

## FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### *Financial risk*

The Corporation's principal financial instruments comprise of cash and cash equivalents, restructured debt and advances to and from related parties. The main purpose of these financial instruments is to finance the Corporation's operations. The Corporation has various other financial assets and liabilities such as receivables and vouchers payable and accrued expenses (excluding statutory payables), which arise directly from its operations. The main risks arising from the Corporation's financial instruments are credit risk and liquidity risk. The Corporation's Board of Directors (BOD) and Management review and approve the policies for managing each of this risk.

The Corporation monitors market price risk arising from all financial instruments and regularly report financial management activities and the results of these activities to the BOD.

The Corporation's risk management policies are summarized below. The exposure to risk and how they arise, as well as the Corporation's objectives, policies and processes for managing the risk and the methods used to measure the risk did not change from prior years.

### *Liquidity Risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation monitors its cash flow position, debt maturity profile and overall liquidity position in assessing its exposure to liquidity risk. The Corporation maintains a level of cash deemed sufficient to finance its cash requirements. Operating expenses and working capital requirements are sufficiently funded through cash collections.

The extent and nature of exposures to liquidity risk and how they arise as well as the Corporation's objectives, policies and processes for managing the risk and the methods used to measure the risk are the same for 2018 and 2017.

The following table summarizes the maturity profile of the Corporation's financial assets and financial liabilities as of December 31, 2018 and 2017, based on contractual undiscounted cash flows:

	2018			Total
	<1 year	>1 to <5 years	>5 years	
<b>Financial Assets</b>				
Cash	205,158,385	0	0	205,158,385
Short term Investment	730,179,490	0	0	730,179,490
Receivables	290,917,155	54,905,048	120,959,930	466,782,133
	<b>1,226,255,030</b>	<b>54,905,048</b>	<b>120,959,930</b>	<b>1,402,120,008</b>
<b>Financial Liabilities</b>				
Accounts payable	2,413,362	0	0	2,413,362
Accrued expenses	10,462,228	0	0	10,462,228
Other accounts payable	1,804,520	0	0	1,804,520
Inter-agency payables	8,399,828	0	0	8,399,828
Customer deposit	39,363,786	0	0	39,363,786
Unearned Income	24,882,368	0	0	24,882,368
Other financial liabilities	258,002,200	1,032,008,900	8,257,995,416	9,548,006,516
Other payables	0	0	3,789,629	3,789,629
	<b>345,947,043</b>	<b>1,032,008,900</b>	<b>8,261,785,045</b>	<b>9,639,740,988</b>
<b>Liquidity gap</b>	<b>880,307,987</b>	<b>(977,103,852)</b>	<b>(8,140,825,115)</b>	<b>(8,237,620,980)</b>

	2017			Total
	<1 year	>1 to <5 years	>5 years	
<b>Financial Assets</b>				
Cash	145,467,935	0	0	145,467,935
Short term Investment	643,559,929	0	0	643,559,929
Receivables	272,959,914	52,786,636	120,959,929	446,706,479
	<b>1,061,987,778</b>	<b>52,786,636</b>	<b>120,959,929</b>	<b>1,235,734,343</b>
<b>Financial Liabilities</b>				
Accounts payable	7,405,748	0	0	7,405,748
Accrued Expense	12,478,021	0	0	12,478,021
Other accounts payable	3,440,716	0	0	3,440,716
Inter-agency payables	2,948,043	0	0	2,948,043
Customer deposit	43,625,984	0	0	43,625,984
Unearned Income	25,175,179	0	0	25,175,179
Other financial liabilities	258,002,200	774,006,600	8,257,995,416	9,290,004,216
Other payables	0	0	3,789,629	7,230,345
	<b>353,075,891</b>	<b>774,006,600</b>	<b>8,261,785,045</b>	<b>9,388,867,536</b>
<b>Liquidity gap</b>	<b>708,911,887</b>	<b>(721,219,964)</b>	<b>(8,140,825,116)</b>	<b>(8,153,133,193)</b>

### *Credit Risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Corporation's exposure to credit risk arises from default of the counterparties which include certain financial institutions, real estate buyers and suppliers.

Credit risk management involves dealing only with institutions or individuals for which credit limits have been established, and with suppliers whose paying and performance capabilities are rigorously screened.

The table below shows the maximum exposure to credit risk for the components of the statements of financial position as of December 31, 2018 and 2017:

	2018	2017
Cash	205,158,385	145,467,935
Receivables	466,782,133	446,706,480
	<b>671,940,518</b>	<b>592,174,415</b>

As of December 31, 2018 and 2017, the aging analysis per class of receivables is as follows:

	2018	Neither Past Due Nor Impaired	Past Due But Not Impaired				Impaired Financial Assets	Total
			<30 days	30-60 days	60-90 days	>90 days		
<b>Accounts Receivable:</b>								
Contract related receivables		27,432,138	0	0	0	178,236,820	0	205,668,958
Advances to the Bureau of the Treasury (BTr)		150,000,000	0	0	0	0	0	150,000,000
Accounts receivable - trade		4,674,391	6,985	3,417,982	1,215,601	3,429,173	0	12,744,132
Accounts receivable - subsidiaries and affiliates		15,021,636	6,252,771	6,196,714	5,951,316	48,007,970	0	81,430,407
Advances to suppliers		93,040	237,310	28,695	86,800	182,596	0	628,441
Advances to CESLA		13,690	4,230	6,964	6,035	89,193	0	120,112
Advances for SSS/EC benefits		5,255	0	0	0	0	0	5,255
Other accounts receivable		4,340,850	31,510	0	0	10,750,790	0	15,123,150
		<b>201,581,000</b>	<b>6,532,806</b>	<b>9,650,355</b>	<b>7,259,752</b>	<b>240,696,542</b>	<b>0</b>	<b>465,720,455</b>
<b>Receivables from officers and employees:</b>								
Officers and employees		389,950	11,242	2,229	0	596,532	0	999,953
Directors		61,725	0	0	0	0	0	61,725
		<b>451,675</b>	<b>11,242</b>	<b>2,229</b>	<b>0</b>	<b>596,532</b>	<b>0</b>	<b>1,061,678</b>
		<b>202,032,675</b>	<b>6,544,048</b>	<b>9,652,584</b>	<b>7,259,752</b>	<b>241,293,074</b>	<b>0</b>	<b>466,782,133</b>

2017

	Neither Past Due Nor Impaired	Past Due But Not Impaired				Impaired Financial Assets	Total
		<30 days	30-60 days	60-90 days	>90 days		
<b>Accounts Receivable:</b>							
Advances to the Bureau of the Treasury (BTr)	65,788,920	3,864,285	457,726	0	133,161,382	0	203,272,313
Contract related receivables	150,000,000	0	0	0	0	0	150,000,000
Accounts receivable - trade	18,439,738	5,972,942	8,100,838	5,817,565	40,935,165	0	79,266,248
Accounts receivable - subsidiaries and affiliates	3,674	3,361	2,174	33,768	906,974	0	949,951
Advances to suppliers	141,200	312,733	0	7,000	195,903	0	656,836
Advances to CESLA	65,948	0	0	0	0	0	65,948
Advances for SSS/EC benefits	64,000	15,360	4,800	32,000	130	0	116,290
Other accounts receivable	0	40,000	0	0	11,246,789	0	11,286,789
	<b>234,503,480</b>	<b>10,208,681</b>	<b>8,565,538</b>	<b>5,890,333</b>	<b>186,446,343</b>	<b>0</b>	<b>445,614,374</b>
<b>Receivables from officers and employees:</b>							
Officers and employees	147,196	0	0	0	944,909	0	1,092,105
	<b>147,196</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>944,909</b>	<b>0</b>	<b>1,092,105</b>
	<b>234,650,676</b>	<b>10,208,681</b>	<b>8,565,538</b>	<b>5,890,333</b>	<b>186,891,252</b>	<b>0</b>	<b>446,706,479</b>

### Fair Values

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the statements of financial position as of December 31, 2018 and 2017.

	Carrying Amount		Fair Value	
	2018	2017 (as restated)	2018	2017 (as restated)
<b>Financial assets</b>				
Cash	<b>205,158,385</b>	145,467,935	<b>205,158,385</b>	145,467,935
Short-term investments	<b>730,179,490</b>	643,559,929	<b>730,170,490</b>	643,559,929
Receivables	<b>466,782,133</b>	446,706,479	<b>466,782,133</b>	446,706,479
	<b>1,402,120,008</b>	1,235,734,343	<b>1,402,120,008</b>	1,235,734,343
<b>Financial liabilities</b>				
Accounts payable	<b>2,413,362</b>	7,405,748	<b>2,413,362</b>	7,405,748
Accrued expense	<b>10,402,228</b>	12,478,021	<b>10,402,228</b>	12,478,021
Other accounts payable	<b>1,804,520</b>	3,440,716	<b>1,804,520</b>	3,440,716
Inter-agency payable	<b>8,399,828</b>	2,948,043	<b>8,399,828</b>	2,948,043
Customer deposit	<b>39,363,786</b>	43,625,984	<b>39,363,786</b>	43,625,984
Unearned income	<b>25,501,119</b>	25,175,179	<b>25,501,119</b>	25,175,179
Other financial liabilities	<b>9,548,006,516</b>	9,290,004,216	<b>9,548,006,516</b>	9,290,004,216
Other payables	<b>3,789,629</b>	3,789,629	<b>3,789,629</b>	3,789,629
	<b>9,639,740,988</b>	9,388,867,536	<b>9,639,740,988</b>	9,388,867,536

*Cash and Accounts and Other Payables* – carrying amounts approximate fair values due to the relatively short-term maturities of these investments.

*Receivables* – carrying amounts approximate fair values due to the short-term nature of the receivables.