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

ANNUAL AUDIT REPORT

on the

DBP DATA CENTER, INC.

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

For the Year ended December 31, 2014

REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Corporate Government Sector
Cluster I – Banking and Credit

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
DBP Data Center, Inc.
Makati City

We have audited the accompanying financial statements of **DBP Data Center, Inc.** (a wholly-owned subsidiary of Development Bank of the Philippines) which comprise the statement of financial position as at December 31, 2014, 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 **DBP Data Center, Inc.** as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT

EMMA V. MOISES
Supervising Auditor

February 27, 2015

DCI

March 12, 2015

STATEMENT OF MANAGEMENT RESPONSIBILITY

The Management of DBP Data Center, Inc. is responsible for all information and representations contained in the Statement of Condition as of December 31, 2014 and in the Statement of Income and Retained Earnings for the year ended December 31, 2014. The Financial Statements have been prepared in conformity with the generally accepted accounting principles in the Philippines and reflect the amounts that are based on the best estimates and informed judgment of Management with appropriate consideration to materiality.

The Management of DBP Data Center, Inc. maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The Management likewise discloses to its external auditors any significant deficiency in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data and any material weakness in the external controls; and any fraud that may involve Management of other employees who exercise significant roles in internal controls.

The Management Committee reviews the Financial Statements before such statements are submitted to the Board of Directors and to the stockholders of DBP Data Center, Inc.

Marietta M. Fondevilla
MARIETTA M. FONDEVILLA
Officer-In-Charge

MARCO A. USTARIS
Acting Head, Admin. & Finance

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DBP DATA CENTER, INC.
(A wholly-owned subsidiary of Development Bank of the Philippines)
STATEMENT OF FINANCIAL POSITION
For the year ended December 31, 2014
(In Philippine Peso)

	Note	2014	2013
ASSETS			
Current assets			
Cash and cash equivalents	4, 16	22,930,684	23,734,680
Receivables	5, 16	51,404,871	38,076,252
Prepaid expenses	6	207,111	506,618
		74,542,666	**62,317,550**
Non-current assets			
Property and equipment	7	831,424	1,145,282
Investment in trust - retirement fund	2, 8	11,054,582	11,262,001
Other assets	9	649,500	687,682
		12,535,506	**13,094,965**
TOTAL ASSETS		**87,078,172**	**75,412,515**
LIABILITIES AND EQUITY			
Current liabilities			
Other payables	10	8,546,880	4,388,191
Customers' deposit		161,075	161,075
Accrued expenses		14,855,695	6,923,735
		23,563,650	**11,473,001**
Non-current liabilities			
Vacation/Sick leaves payable		3,809,051	3,059,074
Pension payable	2, 8	11,054,582	11,262,001
Past service pension cost payable	2, 8	6,723,490	5,139,515
		21,587,123	**19,460,590**
		45,150,773	**30,933,591**
Equity			
Capital stock			
Authorized - 500,000 shares, P100 par value			
Issued and outstanding - 202,800 shares	11	20,280,000	20,280,000
Retained earnings		21,647,399	24,198,924
		41,927,399	**44,478,924**
TOTAL LIABILITIES & EQUITY		**87,078,172**	**75,412,515**

The Notes on pages 8 to 21 form part of these financial statements.

DBP DATA CENTER, INC.
(A wholly-owned subsidiary of Development Bank of the Philippines)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2014
(In Philippine Peso)

	Note	2014	2013
REVENUE			
Outsourcing services		87,540,125	71,636,972
Other income	12	1,850,827	1,980,238
		89,390,952	**73,617,210**
EXPENSES			
Service fees		40,334,031	24,293,423
Salaries, allowances and benefits	14	39,043,360	37,291,622
Taxes and licenses	17	3,072,508	545,506
Repairs and maintenance		1,398,363	100,523
Professional fees		763,551	618,883
Rent and utilities		731,475	850,611
Depreciation and amortization	7, 9	375,253	393,010
Representation		108,147	40,748
Office supplies		56,821	53,120
Transportation and travel		46,479	62,013
Miscellaneous		49,003	40,917
		85,978,991	**64,290,376**
INCOME BEFORE INTEREST AND TAXES		**3,411,961**	**9,326,834**
Add/(deduct):			
Interest income/(expense)		60,102	(201,573)
INCOME BEFORE TAXES		**3,472,063**	**9,125,261**
Income tax expense		1,023,588	2,798,050
TOTAL COMPREHENSIVE INCOME		**2,448,475**	**6,327,211**

The Notes on pages 8 to 21 form part of these financial statements.

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8 - MAKATI
Revenue District Office No. 49
North Makati
RECEIVED
APR 2015
INITIAL: DATE:
RCO's NAME: ROBERTO J. DE LOS SANTOS

DBP DATA CENTER, INC.
(A wholly-owned subsidiary of Development Bank of the Philippines)
STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2014
(In Philippine Peso)

	Note	Common Stock No. of shares	Common Stock Amount	Retained Earnings	Total
Balance January 1, 2013		202,800	20,280,000	17,871,713	38,151,713
Profit/Total comprehensive income for 2013				6,327,211	6,327,211
Balance, December 31, 2013		**202,800**	**20,280,000**	**24,198,924**	**44,478,924**
Profit/Total comprehensive income for 2014				2,448,475	2,448,475
Cash Dividend				(5,000,000)	(5,000,000)
Balance, December 31, 2014		**202,800**	**20,280,000**	**21,647,399**	**41,927,399**

The Notes on pages 8 to 21 form part of these financial statements.

DBP DATA CENTER, INC.
(A wholly- owned subsidiary of Development Bank of the Philippines)
STATEMENT OF CASH FLOWS
For the year ended December 31, 2014
(In Philippine Peso)

	Note	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		84,402,003	66,369,455
Cash paid for operating expenses		(69,980,623)	(48,358,614)
Cash payments to suppliers		(10,262,707)	(13,024,023)
Interest income received		60,100	189,271
Other income received		445	484
Cash paid for other assets		0	(2,329,047)
Net cash generated from operating activities		**4,219,218**	**2,847,526**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(23,214)	0
Financial assets held to maturity		0	4,700,614
Net cash provided by investing activities		**(23,214)**	**4,700,614**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of cash dividend		(5,000,000)	(5,000,000)
Net cash used in financing activities		**(5,000,000)**	**(5,000,000)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(803,996)**	**2,548,140**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**23,734,680**	**21,186,540**
CASH AND CASH EQUIVALENTS, END OF YEAR	4	**22,930,684**	**23,734,680**

The Notes on pages 8 to 21 form part of these financial statements.

DBP DATA CENTER, INC.
(A wholly-owned subsidiary of the Development Bank of the Philippines)
NOTES TO FINANCIAL STATEMENTS
(Amounts in Philippine Peso unless otherwise stated)

1. GENERAL/CORPORATE INFORMATION

DBP Data Center, Inc. (DCI), formerly known as Development Bank Data Center, Inc., is a wholly owned subsidiary of the Development Bank of the Philippines (DBP) created under DBP Board Resolution No. 3172 dated October 6, 1982 and registered with the Securities and Exchange Commission (SEC) per Registry No. 107887 dated October 26, 1982. Its operations started in November 1982 with the primary purpose of implementing the computerization program of DBP. DCI is equipped with this experience in banking systems and facilities management. DCI ventured towards the development and implementation of non-banking systems for private and government entities as well.

The Corporation's registered office is located at Senator Gil J. Puyat Avenue corner Makati Avenue, Makati City.

As of December 31, 2014, DCI had a total manpower of 139 including 84 contractual personnel.

The DCI Board approved the issuance of DCI's financial statements for the year ended December 31, 2014 on February 9, 2015.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of financial statement preparation

The accompanying financial statements are prepared using the historical cost basis. The Corporation adopts a more appropriate presentation and classification of expenses in the financial statements to conform to the usual format used by a service corporation in the IT industry. Further, this new presentation is more relevant to its users.

Statement of compliance

These financial statements have been prepared in accordance with accounting principles generally accepted in the Philippines as set forth in the Philippine Financial Reporting Standards/Philippine Accounting Standards (PFRS/PAS). The preparation of the financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policy.

The Corporation has adopted the following accounting standards, which are relevant to its operations:

PFRS 7, *Financial Instruments Disclosures*, introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity to market risk. It replaced PAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions and those required under PAS 32, Financial Instruments: Disclosure and Presentation. The new disclosures under PFRS are required to be made for all periods presented.

PAS 1, *Presentation of Financial Statements*, prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities; allows presentation of assets and liabilities in order of liquidity.

PAS 7, *Cash Flow Statements*, require the provision of information about the historical changes in cash and cash equivalents of the Corporation by means of presenting the flows of cash from operating, investing and financing activities. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the corporation.

PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, prescribes the criteria for selecting and changing accounting policies, changes in accounting estimates and corrections of errors.

PAS10, *Events after the Balance Sheet Date*, defines events after balance sheet date known as subsequent events which may be favorable or unfavorable and may either require adjustment or disclosure.

PAS 12, *Income Taxes*, prescribes the accounting treatment for income taxes whether current or future depending on the probability of occurrence.

PAS 16, *Property, Plant and Equipment (PPE)*, addresses the principal issues in accounting for PPE which are the recognition of the assets, the determination of their carrying amounts and the depreciation charges.

PAS 19, *Employee Benefit*, provides for the accounting of long-term and other employee benefits. It requires the use of projected unit credit method in determining the retirement benefits of the employees and change in the manner of computing benefit expense relating to past service cost.

PAS 24, *Related Party Disclosures*, ensures that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

PAS 36, *Impairment of Assets*, prescribes the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more that its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and this Standard requires the entity to recognize an impairment loss. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

PAS 39, *Financial Instruments: Recognition and Measurement*, establishes the accounting and reporting standards for the recognition and measurement of the Corporation's financial assets and liabilities.

Functional and presentation currency

Items included in the financial statements of the Corporation are measured using the currency of the primary economic environment in which the Corporation operates. The financial statements are presented in Philippine Peso.

Financial assets

Financial assets include cash and financial instruments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments are acquired.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents consist of cash and other cash items on hand, bank deposits and short-term highly liquid investments readily convertible to cash and which are subject to insignificant risk of changes in value.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Corporation provides goods or services directly to the debtor.

Trade receivables represent actual billings to DBP and other clients for services rendered.

Non-trade receivables represent collectibles from employees and other persons liable to the Corporation for services rendered by DCI not related to the nature of the business of the Corporation.

All financial assets are recognized on their trade date.

Non-financial assets

Property and equipment

Property and equipment are stated at cost and depreciated based on a straight-line method over the estimated useful life of the assets. Amount subject for depreciation is net of 10 per cent residual value. The estimated useful life of the Corporation's property and equipment are as follows:

Computer equipment	5 years
Furniture office machine and equipment	5 years
Other property and equipment	5 years
Furniture and fixture	5 years
Transportation equipment	7 years

Major repairs and maintenance are capitalized. Minor expenditures for replacement, maintenance and repairs are expenses as incurred.

Intangibles

Intangible assets (included under Other Assets) represent cost of software licenses and system development and maintenance. Intangible assets are measured at cost and amortized based on a straight line method with an expected useful life as follows:

Computer software license	1 – 3 years
System development and maintenance	1 – 3 years

Vacation/sick leaves payable

This account controls the accrued leave credits of DCI employees. Leave credits are commuted upon separation of the employees from the service.

Past service pension cost payable

The Retirement Gratuity Plan is designed to recognize the faithful and satisfactory service of DCI employees and to provide timely financial assistance upon their separation from the service. Revaluations are done based on the updated manning complement. The Gratuity Plan was provided by DCI through the setting up of the past service liability and the normal cost. On June 1, 1998, a Memorandum of Agreement was entered into by and between DCI, the Trustor and DBP-Trust Department, the Trustee. Under the said agreement, a Trust Fund was created for the primary purpose of paying the benefits of the members of DCI retirement plan. The Trustee shall manage and administer the Trust Fund. The fund has an outstanding value of P11.055 million and P11.262 million as of December 31, 2014 and 2013, respectively.

The Corporation provides a monthly pension expense and the corresponding liability equivalent to 1/12 of the monthly salary of all active regular employees. The Past Service Pension Cost Payable amounts to P6.723 million and P5.139 million as of December 31, 2014 and 2013, respectively. Eventually, the allocated liability is being transferred to DCI Retirement Fund being administered by DBP Trust Department.

Income and expense

The Corporation adopts the accrual method of accounting for income and expenses. Outsourcing services revenue is booked at gross amount. On the other hand, expenses include salaries, allowances and benefits of personnel assigned to projects. Further, service fees include payments to business partners, directly hired contractual and contractual hired through IT agencies related to every project (considered sub-contractors).

Taxes

Current tax assets/liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance sheet date.

3. RISK MANAGEMENT

The Corporation is exposed to various forms of risks. These risks can be grouped into credit, market, liquidity and operational. In managing these risks, the approach is not always risk minimization but managing risks to make an optional contribution to corporation revenues.

Credit risk

Credit risk is the risk that the Corporation will incur a loss because its clients, customers or counterparties will fail to discharge their contractual obligations. Acceptance of projects from agencies/clients is based on criteria that the Board of Directors and Management continuously review and improve based on on-going analyses of agency/client behavior. The objective is to continuously improve the Corporation's portfolio quality. Management carefully manages its exposure to credit risk. Project proponents' payment attitude is being evaluated for future engagements.

Presently, DCI's sole counterparty is DBP. With the Bank's IT including DCI in their annual budget allocation, DCI only considers cash flow concerns and not the risk of non-payment. However, the Corporation is starting to open possibility of offering services and expertise to other government agencies and instrumentalities outside DBP. Additional due diligence is being exerted by the Management to avoid recurrence of previous experiences in government collections.

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations when they fall due under the normal and stress circumstances. To limit this risk, the management monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of short-term investments, which could be used to secure additional funding if required. Further, the Corporation limits its engagement in short-term projects to facilitate inflows of cash.

As the Corporation's current source of income comes from DBP, DCI considers liquidity risk as part of its risk universe. The organization recognizes the risk in matching its receivables from DBP to its payables, specifically in servicing the salaries of its employees.

With the staff supplementation contract stating a certain period required for DBP IT to pay DCI, the Corporation closely monitors the payment period stated in the contract. Below is the asset-liability gap analysis as of December 31, 2014 and 2013, respectively:

2014	Up to 3 mos.	Over 3-6 mos.	Over 6 mos-1 yr	Over 1-5 yrs	Over 5 yrs	Total
Assets						
Petty cash fund	10,000	0	0	0	0	10,000
Due from other banks	22,920,684	0	0	0	0	22,920,684
Receivables	33,043,362	0	4,352,070	14,009,439	0	51,404,871
Prepaid expenses	207,111	0	0	0	0	207,111
Property plant & equipment	0	0	0	831,424	0	831,424
Investment in trust - retirement fund	0	0	0	11,054,582	0	11,054,582
Other assets	0	0	0	649,500	0	649,500
	56,181,157	0	4,352,070	26,544,945	0	87,078,172
Liabilities						
Current liabilities	23,563,650	0	0	0	0	23,563,650
Non-current Liabilities	0	0	0	21,587,124	0	21,587,124
	23,563,650	0	0	21,587,124	0	45,150,774
Asset-liability gap	32,617,507	0	4,352,070	4,957,821	0	41,927,398

2013	Up to 3 mos.	Over 3-6 mos.	Over 6 mos-1 yr	Over 1-5 yrs	Over 5 yrs	Total
Assets						
Petty cash fund	10,000	0	0	0	0	10,000
Due from other banks	23,724,680	0	0	0	0	23,724,680
Receivables	20,201,306	0	3,785,547	14,009,439	0	38,076,252
Prepaid expenses	506,618	0	0	0	0	506,618
Property plant & equipment	0	0	0	1,145,282	0	1,145,282
Investment in trust - retirement fund	0	0	0	11,262,001	0	11,262,001
Other assets	0	0	0	687,681	0	687,681
	44,442,604	0	3,785,547	27,184,363	0	75,412,514
Liabilities						
Current liabilities	11,473,001	0	0	0	0	11,473,001
Non-current Liabilities	0	0	0	19,460,589	0	19,460,589
	11,473,001	0	0	19,460,589	0	30,933,590
Asset-liability gap	32,969,603	0	3,785,547	7,723,774	0	44,478,924

Market risk

The Corporation's exposure to market risk would be the amendment of Government Procurement Policy Board (GPPB) Resolution No. 03-2007 amending section 53(e) of IRR-A of RA 9184 to include infrastructure projects and consulting services. This section states that negotiated procurement shall be allowed in the procurement of consulting services and goods from another agency of the Government, such as the Procurement Service-Department of Budget and Management, the Office tasked with a centralized procurement of commonly used Goods for the government in accordance with the Letters of Instruction No. 755 and Executive Order No. 359, series of 1989. For purposes of this paragraph, the term agency shall exclude GOCC incorporated under Batas Pambansa Blg. 168, otherwise known as the Corporation Code of the

Philippines. RA 9184 is a law enacted to govern government dealings with private sector contractors and if such is the scope of the law, it should not cover government dealings with other government agencies such as DCI. With the issuance of GPPB Resolution No. 12-2013, which reverse GPPB Resolution No. 03-2007, DCI's position in the Information Technology market industry dealing with government agencies and instrumentalities, is once again brought into an active status.

During the year, DCI continued to focus primarily on assisting the Bank's initiatives on various bank products by providing the workforce for the development and maintenance of the Bank's systems and applications. Further, DCI also started to seek opportunities to increase revenues by expanding its customer base to include government agencies and instrumentalities.

Operational risk

Operational risk is the risk of loss arising from the systems failure, human error, omission, inefficiency, unauthorized activities, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss. The Corporation cannot expect to eliminate all operational risks, but though a control framework that is monitoring and responding to potential risks, the Corporation is able to manage the risks. Controls include effective segregation of duties, authorized access, authorization and reconciliation procedures, staff education and assessment processes. Further, a comprehensive business continuity and recovery plan is in place to mitigate this risk.

As the organization's operations involve providing IT workforce to DBP, DCI considers operational risk as the major risk that it has, particularly the ones related to employee management.

4. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2014	2013
Cash in banks	13,940,127	14,776,170
Investments/placements	8,980,557	8,948,510
Petty cash fund	10,000	10,000
	22,930,684	**23,734,680**

Considered cash equivalents are investment/placements at DBP Trust Services on short-term or temporary investments and placements of excess cash purchased with maturity of three (3) months or less from date of acquisition.

5. RECEIVABLES

This account consists of the following:

	2014	2013
Trade	34,686,927	21,567,910
Non-trade	18,159,653	17,950,051
	52,846,580	**39,517,961**
Allowance for bad debts	(1,441,709)	(1,441,709)
	51,404,871	**38,076,252**

Non-trade receivables include overpayment of VAT per Revenue Regulation No. 4-2007 amounting to P13.133 million per letter dated March 18, 2009, wherein DCI requested the issuance of a Tax Credit Certificate. To-date, the review of BIR is still on-going in line with the assessment.

6. PREPAID EXPENSES

This account consists of the following:

	2014	2013
Prepaid expenses	71,215	52,498
Taxes & licenses	2,033	681
Insurance	1,827	88,352
Others	132,036	365,087
	207,111	**506,618**

7. PROPERTY AND EQUIPMENT

This account consists of the following:

			2014			
	Computer Equipment	**Office Machine & Equipment**	**Other Property & Equipment**	**Furniture & Fixtures**	**Transportation Equipment**	**Total**
Cost						
Beginning Balance	3,722,858	313,918	1,097,123	2,879,803	743,000	8,756,702
Additions	0	23,214	0	0	0	23,214
Ending Balance	**3,722,858**	**337,132**	**1,097,123**	**2,879,803**	**743,000**	**8,779,916**
Accumulated Depreciation						
Beginning Balance	3,190,297	277,383	685,218	2,789,822	668,700	8,756,702
Depreciation	105,398	3,268	228,406	0	0	337,072
Ending Balance	**3,295,695**	**280,651**	**913,624**	**2,789,822**	**668,700**	**7,948,492**
Net Book Value	**427,163**	**56,481**	**183,499**	**89,981**	**74,300**	**831,424**

			013			
	Computer Equipment	**Office Machine &**	**Other Property &**	**Furniture &**	**Transportation Equipment**	**Total**

		Equipment	Equipment			
Cost						
Beginning Balance	3,756,785	313,918	1,097,123	2,879,803	743,000	8,790,629
Additions	19,198	0	0	0	0	19,198
Disposals	(53,125)	0	0	0	0	(53,125)
Ending Balance	**3,722,858**	**313,918**	**1,097,123**	**2,879,803**	**743,000**	**8,756,702**
Accumulated Depreciation						
Beginning Balance	3,109,507	274,812	456,812	2,789,822	668,700	7,299,653
Depreciation	116,582	2,571	228,406	0	0	347,559
Disposals	(35,792)	0	0	0	0	(35,792)
Ending Balance	**3,190,297**	**277,383**	**685,218**	**2,789,822**	**668,700**	**7,611,420**
Net Book Value	**532,561**	**36,535**	**411,905**	**89,981**	**74,300**	**1,145,282**

8. INVESTMENT IN TRUST – RETIREMENT FUND

This account pertains to DCI's placement of retirement fund to DBP Trust Services Department for the payment of retirement benefits of qualified employees. The Corporation provides monthly pension expense equivalent to 1/12 of the monthly salary of all active regular employees. Eventually, the allocated liability is transferred to DCI Retirement Fund administered by DBP Trust Services Department. The fund has an outstanding value of P11.055 million and P11.262 million as of December 31, 2014 and 2013, respectively.

9. OTHER ASSETS

This account consists of the following:

	2014	2013
Intangibles (computer software)	3,879,166	3,879,166
Rental deposit	207,827	207,827
Miscellaneous asset	37,220	37,220
Refundable deposit	16,536	16,536
	4,140,749	**4,140,749**
Less: Accumulated amortization (intangibles)	3,491,249	3,453,067
	649,500	**687,682**

Intangibles are software costs accounted for as follows:

	2014	2013
Beginning Balance	426,099	418,134
Additions	0	59,723
Amortization	(38,182)	(51,758)
	387,917	**426,099**

10. OTHER PAYABLES

This account includes the Corporation's various short-term liabilities to suppliers, business partners and government agencies, such as Bureau of Internal Revenue (withholding taxes, income taxes, value added taxes), SSS (contributions and loans), Home Development Mutual Fund (contributions and loans) and others.

The details of this account are as follows:

	2014	2013
Suppliers/creditors	3,994,858	374,858
Bureau of internal revenue	3,611,194	3,116,167
Employee benefit fund	382,186	382,186
Government remittances	209,447	192,256
Others	349,195	322,724
	8,546,880	**4,388,191**

Payables to suppliers/creditors include P3.620 million booked on December 20, 2014 for the acquisition of Symantec Data Center Security-Server Advanced.

11. CAPITAL STOCK

Capital stock represents the nominal value of common shares issued and outstanding. The Authorized Capital Stock amounts to P50 million representing 500,000 shares at P100 par value. The Capital Stock issued and outstanding as of December 31, 2014 and 2013, respectively, amounted to P20.28 million or 202,800 shares. In 2009, an additional capital stock amounting to P15 million was subscribed in favor of Development Bank of the Philippines, increasing the subscribed capital stock from P5.280 million to P20.280 million. The remaining stock dividend was issued in 2009 due to the release of the certificate of increase in DCI capitalization. On April 13, 2009, DCI's application for increase in capitalization was approved and the corresponding certificate was released accordingly.

12. OTHER INCOME

This account includes excess input VAT of P1.850 million and P1.980 million as of December 31, 2014 and 2013, respectively, which is considered as tax credit. Under BIR Revenue Regulation No. 4-2007 issued on March 20, 2007, the government or any of its political subdivisions, instrumentalities or agencies including government-owned or controlled corporations (GOCC) shall before making payment on account of each purchase of goods and/or services taxed at 12 percent VAT pursuant to Secs. 106 and 108 of the Tax Code, deduct and withhold a final VAT due at the rate of 5 percent of the gross payment thereof. The 5 percent final VAT withholding rate shall represent the net VAT payable of the seller. The remaining 7 percent effectively accounts for the standard input VAT for sales of goods or services to government or any of its political subdivisions, instrumentalities or agencies including GOCCs in lieu of the actual input VAT directly attributable or ratably apportioned to such sales. Should actual input VAT attributable to sale to government exceeds 7 percent of gross payments, the excess may form part of the seller's expense or cost. On the other hand, if actual input VAT attributable to sale to government is less than 7 percent of gross payment, the difference must be closed to expense or cost.

The Corporation is a GOCC and all its clients are government agencies and instrumentalities such as Development Bank of the Philippines (DBP). All collections from DBP was subjected to a five percent final withholding tax leaving the seven per cent remaining VAT as Excess Input VAT after deducting the Corporation's Input Tax from purchases of goods and services.

13. SALARIES, ALLOWANCES AND BENEFITS EXPENSES

This account consists of the following:

	2014	2013
Salaries and wages	23,261,298	22,259,046
Overtime pay`	2,122,478	1,606,354
Vacation/sick leave	2,078,631	1,693,054
13th month	2,050,322	1,845,120
Employer's rice contribution	1,787,400	1,825,200
Grocery allowance	1,647,500	1,665,417
Pension expense	1,583,976	1,691,528
Employer's SSS, Philhealth and EC contributions	991,226	937,552
Hospitalization benefits and group insurance	872,172	998,911
Performance-based incentive (GCG MC 2012-11 Reissued)	777,000	1,300,000
Local training	365,889	23,328
Other personnel benefits	328,296	300,511
Gift certificate	285,000	285,500
Productivity enhancement incentive (GCG MC 2012-11 Reissued)	275,000	279,500
Clothing allowance	274,613	165,411
Anniversary bonus	165,000	162,000
Employer's Pag-ibig contribution	66,500	68,600
Optical and dental benefits	53,479	56,590
Transportation/meal allowance	32,080	34,500
Loyalty cash	21,500	93,500
Educational benefit	4,000	0
	39,043,360	**37,291,622**

14. EARNINGS PER SHARE

The basic earnings per share shall be calculated by dividing total comprehensive income attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. The Corporation's earnings per share for year 2014 and 2013 were computed as follows:

	2014	2013
Total comprehensive income	2,448,475	6,327,211
Divided by the number of outstanding common	202,800	202,800

shares		
	12.07	31.20

15. RELATED PARTY TRANSACTION

Parties are considered related when one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

On May 1, 2009, DBP and DCI entered into a Staff Supplementation Agreement, which is part of the Professional Service Agreement averaging an earning of P87.540 million.

Further, the Corporation has significant transactions in the normal course of business with related parties. DCI maintains current account deposits, short-term placements and long-term investment (Investment in Trust - Retirement Fund) at DBP Head Office, Makati City.

Below is the tabulation of transactions with related party, DBP:

	2014	2013
Receivables – Professional service agreement	34,453,827	21,567,910
Investment in trust – Retirement fund	11,054,582	11,262,001
Cash in bank – Current account	9,390,583	12,038,933
Short-term investment	8,980,557	8,948,510
	63,879,549	**53,817,354**

16. TAXES AND LICENSES

Hereunder is the information for compliance of Revenue Regulation (RR) Nos. 19-2011 and 15-2010.

<u>RR No. 19-2011</u>

The Corporation had a taxable income of P89.390 million as of December 31, 2014. Details of expenses under itemized deductions are as follows:

			Admin
Service fees		40,334,031	
Salaries and allowances	29,105,112	36,198,334	7,093,222.52
SSS, GSIS, Philhealth, HDMF and others contributions		2,845,026	
Taxes and licenses		3,072,508	
Repairs and maintenance		1,398,363	
Professional fees		763,551	
Rentals		731,475	
Depreciation		375,253	
Representation & entertainment		108,147	
Office supplies		56,821	
Transportation and travel		46,479	

Others	49,003
	85,978,991

RR No. 15-2010

A. DCI is a VAT-registered corporation with VAT output tax declaration of P10.510 million based on the amount reflected in the Sales Account of 87.540 million.

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

Current year's purchases:	
Services lodged under other accounts	3,668,742
Goods other than for resale or manufacture	46,266
	3,715,008

C. Other taxes and licenses

Local:	
Business permit	555,923
Community tax certificate	10,500
Others	5,269
National	
BIR Annual Registration	500
	572,192

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

Tax on compensation and benefits	6,541,526
Final withholding taxes (VAT)	1,536,647
Creditable withholding taxes	1,189,630
	9,267,803

E. The amount of basic deficiency taxes paid are as follows:

Value-added tax for year 2006	742,016
Income tax for year 2006	442,271
Expanded withholding tax for 2007	184,185
	1,368,472

F. The amount of interest paid for late payment are as follows:

Withholding tax interest for 2006	623,022
Value-added tax interest for 2006	207,560
Final withholding tax interest for 2006	5,762
	836,344

G. The compromise penalty paid for late payment pertaining to 2006 Bureau of Internal Revenue returns amounted to P295,500.

17. HIGHLIGHTS OF OPERATION

DCI has been continuously supporting the DBP's Information Technology infrastructure for the past 32 years. In 2014, the Corporation continued to focus primarily on assisting the Bank's initiatives on various bank products by providing the workforce for the development and maintenance of the Bank's systems and applications. Further, DCI also started to seek opportunities to increase revenues by expanding its customer base to include government agencies and instrumentalities. This was made possible by the GPPB Resolution 12-2013, No. 3 amending Section 4(c) of the Implementing Guidelines on Agency-to-Agency Agreements (Guidelines) and deleting the second paragraph that excludes non-chartered GOCCs as Servicing Agencies.

Aligned with the Corporation's strategic plan for 2014-2016, it pursues an aggressive business plan to deliver high-quality services, build an excellent team, and capture competitive market share in the industry.

Below are some of DCI's notable accomplishments in 2014.

A. DBP IT Staffing

Among DCI's core competencies is identifying the right people suitable for augmenting the IT staffing needs of the Bank. As of December 31, 2014, DCI has a total of one hundred and twenty-five (125) strong workforces working closely with the Bank's IT requirements.

B. Non- DBP Opportunities

The Corporation has started opportunities and negotiations on non-DBP projects focusing on government agencies and instrumentalities such as:

1. Maritime Industry Authority (MARINA) – DCI offers an outsourcing solution covering all the workflows, IT tools and manpower resources to answer requirements of ILO 185.

2. Philippine Port Authority (PPA) – provision of assistance to expedite upgrade of their current system

3. National Kidney and Transplant Institute (NKTI) – enterprise-level Hospital Information System with interoperable administrative, clinical and research functionalities geared towards a government standards-compliant and technology adapting ecosystem of health information exchange.

4. LGUs – Comprehensive LGU System in collaboration with DBP's Branch Banking Sector

5. LGUs – Hospital Information System for LGU Hospitals