994	709,955,762
Lease receivable	648,224,250	632,261,104
Inter-agency receivable	280,685,593	229,725,066
Other receivables	151,679,139	324,838,716
	<b>1,912,773,976</b>	<b>1,896,780,648</b>
Allowance for ECL	(549,856,505)	(646,708,296)
Unamortized discount	0	1,808,052
	<b>1,362,917,471</b>	<b>1,251,880,404</b>

	2022	2021 (As Restated)
<b>Non-current</b>		
Loans and receivables	4,137,445,415	5,309,819,109
Lease receivable	87,138,096	131,181,894
Inter-agency receivable	1,885,929,395	1,900,490,040
Other receivables	170,950,647	5,251,368
	6,281,463,553	7,346,742,411
Allowance for ECL	(1,174,577,782)	(2,027,013,641)
Unamortized discount	(144,671,338)	(137,896,254)
	4,962,214,433	5,181,832,516

*Loans and receivables* consist of:

	Current	Non-current	Total
<b>As at December 31, 2022</b>			
Sales contract receivable	294,586,438	3,294,376,070	3,588,962,508
Notes receivable	11,952,025	575,737,090	587,689,115
Subrogated claims receivable	16,985,614	259,543,392	276,529,006
Loans receivable	379,959,023	4,232,335	384,191,358
Interest receivable	128,742,140	0	128,742,140
Accounts receivable	(40,246)	3,556,528	3,516,282
	832,184,994	4,137,445,415	4,969,630,409
<b>As at December 31, 2021</b>			
Sales contract receivable	531,271,299	3,503,784,747	4,035,056,046
Notes receivable	120,400,546	780,042,946	900,443,492
Subrogated claims receivable	21,384,833	531,601,434	552,986,267
Loans receivable	413,988	490,833,454	491,247,442
Interest receivable	36,484,182	0	36,484,182
Accounts receivable	914	3,556,528	3,557,442
	709,955,762	5,309,819,109	6,019,774,871

*Sales contract receivable* represents the outstanding receivable on investment property or acquired assets sold on installment basis to third parties. Title to the property is transferred to the buyer only upon full payment of the agreed selling price. The receivables carry interest rates per annum varying from three to 12 per cent, with terms ranging from 1 to 30 years in both years. The unamortized discount as at December 31, 2022 and 2021 solely relate to the sales contract receivable.

*Notes receivable* primarily pertains to loans carried over from the IGLF under its Retail Lending Program with an outstanding balance of P565.674 million and P869.539 million as at December 31, 2022 and 2021, respectively. Ninety-nine per cent of these loans were extended to the DBP and are secured by promissory notes. These notes carry interest rates per annum ranging from 3.50 to 8.50 per cent, with terms ranging from one to eight years. The account also includes notes issued to the former HGC in relation to receivables under the then Community Mortgage and Cooperative Housing programs.

*Subrogated claims receivable* pertains to the amounts paid by the Corporation 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 its various guarantee programs. Details follow:

	Current	Non-current	Total
<b>As at December 31, 2022</b>			
Housing	977,076	159,121,147	160,098,223
MSMEs and other priority sectors	16,008,538	100,422,245	116,430,783
	16,985,614	259,543,392	276,529,006
<b>As at December 31, 2021</b>			
Housing	16,269,207	144,217,935	160,487,142
MSMEs and other priority sectors	5,115,626	387,383,499	392,499,125
	21,384,833	531,601,434	552,986,267

In CYs 2022 and 2021, the Corporation approved and paid guarantee calls of P10.893 million and P5.119 million, respectively.

The account decreased significantly in CY 2021 due to the recovery of P966.040 million from the subrogated claim on the defaulted World Granary, Inc. (WGI) guarantee account of P2.199 billion which had been fully provided with allowance for ECL as at December 31, 2020. The amount represents the full, complete and final settlement of the claim of the Corporation in the corporate rehabilitation case against WGI pending before the RTC Branch 57, Lucena City. The court in its Order dated July 16, 2019 granted the Receiver's Motion to Allow the Sale of the Controlling Interest in WGI and adopted the recommendation to allocate P966.040 million of the proceeds of such sale to the Corporation.

As a result of the settlement, the entire subrogated claim of P2.199 billion was derecognized, including write-off of the unpaid balance of P1.233 billion, and a gain from the reversal of allowance for impairment of P964.869 million was recognized under "Other Non-operating Income" (Note 24.3).

*Loans receivable* refers to the outstanding balance of loans originated by the Corporation under its then Retail Direct Lending (RDL) and Wholesale Lending Programs (WLP). These loans earn interest ranging from 7.50 to 12.00 per cent per annum. As at December 31, 2022 and 2021, the Corporation is winding down its direct lending operations in consonance with the centralized nature of the merged guarantee functions to be discharged by PHILGUARANTEE under EO No. 58.

The account also includes the outstanding balance of the home equity loans granted to eligible employees for: (a) construction or purchase of house and lot as well as refinancing of existing loans; and (b) home repair loans which was a one-time loan granted to employees affected by the onslaught of typhoons in CY 2009 covered by the assignment of Provident Fund share or earned leave credits of the availeds.

*Interest receivable* is derived from the various financial assets owned by the Corporation as follows:

	2022	2021 (As Restated)
Investment securities	116,769,061	22,899,077
Loans receivable	10,274,874	11,886,900
Notes and other receivable	1,698,205	1,698,205
	<b>128,742,140</b>	<b>36,484,182</b>

No interest income is accrued if a loan has become non-performing pursuant to BSP Circular No. 941, series of 2017. Interests on non-performing loans are taken up as income only when actual collections thereon are received.

*Accounts receivable* represents non-interest bearing trade receivable from clients arising from the different credit guarantee programs of the Corporation, including guarantee fee receivables.

*Lease receivable* consists of the following:

	Current	Non-current	Total
<b>As at December 31, 2022</b>			
Operating lease receivable	614,703,519	0	614,703,519
Finance lease receivable	33,520,731	87,138,096	120,658,827
	<b>648,224,250</b>	<b>87,138,096</b>	<b>735,362,346</b>
<b>As at December 31, 2021</b>			
Operating lease receivable	620,492,940	0	620,492,940
Finance lease receivable	11,768,164	131,181,894	142,950,058
	<b>632,261,104</b>	<b>131,181,894</b>	<b>763,442,998</b>

*Operating lease receivable* is the uncollected and accrued rentals as of end of reporting period from third party tenants under the various operating lease agreements of the Corporation.

The undiscounted maturity analysis of operating lease receivables as at December 31, 2022 and 2021 are as follows:

	2022	2021
Within one year	225,635,620	166,771,968
Two to five years	687,252,494	810,442,866
More than five years	1,245,438,912	1,347,884,160
	<b>2,158,327,026</b>	<b>2,325,098,994</b>

*Finance lease receivable* refers to the outstanding lease receivable from Guru Property Development and Management Corporation over the 25-year lease of the Victory Mall (formerly Monumento Plaza) leasehold rights. The account also includes the outstanding receivable from PHILGUARANTEE officers who availed of the car plan under lease-purchase agreements with the Corporation, pursuant to the guidelines issued by the Office of the President of the Philippines, amounting to P13.980 million and P15.954 million as at December 31, 2022 and 2021, respectively (Note 27.2).

*Inter-agency receivable* pertains to the various advances to and receivable from national government agencies (NGAs), other GOCCs, local government units (LGUs), and other instrumentalities of the NG, as follows:

	Current	Non-current	Total
<b>As at December 31, 2022</b>			
National Housing Authority (NHA)	0	1,803,729,758	1,803,729,758
AGFP	83,996,111	0	83,996,111
AKPF	122,566,253	0	122,566,253
NHA-HUDCC	45,668,948	0	45,668,948
LGUs	8,517,570	0	8,517,570
Others	19,936,711	82,199,637	102,136,348
	<b>280,685,593</b>	<b>1,885,929,395</b>	<b>2,166,614,988</b>
<b>As at December 31, 2021</b>			
NHA	0	1,803,729,758	1,803,729,758
AGFP	58,804,748	0	58,804,748
AKPF	111,234,550	0	111,234,550
NHA-HUDCC	45,668,948	0	45,668,948
LGUs	8,517,570	0	8,517,570
Others	5,499,250	96,760,282	102,259,532
	<b>229,725,066</b>	<b>1,900,490,040</b>	<b>2,130,215,106</b>

Due from NHA pertains to the amounts advanced by the SMAP to NHA, the implementing agency of the Smokey Mountain Development and Reclamation Project, which was among those assigned and conveyed in CY 2003 by the SMAP, through its trustee PDB, to the former HGC for and in consideration of the latter's assumption and payment of its guaranty obligations.

As at December 31, 2022 and 2021, the total collectible would have been P5.196 billion, inclusive of interest of 8.50 per cent per annum from December 2002 to September 2018. The difference of P3.393 billion was not recognized due to remote probability of collection thereof. No allowance for ECL was provided on the recorded claim in view of the related compromise entered into by and between the Corporation and R-II Builders under the MOA dated February 16, 2021 (*Note 23.2*).

The receivables from AGFP primarily consists of the accumulated allowable costs/expenses identifiable with the Fund Pool allocated to and charged against it by the Corporation pursuant to the Board-approved "Costs/Expenses Allocation Policy for Administered/Managed Funds and Programs." The account also includes the earnings prior to actual transfer of the funds remitted to the Corporation pursuant to Section 3 of EO No. 58 which directs that the equity contributions of the NG to the former HGC, IGLF and AGFP shall be transferred to PHILGUARANTEE to form part of its paid-up capital.

Due from AKPF consists of the accumulated share of said fund in PHILGUARANTEE's operating expenses for the administration and trusteeship of the CFG component of the AKPF. Under Section 7 of RA No. 6846, the AKPF shall bear the costs of its administration and development in such amounts and/or limits as the administering agency shall deem appropriate, but not exceeding one per cent of the fund assets of the previous year.

Expenses for organization and initial operations shall be provided by the administering agencies as advances, subject to reimbursement.

The receivable from the trust funds from NGAs refers to the unpaid trusteeship fees and amounts advanced by the Corporation for the operating expenses of said trust funds (*Notes 14 and 18*).

*Other receivables* consist of the following:

	Current	Non-current	Total
<b>As at December 31, 2022</b>			
Disallowances	116,070,989	0	116,070,989
Due from officers and employees	603,074	5,251,368	5,854,442
Others	35,005,076	165,699,279	200,704,355
	<b>151,679,139</b>	<b>170,950,647</b>	<b>322,629,786</b>
<b>As at December 31, 2021</b>			
Disallowances	117,808,824	0	117,808,824
Due from officers and employees	570,769	5,251,368	5,822,137
Others	206,459,123	0	206,459,123
	<b>324,838,716</b>	<b>5,251,368</b>	<b>330,090,084</b>

Receivable from disallowances represents the amounts disallowed in audit by COA which have become final and executory, thus, duly covered by COA Orders of Execution (COE), net of settlements made by persons found liable thereon.

The remaining other receivables pertain to the amounts advanced by the Corporation for MRI, fire insurance, utilities and real property taxes for collection from tenants and/or clients, to wit:

	2022	2021 (As Restated)
Real property taxes	88,451,192	71,232,740
Advances to BF Homes	25,755,382	25,755,382
Fire insurance	21,109,729	19,319,836
Due from Damar Financing Corporation	5,057,120	5,057,120
MRI	3,109,048	3,356,559
Others	57,221,884	81,737,486
	<b>200,704,355</b>	<b>206,459,123</b>

Relative to receivable from Damar Financing Corporation, the former HGC filed a complaint-affidavit for estafa against the concerned parties in CY 2013 before the Office of the Prosecutor of Makati City but the case was dismissed. A Petition for Review of the resolution dismissing the complaint and the Motion to Resolve said petition filed in July 2021 are both pending before the Department of Justice (DOJ) as at December 31, 2022.

The rollforward analyses of the *Allowances for ECL* on loans and other receivables are as follows:

	Balance, January 1, 2022	Additional Provision	Recoveries, Write-offs and Adjustments	Balance, December 31, 2022
<b>Current</b>				
Operating lease receivable	581,833,299	0	(581,833,299)	0
Sales contract receivable	4,573,391	8,610,047	80,778,738	93,962,176
Interest receivable	3,310,232	0	(1,612,027)	1,698,205
Subrogated claims receivable	(2,400,706)	0	28,900,531	26,499,825
Loans receivable	0	0	379,533,519	379,533,519
Finance lease receivable	493,454	0	(497,105)	(3,651)
Others	58,898,626	5,514,960	(16,247,155)	48,166,431
	646,708,296	14,125,007	(110,976,798)	549,856,505
<b>Non-current</b>				
Sales contract receivable	990,010,349	0	(138,559,241)	851,451,108
Subrogated claims receivable	483,599,862	0	(288,644,872)	194,954,990
Loans receivable	483,374,196	0	(483,291,086)	83,110
Notes receivable	60,410,247	0	0	60,410,247
Accounts receivable	3,548,869	0	0	3,548,869
Finance lease receivable	818,750	493,454	62,817,254	64,129,458
Others	5,251,368	0	(5,251,368)	0
	2,027,013,641	493,454	(852,929,313)	1,174,577,782
	2,673,721,937	14,618,461	(963,906,111)	1,724,434,287
	Balance, January 1, 2021	Additional Provision	Recoveries, Write-offs and Adjustments	Balance, December 31, 2021
<b>Current</b>				
Operating lease receivable	0	0	581,833,299	581,833,299
Sales contract receivable	56,196,848	829,524,510	(881,147,967)	4,573,391
Interest receivable	1,698,205	0	1,612,027	3,310,232
Subrogated claims receivable	1,073,557	0	(3,474,263)	(2,400,706)
Finance lease receivable	0	493,454	0	493,454
Others	48,166,431	96,311,183	(85,578,988)	58,898,626
	107,135,041	926,329,147	(386,755,892)	646,708,296
<b>Non-current</b>				
Sales contract receivable	664,841,186	210,265,083	114,904,080	990,010,349
Subrogated claims receivable	2,596,295,364	0	(2,112,695,502)	483,599,862
Loans receivable	463,450,844	20,321,140	(397,788)	483,374,196
Notes receivable	60,410,247	0	0	60,410,247
Accounts receivable	12,839,718	0	(9,290,849)	3,548,869
Finance lease receivable	818,750	0	0	818,750
Others	5,251,368	0	0	5,251,368
	3,803,907,477	230,586,223	(2,007,480,059)	2,027,013,641
	3,911,042,518	1,156,915,370	(2,394,235,951)	2,673,721,937

## 8. INVENTORIES

This account consists of the following:

	2022	2021
Inventory held for consumption		
Office supplies inventory	2,663,429	2,002,039
Other supplies and materials inventory	36,062	36,062
Semi-expendable property	91,752	91,357
	2,791,243	2,129,458

No item of inventory was measured at net realizable value as at December 31, 2022 and 2021, nor written-off for the years then ended.

## 9. NON-CURRENT ASSETS HELD FOR SALE

This account represents assets, specifically ROPAs, that are identified and approved by Management to be immediately sold in its present condition and the sale thereof is believed to be highly probable at the time of classification. These investment properties already have winning bidders and assigned buyers but are still with pending documentary requirements as at the end of the reporting period with net carrying value of P3.328 million as at December 31, 2022.

## 10. INVESTMENT PROPERTY

The composition of and movements in investment properties and related accumulated depreciation and impairment accounts are as follows:

	Land	Building and Improvements	Total
<b>Cost</b>			
Balance, January 1, 2022	10,966,019,632	116,410,844	11,082,430,476
Disposals/Retirements	(39,076,258)	0	(39,076,258)
Reclassifications/Others	(3,327,728)	53,797,173	50,469,445
Balance, December 31, 2022	10,923,615,646	170,208,017	11,093,823,663
<b>Accumulated depreciation</b>			
Balance, January 1, 2022	0	36,736,400	36,736,400
Depreciation	0	2,287,125	2,287,125
Reclassifications/Others	0	33,934,097	33,934,097
Balance, December 31, 2022	0	72,957,622	72,957,622
<b>Accumulated impairment</b>			
Balance, January 1, 2022	1,144,109,726	49,664,688	1,193,774,414
Impairment	129,233,382	0	129,233,382
Reclassifications/Others	613,917,820	(32,892,458)	581,025,362
Balance, December 31, 2022	1,887,260,928	16,772,230	1,904,033,158
<b>Carrying amount, December 31, 2022</b>	<b>9,036,354,718</b>	<b>80,478,165</b>	<b>9,116,832,883</b>

	Land	Building and Improvements	Total
<b>Cost</b>			
Balance, January 1, 2021, as reported	11,329,045,519	124,259,670	11,453,305,189
Adjustments	(318,330,115)	0	(318,330,115)
Balance, January 1, 2021, as restated	11,010,715,404	124,259,670	11,134,975,074
Disposals/Retirements	(377,849,205)	0	(377,849,205)
Reclassifications/Others	333,153,433	(7,848,826)	325,304,607
Balance, December 31, 2021	10,966,019,632	116,410,844	11,082,430,476
<b>Accumulated depreciation</b>			
Balance, January 1, 2021	0	34,865,027	34,865,027
Depreciation	0	974,321	974,321
Reclassifications/Others	0	897,052	897,052
Balance, December 31, 2021	0	36,736,400	36,736,400
<b>Accumulated impairment</b>			
Balance, January 1, 2021, as reported	1,328,905,342	19,605,062	1,348,510,404
Adjustments	(6,951,421)	306,754,666	299,803,245



	Land	Building and Improvements	Total
Balance, January 1, 2021, as restated	1,321,953,921	326,359,728	1,648,313,649
Impairment	683,414	0	683,414
Reclassifications/Others	(178,527,609)	(276,695,040)	(455,222,649)
Balance, December 31, 2021	1,144,109,726	49,664,688	1,193,774,414
<b>Carrying amount, December 31, 2021</b>	<b>9,821,909,906</b>	<b>30,009,756</b>	<b>9,851,919,662</b>

Investment properties in building include a two-storey building with a basement located at the Commonwealth Market, National Government Center – Commonwealth Enterprise Zone (NGC-CEZ), Quezon City, with a cost of P49.299 million and estimated useful life of 24 years. The whole of the Commonwealth Market property is under a long-term lease with 3A Boys Corporation. On the other hand, investment properties in land include the following properties:

- a. A 229,855-square meter property located at the NGC-CEZ commercial area in Quezon City which was previously conveyed to the former HGC in CY 2004 upon call on guaranty in the amount of P1.528 billion and with a total appraised value of P2.327 billion as at December 31, 2022. The property is being disposed and/or utilized through outright sale, long-term leases, joint venture or any variant scheme. To date, 31,093.06 square meters of the property are the subject of long-term leases for 20 to 25 years.
- b. Urban Bagong Lipunan Improvement of Sites and Services (BLISS) projects with cost totaling P4.069 billion, which were transferred and conveyed to the former HGC by then BLISS Development Corporation (BDC). Details follow:

Location	Area in Square Meters	Cost
Guadalupe BLISS	101,484	1,522,260,000
C-5 BLISS	39,992	1,105,758,826
Mandaluyong I and II BLISS, Coronado, Hulo	27,359	602,000,000
Tejeros BLISS, H. Santos St., Makati City	14,647	298,523,000
Pasig BLISS, Col. Licsi St. Pasig City	14,274	139,885,000
Muntinlupa BLISS, Bo. Putatan, Muntinlupa	11,643	56,647,000
Makati BLISS, Vito Cruz, Makati City	4,631	282,491,000
Paco BLISS	2,053	61,590,000
	<b>216,083</b>	<b>4,069,154,826</b>

- c. The 295,464-square meter Legacy Memorial Estate property located at Sto. Tomas, Batangas, with a book value of P1.261 billion, which was conveyed to the former HGC in CY 2003. The property has an appraised value of P632.127 million as at December 31, 2022.
- d. Properties conveyed by the SMAP in CY 2003 with a book value of P441.717 million and an appraised value of P3.634 billion as at December 31, 2022. The titles of the lots were already transferred in the name of the former HGC. However, the titles bear the annotation of the adverse claim of the developer claiming among others, that said developer is entitled to the residual value of the properties. The properties are among those covered by the compromise entered into by and between the Corporation and R-II Builders under MOA dated February 16, 2021 (*Note 23.2*).

In CY 2021, leasehold rights previously reported as investment property in land with carrying amount of P1.623 billion were retrospectively reclassified to “Intangible Assets” (Note 13). Moreover, expenses totaling P158.536 million incurred prior to December 31, 2019 and erroneously capitalized under the account were reversed and charged directly against retained earnings.

The Corporation sold investment properties with carrying values of P39.076 million and P377.849 million in CYs 2022 and 2021, respectively. On the other hand, rental income on investment properties for the same period presented as “Lease Income” (Note 24.1) in the SCI amounted to P209.363 million and P140.527 million, respectively.

Depreciation expense charged to operations, included under “Non-cash Expenses” in the SCI, amounted to P2.287 million and P974,321 in CYs 2022 and 2021, respectively (Note 25.4).

## 11. PROPERTY AND EQUIPMENT

The composition of and movements in property and equipment and related accumulated depreciation and impairment accounts are as follows:

	Land Improvements	Building and Other Structures	Transportation Equipment	Office, IT, Furniture, Fixtures and Others	Leasehold Improvements	Total
<b>Cost</b>						
January 1, 2022	53,797,173	87,456,709	42,544,763	143,891,048	41,931,496	369,621,189
Additions		0	15,499,893	1,053,127	41,783,476	58,336,496
Disposal/Retirement/Adjustment	(53,797,173)	0	(2,247,119)	(37,869,825)	0	(93,914,117)
December 31, 2022	0	87,456,709	55,797,537	107,074,350	83,714,972	334,043,568
<b>Accumulated depreciation</b>						
January 1, 2022	33,494,589	50,815,937	31,970,259	111,398,968	32,070,108	259,749,861
Depreciation	242,987	2,703,994	3,628,927	1,801,384	0	8,377,292
Disposal/Retirement/Adjustment	(33,737,576)	34,413	(493,820)	(37,299,924)	0	(71,496,907)
December 31, 2022	0	53,554,344	35,105,366	75,900,428	32,070,108	196,630,246
<b>Accumulated impairment</b>						
January 1, 2022	0	0	942,785	2,324,745	0	3,267,530
Impairment	0	0	0	0	0	0
Disposal/Retirement/Adjustment	0	0	0	0	0	0
December 31, 2022	0	0	942,785	2,324,745	0	3,267,530
<b>Carrying amount, 12/31/2022</b>	<b>0</b>	<b>33,902,365</b>	<b>19,749,386</b>	<b>28,849,177</b>	<b>51,644,864</b>	<b>134,145,792</b>

	Land Improvements	Building and Other Structures	Transportation Equipment	Office, IT, Furniture, Fixtures and Others	Leasehold Improvements	Total
<b>Cost</b>						
January 1, 2021, as reported	53,797,173	87,456,709	38,655,940	134,886,298	32,331,496	347,127,616
Adjustments	0	0	1,504,393	0	0	1,504,393
January 1, 2021, as restated	53,797,173	87,456,709	40,160,333	134,886,298	32,331,496	348,632,009
Additions	0	0	2,384,430	8,994,110	9,600,000	20,978,540
Disposal/Retirement/Adjustment	0	0	0	10,640	0	10,640
December 31, 2021	53,797,173	87,456,709	42,544,763	143,891,048	41,931,496	369,621,189

	Land Improvements	Building and Other Structures	Transportation Equipment	Office, IT, Furniture, Fixtures and Others	Leasehold Improvements	Total
<b>Accumulated depreciation</b>						
January 1, 2021	33,176,318	47,548,221	28,828,589	107,418,546	32,070,108	249,041,782
Depreciation	2,039,979	3,081,366	1,556,154	3,781,438	0	10,458,937
Disposal/Retirement/Adjustment	(1,721,708)	186,350	1,585,516	198,984	0	249,142
December 31, 2021	33,494,589	50,815,937	31,970,259	111,398,968	32,070,108	259,749,861
<b>Accumulated impairment</b>						
January 1, 2021	0	0	959,285	2,324,745	0	3,284,030
Impairment	0	0	0	0	0	0
Disposal/Retirement	0	0	(16,500)	0	0	(16,500)
December 31, 2021	0	0	942,785	2,324,745	0	3,267,530
<b>Carrying amount, 12/31/2021</b>	<b>20,302,584</b>	<b>36,640,772</b>	<b>9,631,719</b>	<b>30,167,335</b>	<b>9,861,388</b>	<b>106,603,798</b>

There are no items of property and equipment as at December 31, 2022 and 2021 that are pledged as security for payment of liabilities.

## 12. RIGHT-OF-USE ASSET

The movements in the ROU asset, including the related accumulated depreciation and impairment accounts, are as follows:

	2022	2021 (As Restated)
<b>Cost</b>		
Balance, January 1	186,784,037	183,274,074
Additions	0	0
Disposals/Early termination	0	0
Reclassifications/Others	6,747,006	3,509,963
Balance, December 31	193,531,043	186,784,037
<b>Accumulated depreciation</b>		
Balance, January 1	75,583,027	44,291,235
Depreciation	30,167,254	22,225,872
Disposals/Early termination	0	0
Reclassifications/Others	6,748,949	9,065,920
Balance, December 31	112,499,230	75,583,027
<b>Accumulated impairment</b>		
Balance, January 1	15,335,328	0
Impairment	0	15,335,328
Disposals/Early termination	0	0
Reclassifications/Others	0	0
Balance, December 31	15,335,328	15,335,328
<b>Carrying amount, December 31</b>	<b>65,696,485</b>	<b>95,865,682</b>

The ROU asset arose from the five-year lease of the 22<sup>nd</sup>, 23<sup>rd</sup> and 24<sup>th</sup> floors and 85 parking lots of the BPI-Philam Life Building located at Ayala Avenue, Makati City. The leased property with a total area of 4,124.52 square meters serves as the unified corporate office of the Corporation. The lease commenced in October 2019 at initial annual rental of P37.695 million plus annual escalation of 6 per cent. The ROU asset was initially

recognized at a discount rate of 9.523 per cent and is subsequently remeasured at a discount rate of 2.8938 percent based on BVAL rate on October 21, 2021 to account the lease modification in CY 2022. The ROU asset is amortized over the lease term.

Depreciation expense charged to operations, included under “Non-cash Expenses” in the SCI, amounted to P29.711 million and P20.096 million in CYs 2022 and 2021, respectively (Note 25.4).

The Corporation did not recognize ROU assets and lease liabilities for short-term leases, specifically the one-year lease of the Jade Building. As at the commencement of said lease, Management does not expect the lease over said building to be renewed. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

For CYs 2022 and 2021, the expenses relating to short-term leases amounted to P50.498 million and P68.031 million, respectively, which are presented as part of “Rent/Lease Expense” (Note 25.2) in the SCI.

### 13. INTANGIBLE ASSETS

The composition of and movements in intangible assets, including the related accumulated amortization, are as follows:

	Leasehold Rights	Computer Software	Total
<b>Cost</b>			
Balance, January 1, 2022	1,622,751,033	31,308,739	1,654,059,772
Additions	0	336,000	336,000
Disposals/Retirements	0	0	0
Balance, December 31, 2022	1,622,751,033	31,644,739	1,654,395,772
<b>Accumulated amortization</b>			
Balance, January 1, 2022	690,769,348	31,358,326	722,127,674
Amortization	34,347,737	160,404	34,508,141
Disposals/Retirements	0	0	0
Adjustment	0	3,388,288	3,388,288
Balance, December 31, 2022	725,117,085	34,907,018	760,024,103
<b>Accumulated impairment</b>			
Balance, January 1, 2022	6,254,826	0	6,254,826
Impairment	0	0	0
Disposals/Retirements	0	0	0
Balance, December 31, 2022	6,254,826	0	6,254,826
<b>Carrying amount, December 31, 2022</b>	<b>891,379,122</b>	<b>(3,262,279)</b>	<b>888,116,843</b>

	Leasehold Rights	Computer Software	Total
<b>Cost</b>			
Balance, January 1, 2021, as reported	1,622,757,343	31,161,720	1,653,919,063
Adjustments	(12,619)	12,619	0
Balance, January 1, 2021, as restated	1,622,744,724	31,174,339	1,653,919,063
Additions	6,309	134,400	140,709
Disposals/Retirements	0	0	0
Balance, December 31, 2021	1,622,751,033	31,308,739	1,654,059,772

	Leasehold Rights	Computer Software	Total
<b>Accumulated amortization</b>			
Balance, January 1, 2021, as reported	681,629,752	30,542,767	712,172,519
Adjustments	0	376,697	376,697
Balance, January 1, 2021, as restated	681,629,752	30,919,464	712,549,216
Amortization	35,731,641	815,559	36,547,200
Disposals/Retirements	0	0	0
Adjustment	(26,592,045)	(376,697)	(26,968,742)
Balance, December 31, 2021	690,769,348	31,358,326	722,127,674
<b>Accumulated impairment</b>			
Balance, January 1, 2021, as reported	0	0	0
Adjustments	6,254,826	0	6,254,826
Balance, January 1, 2021, as restated	6,254,826	0	6,254,826
Impairment	0	0	0
Disposals/Retirements	0	0	0
Balance, December 31, 2021	6,254,826	0	6,254,826
<b>Carrying amount, December 31, 2021</b>	<b>925,726,859</b>	<b>(49,587)</b>	<b>925,677,272</b>

The leasehold rights refer to the Corporation's right to use three properties located at the Subic Bay Freeport Zone, namely, Triboa, El Kabayo, Triboa and Times Square properties, expiring on November 30, 2045, May 14, 2046 and April 30, 2047, respectively. The rights, which are duly covered by Lease Development Agreements with SBMA executed on various dates, were conveyed by the Financial Building Corporation (FBC) and the Financial Building Subic Bay Corporation (FBSBC) to the former HGC in CY 2004 as settlement of the latter's guaranty exposure.

Computer software consists of acquired computer software licenses used in operation and administration and automated systems developed by the Corporation 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.

Amortization expense charged to operations, included under "Non-cash Expenses" in the SCI, amounted to P34.508 million and P36.547 million in CYs 2022 and 2021, respectively (Note 25.4).

#### 14. OTHER ASSETS

This account consists of the following:

	2022	2021 (As Restated)
<b>Current</b>		
Prepayments	69,890,923	56,709,634
Guaranty deposits	10,869,120	10,869,120
Others	(1,065,146)	421,255
	<b>79,694,897</b>	<b>68,000,009</b>

	2022	2021 (As Restated)
<b>Non-current</b>		
Funds under trust and/or administration	18,827,324,294	15,939,675,861
Prepayments	15,035,909	13,048,711
Guaranty deposits	10,176,555	10,176,555
Others	29,192,635	33,246,387
	18,881,729,393	15,996,147,514

*Prepayments* consist of:

	Current	Non-current	Total
<b>As at December 31, 2022</b>			
Prepaid taxes	58,978,862	0	58,978,862
Prepaid rent	4,228,895	0	4,228,895
Prepaid insurance	840,406	0	840,406
Other prepayments	5,842,760	15,035,909	20,878,669
	69,890,923	15,035,909	84,926,832
<b>As at December 31, 2021</b>			
Prepaid taxes	43,510,141	0	43,510,141
Prepaid rent	4,228,895	0	4,228,895
Prepaid insurance	1,863,312	0	1,863,312
Other prepayments	7,107,286	13,048,711	20,155,997
	56,709,634	13,048,711	69,758,345

*Prepaid taxes* pertain to the excess of quarterly income tax payments over the current tax due during the year elected to be carried forward to the next taxable period as well as creditable withholding taxes withheld by suppliers and contractors.

*Other prepayments* include the unamortized portion of the prepayments for dues and subscriptions, healthcare insurance, FIS system support, and for the guarantee by the Republic of the Philippines (ROP) of the Corporation's loans payable.

*Guaranty deposits* are non-interest bearing security deposits and cash bond refundable upon the expiration or termination of the related contracts. The account includes the refundable security deposits paid in relation to the lease of the Jade Building amounting to P4.058 million.

The total assets of the various *funds under trust and/or administration* of the Corporation pursuant to law or in accordance with various agreements, which are reciprocally presented as non-current "Other Assets" and non-current "Trust Liabilities" (Note 18) of the Corporation, are as follows:

	2022	2021 (As Restated)
AGFP	13,651,606,541	10,862,766,999
AKPF	3,053,992,300	2,977,712,627
Trust funds from NGAs	1,088,883,820	1,073,976,753
EC-PCG Program	1,032,841,633	1,025,219,482
	18,827,324,294	15,939,675,861

The administration of the AGFP, including the penalties pertaining to it under RA No. 10000, and the CRGF were transferred to the Corporation effective August 31, 2019 pursuant to Section 1 of EO No. 58. Previously, the AGFP, which is intended to mitigate the risks involved in agriculture lending, was under the administrative supervision of the Department of Agriculture and in trust with the LBP. On the other hand, the CRGF, a credit guarantee program that provides assistance to MSMEs affected by Typhoon Yolanda, was managed by the SBC.

As successor-in-interest of the former HGC, the Corporation also acts as trustee of the CFG component of the AKPF pursuant to Section 4(b) of RA No. 6846, as well as of other funds for housing and resettlement projects for informal settler families (ISFs) in accordance with MOAs executed by and between the former HGC and several NGAs, to wit:

Year	Trust Fund	Trustor	Purpose of Project
1992	Friendship Village Resources (FVR-1) and Family Village Resources (FVR-2) Project	Department of Public Works and Highways (DPWH) and Housing and Urban Development Coordinating Council (HUDCC)	For the acquisition and development of relocation sites for the affected ISFs from the areas of Estero de Vitas and Estero Sunog Apog in Tondo, Manila and Quezon City to be relocated to FVR-1 and FVR-2 located in Barangay Tigbe, Norzagaray, Bulacan and Barangay Kabilang Baybay, General Mariano Alvarez, Cavite, respectively
1996	North Hills Village Project	DPWH, HUDCC and NHA	For the acquisition and development of relocation sites for the affected ISFs along the entire stretch of the R-10 Road right-of-way to be relocated to North Hills Village, located in Barangay Bitungol, Norzagaray, Bulacan
1997	Montalban Heights Project	Department of Transportation and Communications (DOTC), HUDCC and NHA	For the acquisition of developed relocation sites for the ISFs affected by the construction of the EDSA LRT-III Depot Project in North Triangle, Quezon City to be relocated to Montalban Heights, San Jose, Rodriguez, Rizal
1999	Baras Project	DPWH and HUDCC	For the acquisition of developed relocation sites for the ISFs affected by the Metro Manila Flood Control projects to be relocated to Barangay Concepcion, Baras, Rizal
1998	C-5 MRB Condominium Project	Presidential Management Staff (PMS)	For the construction of 11 medium-rise buildings (MRBs) in C-5 Fort Bonifacio, Taguig City

Details of the trust funds from NGAs which are disbursed in accordance with the provisions of the pertinent MOAs follow:

	2022	2021 (As Restated)
North Hills Village Project	457,430,412	451,618,833
Montalban Heights Relocation Project	255,196,606	250,454,397
FVR-1 and FVR-2 Project	205,693,705	201,477,056
Baras Project	87,704,855	87,705,394
C-5 MRB Condominium Project	82,858,242	82,721,073
	<b>1,088,883,820</b>	<b>1,073,976,753</b>

In separate letters both dated December 6, 2021, the Corporation informed the Secretaries of the DPWH and the DOTr of its decision to unilaterally terminate the Trust Agreements with said agencies relative to the above projects. As at December 31, 2022, however, there has been no turnover and settlement of pertinent funds, assets and liabilities.

On April 29, 2020, the BOD approved the recommendation to accept the role of Program Manager of the EC-PCG Program. The EC-PCG Program, established by the DOF and DOE, with a grant from the Global Environment Facility, guarantees commercial loans of accredited financial institutions to electric cooperative borrowers to finance power distribution system upgrades and reduce systems losses.

Consequently, the Corporation and the LGU Guarantee Corporation (LGUGC), the former Program Manager of the EC-PCG Program, entered into a Deed of Assignment and Assumption dated November 27, 2020, whereby the former accepts and assumes all rights, titles, interest and participation, responsibilities and obligations of the latter as Program Manager. Under said Deed, the contemplated assignment and assumption are to take effect upon the submission of the Final Report on the status of implementation of the projects by LGUGC to PHILGUARANTEE. Thereupon, LGUGC shall be deemed and considered as having been completely and absolutely released and discharged from all its responsibilities and obligations as Program Manager.

The Corporation received the Final Report of the LGUGC on August 3, 2021. Accordingly, no funds under trust nor trust liabilities pertinent to the Program were recognized as at December 31, 2020. However, notwithstanding the foregoing, the Corporation assumed from LGUGC the management of the outstanding guarantee accounts involving 18 electric cooperatives and loan principal balance aggregating P791.803 million on June 1, 2020.

As at December 31, 2022 and 2021, the outstanding guarantees issued under the AKPF, AGFP and the EC-PCG Program follow:

	<b>2022</b>	<b>2021</b> (As Restated)
AKPF	<b>57,319,673,576</b>	56,031,290,271
AGFP	<b>1,915,359,872</b>	2,037,818,048
EC-PCG Program	<b>168,952,865</b>	320,055,420
	<b>59,403,986,313</b>	58,389,163,739

*Other current assets* refer to unserviceable motor vehicles reclassified from property and equipment pending their disposal while *other non-current assets* consist of:

	<b>2022</b>	<b>2021</b> (As Restated)
FCDU time deposits in trust for the BTr	<b>20,903,526</b>	19,099,442
Restricted cash	<b>3,797,500</b>	4,404,968
Paintings	<b>2,717,963</b>	2,081,963
Premium reserve fund	<b>572,998</b>	572,998
Others	<b>1,200,648</b>	7,087,016
	<b>29,192,635</b>	33,246,387



The foreign currency deposit unit (FCDU) time deposits maintained with the LBP are held in trust under the name of the Corporation for the account of the BTr (*Note 18*). The account arose from court cases filed in the USA against pre-merger TIDCORP relative to a default account under the Guarantee Program of the Corporation which was already turned over to the NG in CY 1989 pursuant to AO No. 64 dated March 24, 1988 and Deed of Transfer dated March 31, 1989. The DOF and BTr released US\$5.000 million to TIDCORP on April 26, 2002 for the settlement of said cases. However, the final settlement agreement between TIDCORP and Fidelity Partners, Inc., the plaintiff, amounted to only US\$4.800 million, thus, leaving a balance of US\$200,000.

Over the years, the Corporation administered the excess amount pending its transfer to the BTr by maintaining the same in FCDU time deposits which earn interest ranging from 2.50 to 3.00 per cent per annum. The fund has an outstanding balance of US\$374,917 and US\$374,506 as at December 31, 2022 and 2021, respectively. Net interest income earned on the account from April 26, 2002 to December 31, 2022 and up to December 31, 2021 amounted to US\$172,780 and US\$171,027, respectively.

Restricted cash refers to garnished accounts as required by the RTC Branch 206, Muntinlupa City in its Notice of Garnishment dated September 11, 2020 in order to answer for the reasonable monthly rentals and interest awarded to a third party in the unlawful detainer case filed by the latter against the Corporation (*Note 5*).

The RTC denied in an Order dated October 1, 2021 the Urgent Motion to Nullify the Notice of Garnishment, including the related Writ of Execution dated June 15, 2020, filed by the Corporation. A Motion for Reconsideration (MR) dated December 10, 2021 of said Order is currently pending before the court.

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

## 15. FINANCIAL LIABILITIES

This account consists of the following:

	2022	2021 (As Restated)
<b>Current</b>		
Due to SBMA	3,667,492,906	0
Guarantee liability	2,933,136,131	4,150,567,119
Accounts payable	200,667,821	376,316,610
Bonds payable	72,609,159	411,364,624
Interest payable	67,695,231	158,620,141
Due to officers and employees	58,864,541	54,731,821
Loans payable	43,631,191	43,633,331
Others	46,360	46,360
	<b>7,044,143,340</b>	<b>5,195,280,006</b>

	2022	2021 (As Restated)
<b>Non-current</b>		
Bonds payable	2,341,221,276	2,271,132,834
Guarantee liability	188,684,693	300,036,189
Due to SBMA	0	3,360,554,395
Loans payable	0	43,631,191
	<b>2,529,905,969</b>	<b>5,975,354,609</b>

*Guarantee liability* refers to the obligations arising from the financial guarantee contracts issued by the Corporation. The account includes: (a) provision of ECL on guarantee accounts; (b) amount due for approved guarantee calls or claims of banks and other financial institutions on defaulted accounts; and (c) unamortized portion of the upfront guarantee fees received from clients. Details follow:

	2022	2021 (As Restated)
Due to SSS	300,000,000	1,600,000,000
Discount	(26,400,979)	(49,337,024)
	<b>273,599,021</b>	<b>1,550,662,976</b>
Pari-passu payable	2,280,120,463	2,321,208,492
Unearned guarantee fees	563,916,336	574,546,836
Estimated liability for guaranty operations	4,185,004	4,185,004
	<b>3,121,820,824</b>	<b>4,450,603,308</b>

The amount due to SSS refers to the approved call on the guarantee extended by the former HGC on the Asset Participation Certificates (APCs) held by the latter. The rights to the property securing the guaranteed obligation have been conveyed to and/or claims of the mortgagee against the mortgagor have been assigned to the Corporation. Details as at December 31, 2020 follow:

	Principal	Accrued Interest	Total
Smokey Mountain Project APCs	1,150,000,000	1,101,846,636	2,251,846,636
Suburban Housing APCs	800,000,000	1,277,717,475	2,077,717,475
Commonwealth Urban Renewal APCs	250,000,000	363,108,652	613,108,652
Tahanan APCs	138,750,685	191,833,539	330,584,224
	<b>2,338,750,685</b>	<b>2,934,506,302</b>	<b>5,273,256,987</b>

In CY 2020, the respective BODs of the SSS and PHILGUARANTEE approved the proposal of the Corporation to settle in full its outstanding obligations to SSS for P4.813 billion. The pertinent MOA was signed by the parties on August 26, 2021 and was approved by the DOJ in its Resolution dated December 23, 2021. Section 6.2 of the Uniform Rules on Dispute Resolution under PD No. 242, as amended, provides that a final resolution shall become immediately executory upon the issuance thereof by the Secretary of Justice. The subject Resolution was duly received by the Corporation and SSS on December 28 and 29, 2021, respectively.

Under the MOA, the parties agreed to the condonation of 4.972 per cent of the guaranteed interest effective March 2017 up to October 31, 2020, or a reduction of the guaranteed interest from 8.5 per cent to 3.528 per cent per annum in the amount of P426.954 million as at October 31, 2020. The settlement in full of the outstanding obligations of the Corporation shall be paid under the following terms:

<b>Mode of Payment</b>	<b>Amount</b>	<b>Interest Rate</b>
Cash payment	P1.1 billion payable upon signing of the agreement	2.01 per cent per annum from October 31, 2020 until exact settlement date
Deferred cash payment	P100 million per year for years 2 to 4 and P200 million for year 5	3.00 per cent per annum to be payable preferably quarterly or semi-annually effective October 31, 2020
Issuance of debenture bonds backed by sovereign guarantee	P200 million per year for redemption in years 1 to 4 and P2.413 billion balloon payment in year	2.75 per cent per annum to be payable preferably quarterly or semi-annually

Management has assessed that the modification of the terms of the obligation to SSS under the MOA is substantial and therefore results in the derecognition of the original liability as at December 28, 2021. Accordingly, new liabilities were recognized under this and the “Bonds Payable” account for P1.551 billion and P2.671 billion, respectively, or a total of P4.222 billion. The related “Gain on Debt Extinguishment” of P1.130 billion is presented under “Other Non-operating Income” (*Note 24.3*).

In compliance with the DOJ-approved MOA, the Corporation partially settled for P1.548 billion of the amount due to SSS on January 12, 2022 under the following agreed modes of payment:

<b>Mode of Payment</b>	<b>Principal</b>	<b>Accrued Interest</b>	<b>Total</b>
Cash payment	1,100,000,000	23,858,934	<b>1,123,858,934</b>
Deferred cash payment	100,000,000	17,993,151	<b>117,993,151</b>
Issuance of debenture bonds	200,000,000	105,994,287	<b>305,994,287</b>
	<b>1,400,000,000</b>	<b>147,846,372</b>	<b>1,547,846,372</b>

On July 1, 2022 and October 31, 2022, a total of P46.845 million and P304.011 million were paid to SSS, respectively, representing the interest from January 13 to October 30 amounting to P50.856 million and principal amounting to P300 million under the deferred cash payment and issuance of debenture bonds modes of payment.

Pari-passu payable primarily consists of the provision for ECL on the P3.291 billion guaranteed accounts of the Philippine Phosphate Fertilizer Corporation (PhilPhos), which defaulted in its loan obligations in CY 2013, amounting to P2.272 billion as at December 31, 2022 and 2021. Management has assessed that, in view of the unfavorable status of the cases relative to the account as at December 31, 2021 (*Note 23.2*), full provision on the entire guaranteed amount less share of the Corporation in the estimated recoverable value of the collateral under the related Mortgage Trust Indenture (MTI) is warranted. Thus, an additional provision of P757.844 million was recognized in CY 2021.

Under Section 9 of PD No. 1080, as amended, the payment of obligations incurred by the Corporation under the provisions of its Charter is fully guaranteed by the ROP. Likewise, under Section 18 of RA No. 8763, the ROP fully and unconditionally guarantees payment of the guarantee obligations of the former HGC incurred in accordance with its Charter, subject to certain limitations and conditions.

The amount *due to the SBMA* represents the accumulated base rentals and other fees or charges due on the Subic Bay Freeport properties conveyed by FBC and FBSBC to the former HGC as settlement of the latter's guaranty exposure. The obligation is pursuant to the court-approved Compromise Agreement dated April 14, 2004 entered into between FBC, FBSBC and the former HGC.

In CY 2020, the respective BODs of the SBMA and the Corporation have approved the assignment or *dacion* by the Corporation of the leasehold rights over three Subic Bay Freeport properties (*Note 13*) to SBMA in the amount of P2.778 billion as partial settlement of its outstanding obligations. The MOA on the proposed settlement had been forwarded to COA on May 27, 2021 pursuant to the recommendation of the Office of the Government Corporate Counsel (OGCC) to obtain the latter's authorization of the same. The requested authority was granted by COA in its Decision No. 2022-489 dated December 5, 2022 (*Note 29.2*).

*Bonds payable* pertains to the debenture bonds issued by the Corporation as payment for calls on the guaranty which bear variable interest rates ranging from 2.75 per cent to 6.785 per cent per annum. Under RA No. 8763, the nature of the guaranty covers that the former HGC can issue may be in the form of bond coverage, in whole or in part, wherein the call payment is in the form of debenture bonds.

*Interest payable* are derived from the following outstanding financial obligations of the Corporation:

	2022	2021
Due to SSS	42,130,645	146,385,335
Due to Treasurer of the Philippines	25,564,586	12,234,806
	<b>67,695,231</b>	158,620,141

*Accounts payable* refers to goods and services acquired on account in the normal course of trade and business operations. The account includes accrued expenses or those operating expenses already incurred by the Corporation but remained unpaid as of SFP date.

*Due to officers and employees* pertains to liability to officers and employees for salaries, benefits and other emoluments, including authorized expenses paid in advance by the officers and employees.

*Loans payable* consists solely of the loans obtained from the Asian Development Bank (ADB). Said loan was transferred from the IGLF pursuant to EO No. 58. The loan is payable every semester until October 31, 2023 and carries a service fee of 5.00 per cent per annum.

## 16. LEASE LIABILITY

The movements in lease liability are as follow:

	2022	2021 (As Restated)
Balance, January 1	115,915,754	148,979,638
Accretion of interest	6,635,188	24,393,107
Payments	(41,122,013)	(33,126,066)
Others	2,522,857	(24,330,925)
<b>Balance, December 31</b>	<b>83,951,786</b>	<b>115,915,754</b>

The lease liability relates solely to the five-year lease of the 22<sup>nd</sup>, 23<sup>rd</sup> and 24<sup>th</sup> floors and 85 parking lots of the BPI-Philam Life Building to be utilized as the unified corporate office (*Note 12*). The lease liability is further classified into its current and non-current portion as follows:

	2022	2021 (As Restated)
Current	45,480,526	29,167,805
Non-current	38,471,260	86,747,949
	<b>83,951,786</b>	<b>115,915,754</b>

Initially, the weighted average incremental borrowing rate applied by the Corporation to the lease liability was 9.523 percent. However, to account for the lease modification in CY 2022, a revised discount rate of 2.8938 percent has been used based on the BVAL prevailing rate on October 21, 2021. Lease payments are made on a monthly basis.

The undiscounted maturity analysis of the lease payments as at December 31, 2022 and 2021 follows:

	2022	2021
Not later than one year	49,466,745	42,431,174
Later than one year but not later than five years	38,936,696	88,403,441
	<b>88,403,441</b>	<b>130,834,615</b>

On the other hand, the following amounts were recognized in the SCI relative to the Corporation's ROU asset and lease liability:

	2022	2021 (As Restated)
Depreciation on ROU asset ( <i>Note 25.4</i> )	29,710,682	20,096,434
Interest on lease liability ( <i>Note 25.3</i> )	6,635,188	24,393,107
Gain on rent concession ( <i>Note 24.2</i> )	0	9,520,958
	<b>36,345,870</b>	<b>54,010,499</b>

## 17. INTER-AGENCY PAYABLE

This account consists of the following:

	2022	2021 (As Restated)
<b>Current</b>		
Due to Treasurer of the Philippines	3,041,592,654	3,041,592,654
Income tax payable	266,838,121	57,425,378
Due to BIR	136,248,602	128,700,299
Due to GSIS	4,951,465	4,418,676
Due to NGAs	1,072,006	2,745,300
Due to Pag-IBIG	1,413,141	1,398,050
Due to PHIC	605,386	144,730
Due to other GOCCs	6,257,129	6,257,129
	<b>3,458,978,504</b>	<b>3,242,682,216</b>
<b>Non-current</b>		
Due to NGAs	1,726,569	1,726,569
	<b>1,726,569</b>	<b>1,726,569</b>

*Due to BIR* refers to the various taxes withheld from employees' compensation and on certain income payments as mandated by law due for remittance to the BIR as at year-end.

*Due to GSIS, Pag-IBIG and Philippine Health Insurance Corporation (PHIC)* pertain to the Corporation's share in contributions, as well as the amounts withheld from employees' compensation as mandated by law representing contributions and loan amortization payments, due for remittance to said agencies as at year-end.

*Due to Treasurer of the Philippines* represents the outstanding balance of the P12.000 billion advanced by the NG to the former HGC in CY 2013 for the settlement of the P12.000 billion zero-coupon bonds issued by the latter. The obligation carries interest computed quarterly based on the average rate of the 364-day treasury bill of the preceding quarter.

In CY 2021, the Corporation paid a total of P5.358 billion to the BTr to partially settle its obligations relative to the above advances. The payment covers principal of P4.000 billion and accrued interest as at March 31, 2021 of P1.358 billion. On October 29, 2021 additional P30.237 million interest payment was made covering the period as at September 30, 2021. While in CY 2022, the Corporation paid a total of P52.171 million representing payment for the interest due as at October 31, 2022.

Interest expense recognized on the advances in CYs 2022 and 2021 amounted to P65.501 million and P73.191 million, respectively, and is presented as "Interest Expense" under "Financial Expenses" in the SCI (*Note 25.3*). On the other hand, the related unpaid interest stood at P25.565 million and P12.235 million as at December 31, 2022 and 2021, respectively.

In the recently approved Medium-term Plan of the Corporation, Management has incorporated a repayment plan of the outstanding balance of the advances at a rate of

P1.000 billion annually commencing in July 2023, over a period of 3 years, or up to CY 2025.

*Due to NGAs* primarily refers to the excess of the amount retained out of the CRGF funds to cover management fees over the actual amount charged by the Corporation due for remittance to the BTr.

## 18. TRUST LIABILITIES

This account consists of the following:

	2022	2021 (As Restated)
<b>Current</b>		
AKPF	559,133,397	557,252,544
Trust funds from NGAs	64,550,114	58,906,766
Customers deposits payable	58,316,302	85,565,995
Guarantee deposits payable	27,297,374	26,480,494
FCDU time deposits in trust for the BTr	20,903,526	19,099,442
Trust funds under USHLGF	0	4,399,543
DOF	0	3,518,154
HGC Provident Fund	0	2,239,305
Others	967,812	3,533,771
	<b>731,168,525</b>	<b>760,996,014</b>
<b>Non-current</b>		
AGFP	13,651,606,541	10,862,766,999
AKPF	3,053,992,300	2,977,712,627
Trust funds from NGAs	1,088,883,820	1,073,976,753
EC-PCG Program	1,032,841,633	1,025,219,482
Trust funds under the USHLGF	42,803,599	20,213,316
	<b>18,870,127,893</b>	<b>15,959,889,177</b>

The current trust liability due to AKPF consists of: (a) the P381.531 million transfer value of the Manila Harbor Center (MHC) acquired lots owned by said fund which were conveyed to the SSS as partial settlement of the former HGC's unpaid guaranty obligations (*Note 27.1*); and (b) unremitted housing loan amortizations collected by the Corporation for the account of AKPF.

The current trust liability due to the *Trust funds from NGAs* similarly consists of the unremitted housing loan amortizations collected by the Corporation for the account of the trust funds.

*Customers' deposits payable* pertains to the security deposits received from prospective buyers and lessees of various properties of the Corporation while *guarantee deposits payable* refer to the amounts received from winning bidders and contractors to guarantee that they will enter into contract with the Corporation and/or faithfully perform the terms of their contract.

The non-current trust liabilities pertain to the funds under trust and/or administration of the Corporation whose resources and liabilities are not consolidated in these financial statements. Only the total assets of the funds are reciprocally presented as non-current “Other Assets” (Note 14) and non-current “Trust Liabilities” of the Corporation.

Significant increase in the AGFP balance was due to the receipt by the Fund Pool during the year of P2.732 billion share in agri-agra penalties from the BSP pursuant to Section 10 of RA No. 10000. Section 10 thereof mandates that 90 per cent of the penalties collected from banks for non- or under-compliance with the credit allocation requirements prescribed under said law shall be allocated between the AGFP and the Philippine Crop Insurance Corporation, and the remaining 10 per cent shall be given to the BSP to cover administrative expenses.

However, the AGFP no longer shares in the agri-agra penalties imposed under RA No. 10000 collected after the effectivity of RA No. 11901 which lapsed into law on July 29, 2022. Said RA directed the creation of a Special Fund out of said penalties to fund agricultural- and fishery-related organizational- capacity- and institution-building programs and activities mandated therein.

*Trust funds under the USHLGF* pertain to the cumulative amounts remitted by clients as collateral for guaranteed small housing loans. Under the USHLGF, a trust fund equivalent to one per cent of the guaranteed loan shall be established upon enrollment in favor of the Corporation to serve as collateral of the guaranteed loan. Such fund shall be used primarily to pay the guaranteed obligation and the balance and income thereof, if any, shall be released to the client upon termination of the Contract of Guarantee.

Significant increase in the balance of the trust funds under the USHLGF was due to collateral remittances from clients representing additional small housing loans guaranteed by the Corporation in CY 2022.

## 19. DEFERRED CREDITS/UNEARNED INCOME

This account consists of the following:

	2022	2021 (As Restated)
<b>Current</b>		
Deferred credits		
Deferred finance lease revenue	0	3,131,859
Deferred interest and other charges	11,103,660	80,829,083
Unearned income		
Other unearned income	1,751,919	11,743,953
	<b>12,855,579</b>	<b>95,704,895</b>
<b>Non-current</b>		
Deferred credits		
Deferred finance lease revenue	5,040,138	5,040,138
Trust projects	147,315,415	205,304,453
CLOP	23,607,735	24,798,360



	2022	2021 (As Restated)
Direct deposits	6,603,863	7,517,606
Trust insurance premiums	40,724,178	22,216,507
Deferred interest and other charges	14,995,407	6,218,381
Unearned income		
Other unearned income	114,286,240	109,769,321
	<b>352,572,976</b>	<b>380,864,766</b>

*Deferred finance lease revenue* represents the difference between the sum of the total rentals due to the lessor and the initial carrying value of the lessor's receivable to be amortized over the lease term.

*Deferred interest and other charges* mainly pertain to overpayment of guarantee premiums by clients which remain unrefunded at year-end.

*Deferred credits – Trust projects* is a temporary account for collections from buyers and/or clients awaiting execution of pertinent sales documents and those collections lacking necessary information to allow application of the payment to specific accounts i.e. sales contract receivable, interest, fines and penalties, unearned income as well as applicable tax expense and tax payable accounts. The collections are analyzed and amounts are reclassified to the proper accounts upon submission of the complete documents by the buyers. Breakdown of the account is as follows:

	2022	2021 (As Restated)
Developmental projects	114,498,027	172,408,452
Cooperative Housing Program projects	10,852,300	10,852,300
Community Mortgage Program projects	7,987,612	8,066,225
BDC projects	1,972,422	1,972,422
Others	12,005,054	12,005,054
	<b>147,315,415</b>	<b>205,304,453</b>

*Deferred credits – contracts of lease with options to purchase (CLOP)* pertains to collections from contracts of lease with option to purchase and the excess of the book value over cost on the acquisition of BDC. Collections from CLOP are applied as down payment when the lessee exercises his option to purchase. Otherwise, these are forfeited upon end of the lease term and recognized as income by the Corporation.

## 20. PROVISIONS

This account pertains solely to "Leave Benefits Payable" which represents the accrued money value of earned vacation and sick leave credits of the Corporation's officers and employees that remained unused at the end of the reporting period amounting to P58.169 million and P59.222 million as at December 31, 2022 and 2021, respectively.

The reported balances for both periods were accrued using the rates under the Compensation and Position Classification System (CPCS) for GOCCs approved by the

GCG for the Corporation which is GOCC Grade 17, Tier 5, Category 3 salary structure effective October 5, 2021.

The Corporation has implemented the approved salary structure under the CPCS for GOCCs as authorized by the Board on June 28, 2022. However, the Corporation has requested the GCG to reconsider the Corporation's GOCC Grade and Tier to 18 or 9 and 2 or 3, respectively in a Letter dated August 3, 2022. The request is currently under the evaluation of the GCG.

## 21. OTHER PAYABLES

This account consists of the following:

	2022	2021 (As Restated)
<b>Current</b>		
Dividends payable	1,083,054,009	860,022,101
Undistributed collections	0	4,866,734
Others	68,913,533	71,762,478
	<b>1,151,967,542</b>	<b>936,651,313</b>
<b>Non-current</b>		
Undistributed collections	4,866,734	0
Others	1,323,635	0
	<b>6,190,369</b>	<b>0</b>

*Dividends payable* refers to the outstanding dividends due to the NG pursuant to RA No. 7656. The movements in the account follow:

	2022	2021 (As Restated)
Balance, January 1	860,022,101	2,195,273,197
Dividends due for the year	728,934,394	505,902,486
Payments	(505,902,486)	0
Dividend reliefs granted	0	(2,195,273,197)
Adjustments	0	354,119,615
	<b>1,083,054,009</b>	<b>860,022,101</b>

As at December 31, 2022 and 2021, the Corporation has pending requests for dividend relief or downward adjustments in dividend rate before the Secretary of Finance for all its dividends due. In CY 2021, two of such requests were granted as follows:

- a. On April 28, 2021, EO No. 131 was issued adjusting the former HGC's dividend rate for the dividend year 2018 from 50 per cent of net earnings to 6.58 per cent. Relative to the dividend year 2018, the former HGC already remitted P151.624 million to the BTr in CY 2019 as dividends and has further accrued P1.000 billion dividends payable as at December 31, 2020 and 2019. The amount of dividend remitted in CY 2019 corresponds to the adjusted dividend rate of 6.58 per cent.

- b. On December 6, 2021, EO No. 153 was issued approving the request of the Corporation for downward adjustment of its dividends rate for the dividend years 2020 and 2019 from 50 per cent of net earnings to zero per cent. Accordingly, the dividends due for said years of P780.787 million and P414.486 million, respectively, were reversed in CY 2021 and charged against “Retained Earnings.”

*Undistributed collections* pertain to the temporary pool of collection of borrower’s amortization payments directly deposited in the various depository accounts of the Corporation which are not yet posted in each borrower’s ledger as at year-end due to limited information as to the identity of the depositor.

*Other payables* consist of:

	<b>2022</b>	2021 (As Restated)
Due to SMAP Receiver	<b>20,050,702</b>	18,555,405
Transfer tax payable	<b>6,737,878</b>	6,737,878
Miscellaneous deposits	<b>7,555,803</b>	1,743,654
Due to Land Investment Trust certificate holders	<b>1,688,000</b>	1,688,000
Due to HGC Provident Fund	<b>(984,777)</b>	2,435,861
Others	<b>35,189,562</b>	40,601,680
	<b>70,237,168</b>	71,762,478

The amount due to the SMAP Receiver is pursuant to the Order dated November 11, 2019 of RTC Branch 222, Quezon City appointing a Receiver for the SMAP and directing the Corporation, as successor-in-interest of the former HGC, to transfer to the duly appointed Receiver all assets, properties and collectibles due to the SMAP (*Note 23.2*).

Transfer tax payable pertains to the tax due on the sale or transfer of ownership or title to real properties imposed by provinces, cities or municipalities pursuant to Section 135 of RA No. 7160, or the “Local Government Code of 1991” which remained unpaid as of end of the reporting period.

## **22. EQUITY**

### **22.1. Government Equity**

The authorized capital stock of the Corporation, which is fully subscribed by the Government of the Philippines, is P50.000 billion in accordance with Section 3 of EO No. 58. Previously, PD No. 1962 dated January 11, 1985 was issued increasing the authorized capital stock of the Corporation from P2.000 billion, as provided under PD No. 1080, to P10.000 billion.

As at December 31, 2022 and 2021, total paid-in capital amounted to P39.122 billion. The amounts include the equity contributions of the NG to the former HGC, AGFP and IGLF amounting to P15.573 billion, P4 billion and P803.304 million, respectively, as well as the P35 million guarantee reserve fund of SBC, which were transferred to the Corporation pursuant to Section 3 of EO No. 58.

The total paid-in capital likewise includes all the fruits/income/earnings of the equity contribution of the NG to the IGLF as at the date of transfer which is represented by the sum of its retained earnings and cumulative changes in fair value of financial assets as at August 31, 2019 of P5.999 billion.

In a Memorandum dated May 10, 2022, the Secretary of Finance, as the head of the main agency tasked to implement the provisions of EO No. 58, confirmed that it is not only the contribution of the NG to the IGLF that was transferred to the Corporation to form part of its paid-up capital under the EO but also the fruits/income/earnings thereof.

There are no additional capital contributions in CY 2022 while in CY 2021, additional capital contributions from the NG amounted to P5.250 billion. Of the amount received in CY 2021, P5.000 billion pertains to the capital infusion to the Corporation mandated under Section 10(e)(1) of Bayanihan 2 to support its credit guarantee programs as part of the response and recovery interventions for the COVID-19 pandemic.

## **22.2. Retained Earnings (Deficit)**

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

As a GOCC, the Corporation is mandated under Section 3 of RA No. 7656 to declare and remit at least 50 per cent of its annual net earnings as cash, stock or property dividends to the NG. For this purpose, net earnings is defined as income derived from whatever source, whether exempt or subject to tax, net of deductions allowed under Section 29 of the National Internal Revenue Code, as amended, and income tax and other taxes paid thereon.

For CYs 2022 and 2021, the dividends due for the year amounted to P728.934 million and P860.022 million, respectively, which were recorded as "Dividends Payable" under "Other Payables" (*Note 21*) in the SFP. In CY 2021, requests for downward adjustments in dividend rates were approved by the President of the Philippines resulting in the reversal of recorded "Dividends Payable" and direct adjustment of the "Retained Earnings" by P2.195 billion.

Dividend payments for CY 2021 totaling P505.902 million was remitted in two tranches to the NG, through the BTr, on April 21, 2022 and May 17, 2022 in the amount of P193.655 million and P312.247 million, respectively.

## **22.3. Cumulative Changes in Fair Value of Investments**

The account represents the net effect of unrealized gains (losses) on financial assets at FVOCI of the Corporation. Accordingly, the net unrealized fair value gains (losses) on the financial assets at FVOCI, net of deferred tax, is presented as a separate item under equity. The movements in the account follow:

	2022	2021
Balance, January 1	(182,051,158)	5,595,338
Unrealized losses for the year	(619,032,243)	(271,660,325)
Tax benefit	139,058,979	84,013,829
<b>Balance, December 31</b>	<b>(662,024,422)</b>	<b>(182,051,158)</b>

## 22.4. Capital Management

The primary capital management objectives of the Corporation are to ensure that it complies with externally imposed capital requirements and maintains a healthy capital structure that ensures its ability to continue as a going concern in order to fulfill its mandate.

The Corporation manages its capital structure in light of changes in the economic conditions and the risk characteristics of its activities. The Corporation takes into consideration future capital requirements, capital deficiency, profitability, and projected operating cash flows, expenditures and investment opportunities. No changes were made in the objectives, policies and processes as at December 31, 2022 and 2021.

The Corporation, a non-bank financial institution, is regulated by the BSP pursuant to Section 22 of PD No. 1080, as amended. Thus, BSP sets and monitors the capital requirements for the Corporation. In implementing current capital requirements, the BSP requires the Corporation to maintain a prescribed capital and ratio of qualifying capital to risk-weighted assets. Under the current framework, the Corporation is required to maintain a capital adequacy ratio (CAR) of seven per cent, five per cent of which should be Tier 1 capital by December 31, 2012.

Under existing BSP regulations, the determination of the Corporation's compliance with regulatory requirements and ratios is based on the amount of the Corporation's unimpaired capital (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRSs in some aspects.

As at December 31, 2022 and 2021, the Corporation's regulatory capital position (in million pesos) as reported to the BSP, follows:

	2022	2021
Tier 1 capital	23,720.296	23,625.639
Tier 2 capital	0	0
<b>Total qualifying capital</b>	<b>23,720.296</b>	<b>23,625.639</b>
<b>Total risk-weighted assets</b>	<b>128,902.686</b>	<b>131,829.592</b>
Tier 1 capital ratio	18.401%	17.921%
CAR	18.401%	17.921%

As shown above, the Corporation has complied with the BSP capital ratio requirements as at December 31, 2022 and 2021.

Total qualifying capital and risk-weighted assets are computed based on BSP regulations. The qualifying capital of the Corporation for purposes of determining the

CAR excludes unbooked valuation reserves and other capital adjustments as may be required by BSP, deferred tax asset or liability and other regulatory deductions.

On the other hand, risk assets consist of total assets after exclusion of cash on hand, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

## 23. COMMITMENTS AND CONTINGENCIES

In the normal course of operations of the Corporation, there are various outstanding commitments and contingent liabilities with amounts not reflected in the financial statements. Management does not anticipate losses from these transactions that will adversely affect the Corporation's operations.

### 23.1. Outstanding Guarantees

As at December 31, 2022 and 2021, the outstanding guarantees issued in favor of foreign and domestic banks and financial institutions for loans and other credit facilities extended to borrowers, follow:

	2022	2021
Housing-related guarantees	181,866,607,704	178,900,007,410
MSMEs and other priority sectors	4,499,010,567	3,796,836,632
	<b>186,365,618,271</b>	<b>182,696,844,042</b>

The provision on these outstanding guarantees recognized as "Pari-passu Payable" and "Estimated Liability for Guarantee Operations" under "Guarantee Liability" (Note 15) in the SFP totaled P2.284 billion and P2.325 billion as at December 31, 2022 and 2021, respectively.

For purposes of the Corporation, MSMEs are defined as any business activity or enterprise engaged in industry, agribusiness, and/or services, whether single proprietorship, cooperative, partnership or corporation whose total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated, must have value falling under the following categories:

Classification	Total Assets
Micro enterprises	Not more than P3.000 million
Small enterprises	P3,000,001 to P15.000 million
Medium enterprises	P15,000,001 to P100.000 million

Under Section 6(f) of PD No. 1080, as amended, the aggregate outstanding guarantee obligations of the Corporation shall not exceed 15 times its subscribed capital stock plus surplus. However, to simplify capital allocation and business monitoring, the BOD, in its Board Resolution No. 34, s. 2020, has adopted the maximum leverage ratio policy of 20 times based on unimpaired capital plus surplus for the Corporation's credit guarantee portfolio.

As at December 31, 2022 and 2021, the aggregate outstanding guarantee obligations of the Corporation has not exceeded both limitations as follows (in million pesos):

	<b>Under Section 6(f) of PD No. 1080</b>	<b>Under Board Resolution No. 34, s. 2020</b>
<b>As at December 31, 2022</b>		
Guarantee Capacity	<b>545,984.054</b>	510,426.449
Total Guarantee Obligations	<b>186,365.618</b>	186,365.618
Available capacity	<b>359,618.436</b>	324,060.831
<b>As at December 31, 2021</b>		
Guarantee Capacity	<b>537,833.873</b>	516,385.564
Total Guarantee Obligations	<b>182,696.844</b>	182,696.844
Available capacity	<b>355,137.029</b>	333,688.720

Further, Section 7 of RA No. 8763 mandates that the composition of housing-related guaranteed accounts shall comply with the following allocation for each type of housing package:

- a. At least 40 per cent shall be allocated for socialized housing packages, or those costing P450,000 and below;
- b. At least 30 per cent shall be allocated for low-cost housing packages, or those costing more than P450,000 but not to exceed P3 million;
- c. At least 20 per cent shall be allocated for the medium-cost housing packages, or those costing more than P3 million but not to exceed P4 million; and
- d. Not more than 10 per cent may be allocated for open housing packages, or those costing more than P4 million.

Relatedly, HUDCC Resolution Nos. 1 and 2, series of 2018, adopted a tiered price ceiling for socialized subdivision projects and socialized condominium projects and revised the current price ceiling for both the projects as follows:

<b>Particulars</b>	<b>Price Ceiling</b>
<b>Socialized subdivision projects</b>	
22 sqm with loft of at least 50 per cent of the base structure, or 24 sqm	480,000
24 sqm with loft of at least 50 per cent of the base structure, or 28 sqm	530,000
28 sqm with loft of at least 50 per cent of the base structure, or 32 sqm	580,000
<b>Socialized condominium projects</b>	
For NCR, San Jose Del Monte in Bulacan, Cainta and Antipolo in Rizal; San Pedro City in Laguna; and Carmona, Imus and Bacoar in Cavite:	
22 sqm	700,000
24 sqm	750,000
For other areas:	
22 sqm	600,000
24 sqm	650,000

Analysis of the housing-related guarantees as at December 31, 2022 and 2021 showing compliance with the mandated allocation for each housing type follows (in million pesos):

Housing Package	Guarantee Allocation Per Charter	Outstanding			Enrollment		
		Allocation Amount per Charter	Actual Amount	Percentage	Allocation Amount per Charter	Actual Amount	Percentage
As at December 31, 2022							
Socialized and low cost	Not less than 70%	127,307	130,534	71.77%	37,580	38,819	72.31%
Medium cost	Not more than 20%	36,373	31,099	17.10%	10,737	10,656	19.85%
Open housing	Not more than 10%	18,187	20,234	11.13%	5,369	4,211	7.84%
		181,867	181,867	100.00%	53,686	53,686	100.00%
As at December 31, 2021							
Socialized and low cost	Not less than 70%	125,230	123,610	69.10%	33,164	33,733	71.20%
Medium cost	Not more than 20%	35,780	30,313	16.94%	9,475	9,120	19.25%
Open housing	Not more than 10%	17,890	24,977	13.96%	4,738	4,524	9.55%
		178,900	178,900	100.00%	47,377	47,377	100.00%

## 23.2. Legal Cases

### a. SMAP-related Cases

R-II Builders filed a Complaint for the Declaration of Nullity of the Deed of Assignment and Conveyance, Application of a Receiver, among others, (Civil Case No. Q-12-71180) against NHA and the former HGC sometime in CY 2012. Previously, the remaining assets of the SMAP were assigned and conveyed in CY 2003 by its trustee PDB to the former HGC under the assailed Deed for and in consideration of the latter's assumption and payment of its guarantee obligations, to which R-II Builders objected to.

In an Order dated November 11, 2019, the RTC Branch 222, Quezon City granted the application for the appointment of a Receiver for the SMAP pending the resolution of the main action. The court-appointed Receiver has then taken custodia legis of the SMAP on behalf of the court.

To avoid further litigation, the Corporation, as successor-in-interest of the former HGC, and R-II Builders entered into a MOA dated February 16, 2021 essentially agreeing to settle their disputes as regards their claims on the SMAP. R-II Builders has offered, and the Corporation has accepted, to advance to the latter the amount of P4.227 billion to fully cover the former HGC's guaranty exposure and/or claims in relation to the SMAP, in exchange for the Corporation's release, waiver and quitclaim of the SMAP in favor of R-II Builders.

Under the MOA, the terms of which were incorporated by the court-appointed Receiver in his Report/Plan duly approved by the court in an Order dated July 29, 2021, the P4.277 billion shall be settled as follows:



<b>Mode of Payment</b>	<b>Amount</b>
Cash to be paid or advanced by R-II Builders through the Receiver	P2,000,000,000
Conveyance by R-II Builders through the Receiver to the Corporation of real properties of the SMAP	700,000,000
Sales and rentals of SMAP properties to third parties which were already received by the Corporation	1,000,000,000
Ten percent of the receivable of the SMAP from NHA which shall be collected directly from NHA with R-II Builders waiving right to share from the collection	577,382,945
	<b>4,277,382,945</b>

To fully implement the MOA, the parties are to execute various closing documents, including: (a) Deed of Rescission of the prior conveyance of SMAP properties from PDB to the former HGC; (b) Deed of Reconveyance of the SMAP properties in favor of NHA, through the court-appointed Receiver; (c) Release, Waiver and Quitclaim between the parties; and (d) Irrevocable Special Power of Attorney in favor of the court-appointed Receiver.

As at December 31, 2022, the execution of these documents remained pending as the parties await the release of the result of the appraisal of various SMAP properties.

Upon full and final implementation of the MOA, the parties shall cause the termination or dismissal of Civil Case No. Q-12-71180 and the following cases, including any subsequent appeals and/or related cases:

<b>Case No. and Title</b>	<b>Court</b>	<b>Nature</b>
Civil Case No. Q-09-214 ( <i>HGC v. HCPTI and Atty. Jerome Canlas</i> )	RTC Branch 93, Quezon City	Mandamus re: Registration of HCPTI Shares in the name of HGC
Civil Case No. 12-855 ( <i>HGC v. R-II Builders, Inc. and Harbour Centre Port Holdings, Inc.</i> )	RTC Branch 57, Makati City	Declaration of Nullity of Conveyance of HCPTI shares by R-II Builders to HCPHI
Civil Case No. 11-623 ( <i>HCPTI v. HGC</i> )	RTC, Br. 132, Makati City)	Declaratory Relief re: Cancellation of Usufruct Agreement between SMAP, through PDB, and HCPTI
CA-GR SP No. 165276 ( <i>PHILGUARANTEE v. RTC Branch 222, Quezon City, NHA, and R-II Builders, Inc.</i> )	CA, Fourth Division	Petition for Certiorari re: RTC Branch 222's Order for the Appointment of Receiver
G.R. Nos. 219261 and 219281 ( <i>R-II Builders, Inc. v. HGC</i> )	Supreme Court (SC), Third Division	Petitions for Certiorari re: RTC Branch 147's Order denying the Motions to Dismiss separately filed by R-II and HCPHI in Civil Case No. 12-855

As at December 31, 2022, the book values of the SMAP properties still recognized in the books and included in these financial statements, excluding SMAP-related collections totaling P1.103 billion, which shall be ceded in favor of NHA, follow:

<b>Particulars</b>	<b>Amount</b>
HCPTI shares recorded under “Financial Assets at FVOCI” (Note 6)	535,236,187
Receivable from NHA recorded under “Inter-agency Receivable” (Note 7)	1,803,729,758
MHC lots and other properties recorded under “Investment Property” (Note 10)	441,718,638
	<b>2,780,684,583</b>

*b. PhilPhos-related Cases*

PHILGUARANTEE, then known as TIDCORP, guaranteed 90 per cent of the P3.000 billion Series A notes facility of PhilPhos with Standard Chartered Bank (SCB), Philippine Veterans Bank (PVB), United Coconut Planters Bank (UCPB), and China Banking Corporation (Chinabank) amounting to P900.000 million, P900.000 million, P450.000 million and P450.000 million, respectively.

In CY 2013, PhilPhos defaulted on its loan obligations as a result of the earthquake that hit Leyte where its plant is located causing partial shutdown of its operations coupled with the onslaught of super typhoon Yolanda that destroyed its plant. This prompted PhilPhos to file on September 17, 2015 a Petition for Voluntary Rehabilitation under the “Financial Rehabilitation and Insolvency Act (FRIA)” of 2010.

In its Commencement Order dated September 23, 2015, the RTC Branch 12, Ormoc City, declared PhilPhos under rehabilitation and appointed a Rehabilitation Receiver. Said rehabilitation case was later on transferred to RTC Branch 8, Tacloban City.

In the meantime, the four guaranteed banks filed their respective actions for specific performance against PHILGUARANTEE in the RTC, Makati City, to compel the Corporation to pay 90 per cent of the guaranteed loan as provided under the pertinent Guarantee Agreements.

*(i) Status of Rehabilitation Case*

In an Order dated April 16, 2018, RTC Branch 8, Tacloban City granted the Motion to Confirm the New Revised Rehabilitation Plan (NRRP) filed by PhilPhos, with the following features, among others:

- The rehabilitation period of PhilPhos is for a period of approximately 15 years from the date of confirmation by the court of the NRRP.
- Repayment period of PhilPhos’ outstanding liabilities shall be 15 years, the first 10 years of which shall be the grace period and the

actual repayment period of 5 years shall take place only from Years 11 to 15.

- Debt forgiveness equivalent to 50 per cent of petitioner's principal obligations to each creditor.
- Payment on the interest shall commence only on Year 5 of the rehabilitation period.
- The guarantee fee of PHILGUARANTEE will be at 2.50 per cent and will be paid starting Year 1.
- Absence of a loan for working capital and the capital expenditure build-up shall require P4.500 billion to be implemented from Years 3 to 11.

Several creditors, including PHILGUARANTEE, questioned the approval of the NRRP before the CA. In its Consolidated Decision dated July 29, 2021, the CA reversed and set aside the aforesaid Order approving the NRRP and remanded the case to the Rehabilitation Court for further proceedings. PhilPhos and other creditor-banks filed their respective Motion for Reconsideration. However, the CA denied the MRs in its Resolution dated March 30, 2023 and affirmed its Consolidated Decision dated July 29, 2021.

*(ii) PVB's Claim*

In its Decision dated October 22, 2020, RTC Branch 150, Makati City, adopted the Statement of Account submitted as evidence by PHILGUARANTEE, which is based on the Rehabilitation Court-approved NRRP, which requires that the total outstanding liabilities of PhilPhos will be subject to debt forgiveness equivalent to 50 per cent of the principal amount of the obligation.

Thus, the court rendered judgment in favor of PVB and against PHILGUARANTEE, ordering the latter to pay: (a) the amount of P478.814 million as at November 28, 2016 plus interest under the Guarantee Agreement until fully paid; (b) the amount of P1.000 million as liquidated damages; (c) the amount P1.000 million as attorney's fees; and (d) the costs of the suit.

PVB filed a Motion for Partial Reconsideration but the RTC denied the same in its Order dated December 14, 2022, thereby affirming its Decision dated October 22, 2020. Accordingly, PVB filed an appeal with the CA.

In the meantime, PVB filed a Motion for Partial Execution pending appeal with the CA, but the same was likewise denied by the CA in its Resolution dated February 28, 2022.

Subsequently, the CA dismissed the appeal of PVB in its Resolution dated October 26, 2022 for raising pure questions of law. PVB filed a Motion for Reconsideration, which was also denied by the CA in its Resolution dated May 10, 2023.

*(iii) UCPB's Claim*

RTC Branch 148, Makati City, dismissed the case filed by UCPB on ground of lack of jurisdiction and/or lack of cause of action in its Order dated October 5, 2020, which has since then become final.

On the basis of the NRRP approved by the Rehabilitation Court and the foregoing judgment of RTC Makati City in the PVB Claim, the Corporation offered to settle UCPB's guarantee claim at 50 per cent of the principal amount of the P450.000 million guaranteed loan of PhilPhos to UCPB, i.e. P225.000 million plus the interest rates provided under the NRRP.

In its Letter dated November 3, 2021, UCPB accepted the settlement offer. However, in view of the CA Decision nullifying the approval of the NRRP, the Corporation advised UCPB that it will hold in abeyance the settlement offer and wait for the legal advice of the OGCC whether the parties can proceed with the settlement despite the lack of a duly-approved and valid Rehabilitation Plan.

On December 9, 2021, the OGCC advised in its Opinion No. 421, s. 2021, that it would be more prudent for the parties to wait for the Rehabilitation Court to approve a new Rehabilitation Plan in accordance with the CA Decision, which will become the legal basis for the settlement agreement.

*(iv) Chinabank's Claim*

In its Decision dated August 23, 2018, the RTC Branch 132, Makati City ruled in favor of Chinabank that, while PHILGUARANTEE is an ordinary guarantor, it is nevertheless liable under the Guarantee Agreement holding it liable to pay the claims of Chinabank despite the Stay Order of the Rehabilitation Court, as follows: (a) the amount of P461.973 million representing the total outstanding obligation, plus interest at the rate of 16 per cent per annum and penalty charge of 16 per cent per annum, starting on August 28, 2015 until the obligation is fully paid; (b) the amount of P115.493 million by way of liquidated damages; and (c) the amount of P115.493 million by way of attorney's fees and litigation expenses.

The Corporation filed an appeal with the CA. However, the CA in its April 14, 2023 Decision affirmed the Decision dated August 23, 2018 of the RTC with the following modifications: (a) the award of additional 16 per cent interest per annum and 16 per cent penalty per annum was deleted; and (b) the total amount of monetary award is imposed with the legal interest of six per cent per annum from the date of finality of judgment until paid. The Corporation filed an MR and is waiting for the CA's Resolution thereon.

*(v) SCB's Claim*

In view of the inhibition of the Presiding Judge, the case was re-raffled to RTC Branch 132, Makati City, the same branch which handled and ruled in the Chinabank's claim. The Court rendered a Decision based entirely on its previous decision in the Chinabank case without trial. Thus, the

Corporation filed an MR but the court, instead of resolving first the MR, granted the Notice of Partial Appeal of SCB. The Corporation then filed an appeal with the CA and is waiting for its decision on the appeals.

*(vi) Effects of the Nullification of the NRRP*

With the nullification of the NRRP and remanding of the case to the Rehabilitation Court for further proceedings, the following could be the possible scenarios:

- The Rehabilitation Receiver may resubmit the same NRRP for approval of the Rehabilitation Court, this time after fully complying with the process laid down by the FRIA of 2010, such failure to comply previously became the basis for the CA to nullify its approval;
- The Rehabilitation Receiver may submit an entirely new Rehabilitation Plan, which may provide an even lower repayment amount and longer tenor for all obligations of PhilPhos, in view of the COVID-19 pandemic; or
- The Rehabilitation Court may convert the existing rehabilitation proceedings into liquidation proceedings.

Under the third scenario, the guaranteed banks can go after the Corporation to the extent of 90 per cent of the full amount of the guaranteed loan in accordance with the applicable Guarantee Agreements as opined by the OGCC in its Opinion No. 421, series of 2021.

In view of the above unfavorable developments, Management has recognized full provision on the entire guaranteed loans of PhilPhos less share of the Corporation in the estimated recoverable value of the collateral under the related MTI amounting to P2.272 billion as at December 31, 2021. The amount is presented as “Guarantee Liability” under “Financial Liabilities” (*Note 15*) in the SFP.

*c. Deficiency Tax Assessments and Cases*

*(i) TIDCORP Deficiency Tax Assessment for Taxable Year 2011*

As at December 31, 2020, the Corporation had pending contested tax assessments for deficiencies in income tax, expanded withholding tax, withholding tax on compensation and final withholding of value-added tax (VAT) for the taxable year 2011 totaling P113.921 million, including interest. Pertinent preliminary and final assessment notices were received in early CY 2015 which were disputed and protested to by the Corporation, then known as TIDCORP, before BIR Revenue District Office (RDO) No. 50 on February 11, 2015.

On September 20, 2021, the Regional Director of Revenue Region No. 8A, which has jurisdiction over RDO No. 50, issued a Final Decision on Disputed Assessment (FDDA) for revised assessments totaling P178.871 million, including interest. The Corporation no longer appealed the FDFA and settled the total revised assessments on December 24, 2021 effectively terminating the case.

*(ii) IGLF Deficiency Tax Assessment for Taxable Year 2017*

On April 7, 2021, the Corporation, as successor-in-interest of the IGLF, received preliminary assessment notice (PAN) from Revenue Region No. 8A – Makati City for deficiencies in income tax, expanded withholding tax, final withholding of VAT and documentary stamp tax for the taxable year 2017 totaling P14.276 million, inclusive of interest, surcharges and compromise penalty from January 6, 2018 to April 30, 2021.

A protest against these notices was filed on May 31, 2021. However, a formal letter of demand (FLD) was received on June 17, 2021 for a total tax assessment of P14.564 million, inclusive of interest, surcharges and compromise penalty from January 6, 2018 to July 20, 2021. The Corporation originally filed a request for reinvestigation on July 19, 2021 before RR No. 8A which was granted and forwarded to RDO No. 49. However, the Corporation decided to settle the assessment and paid the same on August 2, 2021, effectively terminating the case.

*(iii) HGC Deficiency Tax Assessment for Taxable Year 2018*

On May 17, 2022, the Corporation, as successor-in-interest of the former HGC, received PAN from Revenue Region No. 8A – Makati City for deficiencies in income tax, percentage tax and expanded withholding tax for the taxable year 2018 totaling P591.939 million, inclusive of interest. A protest against the PAN was filed on July 1, 2022. Nonetheless, the Corporation settled the revised total assessments of P168.123 million on June 30, 2022 to avoid incurrence of further interests.

*d. Others*

The Corporation is a party to various suits, claims and certain tax assessments arising in the ordinary conduct of business which are either pending decision by the courts or being contested, the outcome of which are not presently determinable. In the opinion of Management and its legal counsel, the eventual liability under these lawsuits, claims and tax assessments, if any, will not have a material or adverse effect on the Corporation's financial position and results of operations.

Notably, claims of the Corporation were sustained in six suits, some of which were already issued with the corresponding writs of execution. Based on these judgments, Management has intensified the conduct of asset hunt and implementation of other strategies to recover from the concerned judgment-debtors.

To date, Management's actions were unsuccessful. Nevertheless, 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 in an estimated amount of P83.071 million.

### **23.3. Credit Surety Fund Commitments**

The CSF is a credit enhancement scheme developed by the BSP that aims to increase the creditworthiness of MSMEs which otherwise cannot obtain loans from banks due to their lack of acceptable collaterals, credit knowledge and credit track records. In lieu of hard collaterals, the CSF serves as security for the loans that will be obtained by qualified borrowers from lending banks by way of a surety cover.

Under RA No. 10744, or the “Credit Surety Fund Cooperative Act of 2015,” the CSF, which is deposited in a trustee bank, is generated from the contributions of well-capitalized and well-managed cooperatives and non-government organizations, LGUs, GFIs and other government agencies, including then IGLF. A CSF Cooperative is established for the primary and exclusive purpose of administering the fund.

As at December 31, 2022 and 2021, the Corporation, as the successor-in-interest of the IGLF, has deferred the processing of the application in light of the evaluation of the program in relation to the overall strategic direction of the Corporation. No contributions were made in CY 2022 while actual contributions in CY 2021 amounted to P3.660 million pertaining to the equity contribution to the Tacloban City CSF recognized as “Other Investments” (*Note 6*) in the SFP.

### **23.4. Capital Commitments**

As at December 31, 2022, the Corporation has contractual commitments and obligations for the renovation of the leased office space located at BPI-Philam Life Building (*Note 12*) aggregating P76.830 million, of which P46.207 million has been paid as at even date.

### **23.5. Relief Package for Rural Banks**

On March 29, 2022, the BOD approved the guarantee relief package for rural banks affected by natural calamities covering an estimated value of P7.909 million for 18 accounts in areas declared under a State of Calamity under BR No. 269, series of 2022. The Corporation, through the HGG, implemented the relief package policies as follows: (a) loan restructuring of guaranteed accounts; (b) extension of the grace period for renewal of coverage period to 120 days without penalty; and (c) new loans shall be granted a moratorium on principal payments for up to two years.

### **23.6. Other Commitments**

Apart from the foregoing significant commitments, and the Corporation’s commitments with various counterparties under the ordinary course of business, there are other commitments and contingent liabilities that arise in the normal course of the Corporation’s operations which are not reflected in the financial statements. Management is of the opinion that losses, if any, from these commitments and contingencies will not have material effects on the Corporation’s financial statements, taken as a whole.

## 24. REVENUE

### 24.1. Service and Business Income

	2022	2021 (As Restated)
Guarantee income	1,563,925,865	1,589,636,717
Interest income	779,701,050	671,269,301
Lease income	209,362,680	140,526,526
Fines and penalties	10,979,806	11,185,206
Other business income	1,484,184	3,741,173
	<b>2,565,453,585</b>	<b>2,416,358,923</b>

As at December 31, 2022 and 2021, the guarantee fee rates for the MCGP and SCGF were at 1.25 per cent of the guaranteed amount while the MLE-CGF was risk rated from 0.50 per cent to 2.50 per cent. Moreover, the guarantee fee structure as at even dates expressed as a percentage of the outstanding principal for the housing-related guarantees is as follows:

	Retail	
	Standard	Bond
Socialized housing	1.40%	1.20%
Low-cost housing	1.45%	1.15%
Medium cost housing	1.50%	1.10%
Open housing	1.70%	1.50%

*Interest income* earned on the various investments and deposits maintained by the Corporation as well as on its loans and other receivables, including restructured accounts, are broken down as follows:

	2022	2021 (As Restated)
Investment and deposits	738,769,873	601,957,836
Sales contracts receivable	15,875,747	36,926,212
Notes receivable	16,104,661	25,141,514
Lease receivable	0	6,384,416
Restructured loans	562,549	795,577
Loans receivable	8,388,220	63,746
	<b>779,701,050</b>	<b>671,269,301</b>

*Other business income* includes management fees charged for the administration of the AGFP and EC-PCG Program totaling P191,572 and P2.516 million for CYs 2022 and 2021, respectively.

### 24.2. Gains

	2022	2021 (As Restated)
Gain on sale of investment property	41,674,631	30,744,004
Gain on sale of property and equipment	156,127	52,073



	2022	2021 (As Restated)
Gain on sale of investments	0	99,659,770
Gain on foreign exchange	0	2,674,976
Other gains	0	9,520,957
	<b>41,830,758</b>	<b>142,651,780</b>

*Other gains* pertain to gain on rent concessions granted by the lessor to the Corporation for the suspension of rent escalation and waiver of lease payments in CY 2021.

### 24.3. Other Non-operating Income

	2022	2021
Reversal of impairment loss	1,368,339	4,780,904
Gain on debt extinguishment	0	1,129,664,649
Other income	11,374,425	965,399,911
	<b>12,742,764</b>	<b>2,099,845,464</b>

*Gain on debt extinguishment* pertains to the substantial modification of the amount due to SSS brought about by the execution of the MOA dated August 26, 2021 by and between the Corporation and the SSS (*Note 15*).

*Other income* includes transfer fees, rebates, recoveries from written-off assets and other non-operating income items. The significant other non-operating income in CY 2021 relates to the partial recovery of the subrogated claim on the defaulted WGI guarantee account (*Note 7*).

## 25. EXPENSES

### 25.1. Personnel Services

	2022	2021 (As Restated)
Salaries and wages	155,411,453	132,722,869
Bonus and incentives	37,160,786	21,803,433
Provident Fund contributions	24,510,166	42,696,553
GSIS and ECC contributions	18,576,151	15,073,852
Terminal pay	12,538,186	16,167,572
Representation and transportation allowance	7,535,227	7,952,444
PHIC contributions	2,563,517	1,451,981
Pag-IBIG contributions	195,080	177,118
Other benefits	12,811,309	10,512,055
	<b>271,301,875</b>	<b>248,557,877</b>

## 25.2. Maintenance and Other Operating Expenses

	2022	2021 (As Restated)
<b>Traveling expenses</b>		
Traveling expenses – local	1,848,995	432,825
Traveling expense – foreign	164,737	0
	<b>2,013,732</b>	<b>432,825</b>
<b>Training and scholarship expenses</b>		
Training expenses	1,595,244	1,033,373
<b>Supplies and materials expenses</b>		
Fuel, oil and lubricants	5,359,372	3,188,432
Office supplies	3,971,576	4,126,137
Other supplies and materials	1,556,635	241,436
	<b>10,887,583</b>	<b>7,556,005</b>
<b>Utility expenses</b>		
Electricity	10,740,282	6,586,983
Water	707,677	476,619
Other general services	17,308,541	11,110,453
	<b>28,756,500</b>	<b>18,174,055</b>
<b>Communication expenses</b>		
Telephone	5,157,591	4,876,358
Internet subscription	1,640,665	1,847,563
Postage and courier services	201,279	495,793
	<b>6,999,535</b>	<b>7,219,714</b>
<b>Professional services</b>		
Auditing services	8,273,129	9,925,391
Consultancy services	1,625,944	14,348,854
Legal services	68,052	121,674
Other professional services	2,817	40,909,124
	<b>9,969,942</b>	<b>65,305,043</b>
<b>General services</b>		
Security services	8,177,512	8,176,902
Janitorial services	6,191,103	4,158,946
Other general services	39,726,338	238,781
	<b>54,094,953</b>	<b>12,574,629</b>
<b>Repairs and maintenance</b>		
Machinery and equipment	4,876,194	2,856,192
Transportation equipment	1,981,608	2,088,074
Buildings and other structures	5,144	2,416
Leased asset improvements	0	301,582
Furniture and fixtures	0	1,882
	<b>6,862,946</b>	<b>5,250,146</b>
<b>Taxes, insurance and other fees</b>		
Taxes, duties and licenses	145,423,376	122,461,468
Insurance expenses	2,956,552	5,328,961
Fidelity bond premiums	226,189	563,824
	<b>148,606,117</b>	<b>128,354,253</b>

	2022	2021 (As Restated)
<b>Confidential and extraordinary expenses</b>		
Extraordinary and miscellaneous expenses	0	1,699,687
<b>Other MOOE</b>		
Rent/Lease	50,498,470	68,031,373
Advertising, promotional and marketing	3,210,274	980,418
Subscription	1,681,045	36,212
Representation	1,148,822	156,555
Documentary stamps	806,763	3,763
Litigation/Acquired assets	525,005	1,756,506
Printing and publication	53,611	133,296
Membership dues and contributions	18,186	144,053
Others	49,619,864	54,822,161
	<b>107,562,040</b>	<b>126,064,337</b>
	<b>377,348,592</b>	<b>373,664,067</b>

### 25.3. Financial Expenses

	2022	2021 (As Restated)
Interest and other finance charges	335,886,479	337,100,666
Management supervision/trusteeship fees	4,202,204	0
Bank charges	36,314	743,502
	<b>340,124,997</b>	<b>337,844,168</b>

Interest and other finance charges incurred on the various loans and other liabilities owed by the Corporation are broken down as follows:

	2022	2021 (As Restated)
Due to SSS	256,710,660	230,558,456
Due to Treasurer of the Philippines	65,500,698	73,191,217
Lease liability	6,635,188	24,393,107
Bonds payable and others	6,585,419	8,061,585
Loans payable	454,514	896,301
	<b>335,886,479</b>	<b>337,100,666</b>

### 25.4. Non-cash Expenses

	2022	2021 (As Restated)
<b>Depreciation</b>		
ROU asset	29,710,682	20,096,434
Transportation equipment	3,628,927	1,556,154
Buildings and other structures	2,703,994	3,081,366
Investment property	2,287,125	974,321

	2022	2021 (As Restated)
Office, IT, furniture, fixtures and books	1,801,384	3,781,438
Land improvements	242,987	2,039,979
	<b>40,375,099</b>	31,529,692
<b>Amortization</b>		
Intangible assets	34,508,141	36,547,200
<b>Impairment loss</b>		
Investment property	129,233,382	683,414
Loans, receivables and guarantees	14,618,461	1,156,915,370
Investment	0	5,898,169
Other assets	0	15,335,328
	<b>143,851,843</b>	1,178,832,281
<b>Losses</b>		
Foreign exchange losses	309,080,764	191,399,027
Loss on sale of investment	23,579,346	0
Loss on sale of assets	0	27,128
Others	4,457	0
	<b>332,664,567</b>	191,426,155
	<b>551,399,650</b>	1,438,335,328

## 25.5. Allocated Expenses

The reported expenses above are net of the amounts allocated to the various funds under trust and/or administration of the Corporation pursuant to the Board-approved “Costs/Expenses Allocation Policy for Administered/Managed Funds and Programs,” as follows:

	AKPF	AGFP	Total
<b>For CY 2022</b>			
Personnel services	10,134,756	24,395,916	34,530,672
MOOE	10,498,499	8,643,118	19,141,617
Non-cash expenses	1,579,793	0	1,579,793
	<b>22,213,048</b>	<b>33,039,034</b>	<b>55,252,082</b>
<b>For CY 2021</b>			
Personnel services	13,409,360	19,612,956	33,022,316
MOOE	11,216,008	9,702,373	20,918,381
Non-cash expenses	2,886,257	0	2,886,257
	<b>27,511,625</b>	<b>29,315,329</b>	<b>56,826,954</b>

For AGFP, the allocation of personnel services cost is computed based on specific costs directly identified with the Fund Pool. Thus, the salaries and other benefits of all personnel in the Agricultural Guarantee Group and Agriculture Guarantee Claims Division, both of PHILGUARANTEE, are charged against the Fund Pool. The Fund Pool is also charged with rent of P49,000 per month and with the cost of COA audit prorated using the asset ratio based on prior year’s annual audit reports on PHILGUARANTEE and the Fund Pool.

For AKPF, the allocation of the trustee's cost of personnel services and MOOE, except taxes, financial expenses and project expenses, i.e. litigation and acquired assets expenses, is computed by using the asset ratio based on the prior year's COA Annual Audit Reports on AKPF and PHILGUARANTEE. The trustee shall continue to allocate costs/expenses of not more than one percent of the net assets of the Fund based on the historical level of costs/expenses allocated by the former HGC to the Fund. This is lower than the three percent of the Fund assets of the previous year allowed under Section 7 of RA No. 6846.

## 26. INCOME TAXES

On March 26, 2021, RA No. 11534, Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, as amended, was signed into law and shall be effective beginning July 1, 2020. The major changes brought about by the CREATE Act that are relevant to and considered by the Corporation follow:

- a. The Corporation is subject to lower regular corporate income tax (RCIT) rate of 25 per cent effective July 1, 2020. The RCIT was reduced from 30 per cent.
- b. Minimum corporate income tax (MCIT) was reduced from two percent to one percent starting July 1, 2020 until June 30, 2023; and
- c. Effective July 1, 2020, the allowable deduction for interest expense is reduced from 33 per cent to 20 per cent of the interest income subjected to final tax.

Based on the provisions of Revenue Regulations (RR) No. 5-2021 dated April 8, 2021 issued by the BIR, the pro-rated RCIT of the Corporation for CY 2021 is 27.50 per cent. This will result in a lower provision for current income tax for CY 2020. However, for financial reporting purposes, the changes are recognized in the CY 2021 financial statements. In CY 2021, this also resulted in the write-down of the deferred tax assets and liabilities of the Corporation recognized as at December 31, 2020. This is recognized as a provision for income tax in the CY 2021 financial statements.

The components of income tax expense as reported in profit or loss and OCI in the SCI are as follows:

	2022	2021 (As Restated)
<b>Reported in profit or loss</b>		
Current tax expense (income):		
RCIT at 25% in CYs 2022 and 2021	294,339,327	641,815,152
Final tax at 20% and 7.50%	147,396,999	137,640,971
	441,736,326	779,456,123
Deferred tax expense (income) on origination and reversal of temporary differences	(142,051,736)	(139,138,695)
	299,684,590	640,317,428
<b>Reported in OCI</b>		
Deferred tax expense (income) on origination and reversal of temporary differences	139,058,979	84,013,829

A reconciliation of tax on pre-tax profit computed at the applicable statutory rates to tax expense reported in the SCI is as follows:

	2022	2021 (As Restated)
Tax on pre-tax profit at 25% in CYs 2022 and 2021	400,133,262	768,106,853
Adjustment for income subjected to lower tax rates	(147,396,999)	(159,736,782)
Tax effects of non-deductible interest expense	46,948,327	31,947,357
	299,684,590	640,317,428

The net deferred tax assets and net deferred tax liabilities recognized in the SFP as at December 31, 2022 and 2021 relate to the following:

	2022	2021 (As Restated)
<b>Deferred tax assets</b>		
Bad debts	599,770,590	671,504,403
Impairment losses	775,648,487	605,652,761
Lease liability	20,987,947	28,779,610
Accrued expenses	105,055,539	94,939,114
Deferred GRT	1,480,840	0
Unrealized foreign currency losses	76,898,399	119,556
Unrealized losses on financial assets at FVOCI	221,185,423	84,573,679
	1,801,027,225	1,485,569,123
<b>Deferred tax liabilities</b>		
Accrued lease income	122,680,053	80,985,202
Other accrued income	36,541,664	36,137,068
Unrealized gains on financial assets at FVOCI	510,614	2,957,851
Unrealized foreign currency gains	6,030,645	6,011,417
ROU asset	16,424,123	21,748,174
Gain on debt extinguishment	117,696,157	117,696,157
	299,883,256	265,535,869

The deferred tax expense (income) recognized in the SCI for the years ended December 31, 2022 and 2021 relate to the following:

	2022	2021 (As Restated)
<b>Reported in profit or loss</b>		
Bad debts	(60,681,687)	(228,104,122)
Impairment losses	0	(71,378,609)
Accrued expenses	(512,239)	(47,849,757)
NOLCO	0	33,402,305
Gain on debt extinguishment	0	(117,696,158)
Unrealized foreign currency losses	(76,734,628)	(28,490)
Accrued lease income	0	1,123,259
Lease liability	2,467,610	4,032,396
Deferred GRT	(1,480,840)	0
Realized losses on financial assets at FVOCI	(5,109,952)	0
Effect of CREATE Act	0	287,360,481
	(142,051,736)	(139,138,695)

	2022	2021 (As Restated)
<b>Reported in OCI</b>		
Unrealized losses on financial assets at FVOCI	<b>(139,058,979)</b>	(84,013,829)
	<b>(139,058,979)</b>	(84,013,829)

As at December 31, 2022 and 2021, the Corporation has recognized all its deferred tax assets in the SFP since Management believes that sufficient taxable profits in the future will be available against which the Corporation's deductible temporary differences, NOLCO and other tax credits can be utilized.

The Corporation is subject to the MCIT which is computed at two per cent (or one per cent starting July 1, 2020 until June 30, 2023) of gross income net of allowable deductions, as defined under the tax regulations, or RCIT, whichever is higher. No MCIT was reported in CYs 2022 and 2021 as the RCIT was higher than MCIT in both years.

In CYs 2022 and 2021, the Corporation claimed itemized deductions in computing for its income tax due.

Details of the Corporation's NOLCO, which can be claimed as deduction from future taxable income within three years from the year the taxable loss was incurred are as follow:

<b>Net Operating Loss Carryover</b>				
<b>Year Incurred</b>	<b>Amount</b>	<b>Used/Expired</b>	<b>Balance</b>	<b>Expiry Year</b>
2018	107,364,355	107,364,355	0	2021
2017	59,437,455	59,437,455	0	2020
	<b>166,801,810</b>	<b>166,801,810</b>	<b>0</b>	

## **27. RELATED PARTY TRANSACTIONS**

As at December 31, 2022 and 2021, the Corporation had no related party transactions, except those transactions with key management personnel which the Corporation deems to be its senior officers and the funds under its trust and/or administration when it acts in a capacity other than as trustee and/or administrator, as follows:

### **27.1. Conveyance of AKPF Properties to SSS**

In CY 2009, acquired lots owned by AKFP located at the MHC in Tondo, Manila were assigned and conveyed to the SSS as partial settlement of the former HGC's unpaid guaranty obligations to SSS. The non-interest bearing receivable of AKFP from the former HGC representing the transfer value of said lots of P381.531 million has been outstanding to date and is recorded under current "Trust Liabilities" (Note 18) by the Corporation.

### **27.2. Lease Receivable under Car Plan**

The BOD of TIDCORP approved on March 11, 1999, under Board Resolution No. 1211, the institution of a Car Fund to finance the acquisition of brand-new motor

vehicles for lease or sale to eligible officers in line with the Motor Vehicle Lease-Purchase Plan (MVLPP) for GFI officials duly approved by the President of the Philippines on July 20, 1992.

Likewise, pursuant to the MVLPP for GFI officials, the BOD of the former HGC (then known as the Home Insurance Guaranty Corporation) approved the implementation of a Car Plan for its officers. In CY 2009, the former HGC issued the Omnibus Implementing Guidelines for the MVLPP for HGC Officers shortening the repayment period from 10 years to 5 years and entitling the officers a 50 per cent subsidy of the cost of motor vehicles.

However, COA disallowed the former HGC's amended MVLPP in CY 2010 which, after appeals by the persons liable thereon, was affirmed with finality by the Supreme Court (SC) in GR No. 232569. COA issued therefore Notice of Finality of Decision No. 2018-269 dated July 3, 2018.

For CYs 2022 and 2021, transactions involving the Car Plans recorded under "Finance Lease Receivable" (Note 7) follow:

	2022	2021
Balance, January 1	15,953,984	17,702,146
Availments during the year	0	998,000
Payments	(1,973,911)	(2,746,162)
<b>Balance, December 31</b>	<b>13,980,073</b>	<b>15,953,984</b>

### 27.3. Compensation of Key Management Personnel

	2022	2021 (As Restated)
Basic salary	18,878,844	17,441,129
Allowances and other benefits	12,765,321	8,878,726
	<b>31,644,165</b>	<b>26,319,855</b>

## 28. FAIR VALUE MEASUREMENT AND DISCLOSURES

The following tables provide the fair value hierarchy of the Corporation's assets measured at fair value:

	Carrying Amount	Fair Value			
		Total	Level 1	Level 2	Level 3
At December 31, 2022					
Financial assets at FVOCI:					
Treasury bonds	12,058,568,364	12,058,568,364	12,058,568,364	0	0
HCPTI shares	535,236,187	535,236,187	0	0	535,236,187
NADECOR shares	6,683,375	6,683,375	0	0	6,683,375
Club shares	617,500	617,500	0	0	617,500
	12,601,105,426	12,601,105,426	12,058,568,364	0	542,537,062



	Carrying Amount	Fair Value			
		Total	Level 1	Level 2	Level 3
At December 31, 2021					
Financial Assets at FVOCI:					
Treasury bonds	12,695,793,923	12,695,793,923	12,695,793,923	0	0
HCPTI shares	535,236,187	535,236,187	0	0	535,236,187
NADECOR shares	6,683,375	6,683,375	0	0	6,683,375
Club shares	617,500	617,500	0	0	617,500
	13,238,330,985	13,238,330,985	12,695,793,923	0	542,537,062

The Corporation has no financial liabilities measured at fair value as at December 31, 2022 and 2021.

## 29. EVENTS AFTER THE REPORTING PERIOD

### 29.1. Remittance of CY 2021 Additional Dividends and Request for Downward Adjustment of CY 2022 Dividend Rate

On May 15, 2023, the Corporation filed its request with the DOF for the downward adjustment of the CY 2022 dividend rate to 25 per cent from 50 per cent of net earnings as provided in RA No. 7656, subject to the approval of the President of the Philippines. The assessed dividends for CY 2022 of P728.934 million will decrease to P364.467 million should the request for downward adjustment be granted.

Moreover, on May 30, 2023, the Corporation remitted additional dividends of P358.238 million to the NG, through the BTr, pursuant to the instructions of the DOF and audit recommendations of COA, and in consonance with the pertinent provisions of RA No. 7656.

### 29.2. Execution of MOA with SBMA re: PHILGUARANTEE's Obligations

In April 2023, the Corporation received COA Decision No. 2022-489 dated December 5, 2022 granting the request of the Corporation and SBMA for authority to enter into a MOA and Deed of *Dacion en Pago* to partially settle the former's obligations to the latter (*Note 15*). Accordingly, the Corporation and SBMA executed the pertinent MOA and Deed on May 18, 2023, documenting the antecedents, intervening events, and developments in relation to the settlement. It is expected that gains totaling P2.378 billion will be recognized in CY 2023 as result of this transaction.

### 29.3. Notice of Discrepancy re: Internal Tax Liabilities for Taxable Year 2020

On June 23, 2023, the Corporation received a Notice of Discrepancy from RDO No. 50 relative to the report of investigation on the Corporation's internal tax liabilities for taxable year 2020 pursuant to Letter of Authority No. AUDM 14-050-2022-009475/ELA201900009035 dated February 16, 2022.

Under the Notice, which is not yet a deficiency tax assessment, the concerned Revenue Officers noted a total discrepancy or total amount payable of P575.171 million covering income tax, other percentage tax, withholding tax on VAT and other percentage taxes, withholding tax on compensation, expanded withholding tax and documentary stamp tax; and the corresponding surcharges and interest.

Currently, Management is in the stage of continuing discussion with the BIR and submission of additional documentary evidence to explain the Corporation's side and support its position.

### 30. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of the Corporation's liabilities arising from financing activities, excluding "Lease Liability" which are disclosed in Note 16, follows:

	2021	Availments	Payments	Others	2022
Loans payable	87,264,522	0	(43,633,331)	0	43,631,191
Due to Treasurer of the Philippines	3,041,592,654	0	0	0	3,041,592,654
Bonds payable	2,682,497,458	0	(407,574,255)	138,907,232	2,413,830,435
Dividends payable	860,022,101	0	(505,902,486)	728,934,394	1,083,054,009
Interest payable	158,620,141	0	(251,197,849)	160,272,939	67,695,231
	6,829,996,876	0	(1,208,307,921)	1,028,114,565	6,649,803,520

  

	2020	Availments	Payments	Others	2021
Loans payable	130,897,853	0	(43,633,331)	0	87,264,522
Due to Treasurer of the Philippines	7,041,592,654	0	(4,000,000,000)	0	3,041,592,654
Bonds payable	11,364,624	2,671,132,834	0	0	2,682,497,458
Dividends payable	2,195,273,197	0	0	(1,335,251,096)	860,022,101
Interest payable	1,326,907,110	0	(1,406,736,563)	238,449,594	158,620,141
	10,706,035,438	2,671,132,834	(5,450,369,894)	(1,096,801,502)	6,829,996,876

Others refer to non-cash changes including the effects of accrual of dividends, amortization of discount (premium) and accrual of interest.

### 31. RESTATEMENTS AND PRIOR PERIOD ERRORS

The following are the relevant analyses of the effects of the restatements on assets, liabilities and equity components of the Corporation's financial statements:

	As Reported, 12/31/2021	Adjustments	As Restated, 12/31/2021
<b>Current assets</b>			
Cash and cash equivalents	1,085,673,220	168,273	1,085,841,493
Investment securities at amortized cost	5,289,764,240	2,071,687	5,291,835,927
Financial assets at FVOCI	4,767,615,796	3,826,482	4,771,442,278
Receivables, net	1,193,834,262	58,046,142	1,251,880,404
Other assets	68,217,736	(217,727)	68,000,009

	As Reported, 12/31/2021	Adjustments	As Restated, 12/31/2021
<b>Non-current assets</b>			
Investment securities at amortized cost	0	1,328,015	1,328,015
Other non-current investments	4,988,016	(1,328,016)	3,660,000
Receivables, net	4,788,023,473	393,809,043	5,181,832,516
Investment property	10,395,588,489	(543,668,827)	9,851,919,662
Property and equipment, net	105,099,405	1,504,393	106,603,798
Right-of-use assets, net	102,328,025	(6,462,343)	95,865,682
Intangible assets	888,172,686	37,504,586	925,677,272
Deferred tax assets	1,534,389,287	(48,820,164)	1,485,569,123
Funds under trust and/or administration	15,709,631,497	230,044,364	15,939,675,861
Other assets	56,465,662	5,991	56,471,653
	<b>45,989,791,794</b>	<b>127,811,899</b>	<b>46,117,603,693</b>
<b>Current liabilities</b>			
Financial liabilities	4,961,416,959	233,863,047	5,195,280,006
Lease liability	34,081,864	(4,914,059)	29,167,805
Inter-agency payables	200,512,690	3,042,169,526	3,242,682,216
Trust liabilities	745,502,655	15,493,359	760,996,014
Deferred credits/Unearned income	123,576,713	(27,871,818)	95,704,895
Other payables	3,887,812,740	(2,951,161,427)	936,651,313
<b>Non-current liabilities</b>			
Financial liabilities	2,614,800,213	3,360,554,396	5,975,354,609
Lease liability	81,036,576	5,711,373	86,747,949
Inter-agency payables	3,043,319,222	(3,041,592,653)	1,726,569
Trust liabilities	15,729,844,812	230,044,365	15,959,889,177
Deferred credits/Unearned income	1,936,703,356	(1,555,838,590)	380,864,766
Deferred tax liabilities	285,482,546	(19,946,677)	265,535,869
<b>Equity</b>			
Retained Earnings (Deficit)	(13,962,357,273)	841,301,057	(13,121,056,216)
	<b>19,681,733,073</b>	<b>127,811,899</b>	<b>19,809,544,972</b>
<b>Revenue</b>			
Service and business income	3,376,202,277	(959,843,354)	2,416,358,923
Gains	42,741,096	99,910,684	142,651,780
Other non-operating income	1,130,551,914	969,293,550	2,099,845,464
	<b>4,549,495,287</b>	<b>109,360,880</b>	<b>4,658,856,167</b>
<b>Expenses</b>			
Personnel services	220,935,782	27,622,095	248,557,877
MOOE	355,611,642	18,052,425	373,664,067
Financial expenses	324,362,460	13,481,708	337,844,168
Non-cash expenses	1,449,015,954	(10,680,626)	1,438,335,328
Income tax expense	559,743,908	80,573,520	640,317,428
	<b>2,909,669,746</b>	<b>129,049,122</b>	<b>3,038,718,868</b>

## 32. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented in the succeeding pages is the supplementary information required by the BIR under RR No. 15-2010 to be disclosed as part of the notes to the financial statements. This supplementary information on taxes, duties and license fees paid or accrued during the taxable year is not a required disclosure under PFRSs.

### 32.1. Income, Final, Gross Receipts and Fringe Benefits Taxes

For CYs 2022 and 2021, the Corporation paid or accrued a total amount of P489.222 million and P466.648 million, respectively, for income, final investment income, gross receipts, and fringe benefit taxes, as follows:

	<b>2022</b>	<b>2021</b> (As Restated)
Income tax	<b>217,347,586</b>	208,326,771
Final investment income tax	<b>147,091,848</b>	134,315,526
Gross receipts tax (GRT)	<b>124,747,534</b>	123,966,413
Fringe benefit tax	<b>35,495</b>	38,910
	<b>489,222,463</b>	466,647,620

In lieu of VAT, the Corporation is subject to the GRT imposed on all banks and non-bank financial intermediaries pursuant to Sections 121 and 122 of the Tax Code. The GRT paid during the taxable year is presented as part of "Taxes, Duties and Licenses" under MOOE in the SCI.

### 32.2. Documentary Stamp Taxes

Documentary stamp taxes remitted or paid in CYs 2022 and 2021 pertaining to loan instruments executed with clients and with banks for corporate borrowings amounted to P806,763 and P3,763, respectively.

### 32.3. Taxes and Licenses

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

	<b>2022</b>	<b>2021</b> (As Restated)
GRT	<b>145,278,233</b>	122,295,440
Real estate taxes and others	<b>95,681</b>	116,618
Fringe benefit tax	<b>38,962</b>	38,910
Municipal licenses and permits	<b>10,500</b>	10,500
	<b>145,423,376</b>	122,461,468

### 32.4. Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2022 and 2021 are broken down as follows:

	<b>2022</b>	<b>2021</b>
Compensation and benefits	<b>34,934,045</b>	26,451,123
Government money payments	<b>11,654,398</b>	9,846,654
Expanded withholding taxes	<b>7,419,737</b>	6,433,739
	<b>54,008,180</b>	42,731,516

The Corporation has no income payments subject to final withholding tax for CYs 2022 and 2021.

### **32.5. Tax Assessments and Cases**

As at December 31, 2022, the Corporation does not have any final deficiency tax assessments from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open years. Deficiency tax assessments previously issued to the Corporation were already settled and terminated as of even date, to wit:

- a. TIDCORP's income tax, expanded withholding tax, withholding tax on compensation and final withholding of VAT for the taxable year 2011 totaling P178.871 million, including interest;
- b. IGLF's income tax, expanded withholding tax, final withholding of VAT and documentary stamp tax for the taxable year 2017 totaling P14.564 million, inclusive of interest, surcharges and compromise penalty; and
- c. HGC's income tax, percentage tax, and withholding tax taxable year 2018 totaling P168.123 million, inclusive of interest, surcharges and compromise penalty.

On the other hand, the Corporation has two pending requests for tax refund and/or credit before the BIR. On September 30, 2014, the Corporation, then known as TIDCORP, requested for tax refund or credit before RDO No. 50 of the P3.354 million excess of the accumulated VAT refunded to clients over its GRT remittances for March to May 2004 pursuant to RMC No. 9-2004 dated February 19, 2004 and RR No. 9-2004 dated June 21, 2004. The BIR has not decided on the request despite the Corporation's two follow-up letters dated November 4, 2016 and March 8, 2018.

Moreover, the Corporation, as successor-in-interest of the former HGC, has a pending request for tax credit in the amount of P50 million before RDO No. 49 which was filed on December 28, 2007. The amount pertains to erroneously paid creditable withholding and documentary tax assessments on the assignment and conveyance of 105 lots of the SMAP to the former HGC, pursuant to the Deed of Assignment and Conveyance executed by and between the former HGC and PDB, as Trustee of the SMAP.

The Corporation has submitted on September 20, 2021 the additional required documents to the Legal Service of the BIR to facilitate the processing of the tax refund.