GOVERNMENT SERVICE INSURANCE SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL INFORMATION

The Government Service Insurance System (GSIS) is a government financial institution, organized and created to administer its 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, 14 Satellite Offices and several service desks strategically located in various cities and municipalities of the country.

The GSIS was created by the Congress of the Philippines through Commonwealth Act (CA) 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 to enhance 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 Life Insurance Fund (OLIF) and Pre-need Fund (PNF) 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 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 May 25, 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The accompanying financial statements are prepared in compliance with Philippine Financial Reporting Standards (PFRS) issued by the Financial Reporting Standards Council (FRSC). PFRS are adopted by the FRSC from the pronouncements issued by the International Accounting Standards Board (IASB), and approved by the Philippine Board of Accountancy (BOA).

2.2 Adoption of New and Revised PFRS

a. *Effective in 2015 that are Relevant to the Company*

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS and Philippine Interpretation from International Financial Reporting Interpretation Committee (IFRIC) which the GSIS adopted effective for annual periods beginning on or after January 1, 2015:

- Amendment to PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation,* and PAS 38*, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization* - The amendment clarifies how the gross carrying amount and the accumulated depreciation/amortization are treated where an entity uses the revaluation model.

- Amendment to PAS 24, *Related Party Disclosures - Key Management Personnel* - The amendment clarifies how payments to entities providing key management personnel services are to be disclosed.

- Amendment to PAS 40*, Investment Property - Clarifying the Inter-relationship between* PFRS 3*, Business Combination, and* PAS 40 *when Classifying Property as Investment Property or Owner-occupied Property* - The amendment clarifies the application of PFRS 3 and PAS 40 in respect of acquisitions of investment property. PAS 40 assists preparers to distinguish between investment property and owner-occupied property, then PFRS 3 helps them to determine whether the acquisition of an investment property is a business combination.

- Amendment to PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets* - The amendment requires the disclosure of judgments made by management in applying the aggregation criteria to operating segments, and clarifies that reconciliations of the total of the reportable segments' assets to the entity's assets are required only if the segment assets are reported regularly.

- Amendment to PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables and Portfolio Exception* - The amendment clarifies that the portfolio exception in PFRS 13 - allowing an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis - applies to all contracts (including non-financial) within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* or PFRS 9, *Financial Instruments*.

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

b. *Effective Subsequent to 2015 but not Adopted Early*

Relevant new and revised PFRS which are not yet effective for the year ended December 31, 2015 and have not been applied in the preparation of the financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2016:

- Amendments to PAS 1, *Presentation of Financial Statements* - The amendments clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

- Amendments to PAS 16, *Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation,* and PAS 38*, Intangible Assets - Clarification of Acceptable Methods of Amortisation* - The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances.

- Amendments to PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* - The amendments reinstate the equity method option allowing entities to use the equity method in accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements.

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28*, Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* - The amendments address a current conflict between the two standards and clarify that gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

- Amendments to PFRS 10, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28 - *Investment Entities: Applying the Consolidation Exception* - The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

Effective for annual periods beginning on or after January 1, 2018:

- PFRS 9, *Financial Instruments* - This standard will replace PAS 39 (and all the previous versions of PFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

  PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value [through profit or loss (FVPL) or through other comprehensive income (FVOCI)], depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at FVPL that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, PFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for an evidence of impairment before a credit loss is recognized.

For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

The derecognition provisions are carried over almost unchanged from PAS 39.

Except for PFRS 9, the adoption of the foregoing new and revised PFRS is not expected to have any material effect on the financial statements of the GSIS. Additional disclosures will be included in the financial statements, as applicable.

GSIS anticipates that the application of PFRS 9 might have a significant effect on amounts reported in its financial statements. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

2.3 Segment reporting

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

Social Insurance (SI)

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 (AFP) and the Philippine National Police (PNP) and contractual employees 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 11.1 of the Revised Implementing Rules and Regulations of RA No. 8291 approved on June 23, 2010 under Board Resolution (BR) No. 88 provides that the rate of contribution payable by the member and the government agency shall be nine 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 GSIS, three per cent of their fixed monthly compensation for both employees' and government agency's share as life insurance premiums in order to answer for their life insurance benefits defined under RA No. 8291.

It is mandatory for all government agencies to deduct each month from the monthly salary or compensation of each employee the contribution payable by him in accordance with the schedule as specified under Section 11.1 of the Revised Implementing Rules and Regulations of RA No. 8291, 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. In case of delay in remittance, the agencies have the legal obligation to pay interest as may be prescribed by the Board but not less than two per cent simple interest per month.

It is prohibited for a government agency to delay the remittance to GSIS of the premium contributions deducted from the compensation of the members and use it for other purposes.

Optional Life Insurance (OLI)

a. Unlimited Optional Life Insurance (UOLI), College Education Assurance Plan (CEAP), Hospitalization Insurance Plan (HIP) and Group Term Insurance (GTI) Premium

Prior to 2009 when the marketing of the OLI products came to a halt, a GSIS member may opt to apply for additional OLI which includes the following types of insurance:

- Unlimited Optional Life Insurance (UOLI);
- College Education Assurance Plan (CEAP);
- Hospitalization Insurance Plan (HIP); and
- Group Term Insurance (GTI).

The figures in the Statements of Financial Position represent premiums for the remaining policies in force as at December 31, 2015.

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 pursuant to Section 12.7.1 of RA No. 8291.

b. Redemption Insurance (RI)

RI premiums are paid by loan borrowers to cover the outstanding balances in case of premature death.

The RI rate shall depend on the term of the loan and shall be embedded in the monthly amortization. If the member-borrower dies and the loan is up to date, the loan shall be deemed fully paid by virtue of the insurance coverage. And likewise, shall be deemed lapsed/cancelled once the loan account is declared in default. Consequently, if the member-borrower dies and the loan is in default, it shall not be covered by the redemption insurance.

General Insurance (GI)

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 thereof, every government unit, except municipalities below first class, is required to insure its property with the GSIS.

The GIF financial statements reflect the financial position and results of operations of the GI 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 against the GIF.

Pre-need Insurance (PNI)

The PNI 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 (ECI)

The ECIF, also known as the “State Insurance Fund”, was created under PD No. 626 (amending PD 442 or the 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-connected disability or death, may promptly secure adequate income benefit and medical or related benefits.

Pursuant to Article 172 of PD No. 626, the ECIF 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 the PD.

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 No. 8291. Under Article 178 of PD No. 626, all revenues collected by GSIS under the SIF shall be deposited, invested, administered and disbursed in the same manner and under the same conditions, requirements and safeguards as provided by RA No. 1161, as amended, and CA No. 186, as amended, with regards to such other funds as are thereunder being paid to or collected by the SSS and GSIS, respectively.

Barangay and Sanggunian Officials Insurance

Section 522 of the RA No. 7160, otherwise known as the Local Government Code of 1991, mandates the 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 (DBM), 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. As a result of the huge amount of premium deficiencies and its failure to settle the same despite due notices, the GSIS has suspended payment of the claims for benefits under RA No. 6942 in November 2001 under BR No. 332.

Property Replacement Fund (PRF)

The 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 Memorandum of Agreement (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.

2.4 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, externally managed funds and derivatives;
- Investment property;
- Land classified under property and equipment; and
- Paintings and tapestries classified under other assets.

2.5 Accrual basis of accounting

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

2.6 Foreign currency translation

a. Functional and presentation currency

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

b. Transactions and balances

Transactions in foreign currencies are initially recorded in Peso at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the prevailing functional currency rate 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.

2.7 Financial instruments

a. Date of recognition

Financial instruments are recognized in the statements 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

GSIS classifies its financial assets as subsequently measured at amortized cost or FVPL on the basis of the following:

- GSIS' business model for managing the financial asset; and

- The contractual cash flow characteristics of the financial asset.

GSIS measures its financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held in order to collect contractual cash flows; and

- The terms of the contract are solely for payments of principal and interest on the principal amount outstanding.

At initial recognition, GSIS has an option to irrevocably designate a financial asset as measured at FVPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an “accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

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 the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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:

- 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;

- 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;

- For government issued bonds, peso and foreign currency denominated Republic of the Philippines (ROP) notes and bonds, fair value is based on quoted market prices;

- 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 GSIS;

- 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;

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

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

2.8 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statements 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.

2.9 Impairment of financial assets

GSIS 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.

2.10 Derecognition of financial assets and liabilities

a. *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; and

- GSIS 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 GSIS 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 is transferred control of the asset, the asset recognized to the extent of the GSIS' 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 GSIS could be required to repay.

b. *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.

2.11 Cash and cash equivalents

Cash includes cash on hand and in banks. Cash in bank includes demand deposit or checking account, special savings deposit (SSD) and high yield short-term placements (HYSTP) which are unrestricted as to withdrawal. Cash equivalents are held for the purpose of meeting short-term cash commitments and are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value and have short maturities. Cash and cash equivalents are presented at face value.

2.12 Premiums receivable

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

2.13 Loans receivable

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

2.14 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 GSIS.

Investment property are initially recognized at cost, including transaction costs. Subsequently, these are 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.

Big and medium ticket accounts valuation is done by an independent appraiser every three years or as the need arises. However, annual appraisal is done by in-house appraiser. Internal appraisal includes determination whether there is reasonable basis to believe that there is substantial change in the fair value of the property since the last external appraisal.

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

2.15 Property and equipment

Property and equipment are initially measured at cost. 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.

Subsequent to initial recognition, property and equipment, except land are 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. Any decrease in value is recognized as expense to the extent that it exceeds the revaluation surplus previously recognized.

Where the GSIS occupies a significant portion of the property for its own use, and an insignificant part to earn rentals, the property is accounted for as property and equipment.

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 with ten per cent residual value, except for software under Information Technology (IT) Resources, over the estimated useful life of the asset prescribed by the Commission on Audit (COA) as follows:

Asset class	Useful life (in years)
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	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 GSIS considers the availability of evidence of obsolescence or physical damage of an asset.

Valuation is done by an independent appraiser every three years or as the need arises. However, annual appraisal is done by in-house appraiser. Internal appraisal includes determination whether there is reasonable basis to believe that there is 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 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.

2.16 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.

2.17 Revenue recognition

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

Revenue from insurance contributions consists of the mandatory members' and employers' 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.

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 GSIS 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 GSIS 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 GSIS 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.

2.18 Expense recognition

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

2.19 Events after the reporting date

Post year-end events that provide additional information about GSIS' 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.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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.

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

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

- Credit risk;
- Liquidity risk;
- Interest rate risk;
- Foreign currency risk; and
- 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 GSIS to track, monitor and promptly collect from borrowers.

The GSIS constantly monitors 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 GSIS maximum credit risk exposure which is equivalent to the total carrying amount of the GSIS' financial assets:

	2015	2014
Financial assets - fixed income*	**408,562,421,312**	423,877,323,158
Premiums, loans and receivable - net	**272,770,291,144**	252,452,913,268
Cash in bank*	**38,785,177,383**	33,844,018,129
	720,117,889,839	710,174,254,555

**Includes interest receivable*

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

	2015		
	Neither past due nor impaired	**Past due but not impaired**	**Total**
Financial assets - fixed income*	**408,562,421,312**	**-**	**408,562,421,312**
Premiums, loans and receivable - net	**207,743,733,051**	**65,026,558,093**	**272,770,291,144**
Cash in bank*	**38,785,177,383**	**-**	**38,785,177,383**
	655,091,331,746	**65,026,558,093**	**720,117,889,839**

**Includes interest receivable*

	2014		
	Neither past due nor impaired	Past due but not impaired	Total
Financial assets*	423,877,323,158	-	423,877,323,158
Premiums, loans and receivable - net	189,008,334,621	63,444,578,647	252,452,913,268
Cash in bank*	33,844,018,129	-	33,844,018,129
	646,729,675,908	63,444,578,647	710,174,254,555

**Includes interest receivable*

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 Policies and Guidelines (IPG) set 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 GSIS' 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 GSIS has not experienced any difficulty transacting through these banks.

Liquidity risk

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

GSIS manages this risk through the daily monitoring of cash flows in consideration of future payment due dates and daily collection amounts. GSIS also maintains sufficient portfolio of highly liquid assets that can easily be converted to cash as protection against unforeseen interruption to cash flows. GSIS 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, HYSTP, and marketable bonds.

	2015	2014
Financial assets at FVPL	**557,446,051,865**	553,804,948,422
Cash	**38,973,065,605**	33,949,093,550
Short-term investment placements	**5,000,000,000**	11,000,000,000
	601,419,117,470	598,754,041,972
Other financial liabilities	**24,487,936,488**	21,870,945,493

The amounts disclosed in the maturity analysis of other financial liabilities of the GSIS are the contractual undiscounted cash flows based on the remaining period at the balance sheet date to their contractual maturities.

	2015		
	Up to a year	**1 to 3 years**	**Total**
Insurance liabilities	**11,711,703,644**	**-**	**11,711,703,644**
Other liabilities	**9,675,857,485**	**-**	**9,675,857,485**
Deferred credits	**2,871,805,063**	**228,570,296**	**3,100,375,359**
	24,259,366,192	**228,570,296**	**24,487,936,488**

	2014		
	Up to a year	1 to 3 years	Total
Insurance liabilities	14,017,744,422	-	14,017,744,422
Other liabilities	5,622,991,591	-	5,622,991,591
Deferred credits	1,798,195,364	432,014,116	2,230,209,480
	21,438,931,377	432,014,116	21,870,945,493

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 to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

The GSIS, under its IPG, may transact in fixed income derivatives, such as interest rate swaps, long dated foreign exchange 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 8, 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, 2015 and 2014.

Foreign currency risk

GSIS is exposed to foreign currency risk through its cash and cash equivalents, financial assets at FVPL, and GI receivables (premiums and due from reinsurers) and payables (claims and due to reinsurers) denominated in US Dollar (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, financial assets at FVPL and GI receivables and payables. In translating these monetary assets and liabilities into Peso, the exchange rate used were P47.060 and P44.720 to USD based on the closing rate of Philippine Dealing and Exchange Corporation (PDEx) as at December 31, 2015 and 2014. For Euro, the exchange rates used were P51.741 and P54.339 to Euro based on the closing rate of Bangko Sentral ng Pilipinas (BSP) as at December 31, 2015 and 2014, respectively.

The GSIS manages risk affecting foreign currency transactions by entering into derivative contracts such as foreign exchange 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.

	2015		2014	
	USD balances	**Peso equivalent**	USD balances	Peso equivalent
Financial assets				
Cash and cash equivalents	**46,597,945**	**2,192,899,292**	41,720,432	1,865,737,719
FVPL financial assets	**1,499,229,733**	**70,553,751,235**	1,394,091,944	62,343,791,736
Interest receivable	**23,086,079**	**1,086,430,878**	22,177,711	991,787,236
GI premium receivable	**-**	**-**	1,420,151	63,509,153
Due from reinsurers	**1,258,153**	**59,208,680**	5,251,140	234,830,981
	1,570,171,910	**73,892,290,085**	1,464,661,378	65,499,656,825
Financial liabilities				
Claims payable	**3,216,472**	**151,367,172**	3,217,590	143,890,625
Due to reinsurers	**4,140,926**	**194,871,978**	5,531,751	247,379,905
Sundry accounts payable	**26,746**	**1,258,667**	69,566	3,110,992
	7,384,144	**347,497,817**	8,818,907	394,381,522

	2015		2014	
	Euro balances	**Peso equivalent**	Euro balances	Peso equivalent
Financial assets				
Cash and cash equivalents	**4,452**	**230,351**	4,451	241,863
FVPL financial assets	**22,874,900**	**1,183,570,201**	24,089,809	1,309,016,131
Interest receivable	**1,127,322**	**58,328,768**	1,127,322	61,257,550
	24,006,674	**1,242,129,320**	25,221,582	1,370,515,544
Financial liabilities				
Sundry accounts payable	**252**	**13,039**	252	13,693
	252	**13,039**	252	13,693

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 GSIS' income for the years ended December 31, 2015 and 2014.

Change in exchange rate against Peso	**Effect on income**	
	2015	2014
USD	**USD1.00 = P47.060**	USD1.00 = P44.720
1.00 increase	**1,562,787,766**	1,455,842,471
1.00 decrease	**(1,562,787,766)**	(1,455,842,471)
Euro	**EUR1.00 = P51.741**	EUR1.00 = P54.339
1.00 increase	**24,006,422**	25,221,330
1.00 decrease	**(24,006,422)**	(25,221,330)

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 IPG. The internally managed equity portfolio is subject to:

- Maximum limit of 25 per cent of investible funds;
- Minimum company market capitalization of P2 billion;
- Minimum free float of ten per cent;
- Maximum small cap stocks total investment of ten per cent;
- Diversification by issuer, sector, and industry; and
- For equity index mutual funds or ETFs, a maximum limit of five per cent of investible funds.

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

3.2 Fair value estimation

The carrying/fair values of all of the GSIS financial assets and financial liabilities as at December 31, 2015 and 2014 are as follows:

	2015	2014
Cash and cash equivalents	**38,973,065,605**	33,949,093,550
Financial assets		
ROP notes and bonds	**350,326,074,671**	368,453,907,737
Stocks - traded	**125,603,553,347**	112,435,070,294
Corporate bonds	**44,520,124,181**	37,597,258,830
Externally managed funds	**32,669,925,071**	32,624,003,097
Short-term investment placements	**5,000,000,000**	11,000,000,000
Global peso notes	**3,495,376,578**	1,867,771,368
Stocks - non-traded	**830,998,017**	826,937,096
Loans and receivables		
Premiums and loans	**259,985,593,098**	239,933,572,080
	861,404,710,568	838,687,614,052

Financial liabilities		
Other financial liabilities	**24,487,936,488**	21,870,945,493

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 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				
Stocks - traded	125,603,553,347	-	-	125,603,553,347
Stocks - non-traded	-	-	830,998,017	830,998,017
Fixed income				
ROP bonds Pesos	300,181,897,045	-	-	300,181,897,045
ROP bonds USD	48,960,605,129	-	-	48,960,605,129
ROP bonds Euro	1,183,572,497	-	-	1,183,572,497
Global peso notes	3,495,376,578	-	-	3,495,376,578
Corporate bonds Peso	29,732,796,059	-	-	29,732,796,059
Corporate bonds USD	14,787,328,122	-	-	14,787,328,122
Externally managed funds	-	32,669,925,071	-	32,669,925,071
Total assets at fair value	**523,945,128,777**	**32,669,925,071**	**830,998,017**	**557,446,051,865**
Derivative liabilities	-	4,512,665,890	-	4,512,665,890
Net assets at fair value	**523,945,128,777**	**28,157,259,181**	**830,998,017**	**552,933,385,975**

Investment assets and liabilities recognized at fair value are analyzed and categorized between those whose fair value is based on the following:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- 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
- Those involving inputs for the asset or liability that are not based on observable market data (non-observable inputs) (Level 3).

The following presents the reconciliations for investments included in Level 3 of the fair value hierarchy for the year ended December 31, 2015:

	Dec. 31, 2014	Net increase in value	**Dec. 31, 2015**
Stocks - non-traded	826,937,096	4,060,921	**830,998,017**

4. SIGNIFICANT ACCOUNTING JUDGEMENTS 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 to outcomes that would 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.

4.1 Judgments

In the process of applying 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

GSIS as lessee. GSIS 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.

GSIS as lessor. GSIS has determined that significant risks and benefits of ownership of the leased property remain with GSIS; hence, leases are accounted for as operating lease (see Note 27).

4.2 Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date and 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

GSIS 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. GSIS 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 GSIS made different judgments or utilized different estimates.

Premium receivables

SI, OLI and ECI premiums receivable of inactive members are provided with 100 per cent allowance for impairment because probability of collection is deemed unlikely. For

Pre-need premiums receivable, all accounts have been provided with 100 per cent allowance.

Loans receivable

The following policies were adopted in the recognition of impairment of outstanding service loans except loans to pensioners:

a. Loans to inactive members with processed retirement/separation benefits claims

- *One hundred per cent allowance for impairment for the loan balances which were not covered by the retirement/separation benefits.*

b. Loans to inactive members without processed retirement/separation benefits claims

- *One hundred per cent allowance for impairment for the loan balances which cannot be covered by the computed benefit entitlements. In the determination of the benefit entitlements, whether the possible claims have already prescribed under existing laws and policies shall be taken into consideration.*

No allowance for impairment is provided for loans to pensioners since collection is done through deduction of amortizations from their monthly pension. Such loans are also covered by redemption insurance in case of death of the pensioner.

No allowance for impairment is provided for loan balances of active members since these can be collected against any future GSIS benefit the borrower is entitled to.

For non-member loans and receivables, GSIS maintains the allowance for impairment at a level considered adequate to provide for potential uncollectible receivables. Allowance for impairment is based on the following:

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

Age	Percentage
More than 2 years up to 4 years	25%
More than 4 years up to 7 years	50%
More than 7 years for accounts of companies/entities which are already declared insolvent/bankrupt	100%

Other receivables

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

- One hundred per cent allowance for reinsurance companies already identified as non-operational; and

- Based on age of receivables for operational companies applying the percentages shown in table below:

Age	Percentage
Two years and below	0%
Three to four years	25%
Five to seven years	50%
More than seven years	100%

Provision and contingencies

GSIS 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.

Provision for estimated GI claims

Provisions for estimated GI claims are initially accrued when the insured events occur. The liabilities for unadjusted claims are based on estimated cost of settling the claims. Once the final adjusted amount is determined for the claims and losses, the estimated cost is closed accordingly and the Claims payable account is recognized in the books.

5. DETAILS OF CORPORATE FINANCIAL STATEMENTS

The table below shows the Statements of Financial Position for all funds as at December 31, 2015 (in millions):

	SIF	GIF	OLIF	PNF	ECIF	BOIF	PRF	Eliminations	Total
ASSETS									
Cash and cash equivalents	30,337	5,707	878	379	1,644	-	28	-	38,973
Premiums and loans receivable - net	266,339	551	2,732	3	3,145	-	-	-	272,770
Financial assets	515,785	22,121	15,605	1,810	12,846	-	-	(500)	567,667
Other receivables - net	2,244	4,869	232	2	-	-	-	(147)	7,200
Investment property	58,471	-	-	-	-	-	-	-	58,471
Property and equipment - net	12,062	-	-	-	-	-	-	-	12,062
Other assets	836	216	-	5	-	-	-	-	1,057
TOTAL ASSETS	**886,074**	**33,464**	**19,447**	**2,199**	**17,635**	**-**	**28**	**(647)**	**958,200**
LIABILITIES									
Insurance liabilities	3,897	7,722	71	10	12	-	-	-	11,712
Other liabilities	8,919	492	2	246	17	147	-	(147)	9,676
Deferred credits	1,728	1,372	-	-	-	-	-	-	3,100
TOTAL LIABILITIES	14,544	9,586	73	256	29	147	-	(147)	24,488
SURPLUS									
Appropriated	849,071	9,849	9,481	1,939	7,780	-	28	-	878,148
Unappropriated	14,672	13,869	9,893	4	9,826	(147)	-	(500)	47,617
	863,743	23,718	19,374	1,943	17,606	(147)	28	(500)	925,765
Revaluation surplus	7,787	160	-	-	-	-	-	-	7,947
TOTAL NET WORTH	**871,530**	**23,878**	**19,374**	**1,943**	**17,606**	**(147)**	**28**	**(500)**	**933,712**
TOTAL LIABILITIES AND NET WORTH	**886,074**	**33,464**	**19,447**	**2,199**	**17,635**	**-**	**28**	**(647)**	**958,200**

The table below shows the Statements of Comprehensive Income for all funds for the period ended December 31, 2015 (in millions):

	SIF	GIF	OLIF	PNF	ECIF	BOIF	PRF	Eliminations	Total
INCOME									
Income from insurance	83,039	3,723	1,283	7	1,925	-	-	-	89,977
Income from loans	22,214	-	93	-	-	-	-	-	22,307
Income/(Loss) from financial assets	(3,497)	547	642	(47)	428	-	-	(18)	(1,945)
Income from investment property	26,463	-	-	-	-	-	-	-	26,463
Other income	3,460	(18)	104	-	(201)	-	-	-	3,345
	131,679	**4,252**	**2,122**	**(40)**	**2,152**	**-**	**-**	**(18)**	**140,147**
EXPENSES									
Claims and benefits	84,585	(16)	837	357	177	-	-	-	85,940
Investment expenses	233	2	-	-	1	-	-	-	236
Insurance expenses	-	1,192	-	-	-	-	-	-	1,192
Personnel services	3,776	-	-	-	-	-	-	-	3,776
Operating expenses	1,994	-	-	-	66	-	-	-	2,060
	90,588	**1,178**	**837**	**357**	**244**	**-**	**-**	**-**	**93,204**
OPERATING INCOME/(LOSS) BEFORE GSIS FEES AND COMMISSION	**41,091**	**3,074**	**1,285**	**(397)**	**1,908**	**-**	**-**	**(18)**	**46,943**
GSIS FEES AND COMMISSION									
Management fee	12	-	-	-	(12)	-	-	-	-
Administration fee	355	(227)	(128)	-	-	-	-	-	-
Marketing commission	455	(455)	-	-	-	-	-	-	-
	822	**(682)**	**(128)**	**-**	**(12)**	**-**	**-**	**-**	**-**
NET INCOME/(LOSS)	**41,913**	**2,392**	**1,157**	**(397)**	**1,896**	**-**	**-**	**(18)**	**46,943**
OTHER COMPREHENSIVE INCOME/(LOSS)									
Items that will not be reclassified subsequently to profit or loss									
Revaluation surplus	1,449	-	-	-	-	-	-	-	1,449
TOTAL COMPREHENSIVE INCOME/(LOSS)	**43,362**	**2,392**	**1,157**	**(397)**	**1,896**	**-**	**-**	**(18)**	**48,392**

6. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2015	2014
Cash on hand	**274,760,570**	200,534,691
Cash in banks*	**38,698,305,035**	33,748,558,859
	38,973,065,605	33,949,093,550

**Exclusive of accrued interest receivable amounting to P71.539 million and P77.115 million in 2015 and 2014, respectively.*

Cash in banks earn interest at the respective bank deposit rates. HYSTP and SSD are unrestricted in nature and are made for varying periods of three months or less, depending on the immediate cash requirements, and earn interest at the prevailing HYSTP and SSD rates.

Of the P38.698 billion cash in banks, HYSTP and SSD amounted to P36.061 billion with terms ranging from 1 up to 90 days.

Interest income earned from cash in banks recorded under other investment income (see Note 19) amounted to P911.118 million in 2015 and P385.724 million in 2014.

7. PREMIUMS AND LOANS RECEIVABLE - NET

This account consists of the following:

	2015	2014
Premiums receivable		
Social insurance premium	**31,289,240,417**	28,661,657,624
Employees' compensation insurance premium	**4,349,092,111**	4,714,457,178
Optional life insurance premium	**2,180,028,611**	2,199,559,830
General insurance premium	**550,639,528**	474,021,680
Pre-need insurance premium	**12,926,722**	14,334,251
	38,381,927,389	36,064,030,563
Less: Allowance for impairment	**12,996,817,518**	11,208,416,966
Premiums receivable - net	**25,385,109,871**	24,855,613,597
Loans receivable		
Principal		
Consolidated loan	**166,644,958,250**	148,716,140,129
Policy loans	**25,566,103,517**	25,008,281,461
Emergency/calamity loans	**17,503,645,842**	17,256,585,764
Salary loan	**14,374,110,333**	15,451,849,518
Real estate loans	**10,478,918,425**	10,650,074,934
Home emergency loan program	**10,507,868,181**	11,469,801,725
Deeds of conditional sale	**5,735,251,868**	6,333,250,317
Educational assistance fund program loan	**2,231,096,448**	2,328,690,108
Private loans	**2,118,394,639**	2,118,604,006
eCard/eCard plus cash advance loan	**1,570,381,606**	2,157,808,829
Pension loan	**1,207,475,851**	964,899,190
Emergency loan assistance	**580,378,862**	644,542,364
Summer one month salary loan	**556,817,112**	625,446,418
Pensioners' emergency loan	**279,610,950**	274,091,057
Pensioners' restructured loan	**175,470,740**	168,404,069
Lease purchases	**111,401,704**	111,401,704
Interim loan	**91,168,588**	91,168,588
Stock purchase loans	**31,809,064**	27,605,054
Government loans	**14,174,153**	1,010,703,255
Educational assistance loans	**2,739,129**	2,665,146
Fly PAL	**322,433**	386,067
	259,782,097,695	245,412,399,703
Less: Allowance for impairment	**22,484,871,437**	27,441,578,177
Loans receivable - net	**237,297,226,258**	217,970,821,526
Interest receivable on loans		
Consolidated loan	**10,030,281,970**	10,328,875,588
Salary loan	**2,121,675,650**	2,030,086,875
Housing loan/REL/DCS	**1,580,921,072**	1,479,777,227
Private loan	**823,153,174**	823,153,174
Emergency/calamity loans	**568,481,127**	520,278,282
Emergency loan assistance	**230,313,533**	243,138,752
eCard/eCard plus cash advance loan	**206,957,001**	237,658,256
Stock purchase loan	**204,821,311**	172,831,651
Home emergency loan program	**149,152,673**	68,468,541
Educational assistance fund program loan	**141,418,385**	116,468,334
Summer one month salary loan	**71,274,289**	70,173,966
Pension loan	**8,181,998**	7,825,074
Educational assistance loan	**4,279,215**	3,363,423
Interim loan	**908,737**	908,737

	2015	2014
Fly PAL	**264,527**	204,544
Pensioners' restructured loan	**260,936**	151,455
Pensioners' emergency loan	**125,540**	25,031
Government loan	**-**	4,152,205
	16,142,471,138	16,107,541,115
Less: Allowance for impairment	**3,357,773,092**	3,588,199,927
Interest receivable on loans - net	**12,784,698,046**	12,519,341,188
Loans and receivable - total	**250,081,924,304**	230,490,162,714
Premiums, loans and receivable-total	**275,467,034,175**	255,345,776,311
Less: Accounts for clearing	**2,696,743,031**	2,892,863,043
	272,770,291,144	252,452,913,268

7.1 Premiums receivable

Social Insurance

SI 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

OLI premiums receivable represent uncollected premiums on various optional life insurance products designed by the GSIS pursuant to Section 10 of CA No. 186 and Section 26 of RA No. 8291.

Pre-need Insurance

PNI 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

ECI premiums receivable represent uncollected monthly contributions to the ECIF (i.e., one per cent of the employee's monthly basic salary or P100, whichever is lower).

General Insurance

GI 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.

7.2 Loans receivable

Consolidated loan

The consolidated loan is a loan program created in 2006 that merged five different loan products-salary loan, restructured salary loan, enhanced salary loan, emergency loan assistance, and summer one-month salary loan, under one account. 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).

Beginning July 1, 2015, the Enhanced Consolidated Loan Program was launched which offers a 14-month salary loan to members who have at least 25 years of paid premiums and 12-month salary loan to those with at least 15 years of service. Previously, the credit limit for these members was only ten times their salary. The program also extends the maximum payment term for the loan from six to ten years for members with at least ten years of paid premiums.

Consolidated loans granted in 2015 to 619,605 borrowers amounted to P121.659 billion while in 2014, 503,512 borrowers were granted the total amount of P83.133 billion.

Policy loan

Policy loan is a loan program which a member can avail of from his GSIS life insurance policy. Upon 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 interest at eight per cent compounded annually. The GSIS granted a total of P11.060 billion policy loans to 423,431 borrowers in 2015.

Emergency loan

The GSIS extends support to members affected by calamities/emergencies in the form of the emergency loan (EL) program. Loanable amount is P20,000 for those who have no outstanding EL account and P40,000 for those who have existing EL account and were hit by another calamity or contingency. The interest rate is at six percent computed in advance, payable in three years.

A calamity-hit area must be declared in a state of calamity by the Office of the President upon the recommendation of the National Disaster Risk Reduction and Management Council or by the Local Sanggunian, upon the recommendation of the Local Disaster Risk Reduction and Management Council before members working or residing in the said area could become eligible to avail of the emergency loan.

Due to various calamities that hit the country, emergency loans granted to members amounted to P8.317 billion in 2015.

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 5 years with interest computed at six per cent per annum. Granting of this loan was discontinued on December 27, 2013.

Pensioners' restructured loan

In July 2011, the pensioner's restructured loan, also known as Choice of Loan Amortization Schedule for Pensioners, was offered to retiring members as an option for the settlement of their obligations. In 2015, P110.407 million was granted to 802 new availees of this loan while in 2014, P123.116 million was granted to 1,085 availees.

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 2015, a total of P115.880 million has been granted to 5,796 borrowers.

Home emergency loan program

In December 2013, in line with Presidential Proclamation No. 682, declaring a State of Calamity in several areas affected by super typhoon Yolanda, a one-time non-renewable loan product was granted by the GSIS under BR No. 161 to address the pressing needs of active members working or residing in the areas that were identified as worst hit by typhoon Yolanda. A total of P11.607 billion was granted to 81,891 borrowers who have availed of this loan as at the end of the availment period on September 2014.

Housing Loans

Real Estate Loans (REL) are loans granted to members with the objective of providing a loan facility for various purposes such as home acquisition, home construction, home improvement and home refinancing while Deeds of Conditional Sale (DCS) are loans granted to members with the objective of providing 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 BR No. 109 in 2011.

7.3 Allowance for Impairment

The roll forward analysis of allowance for impairment losses on premiums, loans and interest receivable as at December 31, 2015 is as follows:

	2015	2014
Balance, January 1	**42,238,195,070**	41,133,469,189
Provisions/reversals	**(3,398,733,023)**	1,104,725,881
	38,839,462,047	42,238,195,070

7.4 Accounts for clearing

Premiums and loans receivables are presented net of allowance for impairment loss and accounts for clearing amounting to P2.697 billion in 2015 and P2.893 billion in 2014 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.

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

8. FINANCIAL ASSETS

The GSIS financial assets consist of:

	2015	2014
Fair Value Through Profit or Loss (FVPL)		
ROP notes and bonds	**350,326,074,671**	368,453,907,737
Stocks - traded	**125,603,553,347**	112,435,070,294
Corporate bonds	**44,520,124,181**	37,597,258,830
Externally managed funds	**32,669,925,071**	32,624,003,097
Global peso notes	**3,495,376,578**	1,867,771,368
Stocks - non-traded	**830,998,017**	826,937,096
	557,446,051,865	553,804,948,422
Interest Receivable		
ROP notes and bonds	**4,555,872,089**	4,456,067,988
Corporate bonds	**588,175,166**	474,938,067
Global peso notes	**76,798,627**	27,379,168
	5,220,845,882	4,958,385,223
Others		
Short-term investment placements*	**5,000,000,000**	11,000,000,000
	5,000,000,000	11,000,000,000
	567,666,897,747	569,763,333,645

**Exclusive of accrued interest receivable amounting to P15.333 million and P18.344 million in 2015 and 2014, respectively.*

8.1 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). The fair value of traded equity investments amounts to P125.604 billion and P112.435 billion as at December 31, 2015 and 2014, respectively.

Equity investments that are no longer listed or traded in the PSE are recorded as stocks non-traded. The fair value of the investment amounts to P830.998 million and P826.937 million as at December 31, 2015 and 2014, respectively.

8.2 Fixed income securities

Government securities

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

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 dollars but subsequently sold and traded by a foreign corporation. As at December 31, 2015 and 2014 total investments in Global Peso Notes amounted to P3.495 billion and P1.868 billion.

Corporate bonds

GSIS may invest and transact in debt instruments denominated in Peso or any major currency that are issued or guaranteed by foreign sovereign governments, supranational corporations, or private corporations that at the time of acquisition by the GSIS carry a long term credit rating equivalent to at least “A+” from Standard and 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 0.75 per cent of the total investible funds 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 and Poor’s or Fitch Ratings. At any one-time, GSIS may invest a maximum of 15 per cent of the total investible funds in instruments as described in this subsection provided no more than 0.50 per cent of the total investible funds 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 at the time of acquisition by the GSIS. If the issuer or any of its outstanding debt instruments is not rated by Standard and 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 and Poor’s or Fitch Ratings. At any one time, GSIS may invest a maximum of ten per cent of the total investible funds in instruments as described in this subsection provided no more than 0.50 per cent of the total investible fund may be invested in any single issuer/borrower name or guarantee.

The total investments in corporate bonds amounted to P44.520 billion and P37.597 billion as at December 31, 2015 and 2014, respectively.

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, 2015, are as follows:

	Within 1 year	**1 to 5 years**	**6 to 10 years**	**Over 10 years**	**Total**	**Average effective yield**
ROP notes and bonds						
Peso	834	31,355	5,509	262,484	300,182	5.82%
USD	-	1,387	14,846	32,727	48,960	7.25%
Euro	1,184	-	-	-	1,184	6.19%
	2,018	32,742	20,355	295,211	350,326	6.08%
Global peso notes	-	1,764	308	1,423	3,495	5.80%
Corporate bonds	-	7,696	21,774	15,050	44,520	5.92%

8.3 Externally managed funds

This account represents GSIS investments with local fund managers who provide additional windows for placement of investible funds that satisfy the requirements of safety, liquidity and yield. Externally managed funds amount to P32.670 billion and P32.624 billion, as at December 31, 2015 and 2014, respectively.

9. OTHER RECEIVABLES - NET

The other receivables account consists of the following:

	2015	2014
Due from reinsurers	**6,890,340,338**	7,018,562,333
Sundry accounts receivable	**1,780,774,599**	1,676,408,558
Other receivable - agencies with MOA	**730,049,909**	797,096,291
Interest receivable – others	**182,354,032**	204,039,284
Dividend receivable – investments	**99,622,679**	139,598,929
Accrued rental	**92,783,626**	97,401,549
Others	**198,672,906**	150,282,948
	9,974,598,089	10,083,389,892
Allowance for impairment - other receivables	**2,774,138,520**	2,580,664,508
	7,200,459,569	7,502,725,384

Sundry accounts receivable includes 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 an insured government agency.

Sundry accounts receivable also includes SSD with the GSIS Family Bank (GFB) amounting to P500 million which was reclassified from cash and cash equivalents to this account due to the decision of the Monetary Board of the Philippines to place the bank under receivership with the Philippine Deposit Insurance Corporation (PDIC) due to its continued incurrence of operating losses (see Note 32). The SSD with GFB earned interest of P5.069 million for CY 2015.

Due from reinsurers account represents the share of reinsurers on the GI claims and losses. As at year-end, reinsurer's shares on losses were broken down as follows:

	2015	2014
Due from RI - unadjusted losses recoverable	**4,451,597,724**	4,641,655,756
Due from RI – facultative	**2,234,570,289**	2,030,577,936
Due from RI – treaty	**204,172,325**	346,328,641
	6,890,340,338	7,018,562,333

Reinsurers' share on unadjusted losses is initially accrued when losses incurred are covered by reinsurance. Changes in estimates of share on losses are recognized as addition to or deduction from the receivable account in the period in which the final adjustments of the claims or losses are made.

The roll forward analysis of allowance for impairment losses on other receivables as at December 31, 2015 is as follows:

	2015	2014
Balance, January 1	**2,580,664,508**	2,091,544,940
Provisions	**193,474,012**	489,119,568
	2,774,138,520	2,580,664,508

10. INVESTMENT PROPERTY

Investment property consists of the following:

	Big/medium ticket accounts	**Cancelled DCS**	**Foreclosed REL/REL redeemable**	**GSIS owned/ unawarded lots**	**Total**
Beginning Balance - January 1, 2015	**19,933,798,809**	**10,921,552,963**	**156,076,652**	**1,007,255,665**	**32,018,684,089**
Additions:					
Inclusion of various accounts	**619,391,595**	**-**	**26,360,279**	**115,863,690**	**761,615,564**
Gain on valuation	**28,072,018,200**	**671,452,711**	**76,176,965**	**344,719,748**	**29,164,367,624**
Reclassification from property under litigation	**110,000,000**	**-**	**-**	**-**	**110,000,000**
SL reclassification/unitization of accounts	**994,603,939**	**47,681,000**	**21,730,919**	**522,758,958**	**1,586,774,816**
	29,796,013,734	**719,133,711**	**124,268,163**	**983,342,396**	**31,622,758,004**
Deductions:					
Sale of various investment Property	**259,479,600**	**17,690,300**	**-**	**3,461,733**	**280,631,633**
Loss on valuation	**529,290,404**	**107,416,602**	**9,500,485**	**5,236,600**	**651,444,091**
Reclassification to property under litigation	**115,451,000**	**-**	**-**	**336,532,345**	**451,983,345**
SL reclassification/unitization of accounts	**1,186,514,189**	**97,194,583**	**64,100,690**	**238,965,355**	**1,586,774,817**
Restructuring of accounts	**-**	**1,459,500**	**-**	**-**	**1,459,500**
Various adjustments	**19,437,116**	**2,121,491,783**	**9,050,171**	**47,949,924**	**2,197,928,994**
	2,110,172,309	**2,345,252,768**	**82,651,346**	**632,145,957**	**5,170,222,380**
Ending Balance - December 31, 2015	**47,619,640,234**	**9,295,433,906**	**197,693,469**	**1,358,452,104**	**58,471,219,713**

	Big/medium ticket accounts	Cancelled DCS	Foreclosed REL/REL redeemable	GSIS owned/ unawarded lots	Total
Beginning balance – January 1, 2014	20,068,327,116	10,239,008,171	167,941,529	883,040,071	31,358,316,887
Additions:					
Cancellation of deeds of conditional sale	32,944,563	3,287,154	-	-	36,231,717
Booking of unawarded lots	-		-	2,653,000	2,653,000
Foreclosure of real estate loan	-	-	358,192	-	358,192
Reclassification from property, and equipment	140,850,100	-	42,834	-	140,892,934
Gain on valuation	1,324,688,430	970,802,630	4,093,314	291,586,244	2,591,170,618
	1,498,483,093	974,089,784	4,494,340	294,239,244	2,771,306,461
Deductions:					
Sale of various investment property	1,002,570,000	37,534,751	-	45,058,600	1,085,163,351
Loss on valuation	375,665,400	176,174,799	16,316,383	7,387,150	575,543,732
Reclassification to property under litigation	254,776,000	-	-	-	254,776,000
SL reclassification	-	24,133,200	42,834	116,716,900	140,892,934
Restructuring of accounts	-	20,090,133	-	-	20,090,133
Various adjustments	-	33,612,109	-	861,000	34,473,109
	1,633,011,400	291,544,992	16,359,217	170,023,650	2,110,939,259
Ending Balance - December 31, 2014	19,933,798,809	10,921,552,963	156,076,652	1,007,255,665	32,018,684,089

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 DCS pertain to real property or accounts which were titled in the name of GSIS and subsequently awarded to individuals, but were later on cancelled due to non-payment.

Foreclosed property are real property that were previously subjects of individual REL which were foreclosed in favor of GSIS due to non-payment.

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

The significant increase in gain on valuation is based on 2015 external appraisal of big ticket accounts namely Port Area Property, Philippine Plaza Hotel, Primetown Property, Serenity, Manila Hotel, Metro Manila Development Authority (MMDA), and the Coconut Palace.

An investment property is reclassified if its value increases/decreases as a result of valuation, thereby changing its classification from one account to another.

Port Area Property

The Port Area Property, which was previously recorded under Other Assets - Property Under Litigation, was reclassified to Investment Property and revalued to its fair market value of P17.2 billion in view of the ruling made by the Office of the Government Corporate Counsel (OGCC), dismissing the arbitration case between the GSIS and the Philippine Ports Authority (PPA).

The Port Area 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 Manila International Port Terminal Inc. (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 PPA under PD No. 1284 which further provides that the PPA shall either:

- Reimburse MIPTI or the GSIS actual and reasonable expenses incurred in the pre-development undertaking of the project; or

- 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 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 OGCC last May 3, 2012.

<u>Ruling of the OGCC</u>

In its letter dated August 24, 2015, the OGCC informed the GSIS and the PPA of its dismissal of Arbitration Case No. 2012-01 for lack of jurisdiction, citing that the PPA's argument questioning the validity of GSIS' OCT involves a collateral attack on GSIS' titles which can only be done through a direct proceeding. Section 48 of PD 1529 or the Property Registration Decree provides that certificate of title cannot be the subject of a collateral attack. An adjudication which may result in the cancellation of GSIS' title constitutes a collateral attack which can only be done before the proper courts.

The ruling in effect affirms GSIS' position that it has vested right to the property as evidenced by the issuance of the OCT issued under the Torrens System to prove ownership of the property.

11. PROPERTY AND EQUIPMENT - NET

The property and equipment account consists of the following:

Particulars	Land	Land improvements	Building and building improvements	Information technology resources	Construction in progress	Furniture, fixtures and equipment	Total
Cost:							
January 1, 2015	**6,451,052,725**	**190,131,472**	**5,499,643,346**	**2,768,185,561**	**121,551,424**	**887,027,652**	**15,917,592,180**
Additions	**-**	**-**	**45,257,434**	**287,939,862**	**22,746,161**	**144,805,255**	**500,748,712**
Adjustments	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Valuation	**1,449,338,900**	**-**	**-**	**-**	**-**	**-**	**1,449,338,900**
Disposals	**-**	**-**	**-**	**(65,458,527)**	**-**	**(40,248,467)**	**(105,706,994)**
December 31, 2015	**7,900,391,625**	**190,131,472**	**5,544,900,780**	**2,990,666,896**	**144,297,585**	**991,584,440**	**17,761,972,798**
Accumulated depreciation:							
January 1, 2015	**-**	**170,986,893**	**2,695,380,675**	**1,817,508,221**	**-**	**561,788,884**	**5,245,664,673**
Depreciation	**-**	**24,155**	**224,010,198**	**299,436,497**	**-**	**66,534,389**	**590,005,239**
Disposals	**-**	**-**	**-**	**(58,285,533)**	**-**	**(35,778,871)**	**(94,064,404)**
Adjustments	**-**	**-**	**(10,912,902)**	**(30,450,552)**	**-**	**(170,379)**	**(41,533,833)**
December 31, 2015	**-**	**171,011,048**	**2,908,477,971**	**2,028,208,633**	**-**	**592,374,023**	**5,700,071,675**
Net book value - December 31, 2015	**7,900,391,625**	**19,120,424**	**2,636,422,809**	**962,458,263**	**144,297,585**	**399,210,417**	**12,061,901,123**
Cost:							
January 1, 2014	6,451,052,725	190,131,472	5,250,046,328	2,503,216,197	286,804,632	869,978,060	15,551,229,414
Additions	-	-	255,480,603	363,108,690	(165,253,208)	75,834,038	529,170,123
Adjustments	-	-	-	-	-	(10,270)	(10,270)
Disposals	-	-	(5,883,585)	(98,139,327)	-	(58,774,176)	(162,797,088)
December 31, 2014	6,451,052,725	190,131,472	5,499,643,346	2,768,185,560	121,551,424	887,027,652	15,917,592,179
Accumulated depreciation:							
January 1, 2014	-	170,721,458	2,489,918,888	1,635,932,168	-	522,943,775	4,819,516,289
Depreciation	-	265,435	210,757,014	276,791,110	-	68,891,720	556,705,279
Disposals	-	-	(5,295,227)	(95,215,058)	-	(30,046,611)	(130,556,896)
December 31, 2014	-	170,986,893	2,695,380,675	1,817,508,220	-	561,788,884	5,245,664,672
Net book value - December 31, 2014	6,451,052,725	19,144,579	2,804,262,671	950,677,340	121,551,424	325,238,768	10,671,927,507

Property and equipment with a cost of P2.126 billion and P1.762 billion as at December 31, 2015 and 2014, respectively, are fully depreciated but are still serviceable.

12. OTHER ASSETS

The other assets account consists of the following:

	2015	2014
Property under litigation	**591,835,468**	364,776,000
Paintings and tapestries	**427,526,072**	427,544,054
Supplies and materials in stock	**10,974,138**	6,771,513
Deposits	**5,015,768**	8,911,707
Advances to vendors/contractors	**5,035,955**	5,000,000
Cash advances	**1,175**	18,664
Others	**15,648,215**	51,325,422
	1,056,036,791	864,347,360

12.1 Property under litigation

This account includes 15 properties which were previously recorded as investment property but were reclassified to Other Assets - Property Under Litigation as these accounts are either covered by the Comprehensive Agrarian Reform Program or with pending legal case.

12.2 Others

This account represents the balance of investment in GFB amounting to P15.648 million and P51.325 million as at December 31, 2015 and 2014, respectively, which was reclassified from investment in subsidiary account and no longer consolidated due to the immateriality of the amounts. GFB was placed under receivership with the PDIC by the Monetary Board of the Philippines through Resolution No. 826 dated May 13, 2016, due to the continued operating losses incurred by the bank.

13. INSURANCE LIABILITIES

This account consists of the following:

	2015	2014
Claims payable		
Social Insurance		
Retirement	**1,892,285,663**	1,796,487,783
Life insurance	**1,237,439,495**	1,376,395,419
Pension	**620,838,114**	29,192,532
Survivorship	**122,229,613**	107,547,736
Funeral	**19,100,230**	14,276,351
Others	**4,488,866**	5,664,965
	3,896,381,981	3,329,564,786
General insurance	**542,949,993**	558,058,833
Optional life insurance	**19,319,908**	21,792,576
Employee compensation insurance	**11,905,078**	11,249,439
Pre-need insurance	**10,412,967**	7,843,140
	584,587,946	598,943,988
Provision for estimated GI claims	**6,402,456,222**	7,240,755,581
Due to reinsurers	**776,194,104**	2,828,529,443
Dividends payable	**52,083,391**	19,950,624
	11,711,703,644	14,017,744,422

Claims and benefits payable pertain to various claims due to members or policyholders as at December 31, 2015 but remain unpaid as at year-end. The liabilities for claims filed but unpaid as at December 31, 2015 are based on estimated amount per type of claim per member. The difference between estimate and final amount of claims are recognized as addition to or deduction from claims expense in the period in which the claim was processed or paid.

The change in the carrying amount of provision for estimated GI claims, from P7.241 billion to P6.402 billion, was due to reversals amounting to P2.345 billion resulting from the determination of the final amount of claims and additional set-up of P1.507 billion in 2015.

In 2015, cash dividends of P38 million were granted to GSIS OLI policyholders whose life insurance coverage have been in force for at least one year as at December 31, 2014. The unexpended balance of dividends declared prior to CY 2013 in the amount of P5.474 million was reverted back to the surplus of the OLIF in 2015.

14. OTHER LIABILITIES

This account consists of the following:

	2015	2014
Derivatives - deliverable and non-deliverable	**4,512,665,890**	1,456,198,122
Sundry accounts payable	**4,287,957,110**	3,155,766,053
Funds held in trust	**560,879,597**	705,997,471
Due to agency	**181,459,888**	167,029,945
Provisions for pending litigation	**132,895,000**	138,000,000
	9,675,857,485	5,622,991,591

14.1 Sundry accounts payable

This account consists of the following:

	2015	2014
Refund of member loans	**1,664,762,063**	693,100,146
Various accruals	**1,174,135,650**	1,064,039,536
Accrued employee benefits and expenses	**1,059,285,848**	933,217,846
Unreleased checks as at balance sheet date	**292,377,054**	324,656,698
Bank service fee on e-Crediting transactions	**55,062,928**	11,488,001
Extra remuneration payable	**36,708,977**	36,721,636
Investment placements unpaid as at balance sheet date	**5,624,590**	92,542,190
	4,287,957,110	3,155,766,053

14.2 Derivative contracts

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.

Derivative contracts are carried in the statements 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 fair values of derivative contracts held as at December 31, 2015 and December 31, 2014 are as follows:

Derivative contracts	**2015**	2014
Foreign exchange contracts		
Non-deliverable forwards	**(623,475,801)**	(170,714,901)
Deliverable forwards	**(329,952,238)**	(129,273,409)
Total foreign exchange contracts	**(953,428,039)**	(299,988,310)

Derivative contracts	**2015**	2014
Interest rate contracts		
Cross currency swaps interest rate swaps	**(2,098,602,998)**	(711,943,841)
Cross currency swaps interest rate swaps	**(1,460,634,853)**	(444,265,971)
Total interest rate contracts	**(3,559,237,851)**	(1,156,209,812)
	(4,512,665,890)	(1,456,198,122)

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 2015, and the change in foreign exchange rate from USD1.00 to P44.720 in December 2014 to USD1.00 to P47.060 in December 2015.

As at December 31, 2015, the outstanding notional amount of GSIS currency forwards and swaps decreased by P4.306 billion due to actual conversion of USD to peso and a decrease 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, 2015 and 2014 are as follows:

	2015			
Derivative Contracts	**Within 1 year**	**1 to 5 years**	**6 to 10 years**	**Total**
Foreign exchange contracts				
Non-deliverable forwards	**6,528**	**6,204**	**-**	**12,732**
Deliverable forwards	**2,895**	**2,948**	**-**	**5,843**
Total foreign exchange contracts	**9,423**	**9,152**	**-**	**18,575**
Interest rate contracts				
Cross currency swaps interest rate swaps	**11,185**	**11,698**	**-**	**22,883**
Cross currency swaps interest rate swaps	**1,950**	**15,695**	**-**	**17,645**
Total interest rate contracts	**13,135**	**27,393**	**-**	**40,528**
	22,558	**36,545**	**-**	**59,103**

	2014			
Derivative Contracts	Within 1 year	1 to 5 years	6 to 10 years	Total
Foreign exchange contracts				
Non-deliverable forwards	439	5,222	-	5,661
Deliverable forwards	3,546	3,397	-	6,943
Total foreign exchange contracts	3,985	8,619	-	12,604
Interest rate contracts				
Cross currency swaps interest rate swaps	13,645	17,286	-	30,931
Cross currency swaps interest rate swaps	2,229	15,184	2,461	19,874
Total interest rate contracts	15,874	32,470	2,461	50,805
	19,859	41,089	2,461	63,409

14.3 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.

15. DEFERRED CREDITS

This account consists of the following:

	2015	2014
Unearned premiums	**1,372,409,175**	580,418,916
Deferred premium collection	**799,782,802**	733,571,836
Unrealized income	**528,570,296**	732,014,116
Unapplied collection	**399,613,086**	184,204,612
	3,100,375,359	2,230,209,480

15.1 Deferred premium collection

Deferred premium collections are remittances that are still lodged to the remitting agencies accounts with age up to three years. 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.

15.2 Unrealized income

Unrealized income 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 Benigno S. Aquino's declaration on May 1, 2012. The amount received is amortized over the five-year term of the loan or P25 million per month.

15.3 Unearned premiums

Pursuant to Section 219 of RA No. 10607, also known as "The Insurance Code" which was approved on August 15, 2013, every insurance company, other than life insurance companies, shall maintain a reserve for unearned premium income on its policies in force, which shall be accounted for in the statements of financial position as a liability.

Unearned premium significantly increased in 2015 due to the generally high insurance production from July 2015 to December 2015 when the factors or rates applied to income in arriving at the unearned premium are also high.

15.4 Unapplied collection

Unapplied 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 P399.61 million in 2015 and P184.20 million in 2014, and other payments credited in the bank but not yet booked in their respective accounts.

16. APPROPRIATED SURPLUS

16.1 Actuarial estimates and valuation

Pursuant to Section 38 of RA No. 8291, the GSIS makes periodic actuarial examination and valuation of its funds in accordance with accepted actuarial principles and appropriates the surplus of each fund to ensure the fulfillment of estimated future obligations.

The amounts for appropriation from the surplus of the SIF, OLIF, PNF 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 from the surplus of the SIF are estimated by computing the excess of the present value of future benefits (PVFB) over the present value of future contributions/net premiums (PVFC). Factors such as contributions, salaries, interest, persistency, maturity, mortality and actual experience are considered.

The benefits considered in estimating the amounts for appropriation from the surplus of the SIF are based on the provisions of RA No. 8291. The benefits are as follows:

Social security

- Old-age/retirement, including separation;
- Disability;
- Survivorship; and
- Funeral.

Compulsory life

- Life Endowment Policy (LEP); and
- Enhanced Life Policy (ELP).

The estimated amounts for appropriation from the surplus of the SIF are as follows:

	2015	2014
Old age benefits	**654,317,593,341**	595,837,131,796
Survivorship benefits	**108,843,430,193**	99,846,323,202
Policies in force	**61,691,323,106**	63,665,746,251
Disability benefits	**17,149,365,777**	17,454,185,058
Burial benefits	**5,767,884,640**	3,582,790,817
Contingencies	**1,233,826,462**	1,273,314,925
	849,003,423,519	781,659,492,049

Optional Life Insurance Fund

The OLI Program was designed to provide for the additional insurance needs of GSIS members and their dependents. Products include life insurance, hospitalization, college assurance and redemption insurance.

The estimated amounts for appropriation from the surplus of the OLIF are as follows:

	2015	2014
Policies in force		
Optional additional and UOLI	**2,530,313,984**	2,557,864,522
College education assurance plan	**255,218,875**	266,689,669
Hospitalization insurance plan	**213,856**	427,713
	2,785,746,715	2,824,981,904
Redemption insurance		
Consolidated loan redemption insurance	**5,847,187,417**	4,661,802,924
Mortgage redemption insurance	**212,358,247**	303,368,925
Emergency loan redemption insurance	**90,094,240**	135,372,908
Sales redemption insurance	**67,643,950**	75,159,944
Pension loan redemption insurance	**31,774,066**	30,555,370
eCard plus cash advance redemption insurance	**110,675**	2,358,929
	6,249,168,595	5,208,619,000
Contingencies	**445,446,518**	401,680,045
	9,480,361,828	8,435,280,949

Pre-need Fund

GSIS entered into the pre-need business by virtue of BR No. 211, dated May 27, 1993, which approved the marketing of GSIS Pre-need products to all GSIS members and retirees. Such pre-need products included Memorial Plans, Family Hospitalization Plus Plan and Anti-Inflationary Education Plan. The marketing of all GSIS pre-need products was stopped in 1998.

The estimated amounts for appropriation from the surplus of the PNF are as follows:

	2015	2014
Edu-Child	**2,783,493,443**	2,726,293,615
Memorial	**24,453,542**	88,643,792
Health	**1,921,131**	2,134,590
	2,809,868,116	2,817,071,997

Employees' Compensation Insurance Fund

The Employees Compensation (EC) program provides government employees and their dependents with income benefits in the event of work-connected sickness, injury or death.

The benefits considered in the valuation of the amounts for appropriation from the ECIF surplus are based on the provisions of PD No. 626, as amended.

The benefits are as follows:

- Disability benefit;
- Death benefit;
- Medical benefit;
- Rehabilitation benefit; and
- Funeral benefit.

The estimated amounts for appropriation from the surplus of the ECIF are as follows:

	2015	2014
Future claims	**7,644,785,647**	6,908,834,569
Contingencies	**55,086,851**	53,255,772
Occupational safety fund	**45,947,400**	43,957,200
ECC operating fund	**31,576,800**	35,801,700
Claims pending settlement	**1,249,595**	1,947,783
Rehabilitation services	**855,000**	855,000
	7,779,501,293	7,044,652,024

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 taking into consideration the following factors:

- five-year average net losses incurred;
- Average losses incurred but not reported (IBNR) from CY 2009 to 2013;
- 25 per cent margin; and
- IBNR for typhoons Lando and Nona.

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, 2015 and 2014 are as follows:

	2015	2014
Contingencies	**5,940,014,495**	5,464,123,204
Losses	**1,136,147,433**	1,474,982,011
	7,076,161,928	6,939,105,215

16.2 Legal contingencies

The appropriations for legal contingencies pertain to cases wherein there is adverse lower court or quasi-judicial court decisions against GSIS but for which GSIS has filed an appeal and believes that the outcome will be in its favor. The amounts of P68 million and P2.80 billion were appropriated from the surplus of the SIF and GIF, respectively, for legal contingencies.

16.3 Appropriated surplus

In compliance with Section 34 of RA No. 8291, the GSIS maintains appropriated surplus to ensure the fulfillment of GSIS' future obligations, as estimated through actuarial evaluations.

GSIS 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:

	2015	2014
Old age benefits	**654,317,600,000**	595,837,200,000
Survivorship benefits	**108,843,500,000**	99,846,400,000
Policies in force	**61,691,400,000**	63,665,700,000
Disability benefits	**17,149,400,000**	17,454,200,000
Burial benefits	**5,768,000,000**	3,582,800,000
Contingencies	**1,301,100,000**	1,333,200,000
	849,071,000,000	781,719,500,000

Optional Life Insurance Fund

The amounts appropriated for the OLIF are as follows:

	2015	2014
Policies in force		
Optional additional and UOLI	**2,530,380,000**	2,557,865,000
College education assurance plan	**255,250,000**	266,690,000
Hospitalization insurance plan	**250,000**	430,000
	2,785,880,000	2,824,985,000
Redemption insurance		
Consolidated loan redemption insurance	**5,847,500,000**	4,661,805,000
Mortgage redemption insurance	**212,400,000**	303,370,000
Emergency loan redemption insurance	**90,100,000**	135,375,000
Sales redemption insurance	**67,700,000**	75,160,000
Pension loan redemption insurance	**31,800,000**	30,560,000
eCard plus cash advance redemption insurance	**120,000**	2,360,000
	6,249,620,000	5,208,630,000
Contingencies	**445,500,000**	401,685,000
	9,481,000,000	8,435,300,000

Pre-Need Fund

The amounts appropriated for the PNF are as follows:

	2015	2014
Edu-Child	**1,921,000,000**	2,336,000,000
Memorial	**17,000,000**	-
Health	**1,000,000**	2,000,000
	1,939,000,000	2,338,000,000

Employees' Compensation Insurance Fund

The amounts appropriated for the ECIF are as follows:

	2015	2014
Future claims	**7,645,000,000**	6,908,835,000
Contingencies	**55,100,000**	53,260,000
Occupational safety fund	**46,000,000**	43,960,000
ECC operating fund	**31,600,000**	35,805,000
Claims pending settlement	**1,300,000**	1,950,000
Rehabilitation services	**1,000,000**	860,000
	7,780,000,000	7,044,670,000

General Insurance Fund

The amounts appropriated for the GIF are as follows:

	2015	2014
Contingencies	**8,713,000,000**	7,981,000,000
Losses	**1,136,000,000**	1,475,000,000
	9,849,000,000	9,456,000,000

Property Replacement Fund

The PRF balance of P27,487,087 in 2015 represents the amount appropriated and remitted by the National Government for the restoration of damaged government property.

17. INCOME FROM INSURANCE

This account consists of the following:

	2015	2014
Contributions and premiums		
Social insurance contributions	**83,040,647,711**	77,147,796,789
General insurance premium	**3,467,082,417**	3,217,000,622
Employee compensation insurance premium	**1,924,704,582**	2,060,609,591
Optional insurance premium	**1,277,986,441**	1,063,714,577
Pre-need insurance premium	**6,826,117**	-
Commission on reinsurance	**258,580,772**	190,044,092
Interest on premium arrearages	**3,957,149**	3,932,079
Loss on foreign exchange on insurance	**(2,896,316)**	(247,778)
	89,976,888,873	83,682,849,972

18. INCOME FROM LOANS

This account consists of the following:

	2015	2014
Interest on consolidated loan	**15,530,423,424**	14,920,807,225
Interest on policy loans	**1,597,704,403**	1,510,969,445
Service income on loans	**1,389,805,829**	1,114,623,061
Interest on emergency/calamity loans	**1,286,811,241**	1,272,099,630
Interest on home emergency loan program	**633,218,080**	111,850,513
Interest on salary loans	**490,630,550**	885,651,281
Surcharge on loans in arrears	**327,910,334**	330,956,719
Interest on real estate loans	**270,865,703**	212,996,374
Interest on deeds of conditional sale	**237,774,830**	226,659,120
Interest on pension loan	**210,577,471**	207,634,233
Interest on educational assistance fund program loan	**128,674,999**	134,214,646
Interest on eCard/eCard plus cash advance loan	**68,486,720**	101,127,838
Interest on government loans	**32,596,205**	88,888,601
Interest on SOS loan	**31,912,059**	42,753,685
Interest on emergency loan assistance	**25,759,115**	40,785,368
Interest on pensioners' emergency loan	**24,908,820**	20,428,699
Interest on pensioners' restructured loan	**16,863,877**	14,139,689
Interest on educational assistance loan	**773,944**	6,037,768
Interest on stock purchase loan	**616,890**	18,094,302
Interest on fly PAL pay later loans	**572,622**	767,204
Interest on private loans	**180,969**	204,534
	22,307,068,085	21,261,689,935

19. INCOME/(LOSS) FROM FINANCIAL ASSETS

This account consists of the following:

	2015	2014
Fair value through profit or loss (FVPL)		
Interest on ROP notes and bonds	**20,190,025,623**	20,322,582,002
Gain on foreign exchange	**3,532,331,218**	208,415,551
Dividend on stocks	**2,612,201,939**	3,061,648,304
Interest on corporate bonds	**2,328,872,022**	1,658,196,264
Income on investment in EMF	**848,576,379**	197,991,586
Gain on sale of stocks	**608,589,986**	6,188,461,577
Gain on sale of bonds	**314,919,398**	1,362,059,758
Interest on global peso notes	**158,590,254**	99,270,275
Gain on investment - derivatives	**21,195,518**	493,900,447
Gain on bond transactions - others	**-**	11,742,604,663
Gain/(loss) on valuation - global peso notes	**(7,903,313)**	52,172,264
Gain/(loss) on valuation - corporate bonds	**(716,688,150)**	179,066,984
Gain/(loss) on valuation - EMF	**(317,726,371)**	5,622,201,004
Loss on valuation - derivatives	**(3,056,467,769)**	(194,450,254)
Gain/(loss) on valuation - stocks	**(6,731,376,233)**	14,736,182,862
Gain/(loss) on valuation - ROP notes and bonds	**(22,661,806,731)**	58,588,653,579
	(2,876,666,230)	124,318,956,866
Other Investment Income		
Gain on foreign exchange - others	**20,973,457**	57,636,831
Other investment income	**911,118,438**	385,724,259
	(1,944,574,335)	124,762,317,956

For the year ended December 31, 2015, GSIS reported a decrease in revenue from financial assets of P126.707 billion, of which 89 per cent or P112.476 billion was due to the effect of mark-to-market decline.

Stock markets around the world recorded a dramatic decline. Philippines' PSEi Index lost 330.86 points or 4.54 per cent during the year. Equities portfolio opened an index in January 2015 of P7,282.94 and by the end of December 2015, the index closed at P6,952.08.

The significant decrease was due to decline in market value from January 2015 to December 2015. Yield movements for Philippine local currency government bond yields were mixed. Yields mostly rose for maturities of between three years and 25 years, excluding the four-year and ten-year tenors. The market price decline shows the inverse relationship between price and yield.

20. INCOME FROM INVESTMENT PROPERTY

Income from investment property consists of the following:

	2015	2014
Gain/(loss) on valuation of investment property	**28,397,999,656**	2,015,626,886
Rental from investment properties	**257,884,064**	254,572,289
Gain/(loss) on derecognition of investment property	**(2,193,256,752)**	583,870,070
	26,462,626,968	2,854,069,245

21. OTHER INCOME/(LOSS)

This account consists of the following:

	2015	2014
Recovery from/(loss on) impairment	**3,203,875,673**	(2,246,320,281)
GS share for educational assistance fund program	**300,000,000**	300,000,000
Income from rental	**152,462,140**	148,830,870
Income from agencies with MOA	**111,606,888**	238,895,174
Loss on derecognition of assets	**(11,558,308)**	(31,883,264)
Others	**(411,101,879)**	(2,279,272)
	3,345,284,514	(1,592,756,773)

Recoveries from impairment were recognized, net of losses, for the following accounts:

	2015	2014
Premium receivable		
Pre-need insurance	**1,066,975**	(14,334,251)
General insurance	**-**	234,121,493
Optional life insurance	**(97,119,915)**	(121,108,168)
Employee compensation insurance	**(200,374,889)**	(3,250,168)
Social insurance	**(1,588,971,787)**	247,101,087
	(1,885,399,616)	342,529,993
Loans and receivable	**5,234,098,069**	(2,038,402,519)
Other receivable	**(144,822,780)**	(529,135,871)
Other assets	**-**	(21,311,884)
	3,203,875,673	(2,246,320,281)

22. CLAIMS AND BENEFITS

This account consists of the following:

	2015	2014
Social insurance	**84,585,229,700**	81,527,597,353
Optional life insurance	**836,775,244**	844,273,673
Pre-need insurance	**357,013,268**	477,752,884
Employee compensation insurance	**177,289,631**	160,219,981
General insurance	**(16,313,092)**	265,559,550
	85,939,994,751	83,275,403,441

Social insurance claims and benefits increased in 2015 primarily due to the granting of one-time benefit in September 2015 for regular old age and disability pensioners in the amount of P2.3 billion approved under BR No. 134 dated August 27, 2015. There was also an increase in monthly old age pension and survivorship benefits. The number of monthly old age pensioners increased from 265,918 in 2014 to 279,492 in 2015, while the number of survivorship pensioners increased from 120,482 in 2014 to 123,236 in 2015.

In addition, the Board approved the following additional benefits which contributed to the increase in social insurance benefits in 2015:

- Increase in the amount of funeral benefits from P20,000 to P30,000 under BR No.133 dated August 27, 2015; and

- Grant of Milestone Benefits to regular old-age and disability pensioners excluding pensioners under RA No. 7699 (Portability Law) approved under BR No. 135 dated August 27, 2015.

23. INVESTMENT EXPENSES

This account consists of the following:

	2015	2014
Investments fees and others	**131,009,759**	30,452,625
Expenses on e-Card	**57,893,757**	34,808,722
Expenses on investment property	**35,151,871**	33,537,609
Foreclosure expenses	**12,270,786**	8,580,207
	236,326,173	107,379,163

24. INSURANCE EXPENSES

This account consists of the following:

	2015	2014
Reinsurance expense	**1,191,280,535**	1,969,213,361
Service fee	**831,072**	-
Other insurance expense	**383,965**	13,698,146
Commission expense	**-**	756,105
	1,192,495,572	1,983,667,612

Reinsurance expense includes treaty, facultative and excess of loss reinsurance.

25. PERSONNEL SERVICES

This account consists of the following:

	2015	2014
Salaries and wages	**1,415,718,334**	1,356,008,253
Statutory expenses	**824,597,991**	790,516,180
Allowances	**485,203,704**	486,346,499
Bonus/awards	**385,713,678**	351,163,971
Fringe benefits	**367,642,191**	257,794,991
Separation pay	**147,327,433**	54,442,733
Overtime expenses	**94,170,766**	73,291,042
Contractual services	**55,200,205**	44,276,015
	3,775,574,302	3,413,839,684

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

	2015	2014
Salaries and wages	**84,673,131**	77,227,335
Retirement costs	**8,097,978**	5,437,419
Other benefits	**46,116,386**	38,609,575
	138,887,495	121,274,329

26. OPERATING EXPENSES

This account consists of the following:

	2015	2014
Depreciation expense	**590,005,240**	556,705,280
Assets and facilities maintenance expense	**412,688,703**	338,035,203
Electric and water consumption	**168,456,484**	178,204,852
Insurance expense	**149,471,295**	137,469,497
Communication services	**141,261,216**	132,886,448
Public relations and advertisement	**112,075,508**	80,844,541
Digitization expense	**88,551,406**	34,642,541
Supplies and materials expenses	**76,707,789**	66,515,544
Contributions to ECC/OSHC	**66,286,669**	68,314,019
Seminars and workshops	**53,287,135**	46,318,773
Rental expenses	**47,302,874**	40,980,647
Auditing expenses	**38,180,089**	39,864,000
Traveling expenses	**31,664,556**	27,100,375
Athletic and cultural expenses	**25,905,903**	24,714,543
Retainers and consultants fees	**19,329,850**	8,474,600
Fuel and gasoline consumption	**9,927,399**	15,294,493
Education, training and scholarship	**9,644,997**	9,020,339
Representation expenses	**6,053,441**	4,965,508
Legal expenses	**4,537,116**	10,839,588
Miscellaneous expenses	**8,522,519**	10,601,320
	2,059,860,189	1,831,792,111

27. COMMITMENTS

27.1 Operating lease commitments - GSIS as lessee

GSIS has a total of 28 operating lease commitments for office space. 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. Other lease agreements are renewed on a yearly basis.

As at December 31, 2015, the expected rental expenses on these operating lease commitments are as follows:

Due	Amount
Within one year	34,226,629
After one year	76,259,791

An operating lease commitment was also entered into by the GSIS for the rental of office equipment having a total contract price of P12.342 million effective July 1, 2014 to December 31, 2016.

Rental expense recognized under “Operating Expenses” amounted to P47 million in 2015 and P41 million in 2014 (see Note 26).

27.2 Operating lease commitments - GSIS as lessor

GSIS has entered into several commercial property leases on its property. These leases have terms of one to 25 years. The lessees of these property consist of private and government entities. The investment property account has nine property under lease with 30 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, 2015 and 2014 are as follows:

Due	**2015**	2014
Within one year	**152,668,786**	151,935,318
After one year but not more than five years	**512,812,739**	695,271,525

Rental revenue from PPE amounted to P152.462 million in 2015 and P148.831 million in 2014 (see Note 21).

Meanwhile, minimum and maximum rentals for investment property under operating leases as at December 31, 2015 are as follows:

	Minimum	Maximum
Less than one year to one year	41,580	5,280,000
More than one year to five years	269,247	24,839,282
More than five years	1,719,120	103,357,543

Rental revenue from investment property amounted to P257.884 million in 2015 and P254.572 million in 2014 (see Note 20).

28. 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 2015, the administrative loading of the SIF is 4.02 per cent of total revenues net of investment expenses, which is below the allowable limit of 12 per cent.

29. 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:

- Ten per cent administration fee based on the OI and GI net premiums retained;
- Twenty per cent marketing commission based on GI net premiums retained; and
- Management fee for ECIF is based on the ratio of EC claims to total claims (except GI claims) multiplied by the sum of personnel services and operating expenses of the GSIS.

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.

30. RECLASSIFICATIONS

30.1 The following accounts were reclassified for figures to be comparable:

	From	To	Amount
HYSTP placements with maturities of more than 90 days as at December 31, 2014	Cash and cash equivalents	Short-term investment placements	11,000,000,000
Adjustment as a result of COA observation No. GSISINV-2016-01 on dividends on stocks	CY 2015 Dividend on stocks	CY 2014 Dividend on stocks	131,954,942

30.2 The tables below present the effect of non-consolidation of the financial statements of the GFB on the 2014 balances:

Statements of Financial Position

Accounts affected	Increase(Decrease)
Assets	
Cash and cash equivalents	248,162,196
Premiums and loans receivable - net	(239,257,302)
Financial assets	(222,963,740)

Accounts affected	Increase(Decrease)
Other receivables - net	(1,710,385)
Investment property	(1,250,011,199)
Property and equipment - net	(33,717,364)
Other assets - net	(73,340,326)
Total Assets	**(1,572,838,120)**
Liabilities and Net Worth	
Liabilities	
Other liabilities	(1,022,109,876)
Deferred credits	(92,403)
Total Liabilities	**(1,022,202,279)**
Net Worth	
Surplus	
Unappropriated Surplus	(527,363,592)
	(527,363,592)
Revaluation surplus	(23,272,249)
Total Net Worth	**(550,635,841)**
Total Liabilities and Net Worth	**(1,572,838,120)**

Statements of Comprehensive Income

	Increase(Decrease)
Revenue	
Income from insurance	1,532,662
Income from loans	(9,226,792)
Income/(loss) from financial assets	(4,895,841)
Income from investment property	(15,030,966)
Other income/(loss)	(187,948,678)
	(215,569,615)
Expenses	
Investment expenses	(13,121,655)
Insurance expenses	(1)
Personnel services	(71,860,322)
Operating expenses	(90,680,512)
	(175,662,490)
Net Income	**(39,907,125)**
Other Comprehensive Income/(Loss)	
Items that will not be reclassified subsequently to profit or loss	
Revaluation surplus	562,369
Total Comprehensive Income	**(39,344,756)**

31. 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.

32. EVENTS AFTER THE REPORTING DATE

On May 13, 2016, the Monetary Board of the Philippines issued Resolution No. 826, placing the GFB under receivership with the PDIC due to the continued operating losses incurred by the bank. The GFB is 99.57 per cent owned by the GSIS. As at March 31, 2016, the investments of GSIS with the GFB had a negative balance amounting to P14,804,179.

33. COMPLIANCE WITH REVENUE REGULATIONS

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

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

Withholding taxes

	2015	**2014**
Tax on compensation and benefits	**478,669,632**	446,440,095
Value added taxes (VAT)	**77,930,997**	66,482,456
Expanded withholding taxes (EWT)	**53,078,700**	45,410,305
Percentage taxes on premiums	**-**	640,150
Final taxes	**1,950,415**	4,528,484
	611,629,744	**563,501,490**

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

The GSIS has filed an appeal before the Office of the President (OP) 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

	2015	2014
Local		
Real estate taxes	**646,777**	2,389,609
National		
Capital gains taxes	**9,705,360**	7,568,426
Documentary stamp taxes	**2,468,344**	1,843,771
Transfer taxes	**452,708**	563,178
BIR annual registration	**28,000**	28,000
	13,301,189	12,392,984

The GSIS has an appeal pending resolution with the OP [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 P2.605 billion inclusive of interests and surcharges for CY 2001 up to the period ending June 30, 2006.

On January 12, 2016, the GSIS received from the Regular Large Taxpayer Audit Division II of the BIR a Formal Letter of Demand covering taxable year 2013 for deficiency VAT, Withholding Tax on Compensation, EWT, Final Withholding Tax, Final VAT Withholding and DST. A Protest Letter and Request for Reinvestigation was filed by the GSIS on February 11, 2016.