



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 statements of financial position as at December 31, 2016 and 2015 and the statements of comprehensive income, statements of changes in equity, and statements of cash flows for the years 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 audits. We conducted our audits in accordance with Philippine Public Sector 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, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT


CORA D. MARQUEZ
Supervising Auditor

May 31, 2017





LBP Resources and Development Corporation

Formerly : LB (Land Bank) Realty Development Corporation
A Subsidiary of the Land Bank of the Philippines

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS/ANNUAL INCOME TAX RETURN

The Management of **LBP RESOURCES AND DEVELOPMENT CORPORATION** is responsible for the preparation and fair presentation of the financial statements including schedules attached therein, for the years ended December 31, 2016 and 2015, 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 misstatement, whether due to fraud and error.

In preparing the financial statements, management is responsible for assessing the Company'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 the Company or to cease operations or has no realistic alternative but to do so.

The Board of Directors or Trustees is responsible for overseeing the Company's financial reporting process.

The Board of Directors or Trustee reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

Commission on Audit, the independent auditor appointed by the stockholders, has audited the financial statement of the company in accordance with The Philippine Standards on Auditing and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.


Atty. MANUEL C. NICZON
Board of Director/Designated Authorized Signatory/
Chairman, Executive Committee


Ms. SIMEONA S. GUEVARRA
President and CEO


Ms. RUSTICA P. LOCSIN
Chief Financial Officer

Signed this 31st day of May, 2017

LBP RESOURCES AND DEVELOPMENT CORPORATION
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015
(In Philippine Peso)

	Note	2016	2015
ASSETS			
Non-current Assets			
Property, plant and equipment	3	17,758,783	17,398,433
Investment property	4	102,771,396	103,891,380
Held to maturity investments	5	92,656,449	104,004,502
Available for sale financial asset	6	12,600	12,600
Non-current assets held for sale	7	5,373,204	20,453,619
Installment contract receivable	8	15,237,377	0
Deferred tax asset	9	505,149	505,149
Other assets	10	8,698,024	4,053,647
		243,012,982	250,319,330
Current Assets			
Inventories	11	9,143,428	11,685,701
Receivables	12	242,003,754	236,498,501
Prepaid expenses	13	10,262,280	6,546,014
Cash and cash equivalents	14	118,343,610	78,724,358
		379,753,072	333,454,574
TOTAL ASSETS		622,766,054	583,773,904
EQUITY AND LIABILITIES			
EQUITY			
Capital stock (50 million shares authorized at P10.00 par value per share, 13,321,200 shares issued and paid	15	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
Total		199,574,840	199,574,840
Retained Earnings	16		
Appropriated		250,000,000	150,000,000
Unappropriated		81,465,037	149,549,979
		331,465,037	299,549,979
TOTAL STOCKHOLDERS' EQUITY		531,039,877	499,124,819
LIABILITIES			
Non-current Liabilities			
Deferred tax liability	17	75,179	75,179
		75,179	75,179
Current Liabilities			
Accounts payable	18	43,419,207	40,019,631
Other current liabilities	19	48,231,791	44,554,275
		91,650,998	84,573,906
TOTAL LIABILITIES		91,726,177	84,649,085
TOTAL LIABILITIES AND EQUITY		622,766,054	583,773,904

The Notes on pages 8 to 26 form part of these financial statements.

LBP RESOURCES AND DEVELOPMENT CORPORATION
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2016 and 2015
(In Philippine Peso)

	Note	2016	2015
REVENUE			
Construction		194,172,793	202,409,726
Manpower service income		140,576,733	130,390,477
Rental income	4	19,278,543	18,490,170
Property management income		15,619,029	14,601,124
Sales - Grand Garden Villas		15,500,000	0
Interest income		6,291,890	6,088,958
ACU Maintenance service income		5,282,187	3,819,274
Commission income		906,291	824,577
Other income		111,335	115,750
		397,738,801	376,740,056
EXPENSES			
Construction cost		147,623,283	152,974,256
Manpower service cost		119,638,514	114,570,419
Cost of Sales - Grand Garden Villas		15,720,626	0
Property management cost		10,003,387	9,445,739
ACU Maintenance service cost		2,591,449	666,147
Commission expense		135,903	136,094
Compensation and other operating expenses	20	15,729,078	15,699,848
		311,442,240	293,492,503
NET INCOME BEFORE INCOME TAX			
Provision for income tax	21	25,293,903	24,376,254
NET INCOME FOR THE YEAR			
OTHER COMPREHENSIVE INCOME		0	0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR			
		61,002,658	58,871,299

The Notes on pages 8 to 26 form part of these financial statements.

LBP RESOURCES AND DEVELOPMENT CORPORATION

(A wholly-owned subsidiary of Land Bank of the Philippines)

STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2016 and 2015

(In Philippine Peso)

	Capital Stock (Note 15)	Revaluation Increment in Property	Retained Earnings (Note 16)		Total
			Appropriated	Unappropriated	
Balance, December 31, 2014	138,374,840	61,200,000	150,000,000	106,948,095	456,522,935
Cash dividend declared				(16,269,415)	(16,269,415)
Net income for the year				58,871,299	58,871,299
Balance, December 31, 2015	138,374,840	61,200,000	150,000,000	149,549,979	499,124,819
Prior period adjustment				348,000	348,000
Cash dividend declared				(29,435,600)	(29,435,600)
Net income for the year				61,002,658	61,002,658
Appropriation for various projects			100,000,000	(100,000,000)	0
Balance, December 31, 2016	138,374,840	61,200,000	250,000,000	81,465,037	531,039,877

The Notes on pages 8 to 26 form part of these financial statements.

LBP RESOURCES AND DEVELOPMENT CORPORATION
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2016 and 2015
(In Philippine Peso)

	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers		353,956,986	290,388,346
Rental income received		18,232,065	18,095,634
Cash payments to suppliers		(169,500,352)	(119,998,318)
Cash payments for other expenses		(157,561,255)	(165,992,143)
Net cash generated from operating activities		45,127,444	22,493,519
CASH FLOWS FROM INVESTING ACTIVITIES			
Redemption/maturity/placement of investments		21,599,479	0
Interest received		6,342,100	6,136,183
Acquisition of property and equipment		(4,014,171)	(1,381,159)
Net cash provided by investing activities		23,927,408	4,755,024
CASH FLOWS FROM FINANCING ACTIVITY			
Payment of cash dividends		(29,435,600)	(16,269,415)
Net cash used in financing activity		(29,435,600)	(16,269,415)
NET INCREASE IN CASH AND CASH EQUIVALENTS		39,619,252	10,979,128
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	14	78,724,358	67,745,230
CASH AND CASH EQUIVALENTS AT END OF YEAR	14	118,343,610	78,724,358

The Notes on pages 8 to 26 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 preparation

The financial statements have been prepared on a historical cost basis, except as otherwise stated.

2.2 Statement of compliance

The financial statements of LBP Resources and Development Corporation have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

2.3 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 Reporting Period, 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 reporting period. 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 – Income taxes 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 the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that 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 19 - Employee Benefits. This standard requires an entity to recognize a liability when an employee has provided service in exchange for employee benefits to be paid in the future; an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

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: Presentation sets 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 Assets and Contingent Liabilities 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.

2.4 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.

2.5 Property, plant 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.

2.6 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.

2.7 Intangible assets

Intangible asset is measured on initial recognition at cost and amortized on a straight line method 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.

2.8 Investments

Investments in bonds 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.

In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

2.9 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.

2.10 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.

2.11 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.

2.12 Leases

The LBRDC as a lessee – operating lease payments are taken 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.

2.13 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.

2.14 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.

2.15 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 reasonably assured is accounted for 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.

2.16 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 end of reporting period and reduced to the extent that sufficient taxable profit will be available against which the deferred income tax assets can 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, PLANT AND EQUIPMENT

This account consists of the following:

	Building	Office Furniture & Fixtures	Office Equipment	Transportation Equipment	Utilities and Equipment	Library Materials	Construction Equipment	IT Equipment	Total
Cost									
January 1, 2016	9,124,612	912,936	2,539,145	5,158,519	13,121,622	2,345	3,043,132	783,063	34,685,394
Additions	0	0	88,743	2,882,387	90,351	0	307,831	613,548	3,982,860
Adjustments			(320)		(95,957)		(220,412)		(316,689)
December 31, 2016	9,124,612	912,936	2,627,568	8,040,906	13,116,016	2,345	3,130,551	1,396,631	38,351,565
Accumulated Depreciation									
January 1, 2016	842,637	327,074	2,166,169	3,828,058	7,791,331	2,341	1,645,414	335,937	16,938,961
Depreciation	328,488	165,065	64,155	113,319	2,186,670	0	596,111	257,272	3,711,080
Adjustments			(72)		(16,341)		(40,846)		(57,259)
December 31, 2016	1,171,125	492,139	2,230,252	3,941,377	9,961,660	2,341	2,200,679	593,209	20,592,782
Net book value									
December 31, 2016	7,953,487	420,797	397,316	4,099,529	3,154,356	4	929,872	803,422	17,758,783
Net book value									
December 31, 2015	8,281,975	585,862	372,976	982,461	5,330,291	4	1,397,718	447,146	17,398,433

4. INVESTMENT PROPERTY

This account consists of the following:

	2016				2015			
	Land	Building ¹	Condo-minium Property	Total	Land	Building	Condo-minium Property	Total
Cost,								
Balance, January 1	66,000,000	43,850,351	37,332,957	147,183,308	66,000,000	43,850,351	37,332,957	147,183,308
Additions	0	0	0	0	0	0	0	0
Balance, December 31	66,000,000	43,850,351	37,332,957	147,183,308	66,000,000	43,850,351	37,332,957	147,183,308
Accumulated Depreciation								
Balance, January 1,		39,465,316	3,826,612	43,291,928		37,390,158	2,706,628	40,096,786
Depreciation		-	1,119,984	1,119,984		2,075,158	1,119,984	3,195,142
Balance, December 31		39,465,316	4,946,596	44,411,912		39,465,316	3,826,612	43,291,928
Net Book Value								
December 31	66,000,000	4,385,035	32,386,361	102,771,396	66,000,000	4,385,035	33,506,345	103,891,380

The aggregate fair value of the LBRDC's investment property amounted to P116,103,000 as appraised on January 14, 2009.

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 19 years as at December 31, 2016.

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 earned from investment property amounted to P19,278,543 and P18,490,170 in 2016 and 2015, respectively. Direct operating expenses arising from the investment property amounted to P4,143,165 and P5,470,786 in CY 2016 and CY 2015, respectively.

5. HELD TO MATURITY INVESTMENTS

This account consists of the following:

	2016	2015
Retail Treasury Bonds	92,656,449	92,360,000
Fixed Treasury Notes	0	11,644,502
	92,656,449	104,004,502

6. AVAILABLE FOR SALE FINANCIAL ASSET

This account consists of investment in PLDT stocks amounting to P12,600 acquired in connection with the subscription for PLDT lines for the Antipolo Warehouse.

7. NON-CURRENT ASSETS HELD FOR SALE

This pertains to the costs of the three remaining units of the 12 units townhouses in Grand Garden Villas located at Dasmariñas, Cavite, that are held for sale and carried at cost of P5,373,204 and P20,453,619, respectively. The other nine units of townhouses were sold and turned-over in 2016 to the buyers who are qualified LBRDC employees.

8. INSTALLMENT CONTRACT RECEIVABLE

This pertains to the nine housing units located in Grand Garden Villas, Dasmariñas, Cavite, sold to qualified LBRDC employees with the following terms and conditions:

Contract Price:	Three-bedroom units - P1,700,000 and P1,800,000
Payment Options:	Cash, thru Pag-IBIG Loan or thru In-housing Financing
Terms and Conditions:	
Period	Retirement age minus current age of the employees but not more than 30 years
Payment	Deduction from salaries and other benefits
Interest	Four per cent per annum

The total principal amount of the sold units amounted to P15,500,000 and the total interests to be collected from the buyers for the duration of the payment period amounted to P9,122,036.36.

As of December 31, 2016, the balance of the installment contract receivable amounted to P15,237,377.

9. DEFERRED TAX ASSET

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

10. OTHER ASSETS

This account is composed of the following:

	2016	2015
Contract in progress/ ¹	4,372,006	1,394,925
Intangible assets/ ²	1,853,195	232,850
Refundable deposits	1,383,151	1,507,328
Input tax	1,089,672	918,544
	8,698,024	4,053,647

^{1/} Contract in progress consists of the purchase cost, labor and other overhead charges (permits, insurances and other miscellaneous) incurred on unfinished projects which have not been billed to client. The contract in progress was computed using the percentage of completion method multiply by the cost to complete.

^{2/} The intangible assets consist of the following:

	2016	2015
Purchasing and accounting system/ ¹	1,679,334	0
Payroll system/ ²	94,097	153,086
Computer software/ ³	79,764	79,764
	1,853,195	232,850

^{1/} Represents initial payment for Oracle License

^{2/} Represents amortized cost of payroll system acquired from Balmori - Version 7.8 Surepay. This was acquired in 2014 and 2015 for a total cost of P159,111.61 to be amortized for five years. Total amortization recognized as of December 31, 2016 amounted to P65,014.60.

^{3/} Represents salvage value of software acquired from Beacon Frontline Solutions, Inc. in CY 2005 in the amount of P1,254,545. It has been amortized for five years starting January 2007.

11. INVENTORIES

Inventories held for consumption consist of the following which are measured at purchase cost and recorded based on first-in, first-out method.

	2016	2015
Construction materials	7,839,518	10,671,752
Janitorial supplies	672,795	564,177
Stationery and supplies	314,427	449,772
Semi-expendable property	316,688	0
	9,143,428	11,685,701

12. RECEIVABLES

This account is composed of the following:

	2016	2015
Contract receivable ^{1/}	113,694,947	136,855,818
Accounts receivable-trade ^{1/}	86,511,157	54,067,940
Retention receivable	33,988,439	33,550,035
Advances to clients	2,909,664	8,197,867
Accrued rent receivable	2,422,170	1,162,278
Accounts receivable – others ^{1/}	1,415,212	1,191,709
Accrued interest receivable	687,625	737,835
Advances to contractors	280,900	735,019
Advances to officers and employees	93,640	0
	242,003,754	236,498,501

^{1/} Net of allowance for doubtful accounts amounting to P2,651,072

Contract receivable are amounts billed to LBP under contracts but not paid as of the reporting date.

Accounts receivable – trade arises from contract entered into by LBRDC with LBP and other clients on deployment of janitors/messengers and other services.

Retention receivable pertains to 10 per cent retention fee withheld by client until a contract is completed to answer for the defects that may later on be discovered on the projects, the release of which shall be subject to acceptance of the project evidenced by a Certificate of Completion (COC) and Turn Over and Acceptance (TOA) issued by the client.

Advances to clients are advances made by LBRDC for payment of real estate tax and other related fees on LBP ROPA subject to reimbursement.

Advances to contractors represents 15 per cent mobilization fee from sub-contractor of specialty works.

13. PREPAID EXPENSES

This account consists of the following:

	2016	2015
Prepaid income tax	5,600,652	3,208,123
Creditable withholding VAT	3,302,154	2,042,128
Prepaid expenses-various	1,341,974	1,278,263
Prepaid percentage tax	17,500	17,500
	10,262,280	6,546,014

14. CASH AND CASH EQUIVALENTS

	2016	2015
Cash in bank – Current Account	24,747,117	3,564,727
Cash in bank – Trust Account	3,522	46,142
Cash in bank – Savings Account (BIR-EPS)	14,165	10,061
Revolving fund	500,000	500,000
Investment in High Yield Savings Account	93,078,806	74,603,428
	118,343,610	78,724,358

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 Corporation avails the services of the latter relative to the management and investment of its investible funds/assets. The funds are invested in High Yield Savings Account (HYSA).

15. 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.

In previous years, LBRDC issued stock dividends to the National Government totaling 7,498,857 shares or P74,988,570.

16. RETAINED EARNINGS

Appropriation of Retained Earnings

The Retained Earnings – Appropriated amounting to P250,000,000 that was approved in Board Resolution No. 16-06-14 is composed of the following:

Name of Projects	Amount	Timeline
Purchase of lot	100,000,000	2017-2018
Construction of one floor building with provision of 2 nd floor (P40,000 x 1,000 sq. m.)	70,000,000	2017-2018
Provision for the acquisition of various equipment and system furniture	25,000,000	2017-2018
Provision for retirement	25,000,000	2017-2018
Provision for software/equipment	20,000,000	2017-2018
Provision for liability insurance of directors	10,000,000	2017-2018
	250,000,000	

Dividend declaration to the National Government

On January 11, 2017, the LBRDC Board of Directors approved the declaration of cash dividends amounting to P30,726,948.61 and its remittance to the National Government under Board Resolution No.17-01-09.

Prior Period Adjustment

Prior period adjustment refers to unrecorded transportation equipment in CY 2015 in the amount of P348,000, which were donated by LBP Leasing and Finance Corporation (LLFC) on December 2015.

17. DEFERRED TAX LIABILITY

This account represents deferred tax on the accrued rent income as of December 31, 2016.

18. ACCOUNTS PAYABLE

This account consists of the following:

	2016	2015
Due to government entities	11,610,947	9,075,660
Advances from clients	7,737,057	3,417,883
Accounts payable-trade	6,018,971	6,108,759
Customers' rental deposits	5,539,323	5,325,909
Accounts payable-others	3,623,746	3,905,533
Retention payable	1,933,490	5,418,923
Contractor's deposits	500,376	524,358
Customers' deposit	143,017	210,913
Miscellaneous liability	6,312,280	6,031,693
	43,419,207	40,019,631

Due to government entities are liabilities to various government agencies on withholding taxes; SSS, PHIC, EC and Pag-IBIG contributions and loans; income taxes; and fringe benefits taxes.

Advances from clients are the fifteen percent mobilization fee based on RA 9184 normally settled through recoupment from the collection.

Accounts payables (Trade and Others) and Retention Payable are the unsecured, non-interest bearing which are due to suppliers on 30 to 90 day terms.

Customer's rental deposits represents amount deposited by the lessee for the units/properties being rented where the unpaid bills or repair to the property will be charged, the balance of which will be returned to the lessee.

Contractor's deposit represents deposit made by the contractor for the project's plans and specifications, bidder's bond and performance bond.

Customer's deposit represents deposit by customers of real estate developed by LBRDC for sale.

Miscellaneous liability represents accrual of retirement and leave credits of the regular employees.

19. OTHER CURRENT LIABILITIES

This account is composed of the following:

	2016	2015
Accrued expenses	25,363,570	24,558,971
Output tax	22,868,221	19,995,304
	48,231,791	44,554,275

The accrued expenses include accrual of construction costs incurred as of year-end.

20. COMPENSATION AND OTHER OPERATING EXPENSES

This account consists of the following:

	2016	2015
<i>Personal Services</i>		
Salaries, wages and allowances	1,915,203	1,975,265
Employee benefits	2,387,872	2,265,709
Project incentive pay	900,000	800,000
Board per diem	297,810	259,040
Ex-Com/Audit Com per diem	128,835	124,040
SSS, PhilHealth and EC premiums	92,397	90,043
Directors and corporate officers reimbursements	52,639	43,084

	2016	2015
Pag-IBIG fund contribution	6,975	7,013
Officers' honoraria	7,200	4,800
	5,788,931	5,568,994
<i>Maintenance and Other Operating Expenses</i>		
Taxes and licenses	2,787,928	2,387,639
Depreciation	1,750,080	3,689,793
Rental	1,129,470	412,538
Repairs and maintenance	725,088	350,657
Insurance	704,453	774,137
Business development expense	425,284	418,870
Stationery and supplies	362,593	288,872
Raffle expense	254,700	130,740
Representation and entertainment	229,069	193,712
Light and water	199,912	187,398
Security and janitorial	184,367	185,519
Audit fee	180,000	274,995
Seminar and training	158,394	46,730
Telephone and postage	157,341	128,871
Bank charges	155,743	289,428
Donations and contributions	135,000	0
Travel and transportation	104,160	66,464
Liquidated damages	58,259	25,444
Membership dues and fees	41,682	64,280
Advertising	26,595	27,555
Gas and oil	25,170	17,689
Professional fee	6,818	17,152
Fines, penalties and other charges	5,666	2,603
Amortization expense	55,375	2,411
Subscription and publication	1,537	1,798
Printing and mimeographing	662	769
Bad debts expense	0	6,576
Miscellaneous expense	74,801	138,214
	9,940,147	10,130,854
	15,729,078	15,669,848

The other operating expenses, which include direct and indirect expenses, were allocated to each of the LBRDC's businesses.

Direct expenses include salaries, benefits, RATA, share in SSS, HDMF, and PhilHealth contributions, depreciation, insurance and taxes and licenses of personnel directly discharging each business type.

Indirect expenses include other operating expenses of Finance, Administrative and General Services, Audit Unit and Office of the President and other expenses of the corporation.

The indirect expenses were allocated through pro rata distribution based on the peso value of the total revenue and the time allotted by the officers and employees assigned to monitor/discharge the related services:

- a. 55 per cent is distributed to construction business
- b. 35 per cent is distributed to property management and manpower services business
- c. 10 per cent is distributed to other income composed of the following:
 - 10/10 or 1 per cent for brokering/commission
 - 10/10 or 1 per cent for rental
 - 10/10 or 1 per cent for ROPA
 - 70/10 or 7 per cent for ACU

21. PROVISION FOR INCOME TAX

Tax liabilities for the current period are measured at the amount expected to be paid to tax authority. Income tax expense comprises of current and final tax. The tax rates and tax law used to compute the amount are those that are enacted or substantively enacted at reporting date. For CY 2016 and 2015, the provisions for income tax were computed as follows:

	2016	2015
Net income before tax	86,296,561	83,247,553
Income subject to final tax	(5,988,429)	(6,088,958)
Fines, penalties and other charges	12,591	0
Net income subject to tax	80,320,723	77,158,595
Current tax expense (30%)	24,096,217	23,147,579
Income tax- final	1,197,686	1,228,675
	25,293,903	24,376,254

22. EARNINGS PER SHARE

The basic earnings per share (EPS) is computed by dividing the 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.

	2016	2015
Net income	61,002,658	58,871,299
Weighted average no. of common shares	13,321,200	13,321,200
	4.58	4.42

23. CONSTRUCTION CONTRACTS

The construction income in CY 2016 is P194.173 million with accumulated cost of P147.623 million and recognized net profit of P46.550 million. Also, the outstanding retention receivables and advances from clients are P33.988 million and P7.737 million, respectively.

24. RETIREMENT BENEFITS

LBRDC has funded non-contributory defined retirements benefit plan in accordance with the Retirement Pay Law (Republic Act No. 7641) covering all of its qualified regular employees. The benefit is equal to one-half month salary for every year of service, a fraction of at least six (6) months being considered as one whole year. For the purpose of computing the retirement pay, "one -half month salary" shall include fifteen(15) days salary based on the latest basic salary rate, cash equivalent of five (5) days service incentive leave, one-twelfth (1/12) of the 13th month pay and other benefit inclusions as may be agreed upon by LBRDC and the employee. The plan provides retirement, separation, disability and death benefits to its members. The fund is being administered and managed by Land Bank of the Philippines – Trust Banking Group. Contributions and costs are determined with the actuarial studies made for the plan. Annual cost is determined using the Accrued Benefit with the Actuarial Cost Method (Projected Unit Credit). The Company's latest actuarial valuation date is January 1, 2012.

LBRDC Board approved the retirement benefit plan on July 30, 2010 in 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. As of December 31, 2016, the vested benefit is P12,090,287. To date, total deposited retirement fund to LBP Trust Banking Department is P8,478,629.

25. COMMITMENTS AND CONTINGENCIES

The Corporation has the following operating lease commitments:

LBRDC as lessee

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

Future minimum rental payable under non-cancelable operating lease which is due within one year as at December 31, 2016 and 2015 are P780,258 and P741,246, respectively. These are lodged under the Rental expense account.

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

one to fifteen years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

26. RELATED PARTY DISCLOSURES

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

	2016	2015
Investment in HYSA	93,078,806	74,603,428
LBP Branches and Plaza HQ	294,838,919	151,791,689
Investment in RTB	92,656,449	104,004,502
LBP LEAF Projects	0	12,990,389
LBP Naga Branch office rental	1,792,802	1,464,891
LBRDC Head Office space	652,021	61,771
	483,018,997	344,916,670

b. The transfer of title for the World Centre Condominium property infused by LBP, the Parent Bank as additional equity, has not yet materialized due to LBRDC's request for the certification/confirmation of a tax-free exchange of the property. The Management is still waiting 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.

27. COMPENSATION OF KEY MANAGEMENT OFFICIALS

The compensation of LBRDC's key management officials, which includes salaries, wages and benefits, amounted to P3,583,671 and P2,661,180 in 2016 and 2015, respectively.

28. COMPLIANCE WITH TAX LAWS

In compliance with the requirements set forth by Revenue Regulations No. 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 P44,080,426 for CY 2016.

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	28,027,867
Current year's purchases:	
i. Goods other than resale or manufacture capital goods	421,209
ii. Goods other than capital goods	8,336,918
iii. Services lodged under other accounts	2,482,434
Balance at end of year	39,268,428

c. Other taxes and licenses

	Amount
<i>Local</i>	
Mayor's permit	2,818,102
Real estate tax	1,266,798
Capital equipment tax	56,908
Community tax	10,500
Professional tax receipt	3,000
Barangay clearance	750
	4,156,058
<i>National</i>	
Documentary stamp tax (increase in capital stock)	333,940
Tax on fringe benefits	56,471
Registration of company vehicle	51,243
Renewal of Certificate of Registration	15,104
Renewal of clearance (Philgeps)	3,000
Registration of PCAB License (renewal)	3,050
Renewal of VAT Registration	500
Renewal of real estate broker license	1,200
	464,508
	4,620,566

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

	Amount
Tax on compensation and benefits	2,562,538
Final withholding taxes (Withheld by clients, claimed as tax credits)	4,741,242
Expanded withholding taxes	1,532,357
Withholding percentage taxes	143,470
	6,417,069
Creditable withholding taxes	17,022,789
	26,002,396

29. RECLASSIFICATION

The balances of the certain accounts in the 2015 statement of comprehensive income have changed to conform to the 2016 presentation of balances. The 2016 indirect expenses were allocated to the LBRDC's businesses through a pro rata distribution based on the peso value of the total revenue and the time allotted by the officers and employees assigned to monitor/discharge the related services.

30. AUTHORIZATION FOR ISSUE OF THE 2016 FINANCIAL STATEMENTS

The financial statements of LBRDC for the year ended December 31, 2016 were authorized for issue by the Board of Directors on March 21, 2017 under Board Resolution No. 17-03-11.