

**AFP RETIREMENT AND SEPARATION BENEFITS SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**

(All amounts in Philippine Pesos unless otherwise stated)

**1. GENERAL INFORMATION**

The AFP Retirement and Separation Benefits System (hereinafter called “the System” or “AFPRSBS” for brevity) was created and duly organized under and by virtue of Presidential Decree (P.D.) No. 361, which was promulgated on December 30, 1973. The System 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 P.D. No. 361 pertaining to membership and rate of contributions were amended by virtue of P.D. No. 1656 dated December 21, 1979 and P.D. No. 1909 dated March 22, 1984.

The registered business and office address of the System is at No. 424 Capinpin Avenue, Camp General Emilio Aguinaldo, Quezon City, Metro Manila, Philippines. It has no other offices within and outside of the Philippines.

The financial statements of the System for the year ended December 31, 2014 were authorized for issue by the AFPRSBS management represented by the President and Chief Executive Officer and Executive Vice President on April 29, 2015.

**2. STATUS OF OPERATIONS**

The System is engaged in various business operations to include the management of funds invested in the stock market, money market, government and corporate bonds, corporate loans, consumer/member loans, real estate properties, and equity holdings in subsidiaries and associates. It also has interests and participation in real estate projects involving the development and construction of commercial and subdivision projects, memorial parks, golf courses, and, for some, in partnership with reputable real estate developers. In the course of the System’s lending operations, it also acquires through foreclosure proceedings and dacion en pago arrangements mortgaged real estate properties as payment for the full or partial settlement of the loan obligations of the borrowers. The inventory of developed lots, condominium units, and acquired assets are being offered for sale to the military personnel and to the public as well.

The operations of the System have been affected, and may continue to be affected, for the foreseeable future by the adverse conditions in the local and global economy characterized by the behavior of the stock market and low yield on financial instruments. For the year 2014, sales of real estate properties improved from the previous year. The disposal of some of the assets, however, is still hindered by the unavailability of the titles in the name of the System and some legal cases involving some of the raw lands that were acquired. As a result, the projected profits and returns from these ventures may not be fully realized. Related effects of adverse conditions, if any, will be reported in the financial statements, as they become known and estimable.

Management is implementing measures which are geared towards reducing operational costs, generating profits, and ensuring liquidity to meet the System's commitments to its customers, suppliers, and stakeholders and at the same time strengthen the overall financial position of the System. The more significant components of these measures are as follows:

- a. Implementation of cost-cutting measures;
- b. Pursuing the cleansing of the real estate properties that are not yet in the name of the System;
- c. Coordination with the local government agencies and the homeowners' associations for the turnover of various real estate projects;
- d. Pursuing collections of past due accounts;
- e. Implementation of exit strategy for the System's shareholdings in non-earning subsidiaries and associates to minimize losses;
- f. Proposing the reduction of interests on member's contributions; and
- g. Maximizing the earning potentials of idle real estate properties.

On December 15, 2006, Executive Order (E.O.) No. 590 was issued deactivating the System. The same was amended on January 31, 2007 by E.O. 590-A. The System did not receive any implementing rules and regulations for its formal deactivation process.

In January 2013, the Governance Commission for GOCCs (GCG) has already recognized the System as a Government-Owned and Controlled Corporation (GOCC). In May 2013, however, the System was classified as under "Dissolved/Liquidated/Inactive" in the classification of GOCCs by Sectors of the GCG. The classification was later changed to "Non-Banking Institution" in September 2013 and, subsequently, classified as "Social Security Institution" in February 2014. As of November 18, 2014, the System is classified under Non-Operational/Inactive Corporations per GCG MC No. 2-13-26.

In May 2013, the Chairman of the RSBS Board of Trustees (BoT) conveyed to the members of the BoT the continuing strategic direction of winding down of RSBS operations, preserving the value of its assets as much as possible, and endeavoring to avert the bleeding of RSBS.

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 adjustments relating to the recoverability of asset carrying values or the amount of liabilities that might result should the System be unable to continue operating in the normal course of business. The normal operation is geared towards the winding down objective of disposal/liquidation of the assets.

As of the statement date, the System has personnel complement consisting of 83 regular employees and 42 contractual personnel.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 3.1. Basis of preparation

##### a. Statement of Compliance

The financial statements of the Corporation have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are issued by the Financial Reporting Standards Council (FRSC) and approved by the Philippine Board of Accountancy (BOA) based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

The System applied **PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards***, in preparing the financial statements, with January 1, 2004 as the date of transition. AFPRSBS applied the accounting policies set forth below to all the years presented.

##### b. Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, Presentation of Financial Statements. The Corporation presents a single statement of comprehensive income

The Corporation presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

##### 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 Philippine Accounting Standards (PAS) 1, the financial statements, except for cash flow information, have been prepared using the accrual basis of accounting.

e. Currency of presentation

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

3.2. **Adoption of New Accounting Standards**

The System adopted the new and revised PFRS, which became effective as at January 1, 2013, summarized below.

**PFRS 10, Consolidated Financial Statements** - The standard replaces the portion of PAS 27, Consolidated and Separate Financial Statements, that addresses the accounting for consolidated financial statements and SIC-12, Consolidation -Special Purpose Entities. It establishes a single control model that applies to all entities including special purpose entities. Management has to exercise significant judgment to determine which entities are controlled, and are required to be consolidated by a parent company.

**PAS 28, Investment in Associates**

An investment in associate shall be accounted for using the equity method. If an investor holds, directly or indirectly, 20 per cent or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that that is not the case.

**PAS 32, Financial Instruments: Disclosure and Presentation.**

This resulted in a more comprehensive disclosure about the AFPRSBS financial instruments, whether recognized or unrecognized in the financial statements. New disclosure requirements include terms and conditions of financial instruments used by the company, types of risks associated with both recognized and unrecognized financial instruments (market risk, price risk, credit risk, liquidity risk, and cash flow risk), fair value information of both recognized and unrecognized financial assets and financial liabilities, and a company's financial risk management policies and objectives. The standard also requires financial instruments to be classified as liabilities or equity in accordance with their substance and not their legal form.

**PAS 39, Financial Instruments: Recognition and Measurement**

The standard requires a financial asset or financial liability to be recognized initially at fair value. Subsequent to initial recognition, the Company should continue to measure financial assets at their fair values, except for loans and receivables and held to maturity investments, which are to be measured at amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at amortized cost, except for liabilities classified as "at fair value through profit and loss" and derivatives, which are subsequently to be measured at fair value.

### 3.3. Revenue recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the System and it can be reliably measured. The following specific recognition criteria must also be set before revenue is recognized:

#### 3.3.a. Real Estate Sales

Real estate sales are accounted for under the full accrual method of accounting. Under this method, gross profit 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 either the Home Development Mutual Fund, 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.

#### 3.3.b. Rental Income

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

#### 3.3.c. Interest Income

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

#### 3.3.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.

#### 3.3.e. Dividend Income

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

### 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 months or less and that are subject to an insignificant risk of change in value.

### 3.5. Financial Assets and Liabilities

Financial assets are classified in the following categories at initial recognition based on the purpose for which they are acquired:

#### 3.5.a. Financial assets held for trading

A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or, if so designated by AFPRSBS. Assets in this category are classified as current and booked under Short-Term Investments if they are either held for trading or are expected to be realized within twelve (12) months as of the balance sheet date.

#### 3.5.b. Loans and receivables

Loans and receivables are stated at the outstanding balance reduced by an allowance for doubtful accounts. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are classified as non-current assets except for those reclassified under the current portion.

Unearned interest is amortized to income over the term of the loan, using the interest method. Interest on loans is accrued as earned.

Allowance for doubtful accounts is based on management's evaluation of the collectability of loans and prior loan loss experience. This allowance is established through a provision charged to expense. Loans are written-off against the allowance for doubtful accounts when the collectability of the principal is unlikely.

#### 3.5.c. Held-to-maturity (HTM) investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the AFPRSBS intends and is able to hold to maturity.

#### 3.5.d. Available-for-sale (AFS) financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless AFPRSBS intends to dispose of the investment within 12 months from the balance sheet date.

#### 3.5.e. Impairment of financial assets

The AFPRSBS assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of loans and receivables, the allowance for doubtful accounts is based on management's evaluation of the collectability of loans and prior loan loss experience. The AFPRSBS policy on the provision for allowances, however, is currently being reviewed.

In September 2008, the System pledged as collateral bond certain time deposit certificates issued by a commercial bank to secure the appeal bond submitted by the System to the Department of Labor and Employment (DOLE). AFPRSBS is a respondent to the labor case filed by the employees of a security agency which contracted its services with AFPRSBS. On April 13, 2011 DOLE denied the appeal made by AFPRSBS and Aim High Security and Investigation Agency. A Motion for Reconsideration was filed by the AFPRSBS Legal Department on 25 April 2011. The System is still awaiting the court's action on the motion that was filed.

### 3.6. Supplies and materials inventory

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

### 3.7. Investments in shares of stock

Investments in subsidiaries and associates are accounted for under the equity method or cost method depending on whether the System has or has no significant influence over the investee. Under the equity method, the System recognizes in its statements of income, its equity in the net earnings or losses of subsidiaries and associates since dates of acquisition. The difference between the System's cost of such investments and its proportionate share in the underlying net assets at dates of acquisition is amortized using the straight-line method for a period of twenty (20) years. Dividends received are credited to the investments account.

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

The System does not prepare consolidated financial statements as required by generally accepted accounting principles in the Philippines since majority of the audited financial statements of the System's subsidiaries are not available because they are either closed or have ceased operations.

### 3.8. Investments in real estate

Investments in real estate are carried at cost and presented in the balance sheet. Expenditures for acquisition, development, construction, maintenance and improvements involving the System's real estate properties are capitalized as part of the cost of investment in real estate. The maintenance costs are capitalized until such time that the System starts to sell the inventories or up to the time the book value is already equal to the fair market value.

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

### 3.9. Investment property

Investment property consists of the cost of buildings and building improvements constructed inside the RSBS Industrial Park located in Taguig City, Metro Manila. The buildings constructed are being leased at competitive rental rates to private and public companies. AFPRSBS does not own the land but has acquired perpetual rights from the Philippine government to use the property for its own use and purpose.

The investment account is carried at cost less any accumulated depreciation and any impairment in value. The asset was depreciated using the straight-line method over its estimated useful life. The average useful life of the asset is 20 years.

The AFPRSBS Internal Appraiser under the Office of Special Concerns (OSC) conducted an investigation and appraisal of the System's owned buildings and improvement located at Industrial Park Office and the report was contained under Disposition Form dated July 10, 2012. Based on the investigation and analysis of all factors, OSC puts the Fair Market Value of the properties appraised consisting of seven structures/improvements subject to the attached limiting conditions at P59,418,200.00. The System is evaluating the appraisal made and will be making the necessary adjustment in the books, to include review of the annual depreciations, in the year 2015.

### 3.10. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and amortization 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 its 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 and amortization are computed using the straight-line method over the estimated useful lives of the assets as follows:

<b>Assets</b>	<b>Estimated Useful Life</b>
Buildings and improvements	10 years
Transportation equipment	5 years
Office equipment	3 years
Office furniture and fixtures	3 years

The estimated useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

In 2003, the Commission on Audit (COA) issued COA Circular 2003-007 dated 11 December 2003 which provides policies and guidelines on the computation of depreciation charges for government property, plant and equipment as well as the



provision of residual value equivalent to ten percent of the acquisition cost/appraised value of the asset. Depreciation is calculated using the straight-line method based on the following estimated useful lives of the assets:

<b>Assets</b>	<b>Estimated Useful Life</b>
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

The System has adopted the COA circular for the acquisitions beginning 2011. The acquisitions made prior to 2011 were not yet adjusted due to certain limitations in the existing computerized fixed assets inventory monitoring system. This will be implemented as soon as the required enhancements are done, if still feasible.

### 3.11. Acquired assets

Assets acquired in full or partial settlement of loans are recorded at the book value or bid price, whichever is lower. Holding costs subsequent to the foreclosure or acquisition/consolidation of the properties are charged to operations if the book value is already equal or higher than the market value. These assets are shown under either "Investments in real estate" or "Other assets" account, depending on management's intention. 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.

The acquired assets include five (5) condominium units that were used as security for the counter attachment bond applied by one of the System's subsidiaries, Matrix Realty and Development Corporation.

### 3.12. Provisions

Provisions are recognized under the following conditions: (a) when the System has a present obligation (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 when it is probable that a liability had been incurred at balance sheet date and the amount can be reasonably estimated. Otherwise, the loss contingency was disclosed.

### 3.13. Contingencies

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

### 3.14. 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.

### 3.15. 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:

	<b>2014</b>	<b>2013</b>
Cash on hand	<b>164,004</b>	359,935
Cash in banks	<b>89,198,881</b>	126,639,655
Cash equivalents	<b>243,734,874</b>	119,594,321
	<b>333,097,759</b>	246,593,911

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents consist of money market placements and other fixed-income securities with maturities of three months or less and which earn interest at the respective short-term deposit rates.

As of 31 December 2014, a total deposit of P1,379,040.58 by the System with Land Bank of the Philippines (LBP)–Camp Aguinaldo Branch was put on hold by the bank by virtue of a Notice of Garnishment from the Housing and Land Use Conversion Regulatory Board as a result of the case filed by Sps. Gonzalo and Liza Riviera, Village East III buyers, against the System's joint venture partner, Antipolo Properties Inc. (API) now Prime East Properties, Inc. (PEPI), and AFPRSBS. The System is still awaiting for the result of the motion for the lifting of the notice of garnishment and release of the bond filed on 12 July 2013.

## 5. **SHORT-TERM INVESTMENTS - NET**

This account consists of the following:

	<b>2014</b>	<b>2013</b>
Marketable securities	<b>2,516,112,279</b>	3,473,324,949
Allowance for decline in value	<b>(4,236,066)</b>	(13,261,643)
	<b>2,511,876,213</b>	3,460,063,306

Marketable securities include money market placements that earn interest at quoted rates ranging from 1.125 per cent to 3.65 per cent per annum and various traded stock investments.

## 6. RECEIVABLES - NET

This account consists of the following:

	2014	2013
Receivables from sale of real estate properties in joint venture projects	5,213,860	5,213,860
Receivable from joint venture partner (Note 25)	11,106,085	11,086,659
Accrued interest on loans and investments	43,404,268	51,902,156
Non-trade receivables	16,154,550	16,154,550
Receivable from employees / others	5,050,410	4,839,055
Advances to contractors	1,754,843	1,754,843
Management fees (Note25)	3,073,074	3,073,074
Others	123,077,151	123,334,444
	208,834,241	217,358,641
Allowance for doubtful accounts	(73,879,623)	(74,092,047)
	134,954,618	143,266,594

Receivable from joint venture partner includes collections made by various JV partners and the regrouping of Installment Contract Receivable (ICR) - Current to ICR past due particularly Village East III accounts totaling P21.698 million and Eastridge accounts totaling P9.342 million.

Other receivables include receivables from industrial park lessees and advances to employees and suppliers.

## 7. LOANS RECEIVABLE - NET

This account consists of the following:

	2014	2013
Short-term loans	416,854,116	422,742,814
Medium-term loans (Note 25)	48,057,579	8,193,473
Past due loans	592,745,463	593,961,520
Accounts under litigation	59,831,704	59,395,659
	1,117,488,862	1,084,293,466
Allowance for doubtful accounts	(348,760,041)	(348,760,041)
Unearned interest	(117,267,326)	(117,267,326)
	651,461,495	618,266,099
Current portion of short-term and medium-term loans	(464,911,695)	(430,936,288)
	186,549,800	187,329,811

The short-term loans represent the various types of loans extended to the AFPRSBS members. These loans bear interest rates comparable to the prevailing market rates.

The medium-term loans represent outstanding balances of loans granted to AFPRSBS members and employees and some private companies.

The past due loans represent the uncollected balance of loans that remained unpaid for more than one hundred eighty (180) days. These loans, including accounts under litigation, are secured by mortgages on real estate.

## 8. INSTALLMENT CONTRACTS RECEIVABLE - NET

This account consists of the following:

	2014	2013
ICR from sale of real estate inventory	376,839,161	367,422,880
ICR from sale of acquired assets	4,148,591	4,148,591
Past due ICR	196,128,907	197,922,835
	577,116,659	569,494,306
Allowance for doubtful accounts	(165,323,009)	(165,323,009)
	411,793,650	404,171,297

The account represents the balance of contract receivables arising from the sale of real estate inventories and acquired assets which were financed by the AFPRSBS through in-house financing scheme. The receivables are collectible within a period of one (1) to fifteen (15) years with interest at prevailing market rates. The transactions are covered by Contracts to Sell and corresponding titles to the real estate sold are transferred to the buyers only upon full payment of the contract price.

The past due ICRs represent the uncollected balance that remained unpaid for more than one hundred eighty (180) days.

## 9. ADVANCES TO SUBSIDIARIES AND ASSOCIATES - NET

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

	2014	2013
Bay Resources Development Corp. (BRADCO)	9,179,341	9,179,341
Southern Utility Mgt. & Services, Inc. (SUMSI)	841,713	841,713
Matrix Realty and Development Corp (MRDC)	5,894,093	5,894,093
Monterrosa Development Corp. (MDC)	10,981,245	10,152,495
Veterans Electronics Communications, Inc. (Vetronix)	1,768,761	1,768,761
Public Securities Corporation (PSC)	1,420,991	1,420,991
Others	664,255	659,520
	30,750,399	29,916,914
Allowance for doubtful accounts	(17,837,020)	(17,837,020)
	12,913,379	12,079,894

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

## 10. INVESTMENTS IN SHARES OF STOCK – NET

Investments in shares of stock consist of the following:

	% Ownership	2014	2013
<b>Booked under equity method:</b>			
<b>Acquisition cost:</b>			
Subsidiaries and Associates			
Monterrosa Development Corporation	100.00	873,927,445	873,927,445
Resources Investment House	100.00	102,123,549	102,123,549
RSBS Land, Inc.	100.00	70,000,000	70,000,000
Matrix Realty Development Corporation	100.00	35,931,250	35,931,250
Fashion Link Corporation	100.00	20,100,000	20,100,000
Globan Fruits & Development Corporation	100.00	10,000,000	10,000,000
Southern Utility Management & Services, Inc.	100.00	10,000,000	10,000,000
RSBS Enterprises, Inc.	100.00	2,500,000	2,500,000
Veterans Electronics Comm.	90.65	56,738,598	56,738,598
Veterans Electronics Comm., Inc.	90.65	70,000,000	70,000,000
Goodfit Manufacturing Corporation	79.99	25,556,920	25,556,920
General Satellite Comm., Inc.	62.00	2,906,238	2,906,238
Bay Resources Development Corporation	50.00	402,000,000	402,000,000
AFP Theater Enterprises, Inc.	50.00	120,000,000	120,000,000
Marilaque Land, Inc.	40.00	609,000,000	609,000,000
Cyquest Incorporated	40.00	2,000,000	2,000,000
Amtrust Holdings, Inc.	25.56	127,000,000	127,000,000
CEMX, Inc.	24.00	6,000,000	6,000,000
Sub-Total		2,545,784,000	2,545,784,000
<b>Affiliates</b>			
Advent Capital and Finance Corporation	14.02	71,183,811	71,183,811
First Dominion Prime Holdings, Inc.	00.93	15,418,269	15,418,269
Philippine Air Lines	00.31	500,000,000	500,000,000
Sub-Total		586,602,080	586,602,080
Total		3,132,386,080	3,132,386,080
		2014	2013
<b>Acquisition Cost</b>		3,132,386,080	3,132,386,080
<b>Accumulated equity in net losses</b>			
Balance at beginning of the year		(534,432,404)	(532,525,209)
Equity in net earnings/(losses)		1,040,639	(1,907,195)
Total		(533,391,765)	(534,432,404)
Deferred income		(196,430,111)	(196,508,126)
Allowance for decline in value		(946,616,466)	(926,737,819)
Net adjustments		(1,676,438,342)	(1,657,678,349)
		1,455,947,738	1,474,707,731

\*The addresses of the above subsidiaries and associates are shown in Annex A

The Equity in net earnings represents the System's income/(loss) from two of its operating subsidiaries the Southern Utility Management & Services, Inc, which recognized an income of P21,466,533 and loss of P20,425,894 for the AFP Theater Enterprises, Inc.

Deferred income represents the System's 40 per cent share in unrealized gain arising from the transfer in 1995 of certain real estate property of AFPRSBS to Marilaque Land

Inc. in exchange for the latter's shares of stock.

On 22 October 2014, RSBS Land, Inc. (RLI) officially obtained an approval from the Securities and Exchange Commission for the shortening of the term of its existence thereby dissolving the corporation as of the said date. The System is already in the process of closing the RLI investment in its books. The reciprocal accounts between the System and RLI are being reconciled and offsetting will be effected once approved by the management.

The other subsidiaries and associates which have closed and/or ceased operations are the Goodfit Manufacturing Corp., Fashion Link Corporation, Globan Fruits and Development Corp., CEMX, Inc., General Satellite Communications, Inc., RSBS Enterprises, Inc. and Cyquest Incorporated. Some of these companies have not been formally dissolved pending completion of certain documentary requirements of the Securities and Exchange Commission and the Bureau of Internal Revenue.

For the year 2014, the Board of Trustees approved Board Resolution No. 01-2015 dated February 5, 2015 to take up the additional allowance for decline in value of PAL shares of P19,878,646.60 as a result of the reduction in the par value from P0.80 to P0.20 per share based on the Amended Articles of Incorporation of PAL, bringing the net investment balance down to P6,626,215.53 as of the end of 2014.

## **11. INVESTMENTS IN REAL ESTATE - NET**

This account consists of the following:

	<b>2014</b>	<b>2013</b>
Landbanking assets	<b>3,282,116,267</b>	3,275,353,457
Commercial and residential subdivision projects	<b>3,398,799,415</b>	3,481,834,311
Member-related housing projects	<b>72,539,121</b>	71,864,420
Golf and Country Club Shares	<b>133,635,566</b>	133,165,156
	<b>6,887,090,369</b>	6,962,217,344
Allowance for decline in value of investment in real estate	<b>(106,961,377)</b>	(104,260,941)
	<b>6,780,128,992</b>	6,857,956,403

Landbanking assets refer to undeveloped real estate properties of AFPRSBS located in various parts of the country. These assets are being offered for sale to the public. However, if there are good offers for a joint venture project, the System normally contributes the land as its equity in the joint venture development.

Commercial and residential subdivision projects represent the real estate projects which were developed either by AFPRSBS or under a joint venture 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.

Member-related projects represent the 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 being charged to income.

Golf and country club shares 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 of December 2014, there are still possible remaining deliverables of AFPRSBSto the Riviera Golf Club, Inc. and Riviera Sports and Country Club, Inc.

## 12. INVESTMENT PROPERTY – NET

This account consists of the following:

	2014	2013
Building and building improvements at the industrial park	113,223,532	110,732,253
Accumulated depreciation	(107,862,572)	(107,862,572)
Direct Cost (net of amortization)	6,368,000	0
	11,728,960	2,869,681

During the year, the System executed a contract with HMRID Property Inc. for the lease of a 40,000.00 square meter open space located in Industrial Park, Western Bicutan, Taguig City. The term of the lease is for a period of twenty-five (25) years for a monthly rental of P800.00 per square meter or a total of P3,200,000. The System incurred a direct cost of P6.4 million for the lease of the said property which was added as part of the cost of the project to be amortized monthly over the term of the lease.

For the year 2014, the System also recorded the contingent rent amounting to P9.5M for the lease of two (2) parcels of land in Aseana Business Park to PSMT Philippines, Inc. The payment was received by RSBS in January 2015.

The following is a schedule by years of minimum rentals on the System's operating leases to HRMID and PSMT as of December 31, 2014:

Year ending December 31,	HRMID	PSMT
2015	35,600,000	2,732,791
2016	38,400,000	2,732,791
2017	40,864,000	2,732,791
2018	41,088,000	2,732,791
2019	43,724,480	2,732,792
Later years	1,260,999,725	10,875,394
Total minimum future payments required:	1,460,676,205	<sup>1</sup> 24,539,350

<sup>1</sup> The System used the exchange rate of P44.617 in estimating the minimum future rental payments

### 13. PROPERTY AND EQUIPMENT - NET

This account consists of the following:

	Buildings & Improvements	Office Equipment	Transportation Equipment	Furniture & Fixtures	Total
<b>Cost</b>					
January 1, 2014	91,429,579	153,613,538	10,964,953	14,880,135	270,888,205
Additions	-	4,795,727	(2,681,100)	153,499	2,268,126
Dec. 31, 2014	91,429,579	158,409,265	8,283,853	15,033,634	273,156,331
Accumulated depreciation and amortization	82,286,621	132,688,589	7,755,178	11,319,458	234,049,846
Depreciation and Amortization	0	2,130,674	(1,538,967)	231,819	823,526
Dec. 31, 2014	82,286,621	134,819,263	6,216,211	11,551,277	234,873,372
<b>Net Book Value</b>					
<b>Dec. 31, 2014</b>	<b>9,142,958</b>	<b>23,590,002</b>	<b>2,067,642</b>	<b>3,482,357</b>	<b>38,282,959</b>
Net Book Value					
Dec. 31, 2013	9,142,958	20,924,949	3,209,775	3,560,677	36,838,359

### 14. INVESTMENT IN BONDS

This account consists of the following:

	2014	2013
Treasury Bonds	1,893,055,464	111,682,527
Development Bank of the Philippines (LTCP)	500,000,000	500,000,000
Land Bank of the Philippines (LTCP)	300,000,000	300,000,000
Energy Development Corp. (FRB)	50,000,000	50,000,000
Petron Corp. Preferred Shares	50,000,000	50,000,000
San Miguel PF 5 years	50,000,000	50,000,000
First Gen Corp.	50,000,000	50,000,000
Retail Treasury Bonds	50,000,000	70,000,000
PSALM (FRB)	30,000,000	30,000,000
Robinson Land Corp. (FRB)	0	50,800,000
	<b>2,973,055,464</b>	<b>1,262,482,527</b>

(FRB) Fixed Rate Bond

(LTCP) Long Term Commercial Paper

The investments earn 2.125 per cent to 9.528 per cent interest per annum with terms of 3 years to 10 years.

### 15. OTHER ASSETS –NET

This account consists of the following:

	2014	2013
Acquired assets (Note 3.11)	502,386,082	505,043,775
Allowance for probable losses	(79,661,796)	(80,093,501)
	<b>422,724,286</b>	<b>424,950,274</b>
Deposits and others	47,420,300	47,404,300
	<b>470,144,586</b>	<b>472,354,574</b>



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

## **16. NOTES PAYABLE**

This account pertains to short-term loans obtained from its subsidiary, RLI. The loan bears an interest rate of 6 per cent per year. In 2005, the System has stopped accruing interest expense for the said loans considering that the said subsidiary has already been approved for closure. With the formal dissolution of RLI on 22 October 2014 by the SEC, the notes payable of P40.40 million and the corresponding accrued interest expense of P16.58 million and other reciprocal accounts will be adjusted in RSBS books once approved by the management.

## **17. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

These accounts consist of the following:

	<b>2014</b>	<b>2013</b>
Trade payables	<b>153,694,684</b>	155,173,204
Non-trade payables	<b>140,982,997</b>	135,918,198
Reserve for real estate development	<b>49,858,867</b>	54,973,371
Accrued employee benefits	<b>45,373,024</b>	32,843,975
Accrued operating expenses	<b>44,387,632</b>	44,048,055
Retention payable	<b>23,568,248</b>	26,384,349
Payable to real estate brokers	<b>12,147,416</b>	12,721,688
Payable to landowners	<b>6,851,650</b>	6,851,650
Buyer's refund payable	<b>799,389</b>	789,848
Other payables	<b>10,279,800</b>	8,723,579
	<b>487,943,707</b>	478,427,917

The Reserve for land development pertains to estimated costs to complete the existing real estate projects of the System. This account 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 project development.

## **18. MEMBERS' CONTRIBUTIONS PAYABLE**

This account consists principally of estimated amount of refund of contributions payable to retiring members of the AFP within a one-year period.

## **19. DEPOSITS AND OTHER LIABILITIES**

This account includes interest income collected but not yet earned from 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.

## 20. ESTIMATED LIABILITY ON EARNINGS OF MEMBERS' CONTRIBUTIONS

Movements in estimated liability on earnings of members' contribution are as follows:

	2014	2013
Balance at beginning of year	<b>3,084,066,837</b>	2,773,706,638
Transfer from retained earnings	<b>590,709,493</b>	547,107,286
Payments	<b>(210,588,596)</b>	(236,747,086)
Balance at end of year	<b>3,464,187,734</b>	3,084,066,838
Current portion	<b>(228,124,179)</b>	(256,436,519)
	<b>3,236,063,555</b>	2,827,630,319

The System started granting 4 per cent interest on members' contributions as per SOP No. 11-92 which will 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 members' contributions to the System. Effective January 1996, the interest on members' contributions was increased to 6 per cent per annum compounded annually.

In November 2010, the RSBS Board of Trustees approved the adoption of simple interest per annum on members' contributions from 1992 onwards (Ref.: BoT Meeting No. 8-2010). The approval is effective to those who will retire from January 2011 onwards.

The System reviews periodically the computed estimated liability on earnings of members' contributions in order to reflect the latest estimates of accumulated earnings of members' contributions. The yearly interest accruals are being charged against the Retained Earnings. For the year 2014, the total interest accrued for the outstanding members' contributions is P590,696,877.

The current portion of estimated liability on earnings of members' contributions is based on the actual cash payments made during the year plus the average increase per year.

## 21. FUND EQUITY

Pursuant to Presidential Decree (P.D.) No. 361 promulgated on December 30, 1973, 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 (4 per cent) of their basic and longevity pay; and (3) income from investment operations.

On December 21, 1979, P.D. No. 1656 was promulgated amending certain provisions of P.D. No. 361. Under P.D. No. 1656, the fund of the System shall be allowed to grow to be able to provide perpetually the cash requirement covering the retirement and separation benefits payment to military members of the AFP on a self-sustaining basis. Prior to the time when perpetual self-sufficiency of the fund is attained as determined by actuarial valuation, the yearly requirement for the retirement and separation benefits of military personnel as provided by R.A. No. 340 ("Uniform Retirement System for the AFP") as amended, P.D. No. 1638, as amended by P.D. No. 1650, and such other similar laws as may be enacted, shall be included in and funded out of the annual appropriations for the AFP.

Pursuant to P.D. No. 1656 amending Sec. 4 of P.D. No. 361, the rate of members' contribution became five percent of basic pay effective January 1, 1980. The total contributions including the earned interest shall be refunded in lump sum to the officer or enlisted personnel upon separation or retirement from military service.

On March 22, 1984, P.D. No. 1656 was further amended by P.D. No. 1909, which considered military personnel who retired from the active service prior to September 10, 1979 and are receiving annual retirement pension from the AFP as additional members of the System. Hence, they have been required to contribute an amount equivalent to five percent of their gross monthly pension as adjusted pursuant to P.D. No. 1909. On December 17, 1990, it was ruled that their contributions shall be stopped upon reaching the age of sixty-five (65) when they become entitled to the refund of their accumulated contributions.

Also under P.D. No. 1909, the System shall support the payment of the increase in pension rate of retired personnel prior to September 10, 1979. This is for the purpose of aligning the prevailing pay scale of the officers and enlisted men in active service so that they will be given the same means and support as those who recently retired to meet the increasing cost of living and demand for better social and economic life. Such equalization was initially funded from savings out of the P200 million AFP appropriation mentioned above, and it has been incorporated subsequently into the AFP's annual budget for pension.

On August 12, 2003, the Supreme Court 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 Supreme Court likewise stated that the System was created by P.D. No. 361 whose purpose and function are similar to those of Government Service and Insurance System and Social Security System. The management has not determined the financial statement impact of the decision.

## **22. MEMBERS' CONTRIBUTIONS**

Members' contributions are stated based on remittance reports on actual deductions from the compensation of officers and enlisted personnel in the active service. This account also includes contributions from the retirees covered by P.D. No. 1909, which is equivalent to 5 per cent of their gross monthly pension.

## 23. DEPRECIATION AND AMORTIZATION

This account consists of the following:

	2014	2013
Property and equipment	3,311,854	5,076,885
Investments in real estate	2,700,437	2,700,437
	6,012,291	7,777,322

## 24. OTHER REVENUES

This account mainly consists of recoveries from defaulting loan accounts, fines and penalties from accounts in default, forfeiture of payments from cancelled sales contracts, dividends, and interest income.

## 25. RELATED PARTY TRANSACTIONS

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

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

	2014	2013
Receivables (Note 6)	3,073,074	3,073,074
Receivable from joint venture partner (Note 6)	11,106,085	11,086,659
Loans receivable (Note 7)	48,057,578	8,193,473
Advances to subsidiaries and associates (Note 9)	30,750,399	29,916,914
Notes payable (Note 16)	40,402,084	40,402,084
Accounts payable and accrued expenses	46,120,123	33,591,074
	179,509,343	126,263,278

## 26. CASH FLOW STATEMENT

Supplemental disclosures on cash flow information follows:

	2014	2013
Non-cash investing and financing activities:		
Transfer of retained earnings to estimated liability on earnings of members' contribution	590,709,493	547,107,286
Transfer of members' contribution to members' contribution payable	632,277,166	671,726,915

## **27. CONTINGENCIES**

The System was summoned by the Senate Committees on Accountability of Public Offices and Investigation (Blue Ribbon) and National Defense and Security, joined by the Joint Committees on Banks and Financial Institutions and Currencies and National Defense and Security, 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 AFPRSBS 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 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.

## **28. PRIOR PERIOD ADJUSTMENT**

The Retained Earnings was presented as net of prior period adjustments made to reflect sales and expense transactions of prior years. An amount of P590.709 million was also charged against the Retained Earnings during the year representing allocation of part of the income generated by the System as earnings of the contributions made by the members.

## **29. EXEMPTION FROM TAX**

Pursuant to Section 2c of Presidential Decree (PD) No. 361 dated 30 December 1973, as amended by PD 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 11 August 2009.

## **30. COMPLIANCE WITH REVENUE REGULATIONS NO.15-2010**

In compliance with the requirements set forth by RR No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year 2014.

The taxes and licenses paid/accrued during the year are as follows:

### **Withholding Taxes**

	<b>2014</b>	<b>2013</b>
Tax on compensation and benefits	<b>10,691,676</b>	8,877,497
Value added taxes (VAT)	<b>5,814,439</b>	4,659,177
Expanded withholding taxes (EWT)	<b>6,395,354</b>	5,683,854
Percentage taxes	<b>77,516</b>	47,682
Final taxes	<b>-</b>	52,411
	<b>22,978,985</b>	19,320,621

### **Other Taxes**

	<b>2014</b>	<b>2013</b>
Local		
Real estate taxes	<b>12,640,777</b>	14,246,661
Capital gains taxes	<b>599,452</b>	95,263
Transfer taxes	<b>0</b>	101,000
National		
BIR annual registration	<b>500</b>	500
	<b>13,240,729</b>	14,443,424