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

ANNUAL AUDIT REPORT

on the

NATIONAL DEVELOPMENT COMPANY

For the Years Ended December 31, 2019 and 2018

EXECUTIVE SUMMARY

INTRODUCTION

The National Development Company (NDC) was established as a semi-private corporation on March 10, 1919 through Legislative Act No. 2849, as amended by Legislative Act No. 2873. On November 13, 1936, it became a public corporation through Commonwealth Act No. 182, as amended by Commonwealth Act No. 311 dated June 9, 1938. Pursuant to Presidential Decree No. 1648, NDC was reorganized on October 25, 1979 to be the government's investment arm under the Department of Trade and Industry (DTI).

The Corporation's mandate is to invest in pioneering and development-oriented projects where private investors are unwilling (because of the high risks or uncertainties involved) or unable to venture into (because of the large investment requirement) but are necessary for the country's development.

On March 10, 2003, Executive Order (EO) No. 184 was approved by the President of the Philippines directing the reorganization and streamlining of NDC by refocusing its operations as the government's investment arm. In fulfilling this role, NDC shall:

- adopt a new philosophy and strategy by sourcing and investing funds in a portfolio of socially relevant and commercially driven projects, the returns from which shall balance out the generation of income streams and ensure sustainable financial returns to uphold the government's shareholder value;

- adopt a more aggressive divestment policy and clearer exit mechanism on its equity investments which could be best handled by the private sector; and

- act as a holding corporation to manage its subsidiaries where government investments are placed, ensure that their growth potentials are maximized to enhance government's shareholder value and adopt control mechanisms to effectively monitor the performance of the subsidiaries.

The Corporation is governed and its activities are directed, controlled and managed by a Board of Directors, composed of nine members and a Chairman.

As of December 31, 2019, NDC has 28 permanent employees and 13 contractual employees.

FINANCIAL HIGHLIGHTS

Comparative Financial Position

	2019	2018 (as restated)	Increase (Decrease)
Assets	21,823,957,535	21,359,532,220	464,425,315
Liabilities	5,225,199,257	5,920,068,203	(694,868,946)
Equity	16,598,758,278	15,439,464,017	1,159,294,261

Comparative Results of Operations

	2019	2018 (as restated)	Increase (Decrease)
Revenues	403,678,425	304,517,524	99,160,901
Expenses	143,538,058	140,751,117	2,786,941
Income from operations	260,140,367	163,766,407	96,373,960
Other income (expenses), net	1,395,266,132	4,677,093,643	(3,281,827,511)
Income before income tax	1,655,406,499	4,840,860,050	(3,185,453,551)
Income tax expense	410,206,156	1,376,992,229	(966,786,073)
Net Income	1,245,200,343	3,463,867,821	(2,218,667,478)

SCOPE AND OBJECTIVES OF AUDIT

Our audit covered the examination, on a test basis, of the accounts and transactions of NDC for the period January 1 to December 31, 2019 in accordance with International Standards of Supreme Audit Institutions (ISSAIs) to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2019 and 2018. Also, we conducted our audits to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

INDEPENDENT AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS

We rendered an unmodified opinion on the fairness of presentation of the financial statements of the Corporation for the years 2019 and 2018.

SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. Results of confirmation of rental receivable balances from various lessees as of October 31, 2019 showed a variance amounting to P6.342 million, thereby casting doubt on the accuracy of recorded rental receivables as of December 31, 2019.

   We recommended that Management:

   a. Review the recorded monthly accruals, verify whether the escalation rate was correctly and timely recorded and prepare adjusting entries accordingly;

   b. Gather supporting documents on the long outstanding balances of DTI, PRI and Spectrum and discuss with them appropriate actions for the settlements of their accounts;

   c. Evaluate the variances noted from the confirmation, reconcile with the corresponding lessees, and take appropriate action on the results of the confirmation; and

   d. Perform periodic reconciliation with all the lessees and send them detailed statement of accounts to update them of their outstanding obligations.

2. Result of confirmation of loans, interest and other payable accounts to the Bureau of the Treasury (BTr) disclosed an unreconciled difference of P12.786 million casting doubt on the accuracy of the balance of the account, contrary to the Conceptual Framework for General Purpose Financial Report (GPFR) by Public Sector Entities.

   We recommended that Management:

   a. Make representation and continue to coordinate with BTr to reconcile the noted discrepancy; and

   b. Effect the necessary adjusting journal entries in the books, if warranted.

3. The balances of the car and housing loans granted to former NDC officials and employees aggregating to P0.822 million and P5.969 million, respectively, or a total of P6.791 million as of December 31, 2019, remained outstanding/dormant for more than two to 21 years.

   We recommended that Management:

   a. Submit status/monitoring report to the Office of the Auditor on the car and housing loan accounts including copies of demand letters and/or other pertinent documents to prove that actions have been undertaken to enforce collection of the dormant receivables;

   b. Require the Legal Department to immediately file complaints against defaulting former NDC officials and employees to recover the loaned amount;

   c. Strictly enforce sanctions provided in the housing loan agreements thru the Legal Department; and

   d. Revisit the policies on car and housing loans. Stricter control measures have to be adopted in case officers and employees resign or separate from the Corporation.

4. Several other land assets remained idle/vacant and some are occupied by illegal occupants for residential, commercial and personal purposes, depriving NDC of potential income from the use of such assets.

   We recommended that Management review their plans of action and provide updates to the Audit Team of actions taken to improve and monitor the condition of these properties.

SUMMARY OF SUSPENSIONS, DISALLOWANCES AND CHARGES AS OF YEAR-END

As at December 31, 2019, the unsettled Notices of Disallowance amounted to P20.845 million. Of this amount, P1.717 million is with Petition for Review on Certiorari filed with the Supreme Court on May 9, 2011. The amount of P15 million was not settled despite issuance of COA Order of Execution dated February 6, 2014, P0.725 million is with Petition for Review dated October 5, 2017 to COA Commission Proper, P2.822 million is pending resolution by the Commission Proper pursuant to Rule V, Section 7 of the 2009 Revised Rules of Procedure of the Commission on Audit and P0.581 million is with CGS Cluster 4 Decision No. 2020-07 dated June 19, 2020.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 20 audit recommendations embodied in prior years' Annual Audit Reports, nine were fully implemented, 10 were partially implemented and one was not implemented. Details are presented in Part III of this Report.

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Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
National Development Company
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of National Development Company (NDC), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of NDC as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of the Financial Statements* section of our report. We are independent of NDC in accordance with the Code of Ethics for Government Auditors (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 30 to the financial statements which describes the uncertainty related to the outcome of the various civil and tax cases pending before the appellate courts, the lower courts and the Supreme Court. Our opinion is not modified in respect of these matters.

Responsibilities of Management and Those Charged with Governance of the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing NDC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate NDC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing NDC's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NDC's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on NDC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause NDC to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 32 to the financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

Zmdevilla

ZENAIDA V. DE VILLA
Acting Supervising Auditor

August 19, 2020

NATIONAL DEVELOPMENT COMPANY
Enabling the future

DEPARTMENT OF TRADE & INDUSTRY PHILIPPINES

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of National Development Company (NDC) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing NDC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate NDC or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing NDC's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stakeholders and other users.

The Commission on Audit has audited the financial statements of NDC in accordance with the International Standards of Supreme Audit Institutions, and in its report to the Board of Directors, has expressed its opinion on the fairness of the presentation upon completion of such audit.

SEC. RAMON M. LOPEZ
NDC Chairman of the Board

MA. LOURDES F. REBUENO
General Manager

JOYCE ANNE N. ALIMON
Department Manager III – Finance and Administrative Department

August 19, 2020

NDC Building, 116 Tordesillas St., Salcedo Village, Makati City, Philippines
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NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and 2018
(In Philippine Peso)

	Note	**2019**	2018 (as restated)	January 1, 2018 (as restated)
ASSETS				
Current Assets				
Cash and cash equivalents	6	**159,216,594**	13,045,623	1,945,258
Short-term investments	7	**2,689,648,463**	2,346,662,392	2,133,232,496
Receivables, net	8	**211,999,879**	238,440,423	260,489,013
Other current assets	9	**51,699,910**	47,602,754	36,337,725
Total Current Assets		**3,112,564,846**	2,645,751,192	2,432,004,492
Non-Current Assets				
Investments	10	**2,027,991,474**	2,061,767,512	1,952,591,638
Receivables, net	8	**53,789,988**	1,362,026,164	2,816,772,794
Investment property	11	**16,553,073,011**	15,217,009,481	10,621,823,140
Property and equipment, net	12	**47,833,587**	44,273,242	40,089,569
Other non-current assets and deferred charges	13	**28,704,629**	28,704,629	20,942,602
Total Non-Current Assets		**18,711,392,689**	18,713,781,028	15,452,219,743
TOTAL ASSETS		**21,823,957,535**	21,359,532,220	17,884,224,235

	Note	**2019**	2018 (as restated)	January 1, 2018 (as restated)
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts payable	14	**28,640,375**	43,319,734	32,481,832
Interest payable	15	**461,158,311**	430,249,563	386,142,647
Loans payable	16	**260,334,787**	1,273,624,400	2,446,824,400
Inter-agency payables	17	**13,931,572**	6,882,352	9,653,601
Trust liabilities	18	**36,625,643**	33,548,441	32,557,857
Deferred credits/unearned income	19	**8,914,587**	9,312,199	7,940,527
Provisions	20	**303,243,706**	299,543,350	278,258,708
Total Current Liabilities		**1,112,848,981**	2,096,480,039	3,193,859,572
Non-Current Liabilities				
Deferred tax liability	25	**4,073,214,579**	3,779,019,533	2,521,499,563
Trust liabilities	18	**39,135,697**	44,568,631	39,378,067
Total Non-Current Liabilities		**4,112,350,276**	3,823,588,164	2,560,877,630
Equity		**16,598,758,278**	15,439,464,017	12,129,487,033
TOTAL LIABILITIES AND EQUITY		**21,823,957,535**	21,359,532,220	17,884,224,235

The notes on pages 9 to 56 form part of these financial statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2019 and 2018
(In Philippine Peso)

	Note	**2019**	2018 (as restated)
REVENUES			
Dividend income	21	**6,675,535**	17,343,534
Rent income	11	**178,395,516**	169,589,693
Interest income		**218,467,374**	117,444,297
Management fees		**140,000**	140,000
		403,678,425	304,517,524
OPERATING EXPENSES			
Personnel services	22	**34,584,440**	28,799,536
Maintenance and other operating expenses	23	**108,953,618**	111,951,581
		143,538,058	140,751,117
INCOME FROM OPERATIONS		**260,140,367**	163,766,407
OTHER INCOME (EXPENSES), NET	24	**1,395,266,132**	4,677,093,643
INCOME BEFORE INCOME TAX		**1,655,406,499**	4,840,860,050
INCOME TAX EXPENSE	25		
Current tax		**116,011,110**	119,472,259
Deferred tax		**294,195,046**	1,257,519,970
NET INCOME		**1,245,200,343**	3,463,867,821
Other comprehensive income	10	**14,667,535**	6,700,725
TOTAL COMPREHENSIVE INCOME		**1,259,867,878**	3,470,568,546

The notes on pages 9 to 56 form part of these financial statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2019 and 2018
(In Philippine Peso)

	Note	Share Capital (Note 26)	Share in Revaluation Increments of Associates	Accumulated Other Comprehensive Income	Retained Earnings (Note 27)	Total
Balances, December 31, 2017		**8,602,803,483**	**28,883,100**	**1,438,075**	**3,619,648,073**	**12,252,772,731**
Correction of prior years' errors	27	0	0		(123,285,698)	(123,285,698)
Restated balance, January 1, 2018		8,602,803,483	28,883,100	1,438,075	3,496,362,375	12,129,487,033
Changes in Equity for 2018						
Net income for the year, as restated	27	0	0		3,463,867,821	3,463,867,821
Dividends		0	0		(160,591,562)	(160,591,562)
Other comprehensive income for the year						
Unrealized gain on financial assets at FVOCI		0	0	6,700,725		6,700,725
Balances, December 31, 2018		**8,602,803,483**	**28,883,100**	**8,138,800**	**6,799,638,634**	**15,439,464,017**
Changes in Equity for 2019						
Net income for the year		0	0		1,245,200,343	1,245,200,343
Dividends		0	0		(100,573,617)	(100,573,617)
Other comprehensive income for the year						
Unrealized gain on financial assets at FVOCI	10	0	0	14,667,535		14,667,535
Balances, December 31, 2019		**8,602,803,483**	**28,883,100**	**22,806,335**	**7,944,265,360**	**16,598,758,278**

The notes on pages 9 to 56 form part of these financial statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018
(In Philippine Pesos)

	Note	**2019**	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Collection of rentals		**227,558,008**	128,541,730
Collection of interest		**29,083,007**	27,823,505
Dividends received		**18,992,201**	35,343,534
Collection of receivables		**16,074,184**	17,413,882
Miscellaneous collections		**5,089,260**	6,987,244
Payment of taxes and licenses		**(188,535,124)**	(168,172,467)
Payment to suppliers and service providers		**(73,631,552)**	(63,850,736)
Payment of salaries and benefits to officers and employees		**(31,657,098)**	(22,522,139)
Net cash provided by (used in) operating activities		**2,972,886**	(38,435,447)
CASH FLOWS FROM INVESTING ACTIVITIES			
Collection of loans		**1,502,841,314**	18,002,882
Proceeds from disposal of assets		**92,929**	91,532,481
Proceeds/placements on investments		**(89,255,162)**	1,273,774,179
Equity investment		**(60,000,000)**	0
Net cash provided by investing activities		**1,353,679,081**	1,383,309,542
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of loans		**(1,109,897,875)**	(1,173,200,000)
Payment of dividends		**(100,573,617)**	(160,591,562)
Net cash used in financing activities		**(1,210,471,492)**	(1,333,791,562)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(9,504)**	17,832
NET INCREASE IN CASH AND CASH EQUIVALENTS		**146,170,971**	11,100,365
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**13,045,623**	1,945,258
CASH AND CASH EQUIVALENTS AT END OF YEAR	6	**159,216,594**	13,045,623

The notes on pages 9 to 56 form part of these financial statements.

1. CORPORATE INFORMATION

The National Development Company (NDC) was established as a semi-private corporation on March 10, 1919 through Legislative Act No. 2849, as amended by Legislative Act No. 2873. It was authorized to engage in commercial, industrial and other enterprises essential to the economic development of the country.

On November 13, 1936, it became a public corporation through Commonwealth Act No. 182, as amended by Commonwealth Act No. 311, dated June 9, 1938, for the purpose of implementing the economic policies of the National Government and to play an active role in the development of natural resources.

Presidential Decree No. 1648, issued on October 25, 1979, revised the NDC Charter and reorganized NDC to be the government's investment arm under the Department of Trade and Industry (DTI). The Corporation's mandate is to invest in pioneering and development-oriented projects where private investors are unwilling (because of the high risks or uncertainties involved) or unable to venture into (because of the large investment requirement) but are necessary for the country's development.

On March 10, 2003, Executive Order (EO) No. 184 was issued directing the reorganization and streamlining of the NDC, by refocusing its operations as the government's investment arm. In fulfilling this role, NDC shall:

- adopt a new philosophy and strategy by sourcing and investing funds in a portfolio of socially relevant and commercially driven projects, the returns from which shall balance out the generation of income streams and ensure sustainable financial returns to uphold the government's shareholder value;

- adopt a more aggressive divestment policy and clearer exit mechanism on its equity investments which could be best handled by the private sector; and

- act as a holding corporation to manage its subsidiaries where government investments are placed, ensure that their growth potentials are maximized to enhance government's shareholder value and adopt control mechanisms to effectively monitor the performance of the subsidiaries.

Further, the Corporation was also directed to review its operations, following a set of criteria for measuring its performance, to attain its missions, plans and goals in consonance with the refocused functions.

The Department of Budget and Management approved on May 29, 2003 the new structure of NDC and the required staffing pattern and qualification standards for all positions. The corresponding Implementing Rules and Regulations (IRR) of EO 184 was promulgated and approved by the DTI Secretary on August 28, 2003 under DTI Department Order No. 70. With the implementation of EO 184, new employees were hired to work and implement the mandate of NDC as the government's investment arm.

The Corporation's principal office is located at the NDC Building, No. 116 Tordesillas St., Salcedo Village, Makati City.

The accompanying financial statements as of December 31, 2019 and 2018 were approved and authorized for issue by the Management on August 19, 2020.

2. FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION

Statement of Compliance

The financial statements of the Corporation were prepared in accordance with Philippine Financial Reporting Standards (PFRSs), which includes all applicable PFRSs, Philippine Accounting Standards (PASs), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) and Board Of Accountancy (BOA) and adopted by the SEC.

Basis of Preparation

The financial statements of the Corporation were prepared using historical cost basis unless otherwise indicated. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Corporation takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety; which is described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

Functional and Presentation Currency

These financial statements are presented in Philippine Peso, the currency of the primary economic environment in which the Corporation operates. All values represent absolute amounts except when otherwise indicated.

3. NEW AND REVISED ACCOUNTING STANDARDS

Adoption of New and Amended PFRSs

a. Effective in 2019 that are relevant to the Corporation

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Corporation adopted effective for annual periods beginning on or after January 1, 2019:

- PFRS 16, *Leases* – This standard replaces PAS 17, *Leases* and its related interpretations. The most significant change introduced by the new standard is that almost all leases will be brought onto lessees' statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. However, on the part of the lessor, accounting for leases remains largely unchanged and the distinction between operating and finance lease is retained.

- Philippine Interpretation IFRIC 23, *Uncertainty Over Income Tax Treatments* – The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under PAS 12, *Income Taxes,* in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) effect of changes in facts and circumstances.

- Amendments to PFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation* – The amendments allow entities to measure particular prepayable financial assets with negative compensation at amortized cost or at fair value through other comprehensive income (instead of at fair value through profit or loss) if a specified condition is met. It also clarifies the requirements in PFRS 9, *Financial Instruments* for adjusting the amortized cost of a financial liability when a modification or exchange does not result in its derecognition (as opposed to adjusting the effective interest rate).

- Amendments to PAS 28, *Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures* – The amendments clarify that long-term interests in an associate or joint venture that, in substance, form part of the entity's net investment but to which the equity method is not applied, are accounted for using PFRS 9, *Financial Instruments*.

- Amendments to PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements - Previously Held Interest in a Joint Operation* – The amendments are part of the Annual Improvements to PFRS 2015-2017 Cycle. The amendment to PFRS 3, *Business Combinations* clarifies that when an entity obtains control of a business that is a joint operation, the acquirer applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the joint operation at its acquisition-date fair value. The amendment to PFRS 11, *Joint Arrangements* clarifies that when an entity obtains joint control of a business that is a joint operation, the previously held interests in that business are not remeasured.

The adoption of the foregoing new and amended PFRS did not have any material effect on the financial statements. Additional disclosures have been included in the notes to financial statements, as applicable.

b. Effective in 2019 that are not relevant to the Corporation

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

- Amendments to PAS 12, *Income Taxes - Income Tax Consequences of Payments on Financial Instruments Classified as Equity* – The amendments are part of the Annual Improvements to PFRS 2015-2017 Cycle and clarify that income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distribution to owners and thus, should be recognized in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

- Amendments to PAS 23, *Borrowing Costs - Borrowing Costs Eligible for Capitalization* – The amendments are part of the Annual Improvements to PFRS 2015-2017 and clarify that in calculating the capitalization rate on general borrowings, if any specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, that the borrowing becomes part of the funds that an entity borrows generally.

c. New and amended PFRSs issued but not yet effective

The new and amended PFRSs which are not yet effective for the year ended December 31, 2019 and have not been applied in preparing the financial statements are summarized below.

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

- Amendments to PFRS 3, *Business Combinations*, Definition of a Business – The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted. The amendment defines business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. A business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Definition of Material –The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

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

- PFRS 17, *Insurance Contracts* – This standard will replace PFRS 4, *Insurance Contracts.* It requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

Effective for annual periods beginning on or after January 1, 2022:

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-Current* – The amendments affect only the presentation of liabilities in the statement of financial position not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. Clarify that the classification of liabilities as current or non-current (i) should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the ”right” to defer settlement by at least twelve months and make explicit that only rights in place “at the end of the reporting period” should affect the classification of liability, (ii) is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, and (iii) settlement refers to the transfer to the counterparty of cash, equity instruments, and other assets or services.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRSs is not expected to have any material effect on the financial statements of the Corporation.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense.

Financial Assets

Initial Recognition

Financial assets are recognized in the Corporation’s financial statements when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the Corporation’s financial assets, except for investments classified at fair value through profit or loss (FVTPL).

Classification and Subsequent Measurement

Financial assets are classified into the following specified categories: financial assets at FVTPL, financial assets at fair value through other comprehensive income (FVOCI) and at amortized cost. The classification is generally based on the business model which a financial asset is managed and its contractual cash flow characteristics. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at FVTPL

The Corporation classifies financial assets as at FVTPL when the financial asset is held for trading; designated upon initial recognition; either held for trading or designated upon initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is a part of an identified portfolio of financial instruments that the Corporation manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Corporation's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and it is permitted that the entire combined contract to be designated as at fair value through profit or loss.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the statement of comprehensive income.

As of the reporting date, the Corporation does not have financial assets that are classified as fair value through profit or loss.

Financial assets at Amortized Cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, the financial assets are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition, and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are reclassified to FVTPL, impaired or derecognized, as well as through the amortization process.

Cash and cash equivalents, short-term investments, investments in retail treasury bonds and receivables fall under this category.

Financial assets at FVOCI

For debt instruments that meet the contractual cash flow characteristic and are not designated at FVTPL under the fair value option, the financial assets shall be measured at FVOCI if both of the following conditions are met:

- it is held within a business model whose objective is achieved by both collecting contractual cashflows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For equity instruments, the Corporation may irrevocably designate the financial asset to be measured at FVOCI in case the above conditions are not met.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, interest income (calculated using effective interest rate method), foreign currency gains or losses and impairment losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss as a reclassification adjustment.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. Foreign currency gains or losses and unrealized gains or losses from equity instruments are recognized in OCI and presented in the equity section of the statements of financial position.

These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods.

Financial assets at FVOCI-equity instruments are disclosed in Note 10.

Impairment of financial assets- starting January 1, 2019

The Corporation applies an “expected credit loss” (ECL) model to its financial assets measured at amortized cost and debt investment at FVOCI, but not to investment in equity instruments.

Loss allowances are measured on either of the following bases:

- *12-month ECLs*. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- *Lifetime ECLs*. These are ECLs that result from all possible default events over the expected life of a financial instrument.

The Corporation measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- Debt securities that are determined to have low credit risk at the reporting date; and
- Other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Corporation has elected to measure loss allowances for receivables at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Corporation considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Corporation's historical experience, informed credit assessment including current conditions and forecast of future economic conditions.

The Corporation assumes that the credit risk on a financial asset has increased significantly if it is more than two years past due.

The Corporation considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Corporation in full, without recourse by the Corporation to actions such as realizing security (if any is held); or
- The financial asset is more than two years past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Corporation is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Corporation expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Corporation assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Impairment of financial assets- before January 1, 2019

Impairment loss is provided when there is objective evidence that the Corporation will not be able to collect all amounts due to it in accordance with the original terms of the receivables or when investment can no longer be recovered.

Derecognition of financial assets

The Corporation derecognizes financial assets when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risk and rewards of ownership of the asset to another party. If the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Corporation retains substantially all the risk and rewards of ownership of a transferred financial asset, the Corporation continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Corporation retains an option to repurchase part of a transferred asset), the Corporation allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial Liabilities and Equity Instruments

Classification as Debt or Equity

Debt and equity instruments issued by the Corporation are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial Liabilities

Initial recognition

Financial liabilities are recognized in the Corporation's financial statements when the Corporation becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognized at fair value. Transaction costs are included in the initial measurement of the Corporation's financial liabilities except for debt instruments classified at FVTPL. In a regular way purchase or sale, financial liabilities are recognized and derecognized, as applicable, using settlement date accounting.

Classification and Subsequent Measurement

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified at FVTPL when the financial liability is held for trading; designated upon initial recognition; either held for trading or designated upon initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Corporation manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Corporation's documented risk management or investment strategy, and information about the Corporation is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and PAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the ‘other gains and losses' line item in the statement of comprehensive income. Fair value is determined in the manner described in notes.

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Accounts payable and accrued expenses, inter-agency payables and loans payable are classified as other financial liabilities.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

A right to offset must be available today rather being contigent on a future event and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy.

Derecognition of financial liabilities

The Corporation derecognizes financial liabilities when, and only when, the Corporation’s obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Corporation are recognized at the proceeds received, net of direct issue costs.

Retained earnings

Retained earnings represent accumulated profit attributable to equity holders of the Corporation after deducting dividends declared. Retained earnings may also include effect of changes in accounting policy and prior period adjustments

Investment in Subsidiary

A subsidiary is an entity over which Corporation exercises control over the financial and operating policy decisions of the investee.

An investment in subsidiary is accounted for using the cost method from the date on which the investee becomes a subsidiary. Under the cost method, Investment in subsidiary is initially measured at cost and is presented in the statement of financial position at cost less any accumulated impairment in value.

Investment in subsidiary is derecognized upon disposal. Any difference between the carrying amount of the Investment in subsidiary and the net proceeds from disposal is recognized immediately in profit and loss.

Investment in Joint Venture

A joint venture (JV) is a contractual arrangement whereby the group and other parties undertake an economic activity that is subject to joint control.

Where a group of companies undertakes its activities under JV arrangements directly, the group's share of jointly-controlled assets and any liabilities incurred jointly with other venturers are recognized in the financial statements of the venturers and classified according to their nature.

Liabilities and expenses incurred directly in respect of interests in jointly-controlled assets are accounted for on an accrual basis. Income from the sale or use of the group's share of the output of jointly-controlled assets, and its share of JV expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the group and their amount can be measured reliably.

Investment in Associate

An associate is an entity over which Corporation has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. Any excess of the cost of acquisition over the Corporation's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognized as implied goodwill, which is included within the carrying amount of the investments and is assessed for impairment as part of that investment. Any deficiency of the cost of acquisition below the Corporation's share of the fair values of the identifiable net assets of the associate at the date of acquisition, i.e. discount on acquisition is immediately recognized in profit or loss in the period of acquisition.

The results of operations and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held-for-sale in which measured at lower of carrying amount and fair value less cost to sell. Under the equity method, investments in associates or joint venture are carried in the statements of financial position at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Corporation's share of losses of an associate exceeds the Corporation's interest in that associate, the Corporation discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Corporation has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

The Corporation's accounting policy for impairment of financial assets is applied to determine whether it is necessary to recognize any impairment loss with respect to its investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with the Corporation's accounting policy on impairment of tangible and intangible assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Corporation discontinues to use the equity method from the date the investment ceases to be an associate, or when the investment is classified as held for sale. When the Corporation retains interest in the former associate and the retained interest is a financial asset, the Corporation measured the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of gain or loss on disposal of the associate. In addition, the Corporation accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Corporation reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when the equity method is discontinued.

Investment Property

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment property are included in the income statement in the period in which they arise.

Investment property is derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change. If owner-occupied property becomes an investment property, the Group accounts property in accordance with the policy stated under property, plant and equipment up to the date of change.

Property and Equipment

Property and equipment are initially measured at cost. The cost of an item of property and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and

- the initial estimate of the future costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Property and equipment are stated in the financial statements at cost less accumulated depreciation, amortization and any impairment in value.

Expenditures incurred after the property and equipment have been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized in profit or loss in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment. The cost of replacing a component of an item of property and equipment is recognized if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized.

When parts of an item of property and equipment have different useful lives, these are accounted for as separate items (major components) of property and equipment.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the property and equipment.

Impairment of Non-financial Assets

At each reporting date, non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit and loss.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Derecognition of Non-financial assets

Non-financial assets are derecognized when the assets are disposed of or when no future economic benefits are expected from these assets. Any difference between the carrying value of the asset derecognized and the net proceeds from derecognition is recognized in profit or loss.

Related Parties

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable services provided in the normal course of business.

Dividend Income

Dividend income is recognized when the Corporation's rights to receive payment have been established, provided that it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably.

Interest Income

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental Income

Rental income from cancellable lease agreements is recognized when earned in the statement of comprehensive income.

Expense Recognition

Expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in profit or loss: on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the lessee.

All other leases are classified as operating leases. Rental payments under operating leases are recognized in profit or loss on a straight-line basis over the term of the relevant lease.

The Corporation as Lessor

The Contract of Lease entered into by the Corporation does not transfer substantially all the risks and benefits of ownership of the asset. The Corporation is engaged in a lease with pre- termination clause of which in case the Contract of Lease is terminated by the Lessor at any time prior to its expiration, the Lessor shall refund the amount representing the unearned portion of the rental to the Lessee. On the other hand, if the Contract of Lease is terminated by the Lessee at any time prior to its expiration, the amount representing the unearned portion of the rental will be deemed forfeited in favor of the Lessor. The rent income from the Contract of Lease is recognized in the statement of comprehensive income.

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

Employee Benefits

Short-term Benefits

Short term benefits include salaries, bonuses, compensated absences and other forms of employee benefits that are expected to be settled within one year from the reporting date. Short-term employee benefits are recognized as expense in the period the related services are provided.

Terminal leave benefits

Terminal leave benefits are computed based on the actual leave credits earned by employees as of the reporting date. The amount reported as liability in the statement of financial position is based on the employees' salary grade as of the reporting dates.

Income Tax

Income tax expense represents the sum of the current tax and deferred tax expense.

Current Tax

The current tax expense is the amount of tax due which is computed based on the taxable profit for the year. Taxable profit differs from net profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

Current and Deferred Tax for the Year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Borrowing Costs

Borrowing costs are interest and other costs that the Corporation incurs in connection with the borrowing of funds. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of the assets until such time as the assets are substantially ready for their intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Provisions and Contingencies

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Corporation expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Foreign Currency Transactions

Transactions in foreign currencies are initially recognized by applying the spot exchange rate between the functional currency and the foreign currency at the transaction date.

At each reporting date:

a. Foreign currency monetary items are translated using the closing rate;

b. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and

c. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Exchange differences arising (a) on the settlement of monetary items, or (b) on translating monetary items at rates different from those at which they are translated on initial recognition during the period or in previous financial statements, are recognized in surplus or deficit in the period in which they arise.

Changes in accounting policies and estimates

The effects of changes in accounting policies are recognized retrospectively. The effects of changes in accounting policy were applied prospectively if retrospective application is impracticable.

The effects of changes in accounting estimates are recognized prospectively by including in profit or loss.

The material prior period errors are corrected retrospectively in the first set of financial statements authorized for issue after their discovery by:

- Restating the comparative amounts for prior period(s) presented in which the error occurred; or

- If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Events after Reporting Date

Subsequent events that provide additional information about conditions existing at period end (adjusting events) are recognized in the financial statements. Subsequent events that provide additional information about conditions existing after period end (non-adjusting events) are disclosed in the notes to the financial statements.

5. JUDGMENTS AND ESTIMATES

The preparation of the financial statements in accordance with Philippine Financial Reporting Standards requires the Corporation to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Future events may occur which will cause the assumption used in arriving at the estimates to change. The effects of changes in estimates will be reflected in the financial statements as they become reasonably determinable.

Estimated allowance for impairment of receivables

The Corporation maintains allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. This amount is evaluated based on such factors that affect the collectability of the accounts. These factors include, the age of the receivables, the length of the Corporation’s relationship with the customer, the customer’s payment behavior and known market factors. The amount and timing of recorded expenses for any period would differ if the Corporation made different judgments or utilized different estimates.

At the end of 2019 and 2018, the Corporation has recognized allowance for impairment of receivables in the amount of P11.610 million and P14.033 million, respectively.

Estimating useful lives of property and equipment

The Corporation estimates the useful lives of its property and equipment based on the period over which these assets are expected to be available for use. The estimated useful lives of these assets and residual values are reviewed, and adjusted if appropriate, only if there is a significant change in the asset or how it is used.

The following estimated useful lives are used in depreciating the property and equipment:

Type of Asset	Estimated useful life in years
Land improvements	40
Building and building improvements	2 to 20
Furniture and equipment	3 to 10

6. CASH AND CASH EQUIVALENTS

This account consists of:

	2019	2018
Cash with collecting/disbursing officer	**30,506**	33,892
Cash in banks	**159,186,088**	13,011,731
	159,216,594	13,045,623

Cash in banks earn interest at the prevailing bank deposit rates. Interest earned on cash in banks amounted to P77,404 and P58,434 in 2019 and 2018, respectively.

7. SHORT-TERM INVESTMENTS

This account consists of money market placements in the Land Bank of the Philippines and the Development Bank of the Philippines in the total amount of P2.690 billion and P2.347 billion in 2019 and 2018, respectively. Interest earned on these investments amounted to P154.338 million and P106.892 million in 2019 and 2018, respectively.

8. RECEIVABLES

This account consists of:

	2019	2018 (as restated)
Current		
Loans receivable	**1,053,675,195**	1,055,322,609
Interest receivables	**97,024,088**	102,212,661
Rental receivables	**21,321,938**	67,237,365
Due from subsidiaries/associates/affiliates	**1,143,744,206**	1,143,744,206
Due from officers and employees	**6,172,862**	6,107,762
Due from National Government	**3,252,978**	3,252,978
Other receivables	**326,297,410**	331,541,473
	2,651,488,677	2,709,419,054
Allowance for impairment losses	**(2,439,488,798)**	(2,470,978,631)
	211,999,879	238,440,423
Non-Current		
Loans receivable	**47,913,127**	1,022,913,326
Interest receivables	**0**	331,723,574
Due from officers and employees	**5,876,861**	7,389,264
	53,789,988	1,362,026,164
	265,789,867	1,600,466,587

Loans receivable - current included restructured loan to Philippine Mining Development Corporation (PMDC), which is due to be settled within one year after the reporting date with 10 years term starting July 30, 2013. In 2019, PMDC requested for re-computation of its outstanding restructured loan and filed an arbitration case against NDC.

Interest receivables pertains to interests from various investments and income-generating activities which were already earned as of reporting date, but which were not yet actually received.

Rental receivables consists of collectibles from lease of real properties covered by lease agreements between the Corporation and lessees (Notes 11 and 19).

Due from subsidiaries/associates/affiliates consists of advances made to the Corporation's various subsidiaries and affiliates.

Due from officers and employees pertains to loans granted by the Corporation to its officers and employees.

Due from National Government represents amount due from the Republic of the Philippines representing expenses accompanying the Corporation's transferred accounts to the National Government (NG). These accounts, consisting of loans, equity investments, advances, acquired assets, other assets and liabilities, were identified and approved for transfer to the NG pursuant to Administrative Order No. 64 dated March 31, 1987.

Other receivables includes management fees, guarantee fees, commitment fees, NDC's 50 per cent share from Rizal Hydro Project trade receivables and other receivables.

Loans receivable - non-current pertains to the loan granted to the National Irrigation Administration (NIA), which loan was funded from the proceeds of Agri-Agra bonds, and to the restructured loan of Philippine Pharma Procurement, Inc. On June 19, 2019, the Department of Budget and Management issued Special Allotment Release Order No. SARO-BMB-C-19-0005079 amounting to P1.498 billion for full settlement of NIA's loan to NDC of P1.409 billion (principal of P975.000 million and interest of P434.178 million), the said amount was used to settle its loans to NG amounting to P1.103 billion.

A reconciliation of the allowance for impairment losses at the beginning and end of 2019 and 2018 is shown below:

	2019	2018
Beginning balance	**2,470,978,631**	2,457,424,934
Impairment loss during the year		
Rental receivables and Due from officers and employees	**11,610,155**	14,033,472
Allowance for impairment-rental receivables (reversal)	**(43,099,988)**	(479,775)
	2,439,488,798	2,470,978,631

9. OTHER CURRENT ASSETS

This account consists of:

	2019	2018 (as restated)
Restricted fund (held-in-trust)	**27,851,736**	30,080,195
Prepayments	**19,545,644**	13,747,222
Deposits	**2,739,810**	2,502,111
Inventories held for consumption	**1,562,720**	1,273,226
	51,699,910	47,602,754

Restricted fund (held-in-trust) refers to Mintex escrow fund. The distribution of the fund is governed by a deed of undertaking among Human Settlements Development Corporation, Southern Philippines Development Authority and NDC. The purpose of the fund includes the full settlement and liquidation of liabilities which were assumed by the shareholders of the old Mintex and eventual distribution of the remaining trust assets. This account also pertains to the hydropower project with the Philippine National Oil Company- Renewables Corporation (PNOC-RC) amounting to P45 million. On July 1, 2014, PNOC-RC and NDC entered into a Memorandum of Agreement for the development, commercialization, operation and maintenance of PRIS MC Hydroelectric Power Project (Rizal Hydropower Project) for energy commercialization. On September 4, 2014, the Department of Energy confirms the declaration of commerciality and approved the conversion of the Rizal Hydropower Service Contract from pre-development to development/commercial stage. This commences the development and utilization of the Rizal Hydropower plant facility with capacity of 1 MW. The plant started commercial operation on July 1, 2016. Cash and cash equivalents from Rizal Hydro Power amounts to P11.225 million as of December 31, 2019. NDC recognized 50 per cent share amounting to P5.612 million, these are funds reserved for the operation of the project.

Prepayments includes amounts advanced for insurance of properties, input tax and creditable withholding tax.

10. INVESTMENTS

This account consists mainly of investments in stocks, bonds and other securities, as summarized below:

	2019	2018 (as restated)
Investment in subsidiaries	**402,315,129**	402,315,129
Investment in associates	**335,024,723**	228,668,296
Investment in stocks	**196,446,890**	196,446,890
Financial assets at amortized cost	**1,001,769,072**	1,156,569,072
Financial assets at fair value through other comprehensive income	**92,435,660**	77,768,125
	2,027,991,474	2,061,767,512

Investment in Subsidiaries

This account consists of the following investment in subsidiaries which the Corporation exercises control over the financial and operating policy decisions of the investee.

		% of Ownership	**2019**	2018
Common Shares				
Operational				
Philippine International Trading Corp.	PITC	99.50	**199,000,000**	199,000,000
Batangas Land Company, Inc.	BLCI	60.00	**55,659,300**	55,659,300
GY Real Estate, Inc.	GYREI	60.00	**13,084,200**	13,084,200
First Cavite Industrial Estate, Inc.	FCIEI	100.00	**8,845,038**	8,845,038
Kamayan Realty Corporation	KRC	60.00	**7,447,000**	7,447,000
Pinagkaisa Realty Corporation	PRC	60.00	**2,508,629**	2,508,629
Non-operational				
First Centennial Clark Corporation	FCCC	60.00	**400,000,000**	400,000,000
Manila Gas Corporation	MGC	91.70	**74,616,000**	74,616,000
NDC-Philippine Infrastructure Corp.	NPIC	100.00	**80,000,000**	80,000,000
For dissolution				
Luzon Stevedoring Corporation	LSC	100.00	**330,987,000**	330,987,000
Preferred Shares				
Non-operational				
First Centennial Clark Corporation	FCCC	60.00	**500,000,000**	500,000,000
			1,672,147,167	1,672,147,167
Allowance for impairment losses			**(1,269,832,038)**	(1,269,832,038)
			402,315,129	402,315,129

The Luzon Stevedoring Corporation had ceased operations in 1999. The records and books of accounts were not turned over to NDC.

The First Centennial Clark Corporation (FCCC) had ceased operations way back in 2007 when Clark Development Corporation (CDC), a subsidiary of the Bases Conversion and Development Authority (BCDA), terminated with finality the Lease Agreement, dated October 30, 1997, between CDC and FCCC for the failure of FCCC to pay the rental fees. Prior to such termination, FCCC and CDC entered into a Management Agreement whereby CDC operated the FCCC leasehold area. However, CDC simultaneously cancelled the said Memorandum of Agreement and the Lease Agreement. Both NDC and FCCC requested CDC to reconsider such termination but to no avail. As a consequence of CDC's cancellation of the leasehold rights, CDC took over and appropriated the structures and buildings of FCCC erected on the leased area.

The dividend income earned by the Corporation from its investment in subsidiaries amounted to P2.404 million and P15.920 million for the years 2019 and 2018, respectively.

Investment in Associates

This account consists of the following investments in associates which the Corporation has significant influence and that is neither a subsidiary nor an interest in a joint venture.

		% of Ownership	2019	2018 (as restated)
Cost				
Refractories Corporation of the Phils.	RCP	33.00	**193,620,979**	193,620,979
San Carlos Bio-Energy, Inc.	SCBI	25.00	**172,900,000**	172,900,000
Manila Exposition Complex, Inc.	MECI	36.36	**120,000,000**	60,000,000
Philippine Dockyard Corporation	PDC	35.00	**101,650,000**	101,650,000
Triad Asia, Ltd.	TAL	50.00	**65,435,000**	65,435,000
Alabang-Sto. Tomas Development, Inc.	ASDI	49.00	**58,432,010**	58,432,010
Philippine Mining Development Corp.	PMDC	20.00	**25,000,000**	25,000,000
Phividec Industrial Estate	PIE	23.95	**17,000,000**	17,000,000
PITC Pharma, Inc.	PPI	40.00	**15,000,000**	15,000,000
Metro Hospital Waste Conversion	MHWC	40.00	**12,000,000**	12,000,000
First International Document Masters, Inc.	FIDMI	40.00	**4,000,000**	4,000,000
UP-NDC Basilan Plantations, Inc.	UNBPI	40.00	**2,400,000**	2,400,000
Interbank Venture Capital Corporation	IVCC	20.00	**1,000,000**	1,000,000
Philbancor Venture Capital Corporation	PBVCC	20.00	**1,000,000**	1,000,000
Veterans Venture Capital Corporation	VVCC	20.00	**1,000,000**	1,000,000
LIDE Management Corporation	LMC	20.00	**20,000**	20,000
San Jose Oil Company	SJOC	20.00	**1,716**	1,716
			790,459,705	730,459,705
Accumulated equity in net earnings (losses)				
Balance at beginning of year			**(321,821,270)**	(352,164,408)
Share in net profit for the year			**58,673,093**	48,343,138
Dividends received			**(12,316,666)**	(18,000,000)
Balance at end of year			**(275,464,843)**	(321,821,270)
Share in revaluation increment of an associate			**28,883,100**	28,883,100
Share in prior period adjustment of associates			**(4,366,523)**	(4,366,523)
			539,511,439	433,155,012
Allowance for impairment losses			**(204,486,716)**	(204,486,716)
			335,024,723	228,668,296

Refractories Corporation of the Philippines (RCP) is a minority-owned affiliate of NDC at 33 per cent (4.328 million shares equivalent to P108.223 million in equity). On September 2, 2009, RCP filed for corporate rehabilitation before the Regional Trial Court Branch 159 in Pasig City. The Court approved the rehabilitation on May 7, 2010. As part of the rehabilitation, RCP's total debt as of March 31, 2010 will be converted into common shares. As a result, NDC's shareholdings in RCP will be diluted from 33 per cent to 11 per cent. The corporation is undergoing court litigation on its corporate rehabilitation plan. A court hearing was held last February 26, 2016 at the Pasig Regional Trial Court. The Court has not yet issued an order on the issues of the case, to date.

Investment in Stocks

This account consists of the following:

		% of Ownership	**2019**	2018
Common Shares				
Operational				
Asean Bintulu Fertilizer Sdn. Bhd.	ABFSB	9.50	**158,895,989**	158,895,989
Science Park of the Philippines	SPP	5.18	**24,951,957**	24,951,957
Non-operational				
Paper Industries Corp. of the Phils.	PICOP	0.28	**15,000,000**	15,000,000
Menzi Development Corporation	MDC	5.20	**10,000,000**	10,000,000
For dissolution				
P.T Asean Aceh Fertilizer	PTAAF	13.00	**106,605,963**	106,605,963
Resort Hotels	RH	6.30	**6,474,300**	6,474,300
LSCO- PDCP	LPDCP	0.00	**188,550**	188,550
LSCO – Republic Planters Bank	LRPB	0.00	**96,000**	96,000
LSCO- PLDT	LPLDT	0.00	**15,250**	15,250
Pre-operating				
Asean Potash Mining Corporation	APMC	1.00	**12,598,944**	12,598,944
Under receivership				
National Steel Corporation	NSC	12.50	**622,305,756**	622,305,756
Preferred Shares				
Under receivership				
National Steel Corporation	NSC	12.50	**1,196,967,152**	1,196,967,152
Other Investments				
Investments in project (NDC Rattan)			**62,406,520**	62,406,520
Others			**99,455,145**	99,455,145
			2,315,961,526	2,315,961,526
Allowance for impairment losses			**(2,119,514,636)**	(2,119,514,636)
			196,446,890	196,446,890

Update on National Steel Corporation (NSC)

The NSC Liquidation Plan involves, among others, the disposition of the NSC plant assets as an integral facility in order to allow a prospective buyer to resume the operation thereof within a short period of time from acquisition. Under the Plan, the NSC plant assets are to be used exclusively in settling the claims of all the NSC Secured Creditors, who are to waive their right to claim against the other assets of NSC for any deficiency in their secured credit and their unsecured credit.

Two years after NSC's liquidation, majority of the secured creditors and the stockholders of NSC came into a general understanding and agreement as to the disposition of the NSC plant assets, the payment of the liabilities owing to the NSC secured creditors and the business operation of the Special Purpose Vehicle (SPV) which shall eventually purchase the NSC plant assets.

On January 29, 2004, the NSC Liquidator, the NSC Secured Creditors, the NSC Shareholders and Global Ispat Holdings Ltd. (GIHL) entered into an Initial Agreement which sets out the basic terms and conditions of the sale and purchase of the NSC plant assets. The proposed sale to and purchase of the NSC plant assets by GIHL was approved by the SEC, in its Order issued on May 6, 2004.

On September 10, 2004, the Parties executed an Asset Purchase Agreement (APA) to document the detailed terms and conditions of the sale and purchase of the right, titles and interests in and to, including the ownership of the NSC plant assets. However, at the time of signing, NDC was not able to obtain Board approval for its authorized signatory. Thus, its share in the down payment was held in escrow with the Philippine National Bank (PNB). To remedy the situation, an Accession Agreement was executed among NDC, GIHL and Global Steel Corporation. As soon as the Accession Agreement is signed by all Parties, the Corporation shall withdraw the escrow fund held by PNB and recognize the sale accordingly.

NDC, in its capacity as a GOCC secured creditor of NSC, sought the Department of Finance's approval to consider the transaction as a "true sale" and, thus, be eligible for all the incentives available under the SPV Law of 2002.The Bangko Sentral ng Pilipinas (BSP), the appropriate regulatory authority for creditor banks, considered the transaction structure on the sale of NSC plant assets to GIHL a "true sale" under the SPV Law as confirmed by the Monetary Board under Resolution No. 514 of April 15, 2004.

The Corporation's primary consideration in consenting to the sale is twofold. Firstly, the national interest was taken into account given the government commitment to reopen NSC at the soonest time possible and the mandate given to the Department of Trade and Industry to facilitate the same. Secondly, NDC's corporate interest was also considered with the opportunity to recover partially its investments in NSC that was unlikely in the first place given the liquidation status of NSC.

On October 15, 2004, the Parties executed the Omnibus Agreement, which set the terms and conditions governing the deferred payment of the balance of the agreed price in the remaining sum of P12.250 billion, spread over eight years. However, Global Steel has not paid the real property taxes on the Iligan Plant from the time the NSC plant assets were turned over to it in 2005. Global Steel has interposed due to the following reasons: the alleged over-assessment by the City; the pendency of its application for tax incentive under a city ordinance; and the alleged misapplication by the City of its previous real property tax payments to other NSC properties. By 2006 therefore, Global Steel began defaulting on its installment payments and/or obligation to provide the stand-by letters of credit as required under the APA and the Omnibus Agreement.

Global Steel filed an action with the Regional Trial Court of Makati City on October 2, 2008, praying for an injunctive relief specifically to prohibit the NSC Secured Creditors from declaring an event of default in case it fails to pay the maturing installments. The trial court denied its prayer for injunctive relief.

Global Steel then filed for arbitration with the Singapore International Arbitration Center on October 13, 2008. Using the arbitration proceedings as the legal excuse, Global Steel sought provisional relief from the Singapore High Court where it prayed that the NSC Secured Creditors be restrained from declaring Global Steel to be in default under the Agreement and from declaring due and payable the balance of the purchase price and all other amounts payable under the Agreement. Global claimed that the Liquidator and the Secured Creditors failed to deliver title to the NSC plant assets free and clear from all liens, since the real property tax lien of the City of Iligan had not been discharged. Thus, Global allegedly could not obtain title to the NSC plant assets and seek additional financing.

At this point, NDC did not become a signatory to the Implementing Agreements (Omnibus Agreement, the Asset Purchase Agreement and Purchase Price Sharing Agreements) of the sale of NSC assets. While NDC has signed the Accession Agreement, a document which makes a creditor accede to and adhere to the Implementing Agreements, the same was not perfected due to Global Steel's failure to sign given their filing for arbitration.

On May 9, 2012, the Arbitral Tribunal issued the Partial Award (the "Award") in favor of Global, and against NSC Liquidator Danilo L. Concepcion and the Secured Creditors. The Award specifically held Danilo L. Concepcion and the Secured Creditors solidarily liable to Global. In sum, the Award ordered Danilo L. Concepcion and the Secured Creditors to pay Global the amount of US$80 million by way of damages and to transfer all NSC plant assets free from all liens to Global and for the Secured Creditors to pay Global the amount of US$1.043 billion with respect to the Lost Land Claim. Majority of the Secured Creditors of Global then filed an application to set aside the Award with the Singapore High Court on July 9, 2012.

The High Court of Singapore issued a Decision dated July 31, 2014 ("High Court Decision") which set aside the arbitral Award in its entirety. In addition, the High Court granted the Secured Creditors' claims for the payment of its legal costs for the proceedings in the court, which shall be subject to further submissions.

Global appealed the High Court's Decision to the Singapore Court of Appeals on all points. The Singapore Court of Appeals allowed in part and dismissed in part Global's appeals. The practical effect of the decision is that certain parts of the Award remain to be set aside. However, the Court of Appeals reinstated the findings of the Tribunal in the Award that the Liquidator and the Secured Creditors breached the APA in failing to transfer clean title over the NSC plant assets to Global Steel.

On August 23 and 30, 2016, the City Treasurer of Iligan City caused the publication of a Notice of Real Property Tax Delinquency in the Gold Star Daily, covering all real properties declared in the name of National Steel Corporation (NSC) in Iligan City, pertaining to the period beginning on the 4th quarter of 1999 ending on the 2nd quarter of 2016. The Liquidator wrote the City Treasurer a letter to remind them that any attempt to levy on the subject properties will be in contravention of the Stay Order issued by the Securities and Exchange Commission (SEC) on November 30, 2006. SEC affirmed the continuing validity of the said Stay Order, in its letter to the Office of the City Treasurer of Iligan City dated January 5, 2016. Notwithstanding the writ of execution issued by Branch 57 of the Regional Trial Court of Makati, the City of Iligan, through the City Treasurer, proceeded with the tax sale on October 19, 2016. No bid was submitted. Pursuant to the Local Government Code, there being no bidder, the City Treasurer shall purchase the property for the local government.

While the petition for Ex-Parte motion for annotation on the titles of NSC assets regarding the omnibus order nullifying the auction sale was granted on October 19, 2016, the secured creditors are implementing the other legal remedies to secure the NSC properties which were taken over by the City of Iligan.

The dividend income earned by the Corporation from its investment in stocks amounted to P4.271 million and P1.424 million for the years 2019 and 2018, respectively.

Financial assets at amortized cost

This account consists of long-term investments in retail treasury bonds purchased by NDC from the Land Bank of the Philippines with an interest rate ranging from 2.400 per cent to 6.685 per cent. Placement made amounted to P1.002 billion and P1.157 billion in 2019 and 2018, respectively.

Interest earned on these investments amounted to P131.738 million and P39.632 million in 2019 and 2018, respectively.

Financial assets at fair value through other comprehensive income

This account consists of investments in the following:

	2019	2018
Manila Golf and Country Club	**63,000,000**	52,000,000
Philippine Long Distance Telephone Company	**14,068,125**	18,507,400
Makati Sports Club	**620,000**	480,000
Philippine Columbian Association	**80,000**	80,000
	77,768,125	71,067,400
Market adjustment	**14,667,535**	6,700,725
	92,435,660	77,768,125

11. INVESTMENT PROPERTY

Investment property includes land and buildings which are held to earn rentals under operating leases. The carrying amounts recognized in the statements of financial position reflect the fair values based on an appraisal conducted mostly in 2019. Details are shown in the next page:

	2019	2018 (as restated)
Land		
Macapagal Blvd., Pasay City	**3,882,220,000**	4,186,710,000
Philphos Assets-LIDE	**1,723,900,200**	1,167,491,200
Pandacan, Manila	**1,535,770,000**	1,235,064,000
Sucat, Muntinlupa	**1,365,110,000**	1,195,530,000
M Fortich/Libona, Bukidnon	**1,299,990,000**	1,579,651,000
Sen. Gil Puyat, Makati City	**1,036,758,000**	773,700,000
Isabel, Leyte	**758,295,600**	258,826,000
Lapu-Lapu City, Cebu	**754,140,000**	754,140,000
Tordesillas St., Salcedo Village, Makati City	**635,268,000**	380,760,000
Dasmarinas, Cavite	**592,770,000**	720,678,250
Barangka, Mandaluyong City	**454,800,000**	379,000,000
Toril, Davao City	**449,270,000**	748,785,000
P.Tamo & Dela Rosa Sts., Makati City	**349,450,000**	288,871,000
San. Juan St., Bacolod City	**211,152,000**	197,955,000
Diliman, Quezon City	**202,500,000**	104,287,500
Kamagong & Sampaloc Sts., Makati City	**160,768,000**	182,120,000
Bagong Ilog, Pasig City	**153,840,000**	115,360,000
San Andres & E. Quirino Ave., Manila	**139,710,000**	42,176,000
Lacson & Rizal Sts., Bacolod City	**95,770,000**	90,280,000
Bugo Dist., Cagayan De Oro City	**48,690,000**	80,157,000
San Dionisio, Paranaque	**40,500,000**	37,789,000
Hermosa, Bataan	**40,000,000**	37,875,000
Sambag, Cebu	**36,110,000**	25,746,000
San Francisco Del Monte, Quezon City	**35,200,000**	15,550,000
Sta. Fe, Bantayan, Cebu	**34,960,000**	48,732,000
Meycauyan, Bulacan	**32,960,000**	62,772,000
Bo. San Juan & Sto. Nino, Pampanga	**28,930,000**	38,150,000
Los Baños, Laguna	**28,860,000**	6,943,000
San Roque, Tarlac	**24,830,000**	20,328,000
Aguinaldo & Luna St., Iligan City	**24,420,000**	20,748,000
Baliwasan, Zamboanga City	**20,190,000**	65,940,000
Bo Bia-an, Mariveles, Bataan	**17,650,000**	9,333,000
Sta. Mesa, Manila	**14,996,211**	14,996,211
Dao, Tagbilaran, Bohol	**12,650,000**	11,550,000
San Fernando, Pampanga	**12,220,000**	2,400,000
Poblacion, Parang,Cotabato	**8,980,000**	79,856,000
Puerto, Cagayan De Oro City	**7,710,000**	30,000
Sta. Rosa, Laguna	**7,030,000**	3,000,000
Suyong, Echangue, Isabela	**6,340,000**	5,773,000
Bo. Langhian, Butuan City	**5,200,000**	4,853,000
Guadalupe, Cebu City	**2,620,000**	2,784,000
Calatagan, Batangas	**2,490,000**	3,393,000
Cagayan de Oro City	**2,410,000**	2,159,000
Bonot, Legaspi City	**2,400,000**	6,000,000
Bongabon, Nueva Ecija	**1,340,000**	9,847,000
Tanay, Rizal	**950,000**	1,028,000
Mariveles, Bataan	**880,000**	7,191,000
San Jose, Antipolo City	**780,000**	825,000
San Isidro, Antipolo City	**690,000**	1,117,000
Talakag, Bukidnon	**680,000**	236,000
Porac, Pampanga	**220,000**	1,536,000
	16,305,368,011	15,030,022,161

	2019	2018 (as restated)
Buildings		
Industry & Investment Building	**121,365,000**	126,328,000
NDC Building	**113,594,000**	51,061,000
Manila Luxury Condominium	**11,610,000**	8,130,000
Leyte Port Complex	**1,136,000**	1,468,320
	247,705,000	186,987,320
	16,553,073,011	15,217,009,481

Lands located at Barangka, Mandaluyong, Pasong Tamo and Dela Rosa Sts., Makati City, Bagong Ilog, Pasig, Lacson and Rizal Sts., Bacolod, and Diliman, Quezon City are covered by Second Lease Agreement entered into by and between NDC and Caltex (Philippines), Inc. (now Chevron) for a period of 25 years effective May 27, 2000 until May 26, 2025. The rest are used for lease, capital appreciation and project development.

The Leyte Port Complex at Leyte Industrial Development Estate (LIDE), Isabel, Leyte, is being leased to the Philippine Phosphate Fertilizer Corporation (PHILPHOS) under a Contract of Lease commencing on January 1, 1986 until December 31, 2030.

The rental income earned by the Corporation from its investment properties under operating leases amounted to P178.396 million and P169.590 million for the years 2019 and 2018, respectively (Note 8).

12. PROPERTY AND EQUIPMENT

This account consists of the following:

	Land and Improvements	Buildings & Building Improvements	Furniture & Equipment	Rizal Hydro Power Plant	Total
December 31, 2019					
Cost					
At January 1, 2019	611,010,268	7,879,328	666,270,164	34,147,886	1,319,307,646
Additions	0	6,752,334	810,523	0	7,562,857
Disposals	0	0	(985,963)	0	(985,963)
Adjustments	0	(275,286)	0	0	(275,286)
At December 31, 2019	611,010,268	14,356,376	666,094,724	34,147,886	1,325,609,254
Accumulated depreciation					
At January 1, 2019	607,780,629	5,870,099	657,860,145	3,523,531	1,275,034,404
Depreciation for the year	357,896	0	1,992,917	0	2,350,813
Disposals	0	0	(985,945)	0	(985,945)
Adjustments	(124)	0	(2,227)	1,378,746	1,376,395
At December 31, 2019	608,138,401	5,870,099	658,864,890	4,902,277	1,277,775,667
Net carrying amount, December 31, 2019	**2,871,867**	**8,486,277**	**7,229,834**	**29,245,609**	**47,833,587**

	Land and Improvements	Buildings & Building Improvements	Furniture & Equipment	Rizal Hydro Power Plant	Total (as restated)
December 31, 2018					
Cost	611,010,268	7,879,328	666,270,164	34,147,886	1,319,307,646
Accumulated Depreciation/ Adjustment	(607,780,629)	(5,870,099)	(657,860,145)	(3,523,531)	(1,275,034,404)
Net carrying amount, December 31, 2018	**3,229,639**	**2,009,229**	**8,410,019**	**30,624,355**	**44,273,242**

Included in the Improvement and Equipment accounts are the properties at the Leyte Port Complex at Isabel, Leyte, which are being leased to PHILPHOS and 50 per cent share of NDC to Rizal Hydro Power Plant Facility located at Rizal, Nueva Ecija.

13. OTHER NON-CURRENT ASSETS AND DEFERRED CHARGES

This account consists of:

	2019	2018 (as restated)
Other non-current assets		
Lands not used in operation	**6,614,104**	6,614,104
Others	**982,971,125**	982,971,125
Allowance for impairment loss	**(961,708,905)**	(961,708,905)
	27,876,324	27,876,324
Deferred charges		
Coal Operating Contract	**42,000,000**	42,000,000
Allowance for impairment loss	**(42,000,000)**	(42,000,000)
Miscellaneous	**828,305**	828,305
	828,305	828,305
	28,704,629	28,704,629

Lands not used in operation pertains to properties located at San Jose del Monte and San Idelfonso, Bulacan and Camarines Sur which were covered by the Comprehensive Agrarian Reform Program (CARP) of the Department of Agrarian Reform (DAR). The Landbank of the Philippines (LBP) has not yet paid for the value of these lands and NDC is still in the process of completing the necessary documents as required by the DAR.

Others principally includes assets acquired from the former International Corporate Bank (ICB) amounting to P962.11 million through a Deed of Assignment dated September 16, 1983. ICB sold these assets to NDC as a means of rehabilitating the former pursuant to a Memorandum of Agreement executed by and among NDC, the then Central Bank of the Philippines, the Development Bank of the Philippines and ICB.

Deferred charges - Coal Operating Contract pertains to the project for the exploration, development, exploitation, production and utilization of the country's coal resources pursuant to the Coal Development Program under Presidential Decree No. 972 (Coal Development Act of 1976). NDC acquired the rights, titles and interest to the Coal

Operating Project from Vulcan Industrial and Mining Corporation (VIMC). The project, however, did not commence commercial operations and the account had been outstanding since 1980. The amount of the project, which was provided with a full allowance for non-recovery, is part of the accounts requested for write-off from the Commission on Audit. Under COA Decision No. 2015-297, dated November 24, 2015, COA denied NDC's request to write off the account in the amount of P42 million.

14. ACCOUNTS PAYABLE

This account consists of various expenditures already incurred but remained unpaid as of December 31 in the total amount of P28.640 million and P43.320 million in 2019 and 2018, respectively.

15. INTEREST PAYABLE

This account consists of interest on the following BTr advances and domestic loans:

	2019	2018
Net lending	**456,620,151**	425,711,403
Domestic loan - DOLE Phils.	**4,538,160**	4,538,160
	461,158,311	430,249,563

16. LOANS PAYABLE

This account consists of domestic loans. It includes the balance of the advances granted by the National Government (NG) under the net lending program of the Department of Finance (DOF) for the payment of interest due to bondholders. The amount also includes non-interest bearing loan amounting to P26.591 million payable to the Bureau of the Treasury (BTr) relating to the National Steel Corporation accounts.

The Net Lending Program is a program by the NG, through the DOF, wherein the BTr makes payments for servicing loans obtained by or guaranteed by government-owned or controlled corporations, including government financial institutions, when, for valid reasons, such institutions are unable to pay.

It also includes guarantee fees amounting to P140 million for the 2^{nd} tranche bond floatation of NDC Agri-Agra Bonds.

The decrease in the account was due to the settlement made by NDC to NG amounting to P1.103 billion pertaining to advances made by the latter for payment of interest due to bondholders of NDC Agri-Agra Bonds, thru the issuance of SARO by the Department of Budget and Management (Note 8).

17. INTER-AGENCY PAYABLES

This account consists of:

	2019	2018 (as restated)
Income tax payable	**9,497,101**	4,351,033
Withholding taxes	**3,827,891**	2,529,121
Due to GSIS	**530,979**	1,448
Due to Pag-IBIG	**41,809**	100
Due to Philhealth	**33,792**	650
	13,931,572	6,882,352

This account includes income tax payable, taxes withheld from officers and employees, premium payments and other payables for remittance to GSIS, Pag-IBIG and Philhealth.

18. TRUST LIABILITIES

This account consists of:

	2019	2018
Current	**36,625,643**	33,548,441
Non-current	**39,135,697**	44,568,631
	75,761,340	78,117,072

Current account refers to an escrow account for the shareholders of a former affiliate, bid bonds and performance security received from bidders and suppliers.

Non-current account refers to security deposits received from various lessees under long-term lease.

19. DEFERRED CREDITS/UNEARNED INCOME

This account pertains mainly to advance rental received from various lessees amounting to P8.915 million and P9.312 million in 2019 and 2018, respectively.

In relation to the leases with various tenants, advance rentals are received by the Corporation upon signing of the lease contracts which the lessees can apply to the last three to four months of the leases.

20. PROVISIONS

This account consists of the following:

	2019	2018 (as restated)
Settlement of legal cases	**298,777,620**	295,022,915
Leave benefits	**4,466,086**	4,520,435
	303,243,706	299,543,350

The settlement of legal cases represents payable to Sta. Ines Melale Forest Products Corporation (Sta. Ines), et al., involving a case filed for collection of sum of money.

On April 22, 1985, Sta. Ines et al., instituted a collection suit against NDC for the payment of advances made to Galleon and the value of their equity in the Corporation.

On September 16, 2003, the Regional Trial Court (RTC) ruled in favor of Sta. Ines et al., and ordered NDC to pay the total amount of P61.89 million with interest of six per cent per annum from date of the filing of the case in 1985 up to full payment plus 10 per cent of the total amount due as attorney's fees plus the cost of the suit.

NDC, through the Office of the Government Corporate Counsel (OGCC), appealed the case with the Court of Appeals. The Court of Appeals, in its Decision dated March 24, 2010, upheld the Decision of the RTC and increased the interest rate from six per cent per annum to 12 per cent per annum from the date of filing of the case until satisfaction of the judgment award. NDC filed a Motion for Reconsideration of the said Decision. The Court of Appeals, on July 21, 2010, denied NDC's Motion for Reconsideration. On August 17, 2010, NDC filed a Petition for Certiorari with the Supreme Court (SC). On February 14, 2012, OGCC received SC Resolution, dated December 12, 2011, requiring NDC to file its comment to Development Bank of the Philippines' petition. NDC, through the OGCC, filed a Motion for Extension of Time to File Comment on February 21, 2012. On March 21, 2012, OGCC filed a comment with Motion to Consolidate Case.

On February 1, 2017, the Supreme Court rendered Decision affirming the March 24, 2010 Decision and July 21, 2010 Resolution of the Court of Appeals with modifications. On March 21, 2017, OGCC filed a Motion for Reconsideration.On July 26, 2017, OGCC filed its Consolidated Comment with Motion to Refer Case to the Court En Banc.

Leave benefits pertains to the accrual of money value of leave credits earned by NDC employees as of December 31, 2019 and 2018, respectively.

21. DIVIDENDS

This account consists of dividends from the following:

	2019	2018
Subsidiaries and other investments:		
Science Park of the Philippines, Inc.	**4,271,115**	1,423,705
Kamayan Realty Corporation	**1,754,410**	7,477,442
Pinagkaisa Realty Corporation	**343,723**	352,387
NDC-Philippines Infrastructure Corp.	**306,287**	272,953
G.Y. Realty Estate, Inc.	**0**	5,291,909
Batangas Land Company, Inc.	**0**	2,525,138
	6,675,535	17,343,534
Associates accounted for using equity method	**12,316,666**	18,000,000
	18,992,201	35,343,534

The total dividends received for the years 2019 and 2018 amounted to P18.992 million and P35.343 million respectively.

22. PERSONNEL SERVICES

This account consists of the following:

	2019	2018 (as restated)
Salaries and wages	**22,694,082**	19,047,797
Other compensation	**6,649,861**	5,658,874
Personnel benefit contributions	**2,953,141**	2,511,849
Other personnel benefits	**2,287,356**	1,581,016
	34,584,440	28,799,536

23. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2019	2018 (as restated)
Taxes, insurance premiums and other fees	**37,342,354**	39,567,683
General services	**27,340,958**	24,355,653
Professional services	**12,721,750**	13,586,244
Impairment loss	**11,610,155**	14,033,472
Repairs and maintenance	**3,801,012**	6,052,906
Utility	**2,802,975**	2,975,157
Confidential, intelligence and extraordinary	**2,704,886**	2,549,956
Depreciation	**2,348,462**	1,955,163
Supplies and materials	**1,178,714**	914,107
Communication services	**1,147,697**	1,146,124
Training and scholarship	**1,043,828**	1,326,673
Traveling	**649,220**	833,931
Other maintenance and operating expenses	**4,261,607**	2,654,512
	108,953,618	111,951,581

24. OTHER INCOME (EXPENSES)

This account consists of the following:

	2019	2018 (as restated)
Gain from changes in fair market value of investment property, net	**1,333,958,698**	4,598,807,365
Share in net profit of associates	**58,673,093**	48,343,138
Miscellaneous income	**76,653,312**	40,687,601
Gain on sale of assets, net	**0**	68,300,169
Share in the loss in joint operation	**(1,167,593)**	(1,129,044)
Gain (loss) on foreign exchange, net	**(6,740,246)**	10,885,798
Financial expenses	**(66,111,132)**	(88,801,384)
	1,395,266,132	4,677,093,643

Gain from changes in fair value of investment property pertains to the net increase in fair value of investment properties based on the appraisal conducted in 2019 and 2018.

Share in net profit of associates pertains to the proportionate share in the profit or loss of investee under investment in associates.

Miscellaneous income includes income arising from excess of standard input value added tax (vat) for sales of goods and services to government over actual input vat as required by Bureau of Internal Revenue and assessment charges from lessees. The CY 2019 amount also includes a reversal of impairment losses provided for rental receivables.

Gain on sale of assets pertains mainly to the gain on sale of properties located in San Fernando, Pampanga and Polomolok, South Cotabato which are covered by the Comprehensive Agrarian Reform Program of the Department of Agriculture.

Share in the loss in joint operation pertains to proportionate share in the loss from Rizal Hydro Power Project of Philippine National Oil Company- Renewables Corporation and NDC.

Gain (loss) on foreign exchange represents the foreign exchange differential arising from the translation of foreign currency denominated items.

25. INCOME TAX EXPENSE

Income tax expense for the years ended December 31 consists of:

	2019	2018 (as restated)
Current	**116,011,110**	119,472,259
Deferred	**294,195,046**	1,257,519,970
	410,206,156	1,376,992,229

Reconciliation between statutory tax and effective tax is as follows:

	2019	2018 (as restated)
Income tax at statutory rate	**496,621,950**	1,452,258,015
Gain on sale of capital asset	**0**	(20,220,318)
Dividend income not subject to income tax	**(2,002,661)**	(5,203,060)
Impairment/share in net loss of affiliates	**(17,601,928)**	(14,500,965)
Income subjected to final tax	**(46,324,475)**	(35,233,292)
Other reconciling items	**(20,486,730)**	(108,151)
	410,206,156	1,376,992,229

An analysis of deferred tax asset and deferred tax liabilities follows:

	2019	2018 (as restated)
Deferred tax assets on:		
Allowance for impairment loss	**731,846,639**	740,604,278
Unrealized foreign exchange gain	**(1,471,095)**	(3,493,168)
Deferred tax liabilities on:		
Rental receivables	**(6,396,581)**	(19,944,504)
Interest receivables	**(29,107,227)**	(130,180,870)
Investment property	**(4,768,086,315)**	(4,366,005,269)
Net deferred tax liability	**(4,073,214,579)**	(3,779,019,533)

The net current tax payable after applicable creditable withholding taxes is as follows:

	2019	2018
Tax due	**116,011,110**	119,472,259
Creditable withholding tax	**(10,412,106)**	(7,530,526)
Income taxes paid for first three quarters	**(96,101,903)**	(107,590,700)
	9,497,101	4,351,033

26. SHARE CAPITAL

This account represents the capital infusion of the National Government (NG) from 1937 to 2002 aggregating to P8.600 billion. The Corporation has an authorized capital stock of P10 billion, the amount to be subscribed by the NG and to be paid up in accordance with project funding requirements.

27. RESTATEMENT OF ACCOUNTS

The 2018 financial statements were restated to reflect the following transactions/adjustments:

<u>CY 2017 errors discovered in 2018 and 2019</u>

	December 31, 2017 (As previously restated)	Restatements/ Adjustments	January 1, 2018 (As restated)
STATEMENT OF FINANCIAL POSITION			
Receivables, net-current	**247,098,055**	**13,390,958**	**260,489,013**
Recognition of 50% interest in the joint operation with PNOC RC		*648,243*	
Under accrual of rental receivables		*722,679*	
Recognition of real property tax payment by lessee for 2015-2017		*12,020,036*	
Other current assets	**25,217,524**	**11,120,201**	**36,337,725**
Recognition of 50% interest in the joint operation with PNOC RC		*11,120,201*	
Investments	**1,997,591,638**	**(45,000,000)**	**1,952,591,638**
Reclassification of investment in joint venture to joint operation		*(45,000,000)*	
Property and equipment, net	**8,086,435**	**32,003,134**	**40,089,569**
Recognition of 50% interest in the joint operation with PNOC RC		*32,003,134*	
Restatement on total assets- net increase		11,514,293	
Accounts payable	**14,961,791**	**17,520,041**	**32,481,832**
Recognition of 50% interest in the joint operation with PNOC RC		*5,384,978*	
Recognition of real property tax expense		*13,872,086*	
Refund from Meralco for payment of electric expense		*(673,846)*	
Over accrual of personnel benefit expenses		*(775,306)*	
Over accrual of various maintenance and other operating expenses		*(287,871)*	
Inter-agency payables	**9,797,257**	**(143,656)**	**9,653,601**
Under accrual of general services expense		*(143,656)*	
Provisions	**160,835,102**	**117,423,606**	**278,258,708**
Recognition of correct interest rate for the settlement of legal cases		*117,423,606*	
Add: Restatement on total liabilities- increase		134,799,991	
Restatement on statement of financial position- net decrease		**(123,285,698)**	

CY 2018 errors discovered in 2019

	December 31, 2018 (As previously reported)	Restatements/ Adjustments	December 31, 2018 (As restated)
STATEMENT OF FINANCIAL POSITION			
Receivables, net- current	**249,081,405**	**(10,640,982)**	**238,440,423**
Recognition of 50% interest in the joint operation with PNOC RC		*(2,149,876)*	
Over and under accrual of rental receivables		*(20,511,132)*	
Recognition of real property tax payment by lessee for 2015-2017		*12,020,036*	
Adjustment of interest income		*(10)*	
Other current assets	**34,938,241**	**12,664,513**	**47,602,754**
Recognition of 50% interest in the joint operation with PNOC RC		*12,664,513*	
Investments	**2,106,760,925**	**(44,993,413)**	**2,061,767,512**
Reclassification of investment in joint venture to joint operation		*(45,000,000)*	
Adjustments on investments related to equity share under investment in associates		*6,587*	
Property and equipment, net	**13,648,887**	**30,624,355**	**44,273,242**
Recognition of 50% interest in the joint operation with PNOC RC		*30,624,355*	
Restatement on total assets- net decrease		(12,345,527)	
Accounts payable	**25,241,919**	**18,077,815**	**43,319,734**
Recognition of 50% interest in the joint operation with PNOC RC		*5,823,171*	
Recognition of real property tax expense		*13,872,086*	
Refund from Meralco for payment of electric expense		*(673,846)*	
Over and under accrual of salaries and personnel benefit expenses		*(764,781)*	
Over and under accrual of various maintenance and other operating expenses		*(178,815)*	
Inter-agency payables	**7,022,856**	**(140,504)**	**6,882,352**
Adjustments on premium payments to GSIS, Pag-IBIG and Philhealth		*(140,504)*	
Provisions	**161,396,656**	**138,146,694**	**299,543,350**
Recognition of correct interest rate for the settlement of legal cases		*138,146,694*	
Deferred tax liability	**3,784,710,270**	**(5,690,737)**	**3,779,019,533**
Adjustment of deferred tax due to restatement of 2018 accounts		*(5,690,737)*	
Add: Restatement on total liabilities- net increase		150,393,268	
Restatement on statement of financial position- net decrease		**(162,738,795)**	
STATEMENT OF COMPREHENSIVE INCOME			
Rent Income	**190,823,504**	**(21,233,811)**	**169,589,693**
Over and under accrual of rental receivables		*(21,233,811)*	

	December 31, 2018 (As previously reported)	Restatements/ Adjustments	December 31, 2018 (As restated)
Interest income	**117,444,307**	**(10)**	**117,444,297**
Adjustment of interest income		*(10)*	
Personnel services	**28,785,859**	**13,677**	**28,799,536**
Over accrual of salaries and personnel benefit expenses		*13,677*	
Maintenance and other operating expenses	**111,842,525**	**109,056**	**111,951,581**
Over and under accrual of various maintenance and other operating expenses		*109,056*	
Other income (expenses), net	**4,700,880,923**	**(23,787,280)**	**4,677,093,643**
Adjustments on investments related to equity share under investment in associates		*6,587*	
Recognition of 50% interest in the joint operation with PNOC RC		*(3,070,779)*	
Recognition of correct interest rate for the settlement of legal cases		*(20,723,088)*	
Income tax expense-deferred tax	**1,263,210,707**	**(5,690,737)**	**1,257,519,970**
Recognition of 50% interest in the joint operation with PNOC RC		*(5,690,737)*	
Restatement on statement of comprehensive income- net decrease		**(39,453,097)**	
Total restatement on 2018 financial statements		**(202,191,892)**	

The Corporation presented three Statements of Financial Position in compliance with the requirements of PAS 1, *Presentation of Financial Statements,* to include in a complete set of financial statements a statement of financial position as at the beginning of the earliest comparative period whenever the entity retrospectively applies an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

28. RELATED PARTIES

Key Management includes the board of directors, all members of Management and other Corporation officers. Key Management compensation totaled P9.605 million and P9.964 million in 2019 and 2018, respectively. A breakdown of these amounts follows:

	2019	2018
Salaries and allowances	**8,203,196**	8,063,937
Other benefits	**1,401,608**	1,900,560
	9,604,804	9,964,497

29. COMPLIANCE WITH REPUBLIC ACT No. 7656

Pursuant to Republic Act No. 7656, requiring government-owned or controlled corporations and their subsidiaries to declare dividends under certain conditions and remit the same to the National Government, NDC remitted to the Bureau of the Treasury P100.574 million and P160.592 million in CYs 2019 and 2018, respectively. Similarly, the following NDC subsidiaries remitted total dividends of P2.404 million and P15.920 million in 2019 and 2018, respectively, which represent NDC's share in the dividends, broken down as follows:

	2019	2018
Kamayan Realty Corporation	**1,754,410**	7,477,442
Pinagkaisa Realty Corporation	**343,723**	352,387
NDC-Philippines Infrastructure Corp.	**306,287**	0
GY Real Estate, Inc.	**0**	5,291,909
Batangas Land Company, Inc.	**0**	2,525,138
Philippine International Trading Corporation	**0**	272,953
	2,404,420	15,919,829

30. CONTINGENT ASSETS/CONTINGENT LIABILITIES

The Corporation, in the normal course of business, became party to litigations. Cases/petitions were filed for or against NDC and are now pending before the appellate courts, the lower courts and certain administrative bodies. These cases involve civil actions for collection of sum of money, reconveyance of property/title, payment of just compensation, specific performance and action for refund of taxes withheld.

Since the ultimate outcome of the cases cannot presently be determined, claims for assets and provision for any liability that may result have not been recognized in the financial statements.

The details of NDC pending cases as of December 31, 2019 are as follows:

Title of Case	Nature	Amount	Status
Mero Structures, Inc. vs. Asian Construction FCCC and NDC. (Civil Case No. 02-206 RTC Makati, Branch 145).	Sum of money	P5 million	On May 23, 2016, OGCC filed Comment on the Petition for Review. Awaiting further orders from the court.

Title of Case	Nature	Amount	Status
NDC vs. JAO & Company. (CA-GR CV No. 50087 Civil Case No. R-81-1226 RTC-Manila, Br. 38).	Sum of money	P7.520 million plus six per cent interest per annum and liquidated damages of five per cent for the principal obligation and interest.	The court granted NDC's Motion for Execution on September 22, 2014. To date, the court has not issued the Writ of Execution.
Victoria Corcelles Abunda, et al. vs. NDC, et al. (DARAB Case No. X-678-SC-2000).	Reconveyance	No amount involved as the issue to be resolved is ownership.	Awaiting Order from RTC for the submission of position paper. As of December 2019, no other related documents have been received.
Liwanag L. Cruz, et al. vs. Juanito F. Galumo and Register of Deeds of South Cotabato. (Civil Case No. 12-436, RTC-Br. 39, Polomolok, South Cotabato).	Annulment of deed of sale, reconveyance of real properties, damages with prayer for preliminary mandatory injunction	No amount involved as the issue to be resolved is ownership.	On February 16, 2018, OGCC filed its Memorandum. On March 20, 2018, OGCC received copy of the Plaintiff-Intervenor's Memorandum.
Primo Gelacio vs. NDC-Guthrie Plantations, Inc. & NDC Luzviminda Gelacio-Bahala vs. NDC GR No. 138736 (CA-GR CV No. 43924).	For recovery of possession with damages and attorney's fees.	P100,000 more or less (principal only)	On November 10, 2018, the Court issued Writ of Execution, copy of which was received by NDC on December 11, 2018. To date, no other related documents have been received.
NDC represented by its Asst. General Manager, Esmeraldo E. Sioson vs. DAR, represented by its Provincial Agrarian Reform Officer (PARO) Pedro P. Gumbao, et al. (DARAB Case No. 10999. Reg.	Reconveyance	No amount involved as the issue to be resolved is ownership.	On August 5, 2019, OGCC received copy of SC's Resolution requiring the respondents to file their Comments to NDC's Motion for Reconsideration.

Title of Case	Nature	Amount	Status
Case No. XI-608-SC-99).			On September 30, 2019, OGCC received copies of the Comments filed by DAR and DARBC.
NDC vs. DAR & LBP. (Civil Case No. 7172 RTC-Branch I, Balanga, Bataan) LBP vs. NDC. (CA-GR-SP No. 99765 15th Division).	Determination of just compensation	P2.737 million	Supreme Court remanded the case to RTC for the determination of just compensation.
Heirs of Pacabis vs. NDC. (Civil Case No. 3442-0 Br. 35, Ormoc City).	Determination of just compensation	Per Commissioner's Report, P40 per square meter involving 80,000 sq. m. or approximately P3.2 million (principal only)	On September 30, 2019, OGCC received SC's Resolution denying with finality NDC's Motion for Reconsideration. Entry of Judgment was received by OGCC on November 12, 2019.
NDC vs. Commissioner of Internal Revenue. (DOJ Case No. 91-06).	Refund of taxes	P0.660 million	Submitted for DOJ's resolution. OGCC has yet to receive the CIR's resolution.

Title of Case	Nature	Amount	Status
NDC vs. Hon. Jim O. Sampulna, in his capacity as Regional Executive Director of Department of Environment & Natural Resources (DENR), Region XII, Koronadal City, Sps. Valencia. CA-GR SP No. 02444 [Ildefonso Tabiling (Dec) (now Enriqueta Montaño) s. Pascual Boada, NDC represented by its GM or President and DOLE Phils.). RED CLAIM NO. 038-2003 CENRO CLAIM NO. 84 LOT NO. 13-Gss-390]	Petition for Certiorari with TRO or Preliminary Injunction	No amount involved as the issue to be resolved is ownership.	On January 7, 2014, OGCC received a Resolution dated November 19, 2013 directing the Division Clerk of Court to issue an Entry of Judgment in this case.
Mateo Rubio et al. vs. DOLE Phils., et al. (DARAB Case No. XII-1067-SC-2009).	For Declaration of Nullity of Transfer, Recovery of Possession Cancellation of Title of Lot No. 65 (1161) PLS 247-D	No amount involved as the issue to be resolved in this case is ownership.	Filed Answer with Compulsory Counterclaim on August 20, 2009. As of December 31, 2019, no further court order or any related document has been received.
Teodora Denila vs. NDC/DOLE, DARBCI (RTC Br. 36, Gen San City)	Action for annulment of title	- P2.541 million as back rentals - Rental from 1996 up to the present - 20 per cent Attorney's fees	The RTC denied the Motion for Reconsideration filed by NDC. A notice of appeal was filed by NDC to CA on March 2018.
Philippine Associated Smelting and Refining Corp. (PASAR) v. NDC Case No. R-ORM-09-00009-CV RTC-Br. .35 Ormoc City CC R-ORM-15-00078-CV	For quieting of title with prayer for temporary restraining order and/or writ of preliminary injunction	No amount involved as the issue to be resolved is ownership.	On November 13, 2019, the hearing was cancelled due to the Judge's health condition. The schedule of next hearing is on January 29, 2020.

31. GENDER AND DEVELOPMENT

The Corporation allotted P0.510 million for Gender and Development (GAD) program for CY 2019. The GAD fund was utilized for programs that are cognizant of the strict austerity and expenditure-efficiency measures being observed among government agencies, in accordance with the purpose of GAD Plans and Programs. Various activities were undertaken by the Corporation.

32. SUPPLEMENTARY INFORMATION ON TAXES

In compliance with the requirements set forth by BIR Revenue Regulations 15-2010 hereunder are the information on taxes, duties and license fees paid during the year:

a. Taxes and licenses (National and Local):

Real estate tax	34,880,053
Mayor's permit	1,403,658
Community tax certificate	10,500
Annual registration-BIR	500
	36,294,711

b. Withholding taxes paid:

Tax on compensation	4,033,711
Creditable withholding taxes	3,610,900
	7,644,611

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. Results of confirmation of rental receivable balances from various lessees as of October 31, 2019 showed a variance amounting to P6.342 million, thereby casting doubt on the accuracy of recorded rental receivables as of December 31, 2019.

1.1 Under the Conceptual Framework for Financial Reporting 2018, for a financial information to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable. To be a perfectly faithful representation, a depiction would have three characteristics: it would be complete, neutral and free from error.

1.2 To verify the completeness and accuracy of the recorded balance of Rental Receivables account, the Audit Team, in coordination with the Accounting Department, sent 62 negative confirmation letters to various lessees of NDC in November 2019, both active and previous lessees with outstanding account balances as of October 31, 2019. However, to date, only 17 lessees have responded.

1.3 Evaluation of the replies received showed a variance amounting to P6.342 million. Summary of the result is presented below:

Lessee	SL Balance as of October 31, 2019	Amount Confirmed	Variance
Board of Investment	(239,226)	0	(239,226)
Del Monte Philippines, Inc.	0	0	0
Department of Trade & Industry (DTI)	1,633,752	0	1,633,752
Manila Gas Corporation	0	0	0
Phil. International Trading Corporation	0	0	0
Tritan Marketing & Development Corp.	0	0	0
Panay Railways, Inc. (PRI)	5,078,316	0	5,078,316
Spectrum Engineering & Consultancy (Spectrum)	124,182	0	124,182
Santec Plant Controls, Inc.	0	69,019	(69,019)
Romeo B. Naguit	713	0	713
F.A.G. Machine Shop & Services Co.	0	38,916	(38,916)
Municipality of Isabel Leyte	37,287	0	37,287
Governance Commission for GOCCs	12,760	0	12,760
Bank of the Philippine Islands	(115,663)	0	(115,663)
Container Bridge Philippines, Inc.	0	0	0
Fastforward MR Corporation	246	41,686	(41,440)
Black Pearl Media, Inc.	(41,226)	0	(41,226)
	6,491,141	149,621	6,341,520

1.4 Further analysis of the above lessees' accounts, including transactions from November 1, 2019 to December 31, 2019, revealed the following:

Lessee	Observations
Board of Investment	Variance was equal to the negative ending balance as of December 31, 2018.

Lessee	Observations
Department of Trade & Industry	Part of the amount were outstanding balances as early as in 2007. It was also noted that in 2018 and 2019, most monthly payments did not equal the accrued rentals.
Panay Railways, Inc.	Variance was equal to the long outstanding balance for more than eight years.
Spectrum Engineering & Consultancy	Variance was equal to the long outstanding balance for more than 12 years.
Santec Plant Controls, Inc.	The amount confirmed did not equal the monthly rental of P73,501.
Romeo B. Naguit	Variance refers to under payments for several months. On the other hand, the increase of monthly rental from September 2019 to December 2019 amounting to P8,234 was not recorded by NDC.
F.A.G. Machine Shop & Services Co.	The variance refers to one-month payment inclusive of value-added tax less creditable withholding tax. However, it was noted that there was an under accrual of P36,692 in 2015 and no accrual was recorded in July 2016.
Municipality of Isabel Leyte	It was noted that since 2015, most monthly payments did not equal the monthly accrual of rentals.
Governance Commission for GOCCs	The lease contract ended in February 2019. The security deposit was insufficient to cover the unpaid balance.
Bank of the Philippine Islands	The balance refers to the payment of rental for the month of November 2019.
Fastforward MR Corporation	Confirmed amount refers to one-month rental. On the other hand, the balance of P246 is equivalent to the unpaid rental increase due to escalation in February 2019.
Black Pearl Media, Inc.	After tracing back prior years' records starting 2016, under accrual and under payment was discovered amounting to P73,799.62 and 65,580.15, respectively.

1.5 **We recommended that Management:**

a. **Review the recorded monthly accruals, verify whether the escalation rate was correctly and timely recorded and prepare adjusting entries accordingly;**

b. **Gather supporting documents on the long outstanding balances of DTI, PRI and Spectrum and discuss with them appropriate actions for the settlements of their accounts;**

c. **Evaluate the variances noted from the confirmation, reconcile with the corresponding lessees, and take appropriate action on the results of the confirmation; and**

d. **Perform periodic reconciliation with all the lessees and send them detailed statement of accounts to update them of their outstanding obligations.**

1.6 Management commented that NDC maintains a schedule for all its lessees in order to periodically monitor each account which includes outstanding balances, escalation rate and expiration of contract. The accounts are also reconciled regularly.

1.7 NDC continues to identify ways in order to recover and collect from these various accounts. These include sending monthly billing statements and demand letters. NDC is evaluating long outstanding accounts that need to be written off and will retrieve the necessary supporting documents.

1.8 NDC submitted a schedule regarding the variances noted from the confirmation and reconcile with the corresponding lessees. NDC will continue to evaluate all the lessees account and make periodic reconciliation of those accounts with variances.

1.9 While the Audit Team considers Management's explanation, it appears that monitoring and reconciliation of the accounts is not effective. To supplement sending of monthly billing statements and demand letters, we recommend that Management actively gather feedback from these lessees and initiate reconciliation of accounts with their counterpart on the lessees' side. The Audit Team shall monitor the implementation of the action taken by the Management.

2. Result of confirmation of loans, interest and other payable accounts to the Bureau of the Treasury (BTr) disclosed an unreconciled difference of P12.786 million casting doubt on the accuracy of the balance of the account, contrary to the Conceptual Framework for General Purpose Financial Report (GPFR) by Public Sector Entities.

2.1 The Conceptual Framework for General Purpose Financial Report (GPFR) by Public Sector Entities issued by the International Accounting Standards Board in January 2013 includes, among others, the following qualitative characteristics of useful information included in the general purpose financial statements in order to support the achievement of the objectives of financial reporting:

> *"3.1-12 The objectives of financial reporting are to provide information useful for accountability and decision-making purposes. The qualitative characteristics of information included in the GPFRs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability and verifiability.*
>
> *Faithful representation*
>
> *3.10 To be used in financial reporting, information must be faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomena is complete, neutral, and free from material error xxx."*

2.2 The Team confirmed with BTr the recorded account balances of loans and interest payable as of December 31, 2019, to ascertain their existence and accuracy. Such confirmation disclosed a discrepancy of P12.786 million, as shown below:

Creditor	Balance per NDC Books	Balance per Confirmation	Variance
Bureau of the Treasury			
Guarantee fee	140,000,000	140,000,000	0
Agri-Agra bonds	456,620,150	456,620,150	0

Creditor	Balance per NDC Books	Balance per Confirmation	Variance
NDC-National Steel Corp.	26,591,372	26,591,375	3
L/R-NDC (Net Lending Program)	0	125,000	125,000
NDC transferred (NOCOMIN)	0	12,661,143	12,661,143
	623,211,522	**635,997,668**	**12,786,146**

2.3 The discrepancy of P12.786 million between the balance per books and the confirmed balance of loans, interest and other payables as of December 31, 2019, which pertains mainly to the transfer of NDC's investment in subsidiary to the National Government (NG) casts doubts on the accuracy and reliability of the recorded payable accounts.

2.4 On June 15, 2012, the Officer-in-Charge, Malacañang Records Office notified NDC for information and guidance of Administrative Order (AO) No. 64 dated March 24, 1988 entitled "Approving the Identification of and Transfer to the National Government of Certain Assets and Liabilities of the Philippines Export and Foreign Loan Guarantee Corporation and the National Development Company".

2.5 Inquiry with the Management disclosed that relative to AO No. 64 dated March 24, 1988, NDC transferred various loans, equity investments, advances, acquired assets and other assets to the NG and that the NG assumed certain liabilities of NDC. Part of the transfer was investment in subsidiary in Negros Occidental Copperfield Mines, Inc. (NOCOMIN) which was recorded as liability in the books of BTr. However, confirmation made showed that NDC still has an outstanding payable of P12.786 million to BTr, including P125,000 in the net lending program.

2.6 The Management, in its reply dated June 17, 2020 to our Audit Query Memorandum No. 2020-01(19) dated June 1, 2020, mentioned that they inquired with BTr regarding the nature of the said outstanding payables. As per inquiry with the Accounting Service of BTr, the said loans were transferred payable accounts that were paid by the BTr for the account of NDC. In order to verify the nature of the said accounts, the Management requested copies of supporting documents, but since these are old accounts, most of the documents cannot be located.

2.7 Moreover, the Management also mentioned that they shall evaluate the accounts and requested for ample time to locate the necessary documents in order to identify the details of the said accounts.

2.8 The doubt on the accuracy and reliability of the payables recorded are still not mitigated by inquiries made with BTr and the unavailability of supporting documents.

2.9 **We recommended that Management:**

a. Make representation and continue to coordinate with BTr to reconcile the noted discrepancy; and

b. Effect the necessary adjusting journal entries in the books, if warranted.

2.10 The Management sent a letter to BTr dated July 1, 2020 to formally request for documents in order to identify the said outstanding payable and to have a basis for recording in its books.

2.11 NDC shall evaluate the accounts and locate the necessary documents to support the adjusting entries, if applicable.

2.12 As a rejoinder, we recommend that Management follow up with BTr for the reconciliation of the noted discrepancy.

3. The balances of the car and housing loans granted to former NDC officials and employees aggregating to P0.822 million and P5.969 million, respectively, or a total of P6.791 million as of December 31, 2019, remained outstanding/dormant for more than two to 21 years. *(Reiteration of prior years' audit observations)*

A. Car loan

3.1 Section 9 of the Motor Vehicle Lease-Purchase Plan Guidelines of NDC provides that:

> *"Xxx. In the event that the availee refuses to surrender the vehicle, and/or pay for the cost of repair mentioned, NDC-FAD shall immediately refer the matter to the legal Department for filing of appropriate legal actions."*

3.2 As of December 31, 2019, car loan balance amounted to P0.822 million which pertains to the loan balance of three former NDC officials who availed of the car loans. Our audit revealed that the car loan granted to three officials remained dormant for more than seven to 21 years. All the three officials were already separated from NDC for more than 10 years. For the year 2019, NDC did not issue demand or collection letters, it was only on February 3, 2020 when Management sent demand letters to these officials.

3.3 The table below shows the summary of outstanding car loan balances.

Borrowers	Date of loan granted	Employment Status	No. of Years Dormant	Outstanding Balance
Official 1	August 31, 1993	NDC Director	21	378,000
Official 2	October 14,1999	Retired on October 20, 2003 and availed of the NDC retirement package under Executive Order No. 184.	15	171,212
Official 3	April 2007	Resigned on April 30, 2009	7	273,113
Total				**822,325**

3.4 The balances of the car loans of those who retired/resigned were not collected before the release of their clearances or the motor vehicles were not returned or surrendered by the borrowers. Instead of deducting the unpaid loans from their retirement/separation pay, NDC settled for an acknowledgement of outstanding loans and post-dated checks issued by the former NDC officials.

3.5 Records show that in 2018, NDC sent a letter to OGCC to follow up request on the update of the status of car loan receivables from Officials 1 and 2, while NDC Management met with Official 3 to reconcile his outstanding balance. However, the car loan balances remained dormant to date. As indicated in the NDC's Agency

Action Plan and Status of Implementation of Recommendations for CY 2018, NDC stated that the concerned officials cannot be located, substituted service being explored and that they will file the complaint and serve summons for publications.

B. Housing loan

3.6 Item XII of the Housing Loan Agreement of NDC provides that:

> *"In case of default of payment by employee-borrower, or of retired/separated employees of monthly amortization for at least three consecutive months, the obligation shall immediately become due and demandable and such default shall be considered a sufficient ground to foreclose the mortgage or institute other legal proceedings. The Legal Department shall institute the necessary action against the employee-borrower upon the recommendation of the Housing Loan Committee."*

3.7 Audit of Receivable accounts revealed that the housing loan granted to 18 former employees/borrowers including one non-NDC employee but was assigned to the Corporation aggregating to P5.969 million remained dormant from two to 20 years. All the 19 borrowers were sent demand letters from July 2016 to January 2020, while only three of the 19 borrowers were filed extrajudicial foreclosures, six borrowers were still for filing of foreclosures and one borrower had executed deed of assignment in favor of NDC, as summarized below:

Employees	Date of loan granted	Status of Loan Receivables	No. of Years Dormant	Outstanding Balance
Employee 1	July 2006	Sent demand letter dated Jan. 31, 2020	5	1,440,576
Employee 2	April 1999	Sent demand letter dated Jan. 31, 2020	15	450,260
Employee 3	March 2000	Sent demand letter dated Jan. 31, 2020	6	142,749
Employee 4	September 1995 and March 1998	Sent demand letter dated Aug. 5, 2019	2	167,767
Employee 5	July 1999	Sent demand letter dated Aug. 5, 2019 (returned mail)	6	199,303
Employee 6	October 2002	Sent demand letter dated Aug. 5, 2019 (returned mail)	13	287,613
Employee 7	March 1999	Sent demand letter dated Aug. 5, 2019	10	120,738
Employee 8	December 1999	Sent demand letter dated Feb. 6, 2019 (returned mail)	2	265,190
Employee 9	October 2001	Sent demand letter dated Dec. 18, 2018 (returned mail)	14	372,201
Employee 10	May 1998	Sent demand letter dated Sept. 23, 2019 and for filing of extrajudicial foreclosure	3	264,277
Employee 11	September 1997	Sent demand letter dated Aug. 5, 2019 and for filing of extrajudicial foreclosure	2	30,612
Employee 12	May 1996	Sent demand letter dated Aug. 5, 2019 and for filing of extrajudicial foreclosure	14	134,070

Employees	Date of loan granted	Status of Loan Receivables	No. of Years Dormant	Outstanding Balance
Employee 13	1999	Sent demand letter dated Dec. 18, 2018 and for filing of extrajudicial foreclosure	3	322,780
Employee 14	October 1999 and October 2003	Sent demand letter dated Dec. 18, 2018 and for filing of extrajudicial foreclosure	14	179,264
Employee 15	June 2001	Sent demand letter dated Dec. 18, 2018 and for filing of extrajudicial foreclosure	2	378,597
Employee 16	August 2000	Sent demand letter dated Dec. 18, 2018, filed extrajudicial foreclosure and public auction done	16	406,539
Employee 17	August 1998	Sent demand letter dated Jan. 17, 2018, filed extrajudicial foreclosure and public auction done	15	298,519
Employee 18	August 2000	Sent demand letter dated July 12, 2016, filed extrajudicial foreclosure and public auction done	9	204,998
Employee 19	September 1998	Sent demand letter dated Dec. 18, 2018 and deed of assignment was executed in favor of NDC	20	302,848
Total				**5,968,901**

3.8 In September 2018, NDC's update on the status of housing loan receivables disclosed that 19 housing loan borrowers were sent demand letters on the same year, nine of them were for drafting of application for foreclosure and one was in the process of drafting of complaint for collection of sum of money. However, to date, only three delinquent borrowers were filed extrajudicial foreclosures and one deed of assignment was executed in favor of NDC.

3.9 Considering that these receivables were long outstanding and remained dormant, these former NDC employees were long before considered on default in loan payments. As such, based on the provisions of the Housing Loan Agreement, once the borrowers are on default without further notice, the balances of the loan become immediately due and demandable. There are sufficient grounds for immediate foreclosure of mortgaged property and/or for institution of other legal proceedings.

3.10 Moreover, despite the request of the Audit Team for copies of the demand letters and/or any documents to support actions taken to enforce collection of the balances of the car and housing loans in the aggregate amount of P6.791 million granted to NDC's former officials and employees, Management provided only the status of the actions taken. The majority of the receivables remained dormant in the books for more than six to 20 years. This manifests that actions were not fully undertaken to collect the said receivables.

3.11 Had Management exerted more intensive efforts to collect the car and housing loans from NDC's former officials and employees, loan receivables, could have been collected and could have generated additional funds for its operations.

3.12 **We recommended that Management:**

a. **Submit status/monitoring report to the Office of the Auditor on the car and housing loan accounts including copies of demand letters and/or other pertinent documents to prove that actions have been undertaken to enforce collection of the dormant receivables;**

b. **Require the Legal Department to immediately file complaints against defaulting former NDC officials and employees to recover the loaned amount;**

c. **Strictly enforce sanctions provided in the housing loan agreements thru the Legal Department; and**

d. **Revisit the policies on car and housing loans. Stricter control measures have to be adopted in case officers and employees resign or separate from the Corporation.**

3.13 The Management submitted a schedule regarding the status of housing and car loans receivable. In their reply, Management stated that they have judicially foreclosed several properties and is still filing foreclosure cases against delinquent former NDC employees. Additionally, NDC periodically reviews all delinquent accounts and computes for the corresponding penalties.

3.14 As a rejoinder, we request that Management submit copies of demand letters and/or other pertinent documents to validate their actions taken. It bears attention to note that for housing loan borrowers, filing of extrajudicial foreclosure is quite late especially those of 14 years dormancy of the account, while for car loan borrowers, no legal action has been filed.

B. OTHER OBSERVATIONS

4. The exact location and boundaries of the land costing P2.400 million located in Barangay Bonot, Legazpi City, Albay cannot be ascertained and title of six parcels of land are still not registered/transferred in the name of NDC.

4.1 We conducted an ocular inspection on NDC's property located in Barangay Bonot, Legazpi City on October 17, 2019. The property consisting of two contiguous parcels with a total area of 400 square meters (sq. m.), is a vacant lot located along the Subdivision Road, St. Jude Subdivision, Barangay Bonot, Legazpi City. The property is one of the acquired assets from the International Corporate Bank (ICB) which was transferred to NDC through a Deed of Assignment dated September 16, 1983. Transfer Certificates of Title Nos. 16309 and 16310 and Tax Declaration Nos. 0390985 and 0390986 disclosed that ownerships were still under the name of Continental Bank.

4.2 Upon arrival at the site, we have observed that the land cannot be identified with certainty. There are no markings or signage to identify the land. We visited the Assessor's Office in Legazpi City to determine the exact location and dimensions of NDC's property.

4.3 Based on the tax mapping shown to us, the land is located in the area where we inspected. However, due to lack of fence or property markers, the boundaries of the land cannot be ascertained, considering that the adjoining lots are also vacant properties.

4.4 On the other hand, out of the remaining 23 ICB acquired land assets as of December 31, 2019, there are still six properties with titles not under the name of NDC including this land located in Barangay Bonot, Legazpi City. These acquired land assets are part of the assigned properties under the Deed of Assignment executed by ICB and NDC on September 16, 1983.

4.5 **We recommended that Management:**

a. **Properly identify the exact location of the property including the boundaries to avoid possible encroachment of the adjoining lots;**

b. **Determine income-generating opportunities to utilize the land; and**

c. **Expedite the transfer of ownership of the remaining properties from ICB to NDC.**

4.6 Management commented that they will hire the services of a Geodetic Engineer to conduct a relocation survey in order to re-establish the boundaries of the subject property and engage the services of a contractual personnel to handle the processing of the transfer of title of the subject property in NDC's name along with other ICB acquired assets that are yet to be titled under NDC's name. Thereafter, the subject property will be scheduled for its disposal, being a residential lot.

5. The land located in Echague, Isabela with a total area of 6,277 square meters remained idle and vacant.

5.1 We conducted an ocular inspection on NDC's property located in the province of Isabela on October 24, 2019. The 6,277 square meter (sq. m.)-property under Transfer Certificate Title No. T-96851 is located along Primo Gaffud Street, Barangay Suyong, Echague, Isabela.

5.2 Based on the appraisal report dated December 28, 2015, there is a legal easement of 491.46 sq. m. along the creek (the land being bounded by a creek on its southwest and west side). The land is generally flat and classified as a residential lot.

5.3 No visible structure was seen during the inspection; however, the land is unkempt with tall grasses everywhere. This property is advertised for lease on NDC's website.

5.4 **We recommended that Management actively advertise and promote the property and/or coordinate with the local government for projects where the property can be utilized.**

5.5 The Management replied that the subject property is among the properties submitted to the Board of Investments (BOI) for possible development under the Investment Priorities Plan of the government.

5.6 Management also considers other possible options that will give NDC source of income either through lease or property development with the Local Government Unit (LGU) under government to government transaction.

6. Several other land assets remained idle/vacant and some are occupied by illegal occupants for residential, commercial and personal purposes, depriving NDC of potential income from the use of such assets. *(This is a reiteration of prior years' observations and recommendations.)*

6.1 Since CY 2016, we have been conducting series of ocular inspection of NDC's properties located in various parts of the country. Some of the common observations noted during those activities were: (a) various properties are occupied by illegal settlers for their own use and (b) several lands are idle/vacant.

6.2 The table below shows the status of the land assets which were inspected from 2016 to 2018 located on the following places:

Location	Area	Status
Properties occupied by illegal settlers		
Bongabon, Nueva Ecija	8,952 sq. m.	This property is vacant but has been used for planting rice and there were rice straws noted in the area. The farmers, thru the assistance of the LGU-Bongabon, agreed to vacate the property after cropping in April 2017. NDC will conduct a relocation survey and install a fence to secure the property. NDC is also looking for possible use of the property either for commercial purpose or site for research and development.
Calatagan, Batangas	1,131 sq. m.	The property consists of two parcels of lot planted with "palay" by two individuals. NDC will coordinate with the LGU-Calatagan for assistance in convincing the farmers to vacate the property or convince them to pay rental to NDC for their occupancy of the area.
Sambag District, Cebu City	613 sq. m.	The property located along the main road is occupied by informal settlers using them for residential and commercial purposes. Erected on the property is an old house/building with bakery and small store in the ground floor. NDC has coordinated with the owner of the bakeshop in the past to pay rentals for the use of the portion of the property. A draft contract was sent to them but no action on their part. With their inaction on the demand of NDC, the Legal Department was instructed to take appropriate action on the unauthorized occupation of the property.
Puerto, Cagayan de Oro	3,352 sq. m.	The property is fully occupied as residence by illegal settlers. Several houses built are made of concrete and/or light materials. This property shall be covered by the Community Mortgage Program (CMP) of the Social Housing Finance Corporation (SHFC). The informal settlers already organized themselves as a requirement of the CMP. However, NDC is yet to title this property in its name which is a requirement by SHFC for the property to be covered by CMP.
Iponan, Cagayan de Oro	502 sq. m.	The property is a vacant residential lot, but it is encroached by the occupant of the adjacent lot, who uses it for his piggery.

Location	Area	Status
		The property is slated for disposal once the road map of properties is approved by the NDC Board.
San Francisco, Del Monte, Quezon City	623 sq. m.	The whole property is fully occupied by illegal settlers whose houses are made of light materials. The title of the property which is still under the name of the original owner was nowhere to be found, the management requested for the reconstitution of the title. The decision of the Court was favorable, but the Order of Finality of judgment was not yet issued. Once the Order of Finality is out and the title of the property is transferred to NDC, then CMP will push through. In addition, the occupants consisting of about 27 households/families, already formed a community association under the name of San Antonio Neighborhood Association Inc.
Sucat, Muntinlupa	39,851 sq. m.	This is an almost four-hectare property which was developed into a housing subdivision by virtue of a Joint Venture Agreement (JVA) executed by and between NDC and New San Jose Builders, Inc. (NSJBI) on October 23, 1993. Upon ocular inspection, we observed that a portion of the property was used as jeepney terminal. Accordingly, such area was leased by the jeepney operators' association from NSJBI. A building was also constructed right behind the jeepney terminal and is being used as office of a security agency which is not associated with NSJBI. Scrutiny of the JVA disclosed that leasing of the subject property to any party is not among the responsibilities of NSJBI. Such act belongs to NDC being the owner of the property. Its responsibility is mainly to develop and construct housing units and marketing thereof. The JVA executed by and between NDC and NSJBI was referred to Office of the Government Corporate Counsel (OGCC). NDC is waiting for the feedback of OGCC regarding the matter, and then NDC will file an arbitration case against the NSJBI to retrieve the property.
Hermosa, Bataan	54,892 sq. m.	This is a five-hectare property retained by Comprehensive Agrarian Reform Program. The area along the barangay road was occupied by informal settlers whose houses were made of light and concrete materials. The bigger portion of the property is vacant which serves only as pasture for animals. During the ocular inspection, we noticed few houses erected at the back-end portion (area not along the barangay road) of the property. However, we cannot ascertain whether such portion is still part of NDC property or not. In 2019, relocation survey was made to determine the property boundaries. It was confirmed in the report that these settlers have encroached upon the property.
San Felipe, San Fernando, Pampanga	877 sq. m.	The property is located along the San Fernando River. It is occupied by informal settlers whose houses are made mostly of concrete materials. The property was approved by the NDC Board for sale thru the CMP at the approved price of P458,561 in 2015. Sixteen informal settlers who occupied the property signified their intention to avail of the CMP under the name of "San Felipe Riverside Home Owner's Association".

Location	Area	Status
		A CMP-Mobilizer who would assist them in the implementation of the CMP had backed out and the President of the Association had a heart attack, setting back the next course of action of NDC.
Bo. Dolores, San Fernando, Pampanga	1,139 sq. m.	The property is located inside a subdivision. It is enclosed by concrete fence and serves as a recreational area of the residents, where a basketball court, stage and small multi-purpose building were constructed. Also, erected in the property is the Dolores Homesite Material Recovery Facility where recyclable waste materials were segregated. It was noted that the Dolores Homesite & Extension Homeowner's Association, Inc. (DHEHA) does not pay rental to NDC for the use of the property. Negotiations with the Local Government Unit (LGU) for government-to-government acquisition of the property for use of the residents did not materialize. NDC will exert effort to dispose the same or negotiate a lease contract with the DHEHA for the use of the property.
Talakag, Bukidnon	450 sq. m.	This property is a residential lot occupied by a certain Ireneo Enong, where one old house was erected. Demand letter to evacuate the premises was sent in May 2019.
Los Baños, Laguna	8,901 sq. m.	The property is occupied by informal settlers and included in the scope of Presidential Proclamation (PP) 550 s. 2004 reserving the land for housing site purposes. NDC it is letter dated May 20, 2019 made a follow up with LGU- Los Baños on the status of NDC's request for the exclusion of the property from PP 550 s. 2004.
<u>Idle/Vacant properties</u>		
Sta. Fe, Bantayan, Cebu	5,297 sq. m.	The property is vacant and although enclosed with a cyclone wire fence, a portion is used as a stockyard by the owner of the adjacent beach resort. NDC is marketing the property for lease or project development.
Guadalupe, Cebu City	232 sq. m.	The property is a small vacant road lot and is for disposal as previously approved by the Board. It was previously leased-out as parking area of the adjacent lot owner who had also signified interest to buy the vacant area. Hence, disposal shall be scheduled once confirmation of disposal is cleared by the Board.
Macasandig, Cagayan de Oro	669 sq. m.	The property is a vacant residential lot and is slated for disposal once the road map of properties is approved by the NDC Board.
Kamagong & Sampaloc Streets, Makati City	1,256 sq. m.	Half of the property is still vacant while the other half is leased to PAJ Restaurant Group Corporation. The property is suitable for business; thus, the potential earning of the other half is not maximized. During the inspection, we noted the advertisement for lease posted by NDC for the subject vacant area. There are two companies that signify intent for the lease of the property. NDC is waiting for the acceptance of the prospective lessees on the basic terms for the lease of the property.

Location	Area	Status
San Andres & E. Quirino Ave., Manila	1,318 sq. m.	The 140-sq. m. area of the property, located in prime location, is covered by a short-term lease contract for parking purposes, while the remaining areas are held vacant. The property is ideal for business purpose. During the ocular inspection, we also noted an advertisement for lease posted in the property premises. NDC will no longer renew the lease of the parking upon its expiration in February 2018, instead, it shall exert effort to have the 816.40 sq.m. area leased-out to optimize the use of the entire property.
Batangas II, Mariveles, Bataan	621 sq. m.	This consists of two non-adjacent parcels of land located along the Roman Highway which are both vacant. The LGU-Bataan is looking into the property as site for the expansion of the Batangas II High School which is adjacent to the property.
Meycauayan, Bulacan	5,231 sq. m.	The property, covering 2,000 square meters, is partially leased out to Mr. Felix Vaal for his junk shop business. However, upon inspection, we noted that said lessee occupied almost the whole area of the property. The subject lessee should have been charged additional rental for the other area he illegally occupied for his business. Vaal's lease ended in May 2019.
San Juan, San Fernando, Pampanga	1,526 sq. m.	The property is located near the National Highway, thus, suitable for business. A portion covering 247.50 square meters was leased to Mr. Romeo B. Naguit, while the larger portion of the property is vacant. Based on the 3rd party qualitative assessment on the property, it was recommended that the property be best disposed of. NDC shall secure approval of the property roadmap based on the result of the said 3rd party assessment of its properties.
San Juan St., Bacolod City	13,197 sq. m.	This more than one-hectare property is vacant although security guards are posted by NDC to avoid possible entry of illegal occupants. Tall grasses have grown in the area. The property is also suited for commercial purposes since it is located near the City. Conversation with the security guard revealed that a number of persons have inquired and seemingly have manifested interests to lease portion of the property. NDC is trying to market the said property, a number of inquiries were received, including intent to buy the property, but no long-term lease was consummated/completed.
Bo. Langihan, Butuan City	24,947 sq. m.	The property measuring more than two hectares, consists of two non-adjacent lands. Several houses (estimated at 20-30 houses) made of light materials were erected in the property. Some of the areas were tilled by the occupants for rice production. The subject property was among the identified land assets to be disposed of through CMP process. NDC is trying to reconsider another strategy or plan of action regarding the property. The property was offered to DTI as site of the shared service facility for local entrepreneurs of the region; however, the same did not materialize. Management effort is focused on the titling of the property in NDC's name.

Location	Area	Status
Barangay Tagapo, Sta. Rosa, Laguna	244 sq. m.	The 243.95 sq. m.-vacant lot is located along the National Road, Barangay Tagapo, Sta. Rosa City beside a 7-11 store and a Caltex gasoline station. The relocation survey revealed that the portion of the said property was being occupied by 7-11 store. NDC in its letter dated July 30, 2019 has invited Chevron Philippines Inc. for a meeting to discuss the payment of the rentals or compensation to NDC in view of the use and occupancy of the said property.
Barangay Humayao, Dasmariñas, Cavite	191,773 sq. m.	The property is already earmarked as site of NDC Industrial Estate (NDCIE) project. The bidding for the site development works for the NDCIE project was conducted on November 13, 2019 and once the project is awarded to the winning contractor, the site development works will be completed in about two years.
Barangay Langkaan, Dasmariñas, Cavite	80,337 sq. m.	The property was returned by the City Government which was previously under 25-year lease contract. NDC is still evaluating whether to keep for possible use as site for Gamma Irradiation Facility project or sell the subject property.

6.3 **We recommended that Management review the aforementioned plans of action and provide updates to the Audit Team of actions taken to improve and monitor the condition of these properties.**

6.4 The table below shows Management's comments on each property:

Location	Management's Comments
Properties occupied by illegal settlers	
Bongabon, Nueva Ecija	Management awaits the decision of the Housing and Land Use Regulatory Board (HLURB) on its offer to develop the subject property for the housing program of the government.
Calatagan, Batangas	Management awaits the decision of the HLURB on its offer to develop the subject property for the housing program of the government. The subject property is slated for processing of transfer of title from previous registered owner to NDC's name. The issuance of the Certificate Authorizing Registration had been deferred pending submission of ICB pertinent documents, as requested by BIR.
Sambag District, Cebu City	Based on the Property Roadmap, the subject property is slated for disposal on an "as is, where is, basis". On the unauthorized occupation and use of the subject property, Management will make a follow up on its demand against the informal occupants to vacate or execute the lease contract with the NDC and pay NDC back rentals thereof.
Puerto, Cagayan de Oro	The subject property is slated for titling. Management will continue to pursue the CMP for the informal settlers once the title is transferred to NDC's name.
Iponan, Cagayan de Oro	The Disposal Committee has conducted a successful bidding on August 22, 2019 for the disposal of the subject property. Management will secure the NDC's Board approval for the award of sale to the winning bidder.
San Francisco, Del Monte, Quezon City	The subject property is slated for titling in NDC's name. Management still awaits the Order of Finality from the Court covering the reconstitution of the title of the previous owner.

Location	Management's Comments
	Once received, the process of reconstitution of title and the transfer to NDC's name will proceed. Thereafter, the CMP process for the occupants will push through.
Sucat, Muntinlupa	Management already sought the assistance of the Office of the Government Corporate Counsel in the filing of the arbitration proceedings against New San Jose Builders, Inc., for breach of contract.
Hermosa, Bataan	Management awaits the decision of the HLURB on NDC's offer to acquire the property for the housing program of the government. In addition, Management will coordinate with the occupants that has signified interest in acquiring the property they are occupying.
San Felipe, San Fernando, Pampanga	Management will continue to coordinate with the informal settlers on the availment of the CMP which had been stalled due to absence of qualified Mobilizer in the area.
Bo. Dolores, San Fernando, Pampanga	Management will exert effort to dispose of the subject property through negotiated sale with the Dolores Homesite Homeowners Association since they have already erected unauthorized structures on the premises.
Talakag, Bukidnon	The subject property is among the ICB lands to be processed for titling in NDC's name. Management intends to sell the property once the title is finally registered in the name of NDC. Management will coordinate with the barangay to verify whether the person occupying the property has left the premises, after NDC issued the notice to vacate the property.
Los Baños, Laguna	Based on the February 7, 2020 meeting attended by NDC with the Municipal Urban Development and Housing Board-Local Inter Agency Committee (MUDHB-LIAC), the following agreements were reached: 1) LIAC will not issue a Certificate of Lot Award for the occupants of NDC property; 2) DENR, Reg. 4 to assist the LGU-Los Baños in the validation/verification of TCT issued to NDC and conduct a survey covered by PP550 (Per DENR representatives, the subject NDC property is part of the military reservation area, hence cannot be titled by a private party); and 3) Exclusion of NDC property from the coverage of PP550, if NDC TCT is found valid Management still awaits update from MUDHB-LIAC on the validation of NDC TCT.
Idle/Vacant properties	
Sta. Fe, Bantayan, Cebu	The subject vacant property was declared as one of wilderness areas under PP No. 2151, s.1981 where sale and forms of disposition of any property is prohibited, but subject to existing recognized and valid private rights. Hence, titling of the property in NDC's name cannot be processed. Management will continue to invite interested parties to lease or develop the property in order to generate income for NDC.
Guadalupe, Cebu City	The subject property is classified and used as a road lot; hence, Management intends to dispose of this property through a Deed of Donation to the LGU-Cebu City for a road-right-of-way (ROW). The retained area of the ROW of about 47 sq.m. will be offered for sale to the owner of the adjacent lot that signified interest to buy the same.

Location	Management's Comments
Macasandig, Cagayan de Oro	The subject property is slated for disposal. Management to secure approval of the NDC Board for the said sale.
Kamagong & Sampaloc Streets, Makati City	The property is slated for acquisition by the LGU of Makati City through a government to government transaction.
San Andres & E. Quirino Ave., Manila	The entire property is currently leased out to Mr. Felmar Junifer T. Picar for five (5) years until December 31, 2022, and Valley South Motor Works for three (3) years until December 16, 2021 for the operation of a restaurant and motor works business, respectively.
Batangas II, Mariveles, Bataan	Management will dispose of the subject property through a government to government sale transaction with the LGU-Bataan once the development plan and the budget for the expansion site of the Batangas II High School is approved.
Meycauayan, Bulacan	The partial leased out for a junk shop business on the property was already terminated so that Management can lease out the whole property for its optimum utilization. Management negotiation for the lease of the entire property with Bellemina Dynamic Builders, Inc. did not push through.
San Juan, San Fernando, Pampanga	Management intends to dispose of the subject property through public bidding. Currently, a portion covering an area of 247.50 sq.m., is being leased out to Mr. Romeo B. Naguit for two (2) years until 31 August 2021.
San Juan St., Bacolod City	The subject property is among the properties submitted to the Board of Investments (BOI) for possible development under the Investment Priorities Plan of the government. In addition, Management will continue to advertise the subject property, for lease or project development to interested parties in order to generate steady source of income for NDC.
Bo. Langihan, Butuan City	The subject property is slated for titling. Management awaits the decision of the HLURB on NDC's offer to acquire the property for the housing program of the government.
Barangay Tagapo, Sta. Rosa, Laguna	Management will continue to negotiate with Chevron Philippines, Inc. for the payment of back rentals or compensation to NDC resulting from the use of a portion of the subject property by 7-Eleven Convenience Store, and as an ingress/ egress of vehicles going to/ from the Caltex Station.
Barangay Humayao, Dasmariñas, Cavite	The re-bidding for the site development works of the property for the NDC Industrial Estate Project is temporarily suspended due to the community quarantine being implemented by the government on COVID-19 pandemic.
Barangay Langkaan, Dasmariñas, Cavite	The development of the subject property as site for Gamma Iradiation Project is deferred until further evaluation. In the meantime, Management will advertise the subject property, for lease or project development to interested parties in the event the use of the property for the said project will not push through.

6.5 As a rejoinder, we recommended that Management review and implement the plan of actions that were previously committed and we request that the Asset

Management Group and Legal Department provide specific timeline for the action to be taken on the various properties.

7. The Corporation incurred P3.467 million for the continuous hiring of consultants for tax related and confidential policy determining matters in CYs 2018 and 2019.

7.1 General Principle on Consulting Services, Annex "B" of the Revised IRR of RA 9184 states that:

> *1. xxx*
> *2. The Need for Consultants*
> *The services of consultants may be engaged by any procuring entity for government projects or related activities of such* ***magnitude and/or scope as would require a level of expertise or attention beyond the optimum in-house capability*** *of the procuring entity concerned and consistent with the Government's policy not to compete with the private sector.*
> *3. xxx*
> *4. Hiring of Consultants*
> *4.4 "Technology and* ***knowledge transfer*** *to the procuring entity shall be required in the provision of consulting services, where applicable". (emphasis supplied)*

7.2 Audit disclosed that the Corporation continuously hired three consultants and paid a total of P3.467 million for the services rendered in CYs 2018 and 2019, as shown below:

Office	**No. of Consultants**	**Amount 2018**	**Amount 2019**	**Total**
Corporate Support Group (CSG)- Consultant X	1	600,000	600,000	1,200,000
Office of the General Manager (OGM)- Consultant Y and Z	2	1,133,333	1,133,333	2,266,666
Total		**1,733,333**	**1,733,333**	**3,466,666**

7.3 The Corporation had been hiring a tax consultant since July 18, 2016 with the rate of P38,889 a month for the first six months contract and P50,000 a month for the succeeding contracts up to present for the same services performed as follows:

Consultant X

a. *Advise Management on matters relative to any tax assessment issued by the Bureau of Internal Revenue (BIR);*
b. *Attend meetings/discussions with BIR for the reinvestigation filed relative to the tax assessment;*
c. *Render consultancy and advisory services on tax matters;*
d. *Advise/Assist NDC in resolving issues and special concerns on tax related matters affecting the Corporation and its subsidiaries; and*
e. *Testify in Court Hearings on Tax related cases on matters within the scope of the Consultancy Agreement.*

7.4 The above-enumerated services can be categorized under "Advisory and Review Services", Paragraph 6, Annex "B" of the Revised IRR of RA 9184 and are administrative and financial in nature.

7.5 We noted that the consultant has been performing the same services which are non-technical in nature and is redundant to the job description of the regular employees of NDC since 2016 as evidenced by the consultancy contract renewed every six months, the latest commencing on October 24, 2019 up to April 23, 2020. The monthly accomplishment reports submitted, also showed similarity. The said service does not require such magnitude and/or scope as would require a level of expertise or attention beyond the optimum in-house capability of NDC which is not in consistent with the above-cited general principle of the Revised IRR of RA 9184.

7.6 Considering the length of services provided and its accomplishments, the transfer of knowledge should have been accomplished then, and the regular employee should have been performing the task now.

7.7 Moreover, the Corporation regularly hired consultants for policy determining matters since September 24, 2012 and January 10, 2014, respectively. They were paid a monthly salary of P66,667 and P27,778, respectively, up to present for the same services to be performed as follows:

Consultant Y

a. *Render advisory services regarding the reports and communications that are submitted to the Office of the General Manager;*
b. *Submit recommendation, render consultancy and advisory services on matters that need the General Manager's comments/decision;*
c. *Provide advice in resolving critical issues and special concerns, whether identified or anticipated, in the course of the development and implementation of NDC Plans and Program;*
d. *Provide advice on the drafting of NDC's strategic plans and corporate programs;*
e. *Provide analysis and recommendation on financial programs and undertake financial simulations;*
f. *Participate in discussions with concerned government agencies and financial institutions in relation to fund sourcing activities and corresponding utilization;*
g. *Prepare reports and corresponding reply/communications to NDC Chairman, different government officials and corporations on behalf of the General Manager;*
h. *Submit appropriate output reports, evaluations and internal memoranda to NDC on work related to the above; and*
i. *Perform such other tasks as may be assigned by NDC from time to time.*

Consultant Z

a. *Prospective and current projects of NDC including those involving pharmaceutical, alternative fuel, infrastructure and other related areas;*
b. *Promotion of NDC to prospective investors to encourage investments and provide assistance in the coordination and implementation process;*

c. *Resolution of critical issues and special concerns, whether identified or anticipated in the course of project development and monitoring;*
d. *Effective management of NDC companies, particularly Philippine Pharma Procurement, Inc. and*
e. *Institution of measures to improve performance of companies with NDC exposure to safeguard NDC investment/loan.*

7.8 The consultants were hired under the OGM for non-technical duties and functions which are advisory and review in nature and deemed redundant to the job description and functions of the regular employees in the Corporate Planning Group of NDC.

7.9 The accomplishment reports submitted supporting the various disbursement vouchers, disclosed that duties and services of the consultants can be handled by regular NDC personnel.

7.10 We also noted that some advisories/recommendations on various programs/projects were not implemented and some work accomplishments were only repeated monthly, indicating that the consultants had no enough work to do. As such, payment for services of these consultants can be considered unnecessary expenditure.

7.11 **We recommended that Management hire consultants only for jobs requiring technical expertise which cannot be performed by regular employees and consider training qualified regular employees and/or hire new personnel to handle tax related and policy determining matters of the Corporation.**

7.12 Management replied that NDC had been hiring a tax consultant to ensure NDC's compliance to BIR regulations. The consultant has the experience and training specifically in tax laws who handles and reviews NDC's Tax returns. This resulted to the re-computation of VAT payments and appeal for VAT refund amounting to P42 million which is still pending in the court. Moreover, the consultant assists in handling the NDC's 2015 BIR assessments, submit the necessary supporting documents and resolving tax rules and laws with BIR examiners.

7.13 Hiring a consultant is part of NDC's Risk Management Strategy to avoid losses due to error in tax computations, overpayments and payment of penalties. However, the Corporation provides training to its employees on tax updates, laws and regulations.

7.14 Management commented that Consultant Y was hired to perform highly technical functions that are confidential in nature. Moreover, NDC has not filled out the position of executive secretary for Office of the General Manager which the consultant also fulfills in addition to her functions as consultant in Fund Management Group and Special Projects Group.

7.15 Also, Management commented that Consultant Z was hired to perform highly technical functions that are confidential in nature. This includes advising the General Manager (GM) and the Assistant General Manager (AGM) for Special Projects Group on policy-determining measures consistent with the NDC charter. She has the expertise, experience, and network in coordinating with private and government companies for possible partnership that will create projects for NDC.

7.16 As a rejoinder, we maintain our recommendation considering the length of time that the consultants had been hired, their expertise should have been passed on to the personnel of NDC who are professionals and qualified as well.

8. Unremitted cost of audit services to the National Government (NG) accumulated to P11.961 million as of December 31, 2019.

8.1 Item 4.1 and 4.2 of Commission on Audit (COA) and Department of Budget and Management (DBM) Joint Circular (JC) No. 88-1 dated July 29, 1988 provides that:

> *"COA shall prepare the assessment for the cost of regular audit services for the ensuing year for each government-owned and/or controlled corporation and its subsidiaries, copy furnished the corporation concerned, Department of Budget and Management and the Bureau of the Treasury (BTr), in time for the preparation of the corporate operating budgets.*
>
> *The government corporation shall include an amount equivalent to the cost of regular audit as determined by COA in its corporate operating budget for the succeeding year."*

8.2 Item 4.5 and 4.6 of COA and DBM JC No. 88-1 dated July 29, 1988 also provides that:

> *"The government corporation shall remit to the BTr the said cost of audit services in six (6) equal installments, each installment to fall due on or before the 15th day of the months of January, March, May, July, September and November of the calendar year and shall furnish the DBM and the COA each with a copy of proof of certificate of remittance made to the BTr.*
>
> *BTr shall follow up/demand in writing the remittance of delayed installments five (5) days after the same has become due."*

8.3 Our audit of disbursement vouchers for payments of cost of audit services disclosed that total remittance to the NG amounted to P78.620 million from 1990 to 2019. However, the total assessment for cost of audit services for CYs 1990 to 2019 amounted to P90.581 million, leaving an unremitted amount of P11.961 million.

8.4 The table below shows the summary of remittances of cost of audit services.

Year	Assessments	Remittances	Balances	Remarks
1990	2,698,238	1,114,956	1,583,282	
1991	3,065,320	1,400,552	1,664,768	
1992	2,151,752	1,668,985	482,767	
1993	2,456,837	1,088,134	1,368,703	
1994	0	1,933,786	(1,933,786)	Requested COA-PFMS on January 7 and 9, 2020 to reflect unaccounted payments made by NDC
1995	2,121,049	1,588,353	532,696	
1996	2,238,761	1,744,596	494,165	
1997	2,498,264	970,570	1,527,694	
1998	2,719,611	2,181,595	538,016	
1999	1,801,241	1,801,241	0	

Year	Assessments	Remittances	Balances	Remarks
2000	2,548,468	2,536,605	11,863	
2001	3,022,230	2,679,713	342,517	
2002	2,810,556	2,205,108	605,448	
2003	2,614,808	2,526,539	88,269	
2004	2,307,338	1,087,955	1,219,383	
2005	2,028,800	1,791,370	237,430	
2006	2,133,131	1,856,256	276,875	
2007	1,727,240	1,727,240	0	
2008	2,011,710	2,011,710	0	
2009	2,622,865	2,462,141	160,724	
		376,537	(376,537)	Requested COA-PFMS on January 7, 2020 to reflect unaccounted payments made by NDC
2010	2,630,907	2,638,979	(8,072)	
2011	5,283,455	4,000,000	1,283,455	
2012	3,584,048	3,492,140	91,908	
2013	4,101,449	4,019,734	81,715	
2014	4,114,035	3,834,007	280,028	
2015	4,779,277	3,848,615	930,662	
2016	4,157,097	4,060,400	96,697	Requested COA-PFMS on January 7, 2020 to reflect unaccounted payments made by NDC
2017	4,519,332	4,548,241	(28,909)	
2018	5,631,909	5,222,714	409,195	
2019	6,200,977	6,200,977	0	
Total	90,580,705	78,619,749	11,960,956	

8.5 Verification of disbursement vouchers revealed that NDC remitted the payments of cost of audit services to BTr based on the actual cost incurred by the assigned Audit Team for a given year.

8.6 As provided on Item 4.9 of COA and DBM JC No. 88-1 dated July 29, 1988:

> *"The difference between the assessment billed the government corporation for auditing services as incorporated in the corporate operating budget and the actual cost incurred for the same year shall be adjusted in succeeding year's assessments. Xxx"*

8.7 The Accounting Office, Planning, Finance and Management Sector (PFMS) of the COA prepares and bills the assessment for cost of audit services based on the budget estimates prepared by the Audit Team assigned in the auditee. Accordingly, if there is a difference between the assessment billed and the actual cost incurred for the same year, it is advised that reconciliation be made with COA-PFMS, in order to adjust the assessments for the following year.

8.8 **We recommended that Management:**

a. Reconcile with the Accounting Office, COA-PFMS for any difference between the assessment billed and the actual cost incurred; and

b. Remit the balance of cost of audit services due to the NG to the BTr and furnish the Accounting Office, COA-PFMS copy of proof of remittance to

BTr for easy reference and reconciliation between NDC records and COA-PFMS records.

8.9 Management replied that NDC is currently evaluating the account. However, NDC requested for copies of assessment letters and breakdown of the assessment cost in order to reconcile them with NDC's records.

9. Payments for membership fees for inactive club shares amounting to P71,680 were considered unnecessary expenditure under COA Circular No. 2012-003 dated October 29, 2012.

9.1 Section 4.1 of COA Circular No. 2012-003 dated October 29, 2012 defined Unnecessary Expenditures as follows:

> *"The term pertains to expenditures which could not pass the test of prudence of the diligence of a good father of a family, thereby denoting non-responsiveness to the exigencies of the service.* ***Unnecessary expenditures are those not supportive of the implementation of the objectives and mission of the agency relative to the nature of its operation.*** *This would also include incurrence of expenditure not dictated by the demands of good government, and those the utility of which cannot be ascertained at a specific time.* ***An expenditure that is not essential or that which can be dispensed with without loss or damage to property is considered unnecessary.*** *The mission and thrusts of the agency incurring the expenditures must be considered in determining whether or not an expenditure is necessary."*

9.2 NDC owns membership shares on Manila Golf and Country Club, Inc. (MGCCI) and Makati (Sports) Club, Inc. (MSCI) with monthly membership dues of P13,440 and P2,800, respectively. Starting October 2019, MSCI stopped collecting VAT thus the new monthly membership dues is now P2,500. The total membership dues paid to MGCCI and MSCI for 2019 amounted to P144,180 and P30,000, respectively.

9.3 NDC also owns membership shares on Metropolitan Club, Inc. Of the outstanding 38 shares from Metropolitan Club, NDC pays the monthly membership dues of P18,000 for six shares assigned to NDC officials. For 2019, the total membership dues paid is P188,938. Additionally, fees amounting to P71,680 for 32 inactive shares were also paid.

9.4 The issue on club membership fees was raised in an Audit Observation Memorandum issued in 2016. The Management in their reply explained that maintaining these club shares are not unnecessary, since trade agreements or investments are not consummated inside boardrooms alone and that NDC benefits in the use of the club facilities.

9.5 We noted that despite our observation, none of the inactive shares were disposed of. The only movement from the 33 inactive shares in 2016 is that there was a new assignment of one share, thus, to date 32 shares are inactive. Maintaining these inactive shares are costly and unnecessary, and do not accrue in any form of benefit to NDC.

9.6 **We recommended that Management dispose immediately the unutilized and/or inactive shares to avoid incurring unnecessary expenses in the form of membership fees.**

9.7 The Management commented that the NDC Board in July 2018 approved the disposal of the 32 inactive shares in Metropolitan Club. A public bidding was conducted for the disposal of the shares but there was a failure of bidding. A rebidding was scheduled in 2019 but Management decided to hold it in abeyance in anticipation of the appreciation of the value of the shares.

9.8 The same with Manila Golf and MSCI, they were being kept in anticipation of the appreciation of its price due to the planned major developments of the Clubs.

9.9 Management assures the Commission that disposal of all the Club shares are included in the NDC program for divestment and will be implemented in due time, once the approval of the NDC Board is secured.

10. Salaries and wages amounting to P200,239 of personnel not involved in GAD planning, implementation, and monitoring of GAD PAPs were reported in GAD Accomplishment Report (AR) contrary to Section IV.B.2.d of COA Circular No. 2014-001 dated March 18, 2014.

10.1 Section IV.B.2.d of COA Circular No. 2014-001 dated March 18, 2014 provides that:

> *"Personal services such as salaries of agency personnel assigned to plan, implement and monitor of GAD Programs and Projects (PAPs) on full time or part time basis or as an additional duty, following government rules on hiring and creating positions, provided further that in case of those rendering services on part time basis or as an additional duty, only the salary or wage proportionate to the time devoted to GAD shall be considered in the computation of the cost of the particular GAD activity. No additional allowances, benefits, bonuses and the like shall be charged against GAD funds unless there is a specific law or authority from the President of the Philippines authorizing the same."*

10.2 Verification of the submitted GAD AR showed that salaries and wages expenses of permanent employees, contract of service, employees of service providers for four days seminar were charged or attributed to the programs. Although these salaries and wages are still included in Personal Services account and did not affect its balances, these expenses should not be attributed to GAD expense account because the personnel involved were only participants in the programs particularly in the Celebration of National Women's month, Orientation on Good Grooming and Personality Development and Seminar on Gender Sensitivity Training (GST), Gender Awareness and GAD Mainstreaming held on March 26, 2019, May 2, 2019 and August 1 - 2, 2019 respectively. These personnel were not involved in the planning, implementation or monitoring of GAD PAPs on full time basis.

10.3 **We recommended that Management charge or attribute to GAD expense account only those salaries and wages of NDC Personnel who are directly involved in the planning, implementation and monitoring of GAD PAPs.**

10.4 Management submitted revised GAD Accomplishment Report and JV No. 12-166-19 to adjust the expenses charged to GAD.

11. GAD-related expenses recorded in the books of accounts amounting to P107,104 did not tally with the expenses reported in the GAD Accomplishment Report amounting to P674,997, showing a variance of P567,893.

11.1 NDC's GAD-related expenses for CY 2019 reported in GAD Accomplishment Report showed a total expense of P674,997. However, examination of GAD-related expenses revealed that the recorded expense in the books of accounts amounted to P107,104 only, showing a variance of P567,893. There were only minimal GAD activities but the recording in the books of accounts and GAD AR did not correspond with each other.

11.2 GAD expenses were included in the major expense accounts either in Training, Other Professional Service and Other Miscellaneous expenses accounts with assigned sub-code number 8649 for easy identification of GAD-related expenses. However, despite having a sub-code account number, several GAD-related expenses were not recorded in the said sub-code, instead were recorded in Corporate sub-code 232.

11.3 **We recommended and Management agreed to instruct the focal person of the GAD Focal Point System Committee to coordinate with Accounting personnel to account the expenses in GAD activities that are chargeable to GAD expense account to properly record those expenses in the books.**

COMPLIANCE WITH GSIS, PHIC AND PAG-IBIG

12. For CY 2019, the appropriate premium contributions and loan amortizations were deducted from salaries of the employees of NDC. Employees' share together with the government share as well as the loan amortizations of employees were remitted to GSIS, PHIC and Pag-IBIG Fund within the prescribed period. The remittances for CY 2019 are as follows:

GSIS contribution	P	4,390,608
PHIC contribution		307,656
PAG-IBIG contribution		119,100
GSIS loan amortization		1,093,936
PAG-IBIG loan amortization		227,848
Total	**P**	**6,139,148**

STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

13. As of December 31, 2019, the details of Notices of Suspension, Disallowance and Charge issued upon the effectivity of the COA Rules and Regulations on the Settlement of Accounts (RRSA) are as follows:

	Balances as of January 1, 2019	Issued during the year	Settled during the year	Balances as of December 31, 2019
Notice of Suspension	0	0	0	0
Notice of Disallowance	20,263,752	581,250	0	20,845,002
Notice of Charge	0	0	0	0
	20,263,752	581,250	0	20,845,002

13.1 The details of the NDs are shown below:

Date	ND No.	Amount	Settled	Balance
April 26, 2019	2019-001(2018)*****	581,250	0	581,250
August 30, 2017	2017-001(2014-2016)****	1,447,085	0	1,447,085
August 12, 2013	2013-001(2012)****	1,375,000	0	1,375,000
August 14, 2013	2013-002(2012)***	725,000	0	725,000
July 7, 2010	2010-001-101(07)*	399,999	0	399,999
July 7, 2010	2010-002-101(07)*	333,334	0	333,334
July 13, 2010	2010-003-101(08)*	266,667	0	266,667
July 13, 2010	2010-004-101(08)*	83,333	0	83,333
July 13, 2010	2010-005-101(08)*	233,334	0	233,334
July 13, 2010	2010-006-101(09)*	233,333	0	233,333
July 13, 2010	2010-007-101(09)*	166,667	0	166,667
May 20, 2003	2003-001-001**	15,000,000	0	15,000,000
		20,845,002	0	20,845,002

* With Petition for Review on Certiorari filed with Supreme Court on May 9, 2011

** With COA Order of Execution dated February 6, 2014

*** With COA Order of Execution dated July 26, 2017 and with Petition for Review dated October 5, 2017 to COA Commission Proper

**** Pending resolution by the COA Commission Proper pursuant to Rule V, Section 7 of the Revised Rules of Procedure of COA

***** With CGS Cluster 4 Decision No. 2020-07 dated June 19, 2020

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 20 audit recommendations embodied in prior years' Annual Audit Reports, nine were fully implemented/reconsidered, 10 were partially implemented and one was not implemented, as shown below:

REF.	COMMENTS AND OBSERVATIONS	RECOMMENDATIONS	ACTIONS TAKEN
2018 Observation No. 1, page 58	1 As at December 31, 2018, dormant/inactive receivables totaling P539.354 million which have been outstanding for more than 10 years and with remote possibility of collection remained in the books which is not compliant with the provisions of paragraph 5.4.4 of Philippine Financial Reporting Standard (PFRS) No. 9 and COA Circular No. 2016-005 dated December 19, 2016.	a. Reassess the dormant/inactive receivables and evaluate its collectability by determining the status of the debtors, among others; and b. Document all the efforts exerted to collect/recover the dormant/inactive accounts.	Implemented Gathered documents to support the write-off of dormant accounts from the books. Partially Implemented Request for write-off of nine dormant and inactive accounts submitted to COA.
2018 Observation No. 2, page 59	2 Of the total Rental Receivable account of P87.493 million, P57.568 million or 66 per cent is considered doubtful, P12.093 million of which has been dormant for several years.	a. Evaluate collectability of accounts with significant allowance for impairment losses and take appropriate action for the collection of dormant accounts; and b. Document all the efforts exerted to collect/recover the dormant accounts and collate all available documents in case request for authority to write-off said accounts is warranted.	Partially Implemented Sent follow up collection letters to 12 dormant accounts. Partially Implemented Gathered necessary documents needed to support the write-off. Request will be made for dormant and inactive accounts from COA upon completion of supporting documents in compliance with

REF.		COMMENTS AND OBSERVATIONS	RECOMMENDATIONS	ACTIONS TAKEN
				COA Circular No. 2016-005.
2018 Observation No. 3, page 60	3	Security deposits payable amounting to P4.428 million remained unclaimed or outstanding for two years and more, contrary to the provisions of Section 98 of Presidential Decree (PD) No. 1445 and Executive Order No. 109 dated June 10, 1999 as implemented by DBM-COA Joint Circular No. 99-6.	Adjusting entries be made to revert back to the general fund the security deposits payable pursuant to the provisions of the DBM-COA Joint Circular No. 99-6.	Implemented NDC Management has identified the accounts that can be forfeited in their favor. Prepared adjusting entry to revert back to NDC Fund the forfeited security deposits.
2018 Observation No. 4, page 62	4	Non-settlement of the old Mintex liabilities and non-liquidation of the Mintex escrow fund for which NDC was appointed as a trustee.	a. Gather documents related to the creditors of Mintex, including but not limited to Annex A-1 of the Deed of Undertaking for the eventual settlement of liabilities; and	Partially Implemented Exerted efforts to get copy of Annex A-1 of the Deed of Undertaking but could not be located.
			b. Communicate with Human Settlements Development Corporation (HSDC) and Southern Philippines Development Authority (SPDA) to discuss the disposition of the escrow fund.	Partially Implemented NDC met with the representative of SPDA. With the assumption of new DA Secretary, the HSDC Transition Committee was not yet reorganized. NDC Legal requested for the Office of the Government Corporate Counsel's opinion if NDC could already distribute the Mintex Funds to the former shareholders.

REF.		COMMENTS AND OBSERVATIONS	RECOMMENDATIONS	ACTIONS TAKEN
2018 Observation No. 5, page 63	5	The Investment Property account includes a parcel of land located at Los Baños, Laguna valued at P6.943 million which is occupied by informal settlers and included in the scope of Presidential Proclamation (PP) 550 s. 2004 reserving the land for housing site purposes.	Follow up its request with Local Inter-Agency Committee (LIAC) to expedite the resolution of the issue and eventual exclusion of NDC's property in the proclamation.	Implemented Management in its letter dated May 20, 2019 made a follow up with LGU – Los Baños on the status of NDC's request for the exclusion of the property form PP 550. According to the Office of the Municipal Urban Development and Housing Office (MUDHO), the issue of NDC property will be included in the agenda of the next meeting of LIAC. The Office of the Mayor will update NDC on the status of MUDHO action.
2018 Observation No. 6, page 64	6	The exact location and boundaries of the land valued at P3.000 million located in Barangay Tagapo, Sta. Rosa, Laguna could not be ascertained.	Coordinate with Chevron and 7-11 Convenience Store managements regarding the use of the property for the latter's parking lot. Additionally, determine the exact boundaries of the land to secure NDC's ownership and rights.	Implemented Relocation survey confirmed that portion of the property is being occupied by 7-11 Convenience Store. Management in its letter dated July 30, 2019 has invited Chevron for a meeting to discuss the payment of rentals or compensation to NDC in view of the use and occupancy of the subject property. Negotiation with Chevron and its sub-lessee is ongoing.

REF.	COMMENTS AND OBSERVATIONS	RECOMMENDATIONS	ACTIONS TAKEN
2018 Observation No. 7, page 65	7 Two parcels of land located in Dasmariñas, Cavite with a total area of 272,110 square meters remained idle and vacant.	a. Transform these properties into income-generating projects; and	Partially Implemented For rebidding after two failed public biddings for land development. Reiterated in Observation No. 6 of this Report
		b. Clear the area from informal settlers to avoid possible delay/dispute that may arise when project development commences.	Implemented Eviction of informal settlers were undertaken.
2017 Observation No. 3, page 57	8 Several other land assets are idle/vacant and some are occupied by illegal occupants for residential, commercial and personal purposes, depriving NDC of potential income from the use of such assets.	a. Expedite the process of the Community Mortgage Program (CMP) for those properties with organized informal settlers to ultimately dispose such properties;	Partially Implemented CMP cannot be readily made available to some NDC properties with informal settlers because of the absence of qualified Mobilizer in the area where the property is located. Nevertheless, NDC continues to coordinate with the informal settlers to condition them to accept the CMP of the government. Reiterated in Observation No. 6 of this Report

REF.	COMMENTS AND OBSERVATIONS	RECOMMENDATIONS	ACTIONS TAKEN
		b. Make representations with the New San Jose Builders, Inc. to collect rental from the lease of the portion of the property by the jeepney operators' association and from the security agency that occupies the property without authority;	Not implemented Reiterated in Observation No. 6 of this Report
		c. Make representations with the lessee and the Dolores Homesite & Extension Homeowner's Association, Inc. for properties in Meycauayan, Bulacan and Bo. Dolores, San Fernando, Pampanga, respectively, to collect rental from them;	Partially Implemented Meycauayan property is partially leased out. The current lessee failed to lease the whole property. NDC is currently negotiating with one interested lessee on the property. Reiterated in Observation No. 6 of this Report
		d. Demand the occupant of the Talakag, Bukidnon property to vacate the same; and	Implemented Sent demand letter to occupant to vacate the property.
		e. Engage the services of a Geodetic Engineer to conduct relocation survey of the properties in Hermosa, Bataan.	Implemented Relocation survey completed.

REF.		COMMENTS AND OBSERVATIONS		RECOMMENDATIONS	ACTIONS TAKEN
2017 Observation No. 4, page 60	9	Non-operational NDC subsidiaries continue to exist.	a.	Require Manila Gas Corporation to identify its creditors and settle obligations due to them amounting to P498,305. If this is not possible after exerting due effort, consider the pronouncement under PD 1445 Section 98 - Reversion of unliquidated balances of accounts payable;	Implemented Adjusted the accounts payable per MGC JV No. 2019-12-006 dated December 31, 2019.
			b.	Require Inter-Island Gas Services, Inc. to expedite the possible foreclosure of a 314 sq. m. property located in Alabang, Muntinlupa registered in the name of Lamberto and Marina Montalbo containing a 1988 annotation on the original Transfer Certificate of Title of mortgage to MGC for P0.800 million; and	Implemented With ongoing foreclosure proceedings. Meeting with heirs of Mr. Lamberto Montalbo set on February 14, 2020.
			c.	Prepare and implement plan of actions with timelines relative to the disposition of non-operational NDC subsidiaries and expedite the dissolution of these non-performing assets once approval is secured.	Partially Implemented During the meeting with GCG on December 11, 2019, NDC was informed that GCG already submitted their recommendation to OP; GCG awaiting approval from OP.

REF.		COMMENTS AND OBSERVATIONS	RECOMMENDATIONS	ACTIONS TAKEN
2008 Observation No.4, page 36	10	Former NDC officials have not paid the full amount of their car loans aggregating P0.576 million.	Avail of legal remedies for immediate recovery of the loaned amount.	Partially Implemented OGCC advised NDC to send final demand letters to last known addresses of former NDC officials before filing of complaint. Reiterated in Observation No. 3 of this Report