GOVERNMENT SERVICE INSURANCE SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012
(all amounts in Philippine peso unless otherwise stated)

1. REPORTING ENTITY

The Government Service Insurance System (GSIS or the System) is a government financial institution, organized and created to administer the System's funds and implement the laws that govern the social security and insurance benefits of all government employees. The official address of its Home Office is at the Government Financial Center, Roxas Boulevard, Pasay City. GSIS has 42 branch offices, 13 satellite offices and several service desks strategically located in various cities and municipalities in the country.

The GSIS was created by the Congress of the Philippines through Commonwealth Act No. 186 on November 14, 1936. Its primary objective is to promote the welfare of government employees through an insurance system that will protect its members against adverse economic effects resulting from death, disability and old age.

On May 31, 1977, Presidential Decree (PD) No. 1146, otherwise known as "The Revised Government Service Insurance Act of 1977," was issued by then President Ferdinand E. Marcos. On June 24, 1997, Republic Act (RA) No. 8291, otherwise known as, "The Government Service Insurance System Act of 1997", was enacted into law, enhancing the social security coverage and benefits of the GSIS.

Pursuant to Section 34 of RA No. 8291, all contributions payable under Section 5 thereof, together with the earnings and accruals thereon shall constitute the GSIS Social Insurance Fund (SIF). The said fund shall be used to finance the benefits administered by the GSIS under RA No. 8291. In addition, the GSIS shall administer the Optional Insurance Fund and Pre-need Fund for the insurance coverage described in Section 26 of RA No. 8291, the Employees' Compensation Insurance Fund (ECIF) created under PD No. 626, as amended, the General Insurance Fund (GIF) created under RA No. 656, as amended, and such other special funds existing or that may be created for special groups or persons rendering services to the government.

The accompanying consolidated financial statements of the GSIS were authorized for issue by the GSIS management represented by the President and General Manager and the Senior Vice President – Controller Group on June 30, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

a. Statement of compliance

The accompanying financial statements are prepared in compliance with Philippine Financial Reporting Standards (PFRS) issued by the Financial Reporting Standards Council (FRSC). However, the bond swap transactions in

2010 and 2011 pursuant to the Domestic Bond Consolidation Program of the Republic of the Philippines (ROP) were recorded in accordance with the prescribed financial reporting framework for participating entities. The details of the 2010 and 2011 bond swap transactions are fully disclosed in Note 7.

b. Basis of consolidation

The consolidated financial statements include the financial statements of the GSIS and its subsidiary as at December 31, 2013 and 2012. A subsidiary is fully consolidated from the date on which the System obtains control and continues to be consolidated until the date when such control ceases. The financial statements of the subsidiary are prepared for the same reporting period as the System.

Since the subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to the subsidiary's financial statements to ensure conformity with the System's accounting policies. All intercompany balances, transactions, income and expenses and profits and losses resulting from intercompany transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the System loses control over its subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the System's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate

c. Basis of measurement

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

- Equity securities, debt securities classified as available-for-sale (AFS), externally managed funds and derivatives;
- Investment property;
- Land classified under property and equipment; and
- Paintings and tapestries classified under other assets.

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.

f. Significant accounting judgments and estimates

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Uncertainty about these assumptions and estimates may result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the System's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

Operating lease commitments

The System as lessee. The System has determined that significant risks and benefits of ownership of the leased property remain with the lessor; hence, leases are accounted for as operating lease.

The System as lessor. The System has determined that significant risks and benefits of ownership of the leased property remain with the System; hence, leases are accounted for as operating lease (see Note 33).

Determining functional currency. The System has determined that its functional currency is the Philippine Peso. It is the currency of the primary economic environment in which the System operates.

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the succeeding paragraphs.

Estimation of impairment losses on receivables. The System maintains allowance for impairment losses on receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, among others, the debtor's payment behavior and known market factors. The System reviews the status of the member/borrower and age of receivables and identifies accounts that are to be provided with allowance on a yearly basis. The amount and timing of recorded expenses for any period would differ if the System made different judgments or utilized different estimates.

Provision and contingencies. The System sets up appropriate provisions for its present legal or constructive obligations in accordance with its policies on provisions and contingencies. The estimate of the probable costs for settlement of such claims has been developed in consultation with the legal department and is based upon analysis of the potential results.

g. Segment reporting

For management purposes, the System is organized based on their products and services and has the following reportable segments:

Social Insurance

Under Section 3 of RA No. 8291, membership in the GSIS shall be compulsory for all government employees receiving compensation who have not reached the compulsory retirement age, irrespective of employment status, except members of the Armed Forces of the Philippines and the Philippine National Police and contractuals who have no employer and employee relationship with their agencies.

Except for the members of the judiciary and constitutional commissions who shall have life insurance only, all members of the GSIS shall have life insurance, retirement and all other social security protection provided under RA No. 8291.

Section 11 of the Revised Implementing Rules and Regulations of RA 8291 and approved on June 23, 2010 under Board Resolution No. 88 provides that the rate of contribution payable by the member and the government agency shall be 9 per cent and 12 per cent, respectively, based on the actual monthly salary of the member.

Special members that include constitutional commissioners, members of the judiciary and those with equivalent ranks are required by law to remit to the System, 3 per cent of their regular monthly compensation for both employees' and government agency's share as life insurance premiums to answer for their life insurance benefits defined under RA 8291.

It is mandatory for all employers to deduct each month from the monthly salary or compensation of each employee the contribution payable by him in accordance with the foregoing schedule, and remit directly to the GSIS the employer's and employees' contributions within the first ten days of the calendar month following the month to which the contributions apply. All such contributions, together with the earnings and accruals thereon, constitute the GSIS SIF.

Optional Life Insurance

A GSIS member may at any time apply for optional life insurance for himself and/or his dependents and may choose from the following types of insurance according to his needs:

a. Unlimited optional life insurance - Endowment
b. Unlimited optional life insurance - Whole life
c. Unlimited optional life insurance - Fully paid at 65
d. Unlimited optional life insurance - Pay life at 20
e. Yearly renewable group term insurance

Redemption insurance premiums are those paid by loan borrowers to cover the outstanding balances in cases of premature death and permanent total disability.

Premiums on optional insurance shall be paid monthly in advance during the life of the policy either directly by the insured, if retired or separated from the service or through salary deduction if still in the service. (Section12.7.1 of RA 8291)

General Insurance

RA No. 656, otherwise known as the “Property Insurance Law”, established the “Property Insurance Fund” to indemnify or compensate the government for any damage or loss of its property. The administration of the fund was placed under the GSIS. Under Section 5 of RA No. 656, every government unit, except municipalities below first class, is required to insure its property with the GSIS.

The GIF financial statements reflect the financial positions and results of operations of the general insurance business of the GSIS. It includes the recording and accounting for insurance and reinsurance premiums, losses recoverable, reinsurance, claims and related expenses, disbursements, unearned premiums, marketing and administration fees, as well as appropriations for losses and contingencies. The GIF is being administered by the SIF. As such, marketing commission based on the GIF net premiums retained is being charged by the SIF to the GIF.

Pre-need Insurance

The Pre-need fund was created pursuant to Section 26 of RA No. 8291. This covers pre-need coverage embracing education, health and memorial plans, which the GSIS offered to better respond to the growing needs of its members. The marketing of the pre-need plans has been suspended effective December 31, 1998.

Employees’ Compensation Insurance

The ECIF, also known as the “State Insurance Fund”, was created under PD No. 626 (amending PD 442, Labor Code of the Philippines). It was established to carry out the State’s policy to promote and develop a tax-exempt employees’ compensation program whereby employees and their dependents, in the event of work related disability or death, may promptly secure adequate income, medical and other related benefits.

The State Insurance Fund shall be liable for compensation to the employee or his dependents, except when the disability or death was occasioned by the employee's intoxication, willful intention to injure or kill himself or another, notorious negligence, or otherwise provided under this Title. (Article 170, PD 442 as amended by PD 662)

The GSIS, represented by the President and General Manager, is an ex-officio member of the Employees Compensation Commission (ECC) which is created to initiate, rationalize and coordinate the policies of the employees' compensation program.

The ECIF is one of the funds administered by the GSIS pursuant to section 34 of RA 8291. Under Section 176 of PD 442, as amended by PD 662, all revenues collected by the System under the State Insurance Fund shall be deposited, invested, administered and disbursed in the same manner and under the same conditions, requirements and safeguards as provided by RA 1161, as amended, and C.A. 186, as amended, with regards to such other funds as are thereunder being paid to or collected by the SSS and GSIS, respectively.

Barangay Officials Insurance

Section 522 of the Republic Act No. 7160, otherwise known as the Local Government Code of 1991, mandates the Government Service Insurance System (GSIS) to establish and administer an appropriate system under which the punong barangay, members of the sangguniang barangay, barangay secretary, barangay treasurer, and members of the barangay tanod shall enjoy insurance coverage. The National Government remits the premium contributions for the insurance coverage of barangay officials to GSIS through the Department of Budget and Management, and the same is administered by the GSIS through the Barangay Officials Insurance Fund (BOIF), from where insurance benefits for barangay officials are sourced.

However, the National Government has been delinquent in remitting the required premium contributions to the BOIF since 1995. And as a result of the huge amount of premium deficiencies and its failure to settle the same despite due notices that will unduly prejudice not only the viability of the BOIF but also those of other GSIS funds where inter fund borrowing is sourced, the GSIS has suspended payment of the claims for benefits to those officials covered by this fund under Board Resolution No 332 in November 2001 until remittance of the premiums due to the GSIS.

Property Replacement Fund

The Property Replacement Fund (PRF) was created under Joint Circular No. 1-90 dated October 11, 1990 and funded by the General Appropriations Act for CY 1989. The GSIS administers the PRF pursuant to GSIS-DBM MOA and Joint Circular No. 1-90.

The PRF was intended for the restoration of losses of government property and payment of premiums for the insurance of certain high risk government property against extraordinary losses. However, the DBM, in its letter dated July 13, 1998 directed the GSIS to immediately suspend PRF operations to preserve the viability of the said fund and to hedge against ensuing adverse impact of the depletion of the PRF.

h. 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.

2.2 Financial instruments

a. Date of recognition

Financial instruments are recognized in the statement of financial position when GSIS becomes a party to the contractual provisions of the instrument.

b. Initial recognition of financial instruments

Financial instruments are recognized initially at the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at FVPL, includes transaction costs.

c. Classification of financial instruments

The System classifies its financial assets into the following categories: financial assets at FVPL, held to maturity (HTM) financial assets, AFS financial assets, and loans and receivables. The System classifies its financial liabilities into other liabilities. The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, when allowed and appropriate, re-evaluates this classification at every reporting date.

1. Financial assets at FVPL

Financial assets at FVPL consist of HFT financial assets which are acquired and held for the purposes of selling in short-term to generate profit from short-term fluctuations in price or dealer's margin.

Upon initial recognition, transaction costs are recognized in profit or loss. Subsequently, financial assets at FVPL are measured at fair value and changes therein are recognized in profit or loss.

2. *HTM financial assets*

These are non-derivative financial assets with fixed or determinable payments and fixed maturities for which there is positive intention and ability to hold the financial assets to maturity. Such assets are carried at amortized cost in the statement of financial position.

Gains or losses are recognized in profit or loss when the HTM financial assets are derecognized or impaired, as well as through the amortization process.

3. *AFS financial assets*

These are non-derivative financial assets that are acquired and held indefinitely for long-term capital appreciation or are not classified as (a) FVPL financial assets (b) HTM financial assets or (c) loans and receivables.

Subsequent to initial recognition, these assets are carried at fair value in the statement of financial position. Changes in the fair value of such assets are recognized in other comprehensive income and presented within the other surplus account under unrealized gain or loss on AFS financial assets portion.

When an AFS financial asset is derecognized, the cumulative gains or losses are transferred to profit or loss. Dividends on AFS equity securities are recognized in profit or loss when the right to receive payment is established. If an AFS financial asset is impaired, an amount comprising the difference between its carrying value and its current fair value is recognized in profit or loss.

4. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the System does not intend to sell immediately or in the near term. Loans and receivables are initially measured at fair value plus direct transaction costs, and subsequently measured at their amortized costs. Gains and losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

5. *Other financial liabilities*

This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. This includes liabilities arising from operations and other borrowings.

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, except for derivatives which are carried at fair value, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

d. Valuation of financial instruments

Investments and investment liabilities are recorded on a trade date basis and are stated at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

In an active market, fair value is best evidenced by an independent quoted market price. In the absence of an active market, fair value is determined by valuation techniques that make maximum use of inputs observed from the market. These valuation techniques include using recent arm's length market transactions, if available, or current fair value of another investment that is substantially the same, discounted cash flow analysis, pricing models and other accepted industry valuation methods.

Fair value is determined as follows:

1. Fair value of publicly traded equities, is based on quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

2. For equity securities that are not traded in the market, the fair value is determined using appropriate valuation techniques. Stocks non-traded are revalued at year-end and recorded based on its net asset value. The difference between the carrying value and the net asset value is recorded as unrealized gain or loss in other comprehensive income. If the difference is other than temporary, it is recorded as realized loss in the Statement of Comprehensive Income.

3. For government issued bonds, peso and foreign currency denominated ROP notes and bonds, fair value is based on quoted market prices published by Bloomberg, a financial multimedia agency that provides financial information regarding investments.

4. Fair value of corporate bonds is based on quoted market prices. Where the market value is not available, fair value is calculated using inputs based on quoted prices and valuation methods adopted by the System.

5. Fair value for externally managed funds is generally based on the net asset value as reported by the external managers of the funds or other accepted industry valuation methods.

6. For over-the-counter derivatives which include swaps, forward contracts and warrants, fair value is determined by counterparties using inputs from quoted market prices and internally-developed models.

7. Fair value for investment in subsidiaries is generally based on the net asset value as reported by the subsidiary of GSIS.

e. Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

f. Impairment of financial assets

The System assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The carrying value of the impaired account is reduced to the extent that it exceeds the asset's net realizable value. Impairment losses are recognized in full in profit or loss. If in a subsequent period, the amount of accumulated impairment losses has decreased because of an event occurring after impairment has been recognized, the decrease is allowed to be reversed to profit or loss to the extent that the resulting carrying value will not exceed the amortized cost determined had no impairment been recognized.

g. Derecognition of financial assets and liabilities

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

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

Where the System has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the System's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset or the maximum amount of consideration that the System could be required to repay.

Financial liabilities. A financial liability is derecognized when the obligation comprising the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

2.3 Cash and cash equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term and highly liquid investments with maturity of less than one year and readily convertible into cash such as high-yield short-term placements (HYSTP), special savings and time deposits. Cash and cash equivalents are presented at face value.

2.4 Premiums receivable

Premiums receivable represent receivables arising from unremitted members' contribution and other premiums already due but not yet collected. These are presented at amortized cost.

2.5 Loans receivable

Loans receivable represents loans granted to members, government agencies and private entities. These receivables are measured at amortized cost.

2.6 Investment property

Investment property consists of land or building or part of a building or both, held to earn rentals or for capital appreciation or both.

This account also includes real property that were previously the subject of mortgage loan, individual real estate loan, commercial-industrial loan, lease-purchase agreement, or deed of conditional sale, which were foreclosed, cancelled or relinquished by former owners in favor of the System.

Investment property is initially recognized at cost, including transaction costs. Subsequently, it is measured at fair value with changes in fair value recognized in profit or loss.

In arriving at the fair value of the land and building, the market data approach is used. The market value is estimated using the gathered available market evidences and the depreciated replacement cost for other asset which has no available market evidence.

Market value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties has each acted knowledgeably, prudently, and without compulsion. Depreciated replacement cost, on the other hand, is the cost of replacement less accrued depreciation as evidenced by the observed condition in comparison with new units of like kind tempered by consideration given to extent, character and utility of the property which is to be continued in its present use as part of a going concern but without specific relations to earnings.

The appraisal of the big and medium ticket accounts and the retail housing accounts is done annually by independent appraisers and internal appraisers, respectively.

Transfers to or from the investment property account is made when there is a change in the use of the asset(s).

2.7 Property and equipment

Property and equipment, except land is stated at cost less accumulated depreciation and any impairment in value. Land is carried at revalued amount. Increase in value resulting from revaluation is credited to revaluation surplus account. Any decrease in value is recognized as expense to the extent that it exceeds the revaluation surplus previously recognized.

The initial cost of property and equipment consists of the purchase price including import duties (except land), borrowing costs (during the construction period) and other costs directly attributable to bring the asset to its working condition and location for its intended use. Cost also includes the cost of replacing the part of such property and equipment when the recognition criteria are met and the present value of the estimated cost of dismantling and removing the asset and restoring the site where the asset is located.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to operations in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of the property and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Asset class	Useful life year/period
Land improvements	10
Building and building improvements	30
IT resources	5
Furniture and fixtures	10
Office equipment	5
Ordnance	10
Medical equipment	10
Dental equipment	10
Laboratory equipment	10
Communications equipment	10
Sports equipment	10
Firefighting equipment and accessories	7
Library books	5
Transportation equipment-land	7

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. In assessing whether there is an indication that an asset may be impaired, the System considers the availability of evidence of obsolescence or physical damage of an asset.

Valuation shall be done by an independent appraiser every three years or as the need arises. However, annual appraisal should be done by in-house appraiser to determine whether there is reasonable basis to believe that there is no substantial change in the fair value of the property since the last external appraisal.

The value of land was arrived at by the market data approach. In this approach, the said value is based on sales, listings and other market data of comparable property registered within the vicinity of the subject property. The technique of this approach requires reducing reasonably comparative sales and listings to a common denominator in order to conform to subject property. The comparative study is premised on the factors of location, size and shape of lot, highest and best use and the time element.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of the asset is included in profit or loss in the year the asset is derecognized.

Construction in progress is included in property and equipment and stated at cost which includes cost of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are completed and put into operational use.

2.8 Impairment of non-financial assets

The carrying amount of non-financial assets, other than investment property, are assessed to determine whether there is any indication of impairment or an impairment previously recognized may no longer exist. Based on such determination the asset’s recoverable amount is estimated. The asset’s recoverable amount is its fair value less costs to sell or its value in use, whichever is higher.

Impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in profit or loss unless it relates to a revalued asset where the changes in value are recognized in other comprehensive income. Depreciation and amortization charges for future periods are adjusted accordingly.

2.9 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the System and the amount of revenue can be reliably measured.

Revenue from insurance contributions consists of the mandatory member’s and employer’s contributions provided in Section 5 of RA No. 8291. Revenue is recognized as the members' contributions become due. Premiums on life insurance policies are earned as consideration for the risk/contingencies insured by the GSIS for the benefit of the members or their beneficiaries.

Interest revenue is recognized as the interest accrues, taking into account the effective yield on the asset. However, due to the on-going cleansing of unreconciled accounts and clarificatory items, Management has decided to recognize additional interest for all loan arrearages only after individual accounts are fully reconciled.

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

Revenue from rental of property and equipment is derived from the lease of GSIS office spaces or premises under contracts of lease containing the terms and conditions as agreed upon by the System and the lessees. Rental revenues are recognized on a straight line basis.

Premiums from the insurance of government assets, property and interests against various perils are recognized as income upon issuance of the policy. Premium is the amount charged by the System pursuant to an insurance policy or contract, for the protection from losses or risks for a period of time (normally one year). Inward reinsurance premium income for inward reinsurance business is recognized upon acceptance of the reinsurance binder. Reinsurance commission income is generated by the System from cessions to reinsurers and recognized upon signing of the reinsurance binder. Reinsurance commission is a percentage of the premium due on the cession to the reinsurer, which the reinsurer allows the insurer to deduct from the premium payable.

2.10 Foreign currency- denominated transactions

Transactions in foreign currencies are initially recorded in Philippine peso at the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate prevailing at reporting date. Exchange rate differences arising from the restatement or settlement of monetary items are recognized in profit or loss in the year in which they arise. Non-monetary items that are measured at historical cost in foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items that are measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.11 Expense recognition

Expenses are recognized in profit or loss upon utilization of the service or at the date they are incurred.

3. ADOPTION OF NEW AND REVISED PFRS

Adoption of new and revised PFRS

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

- PAS 1, *Financial Statement Presentation, Presentation of Items of Other Comprehensive Income* – The amendment changed the presentation of items in Other Comprehensive Income. Items reclassified to profit or loss at a future point in time are presented separately from items that cannot be reclassified.

- PAS 19, *Employee Benefits* (Amendment) - There were numerous changes ranging from the fundamental changes such as removing the corridor mechanism in the recognition of actuarial gains or losses and the concept of expected returns on plan assets to simple clarifications and re-wording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk.

- 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.

- PFRS 11, *Joint Arrangements* - PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers* - The standard removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, joint venture entities that meet the definition of a joint venture are accounted for using the equity method.

- PFRS 12, *Disclosure of Interests in Other Entities* - The standard includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosure requirements that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

- Amendments to PFRS 10, PFRS 11, *Joint Arrangements*, and PFRS 12*: Transition Guidance* - The amendments provide additional transition relief in PFRS 10, PFRS 11, and PFRS 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments removed the requirement to present comparative information for periods before PFRS 12 is first applied.

- PAS 27*, Separate Financial Statements (as revised in 2011) -* As a consequence of the new PFRS 10 and PFRS 12, PAS 27 is now limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

- PAS 28*, Investments in Associates and Joint Ventures* (as revised in 2011) - This standard prescribes the application of the equity method to investments in associates and joint ventures.

- PFRS 7, *Financial Instruments Disclosures – Offsetting Financial Assets and Financial Liabilities* (Amendments) – The amendment requires entities to disclose information that will enable users to evaluate the effect or potential effect of netting arrangements on an entity's financial position. The new disclosure is required for all recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement.

- PFRS 13*, Fair Value Measurement* - The standard establishes a single source of guidance under PFRS for all fair value measurements. It does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted.

- PFRS 1, *Government Loans (Amendment)* - This amendment requires first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. The exception gives first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest.

- IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* – This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset.

- Improvements to PFRS

  The omnibus amendments to PFRS issued in May 2012, which are effective for annual periods beginning on or after January 1, 2013, were issued primarily to clarify accounting and disclosure requirements to assure consistency in the application of the following standards.

  - PFRS 1, *First-time Adoption of International Financial Reporting Standards*
  - PAS 1, *Presentation of Financial Statements*
  - PAS 16, *Property Plant and Equipment*
  - PAS 32, *Financial Instrument: Presentation*
  - PAS 34, *Interim Financial Reporting*

The adoption of the foregoing new and revised PFRS, except for PAS 19, did not have any material effect on the consolidated financial statements. Additional disclosures have been included in the notes to consolidated financial statements, as applicable.

New and revised PFRS not yet adopted

Relevant new and revised PFRS which are not yet effective for the year ended December 31, 2013 and have not been applied in preparing the financial statements are summarized below:

Effective for annual periods beginning on or after January 1, 2014:

- Amendments to PFRS 10, PFRS 12 and PAS 27*: Investment Entities* – The amendments provide an exception from the requirements of consolidation for investment entities and instead require these entities to present their investments in subsidiaries as a net investment that is measured at fair value. Investment entity refers to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both.

- Amendments to PAS 32*: Offsetting Financial Assets and Financial Liabilities* - The amendments address inconsistencies in current practice when applying the offsetting criteria in PAS 32. The amendments clarify (a) the meaning of 'currently has a legally enforceable right of set-off'; and (2) that some gross settlement systems may be considered equivalent to net settlement.

Effective for annual periods beginning on or after January 1, 2015:

- PFRS 9, *Financial Instruments: Classification and Measurement* – This standard is the first phase in replacing PAS 39, *Financial Instruments: Recognition and Measurement*, and applies to classification and measurement of financial assets as defined in PAS 39.

Effectivity date to be determined:

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate* – This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts,* or involves rendering of services in which case revenue is recognized based on stage of completion.

Under prevailing circumstances, the adoption of the foregoing new and revised PFRS is not expected to have any material effect on the consolidated financial statements. Additional disclosures will be included in the consolidated financial statements, as applicable.

4. SEGMENT INFORMATION

The table below shows the Statements of Financial Position for all funds and that of the subsidiary as at December 31, 2013 (in millions).

	SIF	GIF	OLIF	PNF	ECIF	BOIF	PRF	GFB (SUBSIDIARY)
ASSETS								
Cash and cash equivalents	18,542	5,025	835	424	725	-	27	316
Premiums and loans receivable	230,945	949	2,366	2	3,663	-	-	282
Financial assets	418,048	13,907	11,241	1,990	9,211	-	-	229
Other receivables	18,695	12,074	1,540	13	76	-	-	8
Investment property	27,452	3,008	699	-	-	-	-	1,273
Property and equipment	10,732	-	-	-	-	-	-	40
Other assets	241	320	13	5	-	-	-	158
TOTAL ASSETS	**724,655**	**35,283**	**16,694**	**2,434**	**13,675**	**-**	**27**	**2,306**
LIABILITIES								
Insurance liabilities	7,475	13,399	112	23	27	-	-	-
Other liabilities	10,639	676	(2)	217	16	147	-	1,510
Deferred credits	3,583	667	-	-	-	-	-	-
TOTAL LIABILITIES	**21,697**	**14,742**	**110**	**240**	**43**	**147**	**-**	**1,510**
SURPLUS								
Appropriated	634,636	10,558	8,465	1,998	6,125	-	27	-
Unappropriated	7,107	7,474	6,440	0	7,242	(147)	-	799
	641,743	**18,032**	**14,905**	**1,998**	**13,367**	**(147)**	**27**	**799**
Other comprehensive Income	61,215	2,509	1,679	196	265	-	-	(3)
TOTAL NETWORTH	**702,958**	**20,541**	**16,584**	**2,194**	**13,632**	**(147)**	**27**	**796**
TOTAL LIABILITIES AND NETWORTH	**724,655**	**35,283**	**16,694**	**2,434**	**13,675**	**-**	**27**	**2,306**

The table below shows the Statements of Comprehensive Income for all funds and that of the subsidiary for the period ended December 31, 2013 (in millions).

	SIF	GIF	OLIF	PNF	ECIF	BOIF	PRF	GFB (SUBSIDIARY)
REVENUE								
Revenue from insurance	75,999	4,452	1,033	-	2,244	-	-	-
Revenue from loans	20,879	-	111	-	-	-	-	24
Revenue from financial assets	26,437	2,494	882	150	357	-	-	18
Revenue from investment property	2,710	152	35	-	-	-	-	4
Other revenues	1,111	31	2	238	9	-	-	19
	127,136	**7,129**	**2,063**	**388**	**2,610**	**-**	**-**	**65**
EXPENSES								
Claims and benefits	80,048	1,684	833	571	57	-	-	-
Investment expenses	110	-	-	-	1	-	-	21
Insurance expenses	-	2,380	-	-	-	-	-	-
Personal services	3,290	-	-	-	-	-	-	79
Operating expenses	1,642	96	52	-	88	-	-	100
	85,090	**4,160**	**885**	**571**	**146**	**-**	**-**	**200**
OPERATING INCOME/(LOSS) BEFORE GSIS FEES AND COMMISSION	**42,046**	**2,969**	**1,178**	**(183)**	**2,464**	**-**	**-**	**(135)**
GSIS FEES AND COMMISSION								
Management fee	201	-	-	-	(201)	-	-	-
Administration fee	279	(176)	(103)	-	-	-	-	-
Marketing commission	352	(352)	-	-	-	-	-	-
	832	(528)	(103)	-	(201)	-	-	-
NET OPERATING INCOME/(LOSS)	**42,878**	**2,441**	**1,075**	**(183)**	**2,263**	**-**	**-**	**(135)**
OTHER COMPREHENSIVE INCOME								
Items that may be reclassified subsequently to profit or loss								
Net unrealized gains/(losses) on investments	(2,446)	(1,266)	10	(9)	(103)	-	-	(2)
Items that will not be reclassified subsequently to profit or loss								
Revaluation surplus	25	-	-	-	-	-	-	-
	(2,421)	**(1,266)**	**10**	**(9)**	**(103)**	**-**	**-**	**(2)**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**40,457**	**1,175**	**1,085**	**(192)**	**2,160**	**-**	**-**	**(137)**

5. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2013	2012 Restated
Cash on hand and in banks	**4,774,010,277**	3,290,353,491
Cash equivalents	**20,619,764,001**	32,058,368,748
	25,393,774,278	35,348,722,239

Cash in bank earn interest at the respective bank deposit rates. HYSTPs and special savings deposits (SSDs) are made for varying periods of less than one year depending on the immediate cash requirements of the System and earn interest at the prevailing HYSTP and SSD rates.

Of the P20.62 billion cash equivalents, HYSTPs amounting to P11.5 billion have a term of up to 182 days.

Interest income earned from cash in banks recorded under interest on bank deposits (see Note 22) and from cash equivalents recorded under other investment revenue (see Note 20) amounted to P720 million in 2013 and P1.156 billion in 2012.

6. PREMIUMS AND LOANS RECEIVABLE - NET

This account consists of the following:

	2013	2012 Restated
Premiums receivable		
Social insurance premium	**32,460,874,300**	31,656,855,665
Employees' compensation insurance premium	**4,717,308,207**	4,265,596,850
Optional insurance premium	**2,206,620,368**	2,132,800,570
General insurance premium	**1,272,651,402**	1,333,331,150
Pre-need insurance premium	**23,616,730**	40,330,355
	40,681,071,007	39,428,914,590
Less: Allowance for impairment loss	**12,173,686,506**	14,202,489,981
Premiums receivable-net	**28,507,384,501**	25,226,424,609
Loans receivable		
Consolidated loan	**146,651,990,420**	137,246,235,104
Policy loans	**24,716,490,055**	23,720,823,584
Emergency/calamity loans	**16,848,314,311**	13,864,865,863
Salary loan	**16,492,131,980**	17,930,698,640
Real estate loans	**11,192,034,878**	11,841,408,628
Deeds of conditional sale	**6,151,393,162**	6,138,545,429
Government loans	**6,125,111,673**	6,299,574,224
eCard/eCard Plus cash advance loan	**3,005,697,226**	4,564,904,539
Educational assistance fund program loan	**2,430,432,169**	2,433,323,309
Private loans	**2,118,349,622**	2,190,328,051
Pension loan	**973,725,964**	1,469,896,360
Emergency loan assistance	**709,646,921**	800,595,765
Summer one month salary loan	**702,679,436**	815,331,956
Pensioners' emergency loan	**169,729,700**	-
Pensioners' restructured loan	**123,494,054**	57,040,950
Lease purchases	**111,401,705**	111,401,705
Interim loan	**91,168,588**	91,168,588

	2013	2012 Restated
Stock purchase loans	**34,240,791**	10,307,098
Educational assistance loans	**828,091**	716,090
Fly PAL	**441,969**	237,924
Other loans	**342,805,118**	437,022,506
	238,992,107,833	230,024,426,313
Less: Allowance for impairment loss	**25,985,459,642**	24,497,493,062
Loans receivable-net	**213,006,648,191**	205,526,933,251
Premiums and loans receivable – total	**241,514,032,692**	230,753,357,860
Less: Accounts for clearing	**3,307,360,723**	2,994,755,408
	238,206,671,969	227,758,602,452

Premiums receivable

Social Insurance

Social Insurance premiums receivable represent uncollected members' contributions which are required to be remitted by the different government agencies to the GSIS, as provided under Sections 5 and 6 of RA No. 8291.

Optional Life Insurance

Optional Life Insurance premiums receivable represent uncollected premiums on various optional life insurance contracts written by the GSIS pursuant to Section 10 of Commonwealth Act No. 186 and Section 26 of RA No. 8291.

Pre-need Insurance

Pre-need Insurance premiums receivable were recognized in the books whenever there were policies sold during its marketing years. Marketing activities have been discontinued since 1998. Movements in the existing balance pertain to collections and adjustments due to the continuous cleansing of the accounts.

Employees' Compensation Insurance

Employees' Compensation Insurance premium receivable represents uncollected monthly contributions to the ECIF (i.e. 1 per cent of the employee's monthly basic salary or P100, whichever is lower).

General Insurance

General Insurance premiums receivable represent uncollected premiums on non-life insurance policies/contracts issued by the GSIS, covering various government property, assets and interests pursuant to RA No. 656.

Loans receivable

Consolidated loan

The consolidated loan is a consolidation of five different loan products - salary loan, restructured salary loan, enhanced salary loan, emergency loan assistance, and summer one-month salary loan. By availing of the consolidated loan, a member automatically fully settles his/her obligations under any of the said loans (outstanding balances are deducted from the proceeds of the consolidated loan). A member can avail of a maximum loanable amount of ten times his/her basic monthly salary, depending on his/her accumulated posted premium payments, payable up to six years at 12 per cent interest based on diminishing balance.

Additional consolidated loan granting in the amount of P96.910 billion increased the balance of consolidated loan receivable, with an increase of 3 per cent on the number of borrowers from 578,987 in 2012 to 594,444 in 2013.

Policy loan

Policy loan is a loan program which a member can avail from his GSIS life insurance policy. In case of maturity of this loan, the GSIS is authorized to collect or deduct any remaining balance, inclusive of interest, penalties and surcharges, from whatever benefits that may be due the borrower. Such authorization shall remain effective until full payment of the loan or any other outstanding obligation of the borrower to the GSIS.

Policy loans bear an interest of 8 per cent compounded annually. The GSIS granted a total of P10.933 billion policy loans to 449,194 borrowers in 2013.

Emergency loan

The GSIS extends support to members affected by calamities/emergencies in the form of the emergency loan program. Loanable amount is P20,000 at an interest rate of 6 per cent per annum payable in three years.

A calamity-hit area must be declared in a state of calamity by the Office of the President or by the Local Sanggunian before members working or residing in the said area could become eligible to avail of the emergency loan.

Several calamities hit the country in 2013, which caused loss of lives and massive damages in certain areas, namely the southwest monsoon rains which was enhanced by typhoon Maring in August, Zamboanga siege in September, the Bohol and Cebu earthquake in October and super typhoon Yolanda in November. As a result, the GSIS granted emergency loans to members amounting to a total of P8.740 billion as at December 31, 2013.

Educational assistance fund program loan

This is a one-time loan in the amount of P4,000 for active members, regardless of salary, length of service, and status of agency and member accounts (i.e. up-to-date, in arrears or suspended). This is payable in five years with interest computed at 6 per cent per annum.

An additional P77 million was granted this year for 19,354 new availees of this loan.

Pensioners' restructured loan

In July 2011, the pensioner's restructured loan, also known as Choice of Loan Amortization Schedule for Pensioners (CLASP), was offered to retiring members as an option for the settlement of their obligations. An additional P107 million was granted this year for 968 new availees of this loan.

Pensioners' emergency loan

In November 2013, in line with Presidential Proclamation No. 682, declaring a State of Calamity in several areas affected by super typhoon Yolanda, the emergency loan was extended to pensioners residing in these areas.

As at December 2013, a total of P172 million has been granted for 8,616 borrowers.

Housing Loans

Real Estate Loans are loans granted to members with the objective to provide a loan facility for various purposes such as home acquisition, home construction, home improvement and home refinancing while Deeds of Conditional Sale are loans granted to members with the objective to provide a loan facility by purchasing for the qualified member a residential property which the member shall repay through the loan.

The balances of these accounts represent existing loan balances from borrowers prior to the suspension of all housing loan programs under Board Resolution No. 109 in 2011. Currently, a remedial and restructuring program is being implemented to provide these borrowers an opportunity to update their accounts through condonation of unpaid penalties and discounts on unpaid interests, to lower their monthly amortizations and to encourage continuous and full payment of accounts to minimize cancellations and foreclosures.

Moreover, reconciliation and cleansing are on-going for the remaining of the 6,142 loan accounts which were not migrated in 2007, of which 455 have been resolved as of December 2013.

<u>Allowance for impairment</u>

The roll forward analysis of allowance for impairment losses on premiums and loans receivable and other receivables as at December 31, 2013 are as follows:

	2013	2012 Restated
Beginning balance, January 1, 2013	**43,387,629,295**	47,257,601,950
Recoveries/reversals	**(102,108,542)**	(3,869,972,655)
	43,285,520,753	43,387,629,295

The recognition of allowance for impairment loss for 2013 was based on the following:

Premiums receivables

Social Insurance, Optional Life Insurance and Employees' Compensation premiums receivable of inactive members were provided with 100 per cent allowance for impairment because probability of collection is deemed unlikely.

For General Insurance premiums receivable, the following percentages were applied in estimating impairment losses:

Age	Percentage
Within the year	0%
1 year to 2 years	50%
2 years to 3 years	90%
Over 3 years	100%

Loans receivables

All outstanding service loans of inactive members except pension and pensioners' restructured loan were provided with 100 per cent allowance for impairment since the probability of collection is highly improbable.

Educational assistance, Fly PAL and stock purchase loans were provided with 100 per cent allowance for impairment due to improbability of collection.

For non-member loans receivables, the System maintains the allowance for impairment at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, among others, the debtor's payment behavior and known market factors. The System reviews the age and status of the receivables and identifies accounts that are to be provided with allowance on a yearly basis. The amount and timing of recorded expenses for any period would differ if the System made different judgments or utilized different estimates.

Allowance for impairment is based on the following aging of receivables:

- 100 per cent allowance for accounts of companies/entities which are already declared insolvent/bankrupt
- Based on aging of receivables:

25 per cent	if outstanding for more than 2 years up to 4 years
50 per cent	if outstanding for more than 4 years up to 7 years
100 per cent	if outstanding for more than 7 years for accounts of companies/entities which are already declared insolvent/bankrupt

Other receivables

The bulk of the allowance for other receivables pertains to 100 per cent allowance for interest receivables from inactive members' loan accounts for all outstanding service loans except pension and pensioners' restructured loan and 100 per cent allowance for educational assistance, Fly PAL and stock purchase loans.

For accounts due from reinsurers, the following percentages were applied in estimating impairment losses:

- 100 per cent allowance for reinsurance companies already identified as non-operational
- Based on age of receivables for operational companies applying the percentages shown in table below:

Age	Percentage
0 - 2 years	0%
3 - 4 years	25%
5 - 7 years	50%
More than 7 years	100%

<u>Accounts for clearing</u>

Premiums and loans receivables are presented net of allowance for impairment loss and accounts for clearing amounting to P3.307 billion in 2013 and P2.995 billion in 2012 to reflect the most conservative balance of the account. The accounts for clearing represent collections on both premiums and loans that have not yet been posted to the individual member's accounts due to timing differences. These unposted payments are mostly due to remittances for new members whose accounts are yet to be created in the GSIS database and those resulting from the late updating of members' data with the GSIS by their respective agencies.

The Reconciliation Task Force (RTF) continues to focus on the cleansing of the accounts for clearing. Aside from the program enhancements already implemented in the previous years, the GSIS further enhanced its programs to address the various posting issues. Other projects were also started this year to expedite the reconciliation of agencies and members' accounts. These projects include the Statements of Loan Accounts (SOLA) Project, the eBilling and eCollection Project, the Members Self-Service Facility (MSSF) and the Mainframe Balance Adjuster System (MBAS).

To ensure that the members receive the correct amount of benefits, members' accounts are manually reconciled upon filing of retirement/life insurance claims.

7. FINANCIAL ASSETS

The GSIS financial assets consist of:

	2013	2012 Restated
Securities held for trading (HFT)		
Stocks traded	**116,011,400**	150,094,595
Derivatives - Deliverable and non-deliverable	**-**	3,354,263,019
	116,011,400	3,504,357,614
Securities available for sale (AFS)		
ROP notes and bonds	**160,355,934,293**	126,098,109,544
Stocks traded	**94,764,098,639**	84,297,810,503
Corporate bonds	**22,076,974,466**	12,879,011,914
Externally managed funds - Domestic	**20,952,397,121**	19,502,185,253
Global Peso notes	**1,064,540,001**	1,106,826,480
Stocks non-traded	**780,694,881**	778,348,811
	299,994,639,401	244,662,292,505
Securities held to maturity (HTM)		
ROP notes and bonds	**154,083,922,397**	163,237,644,174
	154,083,922,397	163,237,644,174
	454,194,573,198	411,404,294,293

Equity securities

- Equity investments are made directly by GSIS in equity securities traded in the Philippine Stock Exchange (PSE). Such securities may include common shares or preferred shares of any solvent corporation or financial institution created or existing under the laws of the Philippines. Equity shares may include warrants, Philippine Depositary Receipts, Real Estate Investment Trusts (REITS), and Exchange Traded Funds (ETFs). As at December 31, 2013, the fair value of the equity investment is P94.880 billion.

- Equity investments that are not anymore listed or traded in the PSE are recorded as Stocks Non-Traded. As at December 31, 2013, the fair value of the investment is P781 million.

Fixed income securities

Bonds consist of debt instruments denominated in peso or any major currency that are issuances of or guaranteed by the Republic of the Philippines (ROP) and its instrumentalities, or by ROP government-owned and/or controlled corporations (GOCCs). These include, but are not limited to, ROP bonds, treasury bills, fixed rate treasury notes and retail treasury bonds.

The terms to maturity of the bonds issued and guaranteed by the ROP and those issued and guaranteed by foreign sovereign governments or private corporations as at December 31, 2013, are as follows (in millions):

	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Average effective yield
ROP notes and bonds						
AFS	79	5,267	41,689	113,321	160,356	6.08%
HTM	1,000	6,017	-	147,067	154,084	6.76%
Global peso notes	-	1,065	-	-	1,065	7.00%
Corporate bonds	197	5,345	10,162	6,373	22,077	6.14%

Global peso notes

In 2012, the GSIS diversified its investment by investing in global fixed income securities. These securities are bonds originally issued by a corporation registered in the Philippines denominated in USD but subsequently sold and traded by a foreign corporation. There were no additional investments made in 2013 and the balance remained in the total amount of P1.065 billion.

Corporate bonds

The System may invest and transact in debt Instrument denominated in peso or any major currency that are issued or guaranteed by Foreign Sovereign Government, Supranational Corporations, or Private Corporation that at the time of acquisition by the GSIS carry a long term credit rating equivalent to at least “A+” from Standard & Poor’s (S&P) or Fitch Ratings or “A1” from the Moody’s Investors Service (Moody’s). At any one time, GSIS may invest a maximum of 25 per cent of the total investible funds in high-credit quality debt instruments provided no more than P5 billion or its foreign currency equivalent may be invested in any single issuer/borrower name or guarantee.

GSIS may invest in debt and hybrid instruments denominated in peso or any major currency and issued or guaranteed by the private corporations, foreign sovereign governments, provided that:

- If issued or guaranteed by a non-Philippine entity, the instrument at the time of acquisition by the GSIS must carry a minimum long term credit rating equivalent to “Baa3” from Moody’s Investors Service or “BBB-“ from Standards & Poor’s or Fitch Ratings. At any one time, GSIS may invest a maximum of 15 per cent of the total investible funds in high-credit quality debt instruments provided no more than P2 billion or its foreign currency equivalent may be invested in any single issuer/borrower name or guarantee.

- If issued or guaranteed by Philippine entity, the debt instrument or the issuer credit rating must carry a minimum credit rating equivalent to “PRS 1” for short term and “PRS Aaa” for long term from Philratings (or equivalent); or the issuer has outstanding debt that is *pari passu* with the debt instrument and that has a minimum credit rating equivalent to “PRS Aaa” for long term from Philratings but issuer is rated by Standard & Poor’s, Fitch Ratings and Moody’s Investors Service, the minimum issuer credit rating shall be equivalent to “Ba2” from the Moody’s Investors or “BB” from the Standard & Poor’s or Fitch Ratings. At any one time, GSIS may invest a maximum of 10 per cent of the total investible funds in high-credit quality debt instruments provided no more than P2 billion or its foreign currency equivalent may be invested in any single issuer/borrower name or guarantee.

In 2013, the GSIS made additional investments amounting to P9.198 billion to various private counterparties.

2010 and 2011 bond swap transactions

On December 1, 2010, the ROP invited all holders/owners of Peso-denominated ROP bonds to exchange their eligible "old" bonds for target "new" bonds (the "exchange"), to tender eligible bonds for cash (the "cash tender"), and to subscribe to 25-year benchmark bonds. The purpose of the invitation is to create a larger issue of bonds, referred to as the Benchmark Bonds.

The Securities and Exchange Commission (SEC) granted exemption from the "tainting" provision of PAS 39, Financial Instruments: Recognition and Measurement, the exchange of Eligible Government Bonds for Benchmark Bonds categorized under the Held-to-Maturity (HTM) category. The Bangko Sentral ng Pilipinas (BSP) also provided the same exemption for prudential reporting to participants.

Bond swap transaction on peso denominated ROP bonds in 2010

On December 10, 2010, the GSIS submitted its Bond Exchange and Cash Tender Offer to achieve the following objectives:

- To support the monetary policies of the Philippine Government;
- To extend the duration of the Fund's assets to match its future obligations; and
- To sustain financial viability of the Fund to ensure its prolonged actuarial life.

Eligible bonds for cash tender

On December 16, 2010, the GSIS tendered a total of P10.267 billion worth of Eligible Bonds for cash, which resulted in a net gain of P260.727 million recognized in CY 2010. The bonds exchanged were not exempted from the tainting rule. However, maturities were close to the exchange date, hence, they were eligible for exchange as provided in PAS 39.

Eligible bonds for exchange tender

On December 16, 2010, the GSIS also exchanged its Eligible Bonds in the amount of P45.386 billion for 25-Year Benchmark Bonds, which resulted in a net unrealized gain of P9.370 billion.

In compliance, however, with the conditions set forth in the December 1, 2010 ROP Invitation for Exemption from "Tainting" Provision, the GSIS retained the HTM category for the Benchmark Bonds and any unrealized gains or losses obtained from the exchange shall be amortized over the term of the Benchmark Bonds. This will result to an annual gain of P375 million up to the year 2035.

Had the GSIS accounted for the transaction under PFRS, the unamortized balance of the deferred gain from the exchange of P9.370 billion would have been credited to the CY 2010 net income and the entire HTM investment portfolio with an amortized cost of P172.331 billion would have been reclassified to AFS investments and carried at fair value of P185.006 billion as at December 31, 2010.

Bond swap transaction on peso denominated ROP bonds in 2011

In July 2011, the GSIS participated in the continuing Domestic Debt Consolidation Program of the ROP and exchanged Eligible Bonds for 20-year Benchmark Bonds offered by the government.

The GSIS exchanged its Eligible Bonds amounting to P43.415 billion for Bonds classified as HTM and P6.858 billion for Bonds classified as AFS for 20-year Benchmark Bonds, which resulted in a net unrealized gain of P3.727 billion for HTM and P392 million for AFS.

In compliance with the conditions set forth in the December 1, 2010 ROP Invitation for Exemption from "Tainting" Provision, the GSIS retained the HTM category for the Benchmark Bonds and the unrealized gain from the exchange was amortized over the life of the Benchmark Bonds, which will result in an annual gain of P206 million.

Bond swap transaction on USD denominated ROP bonds in 2011

In October 2011, the GSIS exchanged its USD denominated ROP Bonds in the amount of P1.579 billion for Benchmark Bonds that will mature in 2025, 2030, 2032 and 2034. The exchange resulted in a net unrealized gain of USD6.098 million or equivalent to P264.066 million.

The unrealized gain was likewise amortized over the life of the Benchmark Bonds, which will result in an annual gain of USD315,449 or equivalent to P12.958 million.

Had the GSIS accounted for the 2011 peso and USD denominated bond swap transactions under PFRS, the unamortized balance of the deferred gain from the exchange amounting to P3.994 billion would have been credited to the CY 2011 net income and the entire HTM investment portfolio with an amortized cost of P172.964 billion would have been reclassified to AFS investments and carried at fair value of P208.426 billion as at December 31, 2011.

Had the HTM investment portfolio with amortized cost of P154.083 billion as at December 31, 2013 been reclassified to AFS investments as a result of the tainting provision, these would be carried at fair value of P204.326 billion. This amount does not include P12.185 billion matured bonds.

<u>Derivative contracts</u>

A derivative contract is a financial contract, the value of which is derived from the value of underlying assets, indices, interest rates, currency exchange rates or other market-based factors. Derivatives are transacted through regulated exchanges or negotiated in over-the-counter markets.

Notional amounts of derivative contracts represent the contractual amounts to which a rate or price is applied for computing the cash flows to be exchanged. The notional amounts are used to determine the gains/losses and fair value of the contracts. They are not recorded as assets or liabilities on the Balance Sheet. Notional amounts do not necessarily represent the amount of potential market risk or credit risk arising from a derivative contract.

Derivative contracts are carried in the statement of financial position at fair value. Any gains or losses arising from changes in the fair values of derivatives are recognized in profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The GSIS uses derivatives to generate value-added investment returns and to limit or adjust market, credit, interest rate, currency and other financial exposures without directly purchasing or selling the underlying instrument.

The GSIS may transact in fixed income derivatives, such as interest rate swaps, long dated FX forwards, or interest rate cross currency swaps and options on bonds as a way to modify the interest rate risk in its existing fund portfolio. It may also transact in fixed income derivatives relating to existing underlying asset exposures on a particular interest rate curve in any of the major currencies.

Also, it may deal in FX forwards, cross currency swaps and options, for the purpose of enhancing returns or for hedging unwanted foreign currency risk.

Effective June 1, 2010, the GSIS has been counterparty to derivative contracts, such as foreign exchange and interest rate contracts.

As of 2013, the GSIS uses the following types of derivative instruments:

1. Foreign exchange contracts

Foreign exchange forwards are customized over-the-counter contracts negotiated between counterparties to either purchase or sell a specified amount of foreign currencies at a predetermined price and date in the future. These contracts result in a fixed future foreign exchange rate for a period of time.

2. Interest rate contracts

Interest rate swaps are over-the-counter contracts where counterparties exchange cash flows based on different interest rates applied to a notional amount in a single currency. A typical interest rate swap requires one counterparty to pay a fixed market interest rate in exchange for a variable market interest rate on a specified notional amount and there is no exchange of a notional amount. Cross-currency interest rate swaps involve the exchange of both interest and notional amounts in two different currencies.

Derivative related risk

The following are the primary risks associated with derivatives:

1. Market risk

Derivatives generate positive or negative value, as the value of underlying assets, indices, interest rates, currency exchange rates or other market-based factors change such that the previously contracted terms of the derivative transactions have become more or less favorable than what can be negotiated under current market conditions for contracts with the same terms and remaining period to expiry. The potential for derivatives to increase or decrease in value as a result of the foregoing factors is generally referred to as market risk.

2. Credit risk

Credit risk is the risk of a financial loss that occurs as a result of the failure of counterparty to meet its obligation to the GSIS. The maximum exposure to credit risk is represented by the positive fair value of the derivative instrument and is normally a small fraction of the contract's notional amount. Negotiated over-the-counter derivatives generally present greater credit exposure than exchange-traded contracts. Credit risk on exchange-traded contracts is limited because these transactions are executed on regulated exchanges, each of which is associated with a well-capitalized clearing house that assumes the obligation of the writer of a contract and guarantees their performance.

The GSIS limits credit risk on the over-the-counter contracts through a variety of means, including dealing only with authorized counterparties that meet the minimum credit rating and limiting the maximum exposures to any individual counterparty.

The fair value of derivative contracts held is as follows:

As at December 31, 2013			
Derivative Contracts	**Positive Fair Value**	**Negative Fair Value**	**Net Fair Value**
Foreign exchange contracts			
Non deliverable forwards (NDF)	**-**	**(90,003,237)**	**(90,003,237)**
Deliverable forwards (DF)	**-**	**(58,913,683)**	**(58,913,683)**
Total foreign exchange contracts	**-**	**(148,916,920)**	**(148,916,920)**
Interest rate contracts			
Cross currency swaps interest rates swaps (NDF)	**-**	**(562,700,555)**	**(562,700,555)**
Cross currency swaps interest rate swaps (DF)	**-**	**(550,130,393)**	**(550,130,393)**
Total interest rate contracts	**-**	**(1,112,830,948)**	**(1,112,830,948)**
	-	**(1,261,747,868)**	**(1,261,747,868)**

As at December 31, 2012			
Derivative Contracts	Positive Fair Value	Negative Fair Value	Net Fair Value
Foreign exchange contracts			
Non deliverable forwards (NDF)	-	(24,815,360)	(24,815,360)
Deliverable forwards (DF)	-	(3,639,197)	(3,639,197)
Total foreign exchange contracts	-	(28,454,557)	(28,454,557)
Interest rate contracts			
Cross currency swaps interest rates swaps (NDF)	3,135,371,910	-	3,135,371,910
Cross currency swaps interest rate swaps (DF)	247,345,666	-	247,345,666
Total interest rate contracts	3,382,717,576	-	3,382,717,576
	3,382,717,576	(28,454,557)	3,354,263,019

The net decrease in the investment in derivatives is due to decrease in the valuation of the combined portfolio of forwards and cross currency swaps, settlement of derivative contracts in 2013, and the change in foreign exchange rate from USD1.00 to P41.078 in December 2012 to USD1.00 to P44.395 in December 2013.

As at December 31, 2013, the outstanding notional amount in millions of GSIS currency forwards and swaps increased by P4 billion due to actual conversion of USD to peso and an increase in the combined portfolio of forwards and cross currency swaps. The terms to maturity of the notional amounts for derivative contracts as at December 31, 2013, are as follows:

	2013			
Derivative contracts	**Within 1 Year**	**1 to 5 Years**	**6 to 10 Years**	**Total**
Foreign exchange contracts				
Non deliverable forwards (NDF)		**1,070**		**1,070**
Deliverable forwards (DF)		**633**		**633**
Total foreign exchange contracts	**-**	**1,703**	**-**	**1,703**
Interest rate contracts				
Cross currency swaps interest rate swaps (NDF)	**11,489**	**27,823**		**39,312**
Cross currency swaps interest rate swaps (DF)		**8,575**	**2,461**	**11,036**
Total interest rate contracts	**11,489**	**36,398**	**2,461**	**50,348**
	11,489	**38,101**	**2,461**	**52,051**

	2012			
Derivative contracts	Within 1 Year	1 to 5 Years	6 to 10 Years	Total
Foreign exchange contracts				
Non deliverable forwards (NDF)	650			650
Deliverable forwards (DF)	517	633		1,150
Total foreign exchange contracts	1,167	633	-	1,800
Interest rate contracts				
Cross currency swaps interest rate swaps (NDF)	12,099	29,607		41,706
Cross currency swaps interest rate swaps (DF)	3,899	635	-	4,534
Total interest rate contracts	15,998	30,242	-	46,240
	17,165	30,875	-	48,040

Externally managed funds – Domestic

The fund consists of the following:

Fund Manager	**Asset Under Management**				
	Initial Investment	**Additional / Withdrawal**	**Total**	**Unrealized Gain/(Loss)**	**Net Asset Value (12/31/2013)**
MBTC	2,000,000,000	1,250,000,000	3,250,000,000	2,497,068,653	5,747,068,653
PAMI	4,147,433,390	750,000,000	4,897,433,390	833,921,936	5,731,355,326
BDO	2,000,000,000	98,085,095	2,098,085,095	1,002,601,853	3,100,686,948
ATR	1,500,000,000	1,000,000,000	2,500,000,000	413,919,155	2,913,919,155
BPI	1,500,000,000	500,000,000	2,000,000,000	20,474,644	2,020,474,644
MAC	17,034,324	1,421,858,071	1,438,892,395	-	1,438,892,395
	11,164,467,714	**5,019,943,166**	**16,184,410,880**	**4,767,986,241**	**20,952,397,121**

Metropolitan Bank and Trust Company (MBTC) and Banco De Oro (BDO) Funds

In 2007, the GSIS entered into an Investment Management Agreement (IMA) with MBTC and BDO with an initial investment of P2 billion each. For MBTC, the additional fund transfers of P750 million in 2012 and P500 million in 2013 were approved. While for BDO, the withdrawal of P500 million in 2013 was approved. The net asset value of the funds managed by MBTC and BDO as at December 31, 2013 amounted to P5.747 billion and P3.101 billion, with an investment growth of P2.497 billion or 77 per cent and P1.003 billion or 48 per cent, respectively.

Philam Assets Management, Inc. (PAMI)

The GSIS entered into an IMA with PAMI in 2011. The initial funds transferred to PAMI amounted to P4.147 billion. An additional P750 million fund was transferred to PAMI in 2012. As at December 31, 2013 the net asset value of the fund is P5.731 billion, an investment growth of P834 million or 17 per cent.

Bank of the Philippine Islands (BPI) and Maybank ATR KimEng Funds

The GSIS hired additional local fund managers in 2012. In 2012 a total of P4 billion were transferred to BPI and Maybank ATR KimEng (P2 billion each). In 2013, additional P500 million fund was transferred to ATR KimEng. From inception date to December 31, 2013, the funds managed by BPI and Maybank ATR KimEng posted an investment growth of P20 million or one per cent and P414 million or 17 per cent, respectively.

Macquarie Infrastructure Management (Asia) Pty Limited - (PINAI Fund)

In November 2010, P50 billion was approved as funding commitment of the GSIS to the Philippine Infrastructure Development Fund (PIDF). The objectives of the project are: (1) to accelerate the infrastructure development in the Philippines, (2) to promote public-private partnerships in financing the infrastructure projects in the country, and (3) to provide alternative fund sources to the partners of these infrastructure projects.

In November 2011, USD300 million or its peso equivalent was initially appropriated from the fund committed for the PIDF, for the purpose of investing the fund through cooperative arrangements with multilateral organizations. The said initial appropriation was increased to USD450 million or its peso equivalent in April 2012.

The GSIS has released to the winning bidder, Macquarie Infrastructure Management (Asia) Pty Limited, a total amount of P1.439 billion intended for the Philippine Investment Alliance for Infrastructure (PINAI) fund as at December 31, 2013. This investment is expected to generate returns which are higher than that of the Philippine government securities and at the same time matches the duration of the fund.

8. OTHER RECEIVABLES

The other receivables account consists of the following:

	2013	2012 Restated
Interest receivable on loans	**14,103,640,166**	12,082,742,245
Due from reinsurers	**9,023,160,162**	2,272,390,076
Interest receivable on investments	**4,858,367,507**	4,812,038,221
Sundry accounts receivable	**1,585,533,399**	619,782,771
Other receivable - Agencies with MOA	**1,221,322,107**	993,118,531
Interest receivable on other receivables	**488,728,168**	315,778,929
Dividend receivable – Investments	**70,538,571**	53,866,891
Accounts receivable for deficit cases	**37,899,711**	42,731,881
Other receivable - PPD osteoarthritis	**23,985,897**	15,261,117
Accrued rental	**14,303,160**	6,027,586
Other receivable – Agency	**8,484,192**	2,781,853
Deficiency claims receivable	**126,650**	89,789
	31,436,089,690	21,216,609,890
Less: Allowance for impairment loss	**5,126,374,606**	4,687,646,252
	26,309,715,084	16,528,963,638

The net increase of P2.021 billion interest receivable on loans was brought about by the increase in total gross loan availed by members in 2013, the increase in loanable amount for emergency loans for members affected by the Zamboanga siege, the Bohol and Cebu earthquake and the Super Typhoon Yolanda and the change in policy on the condonation/termination process of stock purchase loans.

Agency receivable represents receivables from various agencies with Memorandum of Agreement (MOA) with the GSIS. In its continuous effort to improve its financial viability, the GSIS carried out measures to collect past due premium contributions and loan repayments from delinquent agencies. In 2006, GSIS implemented a program whereby delinquent agencies were given the option to enter into MOAs with the GSIS to settle their unpaid obligations. Guidelines and procedures to operationalize this program were provided under PPG 191-06. Fifty eight (58) additional agencies entered into MOAs with the GSIS in 2013 contributing to a total of 185 agencies with MOA as of the end of the year. Eighty out of the 185 agencies have fully paid their obligation at the end of 2013.

Sundry accounts receivable represent administrative and other operating transactions of the GSIS, such as employee car loans, COA disallowances, pension and dividend overpayments, dishonored checks, notarial fees, investment maturities, operating lease sale of investment property, and amounts advanced to reinsurer representing 50 per cent salvor's fee in favor of NPC.

Due from Reinsurers account represents the share of reinsurers on the General Insurance claims and losses. It increased significantly due to the claims and losses brought about by the catastrophic event in the Visayas Region such as the earthquake in Bohol and super typhoon Yolanda in Tacloban. As of year-end, reinsurer's share on losses is broken down as follows:

	2013	2012
Beginning balance	**2,272,390,076**	2,365,630,237
RI share on facultative	**5,014,511,855**	(75,090,497)
RI share on treaty	**3,314,872**	(15,824,787)
RI share on excess of loss	**1,732,943,359**	(2,324,877)
	9,023,160,162	2,272,390,076

This account includes receivables amounting to P1.365 billion which were previously classified as non-admitted assets. This consists of the share of 179 reinsurers, 58 of which are no longer operational. Considering that the amount has been outstanding for more than seven years, 100 per cent allowance for impairment loss was provided.

9. INVESTMENT PROPERTY

As at December 31, 2013, investment property consists of the following:

	Big /medium ticket accounts	**Cancelled DCS**	**GSIS owned/ unawarded lots**	**Foreclosed REL/ REL redeemable**	**Totals**
Beginning balance – January 1, 2013	**18,856,856,546**	**10,102,818,945**	**578,490,744**	**1,487,911,465**	**31,026,077,700**
Additions:					
Cancellation of deed of conditional sale		1,686,780			1,686,780
Booking of unawarded lots			83,913,650		83,913,650
Foreclosure of real estate loan				28,926,917	28,926,917
Reclassification from PPE			3,648,000		3,648,000
Gain on valuation	1,423,563,200	796,841,220	128,839,890	120,596	2,349,364,906
Various adjustments				4,187,152	4,187,152
	1,423,563,200	**798,528,000**	**216,401,540**	**33,234,665**	**2,471,727,405**
Deductions:					
Sale of various property	283,691,000	24,643,267	13,048,300		321,382,567
Restructuring / reclassification to loan accounts		59,913,625		831,100	60,744,725
Loss on valuation	4,773,250	227,493,963		64,457,289	296,724,502
Various adjustments		361,705,660		25,387,400	387,093,060
	288,464,250	**673,756,515**	**13,048,300**	**90,675,789**	**1,065,944,854**
Ending balance- December 31, 2013	**19,991,955,496**	**10,227,590,430**	**781,843,984**	**1,430,470,341**	**32,431,860,251**

Big and medium ticket accounts are real property that were previously the subject of mortgage loan, commercial-industrial loan, or lease purchase agreement to corporations which were foreclosed or acquired through dacion-en-pago in favor of the GSIS due to non-payment.

Cancelled deeds of conditional sale (DCS) pertain to real property or accounts which were titled in the name of GSIS and subsequently awarded to individual, but were later on cancelled due to non-payment.

GSIS-owned/unawarded lots are real property which were the subject of DCS accounts but were not awarded to individuals.

Foreclosed property are real property that were previously subjects of individual real estate loan (RELs) which were foreclosed in favor of GSIS due to non-payment.

The net increase in investment property is mainly due to the year-end valuation of the big and medium ticket accounts conducted by an independent appraiser which resulted to an increase amounting to P1.419 billion.

10. PROPERTY AND EQUIPMENT - NET

The property and equipment account consists of the following:

Particulars	Land	Land improve-ments	Building and building improvements	Information technology resources	Construction in progress	Furniture, fixtures and equipment	Total
Cost:							
January 1, 2013	**6,450,132,925**	**190,131,472**	**5,241,495,047**	**2,203,513,640**	**102,294,847**	**940,411,041**	**15,127,978,972**
Additions			**76,818**		**614,882,506**	**1,329,979**	**616,289,303**
Adjustments			**(56,191)**	**(105,500)**		**(47,666)**	**(209,357)**
Reclassifications	**(3,648,000)**		**38,606,648**	**363,414,579**	**(430,372,721)**	**16,587,606**	**(15,411,888)**
Valuation	**27,613,300**						**27,613,300**
Disposals			**(11,721,487)**	**(63,606,522)**		**(16,710,671)**	**(92,038,680)**
Impairment			**(6,482,535)**	**-**		**-**	**(6,482,535)**
December 31, 2013	**6,474,098,225**	**190,131,472**	**5,261,918,300**	**2,503,216,197**	**286,804,632**	**941,570,289**	**15,657,739,115**
Accumulated depreciation:							
January 1, 2013		**170,438,297**	**2,305,840,164**	**1,459,623,654**		**520,086,520**	**4,455,988,635**
Depreciation		**283,160**	**198,515,318**	**232,614,272**		**75,276,775**	**506,689,525**
Disposals			**(6,696,454)**	**(56,210,943)**		**(14,010,358)**	**(76,917,755)**
Adjustments			**76,818**	**(94,815)**		**(39,617)**	**(57,614)**
December 31, 2013		**170,721,457**	**2,497,735,846**	**1,635,932,168**	**-**	**581,313,320**	**4,885,702,791**
Net book value - December 31, 2013	**6,474,098,225**	**19,410,015**	**2,764,182,454**	**867,284,029**	**286,804,632**	**360,256,969**	**10,772,036,324**
Net book value - December 31, 2012	6,450,132,925	19,693,175	2,935,654,883	743,889,986	102,294,847	420,324,519	10,671,990,335

The increase in revaluation surplus of P27.613 million on June 2013 was due to the valuation of the remaining property not included in the 2012 valuation conducted by an independent appraiser.

GSIS property located at Rizal Avenue, Poblacion, Puerto Princesa City with a fair market value of P3.648 million is not used in operations, hence it has been reclassified from Property and Equipment – Land to Investment Property.

Impairment loss on Building and Building Improvements amounting to P6.482 million was provided due to the physical damage sustained by the GSIS Tacloban Building brought about by typhoon Yolanda in November 2013.

Property and equipment with a cost of P1.606 billion and P1.515 billion as at December 31, 2013 and 2012, respectively, are fully depreciated but are still being used by the System.

11. OTHER ASSETS

The other assets account consists of the following:

	2013	2012 Restated
Paintings and tapestries	**414,418,054**	411,918,054
Property under litigation	**131,311,884**	131,311,884
Supplies and materials in stock	**15,271,766**	25,948,408
Prepaid expenses	**9,867,001**	40,443,056
Deposit and indent orders	**8,251,207**	7,813,707
Advances to vendors/contractors	**5,000,000**	21,623,327
Cash advances	**66,062**	93,904
Others	**152,800,790**	190,086,812
	736,986,764	829,239,152

Property under litigation

The property below were previously recorded under Investment Property account but were reclassified to Other Assets – Property under Litigation in view of the pending claim of ownership by other government agencies/units over the property.

<u>Manila International Port Terminal Inc. (MIPTI) Property</u>

The MIPTI property located at the North Harbor, Manila Bay, was valued at P110 million when it was acquired by the GSIS in 1976.

The GSIS acquired the property pursuant to PD No. 802 issued on September 18, 1975. Under PD No. 802, areas of land reclaimed by MIPTI, whether singly or jointly with other entities, and irrespective of the sources of funding, were to be registered in the name of the GSIS as additional contribution of the national government to augment the actuarial solvency of the retirement insurance fund. The PD further provides that the reclaimed areas shall be leased by the GSIS to MIPTI at rentals to be determined on the total investments and commitments to be recovered by GSIS. Accordingly, on May 14, 1976, the Original Certificate of Title (OCT) No. 10772 of this property was issued in the name of GSIS.

MIPTI held the franchise to construct, operate and maintain floating bonded warehouse and cold storage facilities in Manila Bay under PD No. 634 issued on January 7, 1975.

On July 16, 1978, however, the authority, power and responsibility to plan, design, construct and develop the International Port Complex at North Harbor, including the surrounding areas necessary for modern post operations as well as the supervision of its operations and the maintenance of structures, buildings and fixed cargo handling facilities therein was transferred from MIPTI to the Philippine Ports Authority (PPA) under PD No. 1284. PD 1284 further provides that the PPA shall either:

(a) reimburse MIPTI or the GSIS actual and reasonable expenses incurred in the pre-development undertaking of the project; or

(b) assume such obligations contracted by MIPTI from GSIS, which shall, either case, be only in such amounts as shall have been actually spent by MIPTI in the pre-development undertaking of the project.

PPA paid GSIS the amount of P1 million, which was determined by a committee composed of MIPTI, PPA and the Commission on Audit (COA) as the actual and reasonable expenses incurred in the pre-development undertaking of the project and has reflected the property in their books.

PPA believes that PD No. 1284 totally repealed PD No. 802 and that GSIS lost all the rights to the property. Thus, PPA claims ownership of the property. However, GSIS believes that PD No. 1284 did not provide for the transfer of ownership over the property, which remains vested in GSIS. Due to the conflict between the PPA and the GSIS, the Office of the Executive Secretary has directed both parties to submit for arbitration with the Office of the Government Corporate Counsel (OGCC) last May 3, 2012. The arbitration proceedings are still pending before the OGCC as of date.

GSIS management and its legal counsels believe that the arbitration will be settled in its favor and will not result to the impairment of its investment property. The title to the property was vested in GSIS as additional contribution of the National Government for the benefit of its members. The payment to GSIS of P1 million under PD No. 1284 was not for the purpose of paying for the value of the property but for the refund of the reasonable expenses incurred in the predevelopment undertaking of the project. When PD 802 was repealed, MIPTI was a mere lessee of the property. The authority, power and responsibility to plan, design, construct and develop the International Port Complex at North Harbor, which was transferred from MIPTI to PPA, did not require the ownership of the land on which the developments are located, but rather mere access to it. Moreover, On June 4, 2002, the President of the Philippines recognized GSIS' ownership over the MIPTI property when Executive Order (EO) No. 108 was issued declaring a portion of the property as a social housing site. To carry out the mandate in EO No. 108, OCT No. 10722 was subdivided into two Transfer Certificates of Title (TCT) – TCT No. 272971 and TCT No. 272972, which are both still in the name of GSIS.

Bataan Shipyard and Engineering Company Inc. (BASECO) Property

The BASECO property located in Mariveles, Bataan was valued at P21.311 million when it was acquired by the GSIS in a foreclosure sale in 1986.

The BASECO property was mortgaged to GSIS as collateral to a loan granted to BASECO in 1975. For failure of BASECO to pay its loans, the mortgaged property was foreclosed and sold in a public auction with GSIS as the highest bidder in 1986. On the same year, the Certificate of Sale was issued to GSIS and was annotated on the titles of the property (TCT Nos. 59628 and 59629).

In 1987, the property were sold to the Province of Bataan in a tax sale due to BASECO's failure to pay the real estate taxes in prior years, despite the previous sale to GSIS.

The System is currently studying the possible remedies to pursue its claim over the BASECO property.

12. INSURANCE LIABILITIES

This account consists of the following:

	2013	2012 Restated
Claims payable		
Social Insurance		
Retirement	**5,545,260,155**	4,976,802,403
Life insurance	**1,617,271,702**	1,054,689,257
Survivorship	**170,863,622**	186,184,599
Pension	**95,817,982**	97,674,857
Funeral	**38,958,076**	35,200,018
Others	**7,104,846**	3,480,513
	7,475,276,383	6,354,031,647
General Insurance	**562,987,711**	793,684,135
Optional Life Insurance	**69,937,185**	96,853,807
Employees' Compensation Insurance	**26,908,026**	11,119,173
Pre-need Insurance	**22,415,004**	24,174,583
	682,247,926	925,831,698
Provision for unadjusted claims	**10,110,235,299**	1,909,327,918
Due to reinsurers	**2,726,004,784**	2,988,171,808
Dividends payable	**42,153,663**	50,937,711
	21,035,918,055	12,228,300,782

Claims and benefits payable pertain to various claims due to members/policyholders as at December 31, 2013 but remain unpaid as of year-end. The liabilities for filed claims but unpaid as at December 31, 2013 are based on estimated amount per type of claim. The difference between estimates and final amount of claims are recognized as addition or deduction to claim expense account in the period in which the claim was processed/paid.

Board Resolution No. 132 dated November 28, 2013 approved and confirmed the grant and distribution of the 2013 annual cash dividends of P40 million to GSIS

Optional Life Insurance policy holders whose life insurance coverage have been in force for at least one year as at December 31, 2012.

Provision for unadjusted claims is initially accrued when the insured events occur. The liabilities for unadjusted claims are based on estimated cost of settling the claims. Changes in estimates of claim costs and the difference between estimates and final adjusted amount of claims are recognized as addition or deduction to this liability account in the period in which the estimates are changed or final adjustments are made. This account increased significantly due to the estimated claims and losses brought about by the catastrophic event in the Visayas Region such as the earthquake in Bohol and super typhoon Yolanda in Tacloban.

13. OTHER LIABILITIES

This account consists of the following:

	2013	2012 Restated
Sundry accounts payable	**3,824,133,871**	3,015,594,420
Derivatives - Deliverable and non-deliverable	**1,261,747,868**	-
Funds held in trust	**433,510,195**	491,672,888
Provisions for pending litigation	**159,000,000**	185,356,381
Others	**933,183,028**	1,043,649,604
	6,611,574,962	4,736,273,293

Sundry accounts payable

This account consists of the following:

	2013	2012 Restated
Various accruals	**1,135,063,257**	816,636,354
Accrued employee benefits and expenses	**918,158,327**	654,808,523
Investment placements unpaid	**718,469,605**	65,638,660
Refund of member loans	**652,876,730**	880,714,878
Unreleased checks	**258,914,161**	456,390,364
Extra remuneration payable	**40,434,006**	68,299,770
Bank service fee on e-crediting transactions	**25,030,607**	25,893,006
Other payables	**75,187,178**	47,212,865
	3,824,133,871	3,015,594,420

Provision for pending litigation

At present, there are lawsuits and claims that are either awaiting decisions by the courts or are subject to settlement agreements. This account pertains to cases with final judgment wherein a liability has already been determined to be incurred.

The roll forward analysis of provision for pending litigation is as follows:

Beginning balance, January 1, 2013	185,356,381
Additional provisions during the year	41,061,459
Reversal of prior year provisions	(50,990,745)
Payments made during the year	(16,427,095)
	159,000,000

Funds held in trust

This account consists of the following:

	2013	2012 Restated
Bid security deposits, performance bond and other funds held in trust from various suppliers, taxes withheld, and amounts collected from employees for remittance to various government agencies	**158,967,126**	295,589,403
Down payments, payments and bidder's deposits on sale of investment property	**157,108,050**	95,775,654
Cash collateral for performance bonds, surety bonds, judicial bonds	**46,366,583**	41,625,745
GSIS Self-Administered Hospitalization Program	**42,150,069**	41,340,981
Ten per cent retention fee of contractors	**28,918,367**	17,341,105
	433,510,195	491,672,888

14. DEFERRED CREDITS

This account consists of the following:

	2013	2012 Restated
Deferred premium collection	**2,383,207,453**	2,773,900,919
Unrealized income	**1,035,281,787**	1,323,558,950
Unearned premiums	**595,227,061**	813,135,726
Unrecognized bank collection	**236,399,287**	-
	4,250,115,588	4,910,595,595

Deferred premium collection

Deferred premium collections are remittances that are still lodged to the remitting agencies accounts. These are collections on members' premium or loan accounts with data on the agency's remittance list which do not match or are not created in the GSIS database. These accounts are being reconciled with the agencies on a regular basis.

This account also includes the aggregate amount of undistributed collection on government share when GSIS and DepEd embarked on a joint project to cleanse and reconcile the DepEd premium deficiencies. On October 4, 2010, the GSIS and

DepEd executed a Memorandum of Understanding that led to the determination of premium deficiencies on government share amounting to P6.9 billion.

Unrealized income

Unrealized income refers to deposit or income collected in advance but is not yet earned as of the end of the reporting period.

Unrealized income also includes the grant from the National Government received in 2012 in the amount of P1.5 billion as counterpart funding for the new loan product known as “Educational Assistance Fund Program Loan” which was launched pursuant to President Aquino’s declaration on May 1, 2012. The amount received, is being amortized over the five-year term of the loan (P25 million per month).

Unearned premiums

Pursuant to Section 219 of Republic Act No. 10607, also known as The Insurance Code which was approved on August 15, 2013, every insurance company, other than life, shall maintain a reserve for unearned premium income on its policies in force, which shall be charged as a liability in any determination of its financial condition.

The unearned premium income shall be calculated based on the twenty–fourth (24th) method which assumes that the average date of issue of all policies written during any one month is the middle of the month. This computation is used for all policies in force except for marine cargo risks where 100 per cent of the premiums written during the last two months of the calendar year net of premiums ceded is set up as unearned premium income.

GSIS computed its reserve for unearned premiums for CY 2013 based on the 24th method. Prior to the approval of RA 10607, such reserve was equal to 40 per cent of the gross premiums, less premiums ceded, returns and cancellations of all policies or risks in force. For marine cargo risks, reserve was equal to 100 per cent of the premiums written during the last two months of the calendar year net of premiums ceded.

Unrecognized bank collection

Unrecognized bank collection refers to various collections (premium and loan payments) credited in the bank but not yet identified, classified and distributed. It includes premium and loan collections amounting to P164.7 million for SIF and P71.6 million for GIF, and other payments credited in the bank but not yet recorded in their respective accounts.

15. APPROPRIATED SURPLUS

15.1. Actuarial estimates and valuation

Pursuant to Section 38 of RA 8291, the GSIS makes periodic actuarial examination and valuation of its funds in accordance with accepted actuarial principles.

The amounts for appropriation from the surplus of the SIF, OLIF, Pre-need Fund and ECIF are estimated by the GSIS Actuarial and Risk Management Group (ARMG) based on certain assumptions which are in accordance with generally accepted principles of actuarial valuation.

Social Insurance Fund

The amounts for appropriation for the SIF is equivalent to the excess of the present value of future benefits (PVFB) over the present value of future contributions/net premiums (PVFC), given the applicable valuation interest rate based on historical data, and taking into consideration the following:

- Benefit claims are projected based on industry-standard mortality tables (Commissioners Standard Ordinary Mortality Table and Group Annuity Mortality Table), as well as the GSIS Service Table. In addition, demographic factors such as mortality, morbidity and withdrawal (retirement and separation) are also considered;
- Contributions are projected based primarily on salary increase assumptions.

The benefits considered in estimating the amounts for appropriation from the surplus of the SIF are based on the provisions of RA 8291. The benefits are as follows:

Social security
- Old-age/retirement, including separation
- Disability
- Survivorship
- Funeral

Compulsory life
- Life Endowment Policy (LEP)
- Enhanced Life Policy (ELP)

The following are the assumptions used in estimating the amounts for appropriation:

1. Valuation interest rate = 9.15 per cent
2. Annual salary increase = 5 per cent and considered the 10.11 per cent increase from Salary Standardization Law IV
3. Interest rate LEP = 4 per cent
4. GSIS service table
5. Group annuity mortality (GAM) table
6. Commissioners standard ordinary (CSO) table

The estimated amounts for appropriation from the surplus of the SIF as at December 31, 2013 are as follows:

Old age benefits	519,946,689,718
Survivorship benefits	93,283,241,297
Policies in force	66,144,247,812
Disability benefits	17,032,263,575
Burial benefits	3,512,075,465
Contingencies*	1,322,884,956
	701,241,402,823

**2% of the estimated amount that was set aside for policies in force to cushion for abnormally high claims.*

Optional Life Insurance Fund

The OLIF consists of products offered by the GSIS to provide additional coverage to its members and their dependents.

The amounts for appropriation from the surplus of the OLIF are estimated on a per policy basis, using the following assumptions:

For the Unlimited Optional Life Insurance (UOLI):

1. Valuation interest rate = 3.5 per cent for life insurance
2. CSO table

For the rest of the products, the valuation interest rate used is 6 per cent.

The estimated amounts for appropriation from the surplus of the OLIF as at December 31, 2013 are as follows:

Policies in force	
Optional additional and UOLI	2,740,813,963
College education assurance plan	286,745,133
Hospitalization insurance plan	855,425
	3,028,414,521
Redemption insurance	
Consolidated loan redemption insurance	4,521,110,961
Mortgage redemption insurance	303,368,925
Emergency loan redemption insurance	128,479,310
Sales redemption insurance	75,159,944
eCard cash plus advance redemption insurance	5,295,017
	5,033,414,157
Contingencies*	403,091,434
	8,464,920,112

**5% of the estimated amount that needs to be set aside for OLIF, which is set up to cushion for abnormally high claims.*

Pre-need Fund

The Pre-need Fund is composed of the Edu-Child Plans, Memorial Plans and Family Hospitalization Plus Plans (FHPP).

The amounts for appropriation from the surplus of the Pre-need fund for the Educhild and Memorial Plans are estimated by computing the PVFB pertaining to plans tagged as Active, Fully Paid But Not Yet Availing, and Availing (for Educhild). The ARMG uses the following assumptions:

1. Valuation interest rate = 7%
2. Average total school fee per semester and average increase per semester for each school category
3. CSO table
4. Philippine Inter-Company (PIC) withdrawal rates table

For the FHHP, which has already been terminated as of year-end 2012, about 25 per cent of the estimated amount for appropriation as at December 31, 2012 was retained.

The estimated amounts for appropriation from the surplus of the Pre-Need Fund as at December 31, 2013 are as follows:

Edu-Child	3,661,039,526
Memorial	108,206,997
Health	2,134,590
	3,771,381,113

Employees' Compensation Insurance Fund

The benefits considered in estimating the amounts that need to be set aside from the surplus of the ECIF are based on PD 626. The benefits are as follows:

- Disability
- Death
- Medical
- Rehabilitation
- Funeral

The following are the assumptions used in the estimation of the amounts for appropriation:

1. Valuation interest rate = 2.5 per cent
2. GAM table
3. GSIS service table

The estimated amounts for appropriation from the surplus of the ECIF as at December 31, 2013 are as follows:

Future claims	6,010,841,186
Contingencies	50,334,141
Occupational safety fund	35,650,393
ECC operating fund	26,059,200
Claims pending settlement	1,173,451
Rehabilitation services	855,000
	6,124,913,371

General Insurance Fund

The Insurance Group also estimates the amounts to be set aside from the surplus of the GIF to protect against potential future losses.

The amounts to be set aside for the payment of possible future losses are estimated using the following formula:

Amount to be set aside = 5 year average net losses incurred + losses incurred but not reported (IBNR) + 25 per cent margin + claims and losses pending settlement

- The 5-year average of net losses incurred is used to provide a better estimate of possible losses
- IBNR is included in the valuation following the industry practice
- 25 per cent margin is based on the rate of increase in net losses incurred for 2013 vs. 2012

The Insurance Group also considers claims and losses pending settlement.

The estimated amounts for appropriation from the surplus of the GIF as at December 31, 2013 are as follows:

Contingencies	7,988,518,801
Losses	1,255,335,588
	9,243,854,389

**Net losses incurred x 7.5 Safety Factor.*

Legal contingencies

In addition to the foregoing, the GSIS Legal Services also determines the amounts for appropriation from the surplus of the SIF and the GIF for legal contingencies, aside from those possible losses which meet the criteria for provisioning under PAS 37, as follows:

GIF	1,314,000,000
SIF	27,000,000
	1,341,000,000

The appropriations for legal contingencies pertain to cases wherein there are adverse lower court/quasi-judicial court decisions against the System but for which the System has filed an appeal and believes that the outcome will be in its favor.

15.2. Appropriated surplus

In compliance with Section 34 of RA 8291, the GSIS maintains appropriated surplus to ensure the fulfillment of GSIS' future obligations, as estimated through actuarial evaluations.

The System records increase in appropriated surplus to the extent that can be covered by the accumulated earnings of each fund except for the SIF and the PNF. For the SIF, any increase in the estimated amounts for appropriation is appropriated at year-end to the extent of the accumulated earnings net of budgeted administrative and operating expenses for the following year. For the PNF, the GSIS maintains appropriated surplus to the extent of the fund's total surplus.

Social Insurance Fund

The amounts appropriated for the SIF are as follows:

	2013	2012 Restated
Old age benefits	**471,897,000,000**	433,333,473,513
Survivorship benefits	**76,550,000,000**	70,218,016,521
Policies in force	**66,144,000,000**	66,206,077,909
Disability benefits	**15,183,000,000**	13,927,454,066
Burial benefits	**3,512,000,000**	3,242,432,594
Contingencies	**1,350,000,000**	1,260,884,277
	634,636,000,000	588,188,338,880

Optional Life Insurance Fund

The amounts appropriated for the OLIF are as follows:

	2013	2012 Restated
Policies in force		
Optional additional and UOLI	**2,740,800,000**	2,906,951,353
College education assurance plan	**286,700,000**	346,595,805
Hospitalization insurance plan	**900,000**	855,425
	3,028,400,000	3,254,402,583
Redemption insurance		
Consolidated loan redemption insurance	**4,521,100,000**	3,229,742,120
Mortgage redemption insurance	**303,400,000**	271,623,708
Emergency loan redemption insurance	**128,500,000**	27,256,592
Sales redemption insurance	**75,200,000**	53,780,996
eCard plus cash advance redemption insurance	**5,300,000**	99,208,218
	5,033,500,000	3,681,611,634
Contingencies	**403,100,000**	346,800,711
	8,465,000,000	7,282,814,928

Pre-need Fund

The amounts appropriated for the Pre-need Fund are as follows:

	2013	2012 Restated
Edu-Child	**1,996,000,000**	2,291,713,027
Health	**2,000,000**	8,538,361
Memorial	**-**	85,360,425
	1,998,000,000	2,385,611,813

Employees' Compensation Insurance Fund

The amounts appropriated for the ECIF are as follows:

	2013	2012 Restated
Future claims	**6,011,000,000**	983,932,112
Contingencies	**50,000,000**	48,810,622
Occupational safety fund	**36,000,000**	35,650,393
ECC operating fund	**26,000,000**	26,059,200
Claims pending settlement	**1,000,000**	1,152,962
Rehabilitation services	**1,000,000**	342,000
	6,125,000,000	1,095,947,289

General Insurance Fund

The amounts appropriated for the GIF are as follows:

	2013	2012 Restated
Contingencies	**7,989,000,000**	3,119,929,210
Losses	**2,569,000,000**	1,565,014,396
	10,558,000,000	4,684,943,606

The unrealized gains under Note 17, if realized would have been included in the accumulated earnings that can be appropriated.

Section 8 of RA 8291 also provides that the government of the Republic of the Philippines guarantees the fulfillment of the obligations of the GSIS to its members as and when they fall due.

Property Replacement Fund

The PRF's balance of P27,487,087 in 2013 represents the amount appropriated and remitted by the National Government for the restoration of damaged government property.

16. UNAPPROPRIATED SURPLUS

Below is the roll forward analysis of unappropriated surplus:

	2013	2012 Restated
Beginning balance, January 1, 2013	**38,332,416,582**	36,232,198,148
Add (Deduct):		
Net income	**48,361,123,749**	62,619,154,429
Increase in appropriation	**(58,144,343,484)**	(60,487,843,982)
Dividends declared	**(40,000,000)**	(31,092,013)
	28,509,196,847	38,332,416,582

17. OTHER COMPREHENSIVE INCOME

This account consists of the following:

	2013	2012 Restated
Net unrealized gains on investments		
Unrealized gain - AFS - ROP N&B (Peso)	**25,661,353,745**	20,736,995,879
Unrealized gain - AFS – Stocks	**16,932,901,960**	23,056,888,021
Unrealized gain - HTM - ROP N&B (Bond swap)	**11,742,604,663**	12,326,369,723
Unrealized gain - EMF	**4,767,986,241**	5,497,655,803
Unrealized gain - AFS - Corporate bonds/ Global Peso notes	**188,540,295**	1,531,157,571
Unrealized Gain - AFS - ROP N&B (FCD)	**11,085,633**	30,493,659
	59,304,472,537	63,179,560,656
Revaluation surplus	**6,521,272,222**	6,511,276,961
	65,825,744,759	69,690,837,617

Other comprehensive income includes net unrealized gains amounting to P59.304 billion as at December 31, 2013 as a result of mark to market valuation of GSIS AFS investments and the unamortized gain on bond swap transactions entered into by GSIS in 2010 and 2011. Had the GSIS liquidated its investments managed by external fund managers and disposed all of its AFS investments in 2013, the significant portion of its unrealized gain amounting to about P47.625 billion would have been realized as additional income in 2013.

18. REVENUE FROM INSURANCE

This account consists of the following:

	2013	2012 Restated
Contributions and premiums		
Social Insurance contributions	**75,836,900,214**	73,269,536,466
General Insurance premium	**4,113,692,885**	3,921,250,262
Optional Insurance premium	**1,028,091,360**	974,027,274
Employees' Compensation Insurance premium	**2,243,644,081**	1,957,643,881
Commission on reinsurance	**312,904,894**	313,335,357
Interest on premium arrearages	**166,965,477**	12,616,753
Gain(loss) on foreign exchange on insurance	**25,896,320**	(61,239,609)
	83,728,095,231	80,387,170,384

The increase in premium income is mainly due to the substantial amount of accruals for 2013 brought about by the increase in the number of GSIS active members from 1,650,099 in 2012 to 1,738,619 in 2013 (including uniformed personnel), which is an aftermath of the National Government's on-going rationalization program.

19. REVENUE FROM LOANS

This account consists of the following:

	2013	2012 Restated
Interest on conso loan	**14,978,190,892**	13,966,050,901
Interest on policy loans	**1,542,659,653**	1,454,171,521
Interest on emergency/calamity loans	**1,280,630,696**	712,405,307
Interest on salary Loans	**390,857,391**	158,141,971
Interest on government loans	**311,354,662**	399,404,133
Interest on pension loan	**265,045,095**	301,502,526
Interest on real estate loans	**264,198,598**	305,631,052
Interest on deeds of conditional sale	**248,711,078**	268,052,529
Interest on eCard plus cash advance	**209,660,039**	386,179,229
Interest on educational assistance fund program loan	**144,075,628**	54,786,916
Interest on emergency loan assistance	**38,889,891**	17,525,339
Interest on SOS loan	**28,199,186**	12,525,365
Interest on pensioners' restructured loan	**8,385,058**	3,291,265
Interest on eCard cash advance	**2,868,265**	1,143,075
Interest on stock purchase loan	**2,288,538**	(569,016)
Interest on private loans	**1,764,931**	169,181,362
Interest on educational assistance loan	**74,656**	107,254
Interest on Fly PAL Pay Later loans	**31,528**	-
Surcharge on loans in arrears	**126,361,782**	156,789,593
Service income on loans	**1,145,957,157**	1,066,717,972
Interest income from other loans	**24,088,749**	36,021,650
	21,014,293,473	19,469,059,944

The bulk of the increase in revenue from loans is a result of the increase in the consolidated loans granted in 2013. The balance of the said loan as at December 2012 amounted only to P137.246 billion, while it has increased to P146.652 billion as at December 2013. This is in addition to the increase in emergency loan due to additional granting of P8.740 billion in 2013 to those affected by the various calamities that hit the country, namely, the Zamboanga siege, the earthquake in Cebu and Bohol and super typhoon “Yolanda”.

20. REVENUE FROM FINANCIAL ASSETS

This account consists of the following:

	2013	2012 Restated
Securities held for trading (HFT)		
Dividend on stocks	**5,664,086**	9,787,247
Gain on sale of stocks	**772,869**	6,441,032
Gain(loss) on investment - Derivatives	**(3,368,316,762)**	4,413,524,971
Unrealized gain(loss)	**(10,065,695)**	54,723,790
	(3,371,945,502)	4,484,477,040
Securities available for sale (AFS)		
Interest on ROP notes & bonds	**8,094,145,616**	6,824,036,510
Gain on sale of stocks	**4,857,080,690**	9,514,693,148
Dividend on stocks	**2,390,326,107**	1,650,882,673
Interest on corporate bonds	**909,902,168**	432,938,518
Gain(loss) on foreign exchange	**426,703,510**	(140,566,784)
Income(loss) on investment in EMF	**258,023,359**	(86,242)
Interest on Global Peso notes	**71,142,228**	49,827,773
Gain on sale of bonds	**54,823,610**	96,706,588
	17,062,147,288	18,428,432,184
Securities held to maturity (HTM)		
Interest on ROP notes & bonds	**12,052,015,893**	13,116,006,692
Gain(loss) on foreign exchange	**3,362,429,721**	(2,851,825,747)
Amortized gain on bond swap	**589,165,844**	657,287,718
	16,003,611,458	10,921,468,663
Gain(loss) on foreign exchange - Others	**4,856,144**	(131,283,438)
Other investment revenue	**705,913,036**	1,139,330,006
	30,404,582,424	34,842,424,455

Securities held for trading (HFT)

In 2013, there were losses from derivatives transactions due to the following:

Gain(loss) on derivatives investments	**2013**	2012 Restated
Realized gain from matured/settled derivatives	**1,247,694,125**	1,225,869,416
Deliverable forward	**(55,274,486)**	(27,720,805)
Non-deliverable forward	**(65,187,876)**	32,628,732
Deliverable cross currency swaps	**(797,476,059)**	261,207,302
Non-deliverable cross currency swaps	**(3,698,072,466)**	2,921,540,326
	(3,368,316,762)	4,413,524,971

Securities AFS

The increase in revenue for AFS securities was mainly due to the increase in interest income earned from fixed income securities and dividend income received from equity securities. In 2013, GSIS made additional placements to the following securities that resulted to an increase in interest and dividend income: a) ROP notes and bonds portfolio grew by P34.475 billion; b) Corporate bonds portfolio by P9.197 billion; and c) Equity portfolio by P10.466 billion.

Although there was an increase during the year it would be significantly lower when compared to the 2012 figures. The gain on sale of stocks was higher in 2012 due to the receipt of the final payment of Meralco shares paid by Beacon Electric Asset Holdings Inc. in July 2012 amounting to P6.224 billion.

For externally managed funds, income or loss is realized after the termination of the IMA with the fund managers. In 2013, a realized gain of P258 million was reported due to partial withdrawal of fund from BDO local fund manager. In 2012, no income or loss was realized because the IMA with the local fund managers is still ongoing. Any increase or decrease in the net asset value of funds managed by external fund managers is recorded in other comprehensive income.

The amount of P86,242 reported as loss in 2012 represents repayment made to one of the Global Fund Managers due to over remittance upon settlement of the account in 2011.

Securities HTM

The decrease in revenue was mainly due to the decrease in the holdings of bonds classified as HTM. Additional placements in bond securities are classified as AFS.

21. REVENUE FROM INVESTMENT PROPERTY

Revenue from investment property consists of the following:

	2013	2012 Restated
Gain on valuation of investment property	**2,045,425,429**	582,209,502
Gain(loss) on disposition of acquired assets	**569,040,018**	1,525,961
Rental from investment property	**234,074,039**	161,179,702
	2,848,539,486	744,915,165

The number of accounts appraised for 2013 is more than what was appraised in 2012. Hence, the gain on valuation account has increased.

Increase in gain on disposition account is due to the sale of the Philcomcen and CUL Transit property.

22. OTHER REVENUES

This account consists of the following:

	2013	2012 Restated
GS share for educational assistance fund program	**300,000,000**	200,000,000
Agency under remittance	**247,447,633**	346,671,858
Interest revenue on agencies with MOA	**247,306,948**	43,720,700
Prior year adjustments	**150,590,578**	548,949,822
Revenue from rental	**137,535,692**	119,974,347

	2013	2012 Restated
Interest on bank deposits	**14,457,228**	16,583,002
Loss recoveries	**14,103,548**	2,442,818
Reversal of provision for pending litigation	**9,929,286**	710,345,623
Other service income	**1,856,211**	1,510,149
Refund of gratuity/discount from lump sum retirement benefits	**1,763,453**	12,817,886
Recovery from impairment loss	**-**	37,741,635
Interest revenue from PPD osteoporosis claim	**(2,046,632)**	199,222
Loss on disposition of assets	**(14,973,728)**	(7,864,898)
Others	**54,310,963**	23,749,101
	1,162,281,180	2,056,841,265

23. CLAIMS AND BENEFITS

This account consists of the following:

	2013	2012 Restated
Social Insurance	**80,048,045,556**	63,590,641,959
General Insurance	**1,683,735,172**	650,473,236
Optional Life Insurance	**833,179,191**	838,899,740
Pre-need Insurance	**570,797,049**	368,740,381
Employees' Compensation Insurance	**56,963,279**	38,245,572
	83,192,720,247	65,487,000,888

Claims and benefits on life insurance contracts are recognized as expense when paid. Claims filed but unpaid are accrued at year-end. For non-life insurance claims, the expense is recognized at the time the accident or loss is reported.

The increase in Social Insurance claims and benefits is primarily due to the increase in retirement, monthly old age pension and life insurance claims. The number of retirement claims processed increased from 34,705 in 2012 to 54,077 in 2013. One of the main reasons for the increase is the rationalization plan being implemented in the national government agencies thereby causing early retirement for some qualified employees. Aside from the implementation of minimum monthly pension of P5,000 starting January 2013, number of monthly old age pensioner also increased from 230,235 in 2012 to 249,000 in 2013, while life insurance increased from 56,592 in 2012 to 86,939 in 2013.

24. INVESTMENT EXPENSES

This account consists of the following:

	2013	2012 Restated
Expenses on investment property	**39,657,657**	28,676,303
Expenses on e-card	**34,820,909**	76,380,519
Investments fees and others	**26,836,417**	21,903,875
Interest expenses	**13,544,288**	17,714,195
Foreclosure expenses	**9,266,177**	7,705,679
Expenses on loans	**-**	550,937
	124,125,448	152,931,508

25. INSURANCE EXPENSES

This account consists of the following:

	2013	2012 Restated
Reinsurance expense	**2,350,956,116**	2,223,764,462
Extra remuneration	**26,563,889**	57,252,880
Commission expense	**1,447,851**	2,007,845
Other insurance expense/other expenses PYA	**832,911**	145,312,270
Service fee	**-**	2,447,065
	2,379,800,767	2,430,784,522

Reinsurance expense is the amount of premium ceded to another insurance company for the purpose of distributing the risks or reducing the amount of possible loss.

Reinsurance expense for CY 2013 amounting to P2.351 billion consists of the following:

Facultative reinsurance	1,820,087,909
Excess of loss	334,641,503
Treaty reinsurance	196,226,704
	2,350,956,116

26. PERSONAL SERVICES

This account consists of the following:

	2013	2012 Restated
Salaries and wages	**1,374,627,103**	1,277,233,788
Statutory expenses	**772,788,216**	717,789,279
Allowances	**471,664,674**	451,248,091
Bonus/awards	**381,964,153**	359,055,609
Separation pay	**133,703,256**	45,655,846
Fringe benefits	**100,288,424**	273,229,764
Overtime expenses	**74,411,947**	56,125,595
Contractual services	**59,625,469**	52,348,014
	3,369,073,242	3,232,685,986

Total compensation and benefits of key management personnel of the System are as follows:

Salaries and wages	83,076,776
Retirement costs	4,467,788
Other benefits	34,754,958
	122,299,522

27. OPERATING EXPENSES

This account consists of the following:

	2013	2012 Restated
Depreciation expense	**514,873,561**	457,189,730
Assets and facilities maintenance expense	**292,373,516**	198,075,591
Electric and water consumption	**163,546,771**	172,760,587
Insurance expense	**133,847,047**	146,689,107
Communication services	**110,362,363**	78,994,349
Impairment loss	**76,793,330**	2,050,307,753
Supplies and materials expenses	**74,025,004**	80,626,437
Contributions	**56,829,077**	62,202,178
Rental expenses	**51,337,177**	48,468,621
Miscellaneous expenses	**49,513,108**	63,078,997
Auditing expenses	**41,623,484**	47,335,375
Seminars and workshops	**33,189,997**	20,616,412
Public relations and advertisement	**27,869,880**	22,792,168
Traveling expenses	**24,762,017**	20,414,500
Fuel and gasoline consumption	**15,911,255**	16,003,695
Athletic and cultural expenses	**15,069,733**	18,960,063
Representation expenses	**11,791,003**	6,028,245
Retainer's and consultants	**10,677,669**	21,273,678
Taxes	**10,547,390**	32,725,270
MOA related expenses	**9,801,600**	9,395,380
Education, training and scholarship	**6,809,596**	4,249,463
	1,731,554,578	3,578,187,599

Contributions mainly consist of GSIS' contribution to the Employees' Compensation Commission (ECC) and the Occupational Safety and Hazard Commission (OSHC), being drawn from the ECIF, as its share in administrative expenses.

Impairment losses were taken up for members' accounts representing receivables from inactive members, the recovery of which have become improbable.

Impairment losses on GI premiums receivables and due from reinsurers were provided for potentially uncollectible receivables. The allowance is computed based on the allowance for impairment loss rates applied to the outstanding aged receivables.

Impairment loss on building and building improvements was provided due to the physical damage sustained by the GSIS Tacloban building brought about by typhoon Yolanda in November 2013.

	2013
Premium receivable	
General Insurance	125,052,736
Optional Life Insurance	25,231,537
Employees' Compensation Insurance	32,780,045
Pre-need Insurance	(237,513,410)
Social Insurance	(1,804,453,853)
	(1,858,902,945)
Loans receivable	1,490,485,412
Other receivables	438,728,328
Property and equipment – building	6,482,535
	76,793,330

Taxes pertain to taxes paid by GFB, the subsidiary, recorded under taxes and licenses in its Statement of Income and Expenses for the year ended December 31, 2013.

28. OTHER COMPREHENSIVE INCOME /(LOSS)

Other comprehensive income/(loss) consists of the following:

	2013	2012 Restated
Items that may be reclassified subsequently to profit or loss		
Net unrealized gains(losses) on investments		
Unrealized gain - AFS - ROP N&B (peso)	**4,926,118,781**	7,650,191,378
Unrealized gain(loss) - AFS - ROP N&B (FCD)	**(21,168,941)**	30,084,095
Unrealized loss - HTM - ROP N&B (bond swap)	**(583,765,060)**	(574,510,217)
Unrealized gain(loss) – EMF	**(729,669,562)**	3,746,154,528
Unrealized gain(loss) - AFS - Corporate bonds/ Global Peso notes	**(1,342,617,276)**	1,353,780,918
Unrealized gain(loss) - AFS - Stocks	**(6,123,986,061)**	12,398,453,945
	(3,875,088,119)	24,604,154,647
Items that will not be reclassified subsequently to profit or loss		
Revaluation surplus	**9,995,261**	6,085,075,987
	(3,865,092,858)	30,689,230,634

The decrease of P28.479 billion in unrealized gains on investments is due to mark to market decline of P4.476 billion in EMF-local, decrease of P18.522 billion in equities classified as AFS, and P5.481 billion decline in valuation of fixed income investments, both AFS and HTM.

The following transactions have resulted to additional revaluation surplus of P9.995 million as at December 31, 2013:

Valuation of land not included in the 2012 valuation	27,613,300
Transfer of GSIS Palawan property from land to investment property	(2,648,000)
Transfer of property by subsidiary from investment property to non-current assets held for sale	(14,970,039)
	9,995,261

29. RELATED PARTY TRANSACTIONS

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 or if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

The significant related party transactions of GSIS are transactions between GSIS and GSIS Family Bank (GFB), which is 99.55 per cent owned by the GSIS.

In 2012, the GSIS under Board Resolution No. 192 dated December 26, 2012, infused additional capital to GFB amounting to P125 million through subscription to perpetual non-cumulative preferred shares of GFB. Pending approval of the BSP of the issuance of new class of stock and subsequent registration with the SEC, GFB recognized the P125 million infusion as deposit for stock subscription.

Investments in short-term placements of GSIS to GFB amounted to P500 million and P550 million, with related interest income of P7.159 million and P13.656 million, as at December 31, 2013 and 2012, respectively.

30. ADMINISTRATIVE LOADING

Pursuant to Section 35 of RA No. 8291, a maximum expense loading of 12 per cent of the yearly revenues from all sources may be disbursed for administrative and operational expenses except as may be otherwise approved by the President of the Philippines on the basis of actuarial and management studies.

For 2013, the administrative loading of the SIF (parent only), is 3.75 per cent of total revenues net of investment expenses, which is below the allowable limit of 12 per cent.

A. Administrative & operating expenses	4,932,419,812
B. Impairment loss	143,489,144
C. Gross revenue	127,136,485,590
D. Investment expenses	110,019,929
E. GSIS fees	832,235,752
Administrative loading ratio (A-B) ÷ (C-D+E)	3.75%

Impairment losses for SIF amounting to P143 million were excluded from administrative and operating expenses in the computation of administrative loading ratio since there were no cash disbursements for this expense.

31. GSIS FEES AND COMMISSIONS

The SIF, being the administrator of the GIF, OLIF and ECIF, charges the administered funds with administration fees, marketing commissions, and management fees, as follows:

- 10 per cent administration fee based on the Optional and General Insurance net premiums retained;
- 20 per cent marketing commission based on General Insurance Fund net premiums retained; and
- 10 per cent management fee on Employees' Compensation Insurance Fund premium collections

The revenue accounts pertaining to these fees in the SIF financial statements and the expense accounts under the individual financial statements of the Administered Funds are eliminated upon consolidation of the financial statements of all Funds.

32. PRIOR PERIOD ADJUSTMENTS

PAS 8, on prior period adjustments requires an entity to restate the comparative information to correct the error prospectively from the earliest date practicable. Disclosures relating to prior period adjustments include the nature of the prior period error and the amount and extent of the correction.

The following is the summary of the financial impact of the restatement on the CY 2013 financial statements, P16 million of which pertains to CY 2012 while P3.877 billion pertains to CY 2011 and prior years.

Prior Period Adjustments	Revenues	Assets	Liabilities	2013 Net Worth (Beginning Surplus)
Adjustment due to cleansing of migrated balance of various member related accounts		4,106,166,463		4,106,166,463
Adjustment to close unexpended balance of Optional dividend payable as at December 2013			(26,031,389)	26,031,389
Bank reconciliation adjustments affecting various claims disbursements for prior years.			1,777,785	(1,777,785)
Adjustment on Pre-need accounts for lapsed, cancelled, terminated and serviced contracts/policies.	15,773,130	(236,715,199)		(252,488,329)
Other prior period adjustments		7,694	401,968	(394,274)
	15,773,130	**3,869,458,958**	**(23,851,636)**	**3,877,537,464**

33. COMMITMENTS

Operating lease commitments – System as lessee

The System has a total of nine (9) operating lease commitments; six (6) in Mindanao located in General Santos, Malaybalay, Kidapawan, Iligan, Pagadian, and Surigao, and three (3) in Visayas located at Borongan, Northern Samar, and Ormoc City. Other lease agreements are renewed on year to year basis. All contracts of lease entered into with GSIS as lessee may be pre-terminated at any time by giving a 60-day prior written notice to the adverse party.

The expected rental expenses on these operating lease commitments are as follows:

Within one year	7,856,700
After one year but not more than five years	8,087,490

Rental expense recognized by the System under "Operating Expenses" amounted to P51 million in 2013 and P48 million in 2012 (see Note 27).

Operating lease commitments – System as lessor

The System has entered into several commercial property leases on its property. These leases have terms of one to twenty-five years. The lessees of these property consist of private and government entities. The investment property account has nine property under lease with twenty-seven existing contracts while the property and equipment account has two property under lease with seven existing contracts.

Minimum rental receivables for PPE under operating leases as at December 31, 2013 are as follows:

	2013	2012
Within one year	**148,510,250**	117,162,471
After one year but not more than five years	**740,999,180**	55,539,369
More than five years	**47,004,520**	5,518,296

Rental revenue from PPE recognized by the System amounted to P138 million in 2013 and P120 million in 2012 (see Note 22).

Meanwhile, minimum and maximum rentals for investment property under operating leases as at December 31, 2013 are as follows:

	Minimum	**Maximum**
Less than 1 year to 1 year	17,000	5,320,000
More than 1 year to 5 years	111,150	25,108,000
More than 5 years	2,723,501	90,474,000

Rental revenue from investment property recognized by the System amounted to P234 million in 2013 and P161 million in 2012 (see Note 21).

34. FINANCIAL RISK MANAGEMENT

The nature of GSIS operations inevitably involves financial risks that must be measured, monitored and managed by an effective risk management system. Effective risk management ensures that financial risks taken are properly identified, assessed, measured and managed. The diligent monitoring and management of financial risks require the development of a risk-conscious culture that will influence daily business activities and decision-making.

The System develops risk management policies and procedures that address specific financial risks and monitors strict compliance thereto through its internal audit function.

The System has significant exposure to the following financial risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Interest rate risk
- Foreign currency risk
- Equity (Stock prices) risk

Credit risk

Credit risk is the risk of financial loss arising from the counterparties' inability or unwillingness to settle their financial obligations to the GSIS as expected or originally contracted.

The GSIS, in managing its credit risks or exposures on loans, utilizes structured and standardized evaluation guidelines, credit ratings and approval processes. To determine if counterparties are credit-worthy, the management performs due diligence process including, but not limited to, credit analysis or evaluation of the financial performance of the issuer/borrower to determine its financial capability to pay obligations.

In order to ensure prompt collection of outstanding loans, the GSIS' basic strategy is to improve collection through (a) policy changes, followed by strict enforcement, (b) procedural enhancement and (c) utilization of information technology solutions that would enable the System to track, monitor and promptly collect from borrowers.

The GSIS constantly monitor the terms and conditions of member loan programs to ensure that the programs remain financially viable for the GSIS, responsive to changing market conditions, and at the same time, suited to members' requirements.

The table below shows the System's maximum credit risk exposure which is equivalent to the total carrying amount of the System's financial assets:

	2013	2012 Restated
Financial assets at FVPL	**-**	3,354,263,019
Loans and receivables:		
Cash*	**24,871,930,417**	35,056,357,638
Premiums and loans receivable - net	**238,206,671,969**	227,758,602,452
HTM financial assets	**154,083,922,397**	163,237,644,174
AFS financial assets	**183,497,448,760**	140,083,947,938
Total credit risk exposure	**600,659,973,543**	569,490,815,221

**Excludes cash on hand.*

The table below shows the aging analysis of the System's financial assets. Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due.

	2013		
	Neither Past Due nor Impaired	**Past Due but not Impaired**	**Total**
Financial assets at FVPL	**-**		**-**
Loans and receivables:			
Cash*	**24,871,930,417**	**-**	**24,871,930,417**
Premiums and loans receivable - net	**182,112,478,211**	**56,094,193,758**	**238,206,671,969**
HTM financial assets	**154,083,922,397**	**-**	**154,083,922,397**
AFS financial assets	**183,497,448,760**	**-**	**183,497,448,760**
	544,565,779,785	**56,094,193,758**	**600,659,973,543**

**Excludes cash on hand*

2012 Restated			
	Neither Past Due nor Impaired	Past Due but not Impaired	Total
Financial assets at FVPL	3,354,263,019	-	3,354,263,019
Loans and receivables:			
Cash*	35,056,357,638	-	35,056,357,638
Premiums and loans receivable - net	181,241,490,249	46,517,112,203	227,758,602,452
HTM financial assets	163,237,644,174	-	163,237,644,174
AFS financial assets	140,083,947,938	-	140,083,947,938
	522,973,703,018	46,517,112,203	569,490,815,221

**Excludes cash on hand*

The data above pertains to the credit risk posed by members. Loans are collateralized and/or covered with Loan Redemption Insurances (LRI) and subjected to minimum net take-home pay requirement to mitigate risks.

Aside from credit risk arising from loans to members, the GSIS is also exposed to credit risks from its holdings of fixed income securities. The GSIS Investment Policy Guidelines sets risk limits to mitigate against the exposures. Non-Philippine government issued securities are subject to minimum credit rating requirements, maximum allowable investment amount per security type in terms of maximum percentage of total investable funds, and maximum investment amount per debt issuer/borrower.

Lastly, the GSIS adheres to a Counterparty and Issuer Risk Guidelines (CIRG) which provides a framework for managing the credit risk exposures of GSIS to counterparties in transactions affecting the investment of funds and to issuers of securities taken into the investment portfolio. The CIRG establishes credit exposure limits to a pre-approved list of transaction counterparties (banks), and provides guidelines for the calculation and monitoring of GSIS' credit exposures to each counterparty-bank.

The credit rating of the System's financial assets that are neither past due nor impaired is high grade since settlements are obtained from the counterparty following the terms of the contracts without much collection effort.

For cash, high grade credit rating was assigned since these are deposited with reputable banks and the System has not experienced any difficulty transacting through these banks.

<u>Liquidity risk</u>

Liquidity risk arises when the System encounters difficulty in realizing its assets or otherwise raising funds to meet commitments associated with its financial liabilities.

The System manages this risk through the daily monitoring of cash flows in consideration of future payment due dates and daily collection amounts. The System also maintains sufficient portfolio of highly liquid assets that can easily be converted to cash as protection against unforeseen interruption to cash flows. The System also has the ability to readily dispose of certain investments that are traded in an active market. These include a liquid portfolio of publicly traded equities, high yield short term placements (HYSTP) and marketable bonds.

	2013	2012 Restated
Financial assets at FVPL	**116,011,400**	3,504,357,614
Cash	**25,393,774,278**	35,348,722,239
HTM financial assets	**154,083,922,397**	163,237,644,174
AFS financial assets	**299,994,639,401**	244,662,292,505
	479,588,347,476	446,753,016,532
Other financial liabilities	**31,897,608,605**	21,875,169,670

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The GSIS follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

The GSIS under its Investment Policies and Guidelines (IPGs) may transact in fixed income derivatives, such as interest rate swaps, long dated FX forwards, or interest rate cross currency swaps and options on bonds as a way to modify the interest rate risk in its existing fund portfolio. As mentioned in Note 7, the GSIS has transacted derivative contracts to mitigate and manage interest rate risk for its fixed income investments.

The sensitivity of the results of operations is measured as the effect of the assumed changes in the interest rates on the net interest income for one period based on the floating rate of financial assets and financial liabilities held as at December 31, 2013 and 2012. The sensitivity of other comprehensive income is calculated by revaluing fixed-rate AFS securities as at December 31, 2013 and 2012. The total sensitivity of other comprehensive income is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

Foreign currency risk

The System is exposed to foreign currency risk through its cash and cash equivalents, AFS investments, HTM investments, and GI receivables (premiums and due from reinsurers) and payables (claims and due to reinsurers) denominated in USD and Euro. Any depreciation or appreciation of the foreign currencies against the peso posts significant foreign exchange gains or losses relating to cash and cash equivalents, AFS investments, HTM investments and GI receivables and payables. In translating these monetary assets and liabilities into peso, the exchange rate used was P44.395 to USD in 2013 based on the closing rate of Philippine Dealing and Exchange Corporation (PDEX) and P41.078 to USD based on the closing rate of Bangko Sentral ng Pilipinas (BSP) in 2012. For Euro, the exchange rates used were P60.816 and P54.211 to Euro based on the closing rate of BSP as at December 31, 2013 and 2012, respectively.

The GSIS manage risk affecting foreign currency transactions by entering into derivative contracts such as FX forwards, cross currency swaps and options, for the purpose of enhancing returns or for hedging unwanted foreign currency risk. The derivative transaction is limited to Peso and other major currencies.

	2013		2012	
	USD Denominated Balances	**Peso Equivalent**	USD Denominated Balances	Peso Equivalent
Financial assets				
Cash and cash equivalents	**14,189,545**	**629,944,863**	7,191,184	295,399,433
HTM financial assets	**949,160,381**	**42,137,975,092**	955,552,223	39,252,174,209
AFS financial assets	**145,556,796**	**6,461,993,976**	82,635,337	3,394,494,378
ROP, BSP, corp bonds – Int. receivable	**22,335,335**	**991,577,184**	20,767,552	853,089,488
GI premium receivable	**4,144,384**	**183,989,908**	20,749,282	852,339,010
Due from reinsurers	**3,429,414**	**152,248,820**	3,259,955	133,912,431
Foreign currency denominated assets	**1,138,815,855**	**50,557,729,843**	1,090,155,533	44,781,408,949
Financial liabilities				
Claims payable	**3,204,619**	**142,269,042**	236,265	9,705,294
Due to reinsurers	**6,884,086**	**305,619,013**	19,893,875	817,200,597
Sundry accounts payable	**504,388**	**22,392,300**		
Others	**6,000**	**266,370**	6,000	246,468
Foreign currency denominated liabilities	**10,599,093**	**470,546,725**	20,136,140	827,152,359
	2013		2012	
	EURO-denominated Balances	**Peso Equivalent**	EURO-denominated Balances	Peso Equivalent
Cash and cash equivalents	**4,554**	**276,944**	4,526	245,359
HTM financial assets	**22,847,950**	**1,389,523,182**	22,945,840	1,243,907,781
ROP bonds – Int. receivable	**1,127,322**	**68,559,349**	1,127,322	61,112,821
Foreign currency denominated assets	**23,979,826**	**1,458,359,475**	24,077,688	1,305,265,961

Had the PDEX rate of P41.050 been used, the peso equivalent of USD denominated assets and liabilities for CY 2012 would have been P44,750,884,630 and P826,588,547 respectively.

The following table sets out the impact of the range of reasonably possible movement in the USD and Peso exchange rates with all other variables held constant in the System's income for the years ended December 31, 2013 and 2012.

Change in Exchange Rate against Peso	**Effect on Income**	
	2013	2012
USD	**USD1.00 = P44.395**	USD1.00 = P41.078
1.00 increase	**1,128,216,761**	1,070,019,393
1.00 decrease	**(1,128,216,761)**	(1,070,019,393)
EURO	**EUR1.00 = P60.816**	USD1.00 = P54.211
1.00 increase	**23,979,826**	24,077,688
1.00 decrease	**(23,979,826)**	(24,077,688)

Equity (stock price) risk

Equity or stock price risk is the risk that the value of the GSIS equities portfolio investments will fall due to the general fall in stock market prices and/or due to the fall of stock prices of specific equity holdings in the portfolio.

All GSIS-managed funds are subject to the Board-approved IPGs. The internally managed equity portfolio is subject to:

a. Maximum limit of 20 per cent of investible funds
b. Minimum company market capitalization of P2 billion
c. Minimum Free Float of 10 per cent
d. Maximum small cap stocks total investment of 10 per cent
e. Diversification by issuer, sector, and industry

Funds managed by external local fund managers are subject to the terms of an IMA that requires approval of the Board of Trustees.

35. FAIR VALUES OF FINANCIAL INSTRUMENTS

A comparison by category of carrying and fair values of all of the Company's financial assets and financial liabilities as at December 31, 2013 and 2012 are as follows:

	2013		2012 Restated	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets at FVPL				
Derivatives-Deliverable and non-deliverable	**-**	**-**	3,354,263,019	3,354,263,019
Stocks- Traded – HFT	**116,011,400**	**116,011,400**	150,094,595	150,094,595
HTM financial assets				
ROP Notes and bonds – HTM	**154,083,922,397**	**204,326,056,287**	163,237,644,174	213,675,677,523
AFS financial assets				
ROP notes and bonds – AFS	**160,355,934,292**	**160,355,934,292**	126,098,109,544	126,098,109,544
Corporate bonds - AFS	**22,076,974,466**	**22,076,974,466**	12,879,011,913	12,879,011,913
Global Peso notes – AFS	**1,064,540,001**	**1,064,540,001**	1,106,826,480	1,106,826,480
Stocks - Traded – AFS	**94,764,098,639**	**94,764,098,639**	84,297,810,503	84,297,810,503
Stocks - Non-traded	**780,694,881**	**780,694,881**	778,348,811	778,348,811
Externally managed funds - Domestic	**20,952,397,121**	**20,952,397,121**	19,502,185,253	19,502,185,253
Loans and receivables				
Cash and cash equivalents	**25,393,774,278**	**25,393,774,278**	35,348,722,239	35,348,722,239
Premiums and loans	**238,206,671,969**	**238,206,671,969**	227,758,602,452	227,758,602,452
	717,795,019,444	**768,037,153,334**	674,511,618,983	724,949,652,332
Financial liabilities:				
Other financial liabilities	**31,897,608,605**	**31,897,608,605**	21,875,169,670	21,875,169,670

Due to the short-term nature of cash and cash equivalents, premiums and loans receivable and other financial liabilities, their carrying values reasonably approximate their fair values at year end.

The fair value of financial assets at FVPL and AFS financial assets that are actively traded in organized financial markets is determined by reference to quoted market bid prices, at the close of business on the reporting date, or the last trading day as applicable. For equity instruments that are not quoted, the investments are carried at cost net of impairment losses due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

In an active market, fair value is best evidenced by an independent quoted market price. In the absence of an active market, fair value is determined by valuation techniques that make maximum use of inputs observed from markets. These valuation techniques include using recent arm's length market transactions, if available, or current fair value of another investment that is substantially the same, discounted cash flow analysis, pricing models and other accepted industry valuation methods.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The following table shows the fair value hierarchy that categorizes into three levels the inputs to valuation techniques used to measure fair value:

	Level 1	Level 2	Level 3	Total
Equities				
Traded stocks	94,880,110,039			94,880,110,039
Non-traded stocks			780,694,881	780,694,881
Fixed income				
ROP bonds Peso	270,005,872,701	750,000,000		270,755,872,701
ROP bonds USD	43,683,983,988			43,683,983,988
Global Peso notes	1,064,540,001			1,064,540,001
Corporate bonds Peso	8,767,368,609	7,004,097,595		15,771,466,204
Corporate bonds USD	6,305,508,263			6,305,508,263
Externally managed funds		20,952,397,121		20,952,397,121
	424,707,383,601	28,706,494,716	780,694,881	454,194,573,198
Derivative liabilities		1,261,747,868		1,261,747,868
Net investment	**424,707,383,601**	**27,444,746,848**	**780,694,881**	**452,932,825,330**

Investments and investment liabilities recognized at fair value, analyzed between those whose fair value is based on the following:

a. Quoted prices in active markets for identical assets or liabilities (Level 1);

b. Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and

c. Those involving inputs for the asset or liability that are not based on observable market data (non-observable inputs) (Level 3).

There were no significant transfers between Level 1 and Level 2 as at December 31, 2013.

The following presents the reconciliations for investments included in Level 3 of the fair value hierarchy for the year ended December 31, 2013:

	Fair Value as at Dec. 31, 2012	Net Gains/Losses (Realized and Unrealized)	**Fair Value as at Dec. 31, 2013**
Stocks non-traded	778,348,811	2,346,071	**780,694,881**

36. EXEMPTION FROM TAX

Pursuant to Section 39 of RA No. 8291, the GSIS, its assets, revenues including all accruals thereto, and benefits paid are exempted from all taxes, assessments, fees, charges or duties of all kind.

37. COMPLIANCE WITH REVENUE REGULATIONS NO.15-2010 AND 19-2011

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 2013.

GSIS

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

Withholding taxes

Tax on compensation and benefits	461,471,150
Value added taxes (VAT)	68,756,494
Expanded withholding taxes (EWT)	50,676,543
Percentage taxes on premiums	2,354,263
Final taxes	12,863,988
	596,122,438

These taxes, except for taxes on compensation and benefits, were remitted in the System's capacity as withholding agent pursuant to Revenue Regulation No.17-2003 as amended by RR 14-2008, with the System having been determined as one of the top 20,000 corporations and as such, was designated as a withholding agent by the BIR.

The taxes also include percentage tax on insurance premiums amounting to P2,354,263 which is a form of business tax. These were charged to the insured and withheld by the GSIS and remitted to the BIR.

The GSIS has filed an appeal before the Office of the President on taxes assessed against it including the issue of the liability of GSIS as withholding agent on documentary stamp tax which is still pending resolution.

Other taxes

	2013
Local	
Real estate taxes	675,280
National	
Capital gains taxes	15,407,271
Documentary stamp taxes	4,225,930
Transfer taxes	399,896
BIR annual registration	30,000
	20,738,377

The GSIS has an appeal pending resolution with the Office of the President [Case No. 07-D-139 (OP Case No. 07-D-139, formerly OSJ Case No. 2004-11)], regarding various amounts of Documentary Stamp Tax (DST). The BIR issued a Final Assessment Notice on March 15, 2006 for the collection of tax liabilities on DST amounting to P2,604,656,883 inclusive of interests and surcharges for CY 2001 up to the period ending June 30, 2006.

Further, the GSIS has a pending application for tax credit/refund in the amount of P454,372 representing excess percentage tax remittance made on March 20, 2009. This was recorded as a receivable from the BIR under sundry accounts receivable (see Note 8).

GFB

The subsidiary reported the following types of taxes for the year ended December 31, 2013 including all other taxes, local and national, recorded under taxes and licenses in its Statement of Income and Expenses, as follows:

Final withholding tax	5,767,033
Gross receipt tax	2,847,799
Real property tax	33,213
Municipal tax	773,005
Fringe benefits tax	854,635
Others	271,705
	10,547,390

A portion of some amount disclosed above was passed on to the counterparties.

The following are the total withholding taxes remitted for the year 2013:

Withholding taxes on compensation	6,189,598
Fringe benefits tax	854,635
Documentary stamp tax on Special Deposit Liabilities	4,405,959
Documentary stamp tax on check booklet	173,400
Creditable withholding taxes	1,856,209
Gross Receipt Tax	2,542,681
Others	2,704,552
	18,727,034

The BIR issued RR No. 19-2011 prescribing the new annual income tax forms that will be used for filing effective 2011. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements.

For the taxable year December 31, 2013, the GFB reported the following revenues and expenses for income tax purposes: (in million pesos)

Revenues	
Services/operations	23.950
Non-operating and taxable other income:	
Others	14.428
	38.378

Expenses	
Cost of services:	
Compensation and fringe benefits	78.793
Others	15.104
	93.897
Itemized deductions:	
Management & other professional fees	0.988
Taxes and licenses	5.705
Depreciation/amortization	14.215
Litigation/assets acquired	4.096
Others	55.567
	80.571
	174.468
Net taxable income (loss)	(136.090)

Reconciliation of net income per books against taxable income:

Net income/(loss) per books	(134.719)
Add: Non-deductible expense	22.843
	(111.876)
Less: Passive income	24.214
Net taxable income (loss)	(136.090)

38. EVENTS AFTER THE REPORTING DATE

In June 2014, in view of the decrease in interest rates, the GSIS management decided to reclassify all outstanding Fixed Income investments categorized as HTM to AFS to realize gains on some of its ROP holdings and invest the proceeds at better yields without decreasing the credit quality of its Fixed Income portfolio.

The carrying value of the HTM portfolio as of June 30, 2014 was P150.906 billion and the reclassification of the HTM portfolio to AFS resulted in an increase in the asset and net worth of GSIS by P51.950 billion due to mark-to-market valuation.

In addition, the unamortized balance of the deferred gain on bond swap transactions entered into by GSIS in 2010 and 2011 amounting to P11.454 billion was realized as gain resulting in an increase in the income of GSIS by the same amount as of June 30, 2014.