Republic of the Philippines
**COMMISSION ON AUDIT**
Commonwealth Ave., Quezon City
**CORPORATE GOVERNMENT SECTOR**
CLUSTER 1 – BANKING AND CREDIT

# INDEPENDENT AUDITOR'S REPORT

**The Board of Directors**
**LBP Resources and Development Corporation**
898 M. H. Del Pilar corner Quintos St.
Malate, Manila

We have audited the accompanying financial statements of **LBP Resources and Development Corporation,** a wholly-owned subsidiary of Land Bank of the Philippines, which comprise the statement of financial position as at December 31, 2013 and the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, 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.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of **LBP Resources and Development Corporation** as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

**COMMISSION ON AUDIT**

**ROSALINDA T. SILAGAN**
OIC-Supervising Auditor

June 30, 2014

**LBP RESOURCES AND DEVELOPMENT CORPORATION**
(A wholly-owned subsidiary of Land Bank of the Philippines)
**STATEMENT OF FINANCIAL POSITION**
December 31, 2013

| | Note | 2013 | 2012 As restated |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current Assets** | | | |
| Property and equipment | 3 | 10,947,501 | 11,575,324 |
| Investment property | 4 | 118,938,149 | 112,672,739 |
| Intangible asset | 5 | 79,764 | 79,764 |
| Investments | 6 | 136,470,721 | 109,743,187 |
| Deferred tax asset | 7 | 505,149 | 505,149 |
| Other assets | 8 | 2,225,913 | 5,894,108 |
| | | 269,167,197 | 240,470,271 |
| **Current Assets** | | | |
| Inventories | 9 | 14,931,128 | 15,340,955 |
| Receivables | 10 | 102,735,620 | 91,860,656 |
| Prepaid expenses | 11 | 17,669,803 | 21,657,973 |
| Cash and cash equivalents | 12 | 88,505,161 | 115,767,893 |
| | | 223,841,712 | 244,627,477 |
| **TOTAL ASSETS** | | **493,008,909** | **485,097,748** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| Capital stock (50 million shares authorized at P10.00 par value per share, 13,321,200 shares issued | 13 | 133,212,000 | 133,212,000 |
| Capital in excess of par value | | 5,162,840 | 5,162,840 |
| | | 138,374,840 | 138,374,840 |
| Revaluation increment in property | | 61,200,000 | 61,200,000 |
| | | 199,574,840 | 199,574,840 |
| Retained Earnings | | | |
| Appropriated | | 150,000,000 | 105,000,000 |
| Unappropriated | 14 | 85,778,177 | 117,498,071 |
| | | 235,778,177 | 222,498,071 |
| | | 435,353,017 | 422,072,911 |
| **LIABILITIES** | | | |
| **Non-current Liabilities** | | | |
| Deferred tax liability | 15 | 75,179 | 146,484 |
| | | 75,179 | 146,484 |
| **Current Liabilities** | | | |
| Accounts payable | 16 | 48,066,640 | 54,434,268 |
| Other current liabilities | 17 | 9,514,073 | 8,444,085 |
| | | 57,580,713 | 62,878,353 |
| | | 57,655,892 | 63,024,837 |
| **TOTAL EQUITY AND LIABILITIES** | | **493,008,909** | **485,097,748** |

The Notes on pages 8 to 24 form part of these financial statements.

**LBP RESOURCES AND DEVELOPMENT CORPORATION**
(A wholly-owned subsidiary of Land Bank of the Philippines)
**STATEMENT OF COMPREHENSIVE INCOME**
For the year ended December 31, 2013

| | Note | 2013 | 2012 |
|---|---|---|---|
| **REVENUE** | | | |
| Construction | | 134,317,969 | 174,154,044 |
| Manpower service income | | 28,591,430 | 8,168,081 |
| Rental | 4 | 18,399,259 | 18,174,376 |
| Property management | | 8,879,656 | 7,109,001 |
| Interest | | 7,968,223 | 10,353,227 |
| Commission | | 2,062,384 | 1,909,451 |
| Other income | | 148,593 | 525,170 |
| Realized gross profit on installment sales | | 0 | 2,184 |
| | | 200,367,514 | 220,395,534 |
| **EXPENSES** | | | |
| Construction cost | | 107,722,990 | 153,246,045 |
| Compensation and fringe benefits | 18 | 18,500,062 | 15,567,573 |
| Manpower services | | 19,326,049 | 5,953,658 |
| Property management | | 5,817,982 | 4,813,136 |
| Liquidated damages | | 311,520 | 384,485 |
| Other operating expenses | 19 | 17,344,839 | 14,887,615 |
| | | 169,023,442 | 194,852,512 |
| **NET INCOME BEFORE INCOME TAX** | | **31,344,072** | **25,543,022** |
| Income tax expense | 20 | 8,606,247 | 6,627,584 |
| **NET INCOME** | | **22,737,825** | **18,915,438** |

The Notes on pages 8 to 24 form part of these financial statements.

**LBP RESOURCES AND DEVELOPMENT CORPORATION**
(A wholly-owned subsidiary of Land Bank of the Philippines)
**STATEMENT OF CHANGES IN EQUITY**
For the year ended December 31, 2013

| | Capital Stock (Note 13) | Revaluation Increment in Property | Retained Earnings Appropriated | Retained Earnings As restated Unappropriated (Note 14) | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2011 | 105,162,840 | 61,200,000 | 105,000,000 | 104,723,899 | 376,086,739 |
| Declaration/ remittance of cash dividend for fiscal year 2011 | | | | (6,141,266) | (6,141,266) |
| Booking of equity investment by LBP | 33,212,000 | | | | 33,212,000 |
| Net income for the year | | | | 18,915,438 | 18,915,438 |
| **Balance at December 31, 2012** | **138,374,840** | **61,200,000** | **105,000,000** | **117,498,071** | **422,072,911** |
| Declaration/ remittance of cash dividend for fiscal year 2012 | | | | (9,457,719) | (9,457,719) |
| Additional appropriation | | | 45,000,000 | (45,000,000) | |
| Net income for the year | | | | 22,737,825 | 22,737,825 |
| **Balance at December 31, 2013** | **138,374,840** | **61,200,000** | **150,000,000** | **85,778,177** | **435,353,017** |

The Notes on pages 8 to 24 form part of these financial statements.

**LBP RESOURCES AND DEVELOPMENT CORPORATION**
(A wholly-owned subsidiary of Land Bank of the Philippines)
**STATEMENT OF CASH FLOWS**
For the year ended December 31, 2013

| | Note | 2013 | 2012 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash received from customers | | 159,290,063 | 194,897,743 |
| Rental income received | | 18,193,394 | 20,272,330 |
| Cash payments to suppliers | | (107,705,521) | (152,388,594) |
| Cash payments to other expenses | | (57,716,115) | (54,361,365) |
| Net cash generated from operating activities | | 12,061,821 | 8,420,114 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Redemption/maturity/placement of investments | | (26,727,534) | (15,596,648) |
| Interest received | | 8,039,136 | 10,492,427 |
| Acquisition of property and equipment | | (11,178,436) | (8,601,132) |
| Net cash used in investing activities | | (29,866,834) | (13,705,353) |
| **CASH FLOWS FROM FINANCING ACTIVITY** | | | |
| Payment of cash dividends | 14 | (9,457,719) | (6,141,266) |
| Net cash used in financing activity | | (9,457,719) | (6,141,266) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | **(27,262,732)** | **(11,426,505)** |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | 115,767,893 | 127,194,398 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 12 | **88,505,161** | **115,767,893** |

The Notes on pages 8 to 24 form part of these financial statements.

LBP RESOURCES AND DEVELOPMENT CORPORATION
(A wholly-owned subsidiary of Land Bank of the Philippines)
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

## 1. CORPORATE INFORMATION

### 1.1 Incorporation and Operations

LBP Resources and Development Corporation (LBRDC), formerly LB (Land Bank) Realty Development Corporation, is a wholly-owned subsidiary of Land Bank of the Philippines (LBP) and was created through Securities and Exchange Commission Registration No. 61385 dated May 8, 1975.

The LBRDC was created to build, reconstruct, repair, remodel and renovate, enlarge, alter and improve private houses and dwellings, commercial buildings and government owned and controlled corporations and establishments (particularly the facilities of LBP, its subsidiaries and affiliates, branches, training centers, field offices, other auxiliary infrastructures, etc.) in support of its role under the Comprehensive Agrarian Reform Program. Also, to engage in, operate and carry on, the business of providing and rendering general manpower services, such as but not limited to management and technical services, janitorial services, maintenance services, clerical messengerial, security services and other allied services.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of financial statements

The financial statements are prepared in accordance with the Philippine Financial Reporting Standards (PFRS).

### 2.2 Adoption of the Philippine Financial Reporting Standards (PFRS)/Philippine Accounting Standards (PAS)

The accounting policies adopted are consistent with those of the previous financial year except that the LBRDC has adopted those new/revised standards mandatory for the financial years beginning on or after January 1, 2005. The LBRDC has adopted the following standards during the year:

**PAS 1** – Presentation of Financial Statements, provides a framework within an entity, assesses how to present fairly the transactions and other events, provides the base criteria for classifying assets and liabilities as current or non-current; prohibits the presentation of income from operating activities and extraordinary items as separate line items in statements of income; and specifies the disclosure of estimation, uncertainty and judgments that management has made in the process of applying the Corporation's accounting policies.

**PAS 8** – Accounting Policies, Changes in Accounting Estimates and Errors, removes the concept of fundamental error and allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It defines material omissions or misstatements and describes how to apply the concepts of materiality when applying accounting policies and correcting errors.

**PAS 10** – Events after Balance Sheet Date, prescribes the accounting policies and disclosures related to adjusting and non-adjusting subsequent events. Additional disclosures required by the standards were included in the financial statements, principally the date of authorization for release of the financial statements.

**PAS 11** – Construction Contracts, prescribes the accounting treatment of revenue and costs associated with construction contracts. Contract revenue and costs are recognized as revenue and expenses by reference to the stage of completion of the contract activity at the balance sheet date. An expected loss is recognized as an expense immediately when it is probable that such a loss will occur. Under the percentage of completion method, contract revenue is recognized as revenue in the accounting periods in which the work is performed. Contract costs are recognized as expense in the accounting periods in which the work to which they relate is performed. The stage of completion of a contract is determined by inspection or survey of work performed by technical personnel.

**PAS 12** – Deferred income tax is provided using balance sheet liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available the deferred income tax assets to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

**PAS 17** – Leases, the classification of leases is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Finance leases are capitalized in the inception of the lease at the fair value of the leased property or if lower, at the present value of minimum lease payments. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

**PAS 24** – Related Party Disclosures, provides additional guidance and clarification in the scope of the standard, the definitions and disclosures for related parties. It also requires disclosures of the total compensation of key management personnel and benefit types.

**PAS 32** – Financial Instruments: Disclosure and Presentation set out the required disclosures and presentation of financial instruments to enhance financial statements user understands of the significance of financial instruments to an entity's overall financial position, performance and cash flows. Financial instruments should be classified as equity or debt instruments based on the substance of transaction. PAS 32 includes disclosures about the accounting policy adopted, methods used to apply those policies, the nature of financial instruments held for each class of financial asset, financial liability and equity instruments including significant terms and conditions that may affect the amount, timing and certainty of future cash flows. Fair value information is also required for each class of financial assets and liabilities.

**PAS 37** – Provisions, Contingent Liabilities and Contingent Assets ensures that appropriate recognition and measurement bases are applied to provisions, contingent liabilities and contingent assets and significant information is disclosed resulting from executory contracts, except where the contract is onerous.

**PAS 39** – Financial Instruments; Recognition and Measurement, financial assets are classified at fair value through profit or loss; held to maturity investments; loans and receivables; and available-for-sale financial assets. These categories apply to measurement and profit or loss recognition. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting or settlement date accounting. When a financial asset or financial liability is recognized initially, an entity shall measure it at its fair value plus, in case of financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. After initial recognition, an entity shall measure all financial liabilities at amortized cost using the effective interest method, except for the financial liabilities at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition.

**PAS 40** – Investment Property, investment in land and building acquired for capital appreciation are intended to be held for a number of years to generate income and capital gain. These investment properties are classified as non-current investments. Investment properties are measured initially at cost, including transaction costs. Investment properties are 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. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

**PFRS 1** – Initial Recognition of Investment Property, states that: "An entity may elect to use a previous GAAP revaluation of an investment property, plant and equipment at, or before, the date of transition to PFRS as deemed cost at the date of revaluation broadly comparable to fair value; or cost or depreciated cost under PFRS, adjusted to reflect for example changes in general or specific price index."

2.3 Use of estimates

Management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based on Management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

2.4 Property and equipment

These are carried at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment comprises its construction cost or purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment has been put into operation, such as repairs and maintenance are normally charged to operations in the period in which the cost are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits its originally assessed standard of performance, the cost of replacement are capitalized.

Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of the assets as follows: construction, transportation and other equipment – five years.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset was derecognized.

The asset's residual values, useful lives and methods are reviewed periodically to ensure that the period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

## 2.5 Investment property

Investment property is measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the cost of day to day servicing of an investment property. The LBRDC has been adopting the cost model in recognizing its investment property. However, this was inadvertently stated at "fair value" in prior years.

Depreciation is computed using the straight-line method over the estimated useful lives of the asset. The estimated useful life of investment property for building is 30 years.

## 2.6 Intangible asset

Intangible asset is measured on initial recognition at cost and amortized over the useful economic life beginning on the period the intangible asset was available for use.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful life of five years.

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred.

### 2.7 Investments

Investment in bonds and foreign exchange transactions are classified as held-to-maturity when the Corporation has positive intention and ability to hold the investment to maturity. The cost is computed as the initial amount plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and maturity value. The computation includes all fees paid that are an integral part of the effective interest rate, transaction costs and other premiums and discounts.

### 2.8 Receivables

Trade receivables are recognized and carried at original contract price or invoice amount less any unrealized gain as applicable, and allowance for any collectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

### 2.9 Cash Equivalents

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

### 2.10 Pensions and other post-employment benefits

The LBRDC offers defined benefit plans mandated by law (Labor Code of the Philippines) that is 50 per cent of the monthly salary at the time of retirement multiplied by the number of years in service.

### 2.11 Leases

The LBRDC as a lessee – operating lease payments are take up as expense in the income statement on a straight-line basis over the lease term.

The LBRDC as a lessor – retains substantially all the risks and benefits of ownership of the asset classified as operating lease. Rental income is recognized in the income statement on a straight-line basis over the lease term.

### 2.12 Subsequent events

Post year-end events that provide additional information about the LBRDC at balance sheet date are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the financial statements when material.

### 2.13 Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

2.14 Revenue and cost recognition

Revenue from construction contracts is recognized using percentage of completion method, measured principally on the basis of estimated physical completion of the contract work, in accordance with PAS 11 on Construction Contracts.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed the total contract revenue. Changes in contract performance, contract penalty provisions and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes were determined.

Income from sales of substantially completed projects where collection of sales price is reasonable assured is accounted using the accrual method while sales from projects where collection of sales price is not reasonably assured is recognized using the installment method. Realized income on installment sales is computed based on collections multiplied by the gross profit rates of individual sales contract.

Income from investment property is recognized in the income statement on straight-line basis over the lease term.

Management fees from administrative, property management, manpower services and other fees are recognized when earned.

Commission income from brokering services is recognized when earned less commission expenses due to referrers.

Interest income is recognized as it accrues.

2.15 Income tax

Deferred income tax is provided using balance sheet liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available the deferred income tax assets to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

## 3. PROPERTY AND EQUIPMENT

This account consists of:

| | Office Furniture & Fixtures | Office Equipment | Transportation Equipment | Utilities and Equipment | Library Materials | Construction Equipment | IT Equipment | Total |
|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | |
| January 1, 2013 | 394,162 | 2,291,146 | 4,810,519 | 8,889,777 | 2,345 | 1,497,254 | 165,099 | 18,050,302 |
| Additions | 22,750 | 86,601 | 0 | 1,720,614 | 0 | 9,215 | 214,643 | 2,053,823 |
| December 31, 2013 | 416,912 | 2,377,747 | 4,810,519 | 10,610,391 | 2,345 | 1,506,469 | 379,742 | 20,104,125 |
| Accumulated Depreciation January 1, 2013 | 180,617 | 1,723,400 | 2,610,482 | 1,358,379 | 2,341 | 585,389 | 14,370 | 6,474,978 |
| Depreciation | 42,466 | 153,667 | 506,664 | 1,752,428 | 0 | 185,566 | 40,855 | 2,681,646 |
| December 31, 2013 | 223,083 | 1,877,067 | 3,117,146 | 3,110,807 | 2,341 | 770,955 | 55,225 | 9,156,624 |
| Net Book Value December 31, 2013 | 193,829 | 500,680 | 1,693,373 | 7,499,584 | 4 | 735,514 | 324,517 | 10,947,501 |
| Net Book Value December 31, 2012 | 213,545 | 567,746 | 2,200,037 | 7,531,398 | 4 | 911,865 | 150,729 | 11,575,324 |

## 4. INVESTMENT PROPERTY

This account consists of:

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Land | Building[1/] | Condominium Property | Total | Land | Building | Condominium Property | Total |
| **Cost** | | | | | | | | |
| January 1, 2012 | 66,000,000 | 43,850,350 | 37,332,957 | 147,183,307 | 66,000,000 | 47,971,307 | | 113,971,307 |
| Reclassification | | | | | | (4,120,957) | 4,120,957 | 0 |
| Asset Exchange | | | | | | | 33,212,000 | 33,212,000 |
| Additions | | 9,124,613 | | 9,124,613 | | | | 0 |
| December 31, 2013 | 66,000,000 | 52,974,963 | 37,332,957 | 156,307,920 | 66,000,000 | 43,850,350 | 37,332,957 | 147,183,307 |
| **Accumulated Depreciation** | | | | | | | | |
| January 1, 2012 | | 33,860,297 | 650,271 | 34,510,568 | | 32,307,860 | | 32,307,860 |
| Depreciation | | 1,873,704 | 985,499 | 2,859,203 | | 1,552,437 | 650,271 | 2,202,708 |
| December 31, 2013 | | 35,734,001 | 1,635,770 | 37,369,771 | | 33,860,297 | 650,271 | 34,510,568 |
| Net Book Value December 31, 2013 | **66,000,000** | **17,240,962** | **35,697,187** | **118,938,149** | **66,000,000** | **9,990,053** | **36,682,686** | **112,672,739** |

[1/] *Includes cost of LBRDC Warehouse in Antipolo.*

The aggregate fair value of the LBRDC's investment property amounted to P116,103,000 as appraised on January 14, 2009. The equity of LBP through Deed of Exchange was booked amounting to P33,212,000 plus the renovation cost that was transferred from the Investment in Real Estate to Condominium Property amounting to P4,120,957. Depreciation expense for the Condominium Property (World Centre) was based on the 30 years estimated useful life. The Condominium Title was originally registered in 1995 therefore the remaining useful life is more than 28 years as at December 31, 2013.

The fair value of the investment property was determined by independent professionally qualified appraisers, LBP-Credit Investigation and Appraisal Department. Fair value represents the amount in terms of money at which the properties would change hands between a willing buyer and a willing seller in the open market, both having a reasonable knowledge of all relevant facts, neither being under compulsion to buy or sell and with equity to both, contemplating the use of the property for the continuation of the operation as part of the business concern. The value of land and building was arrived at using the Market Value Approach. In this approach, the value of the land is based on sales and listings of comparable properties registered within the vicinity.

The investment property is recognized in the books under the cost model. Prior to PFRS 1, the land was revalued based on the appraisal made in 1996 that was carried over at the opening reporting date as deemed cost.

Rental income from investment property amounted to P18,399,259 and P18,174,376, in 2013 and 2012, respectively. Direct operating expenses arising from the investment property amounted to P4,735,207 and P3,453,151 in CY 2013 and CY 2012, respectively.

## 5. INTANGIBLE ASSET

Software was acquired from Beacon Frontline Solutions, Inc. in CY 2005 amounting to P1,254,545. It has been already amortized for five years starting January 2007 with a salvage value of P79,764.

| | 2013 | 2012 |
|---|---|---|
| Computer software | 250,909 | 250,909 |
| Less: Accumulated amortization expense | 171,145 | 171,145 |
| | **79,764** | **79,764** |

## 6. INVESTMENTS

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| Held to Maturity - Retail Treasury Bonds | 104,360,000 | 89,360,000 |
| Held to Maturity - FXTN | 11,644,502 | 0 |
| Available-for-sale - Investment in stocks | 12,600 | 12,600 |
| Investment in Real Property | 20,453,619 | 20,370,587 |
| | **136,470,721** | **109,743,187** |

## 7. DEFERRED TAX ASSET

Represents deferred tax on leave credits from 2005 to 2009 of the regular employees amounting to P505,149.

## 8. OTHER ASSETS

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| Refundable deposits | 1,341,739 | 1,414,089 |
| Input tax | 884,174 | 4,480,019 |
| | **2,225,913** | **5,894,108** |

## 9. INVENTORIES

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| Construction materials | 10,586,944 | 9,437,450 |
| Contract in progress | 3,804,096 | 5,639,575 |
| Janitorial supplies | 205,055 | 94,256 |
| Stationery and supplies | 335,033 | 169,674 |
| | **14,931,128** | **15,340,955** |

The Construction income for CY 2013 is P134.318 million with accumulated cost of P107.723 million and recognized net profit of P26.595 million. Also, the outstanding Retention receivables and Advances from clients are P21.224 million and P26.840 million, respectively.

## 10. RECEIVABLES

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| Contract receivable | 58,869,696 | 59,700,277 |
| Retention receivable | 21,224,037 | 20,920,564 |
| Accounts receivable-trade | 18,542,783 | 7,169,277 |
| Advances to clients | 1,490,857 | 1,467,314 |
| Accrued interest receivable | 873,587 | 944,500 |
| Accrued rent receivable | 655,157 | 481,292 |
| Advances to contractors | 197,661 | 99,356 |
| Advances to officers and employees | 72,882 | 0 |
| Accounts receivable – others [1/] | 808,960 | 1,078,076 |
| | **102,735,620** | **91,860,656** |

[1/] Net of allowance for doubtful accounts amounting to P406,745.

## 11. PREPAID EXPENSES

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| Prepaid income tax | 16,303,106 | 19,307,740 |
| Creditable withholding VAT | 964,707 | 849,219 |
| Prepaid expenses–various | 305,112 | 1,383,334 |
| Prepaid insurance | 79,378 | 100,180 |
| Prepaid percentage tax | 17,500 | 17,500 |
| | **17,669,803** | **21,657,973** |

## 12. CASH AND CASH EQUIVALENTS

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| Cash in bank – current account | 4,967,459 | 9,324,972 |
| Cash in bank – trust account | 147,433 | 154,921 |
| Revolving fund | 300,000 | 300,000 |
| Investment in special deposit account | 83,090,269 | 105,988,000 |
| | **88,505,161** | **115,767,893** |

Cash in Bank earns interest at the respective bank deposit rates.

Investment in special depository accounts is with maturity periods of 30 to 33 days and rolled over depending on the cash requirements of LBRDC.

LBRDC entered into an Investment Management Agreement with Land Bank of the Philippines through its Trust Banking Group as the Investment Manager. The company avails the services of the latter relative to the management and investment of its investible funds/assets. The funds are invested in special depository accounts (SDA) with the Bangko Sentral ng Pilipinas and high yield savings account.

## 13. CAPITAL STOCK

The SEC approved the increase in authorized capitalization of LBRDC on February 6, 2012. The increase in the equity of LBP in the amount of P33,212,000 (3,321,200 shares at P10 par value/share) was recognized and the Certificate of shares of stock was issued to LBP on February 16, 2012. In accordance with the Deed of Exchange executed by and between LBRDC and LBP on January 5, 2010, the consideration for the increase in equity consisting of a condominium unit and five parking slots at World Center, Makati City, with a value of P33,212,000 was recognized as Investment property.

## 14. RETAINED EARNINGS- UNAPPROPRIATED

This account consists of:

| | 2013 | 2012 As restated |
|---|---|---|
| Balance at beginning of year | 117,498,071 | 104,723,899 |
| Declaration/remittance of cash dividend | (9,457,719) | (6,141,266) |
| Appropriated per Board Resolution No. 13-12-12 | (45,000,000) | 0 |
| | 63,040,352 | 98,582,633 |
| Net income | 22,737,825 | 18,915,438 |
| Balance at end of year | **85,778,177** | **117,498,071** |

The Retained Earnings - Unappropriated was decreased by P45,000,000 due to the realignment of the previous year's approved appropriation amounting to P105,000,000, as follows:

| Appropriation | Date | B.R. No. | Amount |
|---|---|---|---|
| Inventory automation and project expansion | 03/31/11 | 11-027 | 5,000,000 |
| Business expansion | 05/26/08 | 08-048 | 13,000,000 |
| Business expansion ( El Pueblo Manila, FTI and Batasan) | 03/31/06 | 06-015 | 30,000,000 |
| Finance new projects _Royal Anne | 01/22/05 | 05-008 | 22,000,000 |
| LB One Condominium and Durango | 12/31/03 | 03-012 | 35,000,000 |
| Balance as of Beg. of year | | | **105,000,000** |

The previous year's approved appropriation amounting to P105,000,000 was realigned and increased to P150,000,000, details as follows:

| | Name of Project | Amount | Timeline |
|---|---|---|---|
| 1. | Purchase of lot | 80,000,000 | 2015 |
| 2. | Construction of one floor building with provision of 2nd floor (P40,000.00 x 1,000 square meters) | 40,000,000 | 2015 |
| 3. | Various equipment and system furniture | 10,000,000 | 2015 |
| 4. | Provision for retirement | 10,000,000 | 2015 |
| 5. | Provision for software/equipment | 10,000,000 | 2015 |
| TOTAL | | **150,000,000** | |

## 15. DEFERRED TAX LIABILITY

Represents deferred tax on the accrual of rent income amounting to P75,179 in CY 2013 and P146,484 in CY 2012.

## 16. ACCOUNTS PAYABLE

This account consists of:

| | 2013 | 2012 As restated |
|---|---|---|
| Advances from clients | 26,840,307 | 30,972,994 |
| Accounts payable-trade | 6,595,085 | 7,493,944 |
| Customers' rental deposit | 4,994,984 | 5,026,984 |
| Due to government entities | 3,167,501 | 4,012,191 |
| Retention payable | 1,641,305 | 2,150,631 |
| Contractor's deposit | 459,708 | 474,543 |
| Accounts payable-others | 339,117 | 368,550 |
| Customers' deposit | 144,313 | 144,313 |
| Miscellaneous liability | 3,884,320 | 3,790,118 |
| | **48,066,640** | **54,434,268** |

## 17. OTHER CURRENT LIABILITIES

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| Output tax | 5,711,523 | 4,433,034 |
| Accrued expenses | 3,802,550 | 4,011,051 |
| | **9,514,073** | **8,444,085** |

## 18. COMPENSATION AND FRINGE BENEFITS

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| Salaries, wages and allowances | 9,829,096 | 8,281,073 |
| Employee benefits | 5,288,210 | 4,756,959 |
| Project incentive pay | 1,800,000 | 1,300,000 |
| SSS, PhilHealth and EC premiums | 597,406 | 462,800 |
| Board per diem | 558,600 | 478,000 |
| Ex-Com/Audit Com per diem | 234,000 | 133,500 |
| Directors and corporate officers reimbursement | 117,200 | 117,041 |
| Pag-IBIG fund contribution | 59,550 | 38,200 |
| Officers' Honoraria | 16,000 | 0 |
| | **18,500,062** | **15,567,573** |

## 19. OTHER OPERATING EXPENSES

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| Depreciation | 5,540,849 | 4,017,606 |
| Taxes and licenses | 3,311,638 | 3,138,784 |
| Raffle expense | 990,000 | 1,070,000 |
| Rental | 841,344 | 975,000 |
| Insurance | 879,236 | 746,358 |
| Representation and entertainment | 724,774 | 599,498 |
| Audit fee | 588,000 | 278,000 |
| Stationery and supplies | 585,178 | 566,862 |
| Security and janitorial | 565,681 | 473,223 |
| Light and water | 541,192 | 554,983 |
| Business development expense | 462,010 | 416,253 |
| Repairs and maintenance | 429,005 | 354,121 |
| Travel and transportation | 368,531 | 278,896 |
| Telephone and postage | 313,311 | 304,292 |
| Seminar and training | 204,186 | 139,646 |
| Gas and oil | 202,331 | 114,279 |
| Interest and bank charges | 360,739 | 348,883 |
| Donations and contributions | 141,607 | 164,000 |
| Membership dues and fees | 109,720 | 108,350 |
| Advertising | 53,878 | 66,502 |
| Professional fee | 21,800 | 68,050 |
| Subscription and publication | 9,788 | 20,759 |
| Printing and mimeographing | 1,241 | 504 |
| Fines, penalties and other charges | 1,012 | 18,029 |
| Miscellaneous expense | 97,788 | 64,737 |
| | **17,344,839** | **14,887,615** |

## 20. INCOME TAX

This account consists of :

| | 2013 | 2012 |
|---|---|---|
| Net income before tax | 31,344,072 | 25,543,022 |
| Income subject to final tax | (7,967,460) | (10,353,227) |
| Interest income on installment payment | (762) | 0 |
| Net income subject to tax | 23,375,850 | 15,189,795 |
| Current tax expense (P23,375,850 x 30%) | 7,012,755 | 4,556,939 |
| Income tax- final | 1,593,492 | 2,070,645 |
| **Income tax expense** | **8,606,247** | **6,627,584** |

## 21. EARNINGS PER SHARE

The basic earnings per share is computed by dividing net income for the year attributable to common stockholders by the weighted average number of common shares issued and outstanding during the year adjusted for any subsequent stock dividends declared.

| | 2013 | 2012 |
|---|---|---|
| Net income | 22,737,825 | 18,915,438 |
| Weighted average no. of common shares | 13,321,200 | 13,321,200 |
| **Earnings per share** | **1.71** | **1.42** |

## 22. STOCK DIVIDENDS DECLARED

This account consists of:

| Year | No. of Shares | Amount |
|---|---|---|
| 2007 | 1,223,743 | 12,237,430 |
| 2005 | 3,000,000 | 30,000,000 |
| 2004 | 525,114 | 5,251,140 |
| 2002 | 1,750,000 | 17,500,000 |
| 2001 | 1,000,000 | 10,000,000 |

## 23. RETIREMENT PLAN

LBRDC Board approved the retirement benefit plan on July 30, 2010 per Board Resolution No. 10-068. The retirement benefit plan includes vesting rights for voluntary separation of employees who have at least five years of continuous service. The initial fund or seed money of the Retirement Fund as at December 31, 2013 is computed at P4,750,524. An additional P500,000 was approved per Board Resolution No. 13-01-06 dated January 16, 2013. To date only P3,199,320 was initially deposited to LBP Trust Department for investment in government securities and regular monthly contribution of LBRDC equivalent to five per cent of the total basic salaries of regular eligible employee.

## 24. COMMITMENTS AND CONTINGENCIES

Operating lease commitments – LBRDC as lessee

LBRDC has entered into commercial leases on the office space occupied in LBP Plaza for five years and systems furniture which expired last May 2013 with renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancelable operating leases which is due within one year as at December 31, 2013 and 2012 is P772,325.

Operating lease commitments – LBRDC as lessor

LBRDC has entered into commercial property leases on its investment property portfolio consisting of land and building. These non-cancelable leases have remaining terms of 1-15 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals receivable under non-cancelable operating leases are as follows:

| | 2013 | 2012 |
|---|---|---|
| Within one year | 20,758,572 | 18,203,523 |
| After one year but not more than five years | 91,774,636 | 68,724,156 |
| More than five years | 219,258,453 | 195,766,476 |
| | **331,791,661** | **282,694,155** |

## 25. OUTSTANDING LEGAL CASES

A group of workers had filed complaint with the National Labor Regulatory Commission and National Capital Judicial Region Branch L (50) on constructive dismissal. Liability has already been provided in the books. The pending legal cases are:

| Particulars | Remarks |
|---|---|
| Edward Fereira vs. Gilda E. Pico, et al (LBRDC Board of Directors) – OMB C-A-08-0395-H and OMB C-A-08-03956-H (2 cases, administrative and criminal) | The case was dismissed by the Ombudsman in Joint Resolution dated August 29, 2012 but Mr. Fereira requested an extension up to October 11, 2012 to file his motion for reconsideration. |
| Danilo and Roberto Valdez vs. LBRDC Civil Case No. 04-11082 | Filed with National Capital Judicial Region Branch L (50); Case under mediation. |

## 26. RELATED PARTY DISCLOSURE

a. The financial statements of LBRDC include transactions, which have been entered into with related parties for the relevant financial year:

| | 2013 | 2012 |
|---|---|---|
| Investment in SDA-BSP | 83,090,269 | 105,988,000 |
| LBP Branches and Plaza HQ | 133,864,120 | 227,590,000 |
| Investment in RTB | 116,004,502 | 89,360,000 |
| LBP onsite and offsite ATMs | 810,347 | 600,000 |

| | | |
|---|---|---|
| LBP Naga Branch office rental | 333,200 | 317,333 |
| LBRDC Head Office space | 58,506 | 58,506 |
| System furniture rental | 0 | 14,050 |
| | **334,160,944** | **423,927,889** |

b. The transfer of title for the World Centre Condominium property was not yet made due to LBRDC's request for the certification/confirmation of a tax-free exchange of the property. The Management is still awaiting for the reply of the Assistant Commissioner for Legal Services, Bureau of Internal Revenue, for the issuance of the certificate that will be presented to the Registry of Deeds for the registration of the title under the name of LBRDC.

c. Compensation of key management personnel of LBRDC for salaries, wages and benefits amounted to P2,673,721 and P2,170,996 in 2013 and 2012, respectively.

## 27. COMPLIANCE WITH TAX LAWS

In compliance with the requirements set forth by Revenue Regulations 15-2010, hereunder are the information on taxes, dues and license fees paid or accrued during the taxable year.

a. The LBRDC is VAT-registered with VAT output tax declaration of P21,042,053 for CY 2013.

The LBRDC has no zero-rated/exempt sales.

b. The amount of VAT input taxes claimed are broken down as follows:

| | Amount |
|---|---|
| Balance, beginning of the year | 4,480,019 |
| Current year's purchases: | |
| i. Goods other than resale or manufacture Capital goods | 68,401 |
| ii. Goods other than Capital goods | 7,665,993 |
| iii. Services lodged under other accounts | 1,704,168 |
| Claims for tax credits/refund | (13,034,407) |
| Balance at end of year | **884,174** |

c. Other Taxes and Licenses

| | Amount |
|---|---|
| **Local** | |
| Mayor's permit | 1,941,452 |
| Real estate tax | 1,080,301 |
| Capital equipment tax | 184,235 |
| Community tax | 10,500 |

| | Amount |
|---|---|
| Professional tax receipt | 2,100 |
| Barangay clearance | 1,350 |
| | **3,219,938** |
| **National** | |
| Tax on fringe benefits | 56,471 |
| Clearance (BIR, LRA, Philgeps, Sandiganbayan, SEC) | 17,869 |
| Registration of company vehicle | 13,610 |
| License from Philippine Contractor Accreditation Board | 3,100 |
| Renewal of VAT Registration | 500 |
| Renewal of real estate broker license | 150 |
| | **91,700** |
| **Total** | **3,311,638** |

d. The amount of withholding taxes paid/accrued for the year amounted to:

| | Amount |
|---|---|
| Final withholding taxes (Withheld by clients, claimed as tax credits) | 7,792,147 |
| Tax on compensation and benefits | 2,289,140 |
| Final withholding taxes – Vat 5% | 1,012,147 |
| Creditable withholding taxes | 368,470 |
| Withholding percentage taxes | 70,510 |
| | **11,532,414** |

## 28. EVENTS AFTER THE REPORTING DATE

Pursuant to Sections 3 and 7 of Republic Act No. 7656, GOCC's and Government Institution (GFIs) shall declare and remit at least 50 per cent of their annual net earnings as cash, stock or property dividends to the National Government and shall be remitted to the Bureau of Treasury on or before April 30. LBRDC Board Resolution No. 14-04-09 dated April 25, 2014 approved the declaration of cash dividends and remittance to National Government. Last April 30, 2014, LBRDC remitted P5,716,147 to the Bureau of Treasury. The balance shall be computed based on the audited net income and shall be remitted within seven days from the receipt of the audited financial statements.

## 29. AUTHORIZATION FOR ISSUE OF THE 2013 FINANCIAL STATEMENTS

The financial statements of LBRDC for the year ended December 31, 2013 were approved by the Audit Committee and authorized for issue by the Board of Directors on June 04, 2014.