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

1. GENERAL INFORMATION

The AFP Retirement and Separation Benefits System (hereinafter referred to as “the System” or “AFPRSBS” for brevity) 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 registered business and office address of the AFPRSBS 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.

The Board of Trustees (BOT), consisting of 11 members with the AFP Chief of Staff as Chairman, is the policy making body of the AFPRSBS. The President/Chief Executive Officer, as well as the Executive Vice President/Chief Operating Officer, takes charge of the day to day affairs of the organization. As at December 31, 2015, the AFPRSBS has 84 regular employees and 49 casual/contractual/project-hired personnel or a total workforce of 133 personnel.

The financial statements of the System as of and for the year ended December 31, 2015 (including the comparative financial statements as of and for the year ended December 31, 2014) were authorized and approved for issue by the Board of Trustees (BOT) on February 15, 2016.

2. STATUS OF OPERATIONS

The AFPRSBS 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 affiliates. 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 its lending operations, the System 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 AFPRSBS 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 2015, 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, some legal cases, and presence of illegal tenants on 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 measurable.

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 but is taking into consideration the cost-benefit of undertaking the same;

c. Coordination with the local government agencies and the homeowners' associations for the turnover of various real estate projects;

d. Pursuing collections/cancellations of past due accounts;

e. Implementation of exit strategy for the System's shareholdings in non-earning subsidiaries and affiliates to minimize losses;

f. Proposing the stoppage of granting interests on Members' Contributions (MCs); and

g. Maximizing the earning potentials of idle real estate properties.

On December 15, 2006, Executive Order (EO) No. 590 was issued by then President Gloria Macapagal-Arroyo deactivating the AFPRSBS. The same was amended on January 31, 2007 by EO 590-A. The System, however, did not receive any implementing rules and regulations for its formal deactivation process as provided for in the EOs.

In January 2013, the AFPRSBS was recognized as a government-owned and controlled corporation (GOCC) by the Governance Commission for GOCCs (GCG). 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 January 29, 2016, the AFPRSBS was classified under Non-Operational/Inactive Corporations per GCG Memorandum Order (MO) No. 2013-26.

In May 2013, the Chairman of the BOT conveyed to the members of the BOT the continuing strategic direction of winding down of operations of AFPRSBS, preserving the value of its assets as much as possible, and endeavoring to avert the bleeding of the System.

On July 3, 2015, the AFPRSBS President wrote the Chairman of the BOT endorsing full implementation of the provisions of EO No. 590 and EO No. 590-A. The latter endorsed the recommendation to the Secretary of National Defense (ND). AFPRSBS was then tasked to formulate the winding down strategies and to present the same to the BOT. The BOT created a Technical Working Group to review the winding down plan submitted by the Management and to draft the proposed EO regarding the abolition of the AFPRSBS. In the last quarter of 2015, the winding down plan and the proposed EO was submitted to the GCG which thereafter required the endorsement of the Secretary of ND. Said endorsement was complied with per letter of the Secretary of ND to the Chairman of the GCG dated November 9, 2015.

On January 8, 2016, however, GCG informed the AFPRSBS that it has submitted a Memorandum for the President of the Philippines recommending the abolition of the System. GCG stated in the letter that, upon legal study, it does not have legal authority to complete the deactivation of the AFPRSBS in the light of the System's legislative charter and that the process requires presidential approval under Republic Act (RA) No. 10149.

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 AFPRSBS be unable to continue operating in the normal course of business. The normal operation is geared towards the winding down objective of disposal/liquefication of the assets.

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 statement preparation

(a) Statement of compliance

The accompanying financial statements were prepared in compliance with generally accepted accounting principles in the Philippines as set forth in Philippine Financial Reporting Standards (PFRS). PFRS are issued by the Financial Reporting Standards Council and approved by the Philippine Board of Accountancy based on International Financial Reporting Standards issued by the International Accounting Standards Board.

AFPRSBS adopted the following new and amended PFRS that are relevant to the System's operations:

(i) PFRS 7 – Financial Instruments: Disclosure;

(ii) PFRS 11 – Joint Arrangements;

(iii) PFRS 12 - Disclosure of Interests in Other Entities; and

(iv) PFRS 13 – Fair Value Measurements.

(b) *Basis of measurement*

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

(c) *Accrual basis of accounting*

In accordance with Philippine Accounting Standards (PAS) 1 – Presentation of Financial Statements, the financial statements, except for cash flow information, have been prepared using the accrual basis of accounting.

(d) *Currency of presentation*

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

3.2. 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:

(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.

(b) *Rental income*

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

(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.

(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.

3.3. 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.

3.4. Financial Assets and Liabilities

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

(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 months as of the statement of financial position date.

(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.

(c) Held-to-maturity (HTM) investments

HTM 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.

(d) Available-for-sale (AFS) financial assets

AFS 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 statement of financial position date.

(e) Impairment of financial assets

The AFPRSBS assesses at each statement of financial position 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. Any proposed provision is being presented to the BOT through proper channels on case to case basis.

3.5. Supplies and materials inventory

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

3.6. Investments in shares of stock

Investments in subsidiaries and associates are accounted for under the equity method or cost method depending on the whether the System has significant influence or not. 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 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.

3.7. Investments in real estate

Investments in real estate are carried at cost and presented in the statement of financial position. Expenditures for acquisition, borrowing costs, 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 AFP, are depreciated using straight-line method over their estimated useful lives at an average of 25 years.

3.8. Investment property

Investment property consists of the cost of buildings and building improvements constructed inside the AFPRSBS Industrial Park 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.

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 the Industrial Park Office and its 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. The System is still evaluating the appraisal made and will be making the necessary adjustment in the books, to include review of the annual depreciations, in the year 2016.

3.9. 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:

Assets	Estimated Useful Life
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 issued COA Circular 2003-007 dated December 11, 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 10 per cent 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:

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

The System has adopted said COA Circular for 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.

3.10. 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, acquisition or 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 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 (MRDC). As of February 2016, the System has already requested the Office of the Government Corporate Counsel 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.

3.11. 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 when it is probable that a liability had been incurred at statement of financial position date and the amount can be reasonably estimated. Otherwise, the loss contingency was disclosed only.

3.12. 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.

3.13. 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.

3.14. 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:

	2015	2014
Cash on hand	**292,422**	164,004
Cash in banks	**104,029,976**	89,198,881
Cash equivalents	**13,000,000**	243,734,874
	117,322,398	333,097,759

Cash in banks earn interest at the 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 at the respective short-term deposit interest rates.

As of December 31, 2014, a total deposit of P1,379,040.58 by the System with a bank in its Camp Aguinaldo Branch was put on hold by said 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 some Village East III buyers, against one of the System's joint venture (JV) partner. The System is still awaiting the result of the motion for the lifting of the Notice of Garnishment and release of the bond filed on July 12, 2013.

For the year 2015, AFPRSBS recognized a liability amounting to P45,656,843.29 as a result of the garnishment of the System's deposits with the Aurora Boulevard – Notre Dame, Quezon City Branch of another bank due to a civil case that was filed by a Developer against MRDC. Although the System is not a party to the case, AFPRSBS was made liable for the judgment obligation of MRDC by virtue of the Alias Writ of Execution dated August 6, 2015 and the Order issued on May 7, 2015 piercing the veil of corporate fiction of MRDC, both issued by the Quezon City RTC Branch 93. On January 22, 2016, the Branch Manager of the Aurora Boulevard – Notre Dame, Quezon City Branch of said bank issued Manager's Check No. 0008443 for the same amount in favor of the complainant Developer. The inclusion of the provision for garnishment loss in the financial statements for 2015 was approved by the BOT in its February 15, 2016 meeting.

5. SHORT-TERM INVESTMENTS – NET

This account consists of the following:

	2015	2014
Marketable securities	**2,856,422,697**	2,516,112,279
Allowance for decline in value	**(13,465,402)**	(4,236,066)
	2,842,957,295	**2,511,876,213**

Marketable securities include money market placements that earn interest at quoted rates ranging from 1.5 per cent to 2.4 per cent per annum, and various traded stock investments.

6. RECEIVABLES – NET

This account consists of the following:

	2015	2014
Receivable from sale of real estate properties in JV projects	**5,213,860**	5,213,860
Receivable from JV partner *(See Note 25)*	**11,717,792**	11,106,085
Accrued interest on loans and investments	**52,654,956**	43,404,268
Non-trade receivables	**16,154,550**	16,154,550
Receivable from employees/others	**5,318,666**	5,050,410
Advances to contractors	**1,750,452**	1,754,843
Management fees *(See Note 25)*	**3,073,074**	3,073,074
Other receivables	**164,040,519**	123,077,151
	259,923,869	208,834,241
Allowance for doubtful accounts	**(73,879,623)**	(73,879,623)
	186,044,246	134,954,618

Receivable from JV partner includes collections made by various JV partners and the regrouping of Installment contracts receivable (ICR) – current to ICR Past due particularly Village East III accounts totaling to P21.698 million and Eastridge accounts totaling to 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:

	2015	2014
Short-term loans	**542,993,210**	416,854,116
Medium-term loans *(See Note 25)*	**50,212,184**	48,057,579
Past due loans	**593,129,271**	592,745,463
Accounts under litigation	**60,131,069**	59,831,704
	1,246,465,734	1,117,488,862
Allowance for doubtful accounts	**(349,823,950)**	(348,760,041)
Unearned interest income	**(117,267,326)**	(117,267,326)
	779,374,458	651,461,495
Current portion of short-term and medium-term loans	**(593,205,394)**	(464,911,695)
	186,169,064	186,549,800

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

Medium-term loans represent outstanding balances of loans granted by AFPRSBS to its members and employees and some private companies.

Past due loans represent uncollected balances of loans that remained unpaid for more than 180 days. These loans, including accounts under litigation, are generally secured by mortgages on real estate.

8. INSTALLMENT CONTRACTS RECEIVABLE – NET

This account consists of the following:

	2015	2014
ICR from sale of real estate inventory	**448,423,221**	376,839,161
ICR from sale of acquired assets	**4,148,591**	4,148,591
Past due ICR	**179,291,747**	196,128,907
	631,863,559	577,116,659
Allowance for doubtful accounts	**(165,323,009)**	(165,323,009)
	466,540,550	411,793,650

ICR accounts represent the balances of contract receivables arising from the sale of real estate inventories and acquired assets which were financed by the AFPRSBS though 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 by contracts to sell. Corresponding titles to the real estate sold are transferred to the buyers only upon full payment of the contract price. Past due ICRs represent the uncollected balance that remained unpaid for more than 180 days.

9. ADVANCES TO SUBSIDIARIES AND ASSOCIATES – NET

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

	2015	2014
Bay Resources Development Corporation (BRDC)	**9,179,341**	9,179,341
Southern Utility Management and Services, Inc. (SUMSI)	**-**	841,713
Matrix Realty and Development Corporation.	**5,894,093**	5,894,093
Monterrosa Development Corporation	**11,858,745**	10,981,245
Veterans Electronics Communications, Inc. (VECI)	**1,768,761**	1,768,761
Public Securities Corporation	**1,420,991**	1,420,991
Others	**659,520**	664,255
	30,781,451	30,750,399
Allowance for doubtful accounts	**(17,837,110)**	(17,837,020)
	12,944,341	12,913,379

A 100 per cent allowance was already provided for advances to subsidiaries which have 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.

On the other hand, the audited financial Statements of BRDC as of December 31, 2013 reflected a liability to AFPRSBS representing interest amounting to P10,210,717 for the advances that it acquired from the System in previous years. The amount is in addition to the amount reflected as advances in the System's books. The same were not reflected yet in the books of the System pending submission of the relevant supporting documents.

10. INVESTMENTS IN SHARES OF STOCK – NET

Investments in shares of stock which are booked under the equity method, consist of the following:

	Percentage of Ownership	2015	2014
Acquisition cost			
Monterrosa Development Corporation	100.00	**873,927,445**	873,927,445
Marilaque Land, Inc. (MLI)	40.00	**609,000,000**	609,000,000
Bay Resources Development Corporation	50.00	**402,000,000**	402,000,000
Philippine Airlines (PAL)	00.31	**500,000,000**	500,000,000
Amtrust Holdings, Inc.	25.56	**127,000,000**	127,000,000
Resources Investment House	100.00	**102,123,549**	102,123,549
Advent Capital and Finance Corporation	14.02	**71,183,811**	71,183,811
RSBS Land, Inc. (RLI)	100.00	**994,170**	70,000,000
Aguinaldo Theater Enterprises, Inc.	50.00	**120,000,000**	120,000,000
Veterans Electronics Communications, Inc.	90.65	**56,738,598**	56,738,598
Veterans Electronics Communications, Inc.	90.65	**70,000,000**	70,000,000
Matrix Realty Development Corporation	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
First Dominion Prime Holdings, Inc.	00.93	**15,418,269**	15,418,269
Globan Fruits and Development Corporation (GFDC)	100.00	**10,000,000**	10,000,000
Southern Utility Management and Services, Inc.	100.00	**2,450,000**	10,000,000
CEMX, Inc.	24.00	**6,000,000**	6,000,000
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
Cyquest, Inc.	40.00	**2,000,000**	2,000,000
		3,055,830,250	3,132,386,080
Net adjustments			
Accumulated equity in net losses, beginning		**(533,391,765)**	(534,432,404)
Equity in net earnings (losses) for the year		**1,137,943**	1,040,639
Accumulated equity in net losses, ending		**(532,253,822)**	(533,391,765)
Deferred income		**(196,430,111)**	(196,430,111)
Allowance for decline in value		**(946,616,466)**	(946,616,466)
		(1,675,300,399)	(1,676,438,342)
		1,380,529,851	1,455,947,738

Deferred income represents the AFPRSBS' 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.

On October 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. In July 2015, the Notes Payable by AFPRSBS to RLI of P40.40 million and the corresponding accrued interest expense of P16.59 million in the System's books *(See Note 16)* were already closed to the balance of the investment recorded in the said subsidiary after Management approved the turnover/transfer of the receivables of the dissolved subsidiary to the AFPRSBS. 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, CEMX, Inc., 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).

In 2014, the AFPRSBS booked an additional allowance of P19,878,646.60 as a result of the reduction in the par value of the PAL shares from P0.80 to P0.20 per share, bringing the net investment balance of PAL down to P6,626,215.53 as of the end of 2014.

For 2015, investment in SUMSI decreased as a result of the collection of P9.5 million liquidating cash dividend from SUMSI.

11. INVESTMENTS IN REAL ESTATE - NET

This account consists of the following:

	2015	2014
Landbanking assets	**3,294,976,850**	3,282,116,267
Commercial and residential subdivision projects	**3,334,439,162**	3,398,799,415
Member-related housing projects	**73,701,139**	72,539,121
Golf and country club shares	**133,908,690**	133,635,566
	6,837,025,841	6,887,090,369
Allowance for decline in value of investment in real estate	**(109,661,814)**	(106,961,377)
	6,727,364,027	6,780,128,992

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.

Commercial and residential subdivision projects represent the real estate projects which were developed either by AFPRSBS 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.

Member-related projects represent the condominium and apartment units in various AFP camps which were built by the AFPRSBS. 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 as income.

Golf and country club shares represent the AFPRSBS' 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 AFPRSBS' exercises the voting rights of the shares during the annual stockholder's meeting of the club. As of December 2015, there are still possible remaining deliverables of AFPRSBS to the Riviera Golf Club, Inc. and Riviera Sports and Country Club, Inc.

12. INVESTMENT PROPERTY – NET

This account consists of the following:

	2015	2014
Building and building improvements at the Industrial Park	122,661,551	113,223,532
Accumulated depreciation	(107,862,572)	(107,862,572)
Direct cost, net of amortization	6,112,000	6,368,000
	20,910,979	11,728,960

In 2014, the System executed a contract with HMRID Property Inc. for the lease of a 40,000.00 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 P800.00 per square meter or a total of P3,200,000.00. The AFPRSBS 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 in accordance with PAS 17 – Leases. For 2015, the System recorded the contingent rent amounting to P7.6 million for the lease of two parcels of land in Aseana Business Park to PSMT Philippines, Inc. The payment was received by RSBS in December 2015.

The following is a schedule by years of minimum rentals on the System's significant operating leases as of December 31, 2015:

	HMRID	**PSMT**	**Total**
2016	38,400,000	2,888,917	41,288,917
2017	40,864,000	2,888,917	43,752,917
2018	41,088,000	2,888,917	43,976,917
2019	43,724,480	2,888,918	46,613,398
2020	43,964,160	2,888,918	46,853,078
Later years	1,217,035,565	8,666,753	1,225,702,318
	1,425,076,205	**23,111,340**	**1,448,187,545**

The System used the year-end exchange rate of P47.166 in estimating the minimum future rental payments for PSMT.

13. PROPERTY AND EQUIPMENT - NET

This account consists of the following:

	Building Improvements	Office Equipment	Transportation Equipment	Furniture and Fixtures	Total
Cost					
Balance, 1/1/2015	91,429,579	158,409,265	8,283,853	15,033,634	273,156,331
Additions (Deductions)	-	(9,622,493)	-	647,238	(8,975,255)
Balance, 12/31/2015	91,429,579	148,786,772	8,283,853	15,680,872	264,181,076
Accumulated depreciation and amortization					
Balance, 1/1/2015	82,286,621	134,819,263	6,216,211	11,551,276	234,873,371
Depreciation/amortization	-	(8,164,521)	959,600	696,856	(6,508,065)
Balance, 12/31/2015	82,286,621	126,654,742	7,175,811	12,248,132	228,365,306
Net book value, 12/31/2015	**9,142,958**	**22,132,030**	**1,108,042**	**3,432,740**	**35,815,770**
Net book value, 12/31/2014	**9,142,958**	**23,590,002**	**2,067,642**	**3,482,357**	**38,282,959**

14. INVESTMENT IN BONDS

This account consists of the following:

	2015	2014
Petron Corporation preferred shares (PS)	**-**	50,000,000
San Miguel Corporation PS – 5 years	**-**	50,000,000
PSALM fixed rate bond (FRB)	**-**	30,000,000
Energy Development Corporation FRB	**-**	50,000,000
Treasury bonds	**2,875,665,644**	1,893,055,464
Development Bank of the Philippines (DBP) long-term commercial paper (LTCP)	**500,000,000**	500,000,000
Landbank of the Philippines (LBP) LTCP	**300,000,000**	300,000,000
First Gen Corporation	**50,000,000**	50,000,000
Retail treasury bonds	**50,000,000**	50,000,000
	3,775,665,644	2,973,055,464

The investments earn an average yield of 3.4002 per cent interest per annum with terms ranging from three years to 10 years.

On August 6, 2015, RSBS requested confirmation from the Department of Finance (DOF) to use private banks/financial intermediaries as broker for the trading of the System's government securities under the Non-Restricted Trading System (NRTS) pursuant to DOF's Department Order No. 068-2014. The System's request, however, was denied by DOF in its letter dated February 10, 2016. AFPRSBS was advised to utilize the services of LBP and DBP for the proposed treasury investment activities since both government financial institutions are also eligible brokers under the NRTS.

15. OTHER ASSETS – NET

This account consists of the following:

	2015	2014
Acquired assets *(See Note 3.11)*	**500,919,561**	502,386,082
Allowance for probable losses	**(79,661,796)**	(79,661,796)
	421,257,765	422,724,286
Deposits and others	**47,723,500**	47,420,300
	468,981,265	470,144,586

Acquired assets include residential lots, memorial lots, condominium units, machineries and equipment which the AFPRSBS 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 by the AFPRSBS from RLI, a subsidiary. The loan bears an interest rate of six per cent per year. In 2005, the System has stopped accruing interest expense for the said loans considering that RLI had already been approved for closure. RLI was formally dissolved by the SEC on October 22, 2014. Subsequently, the P40.40 million notes payable and the corresponding accrued interest expense of P16.59 million were already adjusted in the System's books after the approval by the Management of the turnover/transfer of the receivables of RLI in July 2015. The account has a zero balance at the end of 2015.

17. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

These accounts consist of the following:

	2015	2014
Trade payables	**142,731,654**	153,694,684
Non-trade payables	**190,154,974**	140,982,997
Reserve for real estate development	**50,890,172**	49,858,867
Accrued employee benefits	**56,162,028**	45,373,024
Accrued operating expenses	**27,944,376**	44,387,632
Retention payable	**23,198,072**	23,568,248
Payable to real estate brokers	**13,494,283**	12,147,416
Payable to landowners	**6,851,650**	6,851,650

	2015	2014
Buyer's refund payable	**1,427,575**	799,389
Other payables	**9,296,849**	10,279,800
	522,151,633	487,943,707

Reserve for real estate development account is composed of the remaining liabilities of the AFPRSBS to its various contractors and the estimated costs to complete the Sta. Rosa Homes Subdivision and San Lorenzo South Subdivision (SLSS) projects of the System. The amount of estimated costs to complete that was included in the said 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 projects.

For 2015, a total of P12.787 million were paid to contractors representing either partial or full payment for the completion of various projects that were undertaken at the Industrial Park, Riviera, SLSS and Mount Zion projects. An increase of P13.819 million was also added to the account during the year as a result of the set-up of the remaining liabilities to contractors for the construction works at the Industrial Park and the Riviera project.

Non-trade payables include the set-up for the P45.656 million garnished deposits that was paid to a complainant Developer as a result of the civil case filed by it against MRDC *(See Note 4).*

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 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 MCs are as follows:

	2015	2014
Balance at beginning of year	3,464,187,734	3,084,066,837
Transfer from Retained earnings	643,600,040	590,709,493
Payments made	(182,706,796)	(210,588,596)
Balance at end of year	3,925,080,978	3,464,187,734
Current portion	(198,183,228)	(228,124,179)
	3,726,897,750	3,236,063,555

The AFPRSBS started granting four per cent interest on MCs as per 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 System. 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.

The AFPRSBS reviews periodically the computed estimated liability on earnings of MCs in order to reflect the latest estimates of accumulated earnings thereon. The yearly interest accruals are being charged against the Retained earnings. For 2015, the total interest accrued for the outstanding MCs is P643.6 million.

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

21. FUND EQUITY

Pursuant to PD No. 361, the AFPRSBS 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 AFPRSBS 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 per cent of their basic and longevity pay; and (3) income from investment operations.

On December 21, 1979, PD No. 1656 was promulgated amending certain provisions of PD No. 361. Under PD 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 RA No. 340 as amended, PD No. 1638, as amended by PD 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 PD No. 1656 amending Section 4 of PD No. 361, the rate of MCs became five per cent 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, PD No. 1656 was further amended by PD 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 per cent of their gross monthly pension as adjusted pursuant to PD No. 1909. On December 17, 1990, it was ruled that their contributions shall be stopped upon reaching the age of 65 when they become entitled to the refund of their accumulated contributions.

Further, under PD 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 had been incorporated subsequently into the AFP's annual budget for pension.

On August 12, 2003, the Supreme Court declared the AFPRSBS 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 AFPRSBS was created by PD No. 361 whose purpose and function are similar to those of Government Service and Insurance System and Social Security System. The System continuously maintained the treatment of the MCs as part of its equity. The said contributions are being refunded as they fall due.

22. MEMBERS' CONTRIBUTIONS

MCs are stated based on the 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 PD No. 1909, which is equivalent to five per cent of their gross monthly pension. However, no new contributions are being received from the retirees covered by PD No. 1909. The last contribution that was received by the AFPRSBS was in November 2014.

23. DEPRECIATION AND AMORTIZATION

This account consists of the following:

	2015	2014
Property and equipment	**3,379,552**	3,311,854
Investments in real estate	**2,700,437**	2,700,437
	6,079,989	6,012,291

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 AFPRSBS 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.

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

	2015	2014
Receivables *(See Note 6)*	**3,073,074**	3,073,074
Receivable from joint venture partner *(See Note 6)*	**11,717,792**	11,106,085
Loans receivable *(See Note 7)*	**50,212,184**	48,057,578
Advances to subsidiaries and associates *(See Note 9)*	**30,781,451**	30,750,399
Notes payable *(See Note 16)*	**-**	40,402,084
Accounts payable and accrued expenses	**56,976,127**	46,120,123
	152,760,628	179,509,343

26. CASH FLOW STATEMENT

Supplemental disclosures on cash flow information relative to non-cash investing and financing activities follows:

	2015	2014
Transfer of Retained earnings to estimated liability on earnings of MCs	**643,600,040**	590,709,493
Transfer of MCs to MCs payable	**367,827,232**	632,277,166

27. CONTINGENCIES

The AFPRSBS 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.

On the other hand, in September 2008, the AFPRSBS pledged as collateral bond certain time deposit certificates issued by a commercial bank to secure the appeal bond submitted by the AFPRSBS to the Department of Labor and Employment (DOLE). The System is a respondent to the labor case filed by the employees of a security agency contracted by AFPRSBS. On April 13, 2011, DOLE denied the appeal made by the System and said security agency. A Motion for Reconsideration was filed by the AFPRSBS Legal Department on April 25, 2011.

On October 19, 2015, the AFPRSBS filed a Petition for Certiorari with the Court of Appeals for the issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction pending the resolution of the Petition enjoining the implementation of the October 30, 2006 Order of the Regional Director, Regional Office No. IV-A of the DOLE. AFPRSBS is still awaiting the result of the Petition.

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 Retained earnings during the year representing allocation of part of the income generated by the AFPRSBS as earnings of the contributions made by the members.

29. 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.

30. COMPLIANCE WITH REVENUE REGULATIONS (RR) NO.15-2010

In compliance with the requirements set forth by BIR RR No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year 2015.

30.1. Withholding Taxes

	2015	2014
Tax on compensation and benefits	**9,264,743**	10,691,676
Value-added taxes	**5,028,655**	5,814,439
Expanded withholding taxes	**5,698,986**	6,395,354
Percentage taxes	**70,449**	77,516
Final taxes	**-**	-
	20,062,833	22,978,985

30.2. Other Taxes

	2015	2014
Local		
Real estate taxes	**14,696,224**	12,640,777
Capital gains taxes	**4,651,366**	599,452
Transfer taxes/Others	**132,767**	-
National		
BIR annual registration	**500**	500
	19,480,857	13,240,729

31. SUBSEQUENT EVENTS

On April 8, 2016, MO No. 90, series of 2016, was issued by the Office of the President of the Philippines directing the abolition of the AFPRSBS and the privatization of its Subsidiaries, among others. The AFPRSBS is directed under Section 3 of said Memorandum to: (a) cease collecting MCs and accrual of interest thereon upon effectivity of the Order; (b) maintain such number of personnel necessary to wind-down its corporate affairs and cease the hiring of new personnel unless approved by the Governance Commission; (c) collect all indebtedness due to the AFPRSBS; (d) continue Corporate Operating Budget; (e) for its BOT to act as Board of Liquidators (BOL); (f) enter into contracts for the purpose of selling all its real estate assets, golf and country club shares; manage, preserve and maintain its buildings, facilities and equipment in line with the winding down activities; complete deliverables to subdivisions, and turn over completed subdivisions; and maintenance and preservation of existing projects and properties; (g) pursue activities necessary to perfect ownership of its real estate assets; (h) continue, abrogate, and/or re-negotiate existing JV agreements/contracts, subject to the revised NEDA JV guidelines; and (j) maintain full power to sue and file complaints for the protection of the rights and interests of the System.

To implement the provisions of MO No. 90, the GCG shall be assisted by a Technical Working Group composed of representatives from the Department of National Defense, DOF, Department of Budget and Management, Privatization Management Office, AFPRSBS, and the AFP.

Pursuant to the above MO, the BOT already convened as BOL on April 19, 2016. The BOL approved in that meeting the stoppage of the collection of the five per cent MCs and the accrual of interest thereon effective March 31, 2016 as per Board Resolution No. SPL-01-2016. In the same meeting, the BOL also approved the continuance of the implementation of the “Discounting of Refund of Advance Refund Program” to retiring military personnel with approved Order of Retirement from the AFP until the final closure of the AFPRSBS.