GOVERNMENT SERVICE INSURANCE SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015
(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. The GSIS has 42 Branch Offices, 14 Extension Offices and 58 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 Officer-in-Charge, Office of the President and General Manager and the Senior Vice President – Controller Group on June 6, 2017.

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 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 2016 that are relevant to the GSIS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the GSIS adopted effective for annual periods beginning on or after January 1, 2016:

- Amendments to PAS 1, Presentation of Financial Statements: Disclosure Initiative – The amendments clarify the 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 Amortization – 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.

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 are not adopted early

Relevant new and revised PFRS which are not yet effective for the year ended December 31, 2016 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, 2017

- Amendments to PAS 7, Statement of Cash Flows - Disclosure Initiative – The amendments require entities to provide information that enable the users of financial statements to evaluate changes in liabilities arising from their financing activities.

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 or through other comprehensive income), 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 at fair value through profit or loss (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.

Effective for annual periods beginning on or after January 1, 2019

- PFRS 16, Leases – The biggest change introduced by the new standard is that almost all leases will be brought onto lessees’ balance sheets under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

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 and the Philippine National Police 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 9 per cent and 12 per cent, respectively, based on the actual monthly salary of the member.

Special members that include constitutional commissioners, members of the judiciary and those with equivalent ranks are required by law to remit to the GSIS, 3 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 optional life insurance 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, 2016.

Premiums on optional insurance shall be paid monthly in advance during the life of the policy either directly by the insured, if retired or separated from the service or through salary deduction if still in the service (Section12.7.1 of RA 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 or 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 of RA No. 656, every government unit, except municipalities below first class, is required to insure its property with the GSIS.

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

Pre-Need Insurance (PNI)

The PNF 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 No. 442, Labor Code of the Philippines). It was established to carry out the State’s policy to promote and develop a tax-exempt employees’ compensation program whereby employees and their dependents, in the event of work-connected disability or death, may promptly secure adequate income benefit and medical or related benefits.

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 Article 172 of PD No. 626.

The GSIS, represented by the President and General Manager, is an ex-officio member of the Employees Compensation Commission (ECC) which was 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 ECIF 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 <u>Basis of measurement</u>

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 Philippine Accounting Standards (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 (P), 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 statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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 transferred control of the asset, the asset is 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 banks includes savings and demand deposit or checking account, or any placements made with maturities of less than 90 days and 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 represent 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 represent 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.

The appraisal of big and medium ticket accounts is done by independent appraisers every three years or as the need arises. However, annual appraisal is done by in-house appraisers. 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 10 per cent residual value, except for software under Information Technology (IT) resources, over the estimated useful life of the asset prescribed by Commission on Audit (COA) as follows:

Asset class	Useful life (in years)
Building and building improvements	30
Land improvements	10
Furniture and fixtures	10
Ordnance	10
Medical equipment	10
Dental equipment	10
Laboratory equipment	10
Communications equipment	10
Sports equipment	10
Firefighting equipment and accessories	7
Transportation equipment-land	7
IT Resources	5
Office equipment	5
Library books	5

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 appraisers. 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 or 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 Reinsurance

The premise of reinsurance was based on the provision under Section 215 of the Insurance Code of the Philippines which states that "No insurance company other than life, whether foreign or domestic, shall retain any risk on any one subject for insurance in an amount exceeding twenty per centum of its net worth."

Reinsurance arrangements however, do not relieve the GSIS of its obligations to its policy holders. Under this arrangement, both insurance premiums and insurance claims and losses are recorded at gross amounts.

Corollary to the recording of the claims and losses of the policyholders/insured is the recording of the recoverable accounts from the reinsurer. The amounts recoverable/due from the reinsurer are estimated in accordance with the reinsurance contract.

Due from reinsurer accounts are included under the other receivable accounts. Being an asset account these are regularly reviewed for impairment. The impairment loss is recorded in the statement of income.

2.20 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

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.

3.1 Financial risk factors

The GSIS has created a risk management structure, headed by the Risk Oversight Committee which is tasked to develop risk management policies and procedures that addresses specific financial risks and monitors strict compliance thereto through its internal audit function. The risk factors considered are discussed in the succeeding paragraphs.

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 or 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:

	2016	2015 Restated
Financial assets – fixed income*	**465,529,129,908**	408,271,167,928
Premiums and loans receivable – net	**274,061,017,873**	272,770,291,144
Cash in banks*	**15,355,250,513**	38,769,844,049
	754,945,398,294	719,811,303,121

**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.

	2016		
	Neither past due nor impaired	**Past due but not impaired**	**Total**
Financial assets – fixed income*	**465,529,129,908**	**-**	**465,529,129,908**
Premiums and loans receivable - net	**207,480,393,457**	**66,580,624,416**	**274,061,017,873**
Cash in banks*	**15,355,250,513**	**-**	**15,355,250,513**
	688,364,773,878	**66,580,624,416**	**754,945,398,294**

**Includes interest receivable*

	2015 Restated		
	Neither past due nor impaired	Past due but not impaired	Total
Financial assets	408,271,167,928	-	408,271,167,928
Premiums, loans and receivable - net	207,743,733,051	65,026,558,093	272,770,291,144
Cash in banks*	38,769,844,049	-	38,769,844,049
	654,784,745,028	65,026,558,093	719,811,303,121

**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 Policy Guidelines (IPGs) 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 or 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 in banks, 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, high yield short term placements (HYSTP), and marketable bonds.

	2016	2015 Restated
Financial assets at FVPL	**606,774,897,980**	556,709,601,713
Short term investment placements	**28,000,000,000**	5,000,000,000
Cash and cash equivalents	**15,678,182,636**	38,973,065,605
	650,453,080,616	600,682,667,318
Other financial liabilities	**23,162,120,600**	24,487,936,488

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.

	2016		
	Up to one year	**One to three years**	**Total**
Insurance liabilities	**4,901,976,617**	**5,632,560,470**	**10,534,537,087**
Other liabilities	**8,802,666,046**	**2,010,022,646**	**10,812,688,692**
Deferred credits	**1,766,670,242**	**48,224,579**	**1,814,894,821**
	15,471,312,905	**7,690,807,695**	**23,162,120,600**

2015 Restated			
	Up to one year	One to three 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

Market risk

Market risk is the risk that the value of an investment will fluctuate due to change in market factors, e.g., foreign exchange rates, interest rates and other factors that relate to market volatilities of the rate, index or price underlying the financial instruments.

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 IPGs 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 result 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, 2016 and 2015.

The table below summarizes the impact on the value of fixed income investments as a result of an increase or decrease in interest rates for CY 2016 (in millions):

Change in interest rate	**Impact on assets**			
	ROP notes and bonds	**Corporate bonds**	**Global peso notes**	**Total**
+1.00%	(26,235)	(5,292)	(384)	(31,911)
-1.00%	29,688	6,015	411	36,114

Foreign currency risk

GSIS is exposed to foreign currency risk through its cash and cash equivalents, financial assets, and GI receivables (premiums and due from reinsurers) and payables (claims and due to reinsurers) denominated in United States 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 and GI receivables and payables. In translating these monetary assets and liabilities into peso, the exchange rate used were P49.720 and P47.060 to USD based on the closing rate of Philippine Dealing and Exchange Corporation (PDEX) as at

December 31, 2016 and 2015, respectively. For Euro, the exchange rates used were P51.840 and P51.741 to Euro based on the closing rate of Bangko Sentral ng Pilipinas (BSP) as at December 31, 2016 and 2015, respectively.

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

	2016		2015 Restated	
	USD denominated balances	**Peso equivalent**	USD denominated balances	Peso equivalent
Financial assets				
Cash and cash equivalents	**51,470,258**	**2,559,101,228**	46,597,945	2,192,899,292
FVPL financial assets	**1,831,321,618**	**91,053,310,847**	1,499,229,733	70,553,751,235
Interest receivable	**22,268,160**	**1,107,172,915**	23,086,079	1,086,430,878
GI premium receivable	**1,894,487**	**94,193,894**	-	-
Due from reinsurers	**298,690**	**14,850,867**	1,258,153	59,208,680
	1,907,253,213	**94,828,629,751**	1,570,171,910	73,892,290,085
Financial liabilities				
Claims payable	**2,986,063**	**148,467,052**	3,216,472	151,367,172
Due to reinsurers	**2,697,485**	**134,118,954**	4,140,926	194,871,978
Sundry accounts payable	**26,713**	**1,328,170**	26,746	1,258,667
	5,710,261	**283,914,176**	7,384,144	347,497,817

	2016		2015 Restated	
	EURO-denominated balances	**Peso equivalent**	EURO-denominated balances	Peso equivalent
Financial assets				
Cash and cash equivalents	**-**	**-**	4,452	230,351
FVPL financial assets	**-**	**-**	22,874,900	1,183,570,201
Interest receivable	**-**	**-**	1,127,322	58,328,768
	-	**-**	24,006,674	1,242,129,320
Financial liabilities				
Sundry accounts payable	**252**	**13,064**	252	13,039
	252	**13,064**	252	13,039

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, 2016 and 2015.

Change in exchange rate against Peso	**Effect on income**	
	2016	2015
USD	**USD1.00 = P49.720**	USD1.00 = P47.060
1.00 increase	**1,901,542,952**	1,562,787,766
1.00 decrease	**(1,901,542,952)**	(1,562,787,766)
Euro	**EUR1.00 = P51.840**	EUR1.00 = P51.741
1.00 increase	**(252)**	24,006,422
1.00 decrease	**252**	(24,006,422)

Equity (stock price) risk

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

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

- Maximum limit of 25 per cent of investible funds;
- Minimum company market capitalization of P2 billion;
- Minimum free float of 10 per cent;
- Maximum small cap stocks total investment of 10 per cent;
- Diversification by issuer, sector, and industry; and
- For equity index mutual funds or ETFs, a maximum limit of 5 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 or fair values of all of the GSIS financial assets and financial liabilities as at December 31, 2016 and 2015 are as follows:

	2016	2015 Restated
Cash and cash equivalents	**15,678,182,636**	38,973,065,605
Financial assets		
ROP notes and bonds	**361,773,754,912**	350,103,874,840
Stocks- traded	**149,124,404,431**	125,890,100,207
Corporate bonds	**63,025,288,469**	44,550,325,017
Short term investment placements	**28,000,000,000**	5,000,000,000
Externally managed funds	**25,726,434,838**	32,669,925,071
Global peso notes	**7,125,015,330**	3,495,376,578
Stocks - non-traded	**804,898,002**	830,998,017
Loans and receivables		
Premiums and loans	**261,326,561,534**	259,985,593,098
	912,584,540,152	861,499,258,433
Financial liabilities		
Other financial liabilities	**23,162,120,600**	24,487,936,488

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				
Traded stocks	149,124,404,431	-	-	149,124,404,431
Non-traded stocks	-	-	804,898,002	804,898,002
Fixed income				
ROP bonds Peso	309,448,219,030	-	-	309,448,219,030
ROP bonds USD	52,325,535,882	-	-	52,325,535,882
Global peso notes	7,125,015,330	-	-	7,125,015,330
Corporate bonds Peso	36,414,650,988	-	-	36,414,650,988
Corporate bonds USD	26,610,637,481	-	-	26,610,637,481
Externally managed funds	-	25,726,434,838	-	25,726,434,838
Total assets at fair value	**581,048,463,142**	**25,726,434,838**	**804,898,002**	**607,579,795,982**
Derivative liabilities	-	6,331,817,495	-	6,331,817,495
Net assets at fair value	**581,048,463,142**	**19,394,617,343**	**804,898,002**	**601,247,978,487**

Investments and investment 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, 2016:

	2015	Net decrease in value	**2016**
Stocks non-traded	830,998,017	26,100,015	**804,898,002**

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Uncertainty about these assumptions and estimates may result 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 from inactive members are provided with 100 per cent allowance for impairment because probability of collection is deemed unlikely. For PNI 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 or separation benefits claims

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

b. Loans to inactive members without processed retirement or 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 mortgage loans, the GSIS has adopted BSP Circular No. 789 (Appendix 9: Guidelines in Setting up Allowance for Probable Losses) in recognizing the impairment of past due accounts. The Circular provides a 12.50 per cent allowance for secured accounts where there is an imminent possibility of foreclosure or acquisition of the collateral for failure of all collection efforts.

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 or bankrupt; and

- Based on aging of receivables:

Age	Percentage
more than two years up to four years	25%
more than four years up to seven years	50%
more than seven years for accounts of companies or entities which are already declared insolvent or 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 the following table:

Age	Percentage
Two years and below	0%
Over two years to four years	25%
Over four years to seven years	50%
Over 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 Services Group 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, 2016 (in millions):

	SIF	GIF	OLIF	PNF	ECIF	BOIF	PRF	Eliminations	Total
ASSETS									
Cash and cash equivalents	13,266	1,067	487	84	774	-	-	-	15,678
Premiums and loans receivable-net	267,146	403	2,802	22	3,688	-	-	-	274,061
Financial assets	577,715	29,130	16,680	1,879	15,752	-	29	-	641,185
Other receivables-net	1,543	4,063	144	-	1	-	-	(147)	5,604
Investment property	62,667	-	-	-	-	-	-	-	62,667
Property and equipment-net	11,277	-	-	-	-	-	-	-	11,277
Other assets	1,077	275	-	5	-	-	-	-	1,357
TOTAL ASSETS	934,691	34,938	20,113	1,990	20,215	-	29	(147)	1,011,829
LIABILITIES									
Insurance liabilities	3,521	6,922	72	7	12	-	-	-	10,534
Other liabilities	10,202	396	7	202	6	147	-	(147)	10,813
Deferred credits	575	1,240	-	-	-	-	-	-	1,815
TOTAL LIABILITIES	14,298	8,558	79	209	18	147	-	(147)	23,162
SURPLUS									
Appropriated	910,819	10,886	11,281	1,782	8,678	-	28	-	943,474
Unappropriated	1,612	15,279	8,753	(1)	11,519	(147)	1	-	37,016
	912,431	26,165	20,034	1,781	20,197	(147)	29	-	980,490
Revaluation Surplus	7,962	215	-	-	-	-	-	-	8,177
TOTAL NETWORTH	920,393	26,380	20,034	1,781	20,197	(147)	29	-	988,667
TOTAL LIABILITIES AND NETWORTH	934,691	34,938	20,113	1,990	20,215	-	29	(147)	1,011,829

The following table shows the Statements of Comprehensive Income for all funds for the period ended December 31, 2016 (in millions):

	SIF	GIF	OLIF	PNF	ECIF	BOIF	PRF	Eliminations	Total
INCOME									
Income from insurance	88,962	4,442	1,380	4	2,901	-	-	-	97,689
Income from loans	22,455	-	83	-	-	-	-	-	22,538
Income from financial assets	28,498	1,033	361	177	128	-	1	-	30,198
Income from investment property	4,179	-	-	-	-	-	-	-	4,179
Other income	265	56	(40)	(1)	-	-	-	22	302
	144,359	5,531	1,784	180	3,029	-	1	22	154,906
EXPENSES									
Claims and benefits	85,148	494	911	303	223	-	-	-	87,079
Investment expenses	229	1	-	-	3	-	-	-	233
Insurance expenses	-	1,630	-	-	-	-	-	-	1,630
Personnel services	4,033	-	-	-	-	-	-	-	4,033
Operating expenses	6,893	-	43	-	195	-	-	22	7,153
	96,303	2,125	954	303	421	-	-	22	100,128
OPERATING INCOME/(LOSS) BEFORE GSIS FEES AND COMMISSION	48,056	3,406	830	(123)	2,608	-	1	-	54,778
GSIS FEES AND COMMISSION									
Management fee	16	-	-	-	(16)	-	-	-	-
Administration fee	406	(269)	(137)	-	-	-	-	-	-
Marketing commission	538	(538)	-	-	-	-	-	-	-
	960	(807)	(137)	-	(16)	-	-	-	-
NET INCOME/(LOSS)	49,016	2,599	693	(123)	2,592	-	1	-	54,778
OTHER COMPREHENSIVE INCOME(LOSS)									
Items that will not be reclassified subsequently to profit or loss									
Revaluation surplus	175	55	-	-	-	-	-	-	230
TOTAL COMPREHENSIVEINCOME/(LOSS)	49,191	2,654	693	(123)	2,592	-	1	-	55,008

6. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2016	2015 Restated
Cash on hand	**337,434,123**	274,760,570
Cash in banks*	**15,340,748,513**	38,698,305,035
	15,678,182,636	38,973,065,605

**Exclusive of accrued interest receivable amounting to P14.502 million and P71.539 million in 2016 and 2015, respectively.*

Cash in banks earn interest at the respective bank deposit rates. HYSTPs and special savings deposits (SSDs) 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 P15.341 billion cash in banks, HYSTP and SSD amount to P10.620 billion with terms ranging from one up to 90 days.

Interest income earned from cash in banks recorded as part of other investment income (see Note 19) amounted to P477.998 million in 2016 and P632.263 million in 2015.

7. PREMIUMS AND LOANS RECEIVABLE - NET

This account consists of the following:

	2016	2015 Restated
Premiums receivable		
Social insurance premium	**34,091,021,947**	31,289,240,417
Employees' compensation insurance premium	**4,901,206,200**	4,349,092,111
Optional life insurance premium	**2,241,626,749**	2,180,028,611
General insurance premium	**402,910,362**	550,639,528
Pre-need insurance premium	**12,286,610**	12,926,722
	41,649,051,868	38,381,927,389
Less: Allowance for impairment	**14,033,588,519**	12,996,817,518
Premiums receivable - net	**27,615,463,349**	25,385,109,871
Loans receivable		
Principal		
Consolidated loan	**175,586,596,893**	166,644,958,250
Policy loans	**25,093,144,039**	25,566,103,517
Emergency/calamity loans	**16,954,465,997**	17,503,645,842
Salary loan	**13,632,417,113**	14,374,110,333
Real estate loans	**9,958,909,524**	10,478,918,425
Home emergency loan program	**9,457,377,231**	10,507,868,181
Deeds of conditional sale	**5,245,221,965**	5,735,251,868
Private loans	**2,118,274,715**	2,118,394,639
Educational assistance fund program loan	**2,117,213,567**	2,231,096,448
eCard/eCard plus cash advance loan	**1,345,967,514**	1,570,381,606
Pension loan	**1,281,262,243**	1,207,475,851
Emergency loan assistance	**542,255,019**	580,378,862
Summer one month salary loan	**518,816,627**	556,817,112
Pensioners' emergency loan	**213,979,264**	279,610,950
Pensioners' restructured loan	**205,548,244**	175,470,740
Lease purchases	**111,401,704**	111,401,704
Interim loan	**89,703,188**	91,168,588
Stock purchase loans	**32,683,668**	31,809,064
Government loans	**14,174,153**	14,174,153
Educational assistance loans	**1,467,552**	2,739,129
Fly PAL	**367,634**	322,433
	264,521,247,854	259,782,097,695
Less: Allowance for impairment	**25,566,276,420**	22,484,871,437
Loans receivable - net	**238,954,971,434**	237,297,226,258
Interest receivable on loans		
Consolidated loan	**11,526,517,086**	10,030,281,970
Salary loan	**2,123,521,162**	2,121,675,650
Private loan	**823,153,174**	823,153,174
Emergency/calamity loans	**653,616,523**	568,481,127
Housing loan/REL/DCS	**423,254,889**	1,580,921,072
Emergency loan assistance	**224,171,435**	230,313,533
eCard/eCard plus cash advance loan	**200,949,354**	206,957,001
Home emergency loan program	**195,424,182**	149,152,673
Stock purchase loan	**187,075,092**	204,821,311
Educational assistance fund program loan	**174,952,573**	141,418,385
Summer one month salary loan	**75,383,956**	71,274,289
Pension loan	**8,316,083**	8,181,998
Educational assistance loan	**2,399,299**	4,279,215
Interim loan	**908,737**	908,737

	2016	2015 Restated
Pensioners' restructured loan	**286,407**	260,936
Fly PAL	**218,414**	264,527
Pensioners' emergency loan	**96,594**	125,540
	16,620,244,960	16,142,471,138
Less: Allowance for impairment	**3,885,788,620**	3,357,773,092
Interest receivable on loans - net	**12,734,456,340**	12,784,698,046
Loans and receivable - total	**251,689,427,774**	250,081,924,304
Premiums, loans and receivable - total	**279,304,891,123**	275,467,034,175
Less: Accounts for clearing	**5,243,873,250**	2,696,743,031
	274,061,017,873	272,770,291,144

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 Commonwealth Act 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 Conso-Loan Plus Program (ECLPP) 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 to 529,603 borrowers in 2016 amounted to P101.440 billion and P121.659 billion in 2015 granted to 619,605 borrowers.

Policy loan (regular and optional 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 8 per cent compounded annually. The GSIS granted a total of P8.017 billion in policy loans to 299,339 borrowers in 2016 and P11.060 billion to 423,431 borrowers in 2015.

Emergency loan

The GSIS extends support to members affected by calamities or 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 6 per cent 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 become eligible to avail of the emergency loan.

Due to various calamities that hit the country, emergency loans granted to members amounted to P7.777 billion in 2016 and P8.317 billion in 2015.

Educational assistance fund program loan (EAFP)

This is a one-time loan in the amount of P4,000 for active members, regardless of salary, length of service, and status of agency and member accounts (i.e., up-to-date, in arrears or suspended). This is payable in five years with interest computed at 6 per cent per annum. 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 2016, P156.429 million was granted to 1,025 new availees of this loan, while in 2015, P110.407 million was granted to 802 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.

The GSIS granted a total of P88 million in pensioners' emergency loans to 4,400 borrowers in 2016 and P115.880 million to 5,796 borrowers in 2015.

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 of 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 is as follows:

	2016	2015 Restated
Balance, January 1	**38,839,462,047**	42,238,195,070
Provisions/(reversals)	**4,646,191,512**	(3,398,733,023)
	43,485,653,559	38,839,462,047

7.4 Accounts for clearing

Premiums and loans receivables are presented at net of allowance for impairment loss and accounts for clearing amounting to P5.244 billion and P2.697 billion in 2016 and 2015, respectively, to reflect the most conservative balance of the account. The accounts for clearing represent collections on both premiums and loans that have not yet been posted to the individual member's accounts due to timing differences. These unposted payments are mostly due to remittances for new members whose accounts are yet to be created in the GSIS database and those resulting from the late updating of members' data with the GSIS by their respective agencies.

The bulk of accounts for clearing pertain to unreconciled accounts (UA) and loans clearing accounts-consumer mortgage loans (CML). Of the P7.758 billion balance of UA in 2016, transactions related to 2015 and prior years amount to P4.974 billion, which is P1.055 billion lower compared to the balance of P6.029 billion in 2015. Moreover, of the 2016 balance of loan overpayments under loans clearing account – CML amounting to P2.198 billion, P1.504 billion relates to 2015 and prior years, which is P831 million lower compared to the balance of P2.335 billion in 2015.

To address the remaining balance of accounts for clearing, the GSIS Operations Group continually updates service records by coordinating with Authorized Agency Officers (AAOs). The Electronic Billing and Collection System (EBCS) was also made available to the agencies thru their AAOs and Electronic Remittance File (ERF) handlers. This allows them to generate reports showing unmatched data and payments which might result to additional clarificatory items upon remittance. Furthermore, to ensure that members receive the correct amount of benefits, members' accounts, with priority given to members with age 59 and above, are manually reconciled, even before filing of their retirement or life insurance claims.

8. FINANCIAL ASSETS

The GSIS financial assets consist of:

	2016	2015 Restated
Fair Value Through Profit or Loss		
ROP notes and bonds	**361,773,754,912**	350,103,874,840
Stocks traded	**149,124,404,431**	125,890,100,207
Corporate bonds	**63,025,288,469**	44,550,325,017
Externally managed funds	**25,726,434,838**	32,669,925,071
Global peso notes	**7,125,015,330**	3,495,376,578
	606,774,897,980	556,709,601,713
Fair Value Through Other Comprehensive Income		
Stocks non–traded	**804,898,002**	830,998,017
	804,898,002	830,998,017
Others		
Short-term investment placements	**28,000,000,000**	5,000,000,000
	28,000,000,000	5,000,000,000
Interest Receivable		
ROP notes and bonds	**4,786,120,409**	4,555,871,468
Corporate bonds	**560,854,142**	473,588,064
Short-term investment placements	**136,893,333**	15,333,333

	2016	2015 Restated
Global peso notes	**121,203,313**	76,798,627
	5,605,071,197	5,121,591,492
	641,184,867,179	567,662,191,222

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. Such securities include common shares, preferred shares, warrants, Real Estate Investment Trusts (REITs), and Exchange Traded Funds (ETFs) of any solvent corporation or financial institution created or existing under the laws of the Philippines. The fair value of equity investments amounts to P149.124 billion and P125.890 billion, respectively, as at December 31, 2016 and 2015.

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 P804.898 million and P830.998 million, as at December 31, 2016 and 2015, 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 (GOCCs). These include, but are not limited to, ROP bonds, treasury bills, fixed rate treasury notes and retail treasury bonds. The total investments in ROP notes and bonds amounted to P361.774 billion and P350.104 billion, respectively, as at December 31, 2016 and 2015.

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. The total investments in Global Peso Notes amounted to P7.125 billion and P3.495 billion as at December 31, 2016 and 2015, respectively.

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 & 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 & 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 or 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 & Poor’s, Fitch Ratings and Moody’s Investors Service, the minimum issuer credit rating shall be equivalent to “Ba2” from the Moody’s Investors or “BB” from the Standard & Poor’s or Fitch Ratings. At any one time, GSIS may invest a maximum of 10 per cent of the total investible funds in 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 or borrower name or guarantee.

As at December 31, 2016 and 2015, the total investments in corporate bonds amounted to P63.025 billion and P44.550 billion, respectively. This includes investments in local companies and foreign corporations from banking, utilities, energy, sovereign, industrial, commercial, communications, and properties sectors.

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, 2016, are as follows (in millions):

	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Average effective yield
ROP notes and bonds						
Peso	8,985	31,682	22,458	246,323	309,448	4.80%
USD	-	1,327	15,316	35,683	52,326	7.18%
	8,985	33,009	37,774	282,006	361,774	5.99%
Global peso notes	2,841	1,454	2,830	-	7,125	5.44%
Corporate bonds	1,199	9,161	29,138	23,527	63,025	5.22%

8.3 Externally managed funds

This account consists of GSIS investments managed by domestic and foreign fund managers who provide additional windows for placement of investible funds that satisfy the requirements of safety, liquidity and yield. Included in this account is the Philippine Investment Alliance for Infrastructure (PINAI) fund, a ten-year, closed-end fund, dedicated to equity investments in Philippine infrastructure. The fund is managed by

Macquarie Infrastructure Management (Asia) Pty Limited - Singapore Branch (MIMAL), a member of Macquarie Infrastructure and Real Assets (MIRA).

As at December 31, 2016 and 2015, the total investments in EMF amounted to P25.726 billion and P32.670 billion, respectively. The decrease of P6.944 billion is primarily due to termination of the GSIS funds managed by local equity managers due to underperformance of the managed funds.

9. OTHER RECEIVABLES - NET

The other receivables account consists of the following:

	2016	2015 Restated
Due from reinsurers	**6,097,537,804**	6,890,340,338
Sundry accounts receivable	**1,739,959,721**	1,780,774,599
Other receivable - agencies with MOA	**548,308,310**	730,049,909
Dividend receivable - investments	**149,691,630**	99,622,679
Interest receivable - others	**108,153,331**	167,020,699
Accrued rental	**34,095,428**	92,783,626
Others	**331,748,842**	198,672,906
	9,009,495,066	9,959,264,756
Allowance for impairment-other receivables	**3,405,730,740**	2,774,138,520
	5,603,764,326	7,185,126,236

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.

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

	2016	2015 Restated
Due from RI – unadjusted losses recoverable	**3,737,629,765**	4,451,597,724
Due from RI – facultative	**2,155,656,119**	2,234,570,289
Due from RI – treaty	**204,251,920**	204,172,325
	6,097,537,804	6,890,340,338

Reinsurers' share on unadjusted losses are 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 on which the final adjustments of the claims or losses are made.

The roll forward analysis of allowance for impairment losses on other receivables is as follows:

	2016	2015 Restated
Balance, January 1	**2,774,138,520**	2,580,664,508
Provisions	**631,592,220**	193,474,012
	3,405,730,740	2,774,138,520

10. INVESTMENT PROPERTY

Investment property consists of the following:

	2016				
	Big/medium ticket accounts	**Cancelled DCS**	**Foreclosed REL/REL redeemable**	**GSIS owned/ unawarded lots**	**Total**
Beginning Balance - January 1, 2016	**47,619,640,234**	**9,295,433,906**	**197,693,469**	**1,358,452,104**	**58,471,219,713**
Additions:					
Inclusion of various accounts		**640,000**	**6,708,157**	**71,711,076**	**79,059,233**
Gain on valuation	**5,010,544,704**	**596,999,597**	**38,221,269**	**294,745,410**	**5,940,510,980**
SL reclassification/ unitization of accounts	**893,392,960**	**-**	**18,447,512**	**29,649,300**	**941,489,772**
Various adjustments	**-**	**384,613,599**	**-**	**-**	**384,613,599**
	5,903,937,664	**982,253,196**	**63,376,938**	**396,105,786**	**7,345,673,584**
Deductions:					
Sale of various investment property	**-**	**29,406,127**	**3,180,657**	**1,584,000**	**34,170,784**
Loss on valuation	**1,314,412,527**	**251,725,701**	**14,538,399**	**196,175,394**	**1,776,852,021**
Reclassification to property under litigation	**72,700,000**	**-**	**-**	**3,947,983**	**76,647,983**
SL reclassification/ unitization of accounts	**726,975,460**	**39,763,800**	**26,736,012**	**148,014,500**	**941,489,772**
Various adjustments	**-**	**320,380,165**	**340,074**	**-**	**320,720,239**
	2,114,087,987	**641,275,793**	**44,795,142**	**349,721,877**	**3,149,880,799**
	51,409,489,911	**9,636,411,309**	**216,275,265**	**1,404,836,013**	**62,667,012,498**

	2015 Restated				
	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	27,957,094,323	671,452,711	76,176,965	344,719,748	29,049,443,747
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
	29,681,089,857	719,133,711	124,268,163	983,342,396	31,507,834,127
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	527,123	-	-	336,532,345	337,059,468
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
	1,995,248,432	2,345,252,768	82,651,346	632,145,957	5,055,298,503
	47,619,640,234	9,295,433,906	197,693,469	1,358,452,104	58,471,219,713

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.

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

The internal appraisal of big and medium ticket accounts in 2016 and 2015 resulting to net gain on valuation amounting P4.164 billion and P28.398 billion, respectively, has significantly contributed to the increase in the carrying value of the investment property account at P62.667 billion in 2016 and 58.471 billion in 2015.

11. PROPERTY AND EQUIPMENT - NET

The property and equipment account consists of the following:

2016							
Particulars	**Land**	**Land improvements**	**Building and building improvements**	**Information technology resources**	**Construction in progress**	**Furniture, fixtures and equipment**	**Total**
Cost:							
January 1, 2016	**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**
Additions	**-**	**3,300,533**	**5,399,479**	**428,840,087**	**(73,526,119)**	**120,464,829**	**484,478,809**
Reclassifications	**-**	**-**	**(1,966,796)**	**-**	**-**	**1,966,796**	**-**
Disposals	**-**	**-**	**-**	**(38,069,482)**	**-**	**(96,304,853)**	**(134,374,335)**
Adjustments	**-**	**-**	**-**	**(1,728,810,444)**	**-**	**(120,935,831)**	**(1,849,746,275)**
December 31, 2016	**7,900,391,625**	**193,432,005**	**5,548,333,463**	**1,652,627,057**	**70,771,466**	**896,775,381**	**16,262,330,997**
Accumulated depreciation:							
January 1, 2016	**-**	**171,011,048**	**2,908,477,971**	**2,028,208,633**	**-**	**592,374,023**	**5,700,071,675**
Depreciation	**-**	**76,011**	**226,836,170**	**340,162,413**	**-**	**69,260,826**	**636,335,420**
Reclassifications	**-**	**-**	**(1,681,165)**	**-**	**-**	**1,681,165**	**-**
Disposals	**-**	**-**	**-**	**(33,417,322)**	**-**	**(71,520,454)**	**(104,937,776)**
Adjustments	**-**	**-**	**-**	**(1,171,529,002)**	**-**	**(74,429,243)**	**(1,245,958,245)**
December 31, 2016	**-**	**171,087,059**	**3,133,632,976**	**1,163,424,722**	**-**	**517,366,317**	**4,985,511,074**
Net book value - December 31, 2016	**7,900,391,625**	**22,344,946**	**2,414,700,487**	**489,202,335**	**70,771,466**	**379,409,064**	**11,276,819,923**

2015 Restated							
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

2015 Restated							
Particulars	Land	Land improvements	Building and building improvements	Information technology resources	Construction in progress	Furniture, fixtures and equipment	Total
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

Property and equipment with a cost of P2.101 billion and P2.126 billion as at December 31, 2016 and 2015, respectively, are fully depreciated but are still serviceable.

12. OTHER ASSETS

The other assets account consists of the following:

	2016	2015 Restated
Property under litigation	**668,483,451**	591,835,468
Paintings and tapestries	**659,343,328**	427,526,072
Supplies and materials in stock	**12,393,949**	10,974,138
Deposits	**6,585,239**	5,015,768
Advances to vendors/contractors	**5,062,389**	5,035,955
Prepaid expenses	**3,951,145**	-
Cash advances	**-**	1,175
Others	**1,100,000**	15,648,215
	1,356,919,501	1,056,036,791

12.1 Property under litigation

This account includes 17 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 Prepaid expenses

This account pertains to the remittance made to the Federation of Afro-Asian Insurers and Reinsurers (FAIR) Oil and Energy Syndicate which was considered as a deposit against all liabilities during the open underwriting years, including 2014, until the underwriting years in question are closed, upon which a final adjustment will be made to account for final payment.

13. INSURANCE LIABILITIES

This account consists of the following:

	2016	2015 Restated
Claims payable		
Social Insurance		
Retirement	**1,452,044,050**	1,892,285,663
Life insurance	**1,302,430,430**	1,237,439,495
Pension	**587,283,024**	620,838,114
Survivorship	**126,204,137**	122,229,613
Funeral	**23,153,985**	19,100,230
Others	**30,303,549**	4,488,866
	3,521,419,175	3,896,381,981
General insurance	**436,780,784**	542,949,993
Optional life insurance	**16,479,442**	19,319,908
Employee compensation insurance	**11,886,765**	11,905,078
Pre-need insurance	**7,420,656**	10,412,967
	472,567,647	584,587,946
Provision for estimated GI claims	**5,632,560,470**	6,402,456,222
Due to reinsurers	**852,872,632**	776,194,104
Dividends payable	**55,117,163**	52,083,391
	10,534,537,087	11,711,703,644

Claims and benefits payable account pertain to various claims due to members or policyholders as at December 31, 2016, but remain unpaid as of year-end. The liabilities for claims filed but unpaid as at December 31, 2016 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 P6.402 billion in 2015 to P5.633 billion in 2016, was mainly due to the reversal of provisions resulting from the determination of the final amount of claim and various adjustments on the amount of claim estimates.

In 2016, cash dividends of P33 million were granted to GSIS OLI policyholders whose life insurance coverage have been in force for at least one year as at December 31, 2015, except for the following:

- Policies which were terminated in CY 2015 due to death, maturity, or surrender; and
- Polices which lapsed in CY 2015.

14. OTHER LIABILITIES

This account consists of the following:

	2016	2015 Restated
Derivatives - deliverable and non-deliverable	**6,331,817,495**	4,512,665,890
Sundry accounts payable	**3,303,709,486**	4,287,957,110
Funds held in trust	**1,022,281,981**	560,879,597
Provisions for pending litigation	**132,200,000**	132,895,000
Due to agency	**22,679,730**	181,459,888
	10,812,688,692	9,675,857,485

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

The fair values of derivative contracts held are as follows:

Derivative contracts	2016	2015 Restated
Foreign exchange contracts		
Non-deliverable forwards	**(1,825,808,904)**	(623,475,801)
Deliverable forwards	**(398,108,716)**	(329,952,238)
Total foreign exchange contracts	**(2,223,917,620)**	(953,428,039)
Interest rate contracts		
Cross currency swaps interest rate swaps	**(1,878,182,706)**	(2,098,602,998)
Cross currency swaps interest rate swaps	**(2,229,717,169)**	(1,460,634,853)
Total interest rate contracts	**(4,107,899,875)**	(3,559,237,851)
	(6,331,817,495)	(4,512,665,890)

The decrease in investment in derivatives, resulting to an increase in derivative liabilities, is due to decrease in the valuation of the combined portfolio of forwards and cross currency swaps, settlement of derivative contracts in 2016, and the change in foreign exchange rate from USD1.00 to P47.060 in December 2015 to USD1.00 to P49.720 in December 2016.

As at December 31, 2016, the outstanding notional amount of GSIS currency forwards and swaps increased by P20.585 billion due to actual conversion of USD to peso and an increase in the combined portfolio of forwards and cross currency swaps. The terms to maturity of the notional amounts for derivative contracts as at December 31, 2016, are as follows:

2016	Within 1 year	1 to 5 years	6 to 10 years	Total
Foreign exchange contracts				
Non deliverable forwards	**13,369**	**26,043**	**-**	**39,412**
Deliverable forwards	**633**	**5,016**	**-**	**5,649**
Total foreign exchange contracts	**14,002**	**31,059**	**-**	**45,061**
Interest rate contracts				
Cross currency swaps interest rate swaps	**6,320**	**10,496**	**-**	**16,816**
Cross currency swaps interest rate swaps	**5,340**	**11,059**	**1,412**	**17,811**
Total interest rate contracts	**11,660**	**21,555**	**1,412**	**34,627**
	25,662	**52,614**	**1,412**	**79,688**

2015	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

14.2 Sundry accounts payable

This account consists of the following:

	2016	2015 Restated
Various accruals	**1,242,787,712**	1,174,135,650
Accrued employee benefits and expenses	**869,090,898**	1,059,285,848
Refund of member loans	**867,056,636**	1,664,762,063
Unreleased checks as of balance sheet date	**240,429,615**	292,377,054
Bank service fee on e-Crediting transactions	**30,100,172**	55,062,928
Investment placements unpaid as at balance sheet date	**28,278,640**	5,624,590
Extra remuneration payable	**25,965,813**	36,708,977
	3,303,709,486	4,287,957,110

15. DEFERRED CREDITS

This account consists of the following:

	2016	2015 Restated
Unearned premiums	**1,239,847,850**	1,372,409,175
Unapplied collection	**421,503,960**	399,613,086
Unrealized income	**148,224,579**	528,570,296
Deferred premium collection	**5,318,432**	799,782,802
	1,814,894,821	3,100,375,359

15.1 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 statement of financial position as a liability.

Decrease in unearned premiums was mainly due to decreased production from in the last half of 2016 within which rates or factors applied to compute unearned income for these periods are high.

15.2 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 P421.504 million in 2016 and P399.613 million in 2015, and other payments credited in the bank but not yet booked in their respective accounts.

15.3 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 Aquino's declaration on May 1, 2012. The amount received is amortized over the five-year term of the loan (P25 million per month) and has a balance of P100 million as at December 31, 2016. Unrealized income also includes advance rental payments from various lessees of investment property.

15.4 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.

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 over the present value of future contributions or net premiums. 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:

	2016	2015
Old age benefits	**703,404,364,933**	654,317,593,341
Survivorship benefits	**117,537,806,085**	108,843,430,193
Policies in force	**62,121,128,776**	61,691,323,106
Disability benefits	**20,472,301,308**	17,149,365,777
Burial benefits	**5,962,002,239**	5,767,884,640
Contingencies	**1,242,422,576**	1,233,826,462
	910,740,025,917	849,003,423,519

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:

	2016	2015
Policies in force		
Optional additional and UOLI	**2,931,936,785**	2,530,313,984
College education assurance plan	**282,901,954**	255,218,875
Hospitalization insurance plan	**106,928**	213,856
	3,214,945,667	2,785,746,715
Redemption insurance		
Consolidated loan	**7,124,404,548**	5,847,187,417
Mortgage	**212,358,247**	212,358,247
Emergency loan	**87,340,847**	90,094,240

	2016	2015
Sales	**67,643,950**	67,643,950
Pension loan	**46,292,160**	31,774,066
Pensioners' emergency loan	**11,084,006**	-
Pensioners' restructured loan	**5,872,251**	-
eCard plus cash advance	**-**	110,675
	7,554,996,009	6,249,168,595
Contingencies	**510,073,051**	445,446,518
	11,280,014,727	9,480,361,828

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:

	2016	2015
Edu-Child	**2,141,987,487**	2,783,493,443
Memorial	**80,501,957**	24,453,542
Health	**1,921,131**	1,921,131
	2,224,410,575	2,809,868,116

Employees' Compensation Insurance Fund

The ECI 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:

	2016	2015
Future claims	**8,513,984,282**	7,644,785,647
Contingencies	**60,397,989**	55,086,851
Occupational safety fund	**57,969,600**	45,947,400

	2016	2015
ECC operating fund	**42,468,900**	31,576,800
Claims pending settlement	**1,708,133**	1,249,595
Rehabilitation services	**855,000**	855,000
	8,677,383,904	7,779,501,293

General Insurance Fund

The Insurance Group 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 2011 to 2016;
- 25 per cent margin; and
- IBNR for typhoons Lawin and Nina.

The Insurance Group also considers claims and losses pending settlement.

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

	2016	2015
Contingencies	**6,627,314,703**	5,940,014,495
Losses	**1,178,029,347**	1,136,147,433
	7,805,344,050	7,076,161,928

16.2 Legal contingencies

The appropriations for legal contingencies pertain to cases wherein there are 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 P78.600 million and P3.081 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 PNF. 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:

	2016	2015 Restated
Old age benefits	**703,404,400,000**	654,317,600,000
Survivorship benefits	**117,537,900,000**	108,843,500,000
Policies in force	**62,121,200,000**	61,691,400,000
Disability benefits	**20,472,400,000**	17,149,400,000
Burial benefits	**5,962,050,000**	5,768,000,000
Contingencies	**1,321,050,000**	1,301,100,000
	910,819,000,000	849,071,000,000

Optional Life Insurance Fund

The amounts appropriated for the OLIF are as follows:

	2016	2015 Restated
Policies in force		
Optional additional and UOLI	**2,932,000,000**	2,530,380,000
College education assurance plan	**282,950,000**	255,250,000
Hospitalization insurance plan	**150,000**	250,000
	3,215,100,000	2,785,880,000
Redemption insurance		
Consolidated loan	**7,124,500,000**	5,847,500,000
Mortgage	**212,500,000**	212,400,000
Emergency loan	**87,500,000**	90,100,000
Sales	**67,700,000**	67,700,000
Pension loan	**46,500,000**	31,800,000
Pensioners' emergency loan	**11,100,000**	-
Pensioners' restructured loan	**6,000,000**	-
eCard plus cash advance	**-**	120,000
	7,555,800,000	6,249,620,000
Contingencies	**510,100,000**	445,500,000
	11,281,000,000	9,481,000,000

Pre-Need Fund

The amounts appropriated for the PNF are as follows:

	2016	2015 Restated
Edu-Child	**1,770,000,000**	1,921,000,000
Memorial	**11,100,000**	17,000,000
Health	**900,000**	1,000,000
	1,782,000,000	1,939,000,000

Employees' Compensation Insurance Fund

The amounts appropriated for the ECIF are as follows:

	2016	2015 Restated
Future claims	**8,514,000,000**	7,645,000,000
Contingencies	**60,500,000**	55,100,000
Occupational safety fund	**58,000,000**	46,000,000
ECC operating fund	**42,500,000**	31,600,000
Claims pending settlement	**2,000,000**	1,300,000
Rehabilitation services	**1,000,000**	1,000,000
	8,678,000,000	7,780,000,000

General Insurance Fund

The amounts appropriated for the GIF are as follows:

	2016	2015 Restated
Contingencies	**9,708,000,000**	8,713,000,000
Losses	**1,178,000,000**	1,136,000,000
	10,886,000,000	9,849,000,000

Property Replacement Fund

The PRF balance of P27.487 million in 2016 and 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:

	2016	2015 Restated
Contributions and premiums		
Social insurance contributions	**88,962,081,429**	83,040,647,711
General insurance premium	**4,319,190,373**	3,467,082,417
Employee compensation insurance premium	**2,901,316,387**	1,924,704,582
Optional insurance premium	**1,374,096,222**	1,277,986,441
Pre-need insurance premium	**4,077,687**	6,826,117
Commission on reinsurance	**145,478,342**	258,580,772
Interest on premium arrearages	**5,057,021**	3,957,150
Loss on foreign exchange on insurance	**(22,181,313)**	(2,896,316)
	97,689,116,148	89,976,888,874

18. INCOME FROM LOANS

This account consists of the following:

	2016	2015 Restated
Interest on loans		
Interest on consolidated loan	**17,313,914,022**	15,530,423,424
Interest on policy loans	**1,585,156,166**	1,597,704,403
Interest on emergency/calamity loans	**1,335,962,434**	1,286,811,241
Interest on home emergency loan program	**568,367,154**	633,218,080
Interest on salary loans	**325,086,294**	490,630,550
Interest on pension loan	**214,186,301**	210,577,471
Interest on EAFP loan	**136,536,822**	128,674,999
Interest on eCard/eCard plus cash advance loan	**41,984,849**	68,486,720
Interest on pensioners' emergency loan	**25,174,670**	24,908,820
Interest on SOS loan	**23,669,470**	31,912,059
Interest on emergency loan assistance	**21,383,926**	25,759,115
Interest on pensioners' restructured loan	**18,397,465**	16,863,877
Interest on Interim loans	**9,122,666**	-
Interest on fly PAL pay later loans	**355,725**	572,622
Interest on educational assistance loan	**326,038**	773,944
Interest on private loans	**59,916**	180,969
Interest on stock purchase loan	**(591,487)**	616,890
Interest on real estate loans	**(233,661,248)**	270,865,703
Interest on deeds of conditional sale	**(339,896,747)**	237,774,830
Interest on government loans	**-**	32,596,205
Service income on loans	**1,147,701,144**	1,389,805,829
Surcharge on loans in arrears	**345,151,421**	327,910,334
	22,538,387,001	22,307,068,085

19. INCOME (LOSS) FROM FINANCIAL ASSETS

This account consists of the following:

	2016	2015 Restated
Fair value through profit or loss (FVPL)		
Interest on ROP notes and bonds	**20,229,342,444**	20,190,650,297
Dividend on stocks	**3,435,040,116**	2,612,201,939
Gain on foreign exchange*	**3,349,888,591**	475,337,038
Interest on corporate bonds	**2,609,531,180**	2,215,252,671
Gain (loss) on valuation - EMF	**1,782,396,503**	(317,726,371)
Gain on sale of stocks	**715,108,658**	608,589,986
Gain on sale of bonds	**355,395,649**	314,478,056
Gain (loss) on valuation - corporate bonds	**277,626,905**	(688,614,192)
Interest on global peso notes	**233,425,586**	158,590,254
Income on investment in EMF	**105,437,229**	848,576,379
Loss on valuation - global peso notes	**(206,944,910)**	(7,903,313)
Loss on valuation - stocks	**(516,176,316)**	(6,731,376,233)
Gain (loss) on investment - derivatives	**(952,380,630)**	21,195,518
Loss on valuation - ROP notes and bonds	**(2,117,936,883)**	(23,077,943,631)
	29,299,754,122	(3,378,691,602)

	2016	2015 Restated
Other Investment Income		
Gain/(loss) on foreign exchange - others	**1,585,899**	20,973,458
Other investment income	**896,860,075**	911,118,438
	30,198,200,096	(2,446,599,706)

**Net of loss on valuation of derivatives of P1.819 billion in 2016 and P3.056 billion in 2015*

For the year ended December 31, 2016, the GSIS reported income from financial assets of P30.198 billion, despite incurring net losses on valuation of P2.600 billion. Stock markets around the world recorded a dramatic decline. Philippines' PSEi Index lost 111.44 points or 1.60 per cent during the year. Equities portfolio closed an index in December 2015 of P6,952 and by the end of December 2016 the index posted at P6,841.

The significant decrease in losses on valuation from P33.880 billion in 2015 to P2.600 billion in 2016 was a result of the rise in market value from January to December 2016. Yield movements for Philippine local currency government bond yields were mixed. Yields mostly rose for bonds with maturities of between three years and 25 years, excluding the four-year and ten-year tenors.

20. INCOME FROM INVESTMENT PROPERTY

Income from investment property consists of the following:

	2016	2015 Restated
Gain on valuation of investment property	**4,163,658,959**	28,397,999,655
Rental from investment property	**326,207,830**	257,884,065
Loss on derecognition of investment property	**(311,336,289)**	(2,193,256,752)
	4,178,530,500	26,462,626,968

The decrease in income is mostly due to the decrease in gain on valuation of big and medium ticket accounts. In 2015, net gain on valuation/appraisal of 76 accounts was at P27.428 billion, P17.123 billion or 62.43 per cent of which pertains to the Port Area Property, which was reclassified from Other Assets account. In 2016, 90 accounts were appraised resulting in a net gain of only P3.786 billion.

21. OTHER INCOME

This account consists of the following:

	2016	2015 Restated
National government's counterpart fund for the EAFP	**300,000,000**	300,000,000
Income from agencies with MOA	**274,211,805**	111,606,888
Income from rental	**154,147,974**	152,462,140
Recovery from impairment	**-**	3,203,875,673
Loss on derecognition of assets	**(632,907,737)**	(11,558,308)
Others	**206,004,491**	(411,101,879)
	301,456,533	3,345,284,514

22. CLAIMS AND BENEFITS

This account consists of the following:

	2016	2015 Restated
Social insurance	**85,147,563,906**	84,585,229,700
Optional life insurance	**911,140,850**	836,775,244
General insurance	**494,449,145**	(16,313,092)
Pre-need insurance	**302,522,415**	357,013,268
Employee compensation insurance	**223,277,942**	177,289,631
	87,078,954,258	85,939,994,751

Social insurance claims and benefits increased in 2016 due to the increase in monthly old age pension and survivorship benefits. The number of monthly old age pensioners increased from 279,492 in 2015 to 298,456 in 2016, while the number of survivorship pensioners increased from 123,236 in 2015 to 128,497 in 2016.

23. INVESTMENT EXPENSES

This account consists of the following:

	2016	2015 Restated
Investments fees and others	**131,981,240**	131,009,759
Foreclosure expenses	**51,618,153**	12,270,786
Expenses on investment property	**32,264,315**	35,151,871
Expenses on e-Card	**16,974,456**	57,893,757
	232,838,164	236,326,173

24. INSURANCE EXPENSES

This account consists of the following:

	2016	2015 Restated
Reinsurance expense	**1,630,005,697**	1,191,280,535
Other insurance expense	**116,397**	383,965
Commission expense	**3,849**	-
Service fee	**-**	831,072
	1,630,125,943	1,192,495,572

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

25. PERSONNEL SERVICES

This account consists of the following:

	2016	2015 Restated
Salaries and wages	**1,464,572,937**	1,407,886,334
Bonus/awards	**893,565,874**	655,665,182
Statutory expenses	**852,850,452**	824,597,991
Allowances	**495,204,511**	493,035,704
Overtime expenses	**103,408,857**	94,170,766
Fringe benefits	**102,210,499**	97,690,686
Contractual services	**70,289,963**	55,200,205
Separation pay	**51,195,271**	147,327,434
	4,033,298,364	3,775,574,302

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

	2016	2015 Restated
Salaries and wages	**91,660,448**	84,673,131
Retirement costs	**5,023,398**	8,097,978
Other benefits	**50,448,838**	46,116,386
	147,132,684	138,887,495

26. OPERATING EXPENSES

This account consists of the following:

	2016	2015 Restated
Impairment loss	**5,018,385,759**	-
Depreciation expense	**636,335,420**	590,005,240
Assets and facilities maintenance expense	**396,971,912**	412,688,703
Electric and water consumption	**154,508,564**	168,456,484
Communication services	**145,108,355**	141,261,215
Insurance expense	**144,191,295**	149,471,295
Public relations and advertisement	**132,028,700**	112,075,508
Digitization expense	**115,093,320**	88,551,407
Contributions to ECC/OSHC	**75,490,500**	66,286,669
Seminars and workshops	**70,612,282**	53,287,135
Supplies and materials expenses	**69,934,568**	76,707,789
Rental expenses	**53,442,111**	47,302,874
Auditing expenses	**41,153,119**	38,180,089
Traveling expenses	**32,548,549**	31,664,556
Athletic and cultural expenses	**28,966,298**	25,905,903
Fuel and gasoline consumption	**9,051,364**	9,927,399
Miscellaneous expenses	**7,764,235**	8,522,519
Education, training and scholarship	**7,621,707**	9,644,997
Representation expenses	**6,396,397**	6,053,441
Retainers and consultants fees	**4,783,373**	19,329,850

	2016	2015 Restated
Legal expenses	**2,496,809**	4,537,116
	7,152,884,637	2,059,860,189

Losses on impairment were recognized, net of recoveries, for the following accounts:

	2016	2015 Restated*
Premium receivable		
Social Insurance	**873,379,917**	1,588,971,787
Employee Compensation Insurance	**119,875,925**	200,374,889
Optional Life Insurance	**42,090,143**	97,119,915
Pre-need Insurance	**(640,112)**	(1,066,975)
General Insurance	**(3,136,331)**	-
	1,031,569,542	1,885,399,616
Loans receivable	**3,610,885,910**	(5,234,098,069)
Other receivable	**631,506,839**	144,822,780
Other assets	**661,831**	-
Investment properties	**(1,465,400)**	-
Stocks	**(254,772,963)**	-
	5,018,385,759	(3,203,875,673)

Net recoveries from impairment in 2015 are presented as part of Other Income in Note 21

27. COMMITMENTS

27.1 Operating lease commitments – GSIS as lessee

GSIS has a total of 14 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 year to year basis.

As at December 31, 2016, the expected rental expenses on these operating lease commitments are as follows:

Due	**Amount**
Within one year	26,053,313
After one year	27,516,300

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 and has extended contracts for three months from January to March 2017.

Rental expense recognized under “Operating Expenses” amounted to P53.442 million in 2016 and P47.303 million in 2015 (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 27 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, 2016 and 2015 are as follows:

Due	**2016**	2015
Within one year	**162,448,597**	152,668,786
After one year but not more than five years	**380,264,279**	512,812,739

Rental revenue from property and equipment amounted to P154.148 million in 2016 and P152.462 million in 2015 (see Note 21).

Meanwhile, minimum and maximum rentals for investment property under operating leases as at December 31, 2016 are as follows:

	Minimum	Maximum
Less than one year to one year	133,920	4,018,622
More than one year to five years	750,182	70,587,645
More than five years	750,000	114,276,787

Rental income from investment property amounted to P326.208 million in 2016 and P257.884 million in 2015 (see Note 20).

28. ADMINISTRATIVE EXPENSE 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 2016, the administrative expense loading of the SIF is 3.76 per cent of total income 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 Optional and General Insurance net premiums retained;

- Twenty per cent marketing commission based on General Insurance 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 AND RESTATEMENTS

30.1 Reclassifications

The following accounts pertaining to CY 2015 were reclassified to be comparable with CY 2016 figures:

	From	To	Amount
Reclassification of interest receivable due to reclassification of HYSTP placements with maturities of more than 90 days to short term investment placement.	Other receivable-Interest receivable-HYSTP	Financial Assets-Interest receivable-Short term investment placements	15,333,333
Adjustment on CY 2015 eliminating entries resulting from inter-fund transactions	Unappropriated surplus, beginning balance	Financial Assets	499,814,180
	Unappropriated surplus, beginning balance	Income from Financial Assets - Gain on Valuation of ROP Notes and Bonds	17,828,668

30.2 Restatements

Below is the summary of the financial impact of the restatement of the 2015 financial statements:

Prior period adjustments	Revenues	Expenses	Assets	Liabilities	Net worth
Adjustments on 2015 fixed income transactions pertaining to unrecorded amortization of premium and discount, reversal of interest receivable for matured and sold accounts and end-of-month valuation.	(519,854,039)	-	(519,854,039)	-	(519,854,039)
	(519,854,039)	**-**	**(519,854,039)**	**-**	**(519,854,039)**

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. 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 2016.

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

Withholding taxes

	2016	2015
Tax on compensation and benefits	**550,988,628**	478,669,632
Value added taxes (VAT)	**86,608,486**	77,930,997
Expanded withholding taxes (EWT)	**56,967,336**	53,078,700
Final taxes	**2,276,299**	1,950,415
	696,840,749	611,629,744

Of the P696.841 million withholding taxes accrued in 2016, P591.967 million was remitted in 2016. Taxes withheld for the month of December 2016 in the amount of 104.873 million was remitted in January 2017.

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.

The table below shows the taxes paid and accrued relating to investment property and the remittance pertaining to BIR annual registration fees:

	2016	2015
Local		
Real estate taxes	**1,057,201**	646,777
National		
Capital gains taxes	**9,077,827**	9,705,360
Documentary stamp taxes	**2,494,614**	2,468,344
Transfer taxes	**880,719**	452,708
BIR annual registration	**28,000**	28,000
	13,538,361	13,301,189

Of the P13.538 million accrued taxes and fees payable, P12.914 million was remitted in 2016.

On January 5, 2017, the OP rendered its decision on OP Case No. 07-D-139 (formerly OSJ Case No. 2004-11) upholding the Department of Justice's (DOJ) Decision declaring that while GSIS is not personally liable for the Documentary Stamp Tax (DST), it is constituted as a withholding agent for the collection and remittance of tax; and ordering the Bureau of Internal Revenue (BIR) to conduct a new assessment of the DST. The case arose when BIR conducted an audit of the books of accounts of GSIS for taxable year 2000 and made a deficiency tax assessment on the alleged failure of the GSIS to file and remit the DST on transactions (such as loans, non-life insurance, life insurance, pre-need plans and acquired assets) contrary to the pertinent provisions of Revenue Regulations No. 9-2000 (Mode of Payment and/or Remittance of the DST Under Certain Conditions). On January 25, 2017, GSIS filed its Motion for Partial Reconsideration of the OP's Decision.

On January 12, 2016, the GSIS received from the Regular Large Taxpayer Audit Division II of the BIR a Formal Letter of Demand (FLD) covering taxable year 2013 for deficiency VAT, Withholding Tax on Compensation, EWT, Final Withholding Tax, Final VAT Withholding and DST. On February 11, 2016, GSIS filed a Protest Letter and Request for Reinvestigation on the FLD. On December 07, 2016, BIR issued an unofficial Final Decision on Disputed Assessment. On December 23, 2016, GSIS submitted additional schedules and requirements to BIR. Revalidation and reconciliation of data is on-going.