AFP RETIREMENT AND SEPARATION BENEFITS SYSTEM
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL INFORMATION

The Armed Forces of the Philippines Retirement and Separation Benefits System (AFPRSBS or the "System") was created and duly organized under and by virtue of Presidential Decree (PD) No. 361 which was promulgated on December 30,1973. It was established as a funding mechanism to ensure the continuous payment of retirement and separation benefits due to the members of the Armed Forces of the Philippines (AFP). The System formally started its operations in 1976. To further strengthen the viability of its operations, certain provisions of PD No. 361 pertaining to membership and rate of contributions were amended by PD No. 1656 dated December 21, 1979 and PD No. 1909 dated March 22, 1984.

The System was not able to discharge its mandate originally set out in PD No. 361. Thus, Executive Order (EO) Nos. 590 and 590A were issued on December 15, 2006 and January 31, 2007, respectively, mandating the deactivation of the AFPRSBS and directing the transfer of its assets in trust to a government financial institution (GFI). On April 8, 2016, Memorandum Order (MO) No. 90, s. 2016, was issued directing the abolition of the AFPRSBS, privatization of its subsidiaries and for other purposes. The said MO repealed or modified all other issuances that are inconsistent with it.

The Board of Liquidators (BOL), consisting of nine (9) regular and one alternate members, is the policy making body of the System. All members were appointed by the AFP Chief of Staff who also appointed the President/Chief Executive Officer (CEO) and the Executive Vice President (EVP)/Chief Operating Officer (COO) of the System. The President/CEO, as well as the EVP/COO, takes charge of the day-to-day affairs of the organization. As at December 31, 2021, the System has 56 regular, 35 casual, five (5) contractual and 21 project-hired employees or a total workforce of 117 personnel.

The financial statements of the System as of and for the year ended December 31, 2021 (including the comparative financial statements as of and for the year ended December 31, 2020) were authorized and approved for issue by the Board on April 20, 2022.

The registered business and office address of the System is at No. 424 Capinpin Avenue, Camp General Emilio Aguinaldo, Quezon City. It has no other offices within and outside the Philippines, except for a satellite office located at No. 70, Commission Civil Street corner Lincoln Street, Jaro, Iloilo City.

2. STATUS OF OPERATIONS

In pursuant to MO No. 90, the System continuously engages itself in various business operations necessary to wind down its operations. These include the management of funds and investments in real estate projects and foreclosed assets.

In its meeting on April 19, 2016, the BOL approved the stoppage of the collection of five (5) per cent members' contributions (MCs) and the accrual of interests thereon effective

March 31, 2016 as per Board Resolution (BR) No. SPL-01-2016.

In late 2016, the System submitted its Winding Down Plan to the Governance Commission for GOCCs (GCG) which states that the primary objective of the same is to raise P16 billion to refund all the MCs by December 31, 2019. To achieve such objective, the following strategies shall be pursued within the Winding Down period of three (3) years:

1. Dispose all assets (real estate & equity investments) at their highest recoverable value;
2. Collect all receivables;
3. Complete membership database; and
4. Immediate separation of employees whose functions are no longer required.

The GCG clarified in its letter dated March 29, 2019 that the three-year period to liquidate a dissolved corporation can be extended until the liquidation is fully completed.

The implementation of Accelerated Refund of MCs was approved by the BOL on June 13, 2018. Consequently, it was approved by the GCG En Banc, subject to several conditions, per letter from GCG dated September 7, 2018. Policies and procedures for the implementation of the Accelerated Refund Program were established in coordination with AFP Units. This covers the refund of contribution to an estimated 105,200 members for a period of three (3) years. The AFPRSBS commenced the pay-out of Accelerated Refund in January 2019, thus, effectively stopping the granting of Advance Refund Loans. As at December 31, 2021, a total of P11.375 billion in principal and interests was refunded to 86,565 members/claimants.

The financial statements have been prepared on a going-concern basis assuming that the System will continue operating in the normal course of business, and do not include any adjustment relating to the recoverability of asset carrying values or the amount of liabilities that might result in the System's inability to continue its operations in the normal course of business. The normal operation is in consonance with the provisions of MO No. 90 geared towards the winding down objective of disposal/liquidation of the assets and eventual refund of all MCs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that are used in the preparation of these financial statements are summarized below. The policies are consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of financial statements preparation

a. Statement of compliance with Philippine Financial Reporting Standards

The accompanying financial statements were prepared in accordance with Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS). PFRS are adopted by the Philippine Financial Reporting Standards Council and approved by the Philippine Board of Accountancy (BOA) based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

b. Presentation of financial statements

The financial statements are presented in accordance with PAS 1, *Presentation of Financial Statements.* The System presents all items of income and expenses in a single statement of comprehensive income (SCI).

c. Basis of measurement

The financial statements are prepared on historical cost basis except for the equity securities which are measured at fair value.

d. Accrual basis of accounting

In accordance with PAS 1, *Presentation of Financial Statements,* the financial statements, except for cash flow information, have been prepared using the accrual basis of accounting.

e. Functional and presentation currency

The financial statements are presented in Philippine Peso, which is the System's functional and presentation currency. All amounts are rounded off to the nearest peso, unless otherwise indicated.

3.2 Adoption of new and amended PFRSs

a. New standards and amendments issued and effective for annual periods beginning on or after January 1, 2021:

- Amendment to PFRS 16 *Leases – Corona Virus Disease 2019 (COVID-19)-Related Concessions* extends, by one year, the amendment that provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

- *Amendments to PFRS 9, Financial Instruments, PFRS 7, Financial Instruments: Disclosures, PFRS 4, Insurance Contracts, and PFRS 16, Leases: Interest Rate Benchmark Reform – Phase 2.* The amendments provide the following temporary reliefs, which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

    - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform;
    - Relief from discontinuing hedging relationships;
    - Relief from the 'separately identifiable' requirement when an RFR instrument is designated as a hedge of a risk component; and
    - Disclosure Requirements.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRSs does have any material effect on the financial statements of the System.

b. New and amended PFRSs issued but not yet effective

Relevant new and amended PFRSs which are not yet effective for the year ended December 31, 2021 and have not been applied in preparing the financial statements are summarized below:

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

- Amendments to PFRS 3. *Business Combination – Reference to the Conceptual Framework (effective January 1, 2022).* The amendments update an outdated reference to the Conceptual Framework in PFRS 3 without significantly changing the requirements in the standard as follows:

    - Update PFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework;

    - Add to PFRS 3 a requirement that, for transactions and other events within the scope of PAS 37 of International Financial Reporting Interpretations Committee (IFRIC) 21, an acquirer applies PAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and

    - Add to PFRS 3 an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

- Amendment to PAS 16. *Property, Plant and Equipment – Proceeds before Intended use (effective for annual periods beginning on or after January 1, 2022 with early application permitted).* The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

- Amendments to PAS 37. *Provisions, contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective for annual periods beginning on or after January 1, 2022 with an early application permitted). The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

- Annual Improvements to PFRS Standards 2018-2020 (effective January 1, 2022)

- PFRS 1, *First-time Adoption of PFRS – Subsidiary as a first-time adopter.* The amendment permits a subsidiary that applies paragraph D16 (a) of PFRS 1 to measure cumulative transition differences using the amounts reported by its parent, based on the parent's date of transition to PFRSs.

- PFRS 9, *Financial Instruments – Fees in the "10 per cent" test for derecognition of financial liabilities*. The amendment clarifies which fees an entity includes when it applies the "10 per cent" test in paragraph B3.3.6 of PFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

- PFRS 16, *Leases – Lease incentives.* The amendment to illustrative Example 13 accompanying PFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- PAS 41, *Agriculture – Taxation in fair value measurements.* The amendment removes the requirement in paragraph 22 of PAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in PFRS 13.

- Amendments to PAS 1, *Accounting Policies, Changes in Accounting Estimates and Errors – Classification of Liabilities as Current or Non-current).* This amendment provides a more general approach to the classification of liabilities under PAS 1 based on the contractual arrangements in place at the reporting date. The amendments were originally effective for annual reporting periods beginning on or after January 1, 2022, however, their effective date has been delayed to January 1, 2023.

- Amendments to PAS 1, *Presentation of Financial Statements* and PFRS Practice Statement 2, *Making Material Judgments – Disclosure of Accounting Policies.* The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. These are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for annual periods beginning on or after January 1, 2023.

- PAS 12, Deferred Tax – *Related to Assets and Liabilities arising from a Single Transaction.* The amendment clarifies how companies account for deferred tax on transactions such as leases and decommissioning obligations. It is effective for annual periods beginning on or after January 1, 2023.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures (JV).* The amendment requires that gains and losses resulting from upstream and downstream transactions between an investor and its associate or a JV should only be recognized to the extent of the interest attributable to the other equity holders in the associate or JV (partial gain or loss recognition).

- Amendments to PFRS 10, *Consolidated Financial Statements*. The amendment requires that any investment the parent has in the former subsidiary after control is lost should be measured at fair value and that any resulting gain or loss should be recognized in profit or loss (full gain or loss recognition).

  The amendments to PAS 28 and PFRS 10 were originally effective for annual reporting periods beginning on or after January 1, 2016, however, their effectivity date has been deferred indefinitely.

- PFRS 17, *Insurance Contracts*. The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, including reinsurance contracts held and investment contracts with discretionary participation features issued. The objective of the standard is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of the standard have on the entity's financial position financial performance and cash flows. The standard is effective for annual periods beginning on or after January 1, 2023 with earlier application permitted.

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

3.3 Revenue recognition

Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the System performs its obligations; (b) the System's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the System's performance does not create an asset with an alternative use to the System and the System has an enforceable right to demand payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

Revenue from contracts with customers is recognized when control of the goods and services is transferred to the customer in an amount that reflects the consideration to which the System expected to be entitled in exchange for those goods and services.

The following specific recognition criteria must also be met before revenue is recognized:

a. Revenue from real estate sales

Real estate sales are accounted for under the full accrual method of accounting where revenue is recognized when: (a) the collectability of the sales price is reasonably assured; (b) the earnings process is virtually complete; and (c) the System does not have substantial continuing involvement with the subject properties.

The collectability of the sales price is considered reasonably assured when: (a) the buyers have actually confirmed the acceptance of the related loan applications after the same have been delivered to and approved by banks, or other financing institutions for externally-financed accounts; or (b) the full down payment required in the sales contract or comprising a substantial portion of the contract price is received and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the installment and deferred cash payment arrangement.

b. Rental income

Rental income from investment property is accounted for on a straight-line basis over the lease term.

c. Interest income

Interest income is recognized as the interest accrues, taking into account the effective yield of the financial instrument or the installment receivable from real estate sales.

d. Gain from sale of investment

Revenue is recognized upon consummation of the sale transaction. Under this method, gross profit is recognized when: (a) the collectability of the sales price is reasonably assured; (b) the earnings process and sales documentation are virtually complete; and (c) the System does not have substantial continuing involvement with the subject investment.

e. Dividend income

Dividend income is recognized when the right to receive payment is established.

f. Share from income of equity holdings

Revenue is recognized equal to the System's percentage of ownership from its subsidiaries and controlled entities' declared net income for a specific period.

3.4 Cash and cash equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly-liquid investments that are readily convertible to known amount of cash with original maturities of three (3) months or less and that are subject to an insignificant risk of change in value.

3.5 Financial assets

a. Financial assets at fair value through other comprehensive Income (FVOCI)

These financial assets are carried at fair values and are presented in the non-current assets section of the System's Statement of Financial Position (SFP). Changes in the fair value of such assets are recognized in other comprehensive income and presented within reserves in the unrealized gain or loss on FVOCI financial assets portion. When an equity instrument classified at FVOCI is derecognized, the cumulative gains or losses cannot be transferred/recycled to profit or loss anymore. While when debt instrument classified at FVOCI is derecognized, the gain or loss is transferred to profit or loss. For the remaining stock investments of AFPRSBS, the System elected to measure these financial assets at FVOCI.

b. Financial assets at amortized cost

These instruments are financial assets with fixed or determinable payments and fixed maturities. It meets both of the following conditions and is not designated as at fair value through profit or loss (FVPL):

- It is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and

- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The System's cash and cash equivalents, short-term investments (money market placement and treasury bills), loans and receivables, and long-term bonds are included under this category.

The following table shows the original classification categories under PAS 39 and the new classification categories under PFRS 9 for each class of the System's financial assets as of January 1, 2021 (in thousands):

	PAS 39 Measurement Category				**PFRS 9 Measurement Category**	
	Cash and Cash Equivalents	**Available for Sale**	**Held to Maturity**	**Loans ad Receivables**	**FVOCI***	**Amortized Cost**
Cash and Cash Equivalents	46,127					46,127
Stock Investment		25,004			25,004	
Investment in bonds			4,474,471			4,474,471
Short-term investments			2,095,000			2,095,000
Loans and receivables				1,325,663		1,325,663

c. Financial assets at fair value through profit or loss (FVPL)

Financial assets at FVPL are subsequently measured at fair value. The unrealized gains and losses, and dividend income are recognized directly in the SCI.

d. Impairment of financial assets

The System adopts the expected credit loss (ECL) model in measuring credit impairment in accordance with PFRS 9. In this respect, it shall recognize credit impairment/allowance for credit losses even before an objective evidence of impairment becomes apparent. The amount of the loss shall be recognized in profit or loss.

e. Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of similar financial assets) is derecognized when:

- The rights to receive cash flow from the asset have expired; and

- The System has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the System has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the System's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset or the maximum amount of consideration that the System could be required to repay.

In the event that the transaction qualifies for the derecognition of equity instruments classified as FVOCI by the System, the difference between the consideration received and the carrying amount of financial assets is recognized as realized gain/loss and reported in the profit or loss statement while the cumulative unrealized gain/loss reported in other comprehensive account remains within the equity.

3.6 Real estate inventories

Inventories are carried at the lower of cost and net realizable value (NRV). The average cost method is used in calculating the actual cost per square meter (sqm) of the inventories. The average cost method is calculated by dividing the actual total cost by the total number of sellable area for each project.

3.7 Supplies and materials inventory

Supplies and materials inventory are valued at cost determined on a moving average basis.

3.8 Investments in subsidiaries and associates

Investments in subsidiaries and associates are accounted for at carrying amounts equivalent to the percentage of the entities' net assets or equity since the System prepares separate financial statements from its subsidiaries and associates. The System does not prepare consolidated financial statements as required by PFRS for all its subsidiaries, since majority of the audited financial statements of the System's subsidiaries which are either closed or have ceased operations are not available.

The System recognizes, in its SCI, its equity share in the net earnings or losses of subsidiaries and associates since dates of acquisition. Dividends received are recognized in profit or loss section of the separate financial statements of the System when the right to receive the dividend is established.

An allowance is set up for any substantial and presumably permanent decline in the carrying values of the investments in shares of stock.

3.9 Investments in real estate

Investments in real estate are carried at cost and presented in the SFP. These include raw land properties which are not available for sale.

3.10 Investment property

The investment account is carried at cost less any accumulated depreciation and any impairment in value. Depreciation is computed using the straight-line method over its estimated useful life. The average useful life of the asset is 20 years. In June 2020, the System has already stopped depreciating the property located at Industrial Park Management Office since the asset has reached its estimated useful life.

3.11 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition and to the location for its intended use.

Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally charged to expenses in the period the costs are incurred. When assets are sold, retired or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Assets	Estimated useful life
Building and improvements/land improvements	10 - 30 years
Furniture and equipment, computer hardware	5 -10 years
Machinery and equipment	10 years
Transportation equipment (motor vehicle)	7 years

3.12 Acquired assets

Assets acquired in full or partial settlement of loans are recorded at book value or bid price, whichever is lower. Holding costs subsequent to the foreclosure, acquisition or consolidation of the properties are charged to operations if the book value is already equal or higher than the market value.

The System closes the loan account in AFPRSBS books after consolidation and consequently records the foreclosed property as newly acquired asset.

An allowance for probable losses is set up for any anticipated significant decline in value of the property based on the appraisal reports and current negotiations and programs to dispose of these properties to interested parties.

3.13 Provisions

Provisions are recognized under the following conditions: (a) when the System has a present obligation, whether legal or constructive, as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation.

In prior years, provisions for contingencies were accrued and will still continue to accrue when it is probable that a liability had been incurred at SFP date and the amount can be reasonably estimated. Otherwise, the loss contingency was disclosed only.

3.14 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.

3.15 Related parties

Parties are considered to be related if 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.

3.16 Events after the reporting date

Post year-end events that provide additional information about the System's financial position at the end of reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

4. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2021	2020
Cash on hand	**525,705**	541,209
Cash in banks	**21,610,664**	42,585,505
Cash equivalents	**3,000,000**	3,000,000
	25,136,369	46,126,714

Cash in banks earn interest based on respective bank deposit interest rates.

Cash equivalents consist of money market placements and other fixed-income securities with maturities of three months or less and which earn interest based on respective short-term deposit interest rates. The decrease in this account in the amount of P20.992 million during the year was due to the continuous refund contributions to the members. The remaining P3 million cash equivalents pertains to the 90-day fixed-income security with AFP Savings and Loan Association, Inc. (AFPSLAI) that was used as security/ collateral to AFP General Insurance Corporation (AFPGIC) in relation to a legal case pending at the Housing and Land Use Regulatory Board (HLURB). The account, however, will be closed once the System is able to submit another security to AFPGIC as a replacement for the said collateral.

5. SHORT-TERM INVESTMENTS

This account consists of marketable securities (money market placements) amounting to P1,955,000,000 for CY 2021 and P2,095,000,000 for CY 2020. These investments earn interest at quoted rates ranging from 0.7 to 2.00 per cent and 0.40 to 3.50 per cent per annum for CYs 2021 and 2020, respectively.

6. RECEIVABLES – NET

This account consists of the following:

	2021	2020
Receivable from sale of real estate properties in JV projects	**5,213,860**	5,213,860

(forward)

	2021	2020
Receivable from JV partner *(Note 27.2)*	**30,201,148**	30,219,293
Accrued interest on loans and investments	**38,270,073**	51,552,854
Non-trade receivables	**16,142,180**	16,154,550
Receivable from employees/others	**5,401,483**	5,291,221
Advances to contractors	**1,750,452**	1,750,452
Management fees *(Note 27.2)*	**2,673,074**	2,673,074
Other receivables	**726,795,315**	710,998,406
	826,447,585	823,853,710
Allowance for doubtful accounts	**(77,934,371)**	(77,934,371)
	748,513,214	745,919,339

Receivable from JV partner includes collections made by various JV partners from the sale of various real estate inventories that are for remittance to the System.

The account likewise includes a*ccrued interests on loans and investments* for various commercial papers whose interests are payable, quarterly, annually, or upon maturity.

Management fees refer to royalty fees for collection by the System from various subsidiaries.

Other receivables include receivables from Industrial Park lessees and advances to employees and suppliers. This also includes receivable from the persons liable amounting to P250.318 million resulting from the Notice of Disallowance issued which has become final and executory under Supreme Court (SC) Decision in GR No. 217948 dated January 12, 2016. Accordingly, a Notice of Finality of Decision (NFD) and COA Order of Execution (COE) were issued. As at December 31, 2021, the said receivable has a balance of P246.667 million.

Further in December 2020, the System derecognized in its books the value of the Lot-X properties in General Santos City. The SC's decision declaring the property as part of the Magsaysay Public Park became final and executory and the Writ of Execution was implemented in May 2020. The total investment cost of P175.070 million was dropped from the books. An amount of P153.843 million was recorded as receivables from the accountable persons and the unpaid amount of P21.227 million was reversed.

There is no movement during the year in the *Allowance for doubtful accounts* for receivables as follows:

	Balance, January 1, 2021	**Additional Provision**	**Recovery/ Reversal**	**Balance, December 31, 2021**
Accounts receivable, 2nd REM - San Lorenzo South Project's buyers	2,667,454	**0**	**0**	**2,667,454**
Interest receivables - Amtrust Holdings, Inc.	10,220,611	**0**	**0**	**10,220,611**
Dividend receivable - Zenco Footstep	2,320,000	**0**	**0**	**2,320,000**
Accounts receivable, non-trade	12,886,413	**0**	**0**	**12,886,413**
Accounts receivable, others	10,817,302	**0**	**0**	**10,817,302**
Accounts receivable trade	39,022,591	**0**	**0**	**39,022,591**
	77,934,371	**0**	**0**	**77,934,371**

7. LOANS RECEIVABLE – NET

This account consists of the following:

	2021	2020
Accounts under litigation	**776,874,298**	776,535,403
Medium-term loans *(Note 27.2)*	**143,647,109**	144,064,155
Past due commercial loans	**124,056,284**	124,430,656
Short-term loans	**1,419,952**	1,453,823
	1,045,997,643	1,046,484,037
Allowance for doubtful accounts	**(243,573,222)**	(349,473,265)
Unearned interest income	**0**	(117,267,326)
	802,424,421	579,743,446
Current portion of loans receivable	**802,424,421**	145,368,663
Non-current portion of loans receivable	**0**	434,374,783

Accounts under litigation represent past due accounts with ongoing legal cases/court hearings. Bulk of this account pertains to the Philippine Asia Pacific Corporation (PAPC) amounting to P714.128 million which is equivalent to 92 per cent of the total portfolio. The collaterals for the same were already foreclosed and titles are currently being consolidated in the name of AFPRSBS. Further, included in this category is the P36.670 million past due loan that was granted by the System to RCJ Bus Line, Inc. The account has an ongoing case filed with the Court of Appeals (CA).

Medium-term loans represent outstanding balances of loans granted by the System to its members and employees and some private companies. Included in this category is the loan that was extended by the System to Riviera Golf Club, Inc. (RGCI) amounting to P140 million for the payment of its real estate tax delinquencies for the years 2006 to 2013. The loan was released on a staggered basis starting October 2014 up to November 2019 and the same was secured by RGCI's lots as collaterals. The loan matured in October 2020, however, RGCI failed to settle the outstanding principal amount of P140 million and subsequently requested for a restructuring of the loan.

Past due commercial loans represent uncollected balances of loans that remained unpaid for more than 180 days. These loans, including accounts under litigation, are secured by mortgages on real estate, except on a few accounts. The accounts are still for provision of additional allowance for doubtful accounts.

Short-term loans represent the remaining outstanding balance of the multi-purpose and discounting of commutation of leave credits loans that were extended by the System to its members. These loans bear interest rates comparable to the prevailing market rates. After the issuance of MO No. 90 on April 8, 2016, the System stopped the granting of all loans to members except for the advance refund. The same, however, was also stopped effective January 2019 due to the implementation of the accelerated refund of members' contributions both to retired and active military personnel.

For CY 2021, the Unearned Interest Income of P117.267 million on the dacion of finished and unfinished condominium units by PAPC to AFPRSBS was reclassified from non-current assets to deposits and other liabilities. *(See Note 22)*

Movements in the *Allowance for doubtful accounts* for loans receivable are as follows:

	Balance, January 1, 2021	Additional Provision	Recovery/ Reversal	Balance, December 31, 2021
Accounts under litigation - PAPC	106,446,667	0	(106,446,667)	**0**
Past due commercial loans	8,488,563	0	0	**8,488,563**
Other loans	234,388,720	546,625	0	**234,935,345**
	349,323,950	546,625	(106,446,667)	**243,423,908**

The reversal of P106.447 million allowance for doubtful accounts - PAPC pertains to the transfer or regrouping of the said provision from Loans Receivable Category to Acquired Assets since the same was booked by the System in CY 2009 in anticipation of the possible cancellation of the dacion en pago agreement involving the unregistered dacion of Tower B units of Royal Plaza Towers to AFPRSBS. *(See Note 18)*

8. REAL ESTATE INVENTORIES - NET

This account pertains to real estate inventories held for sale in the ordinary course of business and consists of the following:

	2021	2020
Club share inventories	**1,003,926,298**	1,006,055,664
Other inventories	**2,727,860,538**	2,751,322,833
	3,731,786,836	3,757,378,497
Allowance for decline in value of inventories	**(80,052,818)**	(80,052,817)
	3,651,734,018	3,677,325,680

Club share inventories represent the System's shareholdings in golf clubs and sports and country clubs. These clubs were built inside the premises of the System's commercial and residential subdivision projects and serve as additional amenities of the project. The System exercises the voting rights of the shares during the annual stockholder's meeting of the club. As at December 31, 2021, there are still remaining deliverables of the System to the Riviera Golf Club, Inc. and the Riviera Sports and Country Club, Inc.

Other inventories consist of:

a. Commercial and residential subdivision projects which represents the real estate projects which were developed either by the System or under a JV arrangement with reputable real estate developers. These projects include residential estates, memorial parks, golf courses and commercial areas. The System sells its inventories from these projects through accredited marketing companies and real estate brokers.

b. Member-related projects such as condominium and apartment units in various AFP camps which were built by the System. These units are being leased by the AFP to qualified AFP officers and enlisted personnel whose quarters allowance are being used to pay for the monthly rentals. The rental fees being remitted by the AFP to the System are recognized as income. Once the AFP pays the cost of a building to the System, the ownership will be transferred to the AFP. As at December 31, 2021, the remaining units for transfer to the AFP are those located in Gamu Isabela, Fort Magsaysay, Manaoag Pangasinan, Jamindan Capiz, Bukidnon, Cagayan De Oro, Zamboanga Del Sur and Awang, Maguindanao.

The System's member-related projects, which consist of on-base housing units under lease-purchase arrangement with the AFP, are depreciated using the straight-line method over their estimated useful lives at an average of 25 years.

9. OTHER CURRENT ASSETS

This account consists of the following:

	2021	2020
Prepaid tax	**7,178,870**	7,008,630
Prepaid commissions	**5,733,969**	11,041,242
Prepaid supplies and materials	**908,610**	1,250,353
Prepaid insurance	**347,155**	341,979
Prepaid rental	**102,800**	102,800
Prepaid subscriptions/membership	**145,320**	145,320
Prepaid repairs and maintenance	**12,765**	12,764
	14,429,489	19,903,088

Prepaid tax pertains to advance payment of real property taxes on various properties of the System.

Prepaid commissions pertain to the partial payment of commissions to brokers/ marketing agents relative to the sale of the System's real estate inventories.

Prepaid insurance pertains to the payments made for insurance premium of the System's properties which are being amortized over the covered period.

The *Prepaid rental* pertains to the System's security deposit for the office space being leased by the System in Iloilo City and lease of safety deposit box at Land Bank of the Philippines – Buendia Branch.

10. INSTALLMENT CONTRACTS RECEIVABLE– NET

This account consists of the following:

	2021	2020
ICR from sale of real estate inventory	**209,841,084**	319,200,941
ICR from sale of acquired assets	**4,143,600**	4,143,600

(forward)

	2021	2020
Past due ICR	**59,586,609**	63,741,661
	273,571,293	387,086,202
Allowance for doubtful accounts	**(88,644,387)**	(149,889,676)
	184,926,906	237,196,526

The ICR accounts represent the balances of contract receivables arising from the sale of real estate inventories and acquired assets which were financed by the System through in-house financing scheme. The receivables are collectible within a period of one to 15 years with interest at prevailing market rates. The transactions are covered with Contracts to Sell. Corresponding titles to the real estate sold are released to the buyers only upon full payment of the contract price.

The bulk of the decrease in *ICR from sale of real estate inventory* is due to the collection of the outstanding balance (last quarterly amortization) from sale of the Green Meadows Iloilo Phase 2 Project to Sta. Lucia Land, Inc.

All real estate sales of the System in CY 2021 are on spot cash and one-year cash basis and maximum two years term for deferred sales (except for some special cases) in line with the winding down of AFPRSBS.

Past due ICR represents the uncollected balance that remained unpaid for more than 180 days. The amount is not fully provided with allowance.

Movements in the *Allowance for doubtful accounts* for ICR are as follows:

	Balance, January 1, 2021	**Additional provision**	**Recovery/ reversal**	**Balance, December 31, 2021**
Housing loans	37,827,294	0	0	**37,827,294**
Village East III	25,888,443	0	(12,631,912)	**13,256,531**
Orchard	7,927,152	0	(2,164,250)	**5,762,902**
Riviera	17,833,570	0	(5,270,191)	**12,563,379**
Installment contract receivables	6,741,126	0	0	**6,741,126**
Lending	53,672,091	0	(41,178,936)	**12,493,155**
	149,889,676	0	(61,245,289)	**88,644,387**

11. INVESTMENT IN BONDS

This account consists of the following:

	2021	2020
Retail treasury bonds	**1,050,000,000**	2,050,000,000
Development Bank of the Philippines (DBP) long-term commercial paper (LTCP)	**500,000,000**	1,000,000,000
Treasury bonds	**824,596,790**	1,424,471,120
	2,374,596,790	4,474,471,120

The investments earn an average yield of 4.36 per cent interest per annum with terms ranging from three to 10 years. The current portion of the long-term investments for CYs 2021 and 2020 are broken down as follows:

	2021	2020
Retail treasury bonds	**0**	1,000,000,000
Development Bank of the Philippines (DBP) long-term commercial paper (LTCP)	**0**	500,000,000
Treasury bonds	**25,153,599**	599,717,469
	25,153,599	2,099,717,469

12. NON-CURRENT INVESTMENTS

This account consists of the following:

	2021	2020
Stock investments	**18,992,515**	25,003,673
Money market placement	**2,574,547**	2,542,414
	21,567,062	27,546,087

Stock investments are measured at FVOCI which is inclusive of the cumulative unrealized gain/(loss) on financial assets in the amount of P8.122 million and P9.079 million for CY 2021 and CY 2020, respectively. All of the stock investments are listed and traded in the Philippine Stock Exchange (PSE).

The following shows the fair value of each stock investments at the end of the reporting period:

	2021	2020
Philippine Airlines, Inc. (PAL)	**18,039,873**	19,530,772
PSE	**0**	4,432,320
Premium Leisure Corp. (PLC)	**864,300**	894,450
Ionics Manufacturing, Inc. (IONICS, Inc.)	**86,400**	144,000
Metro Pacific Investment Corp (MPIC)	**1,942**	2,131
Total	**18,992,515**	25,003,673

In June 2021, the System sold its 28,800 PSE common shares in line with the divestment plan of AFPRSBS.

Dividends on FVOCI equity instruments are recognized in profit or loss when the right to receive payments is established. The following shows the cash dividends recognized during the period:

Stock	Rate	No. of shares	Cash dividends
Philippine Leisure Corporation	0.04075	2,010,000	81,907
Philippine Stock Exchange	8.00000	28,800	230,400
Metro Pacific Investment Corp.	0.07600	498	38
Total			**312,345**

Money Market Placement refers to the account with DBP in the amount of P2.575 million which was used as collateral in the pending case with Department of Labor and Employment (DOLE). The System is a respondent to the labor case filed by the employees of a security agency whose service was contracted by the System. As at December 31, 2021, the case is still awaiting resolution of the appeal.

13. ADVANCES TO SUBSIDIARIES AND ASSOCIATES – NET

This account consists of non-interest bearing cash advances to the following subsidiaries of the System:

	2021	2020
Monterrosa Development Corporation (MDC)	**13,686,632**	13,401,632
Matrix Realty and Development Corporation (MRDC)	**5,894,093**	5,894,093
Veterans Electronics Communications, Inc. (VECI)	**1,768,762**	1,768,762
RSBS Land, Inc. (RLI)	**487,520**	217,520
Others	**659,520**	659,520
	22,496,527	21,941,527
Allowance for doubtful accounts	**(16,416,120)**	(16,416,120)
	6,080,407	5,525,407

A 100 per cent allowance was provided for advances to subsidiaries which have already been closed and ceased operations, such as the VECI and the MRDC. Allowances were also provided for advances that remained uncollected for more than a year.

There is no movement in the *Allowance for doubtful accounts* for advances to subsidiaries and associates as follows:

	Balance, January 1, 2021	Additional provision	Recovery/ reversal	Balance, December 31, 2021
Monterrosa Development Corporation (MDC)	8,093,745	0	0	**8,093,745**
Matrix Realty and Development Corporation (MRDC)	5,894,093	0	0	**5,894,093**
Veterans Electronics Communications, Inc. (VECI)	1,768,762	0	0	**1,768,762**
Others	659,520	0	0	**659,520**
	16,416,120	0	0	**16,416,120**

14. INVESTMENTS IN SUBSIDIARIES–NET

Investments in subsidiaries which are booked at carrying amounts equivalent to the percentage of the entities' net assets or equity consist of the following:

	Percentage of ownership	2021	2020
Investment in subsidiaries-acquisition cost			
Monterrosa Development Corporation (MDC)	100.00	**873,927,445**	873,927,445
Bay Resources and Development Corporation (BRADCO)	50.00	**402,000,000**	402,000,000
Veterans Electronics Communications, Inc. (VECI)	90.65	**126,738,598**	126,738,598
Aguinaldo Theater Enterprises, Inc. (ATEI)	50.00	**120,000,000**	120,000,000
Resources Investment House (RIH)	100.00	**102,123,549**	102,123,549
Matrix Realty Development Corporation (MRDC)	100.00	**35,931,250**	35,931,250
Goodfit Manufacturing Corporation (GMC)	79.99	**25,556,920**	25,556,920
Fashion Link Corporation (FLC)	100.00	**20,100,000**	20,100,000
Globan Fruits and Development Corporation (GFDC)	100.00	**10,000,000**	10,000,000
General Satellite Communications, Inc. (GSC)	62.00	**2,906,238**	2,906,238
RSBS Enterprises, Inc. (REI)	100.00	**2,500,000**	2,500,000
RSBS Land, Inc. (RLI)	100.00	**994,170**	994,170
		1,722,778,170	1,722,778,170
Investment in associates-acquisition cost			
Marilaque Land, Inc. (MLI)	40.00	**609,000,000**	609,000,000
Amtrust Holdings, Inc. (AHI)	10.92	**127,000,000**	127,000,000
Advent Capital and Finance Corporation (ACFC)	14.02	**71,183,811**	71,183,811
First Dominion Prime Holdings, Inc. (FDPHI)	00.93	**15,418,269**	15,418,269
CEMX, Inc. (CI)	24.00	**6,000,000**	6,000,000
Cyquest, Inc.	40.00	**2,000,000**	2,000,000
		830,602,080	830,602,080
Net adjustments			
Accumulated equity in net losses, beginning		**(302,500,453)**	(302,286,431)
Equity in net earnings for the year		**(38,123,799)**	(214,022)
Accumulated equity in net losses, ending		**(340,624,252)**	(302,500,453)
Cumulative liquidating dividends - SUMSI		**(50,000,000)**	(50,000,000)
Liquidating Dividend – RICH & CEMX		**(13,031,947)**	(13,031,947)
Allowance for decline in value		**(453,242,681)**	(453,242,681)
		(856,898,880)	(818,775,081)
		1,696,481,370	1,734,605,169

On October 22, 2014, RLI officially obtained an approval from the Securities and Exchange Commission (SEC) shortening the term of its existence thereby dissolving the corporation as of said date. The System is already in the process of closing the remaining RLI investment in its books and the corresponding adjustment will be made upon approval by Management.

The other subsidiaries and associates which have closed and/or ceased operations are the GMC, FLC, GFDC, CI, GSC, REI and Cyquest, Inc. Some of these companies have not been formally dissolved pending completion of certain documentary requirements of the SEC and the Bureau of Internal Revenue (BIR).

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Meanwhile, the shortening of the Corporate Life of the Aguinaldo Theater Enterprises, Inc. (ATEI) effective December 31, 2022 was approved by ATEI's Board on June 24, 2021 due to termination of the lease contract with the AFP effective May 25, 2020. The implementation to take-over the premises and facilities of ATEI by the AFP is pursuant to Section 38 of Commonwealth Act No. 141, as amended, otherwise known as the Public Land Act which mandates that upon expiration of any lease agreement on any public land, all buildings and other permanent Improvements made by the lessee, and their administrators, successors, or assigns shall become the property of the Government. As at December 31, 2021, ATEI has already ceased business operations.

15. INVESTMENTS IN REAL ESTATE - NET

This account consists of the following:

	2021	2020
Landbanking assets	**1,771,255,737**	1,771,613,029
Allowance for decline in value of investment in real estate	**(41,559,544)**	(41,559,544)
	1,729,696,193	1,730,053,485

The *Landbanking assets* refer to undeveloped real estate properties of the System located in various parts of the country. These assets are not yet being offered for sale to the public.

For CY 2021, there is no movement in the Allowance for decline in value of investment in real estate for the following accounts:

	Balance, January 1, 2021	**Additional provision**	**Recovery/ reversal**	**Balance, December 31, 2021**
Riviera	19,232,230	0	0	**19,232,230**
Sta. Rosa, Nueva Ecija	21,283,923	0	0	**21,283,923**
Hermosa, Bataan	1,043,391	0	0	**1,043,391**
	41,559,544	0	0	**41,559,544**

The allowance provided for the Hermosa, Bataan and Sta. Rosa Nueva Ecija projects pertain to the decline in value of the investments based on appraised values while the provision for the Riviera project is a result of a legal case in relation to the titles of the properties acquired.

16. INVESTMENT PROPERTY – NET

This account consists of the following:

	2021	2020
Building and building improvements at the industrial park	**129,061,551**	129,061,551
Accumulated depreciation/amortization	**(109,686,572)**	(109,430,572)
	19,374,979	19,630,979

Investment property consists of the cost of buildings and building improvements constructed inside the System's Industrial Park Management Office (IPMO) located in Taguig City, Metro Manila. The buildings constructed are being leased at competitive rental rates to private companies. The System does not own the land but has acquired perpetual rights from the Philippine Government to use the property for its own use and purpose.

In 2014, the System executed a contract with HMRID Property Inc. (HMRID) for the lease of a 40,000 sqm open space located in the System's Industrial Park. The term of the lease is for a period of 25 years for a monthly rental of P80 per sqm or a total of P3.200 million. The System incurred a direct cost of P6.400 million for the lease of the said property which was added to the cost of the project to be amortized monthly over the term of the lease in accordance with PFRS 16 on Leases.

The minimum rentals for the remaining lease term on the System's operating lease with the said lessee as at December 31, 2021 amounted to P1.166 billion. In 2018, HMRID leased the remaining area of Industrial Park Management Office of 33,762 sqm more or less, including open spaces, buildings and improvements found therein for a period of one year effective October 1, 2018 for a rental fee of P3.883 million per month. The BOL, however, approved the extension of the lease contract with HMRID up to three (3) years during the BOL meeting held on February 21, 2019.

17. PROPERTY AND EQUIPMENT (PE)- NET

This account consists of the following:

	Building and improvements	**Office equipment**	**Transportation equipment**	**Furniture and fixtures**	**Total**
Cost					
Balance, 1/1/2021	91,429,579	147,501,328	8,283,853	15,003,609	262,218,369
Additions	0	1,021,889	0	0	1,021,889
Adjustments	0	(8,433,087)	(278,335)	(5,299,788)	(14,011,210)
Balance, 12/31/2021	91,429,579	140,090,130	8,005,518	9,703,821	249,229,048
Accumulated depreciation					
Balance, 1/1/2021	82,286,621	127,495,636	7,413,036	12,082,692	229,277,985
Depreciation during the year	0	163,027	0	26,718	189,745
Adjustments	0	(8,385,147)	(277,995)	(5,263,170)	(13,926,312)
Balance, 12/31/2021	82,286,621	119,273,516	7,135,041	6,846,240	215,541,418
Net book value, 12/31/2021	**9,142,958**	**20,816,614**	**870,477**	**2,857,581**	**33,687,630**
Cost					
Balance, 1/1/2020	91,429,579	146,956,673	8,283,853	14,899,021	261,569,126
Additions (deductions)	0	544,655	0	104,588	649,243
Balance, 12/31/2020	91,429,579	147,501,328	8,283,853	15,003,609	262,218,369
Accumulated depreciation					
Balance, 1/1/2020	82,286,621	127,495,636	7,413,036	12,082,692	229,277,985
Depreciation during the year	0	0	0	0	0
Balance, 12/31/2020	82,286,621	127,495,636	7,413,036	12,082,692	229,277,985
Net book value, 12/31/2020	9,142,958	20,005,692	870,817	2,920,917	32,940,384

The System uses cost method in the recording of its properties and equipment.

For the year 2021, the System adjusted the PE account by dropping acquisitions that are below the P15,000 threshold and were charged to Retained Earnings. Accordingly, the corresponding accumulated depreciation was reversed during the year.

18. OTHER NON-CURRENT ASSETS –NET

This account consists of the following:

	2021	2020
Acquired assets *(Note 3.12)*	**470,518,585**	472,183,667
Allowance for probable losses	**(145,407,099)**	(38,960,432)
	325,111,486	433,223,235
Deposits and others	**7,982,123**	7,845,706
	333,093,609	441,068,941

Acquired assets include residential lots, memorial parks, condominium units, machineries and equipment which the System foreclosed to satisfy outstanding unpaid balances of loans granted to various companies and individuals.

The *Acquired assets* include five condominium units that were used as security for the counter-attachment bond applied by MRDC. As of February 2016, the System has already requested the Office of the General Corporate Council (OGCC) in its letter dated February 23, 2016 to undertake the release/cancellation of the mortgage on the subject condominium units considering that the judgment amount in the civil case between MRDC and a Developer has been fully satisfied. The same was reiterated by the System to OGCC in its letter dated February 21, 2017. On April 4, 2017, AFPRSBS sent a letter to the Insurance Commission (IC) requesting for the release of mortgage covering the condominium units located at Ciana Plaza Condominium and the immediate release of Owner's Duplicate Copy of condominium certificate of title (CCT) Nos. 51527 (Unit No. 201), 51528 (Unit No. 402), 51529 (Unit No. 505), 51530 (Unit No. 702), and 51534 (Unit No. PO-1). On December 6, 2018, the System received a letter from the IC conveying the release of mortgage and the return of Owner's Duplicate copies of the five CCTs owned by AFPRSBS subject to compliance with certain requirements. Subsequently, the motion for the lifting/release of bond was filed by the System with RTC, Branch 93, Quezon City on January 25, 2019.

On February 18, 2019, the motion for lifting/release of Bond on the five condominium units as security for the issuance of counter-attachment bond of AFPRSBS in favor of the insurance company filed in RTC Branch 93, Quezon City was granted. Hence, the IC on July 10, 2019 ordered the release of mortgage on AFPRSBS regarding the subject condominium units.

The IC, however, certified that the CCTs on five (5) condominium units were not in their possession and upon due diligence search made by the System on the whereabouts of said CCTs, those cannot be found and such are considered lost. As at December 31, 2019, an Affidavit of Loss was executed on the subject five (5) CCTs and have them annotated in the Registry of Deeds (RD) at Makati City on January 22, 2020 as a requirement for the filing of Petition for the Issuance of New Owners Copies of the five (5) CCTs. The System filed the said petition in RTC, Makati City on July 28, 2020. As at December 31, 2021, the New Owner's Copies of the said CCTs are for issuance by the Registry of Deeds, Makati City.

19. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

These accounts consist of the following:

	2021	2020
Trade payables	**28,721,954**	29,195,583
Non-trade payables	**179,537,007**	354,141,732
Accrued employee benefits	**78,162,197**	79,559,748
Accrued operating expenses	**27,646,712**	33,286,046
Reserve for real estate development	**24,425,106**	25,707,342
Payable to real estate brokers	**22,196,588**	26,502,802
Retention payable	**21,018,751**	21,588,387
Buyer's refund payable	**17,760,839**	17,717,942
Payable to landowners	**94,146,660**	94,146,660
Other payables	**12,595,840**	12,852,955
	506,211,654	694,699,197

Accrued employee benefits mainly consist of the provision for employee separation benefits in the total amount of P68.532 million. The amount is net of the P2.188 million separation costs that were paid to three (3) separated employees in CY 2021 (*See Note 27).*

Reserve for real estate development account is composed of the remaining liabilities of the System to its various contractors and the estimated costs to complete the Sta. Rosa Homes Subdivision (SRHS) and San Lorenzo South Subdivision (SLSS) projects of the System. The estimated costs to complete the project was included in the said account and is being reviewed periodically to assess the sufficiency of the estimates and to account for other costs that may arise in the course of completing the projects.

Payable to landowners account includes the remaining payables to various tenants for the lot acquisitions made for the Riviera raw lands in the previous years.

20. MEMBERS' CONTRIBUTIONS PAYABLE

This account pertains to estimated amount of refund of contributions payable to retiring members of the AFP within a one-year period. In April 2016, contributions that will not be refunded/paid within one year, which were previously lodged in equity, were all reclassified to liability. The transfer was made since the contributions of the members are all due for refund upon their retirement. In June 2018, the BOL approved the implementation of the Accelerated Refund of MCs.

On April 19, 2016, the BOL approved the stoppage of the collection of five (5) per cent MCs effective March 31, 2016 per BR No. SPL-01-2016. Hence, no new contributions were received by the System, except for some supplementary contributions pertaining to prior months.

This account consists of the following:

	2021	2020
MC payable-current	**2,295,441,048**	2,376,693,809
MC payable-non-current portion	**0**	1,982,986,520
	2,295,441,048	4,359,680,329

For CY 2021, the balance of the MC account under non-current portion was reclassified to current portion since the System projected to refund all the remaining contributions to the members by end of CY 2022.

21. ESTIMATED LIABILITY ON EARNINGS OF MEMBERS' CONTRIBUTIONS

Movements in estimated liability on earnings of MCs are as follows:

	2021	2020
Balance at beginning of year	**1,393,428,060**	2,293,584,114
Payments made (net of adjustments)	**(452,356,396)**	(900,156,054)
Balance at end of year	**941,071,664**	1,393,428,060
Current portion	**941,071,664**	951,971,791
Non-current portion	**0**	441,456,269

The System started granting four (4) per cent interest on MCs as per Standard Operating Procedure (SOP) No. 11-92 which shall be compounded yearly effective January 1992 and that will accrue up to the time the member retires or is separated from the service.

The interests will be paid out together with the refund of MCs to the members. Effective January 1996, the interest on MCs was increased to six per cent per annum compounded annually.

In November 2010, the BOT approved the adoption of simple interest per annum on MCs from 1992 onwards. The approval is effective to those who will retire from January 2011 onwards.

In April 2016, the System stopped computing for interests on MCs in compliance with the provision of MO No. 90 providing for the abolition of the System.

The current portion of estimated liability on earnings of MCs for 2021 was based on the projected refund/payments to be made in CY 2022.

22. DEPOSITS AND OTHER LIABILITIES

	2021	2020
Buyers' deposit, in house	**78,253,926**	86,914,085
(forward)		

	2021	2020
Buyers' deposit, external	**3,974,241**	3,974,241
Buyers' deposit, JV	**6,573,285**	9,826,382
Rental deposits	**34,794,640**	40,421,700
Unapplied collections	**8,776,485**	7,071,840
Unapplied receipts	**1,683,285**	1,683,285
Construction deposits	**16,743,800**	15,083,800
Unearned interests	**117,267,327**	0
Unearned income, discounted members refund	**138,791**	138,791
Deferred credits	**205,718,185**	205,718,186
	473,923,965	370,832,310

Unearned interests include certain investments and deposits received from installment buyers of real estate properties prior to completion of the required down payments and those amortizations that are not yet applied in the subsidiary ledgers of the respective buyers. During the year, the System reclassified the P117.267 million unearned interest income from non-current assets to deposits and other liabilities. This represents the unearned income on the dacion in payment of finished and unfinished condominium units made by Philippine Asia Pacific Corporation to the System in CY 2001. The properties were already foreclosed and titles are already in the process of consolidation in the name of the System.

Deferred credits include the P196.508 million deferred income representing the System's 40 per cent share in the unrealized gain arising from the transfer in 1995 of certain real estate property of the System to Marilaque Land, Inc. in exchange for the latter's shares of stock.

23. FUND EQUITY

Pursuant to PD No. 361, the System was established for the purpose of providing a separate fund or scheme to ensure payment of retirement and separation benefits to the members of the AFP.

Accordingly, the System was funded mainly through the following: (a) appropriation remitted by the Philippine Government, the total commitment of which amounted to P200 million; (b) the contributions from officers and enlisted personnel in the active service which was pegged at four percent of their basic and longevity pay; and (c) income from investment operations.

On August 12, 2003, the SC declared the System as a government entity and that its funds are in the nature of public funds. The decision became final and executory on December 10, 2003. The SC likewise stated that the System was created by PD No. 361 whose purpose and function are similar to those of Government Service and Insurance System (GSIS) and Social Security System (SSS).

In April 2016, the System has already reclassified the members' contributions as part of its liabilities (previously treated as equity) in the 2016 Financial Statements. It was embodied in the issued MO No. 90 that the said contributions will be refunded as they fall due, however, the GCG approved the request of the System to accelerate the refund of MCs to both retiring and active military personnel in view of the three-year winding down activities of AFPRSBS. The implementation of the same was made effective January 2019.

As at December 31, 2021, the remaining Fund Equity of the System is composed of the P200 million government contributions, retained earnings of P9.172 billion and other comprehensive income of P8.122 million representing the cumulative gain on changes in fair value of investments.

24. RETAINED EARNINGS

The Retained Earnings is presented as net of prior period adjustments to reflect revenue and expense transactions of prior years. Since CY 2016, the System has already stopped the charging of interests accruing to the contributions of the members to the Retained earnings.

The correction of prior period errors consists of the following:

Particulars	**Amount**
Adjustment on allowance for doubtful accounts	60,698,646
Adjustments on other income and expenses-net	12,511,531
	73,210,177

25. REVENUES

Revenues consist of the following:

	2021	2020
Fund management operations		
Interest on MMP/deposit in banks/treasury bills	**28,105,446**	73,739,335
Income from long-term investments	**148,834,176**	203,528,833
Income from stocks/dividends	**312,345**	101,037
Gain on sale of stocks	**855,772**	0
	178,107,739	279,369,205
Real estate rentals		
Rentals from IPMO–net	**124,999,674**	123,628,365
Rentals from real estate properties – net	**7,581,820**	8,035,822
	132,581,494	131,664,187
Lending operations		
Interest on ICRs	**14,411,908**	28,887,417
Interest on advance refunds	**0**	60,730
Interest on commercial loans	**0**	6,906,576
Interest on employee loans	**300,293**	386,345
Interest on discounting of commutation of leave	**77,000**	24,955
Other income	**3,804,058**	15,066,232
	18,593,259	51,332,255
Real estate operations		
Sale of real estate inventories – net	**52,629,902**	(33,314,733)
Income from acquired assets – net	**4,434,418**	13,093,494
(forward)		

	2021	2020
Other income	**3,863,823**	3,403,172
	61,238,143	(16,818,067)
Equity holdings in subsidiaries and associates	**(37,833,799)**	147,249,115
	352,686,836	592,796,695

Other income from lending and real estate operations consists of recoveries from defaulting loan accounts, interest on advances, fines and penalties from accounts in default, forfeiture of payments from cancelled sales contracts, and interest income.

26. DEPRECIATION AND AMORTIZATION

This account consists of the following:

	2021	2020
Property and equipment (*Note 17*)	**118,399**	0
Real estate inventories	**0**	1,148,801
	118,399	1,148,801

27. EMPLOYEE BENEFITS

For CY 2021, three (3) employees were separated from the System in line with the winding down and liquidation of AFPRSBS pursuant to MO No. 90 for a separation cost amounting to P2.188 million. As at December 31, 2021, the balance of the accruals for the separation of the remaining employees is P68.532 million *(See Note 19)*.

27.1 Compensation of key management personnel

The key management personnel refer to the executive team, with the rank of Vice President and up to the President. These individuals have the authority and responsibility for planning, directing, and controlling the activities of the System. The aggregate compensation of the executive officers and BOLs for CYs 2021 and 2020, are as follows:

	2021	2020
Salaries and wages	**2,708,306**	3,361,117
Other benefits	**1,022,944**	1,146,016
	3,731,250	4,507,133

27.2 Other related party transactions

The year-end balances in respect of related parties included in the financial statements are as follows:

	2021	2020
Management fees *(Note 6)*	**2,673,074**	2,673,074
Receivable from JV partner *(Note 6)*	**30,201,148**	30,219,293
Medium-term loans *(Note 7)*	**143,647,109**	144,064,155
Advances to subsidiaries and associates *(Note 13)*	**22,496,527**	21,941,527
Accounts payable and accrued expenses *(Note 19)*	**85,662,696**	86,959,470
	284,680,554	285,857,519

28. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly and 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. Related parties may be individuals or corporate entities.

The System enters into various transactions with its subsidiaries, associates and JV partners. Significant transactions with subsidiaries, associates and JV partners consist of non-interest bearing cash advances, interest bearing loans receivable and payables.

29. CONTINGENCIES

The System was summoned by the Senate Committees on Accountability of Public Offices and Investigation (Blue Ribbon) and National Defense and Security (NDS), joined by the Joint Committees on Banks and Financial Institutions and Currencies and NDS, for an investigation regarding the deterioration of the System's financial condition and alleged discrepancies in the purchase price of certain real estate acquisitions.

A final report was subsequently submitted by the Joint Committees recommending, among others, the establishment of a conservatorship committee to preserve the System's assets, the further actuarial study of the System's financial condition, the passage of a law revising or creating a new System's Charter, and the prosecution or censure of former or current officers of the System.

Various lawsuits, claims and proceedings, including an action filed for the cancellation of titles of certain properties, have been or may be instituted or asserted against the System. While the amounts may be substantial, the ultimate liability cannot presently be determined because of the considerable uncertainties that exist. Therefore, it is possible that the results of operations or liquidity in a particular period could be materially affected by certain contingencies.

However, based on facts currently available, Management believes that the disposition of matters that are pending or asserted will not have a material effect on the financial position of the System.

30. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Liabilities to the members	2021	2020
Balance, January 1	**5,753,108,389**	9,561,807,379
Cash flows from financing activities		
Payment of contributions	**(2,680,635,651)**	(3,722,898,216)
Non-cash financing activities		
Adjustment of matured loans/others set-up of unreleased checks/other adjustments	**164,039,974**	(85,800,774)
Balance, December 31	**3,236,512,712**	5,753,108,389

31. EXEMPTION FROM TAX

Pursuant to Section 2(c) of PD No. 361, as amended by PD No. 1656, all earnings of the System shall not be subject to any tax whatsoever. The System has likewise secured an affirmation of its tax exemption from the BIR pursuant to Section 60(B) of the National Internal Revenue Code. The latest affirmation was issued on August 11, 2009.

32. COMPLIANCE WITH REVENUE REGULATIONS (RR) No. 15-2010

In compliance with the requirements set forth in BIR RR No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable years 2021 and 2020.

32.1 Withholding Taxes

	2021	2020
Tax on compensation and benefits	**6,055,609**	6,864,214
Value-added taxes	**1,852,043**	1,635,654
Expanded withholding taxes	**3,202,775**	2,726,585
Percentage taxes	**72,574**	138,563
	11,183,001	11,365,016

32.2 Other Taxes

	2021	2020
Local		
Real property taxes	**24,014,211**	21,614,781
Capital gains taxes	**13,447,486**	7,445,817
Transfer taxes/others	**2,454,036**	27,937
National		
BIR annual registration	**500**	500
	39,916,233	29,089,035

On August 10, 2017, the System received the Preliminary Assessment Notice (PAN) arising from the extra-judicial foreclosure of the land and 329 condominium units. On August 18, 2017, the System filed a protest/opposition to the PAN asserting that no liability to pay deficiency taxes, penalties, and surcharges. The System filed a request for re-zonal or re-evaluation to the Assessment Division of BIR on June 17, 2013 considering that the subject property is composed of finished and unfinished condominium units. The System has already applied for the Abatement/Cancellation of its tax liabilities and has continually coordinates with the Bureau of Internal Revenue for any development.

33. STATUS OF LAWSUITS

The System is involved as a defendant in several lawsuits pending for resolution that could materially affect its financial position. Among these lawsuits are the following:

Case No./ Court	Description	Pecuniary amount or liability involved	Status
RTC, Branch 93, Quezon City	Specific performance, sum of money and damages with prayer for writ of preliminary attachment	45.657 million	Decision was implemented and judgment amount was duly satisfied by garnishing the amount of P45,656,843 from the deposit of AFPRSBS. However, the CA finds that the garnishment is invalid. The case was elevated to the SC, and has a favorable decision. The AFPRSBS filed a motion for restitution of the garnished amount. On June 29, 2021, the Office of the Government Corporate Counsel received an Order from RTC, Branch 23, Quezon City, directing AFPRSBS to file Opposition to Plaintiff’s Motion for Reconsideration. The System files its Comment/Opposition on July 05, 2021.
RTC, Branch 21, Manila December 18, 2015	Annulment of extrajudicial foreclosure of real estate mortgage, specific performance and damages with prayer for temporary restraining order and preliminary injunction	Book value: 715.382 million	Hearing is ongoing.

Case No./ Court	Description	Pecuniary amount or liability involved	Status
RTC, Branch 37, General Santos City	Quieting of titles and/or cancellation of titles	Book value: 175.070 million	Mediation was terminated and the case was reverted to RTC. Filed a manifestation/compliance to Court's Order to file Pre-Trial Brief by manifesting that AFPRSBS had previously filed its Pre-Trial Brief way back in 2015. Pre-Trial Hearing is set on March 30, 2022.
Civil Case No. 988 RTC, Nasugbu, Batangas	Reconveyance of property with damages in relation to the joint venture entered into by AFPRSBS and a developer for the construction and marketing of a 24-storey condominium building	353.721 million	With decision rendered in favor of Group Developers, Inc. The OGCC, on behalf of the defendants, filed the appeal to the CA on June 9, 2017. The motion for reconsideration filed by MDC was denied by the CA. Awaiting the finality of the decision of the CA regarding its favorable decision on AFPRSBS, that the System is not liable. A Motion for Reconsideration was filed on October 14, 2020 in relation to the SC resolution.

The System is involved as party litigant to 27 ejectment cases and 15 of which achieved finality and are currently for execution/implementation. On the other hand, there are eight (8) Land Registration/Reconveyance/Foreclosure of Mortgage cases which are still pending. In other civil cases, 20 are still ongoing and two (2) criminal cases are likewise pending. Lastly, there are 57 various cases that are being handled by the OGCC.

34. IMPACT OF COVID-19

The COVID-19 pandemic has resulted in a slowdown in almost all aspects of the System's operations. The most affected is the real estate operations. There was a suspension/slowdown of divestment activities. The bidding/procurement activities were delayed/deferred. There were delays also in the commencement of some projects, or completion of some projects were extended.

The pandemic also caused reduction in workforce reporting to office leading to reduction in the number of refund transactions being processed and funded. Hence, the original target date of completion of the Accelerated Refund of December 2021 was adjusted to December 2022. The incidents of positive COVID-19 cases on the System's employees and in partner-banks also delayed the releases of refunds to members. The System adopted business process enhancements to limit face to face transaction with its clients.