



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

**QUEDAN AND RURAL CREDIT
GUARANTEE CORPORATION**

For the Year Ended December 31, 2006

**QUEDAN AND RURAL CREDIT GUARANTEE CORPORATION
(QUEDANCOR)**

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**REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT**

Commonwealth Avenue, Quezon City

**CORPORATE GOVERNMENT SECTOR
Office of the Cluster Director
Cluster V - Agricultural, Trading and Promotional**

State Auditor's Report on the Financial Statements

The Board of Directors

Quedan and Rural Credit Guarantee Corporation
34 Panay Avenue, Quezon City

We have audited the accompanying balance sheet of the Quedan and Rural Credit Guarantee Corporation (QUEDANCOR) as of December 31, 2006 and the related statements of income and expenses, changes in government equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with laws, COA standards and generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement/s. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in the accompanying Comments and Observations under Nos. 1,2 and 3, the year end financial statements contain material misstatements due to the inclusion of temporary entries in arriving at the balance sheet figures involving a total debit to Cash in bank-Savings Account in the amount of P17,928,263 and credit to Cash in bank-Current Account of P31,067,899, among other significant variances between the financial statements' balances which are discussed in detail in (no. 1); material discrepancies noted in the cash in bank accounts due to the existence of 124 long outstanding bank accounts with negative balances totaling P25,637,005, and absence/unupdated bank reconciliation statements in 301 bank accounts, among others (no. 2); and the P577,406,541 understatement in total assets and total liabilities due to an adjusting entry reversing the Receivable and Loans Payable-Domestic-Agricultural Credit Policy Council which is deemed contrary to the provision of paragraph 20 (a) of the Philippine Accounting Standards No. 39 and the intent of Administrative Order No. 10 dated June 18, 2001 (no.3).

Also, in Comments and Observations Nos. 4,5,7,8 and 9 on trade receivables, the going-concern assumption of the QUEDANCOR is threatened by the existence of past due/in-arrears accounts which are doubtful of collection amounting to P3,436,428,036 or 43.48% of the year-end balance of trade receivables amounting to P7,902,581,691 representing 57% of

QUEDANCOR's total assets, (no.4), which includes the following: the P113,700,000 loans under the QUEDANCOR Financing Program for Working Capital of Buyers and Processors of Agri-Fishery Commodities granted to the Iloilo Feeds Corporation and the Nueva Foods Corporation with interlocking directorship together with the BIRKS Agri-Livestock, Inc. who is the major Input Supplier under the QSP (no. 7); the P380,110,348 trade receivables under the SRT-AFBO Program which is a non-collateralized program, the processing of loans was found not complying with the SRT-AFBO guidelines (no. 8) ; and the long overdue high value loans with noted collateral deficiencies granted to fourteen (14) borrowers in the amount of P150,759,552 (no. 9), among others. Relative thereto, in Comments and Observations no. 5, the allowance for bad debts set as of December 31, 2006 is only P430,564,972 which is deficient by more or less P379,836,288.

Further, in Comments and Observations No. 6, the existence and rightful claim of the QUEDANCOR over its trade receivables under the Swine Program in the amount of P1,291,039,975, net of the amount of P176,396,591 confirmed by the farmer-borrowers, cannot be established/ascertained due to unsettled accounting and legal issues affecting the borrowers' and input suppliers' obligations in relation to the effects of the implementation of the Contract Growing Agreement particularly the provisions on "pull-out of stocks" and offsetting of accounts, which were made complicated by the effects of the implementation in 2006 of the QUEDANCOR's adopted remedial measures provided under its Memorandum Circular No. 403 dated March 22, 2006.

In our opinion, because of the effects of the matters discussed in the preceding paragraphs and other deficiencies discussed in the Comments and Observations, the financial statements referred to above do not present fairly, in conformity with generally accepted and state accounting principles, the financial position of the Quedan and Rural Credit Guarantee Corporation as of December 31, 2006 and the results of its operations and its cash flows for the year then ended.

FOR THE COMMISSION ON AUDIT:

TITO S. NABUA
Director IV

May 31, 2007

QUEDAN AND RURAL CREDIT GUARANTEE CORPORATION***BALANCE SHEET***

(With Comparative Figures for 2005)

December 31			
	2006		2005
			(Restated)
ASSETS			
Current Assets			
Cash and Cash Equivalents (Notes 2c & 3)	₱ 1,042,119,400	₱	2,085,888,566
Receivables - Net (Notes 2e & 4)	8,494,904,200		8,657,395,768
Inventories (Note 5)	12,490,029		12,388,258
Prepayments (Note 6)	110,071,505		132,483,000
Other Current Assets (Note 7)	2,448,211		2,465,935
Total Current Assets	9,662,033,345		10,890,621,527
Non-Current Assets			
Investments (Note 8)	3,600,064,919		3,274,282,490
Property, Plant and Equipment - Net (Notes 2d & 9)	91,177,143		98,695,666
Other Assets (Note 10)	453,932,090		309,471,678
Total Non-current Assets	4,145,174,152		3,682,449,834
TOTAL ASSETS	₱ 13,807,207,497	₱	14,573,071,361
LIABILITIES AND GOVERNMENT EQUITY			
Current Liabilities (Note 11)			
Payables	₱ 1,848,326,743	₱	2,145,436,625
Inter-Agency Payables	174,989,593		156,152,034
Other Liabilities	115,633,704		104,328,895
Total Current Liabilities	2,138,950,040		2,405,917,554
Non-Current Liabilities			
Long-Term Liabilities (Note 12)	10,058,032,570		10,513,671,731
Deferred Credits (Note 13)	88,068,911		135,441,905
Total Non-current Liabilities	10,146,101,481		10,649,113,636
Government Equity (Note 14)	1,522,155,976		1,518,040,171
TOTAL LIABILITIES AND GOVERNMENT EQUITY	₱ 13,807,207,497	₱	14,573,071,361

See accompanying Notes to Financial Statements.

QUEDAN AND RURAL CREDIT GUARANTEE CORPORATION**STATEMENT OF INCOME AND EXPENSES**

(With Comparative Figures for 2005)

For the Years Ended December 31			
		2006	2005
			(Restated)
INCOME (Note 15)			
Business Income	P	1,129,712,335	P 1,125,403,823
Other Income		382,899,299	394,651,155
		1,512,611,634	1,520,054,978
EXPENDITURES			
Personal Services			
Salaries and Wages		179,860,943	169,616,724
Other Compensation		79,023,582	62,359,292
Personnel Benefits Contribution		23,106,964	21,740,627
Other Personnel Benefits		7,440,411	8,792,403
Maintenance and Other Operating Expenses			
(Schedule 1)		367,993,144	421,591,599
Financial Expenses			
Interest Expense		874,138,358	756,472,192
Other Financial Expenses		4,299,020	4,809,349
		1,535,862,422	1,445,382,186
NET INCOME (LOSS)	P	(23,250,788)	P 74,672,792

See accompanying Notes to Financial Statements.

QUEDAN AND RURAL CREDIT GUARANTEE CORPORATION
STATEMENT OF CHANGES IN GOVERNMENT EQUITY
(With Comparative Figures for 2005)

For the Years Ended December 31			
	2006		2005
			(Restated)
CAPITAL STOCK (Note 14)			
<i>Authorized - 2,000,000,000 shares, P1.00 par value</i>			
Issued	₱ 763,488,327	₱	762,779,627
Treasury Stock	(609,800)		(432,500)
	762,878,527		762,347,127
DONATED CAPITAL (Note 14)	480,294,290		480,007,668
RETAINED EARNINGS			
Balance at Beginning of Year	275,685,376		225,062,559
Net Income (Loss)	(23,250,788)		74,672,792
Correction of Prior Period Errors	26,548,571		(24,049,975)
Balance at End of Year	278,983,159		275,685,376
	₱ 1,522,155,976	₱	1,518,040,171

See accompanying Notes to Financial Statements.

SCHEDULE 1

QUEDAN AND RURAL CREDIT GUARANTEE CORPORATION
MAINTENANCE AND OTHER OPERATING EXPENSES

(With Comparative Figures for 2005)

	For the Years Ended December 31	
	2006	2005
		(Restated)
Bad Debts Expense	P 119,993,498	P 70,083,601
Supplies and Materials	28,930,319	95,618,794
Professional Services	27,230,621	27,461,449
Rent Expenses	20,463,650	18,834,346
Travelling Expenses	18,068,095	17,805,743
Depreciation Expense	15,214,816	13,242,900
Communication Expenses	13,735,042	14,211,626
Utility Expenses	12,820,919	11,593,676
Taxes, Insurance Premiums and Other Fees	10,972,317	12,350,902
Repairs and Maintenance	3,219,815	2,306,984
Representation Expenses	3,124,543	3,033,745
Printing and Binding Expenses	2,339,221	2,797,411
Training and Scholarship Expenses	2,153,500	8,771,657
Confidential, Intelligence , Extraordinary and Miscellaneous Expenses	1,323,207	1,478,298
Advertising Expenses	1,242,975	1,027,585
Subscription Expenses	304,779	349,884
Membership Dues	270,479	398,809
Subsidies and Donation	75,157	171,928
Transportation and Delivery Expenses	33,001	93,609
Othe Maintenance and Operating Expenses (Note 16)	86,477,190	119,958,652
	P 367,993,144	P 421,591,599

See accompanying Notes to Financial Statements.

QUEDAN AND RURAL CREDIT GUARANTEE CORPORATION
SCHEDULE OF CASH IN BANK WITH NEGATIVE BALANCES
As of December 31, 2006

CURRENT ACCOUNT

		DESCRIPTION		AMOUNT
MAIN				
1	111-01-021	LBP-GAB- CAMP	P	5,560,741.74
2	111-01-025	LBP-GAB- PAY		1,084,250.00
3	111-01-015	PNB-NFA Branch - LIFE1		831,144.06
4	111-01-005	PNB-NFA Branch - CSF		621,370.75
5	111-01-013	PNB-NFA Branch - FARE		316,482.04
6	111-01-026	LBP-GAB-Q. NOTES		207,158.96
7	111-01-003	Union Bank-E. Rodriguez Branch- MRLF		137,430.93
8	111-01-002	Union Bank-E. Rodriguez Branch- IRPP		66,834.80
9	111-01-004	Union Bank-E. Rodriguez Branch- OF		49,834.80
10	111-01-016	PNB-NFA Branch - LIFE2		2,508.40
11	111-01-007	PNB-NFA Branch - FQP		1,900.00
12	111-01-006	PNB-NFA Branch - FAME		1,125.00
13	111-01-017	PNB-NFA Branch - GPEP1		95.92
LUZON				
14	111-02-016	PNB - Santiago, Isabela - GFF		296,093.72
15	111-02-022	LBP - Cabanatuan City - OF		128,106.00
16	111-02-018	PNB - Santiago, Isabela - OF		68,635.53
17	111-02-025	PNB - Cabanatuan City - LIFE		12,930.14
18	111-02-026	PNB - Cabanatuan City - OF		11,455.20
19	111-02-008	PNB - Binalonan, Pangasinan - OF		10,974.00
20	111-02-011	PNB - Vigan, Ilocos Sur - CSF		2,420.00
21	111-02-015	PNB - Santiago, Isabela - CSF		938.89
22	111-02-039	PNB - Daet, Camarines Norte - CSF		825.26
23	111-02-012	PNB - Bayombong, Nueva Viscaya - OF		387.50
VIZAYAS				
24	111-03-006	PNB - Catbalogan, W. Samar - OF		1,416.10
25	111-03-003	PNB - Dumaguete City - OF		510.80
MINDANAO				
26	111-04-014	MetroBank - Tacurong - LIFE		37,604.00
27	111-04-020	PNB - Agusan Del Sur - CSF		30,024.87
28	111-04-004	PNB - Cagayan de Oro - OF		675.00
			P	9,483,874.41

SAVINGS ACCOUNT

MAIN				
29	112-01-028	Land Bank of the Philippines - GAB - CDA		4,960,181.12
30	112-01-021	Land Bank of the Philippines - GAB - AMCFP-GAA		2,048,567.30
31	112-01-004	Land Bank of the Philippines - GAB - KCCDP		217,448.57
32	112-01-002	Land Bank of the Philippines - GAB - CAP		195,558.47
33	112-01-016	Land Bank of the Philippines - GAB - DAIRY		165,133.65
34	112-01-020	Land Bank of the Philippines - GAB - CALF		135,282.49

		DESCRIPTION	AMOUNT
LUZON			
35	112-02-101	RB of Itogon - Magaldan Branch - FARE	600,210.42
36	112-02-100	RB of Itogon - Baguio City - FARE	263,186.37
37	112-02-016	Capitol City RB of Trece Martirez - Bicutan - FARE	256,170.57
38	112-02-156	RB of San Juan Inc. - Capas, Tarlac - FARE	255,784.44
39	112-02-075	RB of Paranaque - Paranaque Branch - FARE	211,338.70
40	112-02-187	RB of Coron - Palawan - FARE	200,000.00
41	112-02-118	Land Bank of the Philippines - Santiago City - BMC	196,686.00
42	112-02-127	RB of Northern Phils (Naguillan) - Santiago - FARE	185,053.51
43	112-02-167	Land Bank of the Philippines - Batangas City Branch - FARE	157,653.47
44	112-02-024	Capitol Dev't Bank - Makati Branch - FARE	151,273.84
45	112-02-173	Luzon Dev't Bank - Calamba Branch - FARE	149,867.15
46	112-02-025	Capitol Dev't Bank - Pasig Rizal Branch - FARE	127,334.16
47	112-02-054	Planters Dev't Bank - Plaridel Bulacan - FARE	120,498.85
48	112-02-143	Land Bank of the Philippines - Cabanatuan City Branch - FARE	113,157.70
49	112-02-062	Premiere Dev't Bank - Guadalupe Branch - FARE	110,207.85
50	112-02-108	RB of Sta Barbara Inc. - Urdaneta Pangasinan - FARE	106,421.43
51	112-02-032	Commercial Bank of Manila - Pasig Branch - FARE	94,694.03
52	112-02-035	FEBTC/Cavite Dev't Bank - Bacoor Cavite - FARE	85,655.67
53	112-02-188	RB of Laurel - Tanauan Batangas - FARE	84,385.29
54	112-02-010	Associated Citizens Bank - Binondo Branch - FARE	77,181.16
55	112-02-059	Premiere Dev't Bank - Binan Branch - FARE	66,527.18
56	112-02-015	Bangko Rural ng Kalumpit - Kalumpit - FARE	63,698.87
57	112-02-185	RB of Baco Inc. - Oriental Mindoro - FARE	61,673.85
58	112-02-166	Land Bank of the Philippines - Batangas City - FARE	57,875.59
59	112-02-044	Land Bank of the Philippines - San Jose, Occidental Mindoro - BMC	55,887.97
60	112-02-139	Coop. Bank of Nueva Ecija - Nueva ecija - FARE	53,371.87
61	112-02-006	Asia Trust Development Bank - Antipolo Branch - FARE	45,466.41
62	112-02-190	United Savings Bank (SBM) - Palawan Branch - FARE	45,073.62
63	112-02-064	Premiere Dev't Bank - Marikina Branch - FARE	42,032.08
64	112-02-169	Land Bank of the Philippines - Lipa City - FLGC	40,000.00
65	112-02-174	Luzon Dev't Bank - Calauan Laguna Branch - FARE	38,519.51
66	112-02-128	RB of Solano Nueva Vizcaya - Bagabag - FARE	38,029.77
67	112-02-176	Luzon Dev't Bank - Lipa City Branch - FARE	35,145.31
68	112-02-031	Commercial Bank of Manila - Navotas Branch - FARE	33,640.23
69	112-02-132	Banco San Juan - Conception Tarlac - FARE	32,766.20
70	112-02-163	CRB of Quezon - Lucena City - FARE	31,899.61
71	112-02-081	Sandigan Savings & Loan Bank Inc. - Apalit - FARE	28,017.70
72	112-02-148	Planters Dev't Bank - Cabanatuan City Branch - FARE	26,436.01
73	112-02-179	Luzon Dev't Bank - Tanauan Branch - FARE	26,133.57
74	112-02-155	RB of San Juan Inc. - Cabanatuan City - FARE	24,477.96
75	112-02-106	RB of San Juan Inc. - Urdaneta Branch - FARE	21,896.78
76	112-02-012	Associated Citizens Bank - Sto. Cristo Branch - FARE	14,849.02
77	112-02-084	Sandigan Savings & Loan Bank Inc. - Malolos Bulacan - FARE	14,432.12
78	112-02-091	Land Bank of the Philippines - Baguio City Branch - FARE	11,840.83
79	112-02-013	Banco San Juan - Antipolo - FARE	9,658.86
80	112-02-131	Agri-Business Dev't Bank - San Fernando Pampanga - FARE	8,776.51
81	112-02-028	Commercial Bank of Manila - Ermita Branch - FARE	8,306.21
82	112-02-077	RB of San Teodoro - Tunasan Muntinglupa MM - FARE	7,545.04
83	112-02-003	Allied Banking Corp. - New Manila Branch - FARE	6,833.39
84	112-02-009	Asia Trust Development Bank - Quezon Avenue Branch - FARE	4,791.21
85	112-02-177	Luzon Dev't Bank - Los Banos Branch - FARE	4,411.50
86	112-02-070	Premiere Dev't Bank - Pasig Branch - FARE	3,245.75
87	112-02-045	Luzon Dev't Bank - Bacoor Cavite Branch - FARE	3,036.26
88	112-02-004	Allied Banking Corp. - Retiro Branch - FARE	1,887.55

		DESCRIPTION	AMOUNT
89	112-02-089	United Savings Bank (SBM) - Cubao Branch - FARE	1,247.83
90	112-02-008	Asia Trust Development Bank - Del Monte Branch - FARE	942.20
91	112-02-149	Planters Dev't Bank - Conception Tarlac - FARE	852.97
92	112-02-057	Premiere Dev't Bank - Angono Rizal Branch - FARE	405.07
93	112-02-086	United Coconut Planters Bank - Navotas Branch - FARE	220.03
94	112-02-121	RB of Canaman - Alicia - FARE	98.56
95	112-02-147	Planters Dev't Bank - Apalit Pampanga - FARE	65.89
VIZAYAS			
96	112-03-022	Sugbuanon RB - AREA I - FARE	411,504.87
97	112-03-034	Rizal Commercial Banking Corp. - Catbalogan (AREA II) - FARE	336,114.16
98	112-03-037	Rizal Commercial Banking Corp. - Tacloban City (Ormoc) - FARE	277,607.20
99	112-03-005	RB of Banga Inc. - Aklan - FARE	207,329.96
100	112-03-028	Dev't Bank of the Philippines - Tacloban City - FARE	196,216.36
101	112-03-001	Bacolod City Dev't Bank - Bacolod - FARE	119,042.04
102	112-03-018	Dumaguete City Dev't Bank - Dumaguete City - FARE	115,844.04
103	112-03-026	United RB of Tuburan (Cebu) - Tuburan AREA II - FARE	70,165.91
104	112-03-023	Sugbuanon RB - AREA II - FARE	69,357.93
105	112-03-008	RB of Pilar - Capiz - FARE	55,911.57
106	112-03-036	Rizal Commercial Banking Corp. - Tacloban (AREAIL) - FARE	54,952.94
107	112-03-017	Dumaguete City Dev't Bank - Dumaguete Branch - FARE	48,120.73
108	112-03-033	Rizal Commercial Banking Corp. - Catarman Samar - FARE	46,662.03
109	112-03-016	Commercial Bank of Manila - Cebu City Branch - FARE	2,026.84
MINDANAO			
110	112-04-036	RB of Tupi - General Santos City - CAMP	554,150.03
111	112-04-017	Northern Mindanao Dev't Bank - Cagayan de Oro Branch - FARE	283,365.75
112	112-04-031	RB of Tagum Inc. - Tagum, Davao del norte - FLGC	223,264.09
113	112-04-042	Northern Mindanao Dev't Bank - Butuan Branch - FARE	195,300.79
114	112-04-038	RB of Tupi - Tacurong - FARE	171,549.59
115	112-04-019	Northern Mindanao Dev't Bank - Valencia, Bukidnon - FARE	117,901.40
116	112-04-033	Peninsula RB - General Santos City - FLAME	107,433.08
117	112-04-018	Northern Mindanao Dev't Bank - Iligan Branch - FARE	76,178.50
118	112-04-032	Dev't Bank of the Philippines - General Santos City - FARE	44,825.78
119	112-04-034	RB of Gian (S Cotabato) Inc. - Gian, South Cotabato - FARE	44,101.46
120	112-04-043	Rizal Commercial Banking Corp. - Butuan City Branch - FARE	36,281.43
121	112-04-027	Planters Dev't Bank - Davao City - FARE	33,327.44
122	112-04-026	CRB of Davao City - Tagum Davao Branch - FARE	10,213.30
123	112-04-040	South Cotabato CRB - South Cotabato - BMC	3,348.39
124	112-04-024	CRB of Davao City - Davao City Branch - FARE	83.50
			<hr/> 16,153,130.21
TOTAL			<hr/> P 25,637,004.62 <hr/>

QUEDAN AND RURAL CREDIT GUARANTEE CORPORATION
SCHEDULE OF DORMANT/INACTIVE SAVINGS ACCOUNT
As of December 31, 2006

	Description	Amount
LUZON		
112-02-001	Allied Banking Corp. - Malbon Branch - FARE	₱ 49,409.00
112-02-002	Allied Banking Corp. - Mandaluyong Branch - FARE	267.49
112-02-003	Allied Banking Corp. - New Manila Branch - FARE	(6,833.39)
112-02-004	Allied Banking Corp. - Retiro Branch - FARE	(1,887.55)
112-02-005	Allied Banking Corp. - Valenzuela Branch - FARE	5,341.49
112-02-006	Asia Trust Development Bank - Antipolo Branch - FARE	(45,466.41)
112-02-007	Asia Trust Development Bank - Caloocan City Branch - FARE	53,092.79
112-02-008	Asia Trust Development Bank - Del Monte Branch - FARE	(942.20)
112-02-009	Asia Trust Development Bank - Quezon Avenue Branch - FARE	(4,791.21)
112-02-010	Associated Citizens Bank - Binondo Branch - FARE	(77,181.16)
112-02-011	Associated Citizens Bank - Buendia Branch - FARE	36,146.49
112-02-012	Associated Citizens Bank - Sto. Cristo Branch - FARE	(14,849.02)
112-02-015	Bangko Rural ng Kalumpit - Kalumpit - FARE	(63,698.87)
112-02-017	Capitol City RB of Trece Martirez - Cavite Branch - FARE	77,784.93
112-02-021	Capitol City RB of Trece Martirez - Pasay Market - FARE	2,473.57
112-02-023	Capitol Dev't Bank - Cubao Branch - FARE	210,323.33
112-02-024	Capitol Dev't Bank - Makati Branch - FARE	(151,273.84)
112-02-025	Capitol Dev't Bank - Pasig Rizal Branch - FARE	(127,334.16)
112-02-026	Capitol Dev't Bank - San Mateo Rizal Branch - FARE	2,026.16
112-02-027	Commercial Bank of Manila - Arroceros Branch - FARE	35,799.81
112-02-028	Commercial Bank of Manila - Ermita Branch - FARE	(8,306.21)
112-02-029	Commercial Bank of Manila - Gracepark Branch - FARE	1,971.63
112-02-030	Commercial Bank of Manila - Kamuning Branch - FARE	75,273.13
112-02-031	Commercial Bank of Manila - Navotas Branch - FARE	(33,640.23)
112-02-032	Commercial Bank of Manila - Pasig Branch - FARE	(94,694.03)
112-02-033	Commercial Bank of Manila - Soler Branch - FARE	11,377.01
112-02-035	FEBTC/Cavite Dev't Bank - Bacoar Cavite - FARE	(85,655.67)
112-02-036	FEBTC/Cavite Dev't Bank - Binakayan Cavite - FARE	3,452.04
112-02-037	FEBTC/Cavite Dev't Bank - Cavite City Branch - FARE	7,405.82
112-02-038	FEBTC/Cavite Dev't Bank - NAIC Cavite Branch - FARE	5,154.60
112-02-039	FEBTC/Cavite Dev't Bank - Tanza Cavite - FARE	5,766.85
112-02-046	Luzon Dev't Bank - Dasmarinas Branch - FARE	8,870.37
112-02-051	Peninsula Dev't Bank - Bacoar Cavite Branch - FARE	33,480.37
112-02-053	Planters Dev't Bank - Meycauayan Bulacan - FARE	2,303.12
112-02-054	Planters Dev't Bank - Plaridel Bulacan - FARE	(120,498.85)
112-02-055	Planters Dev't Bank - Valenzuela Branch - FARE	67,990.71
112-02-057	Premiere Dev't Bank - Angono Rizal Branch - FARE	(405.07)
112-02-058	Premiere Dev't Bank - Binan Branch - CAMP	85,597.53
112-02-059	Premiere Dev't Bank - Binan Branch - FARE	(66,527.18)
112-02-060	Premiere Dev't Bank - Cainta Branch - FARE	3,012.16
112-02-061	Premiere Dev't Bank - Caloocan Branch - FARE	22,273.08
112-02-066	Premiere Dev't Bank - Mayamot, Antipolo Rizal - FARE	5,572.47
112-02-070	Premiere Dev't Bank - Pasig Branch - FARE	(3,245.75)
112-02-072	Premiere Dev't Bank - San Mateo Rizal Branch - FARE	7,411.91
112-02-074	RB of Cavite City Inc. - Cavite City - FARE	13,952.79
112-02-078	Real Savings & Loan Assn. - Cainta Branch - FARE	286,246.07
112-02-079	Real Savings & Loan Assn. - Masinag Branch - FARE	15,020.26
112-02-080	Rizal Commercial Banking Corp. - Malabon Branch - FARE	3,105.56
112-02-082	Sandigan Savings & Loan Bank Inc. - Calumpit Bulacan - FARE	6,130.52
112-02-083	Sandigan Savings & Loan Bank Inc. - Malolos - CAMP	3,657.82
112-02-084	Sandigan Savings & Loan Bank Inc. - Malolos Bulacan - FARE	(14,432.12)

	Description	Amount
112-02-085	Sandigan Savings & Loan Bank Inc. - Plaridel Bulacan - FARE	5,130.87
112-02-086	United Coconut Planters Bank - Navotas Branch - FARE	(220.03)
112-02-087	United Eastern Savings Bank - Tanay Rizal - FARE	8,847.74
112-02-088	United Mindoro Savings Bank - San Jose Occ. Mindoro - FARE	1,343.94
112-02-089	United Savings Bank (SBM) - Cubao Branch - FARE	(1,247.83)
112-02-091	Land Bank of the Philippines - Baguio City Branch - FARE	(11,840.83)
112-02-117	Land Bank of the Philippines - Santiago - FLAME	122,378.19
112-02-147	Planters Dev't Bank - Apalit Pampanga - FARE	(65.89)
112-02-148	Planters Dev't Bank - Cabanatuan City Branch - FARE	(26,436.01)
112-02-149	Planters Dev't Bank - Conception Tarlac - FARE	(852.97)
112-02-150	Planters Dev't Bank - Masantol Pampanga - FARE	50,676.49
112-02-151	Planters Dev't Bank - San Fernando Pampanga - FARE	805.33
112-02-161	Bangko Silangan - Orient Bank - FARE	91,943.27
112-02-190	United Savings Bank (SBM) - Palawan Branch - FARE	(45,073.62)
	Total	421,416.61
VIZAYAS		
112-03-012	RB of Sta Barbara Inc. - Iloilo Branch - FARE	231,568.35
112-03-016	Commercial Bank of Manila - Cebu City Branch - FARE	(2,026.84)
112-03-017	Dumaguete City Dev't Bank - Dumaguete Branch - FARE	(48,120.73)
112-03-018	Dumaguete City Dev't Bank - Dumaguete City - FARE	(115,844.04)
112-03-021	RB of Subangdaku Mandaque City - Mandaque Cebu - FARE	77,190.50
112-03-022	Sugbuanon RB - AREA I - FARE	(411,504.87)
112-03-025	United RB of Tuburan (Cebu) - Tuburan AREA I - FARE	15,580.45
112-03-026	United RB of Tuburan (Cebu) - Tuburan AREA II - FARE	(70,165.91)
112-03-032	RB of Sta Margarita (N Samar) - Catbalogan Branch - FARE	138,836.61
112-03-034	Rizal Commercial Banking Corp. - Catbalogan (AREA II) - FARE	(336,114.16)
112-03-035	Rizal Commercial Banking Corp. - Ormoc City Branch - FARE	445,686.39
112-03-037	Rizal Commercial Banking Corp. - Tacloban City (Ormoc) - FARE	(277,607.20)
	Total	(352,521.45)
MINDANAO		
112-04-017	Northern Mindanao Dev't Bank - Cagayan de Oro Branch - FARE	(283,365.75)
112-04-018	Northern Mindanao Dev't Bank - Iligan Branch - FARE	(76,178.50)
112-04-019	Northern Mindanao Dev't Bank - Valencia, Bukidnon - FARE	(117,901.40)
112-04-021	Planters Dev't Bank - Cagayan de Oro - FARE	10,152.65
112-04-024	CRB of Davao City - Davao City Branch - FARE	(83.50)
112-04-026	CRB of Davao City - Tagum Davao Branch - FARE	(10,213.30)
112-04-027	Planters Dev't Bank - Davao City - FARE	(33,327.44)
112-04-034	RB of Gian (S Cotabato) Inc. - Gian, South Cotabato - FARE	(44,101.46)
112-04-042	Northern Mindanao Dev't Bank - Butuan Branch - FARE	(195,300.79)
112-04-043	Rizal Commercial Banking Corp. - Butuan City Branch - FARE	(36,281.43)
	Total	(786,600.92)
	Grand Total	P (717,705.76)

SCHEDULE 3
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QUEDAN RURAL AND CREDIT GUARANTEE CORPORATION
PAST DUE TRADE RECEIVABLES NOT COVERED WITH HARD COLLATERALS
(WITH OUTSTANDING BALANCE ABOVE P500,000.00)
AS OF DECEMBER 31, 2006

	PROGRAM	NAME OF BORROWER	REGION	Date		Type of Collateral		Outstanding Principal	Remarks
				Granted	Due				
1 .)	SFMP	Montinola, Benito C.	VI	09/09/04	09/09/05	PDC	P	1,699,436.50	
2 .)	Coffee	Hilario, Romulo P.	XII	11/13/02	05/06/04	PDC/GCLI/PN		1,324,596.00	
3 .)	Coffee	Arguelles, Eduardo M.	XII	11/13/02	05/06/04	PDC/GCLI/PN		1,647,653.00	
4 .)	Coffee	Gonzalez, Alejandro D.	XII	11/13/02	05/06/04	PDC/GCLI/PN		3,718,576.00	
5 .)	Coffee	Azcueta, Leonardo D.	XII	11/13/02	05/06/04	PDC/GCLI/PN		3,748,530.00	
6 .)	Coffee	Gardose, Eduardo F.	XII	11/22/02	05/15/04	PDC/GCLI/PN		1,474,730.93	
7 .)	Coffee	Arguelles, Edgar A.	XII	11/22/02	05/15/04	PDC/GCLI/PN		2,369,280.00	
8 .)	Coffee	Waban, Ma. Jocelyn E.	XII	01/19/04	05/18/04			2,028,928.31	
9 .)	CLCP	Maquiling, Diosdado D.	XII	07/21/03	07/15/04	PDC/GLC/PN/MOA		1,709,868.00	Endorsed to PLO
10 .)	Coffee	Banca, Noli V.	XII	02/21/03	08/14/04	PDC/GCLI/PN		699,846.00	
11 .)	Coffee	Esparagoza, Danny P.	XII	02/21/03	08/14/04	PDC/GCLI/PN		1,182,069.00	
12 .)	Coffee	Piagola, Benedicto P.	XII	02/21/03	08/14/04	PDC/GCLI/PN		1,203,706.00	
13 .)	Coffee	Villanueva, Clemencia N.	XII	02/21/03	08/14/04	PDC/GCLI/PN		1,220,968.00	
14 .)	Coffee	Ostan, Corazon L.	XII	02/21/03	08/14/04	PDC/GCLI/PN		1,230,108.00	
15 .)	Coffee	Zapanta, Bevelyn K.	XII	02/21/03	08/14/04	PDC/GCLI/PN		1,270,951.00	
16 .)	Coffee	Jade, Rex M.	XII	02/21/03	08/14/04	PDC/GCLI/PN		1,291,532.00	
17 .)	QPMG	Sy, Melchor C.	XII	11/23/05	11/18/06			908,519.09	
18 .)		Alquisar, Joebel D.	XII	06/06/06	12/03/06			900,000.00	Check due date
19 .)	JAV	Silfavan, Manuel C., Katipunan Workers	X	01/24/99	06/24/00	none		742,452.51	Lacking documents
20 .)	GMA-CARES-CCLCP	Uy, Juliette T.	X	07/28/03	01/24/04	JSS/PDC		3,418,293.51	
21 .)	Gintong Ani - LGU	Municipal Government of Tugaya	X	01/14/99	12/30/01			1,500,000.00	
22 .)	Gintong Ani - LGU	Municipal Government of Tubaran	X	08/02/99	07/19/02			903,356.44	
23 .)	Gintong Ani - LGU	Municipal Government of Tamparan	X	09/22/99	09/06/02			1,370,000.00	
24 .)	RCBFS	Sarimanok MPC	X	06/23/99	06/08/02			1,267,000.00	
25 .)	RCBFS	Sarimanok MPC	X	07/27/99	07/11/02			433,000.00	
26 .)	CGP	Ong, Alen R.	X	11/10/98	10/25/01			2,700,000.00	
27 .)	CGP	Ong, Alen R.	X	12/08/98	11/24/01			200,000.00	
28 .)	CGP	Pangarungan, Princess Johayra Diamond	X	08/31/00	08/05/05			1,500,000.00	} 4,970,950.94
29 .)	CGP	Pangarungan, Princess Johayra Diamond	X	09/15/00	08/20/05			500,000.00	
30 .)	CGP	Pangarungan, Princess Johayra Diamond	X	10/09/00	09/13/05			1,000,000.00	
31 .)	CGP	Pangarungan, Princess Johayra Diamond	X	11/09/01	10/14/06			1,970,950.94	
32 .)	CAMP	Quiño, Juanito C.	X	09/10/97	08/15/02			1,710,000.00	} 2,630,720.00
33 .)	CAMP	Quiño, Juanito C.	X	12/02/97	11/06/02			920,720.00	

	PROGRAM	NAME OF BORROWER	REGION	Date		Type of Collateral	Oustanding Principal	Remarks
				Granted	Due			
34 .)	CLCP	Bombeo, Denbol P.	X	04/29/03	10/26/03		1,724,052.51	
35 .)	CLCP	Ravidas, Amado C.	X	10/29/03	10/23/04		890,600.00	
36 .)	CLCP	Revamonte, Henrito E.	X	11/08/03	11/02/04		3,420,750.00	
37 .)	SME-SULONG	Ragandang, Raul D.	X	04/01/03	03/16/06		1,398,791.55	} 2,168,999.18
38 .)	SME-SULONG	Ragandang, Raul D.	X	08/26/03	08/10/06		770,207.63	
39 .)	SME-SULONG	Ragandang, Paul Bernie	X	08/14/03	07/29/06		1,284,483.21	
40 .)	GMA-CARES-SFCP	Candano, Domingo E.	IX	05/31/06	11/27/06		1,402,573.20	
41 .)	GMA-CARES-LIVESTOCK							
42 .)	and POULTY	Dela Cerna, Danilo A.	IX	08/26/05	08/21/06	PDC	750,000.00	
43 .)	WCL	Yu, Liza L.	IX	04/08/05	10/05/05		500,000.00	} 1,000,000.00
44 .)	WCL	Yu, Liza L.	IX	07/06/05	01/02/06		500,000.00	
45 .)	WCL	Uy, Steven T.	IX	07/12/05	10/26/05		69,216.93	
46 .)	WCL	Uy, Steven T.	IX	08/11/05	02/07/06		172,424.00	
47 .)	WCL	Uy, Steven T.	IX	09/05/05	12/28/05		26,252.40	} 4,350,899.27
48 .)	WCL	Uy, Steven T.	IX	10/03/05	01/29/06		540,300.00	
49 .)	WCL	Uy, Steven T.	IX	11/04/05	02/27/06		775,030.00	
50 .)	WCL	Uy, Steven T.	IX	11/10/05	02/08/06		200,000.00	
51 .)	WCL	Uy, Steven T.	IX	12/02/05	03/24/06		332,355.94	
52 .)	WCL	Uy, Steven T.	IX	01/03/06	05/27/06		628,290.00	
53 .)	WCL	Uy, Steven T.	IX	01/10/06	07/09/06		500,000.00	
54 .)	WCL	Uy, Steven T.	IX	02/02/06	06/28/06		707,030.00	
55 .)	WC-BPAC	Uy, Steven T.	IX	05/11/06	11/07/06		400,000.00	
56 .)	PAF-DAF	Basilan Federation of MPC	IX	11/12/99	10/27/02		500,000.00	
57 .)	PAF-DAF	LARBECO (Lamitan, Basilan)	IX	12/03/03	11/17/06		573,718.17	
58 .)	WCL	Sugo Fishing	IX	02/01/05	04/02/05		300,000.00	} 1,000,000.00
59 .)	WCL	Sugo Fishing	IX	02/10/05	04/11/05		700,000.00	
60 .)	WCL	Wellshan Enterprises	IX	07/18/05	01/14/06		3,000,000.00	} 10,136,949.32
61 .)	WCL	Wellshan Enterprises	IX	07/18/05	01/14/06		3,000,000.00	
62 .)	WCL	Wellshan Enterprises	IX	07/20/05	01/16/06		1,000,000.00	
63 .)	WCL	Wellshan Enterprises	IX	08/02/05	01/29/06		600,000.00	
64 .)	WCL	Wellshan Enterprises	IX	08/02/05	10/31/05		36,949.32	
65 .)	WCL	Wellshan Enterprises	IX	10/10/05	01/08/06		500,000.00	
66 .)	WCL	Wellshan Enterprises	IX	10/18/05	01/16/06		500,000.00	
67 .)	WCL	Wellshan Enterprises	IX	10/28/05	01/26/06		1,500,000.00	
68 .)	WCL	Abduraja, Hji, Haibil	IX	08/02/05	01/29/06		600,000.00	
69 .)	GMA Cares SRF Program	Ahang, Yusop	IX	06/27/05	06/22/06		504,998.97	
70 .)	GMA Cares SRF Program	Ahang, Hassan	IX	06/29/05	06/24/06		504,999.48	
71 .)	GMA Cares SRF Program	Ahang, Isa	IX	08/31/05	08/26/06		518,188.43	
72 .)	AM-HVCP	Ilocos United Farmers	I	06/23/00	06/18/01		4,150,000.00	

	PROGRAM	NAME OF BORROWER	REGION	Date		Type of Collateral	Outstanding Principal	Remarks
				Granted	Due			
73 .)	AM-HVCP	Ilocos First Class Cotton	I	12/01/00	11/26/01		2,320,000.00	} 7,819,200.00
74 .)	AM-HVCP	Ilocos First Class Cotton	I	12/18/00	12/13/01		1,590,000.00	
75 .)	AM-HVCP	Ilocos First Class Cotton	I	01/17/01	01/12/02		3,459,200.00	
76 .)	AM-HVCP	Ilocos First Class Cotton	I	03/07/01	03/02/02		450,000.00	
77 .)	SRF-Bangus	Yaris, Danilo D.	I	09/02/05	03/01/06		561,618.67	} 1,892,520.00
78 .)	SMC - Cassava	Galima, Nestor O.	I	11/26/05	11/21/06		719,321.13	
79 .)	BMC	DILA MPCl	IV	04/24/97	04/03/01		250,000.00	
80 .)	BMC	DILA MPCl	IV	11/18/96	01/15/05		682,500.00	
81 .)	BMC	DILA MPCl	IV	07/19/99	06/02/04		160,020.00	} 1,892,520.00
82 .)	GPEP-CCAP	DILA MPCl	IV	12/15/97	12/15/00		800,000.00	
83 .)	Fisheries	Pelayo, Raul	III	08/02/04	01/29/05	PDC	1,054,000.00	
84 .)	Fisheries	Rivera, Jesmeraldo	III	10/26/04	04/24/05	PDC	630,000.00	
85 .)	Fisheries	Lulu, Angelina	III	12/21/04	06/19/05	PDC	670,000.00	} 1,607,133.29
86 .)	Fisheries	Lulu, Cipriano	III	12/21/04	06/19/05	PDC	1,020,000.00	
87 .)	Fisheries	Dela Cruz, Teodora M.	III	02/07/05	08/06/05	PDC	932,337.50	
88 .)	Fisheries	Rivera, Rosauo C.	III	02/07/05	08/06/05	PDC	700,000.00	
89 .)	Fisheries	Catli, Rommel	III	02/04/06	04/30/06	PDC	1,631,750.00	} 1,607,133.29
90 .)	GPEP-CCAP	VICTORIA PMPCI	III	11/10/94	11/10/97		1,200,000.00	
91 .)	AM-SUGAR	Dizon, Gaudencio Adlai A.	III	06/21/00	05/26/05		1,451,000.00	
92 .)	AM-SUGAR	Robles, Severo P.	III	09/13/01	08/18/06		1,641,900.00	
93 .)	GAP-FPO	San Clemente Farmers Cooperative	III	02/13/98	01/28/01		3,000,000.00	} 1,607,133.29
94 .)	GAP-FPO	Tarlac Federation	III	07/15/98	06/29/01		666,666.66	
95 .)	GAP-FPO	Far East Brotherhood	III	12/22/99	12/06/02		1,000,000.00	
96 .)	GAP-FPO	Eastern Women PMPCI	III	07/09/03	06/23/06		950,000.00	
97 .)	BMC-Warehouse Construction	NINAMA MPCl	III	05/10/94	04/14/99		509,979.28	} 1,607,133.29
98 .)	BMC-Warehouse Construction	Bacabac MPCl	III	03/06/98	01/23/06		750,000.00	
99 .)	BMC-Warehouse Construction	BESA MPCl	III	05/05/98	03/24/06		750,000.00	
100 .)	BMC-Warehouse Construction	Paniqui MPCl	III	07/15/98	06/04/06		750,000.00	
101 .)	BMC-Warehouse Construction	VAMASTAC MPCl	III	09/21/98	08/10/06		793,467.04	} 1,607,133.29
102 .)	AM - HVCP	Rural Women Association	III	03/31/99	03/15/02		1,021,078.66	
103 .)	FLGC - Warehousing	CUB-CUB Farmers PMPCI	III	01/19/96	04/02/01		700,000.00	
104 .)	RCBFS	Espinosa, Domingo T.	III	07/16/03	06/30/06		856,637.06	
105 .)	HCPP	Icban, Irene M.	III	04/05/05	10/02/05		720,588.35	} 1,607,133.29
106 .)	HCPP	Basilio, Benito M.	III	04/05/05	10/02/05		552,154.35	
107 .)	HCPP	Mejia, Rufo E.	III	08/24/05	02/20/06		612,089.77	
108 .)	HRCP	Bruno, Ernesto G.	III	10/15/02	04/13/03		716,942.46	
109 .)	GA-LGU	Municipality of Gen. Tinio	III	03/06/98	02/18/01		1,800,000.00	} 1,607,133.29
110 .)	GA-LGU	Municipality of Palayan	III	12/01/99	11/15/02		733,333.32	
111 .)	GA-LGU	Municipality of Palayan	III	07/17/00	07/02/03		873,799.97	
112 .)	GA-LGU	Municipality of San Isidro	III	08/29/00	08/14/03		3,693,601.36	

	PROGRAM	NAME OF BORROWER	REGION	Date		Type of Collateral	Outstanding Principal	Remarks
				Granted	Due			
113 .)	GA-LGU	Municipality of San Isidro	III	01/20/03	01/04/06		3,022,877.93	} 6,716,479.29
114 .)	SRF-Fishery	Ordoñez, Pocholo J.	III	09/03/04	08/29/05		3,000,000.00	
115 .)	HOGS-BREEDING	Tolosa, Elsa	V	02/04/05	10/02/05		540,000.00	
116 .)	HOGS-BREEDING	Balon, Edward	V	03/03/05	10/29/05		960,000.00	
117 .)	HOGS-BREEDING	Yu, Zenaida M.	V	04/03/05	11/29/05		600,000.00	
118 .)	HOGS-BREEDING	Balon, Leland R.	V	05/06/05	01/01/06		960,000.00	
119 .)	HOGS-BREEDING	Gadil, Gerry J.	V	06/10/05	02/05/06		1,800,000.00	
120 .)	HOGS-BREEDING	King, Rosamaria L.	V	08/25/05	02/21/06		720,000.00	
121 .)	HOGS-BREEDING	Talento, Augusto F.	V	07/15/05	03/12/06		1,200,000.00	
122 .)	HOGS-BREEDING	Bejerano, Allan C.	V	07/29/05	03/26/06		550,000.00	
123 .)	HOGS-BREEDING	Yu, Ferdinand M.	V	07/29/05	03/26/06		660,000.00	
124 .)	HOGS-BREEDING	Peñaredondo, Abner	V	07/29/05	03/26/06		660,000.00	
125 .)	HOGS-BREEDING	Bantayan, Elma	V	07/29/05	03/26/06		550,000.00	
126 .)	HOGS-BREEDING	King, Rodelio L.	V	08/25/05	04/22/06		960,000.00	
127 .)	SRF	New Goldrock Agrivet	V	08/06/04	07/27/06		7,327,798.61	
128 .)	FARE SW	King, Arnel	V	09/20/99	09/14/00		500,000.00	Legal Accounts
129 .)	FARE SW	Romero, Hilario	V	10/25/99	10/19/00		500,000.00	Legal Accounts
130 .)	PAFDAF	Tawad MPCl	V	06/15/00	05/31/03		500,000.00	
131 .)	PAFDAF	Maravilla MPCl	V	05/27/03	05/11/06		837,357.33	
132 .)	CBMC-WC	SILCI-Warehousing	V	12/30/97	10/19/05		950,000.00	

TOTAL	P	155,418,302.42
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TOTAL TRADE RECEIVABLES	P	7,902,581,690.00
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PERCENTAGE	1.97%
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Due on:	
1997	1,200,000.00
1999	509,979.28
2000	2,542,452.51
2001	18,876,666.66
2002	13,767,688.42
2003	7,508,396.30
2004	34,011,005.75
2005	20,794,435.35
2006	56,207,678.15
TOTAL	155,418,302.42

QUEDAN AND RURAL CREDIT GUARANTEE CORPORATION
PAST DUE TRADE RECEIVABLES WITH REM/CHATTEL MORTGAGE NOT YET FORCLOSED
AS OF DECEMBER 31, 2006

NAME OF BORROWER			DISTRICT/REGIONAL OFFICE	DATE GRANTED	DATE DUE	TYPE OF COLLATERAL	OUTSTANDING PRINCIPAL	REMARKS
1	Lopez,	Rhina	NCR - Pasay	05/26/88	11/22/88	PDC/REM	₱ 1,595.43	
2	Duran,	Guilbert	NCR - Pasay	01/05/90	12/31/90	PDC/REM	49,996.32	
3	Relorcasa,	Virgilio	NCR - Pasay	05/29/92	05/24/93	PDC/REM	44,450.93	
1	Utto,	Erlinda	NCR - Pasay	07/22/94	01/18/95	PDC/CHATTEL	11,079.15	
2	Manalo,	Domingo	NCR - Pasay	05/30/94	05/25/95	PDC/REM	158,450.14	
3	Yap,	Felicitas	NCR - Pasay	07/12/94	07/07/95	PDC/CHATTEL	158,013.95	
4	Sandoval,	Nenita	NCR - Pasay	06/13/95	12/10/95	PDC/REM	75,000.00	
5	Rizal West		Nueva Ecija District Office	03/16/93	03/11/96	REM, PDC	40,813.01	
6	Sto. Rosario MPCl		Nueva Ecija District Office	07/15/93	06/29/96	REM, PDC	50,000.00	
7	Tagunicar,	Elsa	NCR - Pasay	10/23/95	10/17/96	PDC/REM	191,348.09	
8	Modern Farmers MPCl		Eastern and Central Pangasin	11/25/93	11/09/96	REM	150,000.00	For Foreclosure
9	Lacaron MPCl		Bacolod District Office	12/02/93	11/16/96	REM	150,000.00	Legal Accounts
10	NOFACI		Bacolod District Office	12/03/93	11/16/96	REM	150,000.00	Legal Accounts
11	Pacol MPCl		Bacolod District Office	12/02/93	11/16/96	REM	150,000.00	Legal Accounts
12	Christian Graces		Nueva Ecija District Office	01/28/94	01/12/97	REM, PDC	25,000.00	
13	Napoles MPCl		Bacolod District Office	02/14/94	01/29/97	REM	150,000.00	Legal Accounts
14	Solas,	Maricon	NCR - Pasay	02/06/96	01/31/97	PDC/REM	67,236.68	
15	Jalando-on	Ramy	Bacolod District Office	03/28/95	03/17/97	Chattel Mortgage	568,900.74	For Foreclosure
16	San Isidro MPCl		Bacolod District Office	05/16/94	04/30/97	REM	150,000.00	Legal Accounts
17	Mal-Pima MPCl		Nueva Ecija District Office	10/24/94	10/08/97	REM, PDC	150,000.00	
18	CHAN	ROSARIO	A Region X	04/11/97	10/08/97	CHATEL	83,333.33	
19	Chua	Raul	Bacolod District Office	10/26/94	10/10/97	REM	466,473.56	For Foreclosure
20	CARP-BMC		Pampanga District Office	11/02/94	10/17/97	REM	150,000.00	
21	JAMORA	VERONICO	L Region X	10/31/96	10/26/97	REM	8,333.33	Non-moving
22	ALIP	ALILIE	A Calapan District Office	11/19/96	11/14/97	REM	450,000.00	LEGAL ACCOUNTS
23	Christian Graces		Nueva Ecija District Office	12/05/94	11/19/97	REM, PDC	150,000.00	
24	Sto. Rosario MPCl		Nueva Ecija District Office	12/06/94	11/20/97	REM, PDC	74,000.00	
25	CARP-BMC		Pampanga District Office	12/09/94	11/23/97	REM	350,000.00	
26	Gauzon	Antonio	Bacolod District Office	12/29/94	12/13/97	REM	1,416,666.67	Legal Accounts
27	RABANES	JOEL ANG	B Region X	12/24/96	12/19/97	CHATEL	18,254.48	

	NAME OF BORROWER		DISTRICT/REGIONAL OFFICE	DATE		TYPE OF COLLATERAL	OUTSTANDING	REMARKS
				GRANTED	DUE		PRINCIPAL	
28	Mabini (MAPPCU) MPCl		Bacolod District Office	03/08/95	02/20/98	REM	150,000.00	Legal Accounts
29	Valdez Arturo		Bacolod District Office	03/22/95	03/07/98	REM	2,000,000.00	Legal Accounts
30	Lacaron MPCl		Bacolod District Office	03/21/95	03/08/98	REM	150,000.00	Legal Accounts
31	Pacol ARB		Bacolod District Office	03/21/95	03/08/98	REM	150,000.00	Legal Accounts
32	MAGLANGIT GILDA	C	Region X	03/18/97	03/13/98	CHATEL	104,166.68	
33	Sto. Rosario MPCl		Nueva Ecija District Office	07/15/93	06/19/98	REM, PDC	294,075.00	
34	Arceo Jimena		Bacolod District Office	07/27/95	07/11/98	REM	69,361.09	For Foreclosure
35	TAN ELIZABETH	L	Region X	08/07/97	08/02/98	CHATEL	45,104.40	
36	-Wrkg Capt		Region X	08/21/95	08/05/98	Land Titles	100,000.00	
37	Ceniza Ludina		Region VII	09/25/96	09/15/98	REM	300,000.00	For Legal
38	Farnacio Reynante	C.	Eastern and Central Pangasin	09/22/97	09/17/98	REM	35,000.00	Non-moving
39	Tendenilla Florentino	N.	Eastern and Central Pangasin	09/22/97	09/17/98	Tricycle/Jeep	35,000.00	Non-moving
40	Patricio Gideon Ike		Capiz District Office	10/05/95	09/19/98	PDC, REM	1,000,000.00	
41	Modern Farmers MPCl		Eastern and Central Pangasin	12/01/93	10/30/98	REM	587,500.00	For Foreclosure
42	Christian Graces		Nueva Ecija District Office	11/25/93	10/30/98	REM, PDC	325,000.00	
43	La Torre		Nueva Ecija District Office	11/17/95	11/01/98	REM, PDC	125,000.00	
44	Pacol MPCl		Bacolod District Office	12/14/93	11/18/98	Warehouse	627,000.00	Legal Accounts
45	NOFACI		Bacolod District Office	12/16/93	11/20/98	Warehouse	650,000.00	Legal Accounts
46	Lacaron MPCl		Bacolod District Office	12/21/93	11/25/98	Warehouse	645,000.00	Legal Accounts
47	Aquino Gil Jose		Capiz District Office	12/12/95	11/26/98	PDC, REM	700,000.00	
48	Mamarlao MPCl		Eastern and Central Pangasin	12/21/95	12/05/98	REM	250,000.00	For Foreclosure
49	-Wrkg Capt		Region X	03/05/96	02/18/99	Land Titles	291,666.67	
50	FLGC		Calapan District Office	03/21/96	03/06/99	REM	337,000.00	CRMD ACCOUNTS
51	Orenda-in Leoncio		Bacolod District Office	04/10/97	03/30/99	REM	150,000.00	CRMD Accounts
52	Napoles MPCl		Bacolod District Office	04/25/94	03/31/99	Warehouse	615,000.00	Legal Accounts
53	DAVID OFELIA	F	Calapan District Office	04/24/97	04/14/99	REM	416,666.68	LEGAL ACCOUNTS
54	Tanalgo Procopio		Bacolod District Office	05/09/97	04/29/99	REM	1,200,000.00	For Foreclosure
55	BMC			02/17/94	05/02/99	JSS/REM	571,200.00	ENDORSED TO PLO
56	FLGC		Calapan District Office	06/18/96	06/03/99	REM	102,500.00	CRMD ACCOUNTS
57	San Isidro MPCl		Bacolod District Office	07/12/94	06/16/99	Warehouse	647,000.00	Legal Accounts
58	GERON GIL		Cagayan District Office	07/25/97	07/15/99	REM/TCT	16,000.00	
59	MALUPENG EDNA		Cagayan District Office	07/25/97	07/15/99	REM/TCT	19,200.00	
60	PIGAD JOSEPHINE		Cagayan District Office	07/25/97	07/15/99	REM/TCT	5,464.59	
61	SOCIA SHIRLEY		Cagayan District Office	07/25/97	07/15/99	REM/TCT	6,478.65	
62	ANDRES DOMINADOR		Cagayan District Office	07/28/97	07/18/99	REM/TCT	19,000.00	
63	SANTOS ANDRES		Cagayan District Office	07/28/97	07/18/99	REM/TCT	10,000.00	
64	GUILLERMO NORBERTO		Cagayan District Office	07/28/97	07/18/99	REM/TCT	19,000.00	

NAME OF BORROWER			DISTRICT/REGIONAL OFFICE	DATE GRANTED	DATE DUE	TYPE OF COLLATERAL	OUTSTANDING PRINCIPAL	REMARKS
65	LIQUIGAN	CARLITO	Cagayan District Office	07/28/97	07/18/99	REM/TCT	19,000.00	
66	REBOLDERA	BELLA	Cagayan District Office	07/28/97	07/18/99	REM/TCT	19,280.05	
67	SIDAYAO	EFREN	Cagayan District Office	07/28/97	07/18/99	REM/TCT	9,500.00	
68	VALENCIA	FRED	Cagayan District Office	07/28/97	07/18/99	REM/TCT	10,000.00	
69	PANAL	DELFIN	C Region X	07/29/97	07/19/99	REM	15,000.00	Moving
70	BONILLA	DOMINADOR	Cagayan District Office	08/27/97	08/17/99	REM/TCT	15,000.00	
71	LAGAYON	DOMINADOR	Cagayan District Office	08/27/97	08/17/99	REM/TCT	11,146.71	
72	MENDOZA	HILARIO	M Calapan District Office	08/27/97	08/17/99	REM	450,000.00	LEGAL ACCOUNTS
73	OZAETA	HAZEL	D Region X	08/25/98	08/20/99	REM	2,562.27	Non-moving
74	LINABO MPC		Region X	09/11/96	08/27/99	REM,PN & PDC	150,000.00	Non-Moving
75	Bulquerin	Eris	Capiz District Office	09/08/97	08/29/99	PDC, REM	10,000.00	
76	Bulquerin	Gary	Capiz District Office	09/08/97	08/29/99	PDC, REM	10,000.00	
77	Bulquerin	Gerardo	Capiz District Office	09/08/97	08/29/99	PDC, REM	20,000.00	
78	Bulquerin	Romano	Capiz District Office	09/08/97	08/29/99	PDC, REM	20,000.00	
79	Bulquerin	Vincent	Capiz District Office	09/08/97	08/29/99	PDC, REM	10,000.00	
80	Orenda-in	Leoncio	Bacolod District Office	09/17/96	09/01/99	REM	266,666.66	For Foreclosure
81	CARP-BMC		Pampanga District Office	09/16/94	09/22/99	REM	668,000.00	
82	Mal-Pima MPCl		Nueva Ecija District Office	10/24/94	09/28/99	REM, PDC	633,000.00	
83	Valle PMKBI/Mktg.		Nueva Ecija District Office	11/21/96	11/06/99	REM, PDC	150,000.00	
84	Pacol ARB		Bacolod District Office	12/16/93	11/20/99	Warehouse	434,000.00	Legal Accounts
85	Tan	Enrico	Nueva Ecija District Office	11/26/98	11/21/99	REM, PDC	250,000.00	
86	LINABO MPC		Region X	12/12/96	11/27/99	REM,PN & PDC	350,000.00	Non-Moving
87	Mabini MPCl		Nueva Ecija District Office	12/24/94	11/28/99	REM, PDC	668,000.00	
88	Santos	Ressie	Nueva Ecija District Office	12/23/98	12/18/99	REM, PDC	320.65	
89	Mabini (MAPPCU) MPCl		Bacolod District Office	03/08/95	02/10/00	Warehouse	693,000.00	Legal Accounts
90	Calaocan MPCl		Nueva Ecija District Office	01/17/95	03/02/00	REM, PDC	700,000.00	
91	-Wrhs.Const		Region X	02/15/95	03/16/00	Land Titles	700,000.00	
92	Corpuz	Marianito	Nueva Ecija District Office	04/14/98	04/03/00	REM, PDC	5,981.62	
93	San Isidro MPCl		Bacolod District Office	06/28/95	05/31/00	REM	150,000.00	Legal Accounts
94	T.L. Padilla		Nueva Ecija District Office	06/23/97	06/08/00	REM, PDC	150,000.00	
95	CATIGBE	FRANCISCO	C Region X	06/02/97	06/08/00	REM	221,600.70	CRMD Accounts
96	KAMUTY FARMERS MPCl		Region X	07/02/96	06/11/00	REM,PN & PDC	150,000.00	Non-Moving
97	La Torre MPCl		Nueva Ecija District Office	07/14/95	06/17/00	REM, PDC	490,000.00	
98	FLGC-WORKING CAPITAL		Region X	09/25/97	09/09/00	REM	100,000.00	
99	T.L. Padilla		Nueva Ecija District Office	11/04/97	10/20/00	REM, PDC	350,000.00	
100	Mamarlao MPCl		Eastern and Central Pangasin	08/22/95	11/03/00	REM	700,000.00	For Foreclosure
101	Sto. Rosario MPCl		Nueva Ecija District Office	12/23/96	12/02/00	REM, PDC	200,000.00	

NAME OF BORROWER		DISTRICT/REGIONAL OFFICE	DATE GRANTED	DATE DUE	TYPE OF COLLATERAL	OUTSTANDING PRINCIPAL	REMARKS
102	KAMUTY FARMERS MPC	Region X	10/25/95	01/06/01	REM,PN & PDC	700,000.00	Non-Moving
103	Gonzales Clarita	Nueva Ecija District Office	01/31/00	01/25/01	REM, PDC	29,818.15	
104	Mabinuligon MPC	Bacolod District Office	03/02/98	02/14/01	REM	125,000.00	For Foreclosure
105	Bagong Pag-asa Coop. Inc.	Nueva Ecija District Office	03/07/00	03/02/01	REM, PDC	290,884.75	
106	Cajucorn Flordevida	Nueva Ecija District Office	08/15/00	03/13/01	REM, PDC	133,000.00	
107	EXUARI MA. VIVIA	R Region X	04/20/98	04/05/01	CHM	300,000.00	For Foreclosure
108	FLGC	Calapan District Office	02/16/96	04/30/01	REM	695,000.00	LEGAL ACCOUNTS
109	Yu Angelina	Nueva Ecija District Office	06/01/99	05/21/01	REM, PDC	250,000.00	
110	Feliciano Marcos	Nueva Ecija District Office	06/03/98	05/23/01	REM, PDC	155,834.50	
111	Trube Dionisio Jr.	Nueva Ecija District Office	06/18/99	06/07/01	REM, PDC	1,900,000.00	
112	MANAGOK MPC	Region X	07/08/98	06/22/01	REM,PN & PDC	5,000,000.00	Non-Moving
113	Buenaventura Edgardo	Nueva Ecija District Office	07/06/00	07/01/01	REM, PDC	80,000.00	
114	Bonifacio Joselino	Nueva Ecija District Office	07/27/99	07/16/01	REM, PDC	112,500.00	
115	KAMUTY FARMERS MPC	Region X	08/21/96	07/26/01	REM,PN & PDC	150,000.00	Non-Moving
116	Valle PMKBI/whsg.	Nueva Ecija District Office	05/24/96	08/06/01	REM, PDC	700,000.00	
117	LINABO MPC	Region X	05/27/96	08/09/01	REM,PN & PDC	700,000.00	Non-Moving
118	Galang Salvacion	Nueva Ecija District Office	10/01/99	09/20/01	REM, PDC	308,559.88	
119	DAUD LORNA	Region V - Camarines Sur	09/07/00	09/22/01	REM	125,000.00	Legal Accounts
120	Jazmin Eppie	Region V - Sorsogon	10/09/00	10/04/01	REM	65,000.00	
121	MATA ARMANDO	D Region X	10/21/98	10/06/01	REM	472,557.78	
122	COLARTE MYRNA	D Region X	10/20/00	10/15/01	REM	232	Non-moving
123	GA-JAV PROGRAM	Region X	11/04/98	10/19/01	REM	1,666,666.65	
124	FLGC-WORKING CAPITAL	Region X	11/13/98	10/28/01	REM	350,000.00	
125	Villanueva Elvira	Nueva Ecija District Office	11/06/00	11/01/01	REM, PDC	300,000.00	
126	San Vicente Elmer	Nueva Ecija District Office	11/16/99	11/05/01	REM, PDC	1,000,000.00	
127	MANAGOK MPC	Region X	12/01/97	11/10/01	REM,PN & PDC	314,774.87	Non-Moving
128	Popera Rosenda	O. Ozamiz District-Reg. IX	11/24/00	11/19/01	REM	233,332.00	
129	Tumibay Francisca	Nueva Ecija District Office	12/23/99	12/12/01	REM, PDC	250,000.00	
130	OLIVARES SALVACION	Region V - Camarines Sur	12/20/00	12/15/01	REM	50,000.00	Legal Accounts
131	Buer Bayaoas MPC	Western Pangasinan District C	10/11/96	12/24/01	REM	650,000.00	
132	Espidol Genaline	Nueva Ecija District Office	01/23/01	01/18/02	REM, PDC	450,000.00	
133	FLGC	Calapan District Office	03/01/99	02/13/02	REM	150,000.00	CRMD ACCOUNTS
134	Senorin Geronima	Region VII	03/15/99	02/27/02	REM	2,293,253.15	For Foreclosure
135	Agro Industrial Enterprises	NCR - Pasay	03/25/99	03/09/02	PDC/REM	8,569,085.30	
136	AGCAOILI LUCIFINA	Cagayan District Office	04/08/99	03/23/02	REM/TCT	49,654.00	
137	BALAGSO EXPEDITO	Cagayan District Office	04/08/99	03/23/02	REM/TCT	33,380.84	
138	CAPLIPDAN FE	Cagayan District Office	04/08/99	03/23/02	REM/TCT	50,000.00	

NAME OF BORROWER			DISTRICT/REGIONAL OFFICE	DATE GRANTED DUE		TYPE OF COLLATERAL	OUTSTANDING PRINCIPAL	REMARKS
139	CAPLIPDAN	GEORGE	Cagayan District Office	04/08/99	03/23/02	REM/TCT	50,000.00	
140	FLORES	RENE	Cagayan District Office	04/08/99	03/23/02	REM/TCT	991.89	
141	MABATAN	CRESENCIO	Cagayan District Office	04/08/99	03/23/02	REM/TCT	38,365.19	
142	OMOTOY	GILBERT	Cagayan District Office	04/08/99	03/23/02	REM/TCT	50,000.00	
143	RAPADA	MARLYN	Cagayan District Office	04/08/99	03/23/02	REM/TCT	45,902.76	
144	SACYAN	MARCELINA	Cagayan District Office	04/08/99	03/23/02	REM/TCT	37,966.00	
145	TACAL	ORLINO	Cagayan District Office	04/08/99	03/23/02	REM/TCT	50,000.00	
146	TACTAC	RUBEN	Cagayan District Office	04/08/99	03/23/02	REM/TCT	43,027.90	
147	Sto. Rosario MPCl		Nueva Ecija District Office	03/31/99	03/23/02	REM, PDC	986,236.58	
148	MANAGOK MPC		Region X	09/01/97	04/03/02	REM,PN & PDC	361,422.90	Non-Moving
149	AGAM	SATURNINO	Cagayan District Office	05/15/00	05/05/02	REM/TCT	25,504.26	
150	ANCHETA	SONNY	Cagayan District Office	05/15/00	05/05/02	REM/TCT	27,447.60	
151	APOSTOL	ROGER	Cagayan District Office	05/15/00	05/05/02	REM/TCT	18,184.70	
152	BAYLON	ADELA	Cagayan District Office	05/15/00	05/05/02	REM/TCT	29,209.27	
153	DOLOZON	DOMINGO	Cagayan District Office	05/15/00	05/05/02	REM/TCT	29,515.00	
154	FLORES	ESTEBAN	Cagayan District Office	05/15/00	05/05/02	REM/TCT	27,811.33	
155	FLORES	FRANCISCA	Cagayan District Office	05/15/00	05/05/02	REM/TCT	18,235.00	
156	QUILALA	VILMA	Cagayan District Office	05/15/00	05/05/02	REM/TCT	24,560.27	
157	RAMOS	LEONARDO	Cagayan District Office	05/15/00	05/05/02	REM/TCT	25,748.00	
158	SADAC	ROGELIO	Cagayan District Office	05/15/00	05/05/02	REM/TCT	18,168.57	
159	VEGA	FRANCISCO	Cagayan District Office	05/15/00	05/05/02	REM/TCT	17,705.63	
160	RCBFS		Region X	06/23/99	06/08/02	REM	4,200,000.00	
161	LUMIANO	MAGDALINA	P Region X	06/24/99	06/09/02	REM,PN & PDC	438,374.00	Non-Moving
162	FLGC		Calapan District Office	07/19/99	07/03/02	REM	350,000.00	CRMD ACCOUNTS
163	T.L. Padilla		Nueva Ecija District Office	04/23/97	07/06/02	REM, PDC	700,000.00	
164	Jebulan	Rogelio	Region V - Sorsogon	08/16/01	08/11/02	REM	57,220.94	
165	Pineda	Fe Esperanza	Nueva Ecija District Office	09/15/99	08/30/02	REM, PDC	800,000.00	
166	SAJULGA	JONAS	D Region X	09/20/99	09/05/02	REM,PN & PDC	3,000,000.00	Non-Moving
167	FLGC-WAREHOUSE CONSTRUCTIO		Region X	06/25/97	09/07/02	REM	535,000.00	
168	Coopbank N.E.		Nueva Ecija District Office	09/30/99	09/30/02	REM, PDC	3,246,390.56	
169	BONA	RAINERIO	Cagayan District Office	11/17/97	10/22/02	REM/TCT	44,445.00	
170	Baluyot	Anselmo	Nueva Ecija District Office	11/11/99	10/26/02	REM, PDC	1,300,000.00	
171	Velasquez,	Gaudioso	Western Pangasinan District C	11/17/99	11/01/02	REM	850,000.00	
172	RIRAO	JIMENEZ	Cagayan District Office	12/02/97	11/06/02	REM/TCT	11,084.91	
173	SAP-AY	REX	Cagayan District Office	12/02/97	11/06/02	REM/TCT	39,316.80	
174	Mabinuligon MPCl		Bacolod District Office	12/05/97	11/09/02	REM	700,000.00	For Foreclosure
175	Silva,	Jose	NCR - Pasay	11/29/99	11/13/02	REM/TCT/PDC	61,086.55	

NAME OF BORROWER			DISTRICT/REGIONAL OFFICE	DATE GRANTED	DATE DUE	TYPE OF COLLATERAL	OUTSTANDING PRINCIPAL	REMARKS
176	ASUNCION	JOHNBIM	Cagayan District Office	11/29/99	11/13/02	REM/TCT/PDC	94,851.33	
177	Bugtong na Buli		Nueva Ecija District Office	12/15/98	11/24/02	REM, PDC	156,250.00	
178	Sta. Isabel MPCl		Nueva Ecija District Office	12/15/98	11/24/02	REM, PDC	187,500.00	
179	Agro Industrial Enterprises		NCR - Pasay	12/15/99	11/29/02	PDC/REM	10,000,000.00	
180	Rebojo	Aida	D Region VII	06/28/02	12/25/02	CM, GCLI, PDC	15,383.93	With filed case
181	Cajucorn	Roberto	Nueva Ecija District Office	01/17/00	01/01/03	REM, PDC	400,000.00	
182	ALUNDAY	CLARITO	Cagayan District Office	01/29/98	01/03/03	REM/TCT	48,661.20	
183	BAYONGAN	MARIANO	Cagayan District Office	01/29/98	01/03/03	REM/TCT	16,012.24	
184	Zabat	Rebecca	Nueva Ecija District Office	01/21/00	01/05/03	REM, PDC	1,000,000.00	
185	Cordova	Regino	G Region VII	07/25/02	01/21/03	CM, GCLI, PDC	5,384.63	CRMG Accounts
186	RCBFS		Region X	02/09/00	01/24/03	REM	3,800,000.00	
187	Cajucorn	Roberto	Nueva Ecija District Office	02/11/00	01/26/03	REM, PDC	1,100,000.00	
188	Buenaventura	Edgardo	Nueva Ecija District Office	02/11/00	01/26/03	REM, PDC	600,000.00	
189	Transporte	Hermilo	Ozamiz District-Reg. IX	02/01/02	01/27/03	REM	8,362.23	
190	LUMBICAN	CHRISTITO	Cagayan District Office	02/25/98	01/31/03	REM/TCT	38,885.00	
191	Briz,	Francisco	Western Pangasinan District C	10/03/03	01/31/03	REM	33,296.87	
192	CARP-BMC		Pampanga District Office	02/26/99	02/05/03	REM	120,777.51	
193			Region V - Sorsogon	02/28/99	02/07/03	REM	190,000.00	
194	TAGRA	ANGELINA	Region X	03/09/00	02/20/03	REM, PN & PDC	131,866.67	NON-MOVING
195	APOLINARIO	LEONIDO	Cagayan District Office	04/10/00	03/26/03	REM/TCT	16,650.00	
196	Flores	Clay	Bacolod District Office	04/11/00	03/27/03	REM	286,000.00	CRMD Accounts
197	Balaquidan	Margarita	Nueva Ecija District Office	04/05/02	03/31/03	REM, PDC	39,357.22	
198	Cagampan	Anecito	Eastern and Central Pangasin	04/18/00	04/03/03	REM	289,261.00	CRMD Accounts
199	Nagpandayan	Coop. Devp. Inc.	Nueva Ecija District Office	05/03/00	04/18/03	REM, PDC	849,233.12	
200	Santos	Amado	Nueva Ecija District Office	05/19/00	05/04/03	REM, PDC	600,000.00	
201	BAS	JESUS	B Region X	05/29/00	05/14/03	REM	158,614.59	
202	Monoy	Rodito	Aklan District Office	11/21/02	05/20/03	CM/PDC	3,675.71	Non-Moving
203	LAGARDE	SULPICIO	Pampanga District Office	06/05/00	05/21/03	REM	300,000.00	
204	PAF-DAF	Oroquieta City	Ozamiz District-Reg. IX	06/18/98	05/23/03	REM	223,065.75	
205	SAJULGA	JONAS	D Region X	06/18/98	05/23/03	REM,PN & PDC	4,800,000.00	Non-Moving
206	Temblor	Cresencia	P Region VII	11/27/02	05/26/03	CM, GCLI, PDC	14,471.38	for filing
207	Raval	Danilo	Aklan District Office	12/19/02	06/17/03	CM/PDC	0.01	
208	Bugtong na Buli		Nueva Ecija District Office	07/14/99	06/23/03	REM, PDC	187,500.00	
209	ORTEGA	BUENA/GALAHAI	F Region X	07/01/02	06/26/03	REM	30,794.62	
210	Artuz,	Vicente	A. Capiz District Office	07/01/02	06/26/03		64,784.68	with CRMG, for remedial action
211	Villaruel	Rowena	Aklan District Office	01/08/03	07/07/03	CM/PDC	103.49	Non-Moving
212	Quitong	Jimmydale	Aklan District Office	01/10/03	07/09/03	CM/PDC	2,992.16	Moving

NAME OF BORROWER			DISTRICT/REGIONAL OFFICE	DATE GRANTED	DATE DUE	TYPE OF COLLATERAL	OUTSTANDING PRINCIPAL	REMARKS
213	Cajucum	Flordevida	Nueva Ecija District Office	08/15/00	07/31/03	REM, PDC	167,000.00	
214	SAJULGA	JONAS	D Region X	09/02/98	08/07/03	REM,PN & PDC	4,900,000.00	Non-Moving
215	POLVORIZA	MARILOU	I. Region V - Camarines Sur	08/22/01	08/12/03	REM	300,000.00	Legal Accounts
216	Flaviano	Erlinda	Aklan District Office	03/07/03	08/22/03	CM/PDC	8,895.86	Non-Moving
217	Sta. Isabel MPCl		Nueva Ecija District Office	09/13/99	08/23/03	REM, PDC	218,750.00	
218	Magallanes	Tessie	Aklan District Office	03/07/03	09/03/03	CM/PDC	37,500.00	Non-Moving
219	CARP-BMC		Pampanga District Office	09/20/99	09/04/03	REM	350,000.00	
220	Pastana	Agapito	Aklan District Office	03/10/03	09/06/03	CM/PDC	10,019.96	Moving
221	FLGC		Calapan District Office	05/20/98	09/15/03	REM	700,000.00	LEGAL ACCOUNTS
222	Antone	Geronima	C Region VII	04/02/03	09/29/03	CM, GCLI, PDC	14,705.77	CRMG Accounts
223	Reyes	Lani	Nueva Ecija District Office	10/18/00	10/03/03	REM, PDC	500,000.00	
224	Valencia	Nazaria	C Region VII	04/09/03	10/06/03	CM, GCLI, PDC	3,316.28	CRMG Accounts
225	NOLASCO	CRISANTO	Cagayan District Office	10/25/00	10/10/03	REM/TCT	16,999.00	
226	NATINDIM	NONILA	G Region X	10/21/02	10/16/03	REM	2,166.12	
227	De Guzman	Ofelia	Nueva Ecija District Office	11/06/00	10/22/03	REM, PDC	500,000.00	
228	Lacale	Clint Moreno	Nueva Ecija District Office	10/30/02	10/25/03	REM, PDC	308,583.34	
229	ANTALLAN	DANILO	B Region X	11/07/02	11/02/03	REM	104,775.22	
230	CASTRO	ENRIQUE	Cagayan District Office	11/20/00	11/05/03	REM/TCT	50,000.00	
231	Castro,	Robenesto	D. Capiz District Office	11/02/02	11/06/03		10,611.84	with CRMG, for remedial action
232	Murillo	Renato	Nueva Ecija District Office	11/29/00	11/14/03	REM, PDC	458,333.33	
233	CAPILI	LAUR	Y Region X	12/26/02	12/21/03	REM	41,696.26	
234	Valenzuela	Medel	Aklan District Office	07/08/03	01/03/04	CM/PDC	262.65	Non-Moving
235	Casimero	Efren	Aklan District Office	07/16/03	01/11/04	CM/PDC	3,721.73	Non-Moving
236	Oquendo	Joleny	Aklan District Office	07/16/03	01/11/04	CM/PDC	6,746.32	Non-Moving
237	Tiagan	Erlinda	Aklan District Office	07/17/03	01/12/04	CM/PDC	22,311.60	Non-Moving
238	Respino	Renato	Aklan District Office	07/02/03	01/13/04	CM/PDC	0.01	
239	Salem	Rosa	Aklan District Office	07/18/03	01/13/04	CM/PDC	3,880.39	Non-Moving
240	Pablo	Julian James	C. Eastern and Central Pangasinan	01/25/02	01/15/04	Chattel Mortgage	180,283.32	For Foreclosure
241	Selorio	Merlie	Aklan District Office	07/24/03	01/19/04	CM/PDC	12,719.36	Non-Moving
242	Ibesate	Evelyn	Aklan District Office	07/28/03	01/24/04	CM/PDC	14,296.02	CRMD Accounts
243	Miranda	Nermi	Aklan District Office	07/28/03	01/24/04	CM/PDC	13,340.38	CRMD Accounts
244	Toriano	Arturo	Aklan District Office	07/31/03	01/26/04	CM/PDC	12,258.00	Moving
245	De Justo	Bernie	Aklan District Office	07/31/03	01/26/04	CM/PDC	13,377.69	Non-Moving
246	Tenazas	Nazareth	Aklan District Office	08/01/03	01/27/04	CM/PDC	31,439.00	Non-Moving
247	Rusia	Salvacion	Aklan District Office	08/01/03	01/28/04	CM/PDC	3,287.75	Non-Moving
248	cLARETE	MARLENE	Region VII	07/31/03	01/29/04	CDA,PDC,CM	460.76	past due
249	Inguillo	Gregory	Aklan District Office	08/12/03	02/08/04	CM/PDC	6,934.79	Rescheduled

NAME OF BORROWER			DISTRICT/REGIONAL OFFICE	DATE GRANTED	DATE DUE	TYPE OF COLLATERAL	OUTSTANDING PRINCIPAL	REMARKS
250	ALABADO	JULIA	Region VII	08/13/03	02/11/04	CDA,PDC,CM	408.40	past due
251	Escal	Cecilio	Nueva Ecija District Office	03/14/01	02/27/04	REM, PDC	275,000.00	
252	Manzanares	Jean	Aklan District Office	09/25/03	03/23/04	CM/PDC	16,072.82	Non-Moving
253	Ventura	Malinche	Aklan District Office	09/25/03	03/23/04	CM/PDC	20,133.25	Non-Moving
254	Nieva	Nenelia	Aklan District Office	09/25/03	03/23/04	CM/PDC	10,465.75	Rescheduled
255	BARRETE	ZOSIMA	Region VII	09/23/03	03/25/04	CDA,PDC,CM	577.50	past due
256	BMAKBI		Region VII	08/24/99	04/02/04	REM	206,238.20	CRMG Account
257	Abella	Marcel	N Region VII	10/07/03	04/04/04	CM, GCLI, PDC	12,106.78	CRMG Accounts
258	Traje	Sonny	Aklan District Office	10/21/03	04/18/04	CM/PDC	8,594.97	Non-Moving
259	Diego	Romelia	Aklan District Office	11/04/03	05/02/04	CM/PDC	12,815.65	Non-Moving
260	Merencilla	Rey	Aklan District Office	11/11/03	05/09/04	CM/PDC	1,122.35	Non-Moving
261	ASUNCION	TADEO	Cagayan District Office	06/05/01	05/20/04	REM/TCT/PDC	80,743.76	
262	Roldan	Shirley	Aklan District Office	11/25/03	05/23/04	CM/PDC	8,158.47	Non-Moving
263	Lozada	Nazaria	G Region VII	11/27/03	05/25/04	CM, GCLI, PDC	15,680.20	for filing
264	Cardenas	Jose Marvin	B. Region VII	05/09/02	06/27/04	CM, MOA. GCLI	9,277.79	
265	Cardenas	Siegfredo	Region VII	05/09/02	06/27/04	CM, MOA. GCLI	5,500.47	
266	Marquez	Evangeline	B. Region VII	05/09/02	06/27/04	CM, MOA. GCLI	5,030.63	
267	Peren	Vicente	Aklan District Office	12/30/03	06/27/04	CM/PDC	177.41	Non-Moving
268	OBLEPIAS	HERMINIA	M. Laguna District Office	03/03/04	07/01/04	CTC	112,520.00	CRMD ACCOUNTS
269	Marcelo	Crame	Aklan District Office	01/08/04	07/06/04	CM/PDC	3,055.00	Non-Moving
270	ANCHETA	OSCAR	Cagayan District Office	07/24/01	07/08/04	REM/TCT	20,000.00	
271	BALANAY	DOMINADOR	Cagayan District Office	07/24/01	07/08/04	REM/TCT	19,500.00	
272	CALITINA	HOSPICIO	Cagayan District Office	07/24/01	07/08/04	REM/TCT	20,000.00	
273	CALITINA	ANICETO	Cagayan District Office	07/24/01	07/08/04	REM/TCT	19,500.00	
274	CALITINA	HOSPICIO	Cagayan District Office	07/24/01	07/08/04	REM/TCT	20,000.00	
275	CASILANG	NELSON	Cagayan District Office	07/24/01	07/08/04	REM/TCT	19,500.00	
276	Alemaida	Helen	A Region VII	01/12/04	07/10/04	CM, GCLI, PDC	1,808.69	CRMG Accounts
277	Filosofo	Mlenciana	L Region VII	01/16/04	07/14/04	CM, GCLI, PDC	8,027.12	for filing
278	MMD FARMERS		Region X	01/28/03	07/17/04	REM	845,402.50	
279	TEJANO	ROMEO	Cagayan District Office	08/22/01	08/06/04	REM/TCT	33,333.33	
280	Liban	Melina	Nueva Ecija District Office	08/27/01	08/11/04	REM, PDC	368,348.30	
281	Vilena	Nemencio	Nueva Ecija District Office	02/28/03	08/21/04	REM, PDC	84,332.64	
282	OBEDENCIA	ROMULO	F Region X	09/07/01	08/22/04	REM,PN & PDC	185,000.00	Non-Moving
283	LOGRAMONT	EDWIN	P Region X	09/11/01	08/26/04	REM	120,318.69	
284	Rovero	Rhodora	Aklan District Office	03/22/04	09/18/04	CM/PDC	7,630.56	Non-Moving
285	Maagma	Luzvilla	Aklan District Office	03/31/04	09/27/04	CM/PDC	40	
286	CAUILAN	MYRNA	Cagayan District Office	10/15/01	09/29/04	REM/TCT/PDC	7,297.90	

NAME OF BORROWER		DISTRICT/REGIONAL OFFICE	DATE GRANTED	DATE DUE	TYPE OF COLLATERAL	OUTSTANDING PRINCIPAL	REMARKS
287	BMC-WORKING CAPITAL	Region X	10/20/00	09/29/04	REM	250,000.00	
288	Romero Dinah	Nueva Ecija District Office	10/29/03	10/23/04	REM, PDC	160,513.50	
289	LALU ERNESTO	C. Pampanga District Office	11/04/03	10/29/04	REM	450,000.00	
290	Señeris Emily	Aklan District Office	05/05/04	11/01/04	CM/PDC	3.14	
291	Villorente Jean	Aklan District Office	05/05/04	11/01/04	CM/PDC	207.02	
292	AKIATAN GELACIO	M Region X	11/26/01	11/10/04	REM, PN & PDC	327,213.09	NON-MOVING
293	COLLADO GERARD I	Cagayan District Office	11/14/03	11/13/04	REM/TCT/PDC	75,000.00	
294	Dorado Corazon	Aklan District Office	06/02/04	11/29/04	CM/PDC	211.31	Non-Moving
295	Baldisimo Sol	Aklan District Office	06/04/04	12/01/04	CM/PDC	23,753.73	Non-Moving
296	Gijan Estrella	Aklan District Office	06/04/04	12/01/04	CM/PDC	2,505.00	Non-Moving
297	Refulgente Melody	Aklan District Office	06/16/04	12/13/04	CM/PDC	912.24	Moving
298	OZAETA HAZEL	D Region X	01/06/03	12/26/04	REM	243,636.86	
299	Asuncion Luzminia	Aklan District Office	06/29/04	12/26/04	CM/PDC	12,364.54	Moving
300	Nervar Erlinda	Aklan District Office	07/27/04	01/03/05	CM/PDC	10,501.78	Moving
301	BMC-WORKING CAPITAL	Region X	01/25/01	01/04/05	REM	250,000.00	
302	Bernardino Elnora	E. Eastern and Central Pangasin	01/22/02	01/06/05	REM	743,631.11	For Foreclosure
303	Manares Tomasa	Aklan District Office	07/15/04	01/11/05	CM/PDC	27,520.67	Moving
304	Dado Rubencio	Aklan District Office	07/16/04	01/12/05	CM/PDC	8,525.04	Moving
305	Elula Resty	C Region VII	07/22/04	01/18/05	CM, GCLI, PDC	13,967.14	CRMG Accounts
306	Belarmino Jorgita	Aklan District Office	07/23/04	01/19/05	CM/PDC	14,234.39	Moving
307	DATINGALING CONSTANCIA	T Calapan District Office	02/10/04	02/04/05	REM	65,038.68	CRMD ACCOUNTS
308	Redula Praxedes	B Region VII	08/12/04	02/08/05	CM, GCLI, PDC	20,000.00	CRMG Accounts
309	Algar Elpedio	Region VII	01/31/02	02/14/05	CM, MOA. GCLI	32.77	
310	Asentista Perla	Region VII	01/31/02	02/14/05	CM, MOA. GCLI	1,652.54	
311	Bargamento Judith	Region VII	01/31/02	02/14/05	CM, MOA. GCLI	309.89	
312	Caballero Melanio	Region VII	01/31/02	02/14/05	CM, MOA. GCLI	2,560.27	
313	Clerigo Emma	Region VII	01/31/02	02/14/05	CM, MOA. GCLI	280.16	
314	dela Viña Rowena	Region VII	01/31/02	02/14/05	CM, MOA. GCLI	14,666.68	
315	Flores Teresita	Region VII	01/31/02	02/14/05	CM, MOA. GCLI	1,239.36	
316	Locsin Mario	Jr. Region VII	01/31/02	02/14/05	CM, MOA. GCLI	17,250.01	
317	Malones Placido	Region VII	01/31/02	02/14/05	CM, MOA. GCLI	3,666.77	
318	Montecastro Loreta	Region VII	01/31/02	02/14/05	CM, MOA. GCLI	684.14	
319	Salde Artemio	Region VII	01/31/02	02/14/05	CM, MOA. GCLI	1,624.33	
320	JAVELLANA CORNELIA	M Region XII	02/02/04	02/16/05	REM	3,079,621.38	
321	Gonzales Clarita	Nueva Ecija District Office	03/06/02	02/18/05	REM, PDC	478,029.48	
322	Gamboa Dante F.	Nueva Ecija District Office	03/06/02	02/18/05	REM, PDC	800,000.00	
323	Delvo Virgilia	N Region VII	03/03/04	02/26/05	CM, GCLI, PDC	25,356.25	CRMG Accounts

				DISTRICT/REGIONAL	DATE		TYPE OF	OUTSTANDING	
NAME OF BORROWER				OFFICE	GRANTED	DUE	COLLATERAL	PRINCIPAL	REMARKS
324	Gumbao	Luciana	R	Region VII	03/03/04	02/26/05	CM, GCLI, PDC	14,816.63	CRMG Accounts
325	Chua	Gemma	S	Region VII	08/30/04	02/26/05	CM, GCLI, PDC	16,923.10	CRMG Accounts
326	Palaganas	Leo	D.	Eastern and Central Pangasin	03/15/02	02/27/05	REM	667,337.46	For Foreclosure
327	MALINAO	AUREA		Region VII	09/06/04	03/05/05	CDA,PDC,CM	12,411.66	past due
328	CAYSOEN	BENITO		Cagayan District Office	04/03/00	03/08/05	REM/TCT	25,500.00	
329	SANTOS	Luis		Zamboanga City District	09/17/04	03/16/05	REM	200,000.00	Moving
330	SULOGEL CORPORATION			Zamboanga City District	12/16/04	03/16/05	REM	1,100,000.00	Non Moving
331	SULOGEL CORPORATION			Zamboanga City District	12/17/04	03/17/05	REM	1,000,000.00	Non Moving
332	GUEVARRA	VICTORINO		Pampanga District Office	07/22/04	03/19/05	REM	744,400.00	
333	SULOGEL CORPORATION			Zamboanga City District	12/21/04	03/21/05	REM	300,000.00	Moving
334	Vincoy	Marnie	Q	Region VII	09/23/04	03/22/05	CM, GCLI, PDC	15,071.28	CRMG Accounts
335	SULOGEL CORPORATION			Zamboanga City District	12/22/04	03/22/05	REM	800,000.00	Non Moving
336	Chua	Ruel	S	Region VII	10/15/04	04/13/05	CM, GCLI, PDC	24,692.32	CRMG Accounts
337	Martinez	Glynnis	P	Region VII	10/15/04	04/13/05	CM, GCLI, PDC	9,567.32	CRMG Accounts
338	Bautista	Fernando		Eastern and Central Pangasin	04/23/04	04/18/05	Chattel Mortgage	15,541.19	Non-moving
339	NOBLE	CELESTE & WILIZ		Region X	04/30/03	04/19/05	REM	11,637.12	
340	Aquino	Nancy	T	Region VII	10/28/04	04/26/05	CM, GCLI, PDC	17,238.44	With filed case
341	Kirit	Valentina	T	Region VII	10/28/04	04/26/05	CM, GCLI, PDC	13,333.32	CRMG Accounts
342	Barrera	Ma. Lourdes	D	Region VII	05/07/04	05/02/05	CM, GCLI, PDC	9,200.87	CRMG Accounts
343	JUNGCO	Maritess		Zamboanga City District	11/04/04	05/04/05	REM	100,000.00	Moving
344	Villacorta	Raul Elfeo		Nueva Ecija District Office	11/20/02	05/08/05	REM, PDC	366,792.31	
345	Luague	Yvonne		Region VII	04/26/02	05/10/05	CM, MOA. GCLI	426.90	
346	JUNGCO	Maritess		Zamboanga City District	11/11/04	05/10/05	REM	300,000.00	Non Moving
347	GAP - FPO PROGRAM			Region X	05/28/02	05/12/05	REM	1,726,961.86	
348	Buenaventura	Gilda		Region VII	04/30/02	05/14/05	CM, MOA. GCLI	15,462.65	
349	Clerigo	Marites	M.	Region VII	04/30/02	05/14/05	CM, MOA. GCLI	64.68	
350	Condez	Hector	V.	Region VII	04/30/02	05/14/05	CM, MOA. GCLI	471.42	
351	CARCAR Multi Purpose Coop			Region VII	05/27/03	05/16/05	REM	203,259.03	Moving
352	Bonifacio	Teodoro		Nueva Ecija District Office	06/07/02	05/22/05	REM, PDC	500,000.00	
353	Dicen	Ruthelia	D	Region VII	05/31/04	05/26/05	CM, GCLI, PDC	8,233.49	CRMG Accounts
354	GONZALES	JOEL	F.	Region V - Camarines Sur	06/13/02	05/28/05	REM	478,029.48	Non-moving
355	FUSCABLO	ROMULO		Region XII	06/13/02	05/28/05	REM	432,722.86	ENDORSED TO PLO
356	Santos	Brigida		Nueva Ecija District Office	06/03/04	05/29/05	REM, PDC	90,017.11	
357	Bolhano	Virgilia		Region VII	04/16/02	05/30/05	CM, MOA. GCLI	5,693.47	
358	Carugda	Rosula		Region VII	04/16/02	05/30/05	CM, MOA. GCLI	527.30	
359	JUNGCO	Maritess		Zamboanga City District	12/01/04	05/30/05	REM	300,000.00	Moving
360	SULOGEL CORPORATION			Zamboanga City District	12/08/04	06/06/05	REM	750,000.00	Non Moving

NAME OF BORROWER			DISTRICT/REGIONAL OFFICE	DATE GRANTED	DATE DUE	TYPE OF COLLATERAL	OUTSTANDING PRINCIPAL	REMARKS
361	Flores	Ebben	F. Region X	12/08/04	06/06/05	Cash bond	3,763,298.00	
362	Parami	Belinda	C. Region VII	12/09/04	06/07/05	CM, GCLI, PDC	34,377.95	CRMG Accounts
363	Villar	Bernadette	L. Region VII	12/09/04	06/07/05	CM, GCLI, PDC	14,583.35	CRMG Accounts
364	Bautista	Alfredo	Nueva Ecija District Office	06/15/04	06/10/05	REM, PDC	36,892.15	
365	Capinpin	Nestor	Nueva Ecija District Office	06/27/02	06/11/05	REM, PDC	456,551.80	
366	Jumamoy	Joy	G. Region VII	12/15/04	06/13/05	CM, GCLI, PDC	9,422.65	CRMG Accounts
367	CASTECH		Region X	07/31/02	06/17/05	REM, PN & PDC	1,900,000.00	NON-MOVING
368	ARGAO Multi Purpose Coop		Region VII	07/05/02	06/19/05	REM	167,049.68	Non-Moving
369	Orillana	Rafael	C. Region VII	05/09/02	06/22/05	CM, MOA. GCLI	11,000.05	
370	Blanco	Isabel	L. Region VII	05/09/02	06/22/05	CM, MOA. GCLI	499.59	
371	Brillantes	Remus	V. Region VII	05/09/02	06/22/05	CM, MOA. GCLI	500.00	
372	Cartagena	Roberto	N. Region VII	05/09/02	06/22/05	CM, MOA. GCLI	3,142.29	
373	Jarbonido	Lanny	L. Region VII	05/09/02	06/22/05	CM, MOA. GCLI	269.29	
374	Juayan	Emeterio Jr.	D. Region VII	05/09/02	06/22/05	CM, MOA. GCLI	918.15	
375	Malones	Gemma	B. Region VII	05/09/02	06/22/05	CM, MOA. GCLI	25,533.86	
376	Recilla	Josephus	E. Region VII	05/09/02	06/22/05	CM, MOA. GCLI	689.31	
377	Rivera	Melepie	B. Region VII	05/09/02	06/22/05	CM, MOA. GCLI	15,255.96	
378	Vergara	Venancia	M. Region VII	05/09/02	06/22/05	CM, MOA. GCLI	18,493.45	
379	Encabo	Nieves	R. Region VII	05/17/02	06/30/05	CM, MOA. GCLI	4,737.45	
380	Galvan	Glenna	E. Region VII	05/17/02	06/30/05	CM, MOA. GCLI	89.71	
381	Cañaveral	Harold	B. Region VII	01/13/05	07/12/05	CM, GCLI, PDC	10,930.24	CRMG Accounts
382	Galera	Franklin	M. Region VII	01/13/05	07/12/05	CM, GCLI, PDC	32,307.70	CRMG Accounts
383	Quidato	Evelyn	T. Region VII	01/13/05	07/12/05	CM, GCLI, PDC	22,196.64	CRMG Accounts
384	SULOGEL CORPORATION		Zamboanga City District	01/13/05	07/12/05	REM	1,250,000.00	Non Moving
385	Nemenzo	Natividad	Region VII	07/30/02	07/14/05	REM	44,096.19	For Legal
386	LANDICHO	BASILIO	Region X	08/09/00	07/14/05	REM, CEM ,PN & PDC	1,348,803.04	Moving
387	Cruz	Noel	G. Eastern and Central Pangasinan	08/02/02	07/17/05	REM	976,785.70	For Foreclosure
388	Liva	Genevieve	C. Region VII	06/05/02	07/19/05	CM, MOA. GCLI	209.96	
389	Puertollano	Silvinia	T. Region VII	02/08/05	08/07/05	CM, GCLI, PDC	16,663.33	CRMG Accounts
390	Hindang	Mervin	M. Region VII	02/11/05	08/10/05	CM, GCLI, PDC	16,879.70	CRMG Accounts
391	Aquino	Liwanag	Nueva Ecija District Office	08/28/02	08/12/05	REM, PDC	2,000,000.00	
392	UY	MANUEL	G. Region X	11/22/99	09/06/05	REM,PN & PDC	370,500.54	Non-Moving
393	CANIESO	NOEL	V. Region XII	09/24/04	09/19/05	REM	1,699,342.40	ENDORSED TO CRMG
394	BETONIO	ROSITA	Region VII	03/28/05	09/24/05	CDA,PDC,CM	22,258.15	past due
395	ABRAGAN	NOLI	L. Region X	10/11/02	09/25/05	REM	77,047.07	
396	Zagala	Josefina	Nueva Ecija District Office	10/17/02	10/01/05	REM, PDC	394,626.66	
397	Acabal	Vicenta	C. Region VII	05/06/05	11/02/05	CM, GCLI, PDC	9,932.68	CRMG Accounts

NAME OF BORROWER				DISTRICT/REGIONAL	DATE		TYPE OF	OUTSTANDING	REMARKS
				OFFICE	GRANTED	DUE	COLLATERAL	PRINCIPAL	
398	Bacud	Elena	J	Region VII	05/06/05	11/02/05	CM, GCLI, PDC	17,496.13	CRMG Accounts
399	SINANGLANAN SN MPC			Region X	12/17/97	11/05/05	REM,PN & PDC	700,000.00	Non-Moving
400	Manganaan	Erlinda	D.	Eastern and Central Pangasin	11/18/03	11/07/05	REM	91,666.60	CRMD Accounts
401	Teves	Isidro	A	Region VII	05/12/05	11/08/05	CM, GCLI, PDC	12,088.67	CRMG Accounts
402	Garcia	Sook Frances	D	Region VII	05/13/05	11/09/05	CM, GCLI, PDC	23,633.70	CRMG Accounts
403	FRAGINAL	ANNIE		Region V - Camarines Sur	11/28/02	11/12/05	REM	297,571.54	CRMD Accounts
404	Garcia	Karyll June	D	Region VII	05/20/05	11/16/05	CM, GCLI, PDC	28,828.39	CRMG Accounts
405	ROSAL	CARMELITA	L	Region X	11/25/04	11/20/05	REM	25,368.32	pastdue
406	Uy	Thelma		Region VII	12/01/04	11/26/05	REM	267,334.29	CRMG Accounts
407	GAVINO	DOLORES		Region V - Camarines Sur	12/10/04	12/05/05	REM	64,599.33	Moving
408	Guevarra	Joselito		Nueva Ecija District Office	12/17/03	12/06/05	REM, PDC	1,198.83	
409	Santos	Maricel		Nueva Ecija District Office	12/26/02	12/10/05	REM, PDC	23,850.00	
410	Flores	Florita		Nueva Ecija District Office	12/27/02	12/11/05	REM, PDC	214,862.35	
411	LAGURA	EMMELINDA		Region VII	06/20/05	12/17/05	CDA,PDC,CM	9,834.53	past due
412	Dela Cruz	Juana	R.	Eastern and Central Pangasin	12/29/03	12/18/05	REM	2,380,658.72	CRMD Accounts
413	Federation of Cooperatives in the Nev			Eastern and Central Pangasin	12/29/04	12/24/05	CSA/REM	2,000,000.00	CRMD Accounts
414	Bengal	Rosalinda	R	Region VII	07/08/05	01/04/06	CM, GCLI, PDC	12,433.26	CRMG Accounts
415	Rinon	Edilberto		Nueva Ecija District Office	01/29/03	01/13/06	REM, PDC	272,375.97	
416	Manalad	Edilberto		Nueva Ecija District Office	01/30/03	01/14/06	REM, PDC	66.43	
417	TOLENTINO	JAMES		Pampanga District Office	02/15/01	01/20/06	CM	4,128,776.70	
418	Legaspi	Ramon Gabriel		Aklan District Office	05/25/05	01/20/06	PDC, CLI, Deed of Assignment, REM	3,000,000.00	For conversion
419	Awit	Annalou	C.	Region VII	07/29/05	01/25/06	CM, GCLI, PDC	4,300.69	CRMG Accounts
420	Patula	Abdias	L	Region VII	07/29/05	01/25/06	CM, GCLI, PDC	37,539.78	CRMG Accounts
421	Estoconing	Eustaquio	P.	Region VII	02/02/05	01/28/06	Chattel Mortgage	79,166.66	CRMG Accounts
422	Baylon	Elmore	D	Region VII	08/04/05	01/31/06	CM, GCLI, PDC	24,601.13	CRMG Accounts
423	Legaspi	Ramon Gabriel		Aklan District Office	06/06/05	02/01/06	PDC, CLI, Deed of Assignment, REM	7,800,000.00	For conversion
424	Lina	Cornelio		Nueva Ecija District Office	02/08/05	02/03/06	REM, PDC	1,218.68	
425	Mapili	Emelda	A	Region VII	08/19/05	02/15/06	CM, GCLI, PDC	12,396.11	CRMG Accounts
426	Caseres	Felosin	C	Region VII	08/26/05	02/22/06	CM, GCLI, PDC	42,560.04	CRMG Accounts
427	Kuhay	Alfredo	P	Region VII	08/26/05	02/22/06	CM, GCLI, PDC	34,884.24	CRMG Accounts
428	Divinagracia	Jason	D.	Region VII	03/05/04	02/23/06	CM, PDC, GCLI	5,231.88	
429	Jaen,	Ryan	A.	Capiz District Office	03/12/04	03/02/06		20,876.25	moving
430	ZAYAS	MELINDA	R	Region X	09/15/04	03/09/06	REM	153,988.09	
431	Lucero	Santiago	P.	Region VII	03/16/05	03/11/06	CM, PDC, GCLI	1,202.06	
432	TENORIO	PASTOR	R	Region X	09/23/05	03/22/06	REM, JSS & PDC	249,800.00	
433	Laingo	Romeo	B	Region VII	03/29/05	03/24/06	CM, GCLI, PDC	11,648.33	CRMG Accounts
434	PAIDUMAMA	CAMAR	S	Region XII	09/26/05	03/26/06	T-97586	402,737.50	

NAME OF BORROWER			DISTRICT/REGIONAL	DATE	TYPE OF	OUTSTANDING	REMARKS
			OFFICE	GRANTED	DUE	COLLATERAL	
435	Ozoa	Samuel Dennis	T. Region VII	09/30/05	03/29/06	CM, GCLI, PDC	33,220.10 CRMG Accounts
436	Patula	Carmelito	T. Region VII	10/07/05	04/05/06	CM, GCLI, PDC	21,538.01 CRMG Accounts
437	Seno	Doreen	Region VII	04/16/04	04/06/06	CM, PDC, GCLI	31,300.34
438	Almonte	Dave Naelie	E. Region VII	04/23/03	04/07/06	CM, MOA. GCLI	13,109.74
439	Catacutan	Francisco	S. Region VII	04/14/05	04/09/06	CM, MOA, GCLI	2,011.25
440	Cañaveral	Harold	B. Region VII	10/18/04	04/11/06	Chattel Mortgage	136,073.34 CRMG Accounts
441	Barroga	Melinda	Eastern and Central Pangasin	04/21/05	04/16/06	REM	67,310.23 CRMD Accounts
442	INOCIAN	SILVESTRE	R Region X	05/05/03	04/19/06	REM	407,386.65
443	SANCHEZ, SONIA D.		Region VII	10/24/05	04/22/06	CDA,PDC,CM	3,750.00 past due
444	BONCALES, BERNARDITA		Region VII	10/28/05	04/26/06	CDA,PDC,CM	28,715.10 past due
445	Villanueva	Imelda	Nueva Ecija District Office	05/14/04	05/04/06	REM, PDC	193,013.98
446	Balaquidan	Normita	Nueva Ecija District Office	05/18/04	05/08/06	REM, PDC	185,543.57
447	SARIO	BAYANI	Region V - Iriga City	05/19/04	05/09/06	REM	600,000.00 Non-moving
448	Delgado	Julie	B Region VII	05/21/04	05/11/06	CM, GCLI, PDC	19,689.62 CRMG Accounts
449	GA-JAV PROGRAM		Region X	06/10/04	05/31/06	REM	907,726.42
450	Tidalgo	Maneleo	T. Eastern and Central Pangasin	06/17/04	06/07/06	REM	399,982.50 CRMD Accounts
451	Averia	Berlyn	B Region VII	12/09/05	06/07/06	CM, GCLI, PDC	48,076.92 CRMG Accounts
452	Piñero	Allan	B. Region VII	12/09/05	06/07/06	CM, GCLI, PDC	34,615.36 CRMG Accounts
453	Malupeng	Julieta	Nueva Ecija District Office	06/17/05	06/12/06	REM, PDC	45,000.00
454	Remolta	Larry	Ozamiz District-Reg. IX	07/01/05	06/26/06	REM	94,225.00
455	Tidalgo	Maneleo	T. Eastern and Central Pangasin	07/07/04	06/27/06	REM	99,999.95 CRMD Accounts
456	Velonza,	Fernando	B. Western Pangasinan District C	07/05/05	06/30/06	REM	111,530.63
457	Zabat	Leoba	Nueva Ecija District Office	07/06/05	07/01/06	REM, PDC	63,503.12
458	Balite	Pablo	Region VII	07/31/03	07/15/06	CM, MOA. GCLI	1,956.71
459	Delmo	Norma	R Region VII	01/20/06	07/19/06	CM, GCLI, PDC	8,411.49 CRMG Accounts
460	Gamino	Rolando	Nueva Ecija District Office	08/07/03	07/22/06	REM, PDC	291,381.50
461	Benlot	Margarito	J. Region VII	01/23/06	07/22/06	CM, GCLI, PDC	16,346.14 CRMG Accounts
462	Flores	Gloria	M. Region VII	01/23/06	07/22/06	CM, GCLI, PDC	19,778.85 CRMG Accounts
463	FIGUEROA	ROLAND	B Region XII	08/05/05	07/31/06	T-103155	479,073.00
464	Javellana,	Idee	C. Capiz District Office	08/18/03	08/02/06		527,150.90
465	Sta. Isabel MPC		Nueva Ecija District Office	09/17/98	08/06/06	REM, PDC	750,000.00
466	Gantalao	Jojo	G. Region VII	08/16/04	08/06/06	CM, MOA. GCLI	6,013.20
467	SEGARA	WILFREDO	P Region X	09/11/01	08/16/06	REM, CEM ,PN & PDC	476,262.13 Non-Moving
468	AKIATAN	GELACIO	M Region X	09/14/01	08/19/06	REM, PN & PDC	693,099.03 NON-MOVING
469	Bugtong na Buli		Nueva Ecija District Office	10/02/98	08/21/06	REM, PDC	750,000.00
470	Dela Cerna	Dailo	A. Ozamiz District-Reg. IX	08/26/05	08/21/06	REM	700,000.00
471	ACUESTA	RUBEN VICTOR	R Region X	09/20/01	08/25/06	REM, CEM ,PN & PDC	1,079,291.82 Non-Moving

NAME OF BORROWER			DISTRICT/REGIONAL OFFICE	DATE GRANTED	DATE DUE	TYPE OF COLLATERAL	OUTSTANDING PRINCIPAL	REMARKS
472	Supil		Region VII	03/01/06	08/28/06	CM, GCLI, PDC	42,307.51	
473	Rosales	Annabelle	T Region VII	09/17/04	09/07/06	CM, GCLI, PDC	35,161.39	CRMG Accounts
474	Acosta,	Jose	S. Western Pangasinan District C	09/24/03	09/08/06	REM	186,303.21	
475	Romero	Lisandro	G. Region VII	09/24/03	09/08/06	REM	373,869.23	Paralegal Accounts
476	Deximo	Ma. Lucille	L. Region VII	09/23/04	09/13/06	CM, PDC, GCLI	15,704.41	
477	GADDI	MARIANITA	M. Calapan District Office	09/30/04	09/20/06	REM	300,425.79	CRMD Accounts
478	Makasiar	Reynaldo	Region VII	10/09/03	09/23/06	CM, PDC, GCLI	626.10	
479	Quinamot	Jennifer	Region VII	10/09/03	09/23/06	CM, PDC, GCLI	26,358.36	
480	Alinco	Verna Marie	Region VII	10/14/03	09/28/06	CM, MOA. GCLI	37,555.54	
481	Legaspi	Ramon Gabriel	Aklan District Office	02/01/06	09/29/06	Real Estate Mortgage	3,750,000.00	Compromise Agreement on process
482	Legaspi	Ramon Gabriel	Aklan District Office	02/01/06	09/29/06	Real Estate Mortgage	1,250,000.00	Compromise Agreement on process
483	Diapera	Erlinda	S Region VII	04/03/06	09/30/06	CM, GCLI, PDC	1,847.37	CRMG Accounts
484	Cardenas	Jose Chubasco	B. Region VII	10/11/04	10/01/06	CM, MOA. GCLI	23,220.69	
485	delos Reyes	Amado	E. Region VII	10/11/04	10/01/06	CM, MOA. GCLI	29,135.79	
486	Garcia	Madelane	Region VII	10/23/03	10/07/06	CM, MOA. GCLI	7,949.98	
487	Zafra	Clarita	Region VII	10/23/03	10/07/06	CM, MOA. GCLI	6,829.76	
488	Ybasan	Macario	P. Region VII	10/12/05	10/07/06	CM, MOA, GCLI	2,908.40	
489	Maltby	Mercy	Ozamiz District-Reg. IX	10/14/05	10/09/06	REM	46,001.20	
490	Gaudiel	Rene	Region VII	10/21/04	10/11/06	CM, PDC, GCLI	65,630.85	
491	Macoy	Maeribel	M Region VII	10/18/05	10/13/06	CM, GCLI, PDC	21,544.84	CRMG Accounts
492	Igar	Jocyn	S. Ozamiz District-Reg. IX	11/14/01	10/19/06	REM	1,000,000.00	
493	CDA-CLP		Ozamiz District-Reg. IX	10/26/05	10/21/06	REM	456,000.00	
494	Maputi	Margarita	D Region VII	04/26/06	10/23/06	CM, GCLI, PDC	8,786.60	CRMG Accounts
495	Kuhay	Ma. Lina	M Region VII	10/28/05	11/04/06	CM, GCLI, PDC	44,230.65	CRMG Accounts
496	CDA-CLP		Ozamiz District-Reg. IX	11/17/05	11/12/06	REM	456,000.00	
497	Duque	Julian	Eastern and Central Pangasin	11/24/04	11/14/06	REM	71,860.33	CRMD Accounts
498	Romero	Lisandro	G. Region VII	12/01/03	11/15/06	REM	156,252.93	Paralegal Accounts
499	CALINGIN	MARIO	P Region X	12/02/03	11/16/06	PDC/REM	259,750.62	current account
500	Gorre	Filomena	Ozamiz District-Reg. IX	11/24/05	11/19/06	REM	87,345.75	
501	Romano	John Philipps	Ozamiz District-Reg. IX	11/30/05	11/25/06	REM	132.89	
502	ANTE	VILLA	B. Laguna District Office	12/07/05	12/02/06	REM	13,564.40	CRMD ACCOUNTS
503	Dela Calzada	Reylin Patricia	Ozamiz District-Reg. IX	12/15/05	12/10/06	REM	16.47	
504	Ko	Angel Wee Sit	Zamboanga City District	12/16/05	12/11/06	REM	500,000.00	Moving
505	DACANAY	ZENaida	Cagayan District Office				14,621.83	
506	GOROSPE	GEORGE	Cagayan District Office				24,608.00	
TOTAL							₱ 184,894,334.85	

NAME OF BORROWER	DISTRICT/REGIONAL OFFICE	DATE GRANTED	DUE	TYPE OF COLLATERAL	OUTSTANDING PRINCIPAL	REMARKS
Due on:						
CY1988			1,595.43			
CY1990			49,996.32			
CY1993			44,450.93			
CY1995			402,543.24			
CY1996			882,161.10			
CY1997			4,278,198.79			
CY1998			8,342,207.17			
CY1999			8,617,652.93			
CY2000			4,610,582.32			
CY2001			17,108,160.58			
CY2002			40,308,280.16			
CY2003			24,063,103.06			
CY2004			4,455,359.33			
CY2005			36,771,602.20			
CY2006			34,958,441.29			
TOTAL			184,894,334.85			

QUEDANCOR
TEST OF REASONABLENESS OF ALLOWANCE FOR DOUBTFUL ACCOUNTS
AS OF DECEMBER 31, 2006

		LESS THAN 1 YEAR JUNE 2006 5%		MORE THAN 1 YR TO 2 YEARS 10%		MORE THAN 2 YRS TO 3 YEARS 20%		MORE THAN 3 YRS TO 4 YEARS 30%		MORE THAN 4 YRS TO 5 YEARS 40%		MORE THAN 5 YEARS 50%		TOTAL PAST DUE
HEAD OFFICE	₱	3,615,606.58	₱	35,326,604.66	₱	31,735,358.61	₱	3,472,947.24	₱	14,984,826.00	₱	882,718,371.69	₱	971,853,714.78
NCR		19,646,461.54		31,154,353.92		59,179,200.97		35,818,493.82		17,344,066.00		91,934,690.83		255,077,267.08
REGION:														
I		60,254,640.78		100,660,206.56		39,430,689.64		10,441,640.01		865,137.89		4,578,989.09		216,231,303.97
II		13,285,186.26		59,605,932.23		96,741,364.11		9,025,505.76		4,681,485.61		14,623,356.88		197,962,830.85
III		46,949,796.23		70,187,201.88		74,852,419.75		20,806,513.91		5,798,019.14		12,140,615.83		230,734,566.74
IV		58,219,559.50		50,046,034.56		7,016,966.11		8,335,781.43		402,229.01		1,976,441.04		125,997,011.65
V		19,233,516.80		20,781,932.50		14,073,431.13		4,761,620.89		1,106,901.26		3,223,683.88		63,181,086.46
VI		171,777,015.88		40,400,609.01		6,225,602.22		1,716,979.34		1,469,024.87		20,431,366.00		242,020,597.32
VII		79,544,225.83		15,839,853.80		6,165,494.95		2,429,490.96		116,277.04		285,165.64		104,380,508.22
VIII		43,888,632.20		24,178,673.77		2,889,623.29		3,247,362.73		2,027,210.92		8,380,966.88		84,612,469.79
IX		45,455,043.27		72,309,478.60		18,759,912.53		8,069,249.70		2,494,201.79		4,812,276.20		151,900,162.09

SCHEDULE 7

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QUEDAN AND RURAL CREDIT GUARANTEE CORPORATION**Schedule of Advances to Officers and Employees****As of December 31, 2006**

	DESCRIPTION	AMOUNT	DATE GRANTED	NO OF DAYS
CURRENT YEAR ADVANCES				
1	AMONDINA, JOEFRE G	P 8,540.00	2/21/2006	313
2	AQUINO, MELCHOR G	8,400.00	7/10/2006	174
3	ARANETA, JOEMAR L	467.00	4/20/2006	224
4	BASCO, JOAN P	1,200.00	9/26/2006	96
5	BOHOL, PLARIDEL JACINTO J	16,000.00	3/2/2006	304
6	BRIONES, BOBBY A	5,795.00	9/20/2006	230
7	CELI, JENALYN P	155,700.00	6/6/2006	208
8	CHISPA, RUTH A	1,253.00	7/10/2006	174
9	CIFRA, CHITO A	13,108.00	6/21/2006	193
10	DE GUZMAN, RUBY R	3,100.00	9/12/2006	238
11	DE SAGUN, JUNIBERT	2,741.25	5/18/2006	227
12	DEGULLADO, MARK V	9,700.00	9/7/2006	243
13	DEL ROSARIO, ROWEL	2,741.25	5/18/2006	227
14	DELA CRUZ, CAROLYN B	6,062.00	1/31/2006	334
15	ENCISO, RENATO Z	11,713.00	4/25/2006	219
16	FERNANDEZ, MARK A	12,777.00	5/3/2006	242
17	FERNANDO, FLORES	13,411.00	6/16/2006	198
18	GAGUAN, JOSEFINA NATIVIDAD B	1,063.00	7/12/2006	172
19	GARAÑA, ISAGANI O	4,700.00	2/23/2006	311
20	GUANO, MA LUISA P	12,441.00	1/18/2006	347
21	GUILAS, YVETTE JOSEFINA D	31,498.00	3/1/2006	305
22	GUINIT, GENEROSO A	9,650.00	11/8/2006	53
23	LACUESTA, ALMA F	32,500.00	9/19/2006	103
24	MANLUTAC, RUBEN JR. A	2,500.00	11/15/2006	46
25	MARIANO, JOSELITO R	4,030.00	8/22/2006	131
26	MARTIN, JOSEFINA D	8,769.50	3/9/2006	298
27	MILLARES, MICHAEL P	60.00	4/25/2006	219
28	NOROÑA, BRANDO D	124.00	8/18/2006	135
29	ORDONA, MARLOU M.	13,670.00	6/15/2006	199
30	PAGADOR, GAYRENE A	1.00	6/16/2006	198
31	PEREYRA, CELEDONIO P	6,660.00	7/11/2006	173
32	PORILLO, MARITESS S	6,482.00	1/11/2006	354
33	RAVAL, ERNESTO JR M	10,300.00	3/22/2006	284
34	RAYMUNDO, RUBINA B	7,900.00	11/13/2006	48
35	RODRIGUEZ, MICHAEL C	8,850.00	11/20/2006	41
36	ROVIRA, REYNALD P	20,000.00	5/26/2006	219
37	TABIOS, BENJAMIN	10,015.00	1/23/2006	342
38	TAÑEDO, MARCOS P	2,600.00	3/7/2006	300
39	TANSIONGCO, BERNARD P	7,060.00	7/11/2006	173
40	TELAN, ALVIN K	20,050.00	9/8/2006	114
	P	493,632.00		

WITH ADDITIONAL CASH ADVANCE EVEN IF THE PREVIOUS CASH ADVANCE HAS NOT YET BEEN LIQUIDATED

1	AGANON, MARISA A	P 14,289.00
2	ALCID, PATRICIA M	40,977.00
3	ALMEDA, BERNARDINO JUAN L	14,294.80
4	ANASTACIO, FLOR D	22,700.00
5	BILARO, JULIO E	26,390.00

	DESCRIPTION	AMOUNT
6	BUENAFLOR, NELSON C	29,816.90
7	DELOS SANTOS, FRANCIA L	9,948.98
8	DINGLASAN, RASSEL A	27,113.00
9	ELEGIDO, REYNOLD I	49,157.00
10	ESPIRITU, FEDERICO A	35,388.65
11	GALLEGO, NAHUM L	47,958.20
12	GATDULA, BELINDA M	7,047.00
13	GIMENA, FABIAN JR A	4,000.00
14	GONZALES, APOLINAR D	13,249.00
15	GULINAO, MYRA C	24,928.38
16	HORCAJO, EVANGELINA V	6,881.00
17	IBUNA, RESTITUTO JR M	23,100.00
18	LAVETORIA, EDWIN F	113,463.00
19	MANICLANG, BENJAMIN C	1,050.00
20	MONTES, FERDINAND J	47,990.00
21	OCUMEN, JOSEPH R	20,050.00
22	ONG, AGRIPINA D	39,105.00
23	PACOMIOS, BRYLLE C	74,538.00
24	POLICIOS, CYNTHIA Q	70,000.00
25	QUEBEC, JOSE E	17,513.13
26	TALAO, MA ROGEMA A	21,850.00
27	TALLADA, EVELYN P	18,210.00
28	VICENTE, MARIO D	70,097.00
29	VILLANUEVA, BERNADETTE B	19,385.00
	P	910,490.04

PRIOR YEARS' CASH ADVANCE

1	AQUINO, JACQUELINE M	P	3,040.85
2	AQUINO, MELCHOR G		4,300.00
3	BALLESTEROS, MARC G		36,683.00
4	CAHOY, ELEUTERIO A		9,611.00
5	CANDELARIO, MIGUEL		1,700.00
6	DELOS REYES, JAY ALLAN F		24,325.00
7	DOTILLOS, RAMIRO A		21,443.35
8	GUEVARRA, ALBERTO A		11,130.00
9	LAZARO, JOSE JR.		2,890.00
10	LIMBO, GILBERT ROLAND T		4,800.00
11	LUISTRO, MA ELENA B		2,000.00
12	MAGTACA, WIDELFREDO A		1,200.00
13	MALONDA, LAURENCE A		1,167.35
14	MELITANTE, RENANTE G		770.65
15	MERIOLES, EMILE DON D		5,550.00
16	MONTELIBANO, JASMIN		10,291.00
17	OCUMEN, JOSEPH R		3,900.00
18	OLLET, BANJAMIN A		20,406.68
19	PAGULAYAN, ANTONIO JR T		2,720.00
20	PEREZ, LORNA U		5,000.00
21	PRE, JUDELO ARISTON B		6,300.00
22	RAVAL, ERNESTO JR M		22,831.00
23	RUTAQUIO, HAMILCAR		2,890.00
24	SAMAR, LAUDIMER A		7,371.00
25	SOLIMAN, MARY CATHERINE		2,890.00
26	TALLADA, EVELYN P		11,970.00
27	UBINA, ARIEL J		14,185.00
28	VILLANUEVA, BERNADETTE B		40,542.00
29	VILLAR, RYAN H		1,954.00
	P		283,861.88

Breakdown of the Total Outstanding Balance- Trade Receivables-QUEDANCOR SWINE PROGRAM (QSP)
and its Status per Remedial Measures Provided under QMC-No. 403
Results of Confirmation
December 31, 2006

Regional Office	Total Outstanding Balance-QSP per Management's Schedule (a)	Accounts under the QSP Remedial Measure-Cir. 403 (b)	Status of accounts under the QSP Remedial Measure-Cir. 403 (col. b)				Total of columns c,d,e and f (g)	Variance Col. g is Over (Under) stated (h)
			Assumed by IS (c)	Due From IS but Still Unassumed (d)	Confirmed by Farmer-Borrower (e)	Under Negotiation w/ IS and Farmer-Borrower (f)		
I	P 243,298,162.94	P 182,975,405.31	P 39,960,434.20	P 151,124,803.74	P 10,431,771.27	P 37,916,571.89	P 239,433,581.10	P 56,458,175.79
III	194,813,011.35	181,925,632.50	29,806,849.87	57,568,147.23	44,255,796.15	50,294,839.25	181,925,633.50	-
IV	135,016,332.06	135,016,332.06	29,767,620.94	20,491,923.38	17,930,732.00	55,075,522.88	123,265,799.20	(11,750,532.86)
V	123,784,040.85	70,710,227.19	43,976,652.93	2,636,840.00	24,096,734.26	-	70,710,227.19	-
VI	701,028,868.34	701,028,868.34	527,037,069.69	44,337,779.78	70,970,387.49	58,683,631.39	701,028,868.35	-
VII	79,309,819.05	70,252,345.39	66,530,103.77	-	-	16,816,964.32	83,347,068.09	13,094,722.70
VIII	50,780,410.68	50,618,463.18	-	43,575,530.68	7,042,932.50	-	50,618,463.18	-
IX	1,198,294.71	1,198,294.71	-	-	-	1,198,294.71	1,198,294.71	-
X	9,970,013.27	9,970,013.27	1,687,448.44	388,022.96	993,589.41	6,900,952.46	9,970,013.27	-
XII	2,373,618.62	2,373,618.62	-	1,698,970.82	674,647.80	-	2,373,618.82	-
NCR	3,565,000.00	3,565,000.00	-	3,565,000.00	-	-	3,565,000.00	-
Total	P1,545,137,571.88	P1,409,634,200.57	P738,766,179.84	P 325,387,018.59	P176,396,590.88	P 226,886,776.89	P1,467,436,566.20	P 57,802,365.63

- Legend:**
- (a) Total outstanding balance of Trade Receivables-QSP as of December 31, 2006 per schedules submitted by Management.
 - (b) Accounts Under the QSP Remedial Measures - Accounts processed under the QUEDANCOR Circular No. 403 for purposes of determining the rightful debtors of QUEDANCOR under the QSP, the status of which may either be any of the following:
 - (c) Assumed by the IS – IS has issued the Deed of Assumption of Debts
 - (d) Due From IS but Still Unassumed – payable by the IS due to alleged pull-out of stocks but still described as unassumed because of the alleged refusal of the IS to sign the debt assumption documents
 - (e) Confirmed by the Farmer-Borrower-Farmer-borrower acknowledges/confirms his obligation
 - (f) Under Negotiation-there is still no meeting of minds among the IS, farmer-borrower and QUEDANCOR
 - (g) Column b should be equal to the total of columns c,d,e and f.
 - (h) Variance is the difference between column **b** and column **g**.

QUEDANCOR

Schedule of Unnecessary and Excessive Extraordinary and Miscellaneous Expense
For Calendar Year 2006

	<u>Amount Disallowed</u>
1) Nelson Buenaflor –	
Gasoline	₱50,600.08
Communication and Supplies	<u>3,007.00</u>
	<u>₱53,607.08</u>
2) Federico Espiritu	
Gasoline	₱25,842.26
Military Uniforms/Accessories	13,254.00
Plane Ticket	1,888.00
Office Supplies	1,318.50
Grocery Items	<u>495.00</u>
	<u>42,797.76</u>
3) Rodelio Bathan	
Gasoline	₱23,919.75
Spare parts and services	2,330.00
Medicine	1,307.31
Tithes (Couples for Christ)	7,500.00
Grocery Items	<u>985.00</u>
	<u>36,042.21</u>
4) Niels Patrick Riconalla – claims exceeded the authorized limit by P13,538.50. Total claim of P76,538.50 covers food and drinks which appears to be too excessive and extravagant.	
Total EME claimed	₱76,538.50
Authorized EME	<u>63,000.00</u>
	<u>13,538.50</u>
5) Alexander Butic	
Gasoline	<u>45,730.78</u>
6) Josefina Martin	
Gasoline	<u>17,719.55</u>
7) Chito Cifra	
Gasoline	₱ 4,793.00
Vehicle Repair	<u>2,000.00</u>
	<u>6,793.00</u>
8) Michael Millares	
Gasoline	<u>14,062.57</u>
9) Teresita Pineda	
Food (take out after office hours)	₱ 8,465.76
Grocery Items (include household items)	<u>1,980.55</u>
	<u>10,446.31</u>
Total Amount Disallowed -	<u>₱240,737.76</u> =====

QUEDAN AND RURAL CREDIT GUARANTEE CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. AGENCY BACKGROUND

The Quedan and Rural Credit Guarantee Corporation (QUEDANCOR) was established through Republic Act No. 7393 on April 13, 1992 with an authorized capital stock of ₱2,000,000,000.00 divided into two billion common and voting shares, with par value of one peso (₱1.00) per share, sixty percent (60%) thereof to be subscribed solely by the National Government and/or government-owned or controlled corporations and forty percent (40%) thereof solely by small farmers, fisherfolks, their cooperatives and other private investors. Its mandate is to accelerate the flow of investments and credit resources into the countryside so as to trigger the vigorous growth and development of rural productivity, employment and enterprises, livelihood and income opportunities.

One of the primary functions of the Corporation is to establish a credit support mechanism for the benefit of farmers, fishermen, rural workers, cooperatives, retailers, wholesalers and primary processors of agricultural and aquatic commodities to accelerate growth and development of rural productivity, employment, livelihood and income opportunities in the countryside.

2. SIGNIFICANT ACCOUNTING POLICIES

- a) The consolidated financial statements include the accounts of the Head Office, fourteen Regional Offices and sixty-three District Offices. The Accountant of each District Office maintains a separate set of books of accounts and prepares financial reports which are submitted to their respective Regional Office for consolidation. The Regional Offices then submit their consolidated financial reports to the Head Office.

The Central Office adopted the Electronic New Government Accounting System (e-NGAS) on January 2006 from the previous accounting system which will be replicated/rolled-out to Field Offices. The audited figures for calendar year 2005 financial statements were restated to conform with the NGAS chart of accounts per COA Circular No. 2004-002 dated April 29, 2004.

- b) Income and expense are recognized using accrual method of accounting.
- c) Short-term investments are carried at cost. The Corporation considers all highly liquid debt instruments purchased with maturity of three months or less from date of acquisition to be cash equivalents.
- d) Property, plant and equipment are stated at cost less accumulated depreciation which is computed using the straight line method based on estimated service lives of the property ranging from 3 to 10 years except for building which is depreciated over 30 years.

e) Allowance for bad debts

- 1) All Trade Receivables/Contingent Assets – Collateralized trade receivables and contingent assets consisting of past due loan and guarantee payment receivables shall be classified as follows and provided with the corresponding percentages of valuation reserves:

<u>Classification</u>	<u>Valuation Reserve (% of Outstanding Principal)</u>
Fully secured	none
Collateral short	10% every year or less to cover collateral deficiency
For filing of/with pending criminal/civil case or with favorable judgment	10% every year
With legal constraints	20% every year

- 2) Other past due accounts not included under item e.1 shall be aged and the corresponding valuation reserves determined according to the following schedule:

<u>No. of Years Past Due</u>	<u>Valuation Reserve (% of Outstanding Principal)</u>
One year or less	5%
More than 1 year to 2 years	10%
More than 2 years to 3 years	20%
More than 3 years to 4 years	30%
More than 4 years to 5 years	40%
More than 5 years	50%

3. CASH AND CASH EQUIVALENTS

This account includes cash deposits with banks, cash in the hands of accountable officers and cash equivalents as follows:

	2006	2005 Restated
Cash on Hand		
Cash – Collecting Officers	₱ 23,078,449	₱ 19,219,308
Cash – Disbursing Officers	2,455,912	2,133,695
Petty Cash Fund	235,560	707,903
Payroll Fund	1,073,124	1,100,055
Cash in Bank – Local Currency		
Current Account	236,164,094	300,837,870
Savings Account	256,679,948	293,751,602
Time Deposit	1,251,516	1,251,516
Short-term Investments	521,180,797	1,466,886,617
	₱ 1,042,119,400	₱ 2,085,888,566

4. RECEIVABLES

This account consists of:

	2006	2005 Restated
Trade Receivables:		
Current	P 1,564,475,657	P 2,524,437,810
Non-current	2,718,262,019	2,276,748,203
Past Due	3,436,428,036	2,961,609,337
Interest Receivable	183,415,979	180,450,321
	7,902,581,691	7,943,245,671
Installment Receivables	9,081,501	1,215,255
Deficiency Claims Receivables	152,944,503	94,520,317
Assigned Receivables	200,145,512	339,017,998
Subrogated Receivables	536,677,791	535,586,528
	8,801,430,998	8,913,585,769
Less: Allowance for Bad Debts	430,564,972	315,341,380
	8,370,866,026	8,598,244,389
Due from Officers and Employees		
- Disallowances	47,898,231	190,615
- Others	2,757,580	2,072,000
Loans Receivable – GOCCs - NFA	522,062	522,062
Other Receivables	72,860,301	56,366,702
	P 8,494,904,200	P 8,657,395,768

- Trade Receivables accounts represent amounts collectible on loans granted to borrowers under the various programs of the Corporation. These are classified into:
 - a) Current trade receivables are accounts due for collections as of December 31, 2006 and those accounts which are expected to be realized within one year.
 - b) Non-current trade receivables are those accounts maturing beyond December 31, 2007.
 - c) Past due accounts are those accounts that are due and demandable as of December 31, 2006 and accounts that has remained outstanding despite lapse of the maturity date of which may include restructured and rescheduled loans.
 - d) Interest Receivable represents interest earned and due from trade receivables but not yet collected.
- Deficiency claims receivables arise when the value of the property acquired/foreclosed is not sufficient to cover the borrowers' outstanding loan balance.
- Assigned receivables represent promissory notes under the Income Augmentation Loan program assigned to various banks to serve as collateral security for the loan.
- Subrogated receivables, on the other hand, pertain to claims against defaulting borrowers on account of guarantees paid by QUEDANCOR to the lending bank.

Of the total trade receivables, ₱953,524,174 and ₱ 1,400,330,843 were rediscounted in 2006 and 2005, respectively, broken down as follows:

	2006	2005
Land Bank of the Philippines	₱ 782,714,053	₱ 1,273,482,385
Allied Banking Corporation	170,810,121	126,848,458
	₱ 953,524,174	₱ 1,400,330,843

Also included in the total trade receivables are remedied accounts as follows:

	2006	2005
Restructured Accounts	₱ 70,308,682	₱ 87,500,164
Rescheduled Accounts	228,383,615	306,626,645
	₱ 298,692,297	₱ 394,126,809

- Other Receivables include receivables granted to officers and employees, QPFC, SRT Multi-Coop, intra-district borrowings and miscellaneous account.

5. INVENTORIES

This account consists of the following:

	2006	2005
Office Supplies	₱ 1,534,728	₱ 1,249,934
Accountable Forms	3,375,520	3,938,230
Spare Parts	1,699,246	524,588
Drugs and Medicines	34,791	488,085
Gasoline, Oil and Lubricants	10,904	8,143
Other Supplies	5,834,840	6,179,278
	₱ 12,490,029	₱ 12,388,258

6. PREPAYMENTS

This account consists of the following:

	2006	2005
Prepaid Loan Expense	₱ 105,120,905	₱ 126,462,068
Prepaid Rent	2,971,257	2,922,387
Prepaid Insurance	522,347	482,809
Prepaid Subscription	51,792	28,380
Prepaid Membership Fee	6,083	21,758
Prepaid Communication	77,026	71,272
Prepaid – Miscellaneous	1,322,095	2,494,326
	₱ 110,071,505	₱ 132,483,000

Expenses on borrowings of Multi-Series Bonds, Syndicated Loan and Corporate Notes are recorded as Prepaid loan expenses and amortized over the term of the loan.

7. OTHER CURRENT ASSETS

This account consists of the following:

		2006		2005 Restated
Deposits - Water, Power and Telephone	₱	887,416	₱	335,113
Deposits - Others (Leases, Procurement, etc.)		1,560,795		2,130,822
	₱	2,448,211	₱	2,465,935

8. INVESTMENTS

This account consists of:

		2006		2005
Investment in Securities				
Other Investments & Marketable Securities	₱	5,000,000	₱	5,000,000
Investment in Bonds		325,104		413,049
		5,325,104		5,413,049
Sinking Fund				
Sinking Fund		2,718,014,592		2,718,014,591
Bond Discount		876,725,223		550,854,850
	₱	3,600,064,919	₱	3,274,282,490

Sinking Fund represents zero coupon bonds issued by the Republic of the Philippines with an aggregate maturity value of ₱ 5 Billion for a term of seven years commencing on April 23, 2004. This is restricted for the payment of the ₱ 5 Billion Syndicated Loan granted by LBP/EPCIB on April 23, 2004 bearing an interest of 11.125% per annum. Bond Discount represents the accumulated interest earned as of December 31, 2006 on these bonds.

9. PROPERTY, PLANT AND EQUIPMENT

The composition of this account is as follows:

		2006		2005 Restated
Land	₱	23,329,582	₱	23,282,688
Office Buildings		13,978,757		14,082,146
Other Leasehold Improvements		517,013		455,441
Office Equipment		32,859,604		30,413,195
Furniture & Fixtures		4,337,652		4,528,342
IT Equipment and Software		30,562,235		26,166,480

Communication Equipment	3,049,526	2,954,664
Other Machineries and Equipment	2,496,548	2,180,054
Motor Vehicles	41,704,653	41,655,964
	152,835,570	145,718,974
Less: Accumulated Depreciation	61,658,427	47,023,308
P	91,177,143	P 98,695,666

A contract of conditional sale was entered into by and between the Livelihood Corporation as the Vendor and QUEDANCOR as the Vendee on May 19, 1995, wherein the subject of the contract consists of land (P23,282,688) building (P8,497,000) and building machineries and equipment (P18,212) for and in consideration of a total amount of P31,797,900.00 which were registered in the name of QUEDANCOR in 2003.

10. OTHER ASSETS

This account is broken down as follows:

	2006	2005 Restated
Acquired Assets		
Land, Building and Other Structures	P 364,203,569	P 231,483,936
Motor Vehicles	410,000	1,959,170
Others	46,609,928	45,664,278
	411,223,497	279,107,384
Foreclosed Properties under Redemption	19,135,920	6,791,631
Cash Under Receivership	23,572,673	23,572,663
P	453,932,090	P 309,471,678

Acquired Assets are mortgaged properties subsequently foreclosed by QUEDANCOR from defaulting borrowers. The foreclosed properties consist of several real and personal properties of borrowers under the Intensified Rice Production Program, Livelihood Financing for Employees Program, Agri-Aqua Inventory Management, Food and Agricultural Retail Enterprises, Coordinated Agricultural Marketing and Production, Livelihood Aqua-Marine Productivity, Joint Agribusiness Venture, Fisherfolk Integrated Livelihood Program, Barangay Marketing Center, Credit Guarantee Program and Rice and Corn Based Financing System.

11. CURRENT LIABILITIES

Included under this caption are the following accounts:

	2006	2005 Restated
Accounts Payable		
Loans Payable (current portion of Long-term debt)	P 736,015,146	P 535,772,438
Rediscounting Venture-LBP	421,297,622	480,381,503
Rediscounting Venture-Allied Bank	171,659,000	82,872,325

Vouchers Payable	87,511,266	137,556,537
Accrued Expenses	61,938,553	56,369,044
Assigned PN Payable – PVB	44,688,558	21,265,953
Assigned PN Payable-UCPB	37,759,467	147,575,889
Assigned PN Payable-LBP	35,852,603	369,476,502
Assigned PN Payable-EWB	11,822,219	23,653,641
NCB Payables	31,572,603	34,847,788
Payable to Banks	17,334,840	21,161,760
Payable to Input Suppliers	17,216,416	86,338,971
Payable to District Offices	16,149,667	800,000
Attorneys' Fee Payable	2,831,304	652,277
Payable to Accredited Lawyers	2,211,375	2,998,676
Due to Officers and Employees	6,549,018	6,294,223
Interest Payable	145,917,086	137,419,098
	1,848,326,743	2,145,436,625
Inter-Agency Payables		
Due to BIR	36,961,529	33,386,104
Due to GSIS	571,513	9,521
Due to PAG-IBIG	124,726	8,689
Due to Philhealth	39,306	14,718
Due to Other NGAs	27,143,197	25,398,993
Due to Other GOCCs	110,149,322	97,334,009
	174,989,593	156,152,034
Other Liabilities		
Guarantee Deposits/Performance/ Bidder's Bonds Payable	4,468,284	4,298,654
Other Payables	111,165,420	100,030,241
	115,633,704	104,328,895
	P 2,138,950,040	P 2,405,917,554

Rediscounting Venture Payable were loans obtained from bank where PNs rediscounted at 80% - LBP and 85% - Allied Bank were pledged as collateral security for the payment of the loan to finance various credit programs. Payable to Banks are banks share on collections collected by the Corporation under the guarantee co-financing of which banks has no guarantee claims filed and also include payment through installment to banks who have filed their guarantee claims. Payable to District Offices are legitimate borrowings to other district offices with excess funds. Attorney's Fee Payable are QUEDANCOR lawyers proportionate share on collection in cash or in kind provided actual cash collection and payment from the borrower is received, property had been sold and property is being used for operations and/or for income generating activity. Payable to Accredited Lawyers are accredited lawyers proportionate share on collection paid in cash by the borrower/accounts endorsed to them.

The account Due to Other National Government Agencies (NGAs) consists of funds received from the Department of Agriculture (DA), while Due to Other Government Owned & Controlled Corporations (GOCCs) comprised of funds received from the Agricultural Credit Policy Council (ACPC), National Food Authority and National Aquatic and Fishery Council for implementation of various programs of QUEDANCOR particularly the Farm Level Grains Center, Grains Production

Enhancement Program, Development Assistance Program for Cooperatives and People's Organization and MakaMASA.

Included in Other Payables account are Contingent Liabilities amounting to P50,622,491 per Memorandum of Agreement entered into by and among the DA, ACPC and QUEDANCOR dated October 2, 1989 which provides, among others, that the DA and ACPC shall, out of the Comprehensive Agricultural Loan Fund (CALF) earmark, release and establish guarantee claims for participating lending banks. Likewise, all subsequent recoveries, which may be realized/collected by QUEDANCOR after payment of guarantee claims to the lending bank, shall be remitted back to the CALF-QUEDANCOR Fund.

12. LONG TERM LIABILITIES

This account consists of the following obligations:

	2006	2005 Restated
LBP Syndicated Loan	P 3,000,000,000	P 3,000,000,000
EPCIB Syndicated Loan	2,000,000,000	2,000,000,000
Multi Series Bonds	1,500,000,000	1,500,000,000
Corporate Notes	1,000,000,000	750,000,000
UCPB – Purchase of Receivables	85,883,438	-
Loans Payable to:		
Department of Agriculture	1,889,218,000	1,889,218,000
Agricultural Credit Policy Council	435,531,132	1,187,553,731
Department of Agrarian Reform (DAR)	110,000,000	150,000,000
National Dairy Authority (NDA)	35,900,000	35,900,000
Provincial Government of Aklan	500,000	500,000
Second Congressional District of South Cotabato	500,000	500,000
Presidential Social Fund	500,000	-
	P 10,058,032,570	P 10,513,671,731

The P5 billion LBP/EPCIB Syndicated Loan supports various QUEDANCOR GMA-CARES program payable at the end of 7 years or at the final maturity of the bonds issued by the Republic of the Philippines. The loan bears an interest rate equal to 91-day T-bill rate appearing at the MART 1 page of Broomberg on the interest date plus a floating rate at the spread of up to 2.75% p.a. secured by hold-out on cash deposit with LBP equivalent to the interest payable quarterly.

The P1.5 billion Multi-Series Bonds support the QUEDANCOR's Income Augmentation and Livelihood Program payable at the end of three, four and five years. On the other hand, P750 million Corporate Notes were issued for the first tranche with interest of 10.5268% per annum and P250 million for the second tranche with 9.7429% interest per annum payable for a period of five years. These financed the credit requirements of farmers, fisherfolks and other countryside entrepreneurs in line with President Gloria Macapagal Arroyo's thrust of poverty alleviation, employment generation and food security.

The purchase of receivable by UCPB is to be used by QUEDANCOR in extending financial assistance to various livelihood and production programs. UCPB purchased PN's of IAL & Swine programs. The term of the loan is based on the remaining life of the PNs but not to exceed three (3) years. Remittance/payment to UCPB shall be made depending on the PNs purchased. For IAL programs; Principal – Annually, Interest – Quarterly. For Swine Program (six months maturity) Principal – Lump sum, Interest – Lump sum.

The DA loan consists mainly of: ₱1 billion loan fund under the Agricultural Competitiveness Enhancement Fund (ACEF) account to finance programs for farmers and fisherfolks into self-reliant teams with a condition to return the fund in the year 2010; ₱437 million under GAP-RCBFS with 2% interest per annum to provide funds on lending schemes, guarantee programs, joint agri-business venture capital program and rehabilitation of cooperatives; and ₱81.65 million to finance production of hybrid corn seeds. Likewise, ACPC granted a consolidated loan amounting to ₱164 million payable until June 30, 2009 and ₱285 million under AMCFP to finance farmers, fisherfolks or cooperatives using the SRT approach.

The ₱110 million non-interest bearing loan from DAR, which is payable in lump sum after fifteen years, provides a credit support mechanism for re-lending through accredited lending banks to qualified farmers/beneficiaries and/or associations for the construction of farm level warehouses, while the ₱35.9 million loan from NDA was established to guarantee funds for pre-identified cooperatives to operate and achieve national sufficiency in milk and dairy.

13. DEFERRED CREDITS

This account includes interest deducted in advance from loans granted under the GMA-CARES-Income Augmentation Loan.

14. GOVERNMENT EQUITY

As provided under RA No. 7393, the authorized capital stock of the Corporation shall be ₱2,000,000,000 divided into 2,000,000,000 common and voting shares with par value of one peso per share. Sixty percent thereof shall be subscribed by the National Government and/or Government Owned or Controlled Corporations and forty percent thereof by small farmers, fisherfolks, their cooperatives and other private investors.

Donated Capital pertains to the grant of ₱477.41 million from the National Agricultural and Fishery Council and the DA per RA No. 8435 and AO No. 10 Series of 2001, previously classified as long-term liability, and the total costs of 112 free units of Nokia cell phones costing ₱1.92 million and one unit Toyota Revo DLX valued at ₱0.66 million.

15. BUSINESS AND OTHER INCOME

This account includes guarantee fees which represents fees received from accredited lending banks on account of the guarantee coverage extended by QUEDANCOR on the payment of loans granted, interest income earned on loans granted generated from various programs of the Corporation and miscellaneous operating income. Details are presented in the table below.

	2006	2005 Restated
BUSINESS INCOME		
INTEREST INCOME ON LOANS		
GMA – CARES	₱ 774,000,386	₱ 822,962,421
QUEDANCOR Swine Program	86,297,220	58,579,495
Country Lending Conduits	32,540,827	20,249,153
WCL-Buyers & Processors of Agri-Fishery	24,429,727	8,738,748
Coordinated Agricultural Marketing & Production	24,251,812	20,524,924
Rice & Corn Based Financing System	14,190,069	13,250,081
Agri-Fishery Business Organization	13,016,473	3,498,222
Agri-Aqua Equipment Leasing Program	11,048,139	5,810,000
High Value Crops Program	9,417,398	21,890,140
Food & Agricultural Retail Enterprises	9,104,375	15,257,808
Local Government Units	7,680,366	9,386,320
QUEDANCOR Program for Micro Entrepreneur	7,545,060	-
MNTKP	7,532,891	-
Barangay Marketing Center	4,571,968	3,077,142
QUEDANCOR Program for Inventory Financing	4,233,471	1,490,139
SMC Program for Corn, etc.	3,454,928	4,940,049
Pioneering Technology for Exportable Agri-Product	3,341,947	3,650,885
Hybrid Rice Cultivation Project	3,080,601	10,636,416
Federation & People's Organization	2,818,661	2,141,317
QUEDANCOR Program for Banana	2,763,080	2,052,593
Joint Agribusiness Venture	2,393,323	1,036,470
SULONG	2,370,484	1,991,768
Livelihood and Aqua-Marine Productivity	2,316,187	1,197,752
Agriculturang Makamasa –SUGAR	2,156,323	3,223,928
Farm Level Grains Center	2,154,638	517,900
Corn Logistical Competitiveness Program	1,633,675	1,180,731
CDA-CLP	1,307,163	1,060,897
QUEDANCOR Tunnel Ventilation Poultry Program	1,105,754	63,444
NCB Lifeloan Program	1,049,419	302,309

Young Farmers Program	855,826	67,760
Small Retail Enterprises	771,247	458,294
Fisherfolk Integrated Livelihood Program	677,217	1,214,387
Farm Level Agricultural Machinery & Equipment	641,758	904,776
Credit Guarantee Program	513,058	704,119
Long Gestating Crops Program	471,300	934,432
QUEDANCOR Program for Mango Growers	370,926	430,043
Poverty Alleviation Credit Food for Direct Assistance to Farmers	200,441	166,511
Caraga Institute & Devt. Program	197,670	-
Self-Reliant Farmer-Small Medium Enterprise	186,802	305,877
Intensified Rice Production Program	134,409	378
QUEDANCOR Program for Asparagus	125,100	838,001
Livelihood Financing Program for Employees	124,985	374
Marketing Credit for Agri-Fishery Products	52,408	343,518
Grains Production Enhancement Program	43,632	686,137
Food and Agricultural Marketing Enterprises	19,630	18,185
OTHER BUSINESS INCOME		
Insurance Commission	26,446,053	33,890,554
Administration Fee	18,140,422	29,462,885
Guarantee Fee	4,195,104	3,006,005
Accreditation Fee	3,916,615	5,081,053
Pre-termination Fee	3,886,594	4,195,083
Management Fee	2,794,054	1,712,671
Interest on Guarantee Claims	2,250,382	1,377,593
Appraisal Fee	352,792	403,580
Warehouse Receipts	343,062	400,040
Others	194,483	90,515
	1,129,712,335	1,125,403,823
OTHER INCOME		
Dividend Income	1,073	1,000
Interest Income		
Interest on Bonds	325,882,398	325,892,505
Interest on Treasury Bills & Notes	41,797,235	55,331,067
Interest on Bank Deposits	3,368,582	4,278,434
	371,048,215	385,502,006
Miscellaneous Income		
Miscellaneous	3,528,716	3,062,290
Attorney's Fee	2,715,165	1,739,584
Notarial Fee	2,392,616	3,302,588
Rent	1,516,930	615,262
Assets Acquired	44,310	309,219
Sale of SRT Books	41,980	110,740

Sale of Waste Materials	3,488	600
	10,243,205	9,140,283
Gain on Sale of Disposed Assets	1,606,806	7,866
	382,899,299	394,651,155
	P 1,512,611,634	P 1,520,054,978

16. OTHER MAINTENANCE AND OPERATING EXPENSES

This account consists of the following:

	2006	2005 Restated
Loan Expense	P 25,580,206	P 21,594,513
ACEF Administrative Expense	20,000,000	20,000,000
Contracted Services	13,296,641	39,754,307
Provident Fund Expense	8,857,012	16,923,838
Assets/Litigation Expense	5,291,986	6,881,240
Trustee Fee Expense	4,381,270	4,014,581
Meetings and Conference Expenses	2,465,946	3,373,552
Collection Incentive Fee	1,928,563	3,629,121
Hospitalization Expense	888,345	1,059,779
Incentive Reward	433,777	115,000
Medical and Dental Services	405,713	296,000
Loyalty Award	272,000	590,427
Housing Allowance	229,776	-
Gender and Development	222,339	99,044
Sports and Cultural Expenses	35,770	9,860
Miscellaneous Expense	2,187,846	1,617,390
	P 86,477,190	P 119,958,652

QUEDAN AND RURAL CREDIT GUARANTEE CORPORATION COMMENTS AND OBSERVATIONS

-
- 1) The QUEDANCOR's Balance Sheet, Statement of Income and Expenses, Statement of Cash Flows, Statement of Changes in Government Equity and Notes to Financial Statements dated December 31, 2006 disclosed material discrepancies that affect the fairness of presentation of the said financial statements.
-

The foregoing is found inconsistent with the provisions of Section 73 of the Manual on the New Government Accounting System (NGAS), Volume I, thus, resulting to financial misstatement.

Section 73 of the Manual on NGAS, Volume I, states that:

"Responsibility for the fair presentation and reliability of financial statements rests with the management of the reporting agency. This responsibility is discharged by applying generally accepted state accounting principles that are appropriate to the entity's circumstances, by maintaining effective system of internal control and adhering to the chart of accounts prescribed by the Commission on Audit."

"Financial reports shall be based on official records maintained under an adequate accounting system that produces information objectively and discloses the financial aspects of all events or transactions taking place. Where financial data or reports based on sources other than the accounting system are presented, their basis shall be clearly explained."

Despite prior year's observations and recommendations on the matter, verification and analysis of the financial statements of the QUEDANCOR for the year ended December 31, 2006 disclosed the following discrepancies, among others:

1. Various balance sheet accounts were affected by the temporary entries prepared to reconcile temporarily the inter-office accounts, specifically the debit to Cash in Bank – Savings Account of ₱17,928,263 and credit to Cash in Bank – Current Account of ₱31,067,899. See Annex A. These entries were included in the consolidated balance sheet, an indication that not all transactions were completely and accurately captured during the accounting period to which they relate.
2. The audited figures for calendar year 2005 financial statements were allegedly restated to conform with the NGAS Chart of Accounts but the adjusting entries reflecting the conversion to NGAS accounts were not submitted to this Office for verification/validation.
3. The submitted Statement of Cash Flows is not comparative.
4. Unexplained/Unaccounted differences/discrepancies were noted in the following accounts:
 - a. The balance per book of the account Investment in Treasury Bills (Short-Term Investment) is understated by ₱18,130,462, as shown below:

	B a l a n c e		Book Balance
	Per Books	Per Audit	Under (Over)
Investment in Treasury Bills			
BTR	₱ 100,177,827.81	₱ 100,772,623.35	₱ 594,795.54
LBP-HO	27,542,728.59	27,542,728.59	-
LBP-HYSA	173,759,998.66	175,415,692.97	1,655,694.31
PVB	62,123,601.75	62,123,601.75	-
UCPB	56,705,344.01	55,048,545.15	(1,656,798.86)
Hold Out Deposit***			
LBP	70,425,490.58	71,008,413.56	582,922.98
LBP/EPCIB	29,597,650.77	47,399,653.85	17,802,003.08
Miscellaneous	848,155.10	-	(848,155.10)
	₱ 521,180,797.27	₱ 539,311,259.22	₱ 18,130,461.95

*** per audit amount is based on the Financial Statements submitted by LBP, TrD.

b. Receivables (Note 4)	2006	₱ 8,801,430,998
	2005	<u>8,913,585,769</u>
	Decrease	(₱ 112,154,771)
		=====

Per Cash Flows from Operating Activities:

Collection of Receivables	₱ 2,461,951,146
Loan Releases	<u>2,816,217,753</u>
Net Cash Outflow	(₱ 354,266,607)
	=====

It appears from the above analysis that per Statement of Cash Flows, there is a net cash outflow of ₱354,266,607 representing loan releases, while per Notes to Financial Statements, receivables decreased by ₱112,154,771, an indication that there was collection or a cash inflow of the same amount. By T-account analysis, assuming that the data per Statement of Cash Flows is correct, the foregoing is presented as follows:

Receivables			
Beg. Balance	8,913,585,769	2,461,951,146	Collections
Releases	2,816,217,753	466,421,378	what could be the debits covering this amount
Ending	<u>8,801,430,998</u>		
	=====		
		<u>₱ 466,421,378</u>	consists of:
		₱ 112,154,771	decrease in receivables
		354,266,607	net cash outflow

c. Other Receivables (Note 4)	2006	₱ 72,860,301
	2005	<u>56,366,702</u>
	Increase	16,493,599
Per Cash Flow: Collection of Other Receivables		<u>16,174,613</u>
Difference		₱ 32,668,212
		=====

d. Due from Officers and Employees (Note 4)

Cash Outflow-Advances to Officers and Employees		₱15,723,352
Cash Inflow-Refund		<u>6,096,976</u>
Net Cash Outflow		9,626,376
Per Notes to FS: 2006	₱2,757,580	
2005	<u>2,072,000</u>	<u>685,580</u>
Difference		₱ 8,940,796
		=====

e. Property, Plant and Equipment (Note 9)

Beginning balance		₱145,718,974
Acquisition per Statement of Cash Flows		<u>4,054,947</u>
Should be Ending Balance		149,773,921
Ending Balance per note		<u>152,835,570</u>
Difference		(₱ 3,061,649)
		=====

f. Subrogated Receivables (Note 4)

2006	₱536,677,791
2005	<u>535,586,528</u>
Increase (Net Cash Outflow)	₱ 1,091,263
Cash Outflow – Guarantee payments	<u>18,274,729</u>
Difference	₱ 17,183,466
	=====

g. Treasury Stocks 2006

Buy Back of Stocks – Cash Outflow Investing	₱ 609,800
Difference	<u>209,300</u>
	₱ 400,500
	=====

h. Rediscounting Venture (Note 11)

	<u>2006</u>	<u>2005</u>	<u>Increase(Decrease)</u>
LBP	₱421,297,622	₱480,381,503	₱(59,083,881)
Allied Bank	<u>171,659,000</u>	<u>82,872,325</u>	<u>88,786,675</u>
Net Increase	<u>₱592,956,622</u>	<u>₱563,253,828</u>	<u>₱29,702,794</u>
	=====	=====	=====

Per Cash Flows:

Cash Inflows – Proceeds from Rediscounting Venture	₱ 672,532,152
Cash Outflows – Payment for Rediscounting Venture (Allied)	(110,713,754)
Payment for Rediscounting Venture (LBP)	<u>(807,009,679)</u>
Net Cash Outflows	(₱ 245,191,281)
Per Notes to FS – Net Increase	<u>29,702,794</u>
Difference	₱ 274,894,075
	=====

i. Assigned PN Payable (Note 11)

	<u>2006</u>	<u>2005</u>	<u>Increase(Decrease)</u>
PVB	₱ 44,688,558	₱ 21,265,953	₱ 23,422,605
UCPB	37,759,467	147,575,889	(109,816,422)
LBP	35,852,603	369,476,502	(333,623,899)
EWB	<u>11,822,219</u>	<u>23,653,641</u>	<u>(11,831,422)</u>
Net Decrease	<u>₱130,122,847</u>	<u>₱561,971,985</u>	<u>(₱431,849,138)</u>
	=====	=====	=====

Per Cash Flows Financing Activities:

Cash Inflows – Proceeds from Borrowing (Domestic Banks)		₱ 862,173,584
Cash Outflows – Payment for Domestic Loans		
Assigned PNs – PVB	₱ 24,906,971	
Assigned PNs – UCPB	114,398,865	
Assigned PNs – LBP	512,178,021	
Assigned PNs – EWB	<u>12,849,554</u>	<u>664,333,411</u>
Net Cash Inflow		₱ 197,840,173
Per Notes to FS – Net Decrease		<u>431,849,138</u>
Difference		<u>₱ 629,689,311</u>
		=====

j. Cash Inflow – Proceeds from Inter RO/DO Borrowings		₱ 17,416,573
Cash Outflow – Payment for Inter RO/DO Borrowings		<u>10,738,683</u>
Net Cash Inflow		₱ 6,677,890
Payable to District Offices (Note 11)		
	2006	₱ 16,149,667
	2005	<u>800,000</u>
Difference		<u>15,349,667</u>
		<u>₱ 8,671,777</u>
		=====

k. Inter-Agency Payables-Due to BIR, GSIS, PAG-IBIG, Philhealth, GOCCs, NGAS:

Inter-Agency Payables		
Beginning Balance (Note11)		₱156,152,034
Trust Liabilities withheld (Cash Inflow)		<u>104,101,086</u>
Total		260,253,120
Less: Remittance		<u>176,468,846</u>
Should be Ending Balance		83,784,274
Ending Balance per Note 11		<u>174,989,593</u>
Difference		<u>(₱91,205,319)</u>
		=====

l. Guarantee Deposit/Performance/Bidders Bond Payable:

Cash Inflow-Receipt of guarantee deposit		₱ 1,189,908
Cash Outflow-Refund of guarantee		<u>1,082,474</u>
Net Cash Inflow		107,434
Per Notes to FS	2006 (Note 11)	₱4,468,284
	2005	<u>4,298,654</u>
Increase		<u>169,630</u>
Difference		<u>₱ 62,196</u>
		=====

m. Receipt of Fund Transfers from CO/RO/DO	₱4,385,973,931
Fund Transfer to CO/RO/DO	<u>4,330,168,217</u>
Net Cash Inflow	55,805,714
Payable to District Offices (Note 11)	<u>16,149,667</u>
Difference	₱ 39,656,047
	=====

n. Dividend Income (Note 15)	₱ 1,073
Per Cash Flow-Receipt of Cash Dividend	<u>11,853</u>
Difference	₱ 10,870
	=====

o. Capital Stocks per Statement of Changes in Government Equity:

2006	₱763,488,327
2005	<u>762,779,627</u>
Increase	708,700
Per Statement of Cash Flows	
Proceeds from Issuance of Stocks	<u>5,511,238</u>
Difference	₱4,802,538
	=====

p. The gain on sale from disposal of assets which amounted to ₱1,606,806 per Notes to Financial Statements (Note 15) is greater than the total proceeds from sale of property amounting to ₱1,512,304.60 per Statement of Cash Flows.

q. Items under "Others" appearing in the Cash inflows and outflows under Cash Flow from Operating Activities are not supported by schedules.

As stated earlier, the factors enumerated below, among others, are deemed contributory to the existence of the discrepancies/variances in the various financial statements accounts which were already discussed in the 2005 AAR, however, no significant improvement is noted in 2006:

- Deficient accounting system
- Poor internal control
- Absence of monitoring system as regard the financial reporting activity of the agency
- Varied interpretation of program implementing guidelines in the field offices
- Too many/conflicting guidelines
- Inadequately trained process owners

We recommended that the Management should reconcile the Statement of Cash Flows with that of the Balance Sheet, Statement of Income and Expenses, Statement of Changes in Government Equity and Notes to Financial Statements and submit the required schedules/adjusting entries/explanation/ justification for further verification.

We also required the Management to render justification why the signatories in the QUEDANCOR's financial statements for CY 2006 be not held responsible for the apparent fraudulent financial reporting.

Management explained that the bulk of the difference in the beginning balance was due to non-inclusion of temporary entry for cash at the end of 2005 amounting to ₱47,745,723.01.

We questioned the temporary entry that Management is referring to and strongly opposed its argument on the use/presence to temporary entries in the accounting records. COA asserted that its mere use/presence is a direct assault to the integrity and reliability of the financial statements. We further emphasized the responsibility of the Chief Accountant and for that matter, the Head of the Agency, in its assertion that the financial statements are free of any material misstatement, among others as contained in the Statement of Management's Responsibility which is duly signed by said officials.

2) The accuracy of the cash in bank balance as of December 31, 2006 in the amount of ₱494,095,558 can not be established/ascertained due to material deficiencies disclosed in audit that affect the fairness of presentation of the financial statements.

- Review of the Agency's cash in bank account disclosed the following:
 - a. Presence of 124 bank accounts with negative balances at an aggregate amount of ₱25,637,005 (**Schedule 1**) as of December 31, 2006 in the cash in bank balance.
 - b. Time Deposits with a closed bank with a balance amounting to ₱1,251,516 is still included in the account.
- QUEDANCOR savings account balance with Fortune Savings and Loans Association, Inc. was converted to Time Deposit per letter of the late QUEDANCOR President Galo Garchitorena dated April 22, 1998. Despite the closure of the bank, the amount is still recorded under Cash, Time Deposit instead of classifying it as account to be claimed with PDIC.
- c. The Head Office and the following Regional Offices reported that no bank reconciliation statement is being prepared and/or submission of bank reconciliation statements is not updated:

Head Office - 287 bank accounts

Region IV - 1 bank account

Region V - 3 bank accounts

Region VII - 10 bank accounts

This is an indication that no serious effort was done to comply with Sec. 74 of PD 1445 which states that:

“At the close of each month, depositories shall report to the agency head, in such form as he may direct, the condition of the agency account standing on their books. The head of the agency shall see to it that a reconciliation is made between the balance shown in the reports and the balance found in the books of the agency.”

- d. Bank and book reconciling items, some of which were dated way back 1997 remained unadjusted and continuously appeared as floating items in the bank reconciliation statements resulting to the accumulation of a substantial number of reconciling items.

Bank reconciliation statement is considered as an effective tool to determine the actual balance of a particular bank account; detect errors which may be committed by the bank or by the agency and allow both to adjust errors or discrepancies existing in its records.

Review of the bank reconciliation statements submitted revealed that long overdue reconciling items remain unresolved/unadjusted.

- e. Dormant/inactive accounts for several years were not closed by the Agency (**Schedule 2**).
- f. The consolidated Trial Balance from Regional Offices includes temporary entries showing, among others, a debit to Cash in bank Savings Account and a credit to Cash in bank Current Account in the amount of ₱17,928,263.08 and ₱31,067,898.97, respectively. The temporary entries are not supported with necessary documents, hence, cannot be validated.

We insisted that Management strictly comply with Section 74 of PD 1445. In addition, we require them to classify and adjust the time deposit account and the dormant accounts with closed banks and to stop the practice of effecting adjustment by using temporary entry. Likewise, we emphasized that any adjustment should be properly reviewed and approved prior to recording in the books of account.

Management gave the following detailed explanation:

- a) The 123 bank accounts with negative balances totaling ₱20,367,988.10 as of December 31, 2006 were due to some unrecorded bank debits which can hardly be identified as to what regions and misclassification of accounts which are corrected only on the month it was disclosed in the bank reconciliation.
- b) Time deposit account with Fortune Savings and Loan Association, Inc. was already classified to Accounts under PDIC (290-01 Contingent Assets-Claims from Unrelieved Losses of Current Assets) in the February 2007 Journal Voucher.
- c) The twenty one (21) bank reconciliation of the 108 active bank accounts have been finalized and the 43 PNB inactive accounts are under evaluation for possible closure. Regions IV, V and VII promised to submit the updated bank reconciliation statement as soon as possible.
- d) Some reconciling items way back 1997 remained unadjusted and continuously appear as floating items in the bank reconciliation statements because there are no supporting documents such as deposit slip, withdrawal slip, only bank statements.
- e) Those dormant/inactive accounts are GCFM accounts which we cannot close because there are still outstanding receivables and pending guarantee claims.
- f) The temporary entries are transactions subject for reconciliation pending the advices from the regions. Most of these are before the e-NGAS which are minimal if not eliminated now. Some of the cash transactions of field offices can be validated since these were reflected in Central Office Statement of Bank Transactions. We have required detailed schedule of fund transfers for immediate reconciliation.

The foregoing will be further verified. However, the use of temporary entries to reconcile balances is strictly discouraged. It was also pointed out that the mere presence of temporary entries is a ground for holding the signatories to the financial statements liable for any possible misrepresentation therein.

- 3) **Adjusting entry under JEV No. 2006-12-010859 resulted to the understatement of Accounts Receivable and Loans Payable – Domestic Agricultural Credit Policy Council (ACPC) by ₱577,406,541.03. The accounting effect of the adjusting entry is deemed contrary to the provision of paragraph 20 (a) of the Philippine Accounting Standards (PAS) No. 39 and the intent of Administrative Order No. 10 dated June 18, 2001 of the Department of Agriculture (DA).**

Paragraph 20(a) of PAS No. 39 entitled, Financial Instruments: Recognition and Measurement, states that:

“When an entity transfers a financial asset, it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset. In this case:

(a) if the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer.”

Further, pertinent provisions of the Implementing Rules of AO No. 10, DA, particularly Sec. 5.5.1 thereof states that:

“A Trust Liability and Trade Receivable accounts shall be created to record receipt of collections.”

Careful analysis of the foregoing will necessitate the recognition of the transferred receivables from the ACPC on the date of effectivity of the AO, in harmony with the requirement of PAS 39.

When the ACPC transferred its receivables to QUEDANCOR by virtue of AO No. 10, QUEDANCOR recognized it in the books under JV Nos. 01-08-199 and 01-12-307 dated August 31, 2001 and December 31, 2001, respectively, by debiting Trade Receivables with a corresponding credit to Trust Liabilities/Long Term Liabilities-DA. However, on December 31, 2006, journal entry voucher (JEV) No. 2006-12-010859 was prepared reversing the original entry, thus, deleting from the books the receivable and payable accounts pertaining to the ACPC. This runs counter to the intent of AO No. 10 and contrary to the requirements of PAS 39 resulting to the understatement of both the receivable and payable account by ₱577,406,541.03.

COA insisted on correcting the entry made under JEV No. 2006-12-010859 to comply with Sec. 5.5.1 of the Implementing Rules of the DA AO No. 10 and PAS No. 39 with the following adjusting entry:

Accounts Receivable-DA-AMCFP-GAA	₱130,240,596.52
Accounts Receivable-DA-CALF	447,165,944.51

Due to GOCC.s – DA-AMCFP-GAA	₱130,240,596.52
Due to GOCC.s – DA-CALF	447,165,944.51

Management agreed to bring the account to its correct original status.

- 4) Of the total trade receivables of ₱7,902,581,691 as of year-end, 43.48% or ₱3,436,428,036 represents past due accounts, an indication that the collectibility of almost half of the Corporation's trade receivables which is 57% of its total assets maybe remote, which may eventually affect the Corporation's ability to operate as a going concern.

As defined under QUEDANCOR Circular No. 400 entitled "Compromise Settlement Agreement Policies" dated March 11, 2006, past due account refers to account that has remained outstanding despite lapse of the maturity period, which means that the borrower was not able to settle his obligation on the due date set forth in the loan agreement.

Based on the submitted Summary of Trade Receivables by Management, Region II has the highest rate of past due accounts at 57% followed by Regions III and I with 55% and 54%, respectively, while the lowest rate is Region VIII with past due rate of 33%. Past due rate at the regional office level is shown below:

Regional Office	Amount of Past Due	Percentage of Past Due to TOB per RO	Rank
I	₱458,111,256	54	3
II	262,871,131	57	1
III	366,749,092	55	2
IV	182,556,985	43	6
V	149,118,026	40	9
VI	338,676,493	37	11
VII	150,792,024	46	4
VIII	100,427,086	33	13
IX	194,250,082	36	12
X	216,495,425	45	5
XI	183,230,762	41	7
XII	133,007,191	39	10
XIII	247,413,402	37	11
NCR	352,289,363	42	8
H.O.	100,439,718	-	
Total	₱3,436,428,036		

At the district office level, the following District Offices posted high rates of past due accounts:

District Office		Amount of Past Due Accounts	Percentage of Past Due Accounts to total TR per DO
Calapan	Oriental		
Mindoro		₱ 59,407,758	83
Bislig		70,523,585	74
Occidental Mindoro		111,439,550	72
Isabela		161,655,513	67
Batangas		78,554,700	67
La Union		61,069,539	67
Aklan		171,709,819	67
Nueva Ecija		163,366,304	66
Western Pangasinan		129,275,553	63
Laoag		119,194,441	61
Quirino		43,364,785	60
Baguio		24,874,850	56
Maasin		30,093,768	56
Pasay		35,457,275	59
Cebu		83,079,669	56
Zambales		47,734,578	54
Cagayan de Oro		58,177,383	53
Lanao del Norte		44,787,827	53
Capiz		46,523,957	51
Camarines Norte (Daet)		23,255,608	50
Total		₱ 1,563,546,462	

As viewed from the above data, the total past due accounts of ₱1,563,546,462 registered by the foregoing district offices constitutes 45.50% of the total past due accounts of ₱3,436,428,036. The Calapan Oriental Mindoro District Office has the highest percentage of past due accounts which is 83.06%, while Aklan District Office has the highest amount of past due accounts of ₱171,709,819 or 10.98% of the ₱1,563,546,462 and 5% of the total past due accounts of ₱3,436,428,036.

Using the softcopy of trade receivables from Management, we sorted out all past due accounts covered with real estate mortgage (REM) or chattel mortgage (CM) and loans granted which are not covered with hard collaterals ranging from ₱500,000.00 and above. We provided the Collection and Remedial Management Group (CRMG), Legal Department and Special Legal Action Unit (SLAU) with the list of past due accounts with REM/CM and requested said Offices to indicate the status of the past due accounts. From the list, the CRMG informed us that it is handling accounts with balances above ₱1 million and those accounts with balances less than ₱1 million are acted upon at the regional office level. On the other hand, the Legal Department and SLAU provided us with a list of cases being handled by them. From the list, we identified those covered with hard collaterals and those which are not. The procedure disclosed that there are only two (2) cases being handled by the SLAU, that of Christine A. Arguelles of Region XII, and Roger Navarro of Region X, both accounts are not secured with hard collaterals and each has a total outstanding balance of ₱7,336,602.38 and ₱1,875,723.43, respectively. While in the Legal Department, there are thirty-four (34) accounts with REM/CM which is currently handled by the Contracts and Documentation Division.

On the other hand, there are about one hundred thirty-two (132) accounts with a total outstanding principal balance of ₱155,418,302 (excluding QSP) which are not secured with hard collaterals as indicated in the schedule. The accounts matured in the following years:

<u>Due in:</u>	<u>Amount</u>
CY1997	₱ 1,200,000
CY1999	509,979
CY2000	2,542,453
CY2001	18,876,667
CY2002	13,767,688
CY2003	7,508,396
CY2004	34,011,006
CY2005	20,794,435
CY2006	56,207,678
Total	<u>₱ 155,418,302</u>

The details of the above figures are shown in Schedule 3. Said accounts were not included in the list of cases handled by the SLAU and Legal Department.

As regards past due accounts with REM/CM, a total of ₱184,894,335 trade receivables (Schedule 4) has not yet been foreclosed by the management and is also not included in the list provided by CDD-LEAD. It appears that Item VI.1.2 of QUEDANCOR Circular No. 235 entitled "QUEDANCOR Guidelines on the Foreclosure of Mortgage and the Consolidation of Ownership" dated August 4, 2003 quoted below, is not strictly adhered to by the Management:

"If there is no payment made on the account, upon the lapse of ninety (90) days from the maturity of the account or its declaration of default, the necessary documents shall be endorsed to the Para-legal Officer, and thereafter to the Contracts and Documentation Division of the Legal Affairs Department (CDD-LEAD) for proper legal action."

Assuming that the foreclosure documents are complete and in-tact, then the foreclosure process should have been completed for those accounts which matured in CY2005 and prior years with a total outstanding principal balance of ₱149,935,894 as of December 31, 2006 while for those accounts due in CY2006 amounting to ₱34,958,441, the filing of the petition for foreclosure should have been executed as of to date.

One of the collection strategy adopted by the Management was the compromise settlement with the issuance of QUEDANCOR Circular No. 400 dated March 11, 2006 wherein one of its main objective is to hasten collection of in-arrears declared due and demandable and past due accounts through cost effective legal measures.

However, despite the issuance of the said circular and the creation of the SLAU, as well as, the presence of CRMG and Legal Affairs Department (LEAD), collection efficiency turned-out to be very low due to the slow-moving past due accounts which had reached to a total of ₱3,436,428,036 or 43.48% of total trade receivables as of December 31, 2006. This may be attributed to lack of monitoring or no monitoring at all of the accounts and absence of coordination among the departments involved in the collection process. Also,

there is no specific department or group who is closely monitoring past due accounts on a nationwide basis so that appropriate legal action can be immediately applied when necessary.

We recommended that the Management should come up with clear collection guidelines in harmony with QUEDANCOR Circular No. 235 relative to the foreclosure of collaterals offered by its defaulting borrowers. The guidelines should specifically identify the department and process owners who will be responsible for monitoring past due accounts on a nationwide scale to enable Management to detect immediately poor performing district office in terms of collection and increasing past due accounts, apply the corresponding legal action immediately, and adopt collection strategies to improve collection efficiency and avoid the risk of increasing past due accounts.

Relative to the foregoing, we emphasized that the guidelines, in so far as it is affecting the accounting aspect of the collection activities and movement of the accounts, should include provision on the proper coordination with the Accounting and Budget Department and the Corporate Receivables and Payables Department for updating of the general ledger and the subsidiary ledgers, respectively.

Further, to avoid accumulation of past due accounts and ensure the re-flow of loan funds, we strongly recommended that Management minimize granting unsecured loans and properly screen/evaluate and assess loan applications, particularly the financial capability of the prospective borrower. More so, the Management must always be guided and it must always take into consideration that the money being lent is government money that needs to be safeguarded, at all times, from possible loss or misuse, and that the fund has to be utilized effectively, efficiently and economically by limiting its utilization to high yielding programs.

Management appreciated the observations on the Corporation's past due accounts. It admitted that it is undeniable that the Agency's total past due trade receivables have compounded over the years. However, this is not to say that Management has not been doing any action to resolve them. Hereunder, are some of the activities being undertaken to prevent the accumulation of past due accounts:

- The foreclosure of properties subject of mortgage is an alternative option other than to collect through a suit for collection of a sum of money.
- The monitoring of past due accounts is being undertaken by the Billing and Collection Division of the Collection and Remedial Management Department (BCD-CRMD).
- Management has devised a Remedial Management System that ensures collectibility of loans, with marching mandate of turning all accounts current, limiting those in arrears and even past due. Providing remedial measures prevents accounts to turn sour. Past due accounts are being subjected to remedial measures, and only when all possible measures are exhausted, shall the accounts be endorsed for legal action.
- The LEAD has already instructed the field offices to endorse collateralized accounts subject for foreclosure proceedings. A total of 334 accounts had been endorsed with a value of ₱249,469,916. The Office shall be pursuing the foreclosure of said properties

- The CRMD and the LEAD are currently validating and coordinating with the concerned field offices as to the status and action taken on the accounts mentioned in Schedule 3 and 4. Management shall provide your Office with a progress report on the same as soon as the validation/updating has been completed.

Management has complied with this commitment. It submitted on June 14, 2007 the status of past due accounts which are not secured by collateral amounting to ₱155,418,302 and those covered with REM/CM amounting to ₱184,894,335.

The COA will continuously monitor and validate the progress of the actions taken on our audit recommendations particularly the movement of the past due accounts with and without security/collateral.

5) The allowance for bad debts amounting to ₱430,564,972 set up in the books as of December 31, 2006 is found to be inadequate by more or less ₱379,836,288. Thus, trade receivables is not reflective of its net realizable value which is not in accordance with SFAS No. 3 on Receivables and PAS No. 39 entitled Financial Instruments: Recognition and Measurement.

Item Nos. 4 and 5 of the Statements of Financial Accounting Standards (SFAS) No. 3 on Receivables states that:

“Receivable balances should be valued at their face amounts, minus if appropriate, allowances set up for doubtful accounts and for any anticipated adjustments which, in the normal course of events, will reduce the amount receivable from the debtor to estimated realizable values. Xxx.”

“The allowance for doubtful accounts should be provided an amount determined after a study of the estimated collectibility of receivable balances and evaluation of such factors as aging of the accounts, collection experience of the company in relation to the particular receivables, past and expected loss experiences, and identified doubtful accounts.”

The Management adopted its own policy relative to the setting up of allowance for bad debts which is disclosed under Note 2 (e) of the Notes to Financial Statements and provides as follows:

1. All Trade Receivables/Contingent Assets – Collateralized trade receivables and contingent assets consisting of past due loan and guarantee payment receivables shall be classified as follows and provided with the corresponding percentages of valuation reserves:

Classification	Valuation Reserve (% of Outstanding Principal)
Fully secured	None
Collateral short	10% every year or less to cover collateral deficiency
For filing of/with pending criminal/civil case or with favorable judgment	10% every year

With legal constraints 20% every year

2. Other past due accounts not included under item e.1 shall be aged and the corresponding valuation reserves determined according to the following schedule:

No. of Years Past Due	Valuation Reserve (% of Outstanding Principal)
One year or less	5%
More than 1 year to 2 years	10%
More than 2 years to 3 years	20%
More than 3 years to 4 years	30%
More than 4 years to 5 years	40%
More than 5 years	50%

Using the Management's policy on allowance for bad debts, we performed an independent test to determine the reasonableness of the allowance for bad debts set up in the books. Our test revealed that the amount provided for in the books amounting to ₱430,564,972 is found to be inadequate by more or less ₱379,836,288 as shown in detail in Schedule 5.

Based on the soft copy provided by the management, we sorted and identified all trade receivables which have been due as follows:

CY2006 – January to June	One year or less
CY2005	More than 1 year to 2 years
CY2004	More than 2 years to 3 years
CY2003	More than 3 years to 4 years
CY2002	More than 4 years to 5 years
CY2001 and prior years	More than 5 years

From the sorted past due trade receivables, we did not include those accounts covered with real estate mortgage (REM) or chattel mortgage and assumed that the same are fully secured loans for which no valuation reserve for allowance is required per management's policy. Likewise, we deleted all past due accounts with negative balances since these receivables are not subject to allowance for bad debts. This audit procedure was applied to Head Office, NCR, Regions I to V, VII and X to XII wherein we were able to come up with our own schedule of past due accounts. However, for Regions VI, VIII, IX and Caraga, we made use of the aging of past due trade receivables submitted by the Corporate Receivable and Payables Department (CRPD) due to time constraints.

Further, 'Philippine Accounting Standards (PAS) No. 39 entitled Financial Instruments: Recognition and Measurement provides as follows:

"Impairment and Uncollectibility of Financial Assets:

Paragraph No. 59:

"A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can

reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognized. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- (a.) significant financial difficulty of the issuer or obligor;*
- (b.) a breach of contract, such as a default or delinquency in interest or principal payments;*
- (c.) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;*
- (d.) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;*
- (e.) the disappearance of an active market for that financial asset because of financial difficulties; or*
- (f.) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:*
 - (i) adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount); or*
 - (ii) national or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan asset to oil producers, or adverse changes in industry conditions that affect the borrowers in the group)."*

Paragraph No. 63:

"If there is objective evidence that an impairment loss on loans and receivables or held to maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss."

The audit issues and/or circumstances enumerated and discussed under the following Audit Observation Memoranda (AOM) are indications that impairment loss may have been incurred, and therefore, adequate allowance should have been provided to reduce the carrying amount of the respective receivables:

- (1.) AOM No. 2006-01 – QUEDANCOR’S right of claim on QSP receivables amounting to ₱1,291,039,975, nor its existence, can not be established or ascertained, thus the likelihood of credit default is high.
- (2.) AOM No. 2006-016 – Trade Receivable – Food and Agricultural Retail Enterprise (FARE) amounting to ₱33,701,338 which is due from accredited lending banks is doubtful considering the results of confirmation caused by inadequacy of records and lack of coordination with said banks.
- (3.) AOM No. 2006-11 – High value loans totaling ₱263,514,552 which are long over due but remain uncollected.

We recommended that Management perform a thorough review and analysis of the allowance for bad debts taking into consideration QUEDANCOR’s policy, and adjust the books for the corresponding understatement in allowance to present trade receivables at its net realizable value as required for under SFAS No. 3.

Likewise, for past due trade receivables mentioned in the AOMs enumerated above wherein the objective evidence of impairment loss is present, provision for adequate allowance as required under paragraph No. 63 of PAS No. 39 should be complied with.

Management committed to analyze the trade receivables and age the same on a quarterly basis to enable them to provide adequate allowance for bad debts as required by existing standards.

We requested Management to furnish us with the quarterly Aging Schedule and the results of its analysis of the receivables in so far as providing adequate allowance for bad debts is concerned.

6) The Corporation’s right of claim over its Trade Receivables under the QUEDANCOR Swine Program (QSP) covered by QUEDANCOR Memorandum Circular No. 403 amounting to ₱1,291,039,975 net of the accounts confirmed by the farmer-borrowers in the amount of ₱176,396,591 as of December 31, 2006 per schedules from Management, and its existence, cannot be properly established/ascertained, thus, the likelihood of credit default is high. These uncertainties adversely affect the fairness of the presentation of the Trade Receivables - QSP.

As a result of last year’s audit of the Trade Receivables-QSP, Management adopted remedial measures, to address the problems or “adversarial concerns” of the Swine Program referred to in the QUEDANCOR Memorandum Circular No. 403 dated March 22, 2006.

There are two important aspects that the remedial measures should address: 1) the accounting aspect or the correction of records to reflect all the transactions that transpired under the QSP, including the existence of said receivables, and 2) the legal aspect which pertains to the regularity of the obligations of the borrowers and the ISs, among others.

However, perusal of Memorandum Circular No. 403 and evaluation of the results of the actual implementation of the remedial measures as disclosed in the following observations,

showed that neither the accounting nor the legal aspect of the QSP issues are near to settlement. On the contrary, the problems became complicated.

Memorandum Circular No. 403 provides the following remedial options, with our comments thereto:

- 1) Grower/Borrower (G/B) wants to continue the project with a new IS without a Contract Growing Agreement (CGA) - This action may be pursued when the grower/borrower would like to terminate its CGA with the IS. The same shall commence through formal communication from the G/B requesting termination of the CGA with the concurrence of the IS and QUEDANCOR. In cases where the IS refuses to rescind the CGA and the adverse condition/s were due to the failure of the IS to fully satisfy its obligation/s under the CGA, the G/B may still pursue its option and take total control of the project with a conversion of the loan obligation into a term loan. The G/B shall, then, have the option to choose the source of inputs for the project.

COA commented that this option is applicable only if the G/B has remaining stocks, and that liability over the existing loan with QUEDANCOR has been settled between the G/B and the old IS. The problem under this option lies in the division of the loan obligations between the old IS and the borrower in cases where there are no records nor supporting documents to pull-outs and/or unauthorized pull-outs, or even if there is authority to pull-out but the event/transaction was not taken up in the books. One possible cause of the IS' refusal to accept the formula for the division of loan is when the stocks pulled-out are less than the required quantity and weight, that if sold, the proceeds from which, will not be sufficient to satisfy the loan of the borrower. Under this situation, neither the IS nor the borrower would want to take the responsibility of paying the loan. The borrower will likewise undoubtedly refuse to acknowledge the loan because of his knowledge and belief that the IS will be the one to pay his obligations in case of pull-out of stocks, pursuant to the provisions of the CGA.

- 2) Grower/Borrower wants to continue the project maintaining the old IS. All conditions shall remain in force except that the G/B and the IS shall execute a new CGA. Grower/borrower may have the option to convert the obligation into a term loan to recoup from losses brought about by the adverse conditions of the business.

This set-up is the original scheme which is the root cause of all the QSP problems, now the subject of the remedial measures. The conflicts created by the terms and conditions of the old CGA cannot be remedied by a new CGA, unless the new CGA will provide for the proper settlement of the accounts of the G/B and the IS. Similarly, the Management will find it very difficult to establish the exact loan obligations that pertains to the IS and the borrower because of the absence of records, such as, the documents to support the quantity of stocks actually delivered and pulled-out, among others.

- 3) Grower/Borrower wants to continue the project with a new IS covered by a new CGA - Conditions and activities shall be similar with the first option above except that a new CGA shall be executed with the new IS.

The presumption under this option is that, there was proper division of the original loan obligations between the G/B and the old IS, and that there are still stocks remaining with the borrowers, otherwise, this option is not possible.

4) Total surrender of gilts/fatteners by the G/B to the IS.

The problem under this option lies in the granting of additional loan to the IS for the feed requirement of the remaining stocks which was surrendered to him because this loan increases the IS's existing obligations with QUEDANCOR, the collectibility of which is doubtful. This option also depends on the IS's willingness to absorb all the outstanding loans of the borrower.

(Please see more comments on the provisions of Memorandum Circular No. 403 as discussed in AOM No. 2006-21)

Results of direct confirmation with QSP borrowers and with the IS disclosed that, of the total outstanding balance of ₱1,545,137,572 as of December 31, 2006, ₱1,467,436,566 or 95% of the total is allegedly under any of the options for remedial measures as provided under QMC No. 403, further classified into the following status:

	Amount	Percent
Assumed by IS	₱ 738,766,180	50
Confirmed by borrowers	176,396,591	13
Due to IS but still unassumed	325,387,018	22
Under Negotiation	226,886,777	15
Total	₱1,467,436,566	100

Please see attached Schedule 6 for details.

These results of confirmation cannot be fully relied upon to establish the existence and rightful claim of QUEDANCOR over its receivable-QSP in the absence of vital supporting documents of prior years', 2004-2005, transactions, such as but not limited to, authority to pull-out, proof and acknowledgement of pulled-out stocks, acknowledgement of delivery of inputs, etc. and pertinent loan documents showing the assumption of obligation by the appropriate party. In addition, records have to be reconstructed to check whether all the QSP transactions that transpired were properly captured, which may not also be possible for similar reasons. The legal aspect, likewise, cannot be settled under the circumstances because of the infirmities noted in Memorandum Circular 403 and the apparent denial of obligations by the farmer-borrowers and the ISs.

Relative to the foregoing, hereunder are some of the observations from the QSP implementing regions relative to the implementation and results of the remedial measures:

Region I

A total of ₱125,185,923 or 51% of the total outstanding balance of Receivables-Trade-QSP in Region I is already past due. Confirmation of the accounts disclosed that in most cases the Authority to Pull-out was not secured by the Input Supplier (IS) from QUEDANCOR prior to take out of the stocks from the borrowers. On the other hand, when asked, most of the farmer-borrowers disown their loan balances claiming that all their stocks were already pulled-out by the IS, the Silverstock Resources Corporation (SRC), who now appears liable to pay the loan to QUEDANCOR pursuant to the provision of the CGA. In the absence of the Authority to Pull-out, it becomes difficult to determine who the real debtors are of the ₱125,185,923 past due accounts under the QSP, although per records of QUEDANCOR the loan balances are in the names of the farmer-borrowers.

Region III

- Of the total outstanding balance of Receivable-Trade-QSP amounting to ₱194,813,011, ₱181,925,632 or 93% is under the QSP Remedial Measures. Of the ₱181,925,632, only ₱44,255,796 or 24.33% was confirmed as assumed by the borrowers and only ₱733,583 or 1.66% of the ₱44,255,796 was collected from the borrowers.
- ₱29,806,850 or 15% is confirmed as assumed by the IS while ₱57,568,147 is due to IS by virtue of the submitted Authority to Pull-out but IS still refused to sign the debt assumption documents.
- ₱50,294,839 are accounts which are still under negotiation, that is, there is no meeting of minds among the IS, the borrowers and QUEDANCOR.

Region IV

Based from the results of confirmation of Receivable-Trade-QSP, difficulty in the collection may be encountered due to poor response from the borrowers, which shows that only ₱4,374,913 or 3% of the ₱135,016,332 total outstanding balance, confirmed their accounts favorably, as shown below:

Status	Amount	Percentage
Confirmed	₱ 4,374,913	3
Denied	25,549,607	19
Partially denied	14,506,944	11
Refused to sign	9,603,985	7
Dummies	1,518,250	1
Missing	1,202,637	1
No reply	78,259,996	58
Total	₱135,016,332	100

During the conduct of direct confirmation, the Audit Team was informed that the stocks have been pulled-out by the IS, however, the borrowers could not show any proof of pull-out since they were not provided copy of the Authority to Pull-out or no authority was presented during the pull-out and most of the pull-outs made by the IS were not recorded in the books to correct the records and transfer the liability of the borrower to the IS.

Region V

Despite the 2005 audit findings and observations on QSP, the amount of ₱26,020,000 was released to QSP borrowers in 2006 in the following district offices:

Naga	₱ 8,844,000
Albay	10,032,000
Sorsogon	1,680,000
Daet	5,464,000
Total	₱ 26,020,000
	=====

Of the amount of ₱26,020,000, ₱23,504,871 was paid to the IS for alleged deliveries of input supplies. However, the deficiencies previously noted in the QSP implementation were also noted, among others:

- The total quantities and inputs stated in the delivery receipts (DRs) were not actually delivered in whole quantity as what is indicated in the DRs. Deliveries of input supplies were made on staggered basis.
- Inputs were received by the SRT Team Leader and not by the borrowers.
- Place of delivery is not indicated in the DR and/or the address of the place of delivery in the DR is incomplete.
- Place of delivery per DR differ from the place of delivery indicated in the Purchase Order (PO).
- DRs of various borrowers in the Sorsogon District Office were not submitted, thus, there is no proof that will show that the inputs were delivered.

The Daet District Office reported similar observations, discussed in detail in the COA-QUEDANCOR Regional Team Leader's Report dated July 12, 2006, involving the amount of ₱1,423,681 paid to New Goldrock Agri Vet Co., among others.

Region VI

Past due Receivable-Trade from Input Supplier/Buyer Supplier totaling ₱286,523,645 was recorded as receivables from farmer-borrowers of GMA-CARES-SRT Swine Program. In fact, the amount was due from the following:

BIRKS Agri-Livestock Corp.	₱197,992,496
Metro Livestock, Inc.	88,531,149
Total	₱286,523,645

Examination of the Receivable Schedule showed that the Receivables presented in the Schedule are from farmer-borrowers who have no more account with QUEDANCOR. This occurred mainly due to the Agency's failure to transfer the loan accounts of farmer-borrowers to the accounts of the IS who have pulled-out the stocks. The accounts were already past due. Of the total amount, ₱23,934,000 may be lost because the Loans Management Group did not require the corresponding PDCs from the Input Supplier in exchange for the PDCs of the farmer-borrowers as required in the existing QSP guidelines.

Region VII

- The amount converted to term loan was not reconciled with the amount appearing in the general ledger. Per books of accounts, the QSP-Receivables-BIRKS' balance is ₱63,623,764, while per schedule of accounts assumed by BIRKS and compromised amount, the balances are ₱55,778,476 and ₱66,530,104, respectively.
- Alleged refusal of the Input Supplier, BIRKS, to sign the debt assumption documents covering the ₱12,887,400 accounts in Dumaguete District Office.

- The amount of Receivables-QSP of ₱70,252,345 assumed by the Input Supplier, BIRKS is not adequately secured. The amount includes rebates/adjustments, penalties for condonation and those subject to separate agreement totaling ₱3,722,241 or a net amount of ₱66,530,104.
- Loan repayment period granted to BIRKS is 9.4 years in violation of Section 8 of QMC 403 which specifies a repayment period of three (3) years, and seven (7) years for highly justifiable circumstances.

Region VIII

The transfer of loan obligations amounting to ₱4,164,445 which represents 20% of the ₱20,574,981 year-end balance of Trade Receivable-QSP, from borrowers to Input Supplier, BIRKS, is not covered by promissory note.

Trade Receivable-QSP amounting to ₱6,131,643.76 which matured on May 27, 2006 were converted to Term Loans but inadvertently recorded as new loans under the QP-SRT, together with restructured loans amounting to ₱805,396.37, thus, the misclassification.

From the foregoing, if not remedied, the uncertainty of recovery from the QSP will result to:

- liquidity problem;
- credit default;
- program failure;
- distorted accounting records; and may
- adversely affect the sustainability of the Agency as a going concern

We recommended that Management initiate action to bring the matter to the appropriate court to compel all parties concerned to bring out proofs/evidences of their respective claims. Let the court decide on the merits/demerits of their claims and pronounce their legal obligations. The results thereof, among others, shall be made the bases for adjusting the accounting records. Likewise, let the court decide on the liability/accountability of the erring QUEDANCOR officials and employees.

And, to address the accounting aspect of the QSP problems, we suggested that Management create a Task Force of competent and dedicated accounting personnel to be headed by the AVP-CRPD, who will be tasked primarily of reconstructing the accounting records pertaining to the QSP of each of the 63 district offices. Reconstruction of the records should start from the source of funds utilized for the Program up to present status of the individual account/loan, vis-à-vis, its current status per books. Vertical and horizontal reconciliation of the accounts/records should be made.

According to Management, QUEDANCOR Memorandum Circular No. 403 dated March 22, 2006 has been adopted and implemented precisely to undertake a focused remedial measure specifically addressing the problems or adversarial concerns relative to the QSP. In fine, said circular aims to continue the existence of the Borrower-Lender relationship under the QSP pursuant to the given mandate of QUEDANCOR, without limiting or completely destroying the noble objective and purpose of the swine program. Circular 403 offers several remedial options, primarily to help save the continuity of the project which involves live stocks, and more importantly to orderly determine for whose obligation shall the

new arrangement be accounted. The objective of Circular 403 is purely to remedy the swine accounts which posted problems due to the seeming complexity of the program mechanics.

Management also cited the recent actions undertaken by them in relation to the QSP, as follows:

- On April 23, 2007, the Loans Management Cluster Senior Vice-President issued a memorandum instructing the concerned RAVPs to accomplish reports on accounts receivables under the QSP placed under Circular 403 as remedial measure. Initial summary of the reports revealed that as of December 31, 2006, accounts receivables under the QSP has a total outstanding balance of ₱1,437,255,243.18 covering 1,634 accounts; with the following breakdown:
 - 704 accounts or ₱673,802,725.20 were assumed by the IS
 - 277 accounts or ₱134,012,213.16 were retained by borrowers
 - 116 accounts or ₱131,723,341.29 are under negotiation
 - 461 accounts or ₱420,906,341.03 are due from IS but still unassumed
 - 76 accounts or ₱ 76,810,622.50 under other status
- On May 8, 2007, the President and CEO issued a memorandum addressed to all concerned RAVPs to submit an accomplished format on the region's Target Monthly Cash Collection under the QSP. Allegedly, it will help management monitor the prompt payment of maturing obligations as well as determine immediate remedial and/or legal action necessary. The same memorandum likewise listed the documentary requirements to be submitted/forwarded upon endorsement of the account to the Legal Affairs Department for filing of appropriate cases.
- Management also committed to conduct investigation or proper audit of the implementation of the QSP by field personnel. They will also consider creating a Task Force that will primarily reconstruct the accounting records relative to the QSP.

Further, on the issue of the alleged unrecorded releases under the QSP noted in No. 1 Comments and Recommendations, 2005 AAR, the CRPD clarified us on the following:

The aggregate releases of ₱1,666,214,621 as of December 31, 2005 includes cumulative figures already recorded in 2003 and 2004, which include among others the following:

Region I - A total of 23 accounts amounting to ₱11,000,000 were released and recorded in 2003 and 127 accounts amounting to ₱94,170,000 in 2004. However, a total of 20 accounts in the amount of ₱16,414,000 actually released in 2005 were not recorded in the books but were taken up instead in 2006.

Region III - The list submitted has incomplete dates, but preliminary review revealed that many releases pertain to the year 2004.

Region IV - The summary was not accompanied by list of borrowers. Validation and reconciliation is still going-on.

Region V - Out of the ₱95,988,000 releases per Auditor's list, two (2) accounts amounting to ₱1,320,000 pertain to 2004 and were properly recorded in that year.

Region VI - The total amount of ₱636,449,492 releases under Region 6 per the field auditor's list was recorded under the Livestock and Poultry Program (Code 8-71-053) ever since the program was implemented in this region in 2003 and should be excluded or tagged as such in the audit findings.

Considering the analysis and reconciliation done, the unrecorded releases under the Swine Program for the year 2005 should be restated as follows:

Unrecorded releases per COA audit observation no. 1	₱747,873,418
Deduct: 1) Releases already recorded in 2003	₱11,000,000
2) Releases already recorded in 2004	
Region 1	₱94,170,000
Region V	<u>1,320,000</u> 95,490,000
3) Releases recorded under the Live-	
stock & Poultry Prog. (Code 8-71-053)	<u>636,449,492*</u> <u>742,939,492</u>
Net Unrecorded Releases for the year 2005	₱ 4,933,926
	=====

*** reclassified to QSP in 2006**

We took note of the misclassification of the QSP (8-791-691) now 121-01-091 under the NGAS accounts in Region VI as Livestock & Poultry Program (8-71-053) and the reclassification made in 2006 as mentioned in Memorandum QRCGC 282 dated May 31, 2007. However, we wish to emphasize that the lists being referred to are schedules submitted by the respective district offices which were verified by the field auditors. The Accounting and Budget Department or the Corporate Receivables and Payables Department, QUEDANCOR should have called the attention of the Regional/District Accountants in Region VI on the matter as early as 2004 when the QSP, aside from the Livestock & Poultry Program, was implemented. Further, granting that loan releases under the QSP were taken up in the books as Livestock & Poultry Program since 2003, it would appear that of the total amount of releases of ₱1,415,294,666.23 including assigned receivables of ₱199,670,500 as of December 31, 2005 per Region VI book balances, see attached (Annex B) of Account GMA-CARES-IAL-Livestock, ₱778,845,174.23 are releases under the Livestock and Poultry Program while the ₱636,449,492 pertains to loan releases under the QSP in 2005. (Per information provided by COA-QUEDANCOR Region VI, only ₱368,915,080.29 was adjusted from Poultry and Livestock to QSP in 2006, see Annex B-1.) It must also be noted that the reclassification in 2006 should pertain to the total of the accounts' balances and not the total releases of ₱636,449,492. Collections and or credits therefrom should have been considered in arriving at the amount for adjustment. Also, the fact that the QSP releases may have also been affected by the offsetting process should not be disregarded. The effects, legal and accounting aspects, of the offsetting scheme is one of the reasons why COA doubted the reliability of the QSP account balance. In this regard, to effect proper adjustment of the affected accounts under each program, Livestock & Poultry and Swine Program, the regularity, accuracy and existence of every borrower's account should first be ascertained/established. For this purpose, submit to this Office the following schedules duly reviewed and verified by the appropriate QUEDANCOR officials on or before July 30, 2007, for further validation by the respective offices of the COA-QUEDANCOR:

- Detailed Schedule/List of Loan Releases under the Livestock and Poultry Program (8-71-053) from May 2003 to December 31, 2005 with complete information particularly the date of release and the reference document.
- Detailed Schedule/List of Loan Releases under the Quedancor Swine Program (8-791-691) now 121-01-091 from March/April 2004 (the period when the QSP was implemented pursuant to QMC No. 267 as amended) to December 31, 2005 with complete information particularly the date of release and the reference document.
- Details of offsetted accounts, including among other information, the following: JV/DV No., date of transaction/offsetting.

As to QSP releases in Regions 1 and V which were allegedly recorded in 2003 and 2004, please submit also the detailed list of borrowers pertaining to the ₱11,000,000 and ₱95,490,000 releases in 2003 and 2004, respectively. Also the amount of ₱16,414,000 representing releases in 2005 which were recorded only in 2006 should be considered in arriving at the Net Unrecorded Releases for the year 2005 of ₱4,933,926.

Finally, similar schedules should be submitted pertaining to the other regions with QSP accounts and show that there was proper accounting of the QSP transactions before any adjustment be made in the books.

COA will continuously monitor the progress of the actions taken by Management on QSP problems.

7) The interlocking membership in the Board of Directors of Corporations which are beneficiaries of the QUEDANCOR Financing Program for Working Capital of Buyers and Processors of Agri-Fishery Commodities, among other factors, is found contributory to high collection/recovery risk of QUEDANCOR involving a total loan exposure of ₱113,700,000.

There is interlocking membership in the Board of Directors of the Iloilo Feeds Corporation (IFC), the Nueva Foods Corporation (NFC), the BIRKS Agri-Livestock Corporation (BIRKS), all borrowers of the QUEDANCOR, the ACL Corporation, owner of the real estate properties offered as collaterals to partly secure the approved Working Capital Line of the IFC and NFC, and the Nueva Swine Valley, Inc. (NSVI), owner of the alleged accounts receivables offered as additional collateral by the IFC. No risk is seen in the set-up, per se, had not these corporations, except for ACL and NSVI, been granted huge amount of loans by QUEDANCOR, the recovery of which looks very dim considering the following circumstances:

a) Business inter-relationship:

- QUEDANCOR– Lending/Financing Agency. It provides the capital requirement of IFC, NFC and BIRKS. As shown from their respective company profile, see **Annex C**, the start up/paid-up capital of these corporations were deficient as of dates the loans were granted to them.

- BIRKS Agri-Livestock Corporation- Buyer of feeds from IFC and swine/hogs from NSVI, supplier of pig carcass to NFC and Input Supplier to borrowers under the QUEDANCOR Swine Program (QSP).

Under the QSP, it appears that the BIRKS made representation with QUEDANCOR that it is ready/capable to supply all the swine, feeds and technical expertise of the latter. However, examination of the loan documents revealed that BIRKS was getting its supply of swine from the NSVI, and feeds from the IFC which started operations only in 2001 per submitted audited financial statements, or four (4) years after its registration with the Securities and Exchange Commission. From records, it turned out that BIRKS, without IFC, may not be able to comply with its contractual obligations with QUEDANCOR, thus, the apparent misrepresentation. So, the IFC was revived and made operational to supply the feed requirement of BIRKS. To do so, it also appears that QUEDANCOR provided the capital requirement of the IFC through its Program for Working Capital of Buyers and Processors of Agri-Fishery Commodities per QUEDANCOR Memorandum Circular No. 257 dated December 03, 2003.

- Iloilo Feeds Corporation – Feeds Supplier of BIRKS.
- Nueva Foods Corporation – market of livestock/buyer of pig carcass from BIRKS.
- ACL Corporation – Real Estate Company which owns the real estate properties offered as collateral by the IFC and NFC. The covering REMs were executed by virtue of a Special Power of Attorney (SPA) issued by Vicente Cualoping, a member of the Board of Directors of ACL, BIRKS and IFC.
- Nueva Swine Valley, Inc – owner of receivables allegedly assigned by the IFC as additional collateral to QUEDANCOR. BIRK's swine supplier.

It appears that the NSVI is also an instrument of BIRKS. Its financial statements shows a deficit of ₱652,045,144 as of December 31, 2004. It has accounts receivables of ₱61,880,083 but has accounts payable of ₱107,610,150. Its total current assets is ₱98,198,574 but its total liabilities is ₱340,177,320.

Please see attached Annex D (diagram)

- b) Outstanding loan balance: Approved WCL:
- | | |
|---------------------|--------------|
| NFC - ₱ 89 Million | ₱ 89 Million |
| IFC - ₱24.7 Million | ₱ 54 Million |
- BIRKS - the amount of its payables to QUEDANCOR is equal to the amount of loans assumed from borrowers under the QSP as a result of the Buy-back Agreement. In Region VI alone, it is estimated at ₱290,303,352.

- c) Collateral/Security of the loans:

IFC – Collaterals/Securities required:

- 30% REM as appraised by the Special Investigation Division (SID)
- 70% Assignment of Receivables appraised at 80% of face value
- Post dated checks

Actual collaterals/securities submitted:

- REM on fourteen (14) TCTs of the ACL Corp. upon authority by the ACL Board to Vicente Cualoping to issue a SPA in favor of Bernaditte O. Seyan, the President and CEO of IFC. The properties were appraised at P3,144,400;
- T/OCT No. 525149 and 525150 with SPA from Vicente Cualoping, appraised at P11,390,400; and
- T/OCT No. M22506 with SPA from Tan Ban Yong. The property was appraised at P5,107,200.

Applying the existing guidelines in the valuation of collaterals, it would appear that the IFC loan, only P13,749,400 was covered by REM or a deficiency of P2,450,600, computed as follows:

Appraisal value (AV) of the following:

14 TCTs -	P 3,144,400
T/OCT Nos.525149 & 525150	11,390,400
T/OCT No. M22506	<u>5,107,200</u>
Total appraised value (AV)	<u>P19,642,000</u>

30% of total loan granted (30% x 54,000,000)	P 16,200,000
70% of AV of collateral (70% x 19,642,000)	<u>13,749,400</u>
Collateral (REM) deficiency	<u>P 2,450,600</u>

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Note: The review of the technical aspect of the TCTs shall be referred to the COA-TSO.

In addition to deficiency in the amount of collaterals, it will be legally difficult to foreclose the collaterals covered by SPA, as in the instant case, if and when it is necessary to foreclose, because the grantor of the SPA is not the owner of the property covered by the SPA. The properties are owned by the ACL Corp.

- Deeds of Assignment of Receivables from BIRKS and NSVI.

Perusal of the documents, disclosed that there are two Deeds of Assignment of Receivables at P5,000,000 each covering the IFC's receivables from BIRKS executed on February 10, 2004 and March 03, 2004. Both are supported with a Supply Contract dated October 25, 2004 entered into by and between IFC and BIRKS, represented by Bernaditte O. Seyan and Gemma A. Wang, respectively. However, the alleged Annex A and corresponding PNs were not among the documents submitted. Per FS dated July 31, 2004, the IFC's receivable from BIRKS amounted to P11,417,727 only, or a collateral of P6,393,927, computed as follows:

Total Receivables	P11,417,727
Requirement under MC 257:	
70%x (80%x11,417,727)	6,393,927

The P33,114,000 receivables which was the basis for computing the 70% requirement for assignment of receivables in the attached Credit Investigation Report dated September 9, 2004 includes the IFC's receivable from the NSVI amounting to P21,696,031 which is not covered by the Deed of Assignment.

Applying the rules, it would appear that the ₱24.7 million outstanding balance of the IFC loan was not fully secured or it is deficient by ₱4,610,673, as shown below:

30% REM	₱ 13,749,400
70% Assigned Receivables	<u>6,339,927</u>
Total amount of security	20,089,327
Total outstanding loan	<u>24,700,000</u>
Collateral Deficiency	(₱ 4,610,673)
	=====

Further, while the Deeds of Assignment were in the possession of QUEDANCOR, it is deemed legally infirmed and unenforceable because of the following:

- a) No deed of undertaking was executed by BIRKS nor by the NSVI that it has acknowledged or concurred with the assignment; and
 - b) The audited financial statements of IFC for 2003 shows Accounts Receivable from the NSVI but the Deed of Assignment covers the IFC's receivables from BIRKS which appeared in the FS dated July 31, 2004 only.
- PDC-The attached xerox copies of the PDCs were all dishonored due to Account Closed/Drawn Against Insufficient Fund

NFC- Collateral/Securities required:

- 30% REM as appraised by QUEDANCOR
- 70% Assignment of Receivables from BIRKS and Super Value Inc.
- Post-dated checks

NFC-Actual collateral/securities submitted:

- REM on thirty seven (37) TCTs of the ACL Corp. upon authority by the ACL Board to Vicente Cualoping to issue SPA in favor of Mark Anthony O. Ng, President and CEO of the NFC. The properties were appraised at P10,136,000 or 70% of the P14,480,000 fair market value (FMV) of the properties.
- REM on additional twenty one (21) TCTs on the ACL Corporation's properties located in Antipolo City, with a FMV of P24,024,000 and appraised value of P14,414,400, or a total appraised value of P24,550,400.

Note: The review of the technical aspect of the TCTs shall be forwarded to the COA-TSO.

- Deed of Assignment (DOA) of Receivables from the Super Value Inc. (SVI) in the amount of P20,124,600 is not dated, with no attached schedule of SVI receivables. Annex A attached to FS dated June 30, 2004 is not specifically referred to in the Deed.
- Deed of Undertaking/Assignment of Receivables from BIRKS, in the amount of P10,000,000 dated March 5, 2004 supported with Supply Contract between the IFC and

NFC dated January 15, 2004 and a Memorandum of Agreement between the NFC and QUEDANCOR dated January, 2003.

- Deed of Undertaking/Assignment covering NFC's receivables from Super Value Inc. in the amount of P10,000,000 dated Sept. 1, 2004
- Inventory of Equipment amounting to P3,402,110.16 covered by NFC Board Resolution No. 7 dated June 15, 2003.

Review of the loan documents disclosed the following:

- Considering that the foregoing Deeds of Assignment of Receivables are valid, the total appraised value of which together with the appraised value of the REMs, is still deficient to cover the P89,000,000 outstanding loan of the NFC, computed as follows:

Receivables from SVI	DOA not dated	₱ 20,124,600
Receivables from BIRKS	DOA dated 03.05.04	10,000,000
Receivables from SVI	DOA dated 09.01.04	<u>10,000,000</u>
Total		<u>40,124,600</u>
70% of the 80% of Receivables		<u>₱ 22,469,776</u>
Total Collateral:		
REMs		₱ 24,550,400
Receivables		<u>22,469,776</u>
		47,020,176
Total outstanding loans		<u>89,000,000</u>
Collateral Deficiency		(₱ 41,979,824)
		=====

- In addition to collateral deficiency, it will be legally difficult to foreclose the collaterals covered by SPA, as in the instant case, if and when it is necessary to foreclose, because the grantor of the SPA is not the owner of the property covered by the SPA, but the ACL Corp.;
- There is no attached Deed of Undertaking neither from BIRKS nor from SVI acknowledging or concurring with the assignment of receivables, nor corresponding proof of indebtedness subject of the Deeds of Assignment, which is not in conformity with Article 2093 of the New Civil Code of the Philippines, which states that:

"The thing pledged must be placed in the possession of the creditor, xxx".

Hence, the Assignment of Receivables is deemed legally infirmed and unenforceable.

- The subject inventory of equipment covered by Board Resolution No. 7, stated above, is not covered by a Chattel Mortgage.

Consequently, Management failed to withhold the amount of ₱16,420,950 as shown from records, paid to BIRKS representing the net amount due to BIRKS as a result of the offsetting of accounts under the QSP. The amount could have been applied to matured loans of IFC and NFC by virtue of the Deed of Assignment of Receivables had the Deeds been executed lawfully.

- PDC - The attached xerox copies were all dishonored due to Account Closed/Drawn Against Insufficient Fund.

d) Networth/Paid-up capital as of date of loan releases:

IFC – ₱2,500,000 per audited FS dated 7.31.2004
 NFC – ₱1,250,000 per audited FS dated 12.31.2003

e) Changes in the membership of the Board of Directors:

- Per SEC Registration No. E199700585 dated July 21, 1997, Ms. Mary Ann O. Ng was the treasurer of the Iloilo Feeds Corporation, and under SEC Registration E200000074 dated January 31, 2000, Ms. Ng was the major stockholder of the Nueva Foods Corporation, designated as its President and CEO. On March 24, 2004, she relinquished her 3,500 shares of stocks in favor of Mark Anthony O. Ng. Ms. Ng is now the Chairman of the Board of Directors of the BIRKS (AOM No. 2, Reg. VII) and NSVI.
- Vicente Cualoping is a member of the Board of Directors of the IFC, BIRKS and ACL. He is also a former member of the Board of Directors of Silverstock Resource Corporation, another Input Supplier of QUEDANCOR under the QSP.

f) Release of Loan:

IFC – The total drawdown from the approved total Working Capital Line (WCL) of ₱54,000,000 was ₱34,700,000 which was paid, in tranches, to Julieta C. Ong, a member of the Board of Directors of the Nueva Swine Valley, Inc. allegedly for payment of supplies delivered to IFC covered by Commodity Acknowledgement Receipts (CARs).

NFC – Cash totaling ₱89,000,000, the total approved Working Capital Line were released in tranches, to Bernaditte O. Seyan, for alleged deliveries of commodity stocks covered by CARs. Ms. Seyan is the President and CEO of the IFC and member of the Board of Directors of the NSVI.

The total drawdown was ₱89,000,000, ₱10,000,000 million of which was used to pay previous loan.

The CAR refers to an instrument issued by the Buyer/Processor acknowledging the receipt of agri-fishery commodities/stocks in good condition which shall be processed and/or sold in its original form or finished/semi-finished products. It is a QUEDANCOR prescribed form purchased by the borrower from concerned QUEDANCOR Regional/District Office (RO/DO) based on their expected deliveries. See Section 14.2 of QMC 257.

g) Repayment Record:

Records show that repayment status of the IFC and NFC is not satisfactory. Matured loans were paid out of the proceeds of the borrower's subsequent WCL drawdown. As of December 31, 2006, the total loans of the IFC and NFC in the amount of ₱24,700,000 and ₱89,000,000, respectively, are already past due.

Considering the foregoing, the recovery of QUEDANCOR'S exposure under the Program totaling ₱113,700,000 is highly doubtful.

We recommended that Management immediately pursue the appropriate legal action to recover its loan exposure from the IFC and NFC. In connection thereto, the veil of corporate entity of all these corporations should be pierced and all officers and members of the board of directors of the IFC and NFC should be held liable for all corporate debts and obligations to QUEDANCOR that may not be covered by the collaterals.

Likewise, the responsibility and accountability, if any, of QUEDANCOR officials and employees who were responsible for the processing and approval of the subject loans must be determined and appropriate action must be taken against them.

Management replied that, as the Input Suppliers are not the prospective borrowers or debtors of QUEDANCOR, accreditation process does not go as far as looking into the details of its business management, such as determining who are the incorporators and directors of the corporation, whether or not they have interlocking directors.

On collateral deficiency:

- Based on the comments provided by the RAVP in Region VI, the loanable value based on existing guidelines is at 100% of the appraised value of the property offered, invoking MC. No. 243 series of 2003 and succeeding MC Nos. 366 and 416, therefore, total amount of loan is sufficiently covered by REMs.
- Collaterals given were legally registered and properly annotated with the Registry of Deeds where the properties are located, thus, will not be difficult to foreclose.
- The SPAs executed are enforceable as far as the mortgaged properties are concerned. Then ACL corporation, through its duly authorized officers, has given full authority to the grantee of the SPA to mortgage such.

As to the assignment of Receivables, consent of the debtor is not necessary to effect the assignment. According to Article 1626 of the Civil Code of the Philippines, *"The debtor who, before having knowledge of the assignment, pays his creditor shall be released from the obligation."* Thus, the fact that NSVI did not acknowledge that act of the IFC to assign its receivables from the former to QUEDANCOR does not invalidate the assignment of receivables.

Post dated checks were issued by both the IFC and NFC based on their respective loan amortization schedules.

The IFC account became problematic in view of the problems in the Hogs Industry which was encountered by BIRKS, its main client.

Final demand letters both for IFC and NFC were served and appropriate actions are being undertaken. The Management, through its Legal Affairs Department, is in the process of filing the petition for foreclosure to satisfy the indebtedness of both IFC and NFC, as well as the appropriate filing of deficiency claims should the collaterals be not sufficient to fully satisfy the loans.

We replied that with Management's view of QSP as a program belonging to a "class of its own" and with the magnitude of its financial exposure to the Program, will a prudent mind afford to commit such neglect of not looking into the capabilities of the principal players in the Program, in this case the Input Suppliers and the borrowers under the QUEDANCOR Financing Program for Working Capital.

On collateral sufficiency/insufficiency, this aspect is evaluated considering the security requirements under QUEDANCOR Memorandum Circular No. 257 dated December 3, 2003, such as but not limited to, REMs/CMs, Assignment of Receivables and PDCs. QMC No. 257 which deals on QUEDANCOR Financing Program for Working Capital of Buyers and Processors of Agri-Fishery Commodities, is a specific circular on the matter, which provides the following:

Section 6.5 on Appraised Value:

A real property being offered as property bond or loan collateral under any of QUEDANCOR's credit programs shall be assigned the following appraised value:

- a) Seventy percent (70%) of fair market value for non-agricultural property situated within Metro Manila, cities, provincial capital and Poblacion of municipalities;
- b) Sixty percent (60%) of fair market value for non-agricultural property located outside the areas previously mentioned;
- c) Fifty percent (50%) of fair market value for "non-carpable" agricultural property.

On effectivity:

- MC No. 243 dated September 2, 2003 specifically supersedes Memorandum Order No. 97-11-002 issued on November 3, 1997, and not MC No. 257;
- MC No. 416 specifically supersedes Circular No. 243 and Memorandum Circular No. 335 issued on September 25, 2003 and November 2, 2004, respectively, but MC 416 adopted the same provision on Appraised Value as in MC 257;
- MC No. 366 on Revised Loan Security Requirements under the Various QUEDANCOR Programs specifically supersedes MC 321 issued on September 01, 2005 and not MC No. 257. Further, MC 366 covers loan applications filed and received by QUEDANCOR starting 01 July 2005. All loans of the IFC and NFC were granted prior to July 01, 2005.

On REMs:

Following the guidelines in MC 257, the loans of the IFC and NFC are only 25% and 28% secured with REMs, respectively.

The SPA of the ACL Corporation, who is the registered owner of the properties offered as collaterals, was not directly given to the grantee, but to the authorized member of the ACL Board of Directors, Mr. Vicente Cualoping. In addition, some of the requirements of Section 2.1.2 of QMC No. 416 on Additional Requirements, were not met, such as but not limited to:

- It must be executed at no more than one (1) month prior to the filing of loan application;

- It must contain specific limitations;
- It must reflect description of the property;
- It must include authority from the owner to allow the property be foreclosed in case of non-payment of loan;
- It must authorize QUEDANCOR appraisers to verify the authenticity of the documents relating to the property;
- It must include the waiver of the owner to question the SPA if it is declared invalid or void.

On Assignment of Receivables:

Granting that the knowledge of the debtor is not necessary in the assignment of receivables, the requirement that the thing pledged must be placed in the possession of the creditor provided under Articles 2093 and 2095 of the New Civil Code of the Philippines, must not be ignored.

On PDCs:

Under QMC No. 257, issuance by the borrower of PDCs is one among the enumerated security requirements, contrary to Management's allegation that PDC is required as a collection tool and not as collateral.

The PDCs issued by the IFC and NFC totaling ₱14,089,650 and ₱57,920,962.39, respectively, were all dishonored by the banks due to "Accounts Closed" and "Drawn Against Insufficient Funds".

8) The ₱380,110,348 Trade Receivables-SRT-AFBO as of December 31, 2006 is exposed to a high risk of credit default due to non-compliance with existing QUEDANCOR guidelines.

Since mid of 2005, under the laudable Self Reliant Scheme of QUEDANCOR, Management ventured to Agri-Fishery Business Organization (AFBO), following the QUEDANCOR Swine Program. Up to now, Management is continuously implementing the Program and as of December 31, 2006, it has released a total of ₱380,110,348 under the Program, broken down as follows:

<u>Region</u>	<u>Amount</u>
III	₱ 4,275,889
IX	35,513,587
X	26,458,524
XI	60,359,700
XII	41,082,388
XIII	<u>212,420,260</u>
Total	<u>₱ 380,110,348</u>
	=====

As stated elsewhere in the other AOMs, there are 17 circulars/memoranda/manual issued for the implementation of the SRT-AFBO, starting from Circular No. 367 dated June 14, 2005 up to the latest which is QUEDANCOR Circular No. 408 dated June 20, 2006. In the aggregate, the circulars, including Circular No. 392 on QUEDANCOR Wholesale

Program for Countryside Lending Conduit (QWP-CLC), provide, among others, the list of requirements for, eligibility, loan and security, which the borrowers must comply before loans may be granted to them. However, it was found out during the verification of loan documents and records that most of the SRT-AFBO loan applications were processed in haste, and were approved despite the borrowers' non-compliance with the guidelines, as reported from the following regional/district offices:

Region IX:

- a) Interview and ocular inspection made at the office of the SRT Molave Cooperative, Zamboanga del Sur disclosed that no sound internal and financial control systems was working, thus, the presence of the following deficiencies: Checks representing collection were required to be made "pay to cash" and collections were directly received by the previous SRT Coop Manager who issued temporary Acknowledgement Receipt, resulting to unreported collections totaling to approximately P100,000. The unrecorded collection was allegedly used for releases of small loans to farmers to pay harvesting expenses per instruction of the said manager, who was already terminated as of this date.
- b) Three SRT Cooperatives in Dipolog District Office which were granted a total loan of ₱9,920,000 under the QUEDANCOR Program for Countryside Lending Conduit/Self-Reliant Team-Agri-Fishery Business Organization (QWP-CLC/SRT-AFBO) reported a very low repayment rate of 5%. As of October 31, 2006 total outstanding balance is ₱10,613,587. Also, in Pagadian District Office, two SRT cooperatives were granted a total loan of ₱21,200,000 under the QWP-CLC/SRT-AFBO, of which only 2% recovery was noted.
- c) A total loan of ₱3,700,000 also under the SRT-AFBO Program was granted to Sindangan Multi-purpose Cooperative. Loan/Amortization payment was rescheduled contrary to Sec.6.13 of QMC No. 392 dated January 18, 2006.

Region XI:

- a) SRT Digos Cooperatives-Davao del Sur has ₱16.1875 million loan. The Cooperative was granted this big amount despite the absence of track records in lending operations and deficient capital structure, among others. Records show that the Cooperative was registered with the Cooperative Development Authority (CDA) on November 17, 2005 only, but was granted its first loan of ₱4.6 million on December 14, 2005, the second in the amount of ₱8.7875 million on March 31, 2006, ₱2.6 million in June 2006 and an additional of ₱2 million in October 2006 or a total of ₱16.1875 million. The Cooperative has only ₱48,000 paid up capital when it was granted the loans. As to collateral/security, the loans were granted even if the requirements under Section 6.9.5 of Circular No. 408 were not complied/submitted, such as:
 - Comprehensive Surety Agreement
 - Deed of Assignment of Receivables supported by copies of the PNs of the SRT cooperatives
 - Co-makers Statement by all Board Members (except those who are designated as official representatives of the Cooperative and who have executed the required Comprehensive Surety Agreement)

Loan Status as of December 31, 2006: Loan amortization due during the year amounted to ₱3,025,173.79.

b) SRT Tagum City Cooperatives-North Davao with P6 million loan. The Cooperative was granted the amount despite the following :

- the Cooperative has no track record in lending activities;
- capital/debt to equity ratio exceeded the acceptable 5:1 criteria. The loan was granted when the Cooperative has only ₱34,500 paid- up capital.
- required collaterals/securities were not complied /submitted
- term of loan is disadvantageous to QUEDANCOR. Interest is amortized quarterly while principal is payable on maturity date. The loan will finance high value crops, however, of the 24 proposed projects only five (5) were considered high value, with harvest/production period of 18 months and for the other projects, production ranges from six to eight months only. The production schedule should have been considered in evaluating the repayment schedule of the loan.

c) SRT Kabacan Cooperative with a loan of ₱20 million and SRT Antipas Cooperative with a loan of ₱13,147,200, both in North Cotabato, were granted loans despite the following deficiencies:

- Doubtful capabilities to undertake lending operations. The creation of the SRTs was spearheaded by QUEDANCOR officers which was done in haste. The loan applications were evaluated and approved 21 to 27 days from their registration with the CDA.
- High debt-to-equity ratio and deficient capital structure. The SRT Kabacan has a paid-up capital of ₱85,000 compared to its initial loan of ₱5 million or a high 58:1 debt-equity ratio, while SRT Antipas recorded a paid-up capital of ₱95,000 with a ₱3 million initial loan resulting to a 31.5:1 debt to equity ratio. The cooperatives did not meet the networth requirement of at least ₱200,000.
- Defective loan requirements/documents-
SRT Kabacan and SRT Antipas have no juridical personality yet at the time their respective Board Resolution was passed signifying the Coop's intention to avail of the QUEDANCOR loans, as shown in the following:

SRT Coop	Date the SRT Coop is Registered with CDA	Date of Approval of Board Resolution
Kabacan	Jan. 6, 2006	Nov. 14, 2005
Antipas	Dec. 7, 2005	Nov. 21, 2005

- Insufficient collateral/security documents. The required loan securities pursuant to Section 6.9.5 of Circular 408 were not complied/submitted.
- Absence of documents to prove that loans were granted to the eligible SRT members. The list of borrowers and their corresponding promissory notes required to be submitted within 15 days from release of loan to support the Deed of Assignment of Receivables is not complied with.

Despite the deficiencies, the 2nd tranches were released amounting to ₱14 million with an additional of P1 million released on November 6, 2006 and ₱10,147,200, for SRT Kabacan and Antipas, respectively.

Consequently, as of December 31, 2006, the SRT Digos Cooperative defaulted from payment of its loan amortization due during the year totaling ₱3,025,174 biggest of which is the ₱2,100,784 amortization due on September 27, 2006. SRT Kabacan also defaulted in paying the interest due on September 5, 2006 amounting to ₱992,365.

Region XII

A total of ₱48,213,410 was released to the following under the Program with recorded collections of ₱7,131,022, thus, the year end balances, to wit:

<u>SRT Coop</u>	<u>Loan Bal. as of</u> <u>12.31.2006</u>
Koronadal	₱11,271,877
Norala	9,634,364
Surallah	215,000
Gen. Santos	7,865,244
Polomolok	3,358,619
Tacurong	<u>8,737,284</u>
Total	<u>₱41,082,388</u>
	=====

Records show that the following SRT Cooperatives were granted loans even before or few days after their registration with the CDA, as follows:

SRT Coop	Date of Registration with the CDA	Date 1 st Loan was Granted
Koronadal	Feb.07, 2006	Jan. 06, 2006
Norala	Feb. 16, 2006	Jan. 11, 2006
Gen. Santos	Nov. 30, 2006	Dec. 22, 2006
Tacurong	Jan. 06, 2006	Jan. 19, 2006

Region XIII

Total releases under SRT-AFBO for the period 2005 to 2006 is as follows:

District Office	No. of Coop.	Amount of Loan
Butuan City	1	₱ 6,487,603
Agusan Sur	4	90,757,444
Bayugan	1	19,838,843
Surigao City	6	52,394,212
Tandag	3	30,403,306
Bislig	3	12,538,852
T o t a l		<u>₱212,420,260</u>
		=====

Examination of the borrowers' loan folders disclosed the following:

- Most of the grantee cooperatives were organized and registered during or before the year the loans were released.
- Management (Regional Office) failed to implement Section 3 of QUEDANCOR Circular No. 392 which states that: "in the event that the SRT cooperative or any individual violates any term and conditions of this Agreement or unjustifiably fail to satisfactorily operate and manage the cooperative which may affect the overall financial position detrimental to its project, QUEDANCOR may take over the management of the cooperative including its business."
- Client borrowers who have past due accounts were still granted another loan despite their poor repayment record.

In addition, the following regional offices noted some deficiencies during the implementation of the SRT-AFBO:

- Region III reported a total of ₱106,786.32 which was paid for the salaries and benefits of a QUEDANCOR employee who was assigned to organize the SRT Cooperative but who was later transferred to the SRT Philippines Federation of the Municipal Agri-Fishery Multi-purpose Cooperative in Quezon City.
- In Region V, a total of ₱2,315,307 membership fees were collected from the loan proceeds of borrowers under the GMA-CARES-IAL and SRE, ₱779,900 of the amount was mandatorily deducted from the borrowers pursuant to Credit Guarantee Department (CGD) Memorandum No. 6053 dated November 2, 2005 which mandatorily requires the borrowers under the said QUEDANCOR Programs to file membership to an established SRT Cooperative in their respective municipalities. The said CGD Memorandum was later amended making membership optional and voluntary to SRT Cooperatives to loan borrowers under the GMA-CARES IAL for state employees. The amount collected as membership fees were remitted to the different SRT Cooperatives except for Sorsogon District which still has in its possession the amount of ₱512,200 which it collected.
- QUEDANCOR funds, manpower and office facilities were used in the creation/organization of SRT Cooperatives, which are private entities, in violation of existing laws, rules and regulations. In Regions VII and XII, a total of ₱46,212.51 and ₱259,473, respectively, were reported to have been used for the creation of the SRT cooperatives. Regions V and IX also reported that Management paid for the organizational expenses of the SRT Cooperatives but the amount was not stated in their respective annual audit report.
- Region X reported that by virtue of a memorandum dated November 11, 2005 signed by Niels Patrick C. Riconalla, Senior Vice-President, Loans Management Cluster, QUEDANCOR, Quezon City through the Regional Vice-Presidents, required, without legal basis, the SRT-AFBO to pay to the National Federation of SRT Cooperatives, the following:
 - ₱500,000 Capital Build-up (CBU) in the form of check
 - ₱ 25,000 for the Foundation in the form of check

As a result, the following SRT Cooperatives in Region X made the following payments:

- SRT El Salvador – ₱250,000 for CBU on November 25, 2005
- SRT Valencia – ₱200,000 for CBU on November 25, 2005 and ₱25,000 as contribution for the Foundation on November 26, 2005
- SRT Ozamiz City – ₱85,000 for CBU on November 26, 2005 and ₱25,000 on the same date for contribution to the Foundation
- SRT Maranding – ₱25,000 for contribution to the Foundation on November 26, 2005.

Since there was no proof that the SRT AFBOs were capable to shoulder the ₱250,000 CBU and the ₱25,000 contribution to the Foundation with their own fund, as shown from their loan documents, there is the possibility that the funds used to pay for the CBU and contribution to the Foundation, which are private organizations, were part of the loan proceeds from QUEDANCOR. Said payment/contribution is deemed not in harmony with the objective of the SRT which eventually may adversely affect the repayment capacity of the SRT and the re-flow of loan funds of QUEDANCOR.

The foregoing signals a poor recovery of the loans, which eventually may affect the Corporation's liquidity and its sustainability as a going-concern, notwithstanding the seeming irregularities in the Program implementation.

We recommended that at this stage of the SRT-AFBO implementation, Management should undertake appropriate measures to avoid the accumulation of delinquent accounts and mitigate and/or avoid the risk of credit default to save the Corporation from continuous financial bleeding.

Likewise, we called Management's attention on the possible involvement of QUEDANCOR officials and employees on the apparent deliberate non-compliance with QUEDANCOR SRT-AFBO guidelines, and if proven guilty, the offender/s should be dealt with accordingly.

Management commented that the SRT Program, which is characterized as non-collateralized with low-bearing interest rates, is the Corporation's response to its mandate to cater to the needs of the underprivileged or marginalized sector of society. Thus, collateral requirements were substituted with instruments that would ensure collectibility such as Joint and Solidary Signatures of borrowers in the Promissory Note, Group Credit Life Insurance and the issuance of post dated checks.

As the SRTs are being organized into cooperatives and to reckon with the urgent credit needs for the succeeding planting season, only those SRTs with good repayment and track record were considered. With this, some requirements under the QUEDANCOR-CDA-CLP Program were initially modified, specifically on the submission of certified/audited financial statements for the last two years, among others.

On the specific observations:

Region IX:

In the SRT Molave Cooperative, Zamboanga del Sur, most of its employees were previously employed with QUEDANCOR. Their services in the SRT are covered by a Management Contract signed by the Board of Directors of the SRT Coop and the QUEDANCOR, until a decision from the Civil Service Commission give them the option to resign from QUEDANCOR and accept employment in the SRT Cooperative.

According to Management, proper observance of prompt recording and internal control on all business transactions of the cooperative were imparted, taught and discussed by the district office to the coop officers. The district closely monitors the releases and collections of the coop and ensures that official receipts are always issued for every collection made and that check collections are all payable to SRT Molave.

SRT Cooperatives in Dipolog and Pagadian District Offices:

The observation that only 5.04% collection on principal defeats maximizing the profitability of the Corporation has been noted accordingly. The maturity dates of the loans are being closely monitored to ensure prompt payment and collection.

Sindangan Multi-purpose Cooperative:

It has been the Agency's practice to thoroughly evaluate an account before remedial action is made. The Sindangan MPC's seaweeds production was hit by different types of diseases, infestation and other growths such as "lumot" that greatly affected their agar-agar production. In this case, debt restructuring was found not suitable, so rescheduling although not provided under Circular 392 was applied since the same Circular does not prohibit nor was it superseded by any circular involving remedial actions.

Region XI:

SRT Digos Cooperative, Davao del Sur

Releases to SRT Digos Cooperative were processed under the then prevailing Circular No. 374, supplemented by Memorandum No. 1090. Loan and security requirements were properly complied with. The cited deficiencies under Section 6.9.5 of Circular 408 does not apply in the processing of said loans for this Circular came much later, as it was signed on 20 June 2006. Thus, the loan releases to SRT Digos properly followed the requirements of Circular 374.

SRT Digos Cooperative has the required ₱48,000 capitalization by the CDA. Aside from this, it has a ₱350,000 contribution to the SRT Federation. Per reports from the regional monitoring team, its past due ratio is still almost nil, probably because it maintains good accounts previously transferred by the district.

COA commented that the present status of the SRT-AFBO loans speaks well of the reality in the Program implementation.

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- 9) QUEDANCOR loan funds in the aggregate amount of ₱150,759,552 is tied up in high value loans which are long overdue but remain uncollected. The concentration of funds to few borrowers/projects is found to be a deviation from the Agency mandate. It may also adversely affect the Corporation's working capital availability/liquidity.**

This is a reiteration of our past years' observations regarding the increasing number of past due/delinquent loans in significant amount tied up to only few individual borrowers, which is deemed not in harmony with the Agency mandate.

QUEDANCOR's mandate states that:

"It shall be the policy of the state to accelerate the flow of investments and credit resources into the countryside so as to trigger the vigorous growth and development of rural productivity, employment and enterprises thereby generating more livelihood and income opportunities for the disadvantaged populace. X x x" (Underlining ours)

Our examination of the Agency's loan portfolio disclosed that a big slice of its working capital was lent to few more advantaged individual borrowers/businessmen even if they did not comply with the loan and security requirements, depriving the less advantaged/disadvantaged farmer-borrowers.

Also, in pursuing its mandate, the Management should have always been guided with the government policy as declared under Section 2, PD 1445 which states that:

"It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned."

The accumulation of past due accounts prevents the re-flow of working capital to the QUEDANCOR's intended beneficiaries. Listed below, among others, with our comments, are some cases of delinquent/problematic accounts, the quality of which in terms of recoverability, showed that the above-mentioned state policy had been disregarded:

- a) **Roberto G. Rosalez-Blooming Forest** (NCR) under the Program, Oolong Tea, was granted on July 23, 2003 a ₱50,000,000 long-term loan, payable semi-annually for ten (10) years at 16% per annum. The loan was secured by a Deed of Real Estate Mortgages on twenty (20) TCTs covering lots with a total area of 432,653 square meters located in Mataas na Pulo, Brgy. Dalig, Nasugbu, Batangas.

Status of Loan: Zero payment on semi-annual amortization as of December 31, 2006.

Management commented that the account is with the Legal Affairs Department (LEAD) for appropriate legal action. It will cause the Management about ₱1.4 million in filing fee. The LEAD is waiting for the report on re-appraisal for possible foreclosure proceedings, or other appropriate action, whichever is deemed best for the interest of the government.

COA will continuously monitor the progress of the Management's action on the account.

- b) **Salvador Benedicto Cassava, Corn and Coffee Planters MPC (SALBACCOPA)** (NCR)-a loan under the Agrikulturang Makamasa for Rice and Corn Based Farmer System (AM-RCBFS) was granted on June 22, 2000 in the amount of ₱20,608,476.92 at 12% p.a. interest, for eight (8) years, payable semi-annually. The loan is secured by fifteen (15) Agricultural Tractors covered by a Deed of Chattel Mortgage.

Status of Loan: Amortization in arrears with unpaid principal of ₱20,056,993.65 as of December 31, 2006.

According to Management, the account has been partially paid through the sale of the assigned chattels in the form of twelve (12) tractors. The Corporate Receivables and Payables Department (CRPD) will check if deficiency is properly booked. Deficiency claim shall be pursued.

For further verification with the CRPD.

- c) **Rommel Avendano** (Reg. I) - was granted ₱4,000,000 loan as additional working capital for his fish-culture-bangus fry and feeds trading. The loan was secured by a residential lot with an area of 891 square meters situated at Sampaguita, Lipa City, Batangas, registered under the name of Segunda S. Sulit who executed a Special Power of Attorney in favor of the principal borrower. The residential lot which was originally appraised by the Western Pangasinan DO Appraisal Team at ₱7,000 per square meter, was the basis for the ₱4,000,000 loan. However, the lot was reappraised by QUEDANCOR Head Office and it turned out that the lot is an agricultural lot with an appraised value of only ₱200 per square meter.

Loan status-Past due for foreclosure.

The account is subject for a restructuring agreement on or before April 2007. Cluster A shall conduct an evaluation and investigation of the account and initiate appropriate administrative proceeding against whoever is found accountable/liable.

It appears that a restructuring agreement is not appropriate in the case of Rommel Avendano. The loan is grossly unsecured and the recovery of the ₱4 million loan may not be possible even if the same is restructured.

- d) **Seventeen (17) delinquent accounts under the FARE Program** (Reg. III) – Total amount of loan of ₱8,190,000 was the subject of investigation by COA-LAO Team under LAO Office Order No. 2004-043B dated September 27, 2004.

The loans are as follows:

Name of borrower	Amount of Loan
Claire delos Reyes	₱ 200,000
Arturo Matias	300,000
Leonora Jaime	300,000
Christopher Fernandez	300,000
Gemma Castrence	150,000
Danilo Bagtas	800,000
Danilo Cruz	1,000,000
Raquel D. Santiago	300,000
Kristine Joy Cruz	300,000
Ma.Regina Tadiaman	650,000
Romero Gerong	500,000
Evelia Soriano	490,000
Cirilito Paguio	500,000
Jose G. Chua	300,000
Ray C. Mendoza	1,300,000
Rowena Fernandez	300,000
Rosalina Orea	500,000
Total	₱8,190,000 =====

According to Management the mortgaged properties of the following borrowers have been foreclosed:

- Claire delos Reyes
- Arturo Matias
- Leonora Jaime
- Gemma Castrence
- Danilo Bagtas
- Raquel D. Santiago
- Kristine Joy Cruz

The filing of deficiency claims on the foregoing accounts is also being undertaken by the LEAD. The other remaining accounts are under evaluation for possible foreclosure. Administrative cases have been filed against the concerned employees.

For further verification with the CRPD and LEAD.

- e) **Virgilio T. Ambion** –(Reg. IV) a total of ₱12,000,000 was granted to him in 2004. Collaterals were found insufficient and are covered by a Special Power of Attorney.

Loan Status: Past due

According to Management, the borrower offers properties for dacion en pago. The Assets and Remedial Management Committee requested for appraisal by SIPAD.

Management should expedite the processing of dacion en pago should there been sufficient assets from the borrower.

- f) **Ben delos Reyes-** (NCR) a total of ₱21,700,000 was granted to Mr. delos Reyes despite deficiency in collaterals which is covered by a Special Power of Attorney.

Loan status: Past due for foreclosure.

The account is under legal action. One of the two collaterals, at ₱17 million has been foreclosed and is subject for consolidation. LEAD is evaluating the better option, whether to foreclose the other collateral or file a deficiency claim.

For further verification with the CRPD and LEAD.

- g) **Edgardo Gonzaga** – (NCR) ₱5,000,000 Past due. Post dated check issued to QUEDANCOR was returned by the bank due to “Account Closed.”

According to Management, the account is only in arrears. Demand letter to update payment was sent January 2007. Borrower promised to update his payment.

For monitoring.

- h) Loans granted to the following LGUs (Reg. IV):

Mun. of Amadeo, Cavite -	₱ 5,000,000
Mun. of Silang, Cavite -	₱ 5,000,000
Mun. of San Jose, Occ. Mindoro -	₱ 3,012,558

The loans were confirmed by the respective municipal accountants with the information that the LGU has no capacity to pay.

Management informed us of the status of the accounts, as follows:

Mun. of Amadeo, Cavite is pending in court under pre-trial
Mun. of Silang, Cavite is for execution of favorable court decision
Mun. of San Jose, Occ. Mindoro is restructured as of May 23, 2005 and the borrower is paying.

For monitoring.

- i) **Providence Bowl Corp.** (Reg. XI) - A ₱3,000,000 loan which was ranked as a “Non-Prime” account, and as such requires a minimum security of 20% of the loan value in cash bond. Per record, only ₱300,000 cash bond was posted by the borrower or a shortage of 50%. The loan matured last November 26, 2005 but none of its officers manifested any effort to settle the account. The Digos District Office decided to file a civil case against the defaulting borrowers. Final demand letter is for signature by the QUEDANCOR Head Office.

Management commented that the account was released under the QUEDANCOR – SMC Program for Cassava, Corn, Sorghum and Soybean under Circular 357. Under said guidelines, loans for corn, soybean and sorghum may be secured merely by 10% non-interest bearing cash bond. The account is already for filing of civil case for collection of sum of money, waiting for availability of funds for filing fee.

COA will continuously monitor the progress of the Management's action on the account.

- j) **New Corella Grains** (Reg. XI) – ~~₱~~4,000,000 granted on December 02, 2003 to mature on November 26, 2010. Loan Status: In arrears, not a single repayment was made. Site inspection on November 28, 2006 revealed that the project, which is a post harvest facility, is still not operational despite the lapse of 3 years. The account had been endorsed to Special Legal Action Unit-QUEDANCOR Head Office for filing of appropriate legal action. Tagum DO is waiting for any advice.

The borrower was among the four identified beneficiaries of the Corn and Feedstocks Program which was funded by National Agricultural and Fishery Council. A Memorandum of Agreements was executed to this effect. Nevertheless, a civil case will be filed to collect the account.

COA will continuously monitor the progress of the Management's action on the account.

- k) **Mt. Senaka Agri-Ventures Corp** ~~₱~~2,000,000. Consists of two tranches, ₱280,000 to mature on December 29, 2007 and ₱1,720,000 to mature on January 19, 2008. Loan Status: In arrears. All checks issued for repayment were returned by the banks for reasons of "Drawn against Closed Account" and "Insufficient Fund". This is also an unsecured account. The project is not feasible based on the conditions noted during site inspection. The account is already with the QUEDANCOR Legal Department, Head Office.

For filing of a civil case, awaiting funds for filing fee.

COA will continuously monitor the progress of the Management's action on the account.

- l) **Pedro Durano** (Reg. XI) – ₱2,000,000 loan under the AM-HVC-Mango Production with maturity date on May 19, 2007. Loan Status: Past due. All issued PDCs were dishonored by the bank. Per audit observation dated September 2, 2005, the project site was leased by Mr. Durano for 10 years with lease contract dated April 04, 2004, prior to the release of the loan on June 3, 2004. The Civil Case contemplated against the borrower was already filed and a summon has been served to him.

The civil case is under on-going court proceedings.

- m) **Gregorio Domingo, Jr.** (Reg XI) – was granted a ₱4,800,000 loan under the GMA Cares-SFCP-Fish Culture. The loan matured last September 11, 2006, and no single

payment was made on the principal. Interest paid was only ₱19,000.00. Foreclosure against the properties offered by the borrower as collateral is being pursued by the District Office. All necessary documents were already submitted to the QUEDANCOR Legal Department, Head Office. The case and actual bidding of the property is scheduled not later than February 28, 2007.

The properties have been auctioned last June 2006. The Petition for foreclosure has been filed by the concerned District Office.

- n) **Pedro Pacatang** - (Reg. XI) – ₱1,000,000 loan under the SRF-SME to mature on November 16, 2008. Defaulted in two payments for principal of ₱149,754.97 and interest of P31,690. The borrower committed to fully settle his account not later than March 31, 2007.

The account is under negotiation for full settlement.

For further verification and monitoring on the progress of negotiation.

The Corporation may incur big losses brought about by collateral/credit default from the foregoing loans due to any or all of the following:

- Collaterals covered by Special Power of Attorney
- Post dated checks most of which were not funded by the issuers
- Joint and Several Signatories (JSS)
- Insufficiency of collaterals/over-appraisal of collaterals
- Miscalculation or improper credit evaluation

Several “should-be” beneficiaries were deprived of the credit assistance, as intended in the QUEDANCOR’s mandate. With a ₱100,000 loan package the amount could have benefited at least 1,500 borrowers compared to the 32 named above. More so, the risk of non-collection is concentrated to only few, rather than spreading it to a greater number of borrowers which is more advantageous to QUEDANCOR.

Management should give priority in expediting legal action against delinquent borrowers and adhere strictly to the principles of Section 2 of PD 1445 in pursuance of the Agency mandate.

Prior years’ recommendations are hereby reiterated, as follows:

- Establish a system of identifying and monitoring existing or potential problem loans, and of evaluating credit policies to determine the creditworthiness of borrowers;
- Institute administrative and/or other appropriate action against QUEDANCOR officials/employees responsible for the granting of the above-mentioned loans.
- Evaluate existing credit policies and strengthen borrower accreditation and collateral valuation/appraisal policies.

Management committed that it will recommend to the Board to stop accepting SPA as collateral requirement and that strict credit evaluation and collateral appraisal shall be enforced.

We will continuously monitor the action of management over these long over due loans.

- 10) A total of ₱6,197,104 trade receivables under the Income Augmentation Livelihood (IAL) Program are past due as of December 31, 2006, an indicator of possible credit risk to the Corporation despite the adoption of the “Salary Deduction” collection scheme.**

The IAL is one of the most viable program of QUEDANCOR in terms of recoverability because it is based on a “Salary Deduction” scheme. However, recent collection reports showed a declining trend. Problematic accounts are emerging, despite the existence of the covering Memorandum of Agreement (MOA) executed by and between the participating government agencies and the QUEDANCOR as required under its Memorandum Circular No. 122, as amended. Section 2.3 and 2.4 of the draft MOA provides, among others, that:

“The head of the Agency shall designate/authorize a liaison officer who shall coordinate with QUEDANCOR on all matters regarding IAL loan applications of the employees of the Participating Government Agency and assumes the responsibility stated”.

“He shall designate a collecting officer with authority to automatically deduct the loan amortization for IAL loan from the employee’s payroll and remits the same on or before the 5th day of the following month. In no case shall the designated collecting officer of the Participating Government Agency fail to deduct the loan amortization from the employee’s payroll, otherwise, he/she and/or the Participating Government Agency shall be held primarily liable by QUEDANCOR for such omission or failure.

Despite the foregoing, problems in Regions III, V and VII have been noted and they reported the following:

- a) Region III - Of the IAL total outstanding balance of ₱1,690,212, ₱595,218 or 35% are claims from retired/transferred employees of the Department of Agrarian Reform (DAR), while the remaining ₱1,094,994 or 65% are claims from alleged DAR employees with no existing files in their office records.

Likewise, past due IAL loans amounting to ₱2,945,260 were restructured, which is found not consistent with the salary deduction scheme. Breakdown of the amount is as follows:

<u>District Office</u>	<u>Total IAL Loans</u>
Bataan District Office	₱ 1,829,763
Pampanga District Office	538,326
Tarlac District Office	343,874
Zambales District Office	233,297
Total	<u>₱ 2,945,260</u>

- b) Region V reported that IAL borrowers were deducted the mandatory ₱2,500/₱2,600 as membership fee to the SRT AFBO by virtue of CGD Memorandum No.6053

dated November 2, 2005. A total of ₱779,900 as membership fees was deducted from the proceeds of IAL loan releases amounting to ₱2,374,000.

Relative thereto, Memorandum Order No. 06-02-743 dated February 17, 2006 was issued amending CGD Memorandum No. 6053 making membership optional and voluntary to SRT Cooperatives of loan borrowers under the GMA-CARES IAL for State employees.

- c) Region VII – The amount of ₱1,561,632 has been dormant/non-moving from one year to two years due to breach of the Memorandum of Agreement entered into by and between the various participating government agencies under the GMACARES IAL State Employees Program and the QUEDANCOR.

Considering an average loan of ₱50,000 per borrower under the IAL program, the total amount of past due/problematic accounts noted above affects at least sixty-five (65) borrowers from only two regions mentioned above which reported on this area.

Even if the IAL is considered as a less credit risk program because of its collection strategy, if not handled prudently, the Program may suffer the same fate just like the other QUEDANCOR programs. And, considering the volume of borrowers, it may result to numerous costly litigation cases.

We recommended that Management enforce collection by imposing the sanctions provided under QUEDANCOR Memorandum Circular No. 122, as amended, and the provisions of the Memorandum of Agreement with participating government agencies.

We also insisted that they desist from the practice of restructuring past due IAL accounts because it runs counter to the “Salary Deduction” scheme. Instead, monitor strictly the collection through representations with the authorized participating agency representatives/collecting officers.

Most urgent is that Management should hold liable all erring parties in the “DAR” case.

Management explained that the IAL Program is one of the best performing credit programs of the QUEDANCOR in terms of number of borrowers as well as the income it generates from its implementation. However, just like any other lending programs, some accounts become in arrears or even past due. Despite the provisions in the MOA with participating government agencies, there are few agencies which failed to comply with their obligations. The Corporation’s institutionalized remedial system then comes in.

Further, it commented that restructuring, as a policy, is one among the valid remedial measures provided such arrangement will comply with the requisites of existing circulars. The same applies for accounts under the IAL Program.

Also, it cited that the Nueva Ecija District Office has already undertaken remedial action on the ₱595,218 worth of IAL loans under the DAR account through the use of skip tracing method for both the borrowers and co-makers, and the fraudulent seventeen (17) accounts totaling ₱1,094,994 has already been endorsed to the Central Office for investigation. The District Supervisor was given authority by the President and CEO to file charges against DAR North Liaison Officer. In Region VII, the amount of ₱1,561,632 represents past due accounts since the start of the Program. The Cebu District Office recently forwarded to the

Legal Affairs Department 37 accounts for legal action, in addition to the accounts of DAR-Region III which had been previously forwarded.

We recognized the performance rating of the IAL Program, although by nature it somehow detour from the corporate mandate, it being a multi-purpose loan granted generally to government employees under a "salary deduction" scheme which seems to overlap the functions of other government financing institution.

The good rating is the same reason why we are calling the attention of management on negative signs of recovery. COA does not want their efforts wasted. However, as regards the accounts forwarded to the LEAD for legal action, inquiry made, disclosed that only few delinquent accounts are undergoing the legal processes as of now.

11) The accuracy of Trade Receivable–Food and Agricultural Retail Enterprises, (FARE) year end balance of ₱33,701,338 representing the amount due from the accredited lending banks as of December 31, 2006 is doubtful considering the results of confirmation with said banks.

One of the objectives of QUEDANCOR is to encourage the banking sector to actively service the credit financing needs of market retailers. Relative thereto, the Agency launched the FARE Program sometime in 1992. Under the Program, the QUEDANCOR guaranteed 50% of the principal and share the same rate with the accredited lending bank in service fee and bank charges. As of December 31, 2006, the Trade Receivable – FARE account has ₱33,701,338 outstanding balances. To validate, 150 confirmation letters were sent to borrowers but only 47 or 31% replied. Per books, the total outstanding balance of the 47 respondent banks is ₱11,007,894 while the results of confirmation disclosed only ₱4,880,872 or a net difference of ₱6,127,022.

Further verification revealed that the unreconciled balances was due to the following:

- a. Inadequacy of the accounting records. The loans have been long overdue yet no concrete plan of action from management is manifested in order to collect/gather supporting records and documents to substantiate the amount.
- b. Failure of the Management to coordinate with lending banks and monitor submission of monthly statements/schedules of bank transactions, i.e., loan releases and collections.
- c. Failure to update the accounting records.

Management should exert effort to coordinate with the management of the concerned lending banks to secure the necessary documents, records and information to update and reconcile the balances per QUEDANCOR books of accounts and that of the lending banks.

Management explained that this is due to unsubmitted reports from the banks and the banks do not reply to its requests. Releases were reported by the banks but the

collections were not, hence, the negative balances. Claims with PDIC were already filed for accounts with closed banks.

The CRPD exerted efforts in coordinating with the banks as to the submission of reports necessary to reconcile and eventually record the transactions. Letters were sent to the banks but only few replied. Nevertheless, the CRPD will continue to communicate with the banks as to the submission of said reports for recording and reconciling purposes.

We will continuously monitor the actions taken by management on the matter.

12) There was no adequate disclosure on significant financial statement accounts as required under Philippine Accounting Standard (PAS) 1 on Presentation of Financial Statements, and other issuances treating on the matter, thus, affecting the accounts' fair presentation in the financial statements.

PAS No. 1 which was adopted as the Philippine Financial Reporting Standards provides the requirements presumed to result in financial statements that achieve a fair presentation.

However, perusal of the QUEDANCOR's Financial Statements for the year ended December 31, 2006 disclosed that the following accounts, among other matters, are wanting of adequate disclosure:

1. **Investments** - the Management failed to disclose in the 2006 Notes to Financial Statements the restrictions on its Investment in Treasury Bills (191) account specifically that pertaining to the Investment in LBP/EPCIB-hold-out deposit which is solely earmarked for interest payment on the P5B Syndicated Loan with LBP/EPCIB.
2. **Property, Plant and Equipment** – the requirements of PAS No. 16 particularly paragraphs 73, 74, 77 and 79 were not complied with. Please see Annex E.
3. **Related Party Disclosure** - information regarding the substantial contribution of the QUEDANCOR to the QUEDANCOR Provident Fund Corporation (QPFC) is not disclosed which is a requirement under PAS No. 24 and item no. 46 of PAS No. 19 on Employee Benefits. Significant loans and other transactions with certain members of the QPFC's Board of Directors as well as to its officers and employees are inadequately disclosed.
4. **Liabilities** - disclosure on liabilities as required under SFAS No. 5 is not complied with, such as:
 - amounts or number of periodic installments and maturity dates;
 - the nature and amount or extent of assets pledged against the debt;
 - restrictive covenants, such as those affecting dividends, retained earnings, compensating balance, or working capital maintenance requirements; liquidation of the business, merger or consolidations; issuance of capital stock; disposition of all or substantially all of the business property ; capital expenditures; or compliance with debt-to-equity ratios;
 - any default in principal payments, interest, or other requirements of the loan agreement;

- convertibility into capital stock, if applicable, and the basis thereon; and
- any other significant information such as sinking fund requirements and amount payable in foreign currency.

Other Matters:

- Contingencies, commitments and other financial disclosure, if any.
- Non-financial disclosure, if any (if not disclosed elsewhere in information published with the financial statements)

Non/Inadequate disclosure on the foregoing accounts may result to misleading information regarding the true composition and classification of the accounts and users of the financial statement will not be fully informed of the actual financial position of the Corporation specifically the creditors who uses the financial statements in deciding whether to grant/extend loan to QUEDANCOR.

We recommended and Management agreed to strictly comply with the requirements of PAS Nos. 1, 16, 19 and SFAS No. 5, and it committed to submit a revised Notes to Financial Statements considering the above-mentioned accounts which are wanting of adequate disclosure.

13) Management failed to take the necessary action against the issuer/drawer of 30,129 dishonored post dated checks pursuant to Art. 315 of the Revised Penal Code, as amended by Republic Act No. 4885, and BP Blg. 22, which resulted to an aggregate uncollected accounts receivable of ₱640,860,830.

Art. 315 of the Revised Penal Code provides the penalties for Swindling and Other Deceits. Paragraph 2 thereof as amended by Republic Act No. 4885 approved on June 17, 1967, describes the instances that constitutes fraudulent acts. Section 2 thereof reads as follows:

“By means of any of the following false pretenses or fraudulent acts executed prior to or simultaneously with the commission of the fraud:

“(d) By postdating a check, or issuing a check in payment of an obligation when the offender had no funds in the bank, or his funds deposited therein were not sufficient to cover the amount of the check. The failure of the drawer of the check to deposit the amount necessary to cover his check within three (3) days from receipt of notice from the bank and/or the payee or holder that said checks has been dishonored for lack or insufficiency of funds shall be prima facie evidence of deceit constituting false pretense of fraudulent act.”

On the other hand, BP 22 which penalizes the making or drawing and issuance of a check without funds or credit is implemented under SC Circular No. 57-97 dated September 16, 1997. The Circular deals on the subject: Rules and Guidelines in the Filing and Prosecution of Criminal Cases under Batas Pambansa Blg. 22.

Aware of these existing laws, Management requires the issuance of post dated checks (PDC) by the borrowers as additional collateral/collection tool for easy collection of the loans granted to them. But over the years, records show that this requirement is ineffective. Amount and number of dishonored checks continuously increase together with the problems

it created both in legal and accounting aspects, from the issuance and receipt of PDCs, safekeeping to deposit, to recording and adjustment of dishonored checks. Added to this, is the growing perception among borrowers that they can borrow and borrow money since they are not made responsible/liable for their failure to pay the loan and make good in the issuance of post dated checks. QUEDANCOR maintains that PDCs are required as a security cover in the eventuality that legal actions shall be pursued. On the contrary, it appears that Management is not keen in pursuing any legal remedy against erring borrowers, allegedly due to high cost of litigation. But Management could have enforced collection and avoided high foreclosure cost had it availed and had it not allowed the period for filing the sanction under said BP to prescribe. Data will show that the BIRKS Livestock Inc. who have issued 25 PDCs totaling ₱24,835,015 with an average of ₱1 million per check in Maasin District Office only, was not filed a single estafa case. (see Reg. VI AAR)

During the year, there are 30,129 dishonored PDCs with a total amount of ₱640,860,830. Data below shows the breakdown:

Regional Office	No. of Checks Dishonored	Amount of Checks Dishonored
I	1,259	₱ 59,842,806
II	403	23,544,454
III	956	29,077,894
IV	1,251	20,610,810
V	899	70,124,499
VI	95	129,333,538
VII	3,440	49,210,997
VIII	4,988	92,214,891
IX	391	19,513,987
X	1,673	32,557,925
XI	5,270	39,806,309
XII	158	5,984,751
XIII	1,686	24,767,827
NCR	7,660	44,270,142
Total	30,129	₱640,860,830

Instead of improving the Agency's collection efficiency, the accumulation of dishonored PDCs proves the Management's futile exercise of its legal rights. Its continuous inaction contributes to the borrowers' reluctance to pay their loans, thus, increasing the delinquent accounts.

Management should change/enhance its collection strategy. Require borrowers to back-up their loans with hard collaterals instead of posting post dated checks.

Likewise, the Management should pursue enforcement of collection by filing appropriate legal action against borrowers/input suppliers with dishonored checks, at least those involving material amounts.

Management claimed that it is the standing policy of the Corporation that PDCs are instrument to facilitate collection and are not deemed as collateral requirements. PDCs are not among the requirements in processing loan applications. Such are only required upon release of the loan, thereby become instruments to facilitate collection upon date of amortization/maturity. Moreover, the utilization of the PDC requirement is a sound approach

to avoid expenses on collection and is undeniably a payment convenient for both the borrower and the creditor. This provided solution to the usual constraints of having to actually remit borrower's amortization payment to the district office or employ collectors to personally collect from the borrowers. Further, Management informed us that it is crafting measures to enhance its collection strategy. Remedial measures are enforced to improve collection. Hard collaterals shall be required or considered whenever practicable and possible.

We countered that regardless of the purpose of requiring the issuance by the borrower of the PDC, whether as collateral or as a collection tool enhancer, we stressed that, what is being pointed out is the Management's leniency in imposing the legal sanctions attached to the PDCs to prove its effectiveness as a collecting tool, and its ineffective handling and monitoring of PDCs which created accounting/recording problems as a result of any or all of the following:

- Lack of monitoring on the due dates as well as the physical custody of PDCs;
- Failure to compute the actual amount of interest and other financial charges based on the actual date of payment;
- Untimely issuance of the corresponding official receipts;
- Non-adjustment of previously recognized payment upon return/dishonor of the check; and
- Non-recording in the books of subsequent transactions relative to the dishonor of checks, such as re-deposit, bank charges, etc.

14) The QUEDANCOR Management exceeded its corporate powers when it condoned penalties/surcharges amounting to ₱11,300,926, which power is vested in the Commission on Audit under Section 36 of PD 1445, the State Audit Code of the Philippines.

The power to compromise is vested in the Commission on Audit as provided under Section 36 of PD 1445, which states that:

“When the interest of the government so requires, the Commission may compromise or release, in whole or in part, any settled claim or liability to any government agency not exceeding ten thousand pesos arising out of any matter or case before it or within its jurisdiction and with the written approval of the Prime Minister, it may likewise compromise or release any similar claim or liability not exceeding one hundred thousand pesos. In case the claim or liability exceeds one hundred thousand pesos, the application for relief therefrom shall be submitted through the Commission and the Prime Minister, with their recommendations, to the National Assembly.”

Republic Act No. 7393 does not, ipso facto, vest in QUEDANCOR the power to condone or reduce penalties on delinquent accounts. Section 11(f) of RA 7393 merely authorizes the Corporation to prescribe fees and charges, fix interest and penalties for said accounts and impose fines and sanctions for violations of its rules and regulations.

Review of documents covering the transactions related to remedial measures, among others, showed amounts of condoned penalties and/or surcharges, allegedly pursuant to

QUEDANCOR Board Resolution No. 102 dated December 20, 2000, which reads as follows:

“The Board of Directors resolved to authorize the President and CEO to approve applications for condonation or reduction of penalties and surcharges of qualified borrowers in accordance with approved guidelines.”

During the year 2006, QUEDANCOR condoned ₱11,300,926 in the form of penalties as reported on by the following regional offices:

Regional Office	Penalties/Surcharges
Region III	₱ 9,476,803
Region V	1,824,123
Total	₱11,300,926 =====

This observation has been raised in our previous years' annual audit report, despite which, Management continuously disregard our recommendation.

We insisted that Management adhere strictly with the provisions/requirements of Section 36 of PD 1445.

In relation thereto, they should initiate action to ratify the acts of condonation by Management by requesting COA through appropriate process.

According to Management, by virtue of QUEDANCOR Board Resolution No. 42-94 dated June 30, 1994 and Board Resolution No. 102 dated December 10, 2000, defaulting accounts falling within the specific criteria set forth therein are granted condonation of penalties and surcharges. It is aimed not only to intensify collection, but also to afford the impoverished rural-based clients to recover from the onslaught effect of calamities, severe bankruptcy and other fortuitous events. And, that Board Resolution No. 102 is backed up by the QUEDANCOR's specific, implied and necessary powers.

Management further assailed the applicability of paragraph 2, Section 36 of PD 1445, citing that, in the same vein, COA must also apply the doctrine that “what the law does not include, it excludes” to Section 36 of PD 1445 in relation to the power to condone penalties and surcharges. The power to compromise claims does not include the power to condone penalties and surcharges. More importantly, the cited power to compromise claims applies to “any settled claim or liability to any government agency” meaning the liability must be, by virtue of a final order or ruling to be categorized as settled. It does not refer to a MERE CLAIM or LIABILITY as this has been qualified by the term “SETTLED”.

To summarize, the statutory grant of power to QUEDANCOR to fix penalty charges for delinquent accounts carries with it the power to condone interest, applying the three kinds of power that goes with it, express, implied and necessary. Further, the grant of this power does not necessarily mean disregarding the power given to COA to condone settled claims specified under Section 36 of PD 1445. As pointed out, said Section applies to settled claims or liabilities.

Management pointed out that the amount condoned were not yet booked up, thus, it may not be covered by the provision of Section 36 of PD 1445 inasmuch as it states that the power of the COA applies to settled claim or liability against any government agency.

In reply, we quoted COA Decision No. 260 dated October 2, 1981 wherein the Commission in its conclusion on the case brought to it by the Social Security System (SSS) opined that: "The power to condone interests or penalties is vested exclusively in COA, pursuant to Section 36, PD 1445. Thus, while the SSS Commission has the power (to fix rates of interests and penalties on real estate loans granted), such powers, however, does not ipso facto carry with it authority to condone/waive penalties on delinquent real estate loans."

15) Pertinent provisions of COA Circular No. 97-002 dated February 10, 1997 on the Granting, Utilization and Liquidation of Cash Advances were not complied with by Management.

Audit of the account Due from Officers and Employees disclosed several deficiencies that adversely affect its balance's fair presentation as of year end.

The deficiencies noted are as follows:

- a. The account includes cash advances to officers and employees totaling ₱1,696,495 which remained unliquidated in violation of Section 5.8 of COA Circular No. 97-002 which requires that:

"All cash advances shall be fully liquidated at the end of each year. Except for petty cash fund, the AO shall refund any unexpended balance to the Cashier/Collecting Officer who will issue the necessary Official Receipt."

- b. Additional cash advances in the aggregate amount of ₱910,490.04 (Schedule 7) were given to employees even if the previous cash advances were not liquidated in violation of Section 4.1.2 of COA Circular 97-002 which states that:

"No additional cash advance shall be allowed to any official or employee unless the previous cash advance given to him is first settled or a proper accounting thereof is made."

Schedule 7 from the Accounting and Budget Department showed that 29 employees were granted cash advances for local travels even if the previous cash advances were not yet liquidated.

- c. Cash advances granted during the year amounting to ₱493,632 (Schedule 7) remained outstanding from 53 to 354 days in violation of Section 4.1.3 of COA Circular 97-002 which states that:

"A cash advance shall be reported on as soon as the purpose for which it was given has been served."

- d. Negative balances amounting to ₱15,388.85 were included in the submitted cash advance schedule.

We recommend that Management:

- Monitor closely the granting, utilization and liquidation of cash advances to ensure compliance with rules and regulations;
- Discontinue the practice of granting additional cash advance when the previous cash advance has not yet been liquidated;
- Require immediate settlement of the unliquidated cash advances;
- Review the schedule of cash advances which have been outstanding for 53 to 354 days together with the liquidation documents and effect liquidation if possible;
- See to it that all liquidations are recorded on time and reclassify the item of expenditure to proper accounts; and when necessary,
- Withhold the salary of the accountable officer with unliquidated cash advance in settlement of his account pursuant to Section 37 of PD 1445.

Further, attention of Management was called on the Action Plan of the “Solana Covenant II” a Joint Agreement entered into by and among the Commission on Audit, the Office of the Ombudsman and the Civil Service Commission wherein failure to liquidate the cash advance within the prescribed period will be reported by the Commission to the Civil Service Commission who will conduct the preliminary investigation and forward the results thereof to the Office of the Ombudsman for appropriate action.

In reply, Management explained that non-liquidation of prior years’ cash advances in the amount of ₱283,862 was attributed to resignation, study leave, AWOL, death of employees and cash advance of personnel of the Department of Agriculture. Also, it cited that since most local travels covered inventory of collaterals and intensive collection, with the same team/ personnel assigned to do the task, the immediate liquidation and settlement of the cash advance was not undertaken.

Management is given the prerogative to take the appropriate action in the light of the recent development on the efforts of the concerned agencies to reduce if not totally eliminate long outstanding unliquidated cash advances.

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- 16) Payment of honoraria amounting to ₱3,734,249 was made to officials and employees of the Corporation contrary to the provisions of Sec. 4.3 of Budget Circular No. 2003-05 dated September 26, 2003, despite previous recommendation to discontinue the same.**

Section 4.3 of Budget Circular No. 2003-05 provides:

“Heads of entities are authorized to use their respective appropriation for the payment of honoraria only to the following:

4.1 x x x x

4.2 x x x x

4.3 chairs and members of Commissions/Boards Councils and other similar entities which are hereinafter referred to as a collegial body including the

personnel thereof, who are neither paid salaries nor per diems but compensated in the form of honoraria as provided by law, rules and regulations.”

Except when specifically provided by law, heads of government agencies are prohibited from paying honoraria to personnel who are not covered under the above provisions of law and regulations.

As contained in the 2005 Annual Audit Report, honoraria payments totaling ~~P~~4,929,587.50 were deemed without legal basis because recipients were not among those authorized under Section 4 of Budget Circular No. 2003-05. Management was advised to discontinue the grant of said benefit.

Despite our prior year's recommendation, Management continuously paid honoraria to members of 34 different committees totaling ~~P~~3,734,249 which was deemed irregular and/or without legal basis. The amount pertains only for the period from January to September 2006 due to management's failure to submit paid disbursement vouchers for the last quarter of 2006 as of this date.

This resulted to additional unauthorized expenses for the Agency.

We recommend that Management:

- Discontinue the payment of honoraria to its officials and employees and other individuals who are not entitled to the subject benefit under existing rules and regulations; and
- Facilitate the refund of the amount by the concerned officials and employees who received the honoraria without legal basis.

Management continued paying honoraria to members of various committees on the basis of Section 4.3 of Budget Circular No. 2003-05 on the understanding that these members are not paid salaries nor per diem in the performance of functions in the committee and so they are entitled to honoraria.

Series of queries were made from the Department of Budget and Management (DBM) and they continuously affirmed until last October 2006 when DBM decided to settle the issue in the 2007 GAA in Section 46 thereof, which states that:

(e) Officials and employees assigned to special projects, subject to the following conditions:

- (i) Said special projects are reform-oriented, contribute to the improvement of service delivery and enhancement of the performance of the core functions of the agency, and have specific timeframes and deliveries for accomplishing objectives and milestones set by the agency for the year; and*
- (ii) Such assignment entails rendition of work in addition to or over and above their regular workload.*

In these instances, rate of honoraria shall depend on the level of responsibilities, nature of work rendered, and extent of individual contribution to produce the desired outputs:

PROVIDED, that the total honoraria received from all special projects shall not exceed twenty-five percent (25%) of the annual basic salaries.

We told Management that the foregoing will be considered in our action on the payment of honorarium to members of the different committees in 2007 onwards. However, since the amount subject of this finding pertains to January to September 2006, our disallowance will stay.

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- 17) A total amount of ₱5,931,860 was paid for Representation and Transportation Allowance (RATA) of QUEDANCOR officers and employees in 2006 which is not in accordance with the provision of Section 45 of the General Appropriations Act for CY 2005, nor was payment thereof authorized by the Department of Budget and Management.**

Section 45 of the General Appropriations Act for CY 2005 authorizes the payment of RATA to the following officials and those of equivalent rank as may be determined by the DBM:

- (a) At 7,500 for Department Secretaries;*
- (b) At 6,000 for Department Undersecretaries;*
- (c) At 5,500 for Department Assistant Secretaries;*
- (d) At 5,000 for Bureau Directors and Department Regional Directors;*
- (e) At 4,500 for Assistant Bureau Directors, Department Assistant Regional Directors, Bureau Regional Directors, and Department Service Chiefs;*
- (f) At 4,000 for Assistant Bureau Regional Directors; and*
- (g) At 3,000 for Chief of Divisions, identified as such in the Personal Services Itemization and Plantilla of Personnel.*

Our audit disclosed that a total of ₱5,931,860 was disbursed for payment of RATA to officers and employees occupying positions in acting capacity and were not included in the Personal Services Itemization and Plantilla of Personnel of the Agency approved by the DBM.

This resulted in the incurrence of additional unauthorized expenses for the Agency.

This is a reiteration of our last year's audit which remains unacted upon.

COA reiterated its recommendation that Management should pay RATA based on the pertinent provisions of the General Appropriations Act or until appropriate authority from the DBM is secured to avoid disallowance.

Management sought reconsideration of the audit observation in the light of COA Decision 2000-200 dated July 25, 2000 relative to the payment of RATA to an Acting Chief, Mail Distribution Center, Philippine Postal Corporation (PPC), which was upheld by the Commission on Audit.

We maintain our previous stand that the reimbursable RATA granted to QUEDANCOR officials designated as Officer In-charge of positions not included in the approved Staffing Pattern/Plantilla of the Agency is without legal basis, and therefore, should be stopped until the required authority is secured from the DBM.

On the applicability of COA Decision No. 2000-200 dated July 25, 2000, we opined that the case of the PPC is different from that of the QUEDANCOR. In PPC, the position of Chief Postal Service Officer assigned in the Mail Distribution Center (SG 24) has been specifically declared by the DBM under NCC No. 67 dated January 1, 1992, to be of equivalent rank with those officials and employees who are allowed to receive RATA, and that the Organization Structure of the PPC revealed that the Mail Distribution Center is separate and independent from the existing divisions, namely, the Administrative and Finance Division and Operations Division, which is not the case in QUEDANCOR.

However, we informed Management that the matter will be forwarded to COA Legal and Adjudication Office for finality of decision.

18) Disbursements amounting to ₱632,859.33 were incurred by the Agency in payment of extraordinary and miscellaneous expenses, which were found inconsistent with Section 25 of the General Appropriations Act (GAA) of 2005 as reenacted in 2006.

Section 25 of the GAA of 2005 states that:

“appropriations authorized may be used for extraordinary expenses of the following officials and those of equivalent rank as may be authorized by the DBM, not exceeding:

- a) ₱180,000 for each Department Secretary;
- b) ₱65,000 for each Department Undersecretary;
- c) ₱35,000 for each Department Assistant Secretary;
- d) ₱30,000 for each head of bureau or organization of equal rank to a bureau and for each Department Regional Director;
- e) ₱18,000 for each Bureau Regional Director; and
- f) ₱13,000 for each Municipal Trial Court Judge, Municipal Circuit Trial Court Judge, and Shari’a Circuit Court Judge.”

In addition, miscellaneous expenses not exceeding Fifty Thousand Pesos (₱50,000) for each of the offices under the above named officials are authorized.

Audit of Extraordinary and Miscellaneous Expenses (EME) disclosed the following:

- Eight QUEDANCOR officials, all Division Chiefs III, (SG-24) per approved plantilla were granted EME in violation of Sec. 25 of GAA 2005. These officials are as follows:

1. Apolinar Gonzales	-	₱ 35,041.25
2. Leticia Santos	-	68,000.00
3. Delano Anover, Jr.	-	52,746.61
4. Maximo Padual	-	39,564.93
5. Marissa Caparaz	-	51,878.99
6. Natividad Ancheta	-	53,273.53
7. Ma. Teresa Dimo	-	23,597.60
8. Alberto Guevarra	-	68,018.66

₱392,121.57

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Per GAA, ONLY the following officers are authorized to claim extraordinary and miscellaneous expenses per QUEDANCOR approved plantilla:

	SG	Amount Authorized
Nelson C. Buenaflor	29	₱ 85,000
Federico A. Espiritu	27	68,000
Josefina R. Martin	26	63,000
Michael P. Millares	26	63,000
Chito C. Cifra*	26*	63,000
Rodelio Bathan	26	63,000
Niels Patrick Riconalla	26	63,000
Alexander Butic	26	63,000
Teresita D. Pineda	26	63,000

*OIC to Dept. Manager Position per approved plantilla

- Of the amounts paid to QUEDANCOR officers authorized to claim EME, the following items are not allowed:

- Gasoline – claimants are either provided with service vehicle or with transportation allowance;
- Office supplies – with regular budget allocation;
- Spare parts, services and vehicle repair – with regular budget allocation and the vehicles are personal vehicle of the claimant;
- Military Uniforms and Accessories – personal in nature
- Plane Ticket – with regular budget allocation
- Grocery items – include household items
- Medicine – with regular budget allocation
- Tithes-Couples for Christ – personal in nature
- Food – take out after office hours

Relative to the foregoing, examination of documents covering disbursements for EME disclosed that the officers mentioned above were reimbursed for expenses amounting ₱240,737.76 which are not necessary and/or in excess of the allowable amount . Please see Schedule 8.

It was also observed that reimbursements for food of the above named officers are deemed excessive and extravagant and official receipts and/or other documents evidencing disbursements do not indicate the purpose of the meetings/conferences for which the expenses were incurred in violation of QUEDANCOR Memorandum No. 001 dated November 17, 2003.

This resulted to additional unauthorized expenses that contributed to the financial constraints of the Corporation.

We required Management to strictly comply with the provisions of GAA of 2005 as reenacted and QUEDANCOR Memorandum No. 001 dated November 17, 2003; and to refrain from incurring such other expenditures which are unnecessary and excessive.

Likewise we required Management to cause the immediate refund of the following:

- a) extraordinary and miscellaneous expenses received by QUEDANCOR officers not authorized to receive said benefit per Sec. 25 of the GAA of 2005 as reenacted; and
- b) disallowed items claimed by QUEDANCOR officers authorized to claim said benefit.

And, to amend QUEDANCOR Memorandum No. 001 dated November 17, 2003 to harmonize it with the provisions of the GAA.

In reply, Management rendered the following justifications:

- Eight QUEDANCOR officials occupying Division Chiefs III items were granted Extraordinary and Miscellaneous Expenses (EME) at a maximum amount of ₱68,000 each per annum inasmuch as they are validly discharging the duties/responsibilities appurtenant to their designations as Acting Vice-Presidents/Department Managers III (SG 26) as approved by the Governing Board. Approval of the creation of structures and corresponding Plantilla Positions is under consideration by the Department of Budget and Management. (DBM).
- Of the amount paid to QUEDANCOR officers authorized to claim EME, Management requested that the following items be allowed:
 - Gasoline – Provision for monthly Transportation Allowance (TA) is not sufficient in carrying our official functions, thus, the same should be augmented.
 - Office Supplies – Due to heavy workload, officers have to bring home some official documents for action and in so doing, they incur expenses on office supplies which may not be available in the office.
 - Spare parts, Services and Vehicle Repair – Inasmuch as government service vehicles are wanting in QUEDANCOR, officers have to utilize their own personal vehicles if only to attend to various meetings/conferences on time even if said undertakings are being held outside Metro Manila. Likewise due to wear and tear of the vehicle, there is need to have the vehicles repaired including change of spare parts, if warranted by circumstances.
 - Military Uniform and Accessories and Plane Tickets
 - Grocery Items – although the expenses appear to be household items in nature, the same are being utilized in the office that is why the amount is very minimal.
 - Medicine - Amount of medicine allowance is not sufficient especially for monthly maintenance of medications for work-related illnesses.
 - Tithes-Couples for Christ-personal in nature-Contributions to civic or charitable institutions are among those allowed in the GAA. If you will charge this contribution against the taxes of the people your soul will not gain any retribution.

- Food (Take-out after office hours) – Management requested to replace the attached official receipts with receipts of other expenses allowed under the GAA.

Sufficiency is limitless if we will use “needs” as our yardstick.

What could be these office supplies? Per experience of bringing home extra work only coupon bonds and maybe one or two diskettes are necessary. These are in small amount and are available from the stocks.

We reiterated that payment of EME should follow the limitation set forth under Section 25 of the GAA.

19) The Corporation engaged the services of private lawyers to handle legal cases without the written conformity and acquiescence of the Solicitor General or the Government Corporate Counsel, as the case may be, and the written concurrence of the Commission on Audit, contrary to Par. 5 of COA Circular No. 95-011 dated December 4, 1995.

Par. 5 of COA Circular No. 95-011 dated December 4, 1995 provides that:

“Accordingly and pursuant to this Commission’s exclusive authority to promulgate accounting and auditing rules and regulations, including for the prevention and disallowance of irregular, unnecessary, excessive, extravagant and/or unconscionable expenditure or uses of public funds and property (Sec. 2-2, Art. IX-D, Constitution), public funds shall not be utilized for payment of the services of a private legal counsel or law firm to represent government agencies in court or to render legal services for them. In the event that such legal exceptional circumstances, the written conformity and acquiescence of the Solicitor General or the Government Corporate Counsel, as the case may be, and the written concurrence of the Commission on Audit shall first be secured before the hiring or employment of a private lawyer or law firm.”

Our audit of disbursements showed that the Corporation paid the amount of ₱1,040,000 to the following private lawyers as legal fees for engaging their services without complying with the requirements of COA Circular No. 95-011, mentioned above.

Name		Period Covered
Atty. Franco Besinio	₱ 380,000	Aug. 1, 2004 to Jan. 2006
Atty. Algainy Alug	360,000	Sept. 1, 2004 to Feb. 2006
Atty. Chelin Joan Sonza	300,000	Oct. 2005 to December 2006
Total	₱1,040,000	

The amount paid for the legal services of the above-named private lawyers is deemed irregular which added to the unauthorized expenses incurred by the Agency:

Atty. Besinio and Atty. Alug, both former QUEDANCOR Attorney IVs, were hired as legal consultants right after their resignation on August 1, 2004 and August 31, 2004, respectively, despite the presence of in-house lawyers who are already handling legal cases for the Corporation.

It is our view that the duties and responsibilities of the above-named legal consultants can be effectively discharged and performed by QUEDANCOR's legal personnel, thus, the hiring of private legal consultants is not necessary.

Management should strictly comply with the provisions of COA Circular No. 95-011 dated December 4, 1995 on the hiring of private lawyers.

We also recommend for management to cause the immediate refund of the amount paid to the lawyers and to determine the officials who may be held jointly liable for the hiring of the above-named legal consultants.

According to Management, the observation of COA as to the application of COA Circular No. 95-011, paragraph 5 dated 04 December 1995 refers to the engagement of services of private lawyers to handle legal cases, to wit:

“public funds shall not be utilized for payment of the services of a private legal counsel or law firm to represent government agencies in court”.

It submitted that the provision does not apply in the cases of Attys. Besinio, Alug and Sonza since their services extend to more than handling of legal cases. In fact, according to them, the contracts of the three above-named lawyers indicate a broader scope of services, such as consultations with the RAVPs, counseling of Regional Para-legal officers, notarization, preparation of contracts and deeds, letters of demand and legal opinions.

In essence, QUEDANCOR maximizes the services of these Legal Consultants with the end view of saving on time and costs should the same services be undertaken by the LEAD which has only five (5) lawyers, most of whom are occupying the rank of Division Chief with no lawyers to back them up in their gargantuan tasks.

Following Management's argument that the above-mentioned lawyers are not covered by COA Circular No. 95-011 since they are hired as Legal Consultants extending services other than attending court hearings in behalf of the Agency, we re-directed their conclusion that for that matter RA 9184 on the hiring of Consultancy Services should have been observed and complied with.

20) Several omissions from procedural requirements of the e-NGAS were noted that affect the correctness of the financial reports generated from the system.

Review of the transactions encoded in the electronic-New Government Accounting System (e-NGAS) disclosed that:

1. The Journal Entry Vouchers (JEVs) are not prepared in chronological order resulting to difficulty in tracing the corresponding journal entries covering the transactions. Further, there is no control measure to determine completeness of recording or capture of the transactions.
2. Not all supporting documents required for each template (disbursement) were indicated in the JEV. Only the number of Check and Disbursement Voucher were indicated contrary to the requirement of the e-NGAS.

3. Some of the JEVs were prepared and approved by only one and the same person, an indicator of weak/no control.
4. Forms required to be used under the e-NGAS were not adopted by the Agency.
5. The template corresponding to replenishment of petty cash fund/cash advance was not used. Instead of debiting the expense account, the cash disbursing account was debited.

We emphasized to Management that the authorized representative of QUEDANCOR for e-NGAS should see to it that the following are strictly followed:

- a. The one who is preparing the JEV should be different from the one approving it to effect review/control of the transaction.
- b. JEVs are numerically sequenced/arranged for control purposes.
- c. Indicate all the needed requirements in each accounting template for disbursement for easy monitoring of the transactions.
- d. Use the prescribed forms prescribed by the NGAS.

Management assured us that effective 2007, the numbering of JEVs will follow its chronological order.

On the approval of JEVs, Management reasoned out that because of the backlog and limited number of bookkeepers, the AVP-Corporate Accounting Department who is responsible for approving the JEVs helped in its preparation, but committed to avoid the same in 2007.

Management committed to adopt the forms required by the NGAS once the remaining old form of DVs are consumed.

We will monitor and evaluate the results of the actions which Management committed to undertake to improve the implementation of the e-NGAS.

21) A number of QUEDANCOR circulars, memoranda and manuals containing provisions for eligibility, loan and security requirements, procedures, and sanctions, among others, were issued as guidelines in the proper implementation of the QUEDANCOR loan programs. However, results of audit showed otherwise. Several deficiencies were noted in the guidelines which are contributory to the possible failure of the programs.

In the implementation of the QUEDANCOR Swine Program (QSP), twenty two (22) circulars and memoranda were issued. (Deficiencies noted in the QSP Guidelines were already raised in the 2005 AAR.). As an aftermath of the problems unearth in relation to the QSP implementation, Management came out with memoranda adopting remedial measures which were consolidated in Memorandum Circular No. 403 dated March 22, 2006.

Review of the said Memorandum Circular and the results of direct confirmation with borrowers showed that the remedial measures did not cure the QSP related problems, both the accounting and legal aspects, as shown in the following:

1. The buy-back provision in the Contract Growing Agreement, which was the root cause of the accounting and legal conflicts, was not amended. The options and procedures provided in the memorandum circular do not warrant the determination of the Agency's rightful claim over its trade receivables under the QSP. Its foreseen unfavorable effect is merely to increase the amount of loan for the feed requirement of the remaining hogs with no clear chances of collection.
2. Security/Collateral requirement to ensure collection was not strengthened.
 - Debt Assumption Agreement does not have clear provision on collateral requirement.
 - Continuing Deed of Assignment of Stocks does not have a strong legal hold because the stocks referred to in the Deed are live stocks which at any given time may be lost or may no longer be existing at the time of execution of the Deed.
 - Post dated checks – Management is insisting on this kind of collateral/collection tool which is very ineffective considering the Management's poor handling and accounting of the PDCs.
 - REM/CM-posting of this requirement is left at the discretion of the borrower/IS.
3. Monitoring of the implementation of the remedial measures is not emphasized, hence, not attended to.
4. The accounting problems were not directly dealt with in Memorandum Circular No. 403, just like the shortcomings of Memorandum Circular No. 270 in relation to accounting matters. The attached list of proposed accounting entries under QUEDANCOR Memorandum Circular No. 033 dated December 27, 2006 is prospective in approach. The accounting entries, per se, will not cure the past defects, thus, Receivable Trade-QSP balance is still unreliable, as shown below, among others:

Trade Receivables-QSP per Accounting and Budget	
Department Trial Balance	₱1,294,274,544.64
Total per Schedules from Corporate Receivables and Payables Department	1,277,081,716.28
Total of the schedules from Regional Offices	1,545,137,571.88

In Reg. VII, AOM No. 1.h-The amount converted to term loan was not reconciled with the amount appearing in the books of accounts.

As of November 30, 2006, the QSP loan balance per books of BIRKS is ₱63,623,764.04. Per Schedule of Accounts Receivable Assumed by BIRKS the balance is ₱55,778,475.91 as against the compromised amount of ₱66,530,103.77.

On the other hand, in Region XI, the balance of trade receivables per Consolidated Trial Balance is ₱452,014,145.88 while the total of the schedules per district office is ₱453,379,745.42 or a difference of ₱1,365,599.54. Also, the Summary of Monthly Loan Releases from the CRPD, H.O. is understated by ₱31,147,200 representing releases of SRT AFBO loans to Tagum and Kidapawan District Offices in the amount of P6,000,000 and ₱25,147,200, respectively.

For the Self-Reliant Team Agri-Fishery Business Organization (SRT-AFBO), as of now, there are 17 memoranda/circulars, including Circular No. 392 for QUEDANCOR Wholesale Program for Countryside Lending Conduit (QWP-CLC). The memoranda/circulars were issued within a year's time only, one coming right after the other. Perusal of these issuances, vis-a-vis, loan documents lead us to the following observations and conclusions:

Eligibility Requirements:

- Long lists of requirements serve only as multiplier of work for operations personnel, but in reality were not complied with.

Example: In the SRT-AFBO, a two-year track record in the project, particularly in the lending operations, is required. However, in the actual processing/evaluation of documents, loans were approved even if the cooperative has been existing for a number of months or even weeks only. Thus, rendering other requirements as useless, such as:

- acceptable long-term debt to equity ratio not exceeding 5:1;
 - past due ratio of not more than 50% or collection rate for current loans of not less than 70%;
 - positive growth of capital accounts/assets and positive trend in profitability; and
 - duly certified copy of audited financial statements for the immediate year preceding the application, if applicable.
- The required securities/collaterals for SRT-AFBO, such as, Comprehensive Surety Agreement; Co-maker's Statement by all its Board Members; and Assignment of Receivables on outstanding PNs of sub-borrowers, are deemed to be inferior collaterals compared to hard collaterals in the form of real estate and/or chattel mortgages. And, even if REM is required, only 80% of it is needed just to cover the deficiency in the debt to equity ratio of the applicant SRT. More so, the REM/CM, becomes less forceful because according to the guidelines, Special Power of Attorney (SPA) may be accepted. Strengthening Loan Documentation Procedures particularly on SPA was required under QUEDANCOR Memorandum Circular No. 709 dated May 24, 2004, which was likewise not complied as shown from the loan documents. Lastly, as it has always been observed, requiring the issuance of post dated checks as collateral/collection tool resulted to more problems than cure. During the year, a total of 30,129 PDCs amounting to P640,860,830 were already dishonored. No concrete action from Management was noted to address the matter.
 - Absence of authority limit, stated as follows: "To hasten the implementation of the SRT-AFBO's business activities under the SRT AFBO Program launched by QUEDANCOR, it is necessary to speed-up approval of the cooperatives' loan applications. Hence, the Regional Assistant Vice-Presidents (RAVPs) shall be authorized to approve loans of the AFBOs regardless of the loan amount. (Underlining ours.) This memorandum was revised by Memorandum No. 123 dated February 15, 2006 which covers all loan applications received after 15 February 2006."

The words itself of the memorandum clearly indicate that the implementation of the SRT AFBO Program was done in haste. It posted a big question, why it was so, where is prudential fund handling in this case?

The absence of the authority limit in approving loans, opens the risk of abuse of management override leading to untimely exhaustion of working capital.

The case of possible risk of abuse of management override is also noted in the following provisions of QUEDANCOR Memorandum Circular No. 257, QUEDANCOR Financing Program for Working Capital of Buyers and Processors of Agri-Fishery Commodities, to wit:

Section 8 - Loanable Amount

“The revolving loanable Working Capital Line (WCL) shall depend on the total project cost and/or financial condition of the borrower or as determined by the QUEDANCOR Credit Assessment Group (CAG).”

Section 13 – Processing and Release of Loan

“x x x.

x x x. The DS shall approve/disapprove the account up to ₱5M. For loans above ₱5 M up to ₱10M, the account shall be forwarded to the RO-QOO-CAG for review of appraisal and loan documentation prior to submission to the Regional Credit and Guarantee Committee (RCGC). The RCGC shall deliberate and recommend approval of the account to the RAVP.

For loans above ₱10M up to ₱20M, the account shall be forwarded to the credit and Guarantee Department (CGD) for evaluation and recommendation to the President and CEO. For loans above ₱20M, the account shall be forwarded to the CGD for recommendation to the Credit and Guarantee Committee (CGCom). The CGCom shall deliberate/evaluate the account and recommend approval of the same to the President and CEO. (underlining ours)

- Monitoring of the program implementation, particularly the recovery/collection phase, is not given much importance. Management is more concerned in program expansion/loan exposures, almost neglecting the recovery of loan funds which is equally important to sustain operations.

After the loans were released to the SRT-AFBOs, no effective monitoring scheme is found in place. Negative feedbacks like, non existing projects, inexperienced SRT-AFBO personnel, incapable management staff and low/non-repayment, were reported after an almost a year of operation.

Pertinent provisions of QUEDANCOR Memorandum Circular No. 257 dated 03 December 2003 on QUEDANCOR Financing Program for Working Capital of Buyers and Processors of Agri-fishery Commodities, may expose the Agency to risk of abuse of management override which may result to unequal distribution of loan funds and untimely depletion of the Agency's working capital.

The foregoing deficiencies were not addressed in the various guidelines issued for the purpose or if ever there are provisions on the matter, the same were not properly implemented. Such omission/commission contributed to poor program turn-over, low collection efficiency, rising number of past due and delinquent loans and credit default.

To sustain viable operations, we suggested that Management consider that lending operations is a two-way business undertaking, releases and collection. If one way weakens, like collection, the other, releases, will surely follow, so both, releases and collection should always be balanced. Thus, guidelines should be carefully crafted and its implementation properly monitored.

Likewise, Management should create a Risk Management Unit that will be responsible for documenting and performing the continuous process of integrated activities by which senior management, supported by operating heads, minimizes the potential impact of the agency's risks on the objectives and strategies for creating and increasing stakeholder value. The integrated risk management activities are:

- Establish risk management process
- Assess agency risks
- Develop management strategies
- Design/Implement risk management processes
- Monitor risk management process performance
- Continuously improve risk management capabilities
- Ensure that there is adequate communication and information for decision making.

Lastly, since huge amount already flowed to the QSP/FPWC and SRT-AFBO, Management should now refocus its efforts towards recovery from the programs. Guidelines should be restated to include and enhance the collection efforts coupled with efficient monitoring guidelines geared towards achievement of collection targets and program objectives.

On the QSP, Management commented that:

- The buy-back provision in the new CGA per Circular No. 185 was amended excluding QUEDANCOR as a party in the contract but it was retained as a provision between the IS and the grower to ensure a ready market for the produce.
- Conversion to term loan was done as a result of the remedial action, to provide the grower and IS more elbow room in the payment of the amortizations because a short term loan restricts the flow of working capital for the project.
- Borrower-growers under the QSP fall under the SRT program mechanism, which is classified as non-collateralized loans. Under the remedial measure, collaterals are encouraged if necessary and as far as practicable. To insist on putting up collaterals as a standard requirement will not make such remedial measure always possible. However, if the account cannot anymore be remedied, then it shall be subject for legal action as the normal case.
- Security/Collateral was not made a requirement of the Debt Assumption Agreement but in actual implementation this is always made an option in the negotiation for remedial action as per practice of the Credit and Remedial Management Department (CRMD). As of date, some IS actually posted REM/CM to secure their obligation.

- The subject of the Continuing Deed of Assignment is the existing stock at the time of inventory. Precisely, it is classified as “continuing” for it deals with live stocks which are constantly being validated by the District Remedial Action Officer. This is the prevailing industry practice.
- Post dated checks are not deemed as collateral requirements but instruments to facilitate collection.
- The remedial actions on the swine accounts are closely monitored by the CRMD and regular monthly reports are submitted by the concerned officers in the field.
- Circular 033 dated December 27, 2006 covers the accounting treatment for swine accounts which was approved after Circular 403, and amending/clarifying Circular No. 270.
- Alternative ways to document the transactions may still be resorted to.

On the SRT-AFBO Management clarified that members were:

- given certain degree of flexibility to accord them to secure loans for their business operations;
- exempted from security requirements;
- if QUEDANCOR will take a hard stance on the issue of collaterals for farmers, it cannot fulfill its mandate; and
- Management Contract and close monitoring to ensure efficient operations were required.

On the QSP, we further commented that it is unfortunate that COA and QUEDANCOR are not on the same level of appreciation on the issue of remedial measures applied to the QSP. Remedial measures as construed by COA refer to measures or courses of action that should be undertaken by Management to remedy/correct the problems/”adversarial concerns” brought about by the deficiencies in the implementation of the Program, referring to the problems in accounting that resorted to distortion of financial reporting information on QSP, and the legal aspect concerning the rightful claim of QUEDANCOR over its trade receivables from the farmer-borrowers or from the ISSs. On the other hand, Management has in mind the remedial measures or activities to save whatever is left of the Project. In this context, Management seems to continuously disregard the problems and in their comments to our audit observations and recommendations emphasized and rationalized on the remedial measures as contemplated by them. To which we countered that:

- QUEDANCOR as a party to the CGA does not really provide a ready market for the produce of the farmer-borrowers because in the first place they have no marketing facilities nor it is among their functions. What they provided in the Program is a marketing venue allegedly in the person of the Input Suppliers, who in fact serve only as middle men.

- Conversion to term loan to provide the grower and IS more elbow room in the payment of amortization because a short term loan restricts the flow of working capital for the project is not a remedial action, per se. On the contrary, conversion to term loan merely increases the existing loan with no assurance of recovery.
- The argument that the QSP falls under the SRT program mechanism which is classified as non-collateralized loans is contrary to the objectives of QUEDANCOR Circular Nos. 243,366 and 416 re: Revised Implementing Guidelines on Collateral Appraisal.
- The Continuing Deed of Assignment applies only when there are live stocks to speak of. Constant validation, as alleged, if correctly interpreted and faithfully done could have not resulted to loss/disappearance of inventory stocks without the necessary supporting documents.
- No matter how Management treated the PDC, collateral or collection tool, the fact remains that its use or the handling of it, is not effective.
- The accounting entries referred to in Circular 033 are not corrective, per se, because correction of the accounting records should start from the production of the missing requisite documents, and reconstruction of transactions from which to base the adjusting entries. The entries in Circular 033 should have been made from the inception/release/off-setting/adjustment and collection.
- Provide COA with specific alternative ways to document the QSP transactions and mechanics of the specific remedial alternatives.

On the SRT-AFBO:

How will the imposition of hard collaterals prevent QUEDANCOR from accomplishing its mandate, unless Management construed its mandate simply as dole out of government funds and afterwards disregard its recovery and re-flow to intended beneficiaries. The current status of the SRT-AFBO loans speaks of the real score of the implementation of the Program.

QUEDAN AND RURAL CREDIT GUARANTEE CORPORATION
TEMPORARY ENTRIES
BALANCE SHEET
December 31, 2006

	Consolidated -	(Detailed) Corporate
ASSETS		
Cash in Banks - Local Currency		
Cash in Bank - Local Currency, Current Account	P (31,067,898.97)	
Cash in Bank - Local Currency, Savings Account	<u>17,928,263.08</u>	P (13,139,635.89)
Receivable Accounts		
Accounts Receivable	(8,583,242.11)	
Due from Officers and Employees	<u>182,917.43</u>	(8,400,324.68)
Intra - Agency Receivables		
Due from Regional Offices/Staff Bureaus/Branch Office		2,189,772.59
Other Receivables		
Advances to Officers and Employees	5,415.00	
Other Receivables	<u>(120,163.16)</u>	(114,748.16)
Office Equipment, Furniture and Fixtures		
Office Equipment		1,633.75
Machineries and Equipment		
Communication Equipment		(3,900.00)
Transportation Equipment		
Motor Vehicles	P 947,095.35	
Less: Accumulated Depreciation - Motor Vehicles	<u>329,707.34</u>	617,388.01
Other Assets		
Other Assets		<u>(1,787,617.97)</u>
TOTAL ASSETS		<u>(20,637,432.35)</u>
LIABILITIES		
Current Liabilities		
Payable Accounts		
Accounts Payable	(3,148,301.68)	
Due to Officers and Employees	<u>22,397.85</u>	(3,125,903.83)
Inter - Agency Payables		
Due to BIR	136,352.06	
Due to GSIS	(21,090.65)	
Due to PAG-IBIG	8,251.59	
Due to Other NGAs	(14,677.80)	
Due to Other GOCCs	<u>(113,000.00)</u>	(4,164.80)
Intra -Agency Payables		
Due to Central Office/Home Office	(14,108,466.54)	
Due to Regional Offices/Staff Bureaus/Branch Offices	<u>228,902.21</u>	(13,879,564.33)
Other Liability Accounts		
Other Payables	<u>(3,627,799.39)</u>	(20,637,432.35)
TOTAL LIABILITIES		<u>(20,637,432.35)</u>
TOTAL EQUITY		<u>0.00</u>
TOTAL LIABILITIES AND EQUITY		<u>P (20,637,432.35)</u>

Republic of the Philippines
COMMISSION ON AUDIT
Office of the Auditor
Team E, Cluster V-Agricultural, Trading and Promotional
Quedan and Rural Credit Guarantee Corporation
Region VI, Iloilo City

GMA-CARS-IAL-Livestock

a) Under Account Title - Receivables-Trade/Business

2003		2004		2005	
DR	CR	DR	CR	DR	CR
January		52,300,000.00	49,850,000.00	36,447,500.00	27,156,150.00
February		12,400,000.00	6,500,000.00	49,097,750.00	25,733,750.00
March		24,900,000.00	10,825,000.00	42,270,500.00	45,795,250.00
April		24,300,000.00	13,575,000.00	41,623,250.00	25,080,828.00
May	2,730,000.00	21,180,000.00	11,325,000.00	42,378,769.23	43,398,180.00
June	6,370,000.00	31,345,000.00	11,865,000.00	92,019,230.77	75,195,000.00
July	6,750,000.00	44,777,253.00	15,425,000.00	60,711,500.00	73,980,626.14
August	7,300,000.00	38,532,000.00	18,611,000.00	73,905,000.00	81,283,500.00
September	21,550,000.00 9,550,000.00	48,653,668.00	26,106,258.71	51,973,759.73	38,662,750.00
October	22,150,000.00 5,250,000.00	57,864,000.00	24,848,500.00	70,746,875.00	69,347,875.00
November	14,100,000.00 10,050,000.00	44,347,500.00	28,569,320.00	45,188,000.00	47,734,277.10
December	15,800,000.00 4,850,000.00	51,708,500.00	46,918,600.00	60,414,110.50	65,677,728.26
	96,750,000.00 29,700,000.00*	452,307,921.00	264,418,678.71	666,776,245.23	619,045,914.50
Less: Releases for Poultry and Livestock					
	0.00 0.00	80,000.00	40,320.00	330,000.00	114,680.00
	96,750,000.00 29,700,000.00	452,227,921.00	264,378,358.71	666,446,245.23	618,931,234.50

b) Under Account Title - Receivable-Assigned

2003		2004		2005	
DR	CR	DR	CR	DR	CR
January					
February					
March					
April					
May				26,092,000.00	705,000.00
June				19,520,000.00	8,339,000.00
July				30,423,500.00	2,520,000.00
August				30,908,500.00	8,520,000.00
September				13,407,000.00	7,403,000.00
October				39,430,500.00	17,540,000.00
November				14,026,000.00	6,720,000.00
December				26,063,000.00	9,497,360.50
				199,870,500.00	61,244,360.50

*COA-QUEDANCOR H.O. Correction

QUEDAN AND RURAL CREDIT GUARANTEE CORPORATION
Corporate Profile of BIRKS, IFC AND NFC

NAME OF CORPORATION	BIRKS AGRI-LIVESTOCK CORP.	ILOILO FEEDS CORPORATION	NUEVA FOODS CORPORATION
BUSINESS ADDRESS	Suite 701, South Center Tower, Madrigal Bus. Park, Alabang Muntinlupa	Tolocgangan, Banate, Iloilo 38 Luna St. Lapaz, Iloilo City Brgy. Ag duque, Dumangas, Iloilo	13 Judge J. Luna St. Bungad, Quezon City 9 Iloilo Car Corp. Bldg. Luna St. Lapaz, Iloilo City
BUSINESS TELEPHONE NO.	7221690		
AUTHORIZED BUSINESS	Supplier of Feeds, Medicines, Biologics as well as technical advisement & Support	supply and manufacture of feeds	retailing and wholesaling of choice pork and beef cuts to supermarket and institutional clients
INCORPORATORS (ORIG.)		Albino A. Ng 1248 Mary Ann O. Ng 1248 Bernaditte O. Seyan 2 Elena O. Go 1 Julieta C. Ong 1 Total Subscribed Capital Stocks <u>2500</u>	Mary Ann O. Ng Elena O. Go Francisco A. Ortiz Albino A. Ng Anthony Mark O. Ng Total Subscribed Capital Stocks
SEC REGISTRATION NO.	CS200307593	E199700585	E200000074
DATE OF REGISTRATION	March 27, 2003	July 21, 1997	January 31, 2000
AUTHORIZED CS	1M (100,000 shares @ P10.00 per share)	10M	20 M
SUBSCRIBED CS	P250,000.00 (25,000 shares)	2.5M	5M
PAID UP CS	P62,500.00	628,000.00	1.250M
BOARD OF DIRECTORS (CURRENT STOCK- HOLDERS)	Excel V. Salazar 6248 4 Vinice St., Veraville III Talon, Las Pinas City Rommel Bernard R. Reusi 6002 Romano St. Ilaor Norte, Oas, Albay Vicente T. Cualoping Treasurer 12250 Rm. 1822 Tytana Plaza Binondo Manila Glenn Nelson M. Macavinta 250 B45 132 P2 Pelican Hills Manila, Southwood Carmona Cavite Greaga A. Alcaracion 250 581 Paltoc St., Sta. Mesa, Manila <u>25000</u>	Vicente Cualoping Bernaditte O. Seyan Atty. Honorio P. Aragona Jr. Anthony Mark O. Ng	Robert Brandon G. Taleon Anthony Mark O. Ng Atty. Honorio P. Aragona Jr. Ancel A. tandog Rhyza L. Villarosa Michael E. Relosa

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430
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Republic of the Philippines
COMMISSION ON AUDIT
Office of the Auditor
Team E, Cluster V-Agricultural, Trading and Promotional
Corporate Government Sector
Quedan and Rural Credit Guarantee Corporation
Region VI, Iloilo City

June 27, 2007

Ms. Nilda M. Blanco
Supervising Auditor
Quedan and Rural Credit Guarantee Corp.
34 Panay Avenue, Quezon City

Madam:

In connection with your memorandum dated June 21, 2007, herewith is our confirmation/comments:

- 1) Item 5 of the comments from CRPD per QRCGC Memorandum No. 282 dated May 31, 2007 on the misclassification of the P636,449,492.00 Swine Receivables (8-791-691) to Livestock and Poultry Program (8-71-053) and the COA-QUEDANCOR Head Office rejoinder on said comments, pages 42 and 43.

Error Correction

As shown in the attach schedule, releases for GMA-CARES-IAL-Livestock Program as of December 31, 2005 is P1,415,294,666.23. This was recorded as of the same date as follows:

Receivables-Trade/Business	P	1,215,424,166.23
Receivables-Assigned		<u>199,870,500.00</u>
Total GMA-CARES-IAL-Livestock	P	<u>1,415,294,666.23</u>

The releases and collections were extracted from the Consolidated Monthly Trial Balance while the Assigned Receivables from the schedule submitted by management.

Per Journal Voucher, the consolidated adjustments in Region VI for Livestock and Poultry to QSP is P368,915,080.29. Details are as follows:

<u>District Office</u>	<u>JV No.</u>	<u>Date</u>		<u>Amount</u>
Akian	06-10-287	Oct. 31, 2006	P	137,380,534.64
Capiz	06-10-212	Oct. 31, 2006		35,176,527.85
Iloilo	06-04-104	April 30, 2006		138,630,625.47
Negros Occ.	06-11-154	Nov. 30, 2006		<u>57,727,392.33</u>
Total			P	<u>368,915,080.29</u>

- 2) Comments and Observation No. 7 on interlocking directorship, pages 43 to 51.
- 3) Diagram reflecting the interrelationship between QUEDANCOR, Input Suppliers, QSP borrowers and WCL borrowers.

For your information and guidance.

Very truly yours,

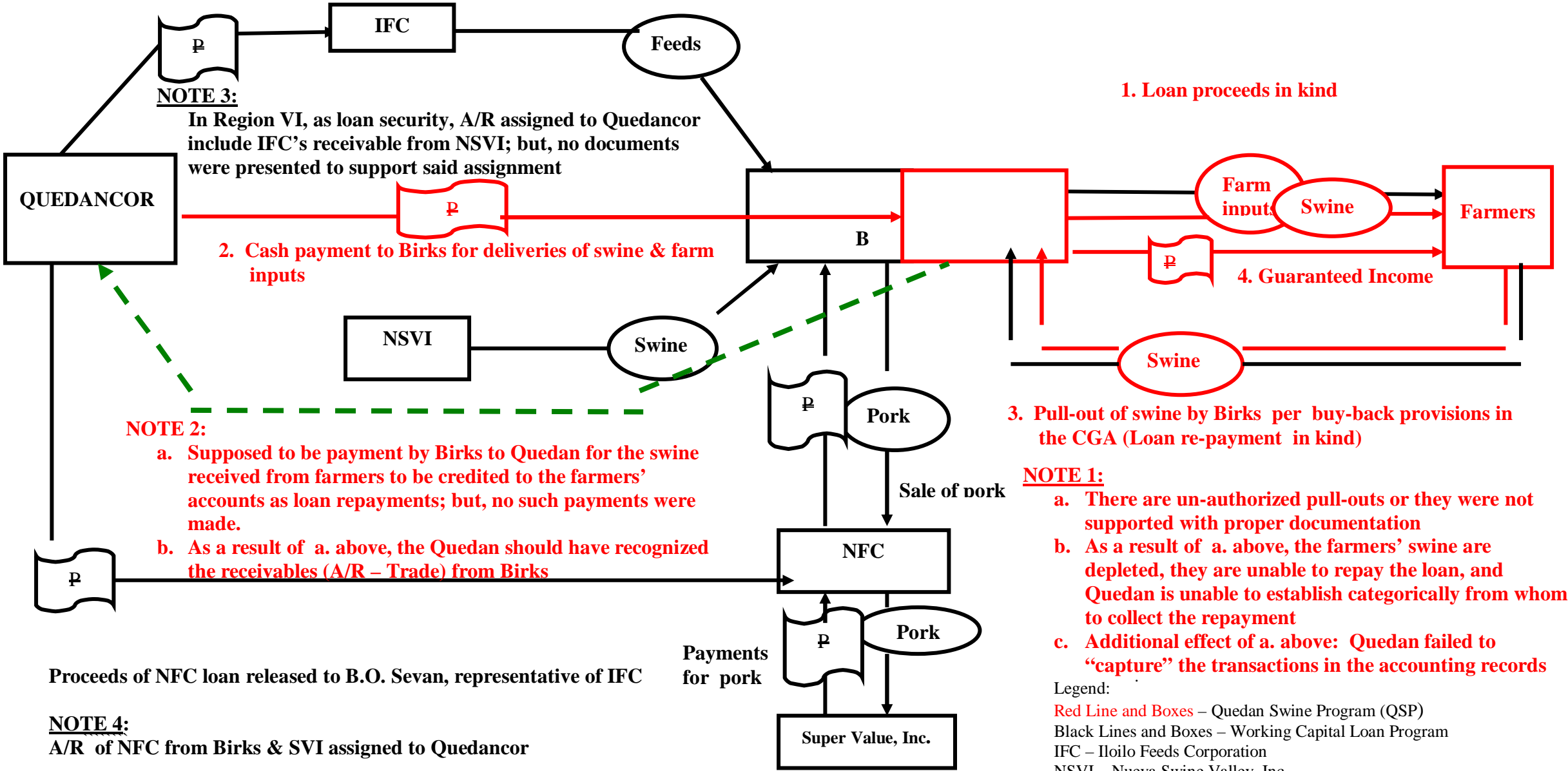
DOLORES L. PEREZ
State Auditor III
OIC-Team E

QUEDANCOR-BORROWER-INPUT SUPPLIER-FARMER BENEFICIARY RELATIONSHIP

QSP per QMC No. 270, as amended

WLC per QMC No. 257

Proceeds of IFC loan released to Julieta C. Ong



PAS 16

Disclosure

73. The financial statements shall disclose, for each class of property, plant and equipment:

- (a) the measurement bases used for determining the gross carrying amount;
- (b) the depreciation method(s) used;
- (c) the useful lives or depreciation rates used;
- (d) the gross carrying amount and accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- (e) a reconciliation of the carrying amount at the beginning and the end of the period, showing:
 - (i) additions;
 - (ii) assets clasified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals;
 - (iii) acquisitions through business combinations;
 - (iv) increases or decreases resulting from revaluations under paragraphs 31, 39 and 40 and from impairment losses recognized or reversed directly in equity in accordance with IAS 36;
 - (v) impairment losses recognized in profit or loss in accordance with IAS 36;
 - (vi) impairment losses reversed in profit or loss in accordance with IAS 36;
 - (vii) depreciation;
 - (viii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and;
 - (ix) other changes.

74. The financial statements shall also disclose:

- (a) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities ;
- (b) the amount of expenditures recognized in the carrying amount of an item of property, plant, and equipment in the course of its construction;
- (c) the amount of contractual commitments for the acquisition of property, plant, and equipment; and
- (d) if it is not disclosed separately on the face of the income statement, the amount of compensation from third parties for items of property, plant, and equipment that were impaired, lost or given up that is included in profit or loss.

77. If items of property, plant, and equipment are stated at revalued amounts, the following shall be disclosed:

- (a) the effective date of the revaluation;
- (b) whether an independent valuer was involved;
- (c) the methods and significant assumptions applied in estimating the items fair values;
- (d) the extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;

- (e) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and
- (f) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

78. Users of financial statements may also find the following information relevant to their needs:

- (a) the carrying amount of temporarily idle property, plant and equipment;
- (b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
- (c) the carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with IFRS 5; and
- (d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.