NOTES TO FINANCIAL STATEMENTS

(All amounts in Philippine Peso unless otherwise stated)

1. REPORTING ENTITY

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

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

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

Pursuant to Section 34 of RA No. 8291, all contributions payable under Section 5 thereof, together with the earnings and accruals thereon shall constitute the GSIS Social Insurance Fund (SIF). The said fund shall be used to finance the benefits administered by the GSIS under RA No. 8291. In addition, the GSIS shall administer the Optional 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 consolidated financial statements of the GSIS were authorized for issue by the GSIS management represented by the President and General Manager and the Senior Vice President – Controller Group on August 15, 2013.

2. SIGNIFICANT ACOUNTING POLICIES

2.1 Basis of preparation

a. Statement of compliance

The accompanying financial statements are prepared in compliance with Philippine Financial Reporting Standards (PFRS) issued by the Financial Reporting Standards Council (FRSC). However, the bond swap transactions in 2010 and 2011 pursuant to the Domestic Bond Consolidation Program of the

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

b. Basis of consolidation

The consolidated financial statements include the financial statements of the GSIS and its subsidiary as at December 31, 2012. The subsidiary is fully consolidated from the date of acquisition, being the date on which the System obtain control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiary are prepared for the same reporting period as the System, using consistent accounting policies. All intragroup balances and transactions are eliminated in full.

c. Basis of measurement

The financial statements are prepared on historical cost basis except for the following items:

- Equity securities classified as at fair value through profit or loss (FVPL) or held for trading (HFT) and available-for-sale (AFS) and debt securities classified as AFS are measured at fair value subsequent to its acquisition;
- Investment properties are measured at fair value; and
- Land classified under property and equipment is measured at revalued amount.

d. Accrual basis of accounting

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

e. Currency of presentation

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

f. Significant accounting judgments and estimates

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

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

Judgments

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

Operating lease commitments

- The System as lessee

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

Rental expense recognized by the System under "Operating Expenses" amounted to P0.048 billion in 2012 and P0.045 billion in 2011 (Note 27).

- The System as lessor

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

Rental revenue recognized by the System under "Other Revenue" amounted to P0.120 billion in 2012 and P0.118 billion in 2011 (Note 22).

- Determining functional currency

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

Estimates

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

- Estimation of impairment losses on receivables

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

Allowance for impairment losses for premiums and loans receivable and other assets amounted to P43.390 billion and P47.338 billion as at December 31, 2012 and December 31, 2011, respectively. (Notes 6 and 11).

- Provision and contingencies

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

g. Segment reporting

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

- Social insurance

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

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

Section 5 of RA No. 8291 provides that it shall be mandatory for the covered employees and the employers to pay the monthly contributions specified in the following schedule:

Monthly Compensation (MC)	Employee's Share	Employer's Share
P10,000 and below	9 % of MC	12 % of MC
Over P10,000	9 % of P10,000+ 2 % (MC- P10,000)	12 % of MC

Members of the judiciary and constitutional commissioners are also required to pay three per cent of their monthly compensation as personal share, and their employers a corresponding three per cent share for their life insurance coverage.

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

- Optional life insurance

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

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

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

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

- General insurance

RA No. 656, otherwise known as the "Property Insurance Law", established the "Property Insurance Fund" to indemnify or compensate the government for any damage or loss of its properties. 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 properties with the GSIS.

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

- Pre-need insurance

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

- Employees' compensation insurance

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

h. Events after the reporting date

Post year-end events that provide additional information about the System's financial position at the end of reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

2.2 Financial instruments

- Date of recognition

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

- 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.

- Classification of financial instruments

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

a. Financial assets at FVPL

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

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

b. HTM financial assets

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

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

c. AFS financial assets

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

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

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

d. Loans and receivables

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

e. Other financial liabilities

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

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

This category includes among others claims and benefits payable, due to reinsurers, provision for unadjusted claims and sundry accounts payable.

f. 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.

g. Impairment of financial assets

The System assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The carrying value of the impaired account is reduced to the extent that it exceeds the asset's net realizable value. Impairment losses are recognized in full in profit or loss. If in a subsequent period, the amount of accumulated impairment losses has decreased because of an event occurring after impairment has been recognized, the decrease is allowed to be reversed to profit or loss to the extent that the resulting carrying value will not exceed the amortized cost determined had no impairment been recognized.

h. Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;

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

Where the System has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the System's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset or the maximum amount of consideration that the System could be required to repay.

Financial liabilities

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

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

i. Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to 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 financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Stocks non-traded are revalued at year-end and recorded based on its net asset value. The difference between the carrying value and net asset value is recorded as unrealized gain or loss in other comprehensive income. If the difference is other than temporary, it is recorded as unrealized loss in the profit and loss statement.

2.3 Cash and cash equivalents

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

2.4 Premiums receivable

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

2.5 Loans receivable

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

2.6 Derivative instruments

Derivative instruments 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.

2.7 Investment in joint ventures

The GSIS has interest in joint ventures. A joint venture is a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control. The GSIS recognizes its interest in the joint venture using equity method of accounting. Under the equity method, investment in joint venture is initially recorded at cost and is subsequently presented in the financial statements at GSIS' share of the net assets of the joint venture, less any impairment in value.

2.8 Investment properties

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

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

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

2.9 Property and equipment

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

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

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

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

Asset Class	Useful Life Year/Period
Land improvements	10
Building and building improvements	30
IT resources	5
Furniture and fixtures	10
Office equipment	5
Ordinance (firearms)	10
Medical equipment	10
Dental equipment	10
Laboratory equipment	10
Communications equipment	10
Sports equipment	10
Firefighting equipment and accessories	7
Library books	5
Transportation equipment-land	7

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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 in the derecognition of the asset is included in profit or loss in the year the asset is derecognized.

Construction in progress is included in property and equipment and stated at cost which includes cost of construction and other direct costs. These are adjusted to its relative account and depreciated only upon completion and put into operational use.

2.10 Impairment of non-financial assets

The carrying amount of non-financial assets, other than investment properties, 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.

2.11 Revenue recognition

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

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

Interest revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

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

Interest from loans is recognized as the interest accrues, taking into account the effective yield on the asset.

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

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

2.12 Foreign currency- denominated transactions

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

2.13 Expense recognition

Expenses are recognized in the statement of comprehensive income upon utilization of the service or at the date they are incurred.

3. ADOPTION OF NEW AND REVISED PFRS

The System adopted new and revised PFRS effective January 1, 2012. These are summarized on the next page:

- PFRS 1 First-Time Adoption of Philippine Financial Reporting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (Amendment) – The standard provides guidance on the presentation of financial statements in accordance with PFRS when an entity's functional currency ceases to be subject to hyperinflation.

- PFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition and Transfer of Financial Assets Disclosure Requirements– The amended standard requires additional disclosure on financial assets that have been transferred but not derecognized and an entity's continuing involvement in the derecognized assets. This disclosure is required to enable the user of the financial statements to evaluate the related risks.

These new and revised PFRS have no significant impact on the amounts and disclosures in the financial statements of the System.

New and Revised PFRS Not Yet Adopted

Relevant new and revised PFRS which are not yet effective for the year ended December 31, 2012 and have not been applied in preparing the financial statements are summarized below:

a. Effective for annual periods beginning on or after July 1, 2012:

    - PAS 1, Financial Statement Presentation, Presentation of Items of Other Comprehensive Income - The amendment changed the presentation of items in Other Comprehensive Income (OCI). Items that could be reclassified to profit or loss at a future point in time should be presented separately from items that will never be reclassified.

b. Effective for annual periods beginning on or after January 1, 2013:

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

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

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

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

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

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

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

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

Improvements to PFRS

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

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

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

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

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

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

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

c. Deferred effectivity:

- Philippine Interpretation PFRIC 15, Agreements for the Construction of Real Estate (PFRIC 15) – The FRSC has approved in September 2011 the deferral of the effectivity of PFRIC 15 until the final revenue standard is issued by Philippine Accounting Standards Board (PASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. PFRIC 15 provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, Construction Contracts or PAS 18, Revenue and, accordingly, when revenue from the construction should be recognized.

Under prevailing circumstances, the adoption of the foregoing new and revised PFRS is not expected to have any material effect on the financial statements.

4. SEGMENT INFORMATION

The table shows the Statements of Financial Position as of December 31, 2012:

	(In millions)									
	SIF	**GIF**	**OLIF**	**PNF**	**ECIF**	**BSOIF**	**PRF**	**TOTAL**	**ELIMI NATION**	**CORP**
ASSETS										
Cash and cash equivalents	24,471	5,753	1,648	833	2,607	10	27	35,349		35,349
Premiums and loans receivable - net	214,850	965	2,436	7	3,466	-	-	221,724		221,724
Financial assets	383,423	10,769	9,803	1,994	5,415	-	-	411,404		411,404
Investment in joint ventures	1,165	-	-	-	-	-	-	1,165		1,165

	(In millions)									
	SIF	**GIF**	**OLIF**	**PNF**	**ECIF**	**BSOIF**	**PRF**	**TOTAL**	**ELIMI NATION**	**CORP**
Property and equipment - net	10,672	-	-	-	-	-	-	10,672		10,672
Investment properties	26,444	2,877	669	-	-	-	-	29,990		29,990
Other assets - net	16,206	5,733	1,351	32	50	-	-	23,372	6,100	17,272
TOTAL ASSETS	**677,231**	**26,097**	**15,907**	**2,866**	**11,538**	**10**	**27**	**733,676**	**6,100**	**727,576**
LIABILITIES										
Insurance liabilities	5,947	5,690	98	24	11	-	-	11,770		11,770
Other liabilities	10,490	227	75	230	16	156	-	11,194	6,100	5,094
Deferred credits	2,014	813	-	-	-	-	-	2,827		2,827
TOTAL LIABILITIES	18,451	6,730	173	254	27	156	-	25,791	6,100	19,691
Property replacement fund	-	-	-	-	-	-	27	27		27
Reserves	588,188	4,685	7,283	2,386	1,096			603,638		603,638
Surplus	70,588	14,682	8,451	226	10,415	(146)	-	104,216		104,216
Net assets of subsidiaries	4	-	-	-	-	-	-	4		4
TOTAL NET WORTH	658,780	19,367	15,734	2,612	11,511	(146)	27	707,885	-	707,885
TOTAL LIABILITIES AND NET WORTH	**677,231**	**26,097**	**15,907**	**2,866**	**11,538**	**10**	**27**	**733,676**	**6,100**	**727,576**

The table below shows the Statements of Comprehensive Income for all funds for the period ended December 31, 2012:

	(In millions)							
	SIF	**GIF**	**OLIF**	**PNF**	**ECIF**	**BSOIF**	**PRF**	**TOTAL**
REVENUE								
Revenue from insurance	73,278	4,173	978	(16)	1,958	-	-	80,371
Revenue from loans and receivable	19,349	-	118	-	-	-	-	19,467
Revenue from financial assets	33,614	239	536	190	271	-	-	34,850
Revenue from investment properties	754	19	5	-	-	-	-	778
Other revenues	2,032	18	2	-	-	-	-	2,052
	129,027	4,449	1,639	174	2,229	-	-	137,518
EXPENSES								
Claims and benefits	63,591	650	896	369	38	-	-	65,544
Investment expenses	153	-	-	-	-	-	-	153
Insurance expenses	-	2,425	-	6	-	-	-	2,431
Personal services	3,187	-	-	-	-	-	-	3,187
Operating expenses	2,820	327	250	108	119	-	-	3,624
	69,751	3,402	1,146	483	157	-	-	74,939
Operating income income/(loss) before GSIS fees and commission	59,276	1,047	493	(309)	2,072	-	-	62,579
GSIS fees and commission								
Management fee	194	-	-	-	(194)	-	-	-
Administration fee	267	(170)	(97)	-	-	-	-	-
Marketing commission	339	(339)	-	-	-	-	-	-
	800	(509)	(97)	-	(194)			
Net operating income	**60,076**	**538**	**396**	**(309)**	**1,878**	**-**	**-**	**62,579**

	(In millions)							
	SIF	GIF	OLIF	PNF	ECIF	BSOIF	PRF	TOTAL
Other comprehensive income								
Unrealized gain on investments	21,310	2,611	292	23	368	-	-	24,604
Appraisal surplus	5,904	159	-	-	-	-	-	6,063
	27,214	2,770	292	23	368	-	-	30,667
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**87,290**	**3,308**	**688**	**(286)**	**2,246**	**-**	**-**	**93,246**

5. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2012	2011 (as restated)
Cash on hand and in banks	2,950,353,491	3,677,182,853
Cash equivalents	32,398,368,748	36,443,085,507
	35,348,722,239	**40,120,268,360**

Cash in bank earn interest at the respective bank deposit rates. High yield short term placements (HYSTPs) and special savings deposits (SSDs) are made for varying periods of up to 90 days depending on the immediate cash requirements of the System and earn interest at the prevailing HYSTP and SSD rates.

6. PREMIUMS AND LOANS RECEIVABLE - NET

This account consists of the following:

	2012	2011 (As restated)
Premium receivable		
Social insurance premium	30,981,426,396	30,465,084,866
Employee compensation insurance premium	4,305,384,554	4,307,290,751
Optional insurance premium	2,099,966,692	1,798,976,724
General insurance premium	1,335,647,553	1,036,943,339
Pre-need insurance premium	266,277,460	260,666,438
	38,988,702,655	37,868,962,118
Less: Allowance for impairment loss	14,204,806,385	12,911,074,107
Premium receivable - net	24,783,896,270	24,957,888,011
Loans receivable		
Consolidated loan	137,248,978,459	124,753,808,876
Policy loan	24,018,855,756	22,911,884,144
Salary loan	18,053,790,297	20,268,295,523
Emergency loan	13,883,297,091	8,970,903,940
Real estate loan	11,841,408,628	12,469,093,735
Government loan	6,299,574,224	11,229,081,763
Deeds of conditional sale	6,138,545,429	6,583,441,683
eCard/eCard plus cash advance loan	4,565,325,071	6,174,959,896

	2012	2011 (As restated)
Educational assistance fund program loan	2,433,323,309	-
Private loan	2,190,328,051	2,211,000,186
Pension loan	1,470,276,260	1,827,955,372
Summer one month salary loan	815,539,579	977,238,460
Emergency loan assistance	800,595,765	933,756,045
Other loans	353,895,498	438,600,004
Lease purchases	111,401,704	111,401,704
Interim loan	91,168,588	91,168,588
Pensioners' restructured loan	57,040,950	17,621,943
Stock purchase loan	10,307,098	37,256,419
Educational assistance loan	716,090	548,508
Fly PAL	237,924	108,813
Notes receivable	-	439,190,000
	230,384,605,771	220,447,315,602
Less: Allowance for impairment loss	24,497,493,062	28,289,080,275
Loans receivable - net	205,887,112,709	192,158,235,327
Premium and loans receivable	230,671,008,979	217,116,123,338
Less: Accounts for clearing	8,947,292,669	10,960,402,925
Net premiums and loans receivable	**221,723,716,310**	**206,155,720,413**

6.1 Premiums receivable

- Social insurance

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

- Optional life insurance

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

- Pre-need insurance

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

- Employees' compensation insurance

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

- General insurance

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

6.2 Loans receivable

- Consolidated loan

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

Additional consolidated loan granting in the amount of P88.924 billion increased the balance of consolidated loan, although the number of borrowers decreased by 16per cent from 689,173 in 2011 to 578,987 in 2012. These loans are still based on the third tranche of salary adjustment under the Salary Standardization Law III which was approved last June 17, 2009.

- Policy loan

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

Policy loans bear an interest of eight per cent compounded annually. The GSIS granted a total of P10.047 billion policy loans to 436,316 borrowers in 2012.

- Emergency loan

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

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

Several typhoons hit the country in 2012, which caused massive damages in certain areas. As a result, the GSIS granted emergency loans to members amounting to a total of P8.004 billion as of December 31, 2012.

- Educational assistance fund program loan

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

The total number of borrowers has reached 612,761 with total gross loan amount of P2.451 billion since its launching last May 8, 2012.

- Pensioner's restructured loan

In July 2011, the pensioner's restructured loan, also known as Choice of Loan Amortization Schedule for Pensioners (CLASP), was offered to retiring members as an option for the settlement of their obligations. An additional P0.054 billion was granted this year for 586 new availees of this loan.

6.3 Allowance for impairment

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

	2012	**2011 (As restated)**
Balance at the beginning of the year	47,337,970,817	50,342,452,057
Recoveries/reversals	(3,948,025,118)	(3,004,481,240)
	43,389,945,699	**47,337,970,817**

The recognition of allowance for impairment loss for 2012 was based on the following:

- Premiums receivables

Social insurance, optional life insurance and employees compensation premiums receivable of inactive members were provided with 100 per cent allowance for impairment because probability of collection is deemed unlikely.
Pre-Need insurance premiums receivable was provided with 100per cent allowance for impairment for cancelled, terminated and lapsed policies.

For general insurance premium receivables, the following percentages were applied in estimating impairment losses:

Age	**Percentage of Allowance**
Within the year	0
1 year to 2 years	50
2 years to 3 years	90
Over to 3 years	100

- Loans receivables

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

Matured outstanding pension and pensioners' restructured loans were provided with 100 per cent allowance for impairment due to improbability of collection.

Provision of allowance for impairment for non-member loan accounts was determined based on the improbability of collection due to insolvency or bankruptcy of the debtor or non-collection for seven years and up.

On real estate loan accounts, below is the status of delinquent individual loans under litigation/foreclosure proceedings as at December 31, 2012:

	Endorsed for Filing	Filed	Auctioned (With Bid)	Unpaid Court's Commission	Paid court's commission (COS Unsecured)	COS	COS Endorsed to BDARO
Head office	428	428	273	70	62	119	118
Regional office	689	689	544	210	63	330	0
Tarlac City located	567	567	567	0	428	139	139
TOTAL	**1,684**	**1,684**	**1,384**	**280**	**553**	**588**	**257**

- Other receivables

The bulk of the allowance for other receivables pertains to 100% allowance for interest receivables from inactive members' loan accounts.

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

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

6.4 <u>Accounts for Clearing</u>

Premiums and loans receivables are presented net of allowance for impairment loss and accounts for clearing amounting to P8.947 billion in 2012 and P10.960 billion in 2011, 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 Reconcilement Task Force (RTF) continues to focus on the cleansing of the accounts for clearing. Aside from the program enhancements already implemented in the previous years, the GSIS further enhanced its programs to address the various posting issues. Other projects were also started this year to expedite the reconciliation of agencies and members' accounts. These projects include the Statements of Loan Accounts (SOLA) Project, the eBilling and eCollection Project, the Members Self-Service Facility (MSSF) and the Mainframe Balance Adjuster System (MBAS).

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

7. FINANCIAL ASSETS

The GSIS financial assets consist of:

	2012	2011 (As restated)
Securities held for trading (HFT)		
Derivatives - deliverable and non- deliverable	3,354,263,019	166,607,464
Stocks - Traded - HFT	150,094,595	352,978,918
	3,504,357,614	519,586,382
Securities available for sale (AFS)		
ROP notes and bonds - AFS	126,098,109,544	92,543,718,939
Stocks - traded - AFS	84,297,810,503	55,825,072,707
Externally managed funds - Domestic	19,485,150,929	10,238,996,401
Corporate bonds - AFS	12,879,011,914	3,176,128,787
Global peso notes - AFS	1,106,826,480	-
Stocks - non-traded	778,348,811	1,136,689,683
Externally managed funds - Global	17,034,324	-
	244,662,292,505	162,920,606,517
Securities held to maturity (HTM)		
ROP notes and bonds - HTM	163,237,644,174	173,339,376,491
Investment placement in BSP	-	54,000,000
	163,237,644,174	173,393,376,491
	411,404,294,293	**336,833,569,390**

7.1 Derivatives

As at December 31, 2012, the outstanding notional amount of GSIS currency forwards and swaps increased by P0.710 billion due to actual conversion of dollars to pesos and an increase in the combined portfolio of forwards and cross currency swaps.

Effective June 1, 2010, the GSIS has been counterparty to derivative contracts, such as forward transactions and foreign exchange swaps. In the year 2012, the GSIS focused on derivative transactions through cross currency swaps contract with long-term period. The GSIS engaged in foreign exchange and other cash or derivative financial transactions on a deliverable or non-deliverable basis for the purpose of enhancing returns or hedging unwanted risks.

	Notional Value	
	2012	**2011**
Non-deliverable cross currency swaps	41,705,610,000	33,518,000,000
Deliverable cross currency swaps	4,533,830,000	867,600,000
Deliverable forward	1,149,866,500	4,220,975,000
Non-deliverable forward	650,457,502	8,723,000,000
	48,039,764,002	**47,329,575,000**

The net increase in the investment in derivatives is due to increase in the combined portfolio of forwards and cross currency swaps, settlement of derivative contracts in 2012, and the change in foreign exchange rate from US$1.00 to P43.919 in December 2011 to US$1.00 to P41.078 in December 2012.

	2012	**2011**
Non-deliverable cross currency swaps	3,135,371,911	213,831,584
Deliverable cross currency swaps	247,345,666	(13,861,637)
Deliverable forward	(3,639,197)	24,081,608
Non-deliverable forward	(24,815,360)	(57,444,091)
	3,354,263,020	**166,607,464**

7.2 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. Investments made in 2012 totaled to P1.1 billion.

2010 and 2011 Bond Swap Transactions

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

The Securities and Exchange Commission (SEC) granted exemption from the “tainting” provision of PAS No. 39, Financial Instruments: Recognition and Measurement, the exchange of Eligible Government Bonds for Benchmark Bonds categorized under the Held-to-Maturity (HTM) category. The Bangko Sentral ng Pilipinas (BSP) also provided the same exemption for prudential reporting to participants.

- Bond Swap Transaction on Peso Denominated ROP Bonds in 2010

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

a. To support the monetary policies of the Philippine Government;
b. To extend the duration of the Fund’s assets to match its future obligations; and

c. To sustain financial viability of the Fund to ensure its prolonged actuarial life.

Eligible bonds for cash tender

On December 16, 2010, the GSIS tendered a total of P10.267 billion worth of Eligible Bonds for cash, which resulted in a net gain of P260.73 million recognized in CY 2010. The bonds exchanged were not exempted from the tainting rule. However, maturities were close to the exchange date, hence, they were eligible for exchange as provided in PAS 39.

Eligible bonds for exchange tender

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

In compliance, however, with the conditions set forth in the December 1, 2010 ROP Invitation for Exemption from "Tainting" Provision, the GSIS retained the HTM category for the Benchmark Bonds and any unrealized gains or losses obtained from the exchange were amortized over the term of the Benchmark Bonds. Hence, the unrealized gain was amortized over the life of the Benchmark Bonds, which will result in an annual gain of P375 million.

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

- Bond Swap Transaction on Peso Denominated ROP Bonds in 2011

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

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

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

- Bond Swap Transaction on Dollar Denominated ROP Bonds in 2011

In October 2011, the GSIS exchanged its dollar denominated ROP Bonds in the amount of P1.58 billion for Benchmark Bonds that will mature in 2025, 2030, 2032 and 2034. The exchange resulted in a net unrealized gain of USD6.1 million or equivalent to P264 million.

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

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

Had the HTM investment portfolio subject of the 2010 and 2011 been reclassified to AFS investments, these would be carried at fair value of P213.676 billion as at December 31, 2012.

7.3 Externally managed funds – Global

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

In November 2011, US$300 million or its Philippine peso equivalent was initially appropriated from the fund committed for the PIDF, for the purpose of investing the fund through cooperative arrangements with multilateral organizations. The said initial appropriation was increased to US$450 million or its Philippine peso equivalent in April 2012.

In December 2012, the GSIS released to the winning bidder, Macquarie Infrastructure Management (Asia) Pty Limited, the First Drawdown of Philippine Alliance for Infrastructure (PINAI) fund in the amount of P0.017 billion.

7.4 Externally managed funds – Domestic

The fund consists of the following:

	Asset Under Management				
Fund Manager	**Initial Investment**	**Additional Investment (2012)**	**Total**	**Unrealized Gain/(Loss)**	**Net Asset Value (12/31/2012)**
MBTC	2,000,000,000	750,000,000	2,750,000,000	2,363,465,358	5,113,465,358
BDO	2,000,000,000		2,000,000,000	1,588,740,507	3,588,740,507
PAMI	4,147,433,390	750,000,000	4,897,433,390	1,330,311,897	6,227,745,286
ATR	1,500,000,000	500,000,000	2,000,000,000	285,436,290	2,285,436,290
BPI	1,500,000,000	500,000,000	2,000,000,000	269,763,487	2,269,763,488
TOTAL	**11,147,433,390**	**2,500,000,000**	**13,647,433,390**	**5,837,717,539**	**19,485,150,929**

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

In 2007, the GSIS entered into an Investment Management Agreement (IMA) with MBTC and BDO with an initial investment of P2.0 billion each. In 2012, the additional fund transfer of P0.750 billion to MBTC was approved. The net asset value of the funds managed by MBTC and BDO as of December 31, 2012 are P5.113 billion and P3.589 billion, with an investment growth of P2.363 billion or 86 per cent and P1.589 billion or 79 per cent, respectively.

b. Philam Assets Management, Inc. (PAMI)

The GSIS entered into an IMA with PAMI in 2011. The initial funds transferred to PAMI amounted to P4.147 billion. An additional P0.750 billion fund was transferred to PAMI in 2012. As of December 31, 2012 the net asset value of the fund is P6.228 billion, an investment growth of P1.33 billion or 27 per cent.

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

The GSIS hired additional local fund managers in 2012. A total of P4.0 billion were transferred to BPI and Maybank ATR KimEng (P2.0 billion each). From inception date to December 31, 2012, the funds managed by BPI and Maybank ATR KimEng already posted an investment growth of P0.270 billion or 13.5 per cent and P0.285 billion or 14.3 per cent, respectively.

8. INVESTMENT IN JOINT VENTURES

The GSIS entered into Joint Venture Agreement (JVA) with the following private corporations:

	2012	**2011**
Empire East Land Holdings, Inc.	439,675,000	439,675,000
Queens Row - New San Jose Builders	385,910,249	385,910,249
GSIS City - Metro Homes - New San Jose Builders	175,291,965	175,291,965
Cogeo - New Solidcon Development Builders	139,487,000	139,487,000
Collective Project Management, Inc. (Fairview Parkhomes)	24,438,207	27,084,127
	1,164,802,421	**1,167,448,341**

The JVA with Empire East Land Holdings, Inc. (EELHI) is currently being implemented. EELHI has caused the construction and development of a seven-storey building on the lot subject of the joint venture. A closing agreement that will define the terms of the sharing of revenues on the building is presently being drafted and finalized.

The JVAs with Queens Row and GSIS Metrohomes – New San Jose Builders, Cogeo – New Solidcon Development Builders, and Collective Project Management, Inc. are now under review for the liquidation and disposition of the properties contributed to the joint venture and the termination of the JVAs.

9. PROPERTY AND EQUIPMENT - NET

The property and equipment account consists of the following:

	Land	Land improvement	Building and building improvement	Information technology resources	Construction in progress	Furniture, fixtures and equipment	Total
Cost:							
January 1, 2012	365,260,356	190,131,472	5,128,057,834	1,958,216,605	188,469,679	896,880,329	8,727,016,275
Add:							
Additions			113,689,739	309,175,284	373,694,654	33,067,300	829,626,977
Adjustments	(60,672,000)		(2,632,233)	(2,240,007)	(459,869,486)	25,903,939	(499,509,787)
Valuation	6,145,544,569						6,145,544,569
Less:							
Disposals				61,638,242		15,440,527	77,078,769
December 31, 2012	**6,450,132,925**	**190,131,472**	**5,239,115,340**	**2,203,513,640**	**102,294,847**	**940,411,041**	**15,125,599,265**
Accumulated depreciation:							
January 1, 2012		170,084,220	2,109,988,868	1,325,460,350		463,248,476	4,068,781,914
Add:							
Depreciation charges during the year		354,077	193,497,182	189,096,948		71,217,360	454,165,567
Less:							
Disposals				54,933,644		13,460,545	68,394,189
Adjustments			25,593			918,770	944,363
December 31, 2012		**170,438,297**	**2,303,460,457**	**1,459,623,654**		**520,086,521**	**4,453,608,929**
Net Book Value – December 31, 2012	**6,450,132,925**	**19,693,175**	**2,935,654,883**	**743,889,986**	**102,294,847**	**420,324,520**	**10,671,990,336**
Net Book Value - December 31, 2011	**365,260,356**	**20,047,252**	**3,018,068,966**	**632,756,255**	**188,469,679**	**433,631,853**	**4,658,234,361**

The significant increase in land was due to the valuation conducted by an independent appraiser.

Property and equipment with a cost of P1.515 billion and P1.359 billion as at December 31, 2012 and 2011, respectively, are fully depreciated but are still being used by the System.

10. INVESTMENT PROPERTIES

As of December 31, 2012, investment properties consists of the following:

	Foreclosed REL	Cancelled DCS	Unawarded Lot/GSIS Owned	Big Accounts	Others	Total
Beginning Balance-01/01/2012	172,577,616	10,139,428,362	921,119,664	17,056,489,252	1,414,674,592	29,704,289,486
Additions	104,210	127,168,594	53,533,517	1,374,059,115	17,401,620	1,572,267,056
Deductions/Disposals	(15,785,531)	(163,778,012)	(396,162,437)	(655,050,817)	(56,083,042)	(1,286,859,839)
Ending Balance-12/31/2012	**156,896,295**	**10,102,818,944**	**578,490,744**	**17,775,497,550**	**1,375,993,170**	**29,989,696,703**

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

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

Big accounts are real properties 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.

The net increase in investment properties is mainly due to the year-end valuation of the big ticket accounts conducted by an independent appraiser which resulted in an increase amounting to P0.285 billion.

11. OTHER ASSETS

The other assets consists of the following:

	2012	**2011 (as restated)**
Income receivable	17,269,267,325	16,403,158,635
Due from reinsurer	2,272,390,076	2,365,630,237
Agency receivable	995,900,384	817,995,022
Sundry accounts receivable	536,331,652	545,577,881
Paintings and tapestries	411,918,054	411,918,054
Property under litigation	131,311,884	131,311,884
Others	343,044,333	466,542,116
	21,960,163,708	21,142,133,829
Allowance for impairment loss	4,687,646,252	6,137,816,435
Other assets - net	**17,272,517,456**	**15,004,317,394**

Income receivable pertains to interests on members' and non-members' loan receivables, interests on premiums in arrears, interests on investments and accrued rentals. The net increase of P0.866 billion in net income receivable was brought about by the increase in loan availments by members towards the end of 2011 until 2012 and from the granting of emergency loan, choice of loan amortization schedule for pensioners and the one-time education loan. Moreover, there were additional purchases of ROP notes and bonds in 2012 which resulted in an increase in the interests accrued for the year.

Due from Reinsurers account represents the share of reinsurers on the General Insurance claims and losses. It includes receivables amounting to P1.454 billion which were previously classified as non-admitted assets which consist of the share of 175 reinsurers, 88 of which are no longer operational. Considering that the amount has been outstanding for more than seven years, 100% allowance for impairment loss was provided.

Agency receivable represents receivables from various agencies with Memorandum of Agreement (MOA) with the GSIS. In its continuous effort to improve its financial viability, the GSIS carried out measures to collect past due premium contributions and loan repayments from delinquent agencies. In 2006, GSIS implemented a program whereby delinquent agencies were given the option to enter into MOAs with the GSIS to settle their unpaid obligations. Guidelines and procedures to operationalize this program were provided under PPG 191-06. To date, 127 agencies have entered into MOAs with the GSIS; 54 of these agencies have fully paid their obligation at the end of 2012. Forty agencies entered into MOAs with the GSIS this year.

Sundry accounts receivable represents administrative and other operating transactions of the GSIS, such as employee car loans, COA disallowances, pension and dividend overpayments, dishonored checks, notarial fees and investment maturities.

11.1 Property under litigation

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

- Manila International Port Terminal Inc. (MIPTI) Property

The MIPTI property located at the North Harbor, Manila Bay, was valued at P0.110 billion when it was acquired by the GSIS in 1976.

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

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

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

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

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

PPA paid GSIS the amount of P0.001 billion, which was determined by a committee composed of MIPTI, PPA and the Commission on Audit (COA) as the actual and reasonable expenses incurred in the pre-development undertaking of the project and has reflected the property in their books.

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

GSIS management and its legal counsels believe that the arbitration will be settled in its favor and will not result in the impairment of its investment property. The title to the property was vested in GSIS as additional contribution of the National Government for the benefit of its members. The payment to GSIS of P0.001 billion under PD No. 1284 was not for the purpose of paying for the value of the property but for the refund of the reasonable expenses incurred in the predevelopment undertaking of the project. When PD 802 was repealed, MIPTI was a mere lessee of the property. The authority, power and responsibility to plan, design, construct and develop the International Port Complex at North Harbor, which was transferred from MIPTI to PPA, did not require the ownership of the land on which the developments are located, but rather mere access to it. Moreover, on June 4, 2002, the President of the Philippines recognized GSIS' ownership over the MIPTI property when Executive Order (EO) No. 108 was issued declaring a portion of the property as a social housing site. To carry out the mandate in EO No. 108, OCT No. 10722 was subdivided into two Transfer Certificates of Title (TCT) – TCT No. 272971 and TCT No. 272972, which are both still in the name of GSIS.

- <u>Bataan Shipyard and Engineering Company Inc. (BASECO) Property</u>

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

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

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

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

12. INSURANCE LIABILITIES

This account consists of the following:

	2012	2011 (as restated)
Claims payable		
Social insurance		
Retirement	4,570,049,784	2,956,351,856
Life insurance	1,054,668,168	559,162,486
Survivorship	186,184,599	675,334,194
Pension	96,808,257	130,518,173
Funeral	35,200,018	30,455,531
Others	3,480,513	3,707,756
General insurance	793,684,135	803,082,537
Optional life insurance	96,837,248	69,815,377
Pre-need insurance	24,258,044	29,847,943
Employee compensation insurance	11,066,620	11,044,100
	6,872,237,386	5,269,319,953
Due to reinsurers	2,988,171,808	2,704,654,468
Provision for unadjusted claims	1,909,327,918	1,451,372,662
	11,769,737,112	**9,425,347,083**

Claims and benefits payable pertain to various claims due to members/policyholders as of December 31, 2012 but remain unpaid as of year-end.

13. OTHER LIABILITIES

This account consists of the following:

	2012	2011 (as restated)
Sundry accounts payable	3,016,881,173	4,661,226,480
Funds held In trust	491,270,921	748,463,924
Dividends payable	482,817,275	327,015,739
Provision for pending litigation	185,356,381	895,702,003
Others	917,362,850	938,559,464
Derivative liability	-	936,273,660
	5,093,688,600	**8,507,241,270**

- Sundry accounts payable

This account consists of the following:

	2012	2011 (as restated)
Refund of member loans	880,714,878	802,050,114
Various accruals	816,636,353	791,395,868
Accrued employee benefits and expenses	654,808,523	1,209,076,094
Unreleased checks as of balance sheet date	456,390,364	447,987,245
Extra remuneration payable	68,299,770	54,364,607
Investment placements unpaid as of balance sheet date	65,638,660	270,011,310
Other payables	48,499,619	94,341,100
Bank service fee on e-Crediting transactions	25,893,006	55,726,482
Second installment payment received from the conditional sale of MERALCO shares in 2009	-	936,273,660
	3,016,881,173	**4,661,226,480**

- Funds held in trust

This account consists of the following:

	2012	2011 (as restated)
Bid security deposits, performance bond and other funds held in trust from various suppliers	295,589,403	551,437,254
Down payments, payments and bidder's deposits on sale of investment properties	95,775,654	101,779,342
Cash collateral for performance bonds, surety bonds, judicial bonds	41,625,746	36,267,967
GSIS Self-Administered Hospitalization Program	41,340,981	39,784,522
ten percent retention fee of contractors	16,939,137	19,194,839
	491,270,921	**748,463,924**

- Dividends payable

Board Resolution Nos. 169 and 4 dated November 22, 2012 and January 24, 2013, respectively, approved and confirmed the grant and distribution of the 2011 annual cash dividends of P0.930 billion to compulsory life insurance policy holders and P0.741 billion to optional life insurance policy holders.

- Provision for pending litigation

At present, there are lawsuits and claims that are either awaiting decisions by the courts or are subject to settlement agreements.

14. DEFERRED CREDITS

This account consists of the following:

	2012	2011 (as restated)
Unrealized income	1,323,558,950	19,763,528
Unearned premiums	813,135,726	1,041,056,169
Deferred premium collection	690,406,503	-
	2,827,101,179	**1,060,819,697**

- Unrealized income

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

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

- Unearned premiums

Pursuant to the provisions of Section 213 of the Insurance Code and the Regulatory Accounting Principles and Practices (RAPP) prescribed by the Insurance Commission, the GSIS maintains a reserve for unearned premiums on policies in force. Except for marine cargo risks, such reserve is equal to 40 per cent of the gross premiums, less premiums ceded, returns and cancellations of all policies or risks in force. For marine cargo risks, reserve is equal to 100 percent of the premiums written during the last two months of the calendar year net of premiums ceded.

- Deferred premium collection

GSIS and DepEd embarked on a joint project to cleanse and reconcile the DepEd premium deficiencies. On October 4, 2010, the GSIS and DepEd executed a Memorandum of Understanding that led to the determination of premium deficiencies on government share amounting to P6.9 billion. Fifty percent of the amount was paid on October 2012 and the remaining balance is to be paid upon the complete validation of the entire premium deficiencies on government share as agreed upon by both parties.

Deferred premium collections represent the aggregate amount of undistributed collection on government share of DepEd personnel covering the period July 1, 1997 to December 31, 2010 which were deferred for posting to individual accounts pending receipt of payment of the remaining balance of 50 per cent government share under the agreement.

15. PROPERTY REPLACEMENT FUND

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

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

The PRF's balance of P0.027 billion in 2012 represents the amount appropriated and remitted by the National Government for the restoration of damaged government properties.

16. RESERVES

Actuarial Reserves

Actuarial reserves are the estimated amount of the future obligations of the System under RA 8291.

Social insurance fund

The actuarial reserves for the SIF and other administered funds of the GSIS, which include the OLIF, Pre-need Fund and ECIF, are computed by the GSIS Actuarial and Risk Management Group based on certain assumptions which are in accordance with generally accepted principles of actuarial valuation, wherein reserves are expressed as the excess of the present value of future benefits (PVFB) over the present value of future contributions/net premiums (PVFC), given the applicable valuation interest rate based on historical data, and taking into consideration the following:

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

The actuarial reserves of the SIF consist of the following:

	2012
Old age benefits	471,285,384,612
Survivorship benefits	76,874,283,931
Policies in force	66,206,077,909
Disability benefits	15,191,688,060
Burial benefits	3,448,750,746
Contingencies	1,324,121,558
	634,330,306,816

The following are the assumptions used in the computation of SIF actuarial reserves:

a. Valuation interest rate = 9.15 per cent
b. Annual salary increase = 5 per cent and considered the 10.11 per cent increase from Salary Standardization Law IV
c. Interest rate LEP = 4 per cent
d. GSIS service table
e. Group annuity mortality (GAM) table
f. Commissioners standard ordinary (CSO) table

Optional life insurance fund

The actuarial reserves of the OLIF consist of the following:

	2012
Policies in force	
Optional additional and UOLI	2,906,951,353
College education assurance plan	346,595,805
Hospitalization insurance plan	855,425
	3,254,402,583
Redemption insurance	
Consolidated loan redemption insurance	3,229,742,120
Mortgage redemption insurance	271,623,708
eCard cash plus advance redemption insurance	99,208,218
Sales redemption insurance	53,780,996
Emergency loan redemption insurance	27,256,592
	3,681,611,634
Contingencies	346,800,711
	7,282,814,928

The following are the assumptions used in the computation of UOLI actuarial reserves:

a. Valuation interest rate = 3.5 per cent for life insurance
b. Commissioners standard ordinary table (CSO)

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

Employees' compensation insurance

The actuarial reserves of the ECIF consist of the following:

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

The following are the assumptions used in the computation of ECIF actuarial reserve:

a. Valuation interest rate = 2.5 per cent
b. GAM table
c. GSIS service table

Pre-need insurance

The actuarial reserves for the PNF consist of the following:

	2012
Edu-Child	4,214,943,150
Memorial	271,895,807
Health	8,538,361
	4,495,377,318

The following are the assumptions used in the computation of the PNF actuarial reserves:

a. Valuation interest rate = 7 per cent
b. Active, fully paid but not yet availing (FBNYA) and availing plans
c. Commissioners Standard Ordinary (CSO) table
d. Philippine Inter-Company (PIC) withdrawal rates table

General insurance fund

The actuarial reserves for the GIF, which is computed by the Insurance Group, consist of the following:

	2012
Contingencies	3,119,929,210
Losses	1,526,505,960
	4,646,435,170

The reserve for contingencies is the amount set aside to protect against potential future losses, such as the possibility of catastrophe losses. It is computed as follows:

Reserve for contingencies = Retained Risks (RR) x Ratio of Claims/RR with a safety factor of 5

- For 2012, only ten per cent of the total sum insured was retained for most of the reinsured accounts
- Ratio of Claims over Retained Risk – the ratio of 2012 net losses incurred over 2012 retained risk was used
- A safety factor of 5.0 was used for 2012 to account for the contingent losses resulting from climate change

The reserve for losses is the amount set aside for the payment of possible future liabilities as a result of litigation or similar claims. It is computed as follows:

Reserve for losses = 5-year average net losses incurred + losses incurred but not reported (IBNR) + 25 per cent margin + claims and losses pending settlement

- The 5-year average of net losses incurred is used to provide a better estimate of possible losses
- Incurred but not reported is included in the valuation following the industry practice
- 25 per cent margin is based on the rate of increase in Net Losses Incurred for 2012 vs. 2011

GIF reserves decreased in 2012 due to the exclusion of the premium receivable and the increase in the share of reinsurance resulting in a reduced retained risk.

Reserves for legal contingencies

In addition to the foregoing actuarial reserves, the System also provides reserves for contingencies arising from possible losses on lawsuits as determined by the GSIS Legal Services Group.

	2012
Social insurance fund	73,396,557
General insurance fund	38,508,436
	111,904,993

Financial Reserves

Financial reserves, on the other hand, refer to the amounts set aside and appropriated from the surplus of a fund to ensure the payment of future obligations as estimated by the actuarial reserves. Any increase in the actuarial reserves and reserve requirements for legal contingencies are recorded as financial reserves up to the extent of the accumulated earnings net of budgeted expenses (excluding claims) for the following year.

Social insurance fund

The financial reserves of the SIF consist of the following:

	2012	**2011 (as restated)**
Old age benefits	433,333,473,513	379,371,508,105
Survivorship benefits	70,218,016,521	60,290,582,113
Policies in force	66,206,077,909	73,879,619,232
Disability benefits	13,927,454,066	10,941,032,811
Burial benefits	3,242,432,594	2,596,533,753
Contingencies	1,260,884,277	1,358,306,922
	588,188,338,880	**528,437,582,936**

Optional life insurance fund

The financial reserves of the OLIF consist of the following:

	2012	2011 (as restated)
Policies in force		
Optional additional and UOLI	2,906,951,353	3,306,621,048
College education assurance plan	346,595,805	313,266,248
Hospitalization insurance plan	855,425	855,425
	3,254,402,583	3,620,742,721
Redemption insurance		
Consolidated loan redemption insurance	3,229,742,120	3,035,234,207
Mortgage redemption insurance	271,623,708	271,623,708
eCard cash plus advance redemption insurance	99,208,218	40,706,072
Sales redemption insurance	53,780,996	51,944,149
Emergency loan redemption insurance	27,256,592	13,451,176
	3,681,611,634	3,412,959,312
Contingencies	346,800,711	351,685,102
	7,282,814,928	**7,385,387,135**

Employees' compensation insurance fund

The financial reserves of the ECIF consist of the following:

	2012	2011 (as restated)
Future claims	983,932,112	526,985,254
Contingencies	48,810,622	49,009,410
Occupational safety fund	35,650,393	31,156,155
ECC operating fund	26,059,200	24,779,096
Claims pending settlement	1,152,962	1,128,617
Rehabilitation services	342,000	342,000
	1,095,947,289	**633,400,532**

Pre need insurance

The financial reserves of the PNF consist of the following:

	2012	2011 (as restated)
Edu-Child	2,291,713,027	2,411,315,003
Memorial	85,360,425	146,638,741
Health	8,538,361	35,730,944
	2,385,611,813	**2,593,684,688**

General insurance fund

The financial reserves of the GIF consist of the following:

	2012	2011 (as restated)
Contingencies	3,119,929,210	2,505,488,040
Losses	1,565,014,395	1,594,269,202
	4,684,943,605	**4,099,757,242**

17. SURPLUS

The account consists of the following:

	2012	2011 (as restated)
Beginning balance, January 1	31,725,038,469	27,673,620,755
Add (deduct):		
Net operating revenue	62,579,649,116	60,526,015,585
Increase in reserves	(60,487,843,982)	(56,474,597,871)
Ending balance, December 31	33,816,843,603	31,725,038,469
Other Surplus		
Donation surplus	11,677,289	11,677,289
Appraisal surplus	6,472,579,558	409,706,262
Unrealized gain - Investments	63,179,560,656	38,575,406,010
Surplus reserves	735,085,822	749,469,110
	70,398,903,325	39,746,258.671
	104,215,746,928	**71,471,297,140**

The surplus account of GSIS includes net unrealized gains amounting to P63.18 billion as of December 31, 2012, primarily from the increase in value of Externally Managed Funds, mark to market valuation of GSIS AFS investments and the unamortized gain on bond swap transactions entered into by GSIS in 2010 and 2011. Had the GSIS liquidated its investments managed by External Fund Managers and disposed all of its AFS investments in 2012, the significant portion of its unrealized gain amounting to about P51 billion would have been realized as additional income in 2012.

18. REVENUE FROM INSURANCE

This account consists of the following:

	2012	2011 (as restated)
Contributions and Premiums		
Social insurance contributions	73,269,536,466	63,274,746,159
General insurance premium	3,921,250,262	3,812,222,247

	2012	2011 (as restated)
Employee compensation insurance premium	1,957,643,881	1,969,636,204
Optional insurance premium	974,027,274	870,684,938
Pre need insurance premium	(15,773,130)	4,019,004
Commission on reinsurance	313,335,357	207,158,859
Interest on premium arrearages	12,616,753	35,860,237
Gain on foreign exchange	(61,239,609)	44,511,051
	80,371,397,254	**70,218,838,699**

The increase in premium income is mainly due to the substantial amount of accruals for 2012 brought about by the increase in the number of GSIS active members from 1,387,851 in 2011 to 1,650,099 in 2012, which is an aftermath of the National Government's on-going rationalization program.

19. REVENUE FROM LOANS AND RECEIVABLES

This account consists of the following:

	2012	2011 (as restated)
Interest on consolidated loan	13,966,050,901	12,306,480,533
Interest on policy loans	1,454,171,521	1,442,158,401
Service income	1,066,717,972	1,229,551,430
Interest on emergency loans	712,405,307	568,037,983
Interest on government guaranteed loans	399,404,132	378,082,576
Interest on eCard plus cash advance	386,179,229	561,443,469
Interest on real estate loans	305,631,052	338,231,938
Interest on pension loan	301,502,526	264,770,751
Interest on deeds of conditional sale	268,052,529	356,520,590
Interest on private loans	169,181,362	10,888,732
Interest on salary loans	158,141,972	11,163,657
Surcharge on loans in arrears	156,789,593	91,784,061
Interest on educational assistance fund-Program loan	54,786,916	-
Interest income from other loans	33,785,955	34,771,586
Interest on emergency loan assistance	17,525,339	59,046,680
Interest on SOS loan	12,525,365	747,719
Interest on pensioners' restructured loan	3,291,265	334,446
Interest on eCard cash advance	1,143,075	306,653
Interest on educational assistance loan	107,254	26,546
Interest on interim loans	-	5,853,281
Interest on stock purchase loans	(569,016)	26,938,349
	19,466,824,249	**17,687,139,381**

The bulk of the increase in revenue from loans is a result of the increase in the consolidated loans granted in 2012. The balance of the said loan as of December 2011 amounted only to P124.754 billion, while as it has increased to P137.254 billion as of

December 2012. This is in addition to the significant increase in salary loans and summer one month salary loan due to dunning charges.

20. REVENUE FROM FINANCIAL ASSETS

This account consists of the following:

	2012	2011 (as restated)
Securities held for trading (HFT)		
Gain on investment - derivatives	4,413,524,971	2,362,651,473
Unrealized gain - HFT	54,723,790	4,431,274
Dividend on stocks	9,787,247	30,024,165
Gain on sale of stocks	6,441,032	35,315,188
	4,484,477,040	2,432,422,100
Securities Available for Sale (AFS)		
Gain on sale of stocks	9,514,693,148	3,035,426,765
Interest on ROP notes and bonds - AFS	6,823,677,101	4,028,040,151
Dividend on stocks	1,650,882,673	972,090,669
Interest on corporate bonds - AFS	432,938,518	75,003,421
Gain/(loss) on sale of bonds	96,706,588	(112,020,700)
Interest on global peso notes - AFS	49,827,774	-
Income/(loss) on investment in externally managed funds	(86,242)	5,661,863,660
Fixed term interest from sale of shares of stocks	-	701,934,775
Loss on foreign exchange	(140,566,784)	(325,914,609)
	18,428,072,776	14,036,424,132
Securities held to maturity (HTM)		
Interest on ROP notes and bonds - HTM	13,116,366,100	12,967,945,020
Interest on ROP bills	-	33,395,671
Gain on sale of bonds	657,287,718	462,259,222
Gain/(loss) on foreign exchange	(2,851,825,747)	24,103,996
	10,921,828,071	13,487,703,909
Other investment revenue	1,146,559,157	1,780,003,026
Loss on foreign exchange	(131,283,438)	(998,876)
	34,849,653,606	**31,735,554,291**

- Securities held for trading (HFT)

In 2012, there was an increase in gain from derivatives transactions due to the following:

Gain on derivatives investments	**2012**	**2011**
Non-deliverable cross currency swaps	2,921,540,326	207,344,253
Realized gain from matured/settled derivatives	1,225,869,416	2,188,669,703
Deliverable cross currency swaps	261,207,302	-
Non-deliverable forward	32,628,732	(57,444,091)
Deliverable forward	(27,720,805)	24,081,608
	4,413,524,971	**2,362,651,473**

- Securities AFS

The increase in revenue for AFS securities was mainly due to the increase in interest income earned from fixed income securities and dividend income received from equity securities. In 2012, GSIS made additional placements to the following securities that resulted in an increase in interest and dividend income: a) ROP notes and bonds portfolio grew by P33.32 billion; b) Corporate bonds portfolio by P9.703 billion; c) Global peso notes portfolio by P1.107 billion; and d) Equity portfolio by P28.114 billion.

There was a significant increase in gain on sale of stocks due to the final disposition of the Meralco Shares in July 2012. In December 2009, the GSIS entered into a Deed of Conditional Sale for its 31,209,122 Meralco common shares at P300.00 per share with Philplans First, Inc. The sale is payable in four installments beginning in January 2010 until July 2013. However in 2012, the sale was fully paid and the gain recognized in 2012 represents the difference between the cost of the investment amounting to P3.106 billion and the total selling price amounting to P9.362 billion.

For externally managed funds, income or loss is realized after the termination of the Investment Management Agreement (IMA) with the fund managers. In 2011, the GSIS realized an income on investment in externally managed funds amounting to P5.70 billion because of the termination of the IMA with the Global Fund Managers. In 2012, no income or loss was realized because the IMA with the local fund managers is still ongoing. Any increase or decrease in the net asset value of funds managed by external fund managers is recorded in other comprehensive income.

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

- Securities HTM

The significant decrease in revenue was mainly due to the revaluation of ROP notes and bonds held to maturity. The foreign exchange rates in December 2011 and December 2012 were P43.919 and P41.078, respectively.

21. REVENUE FROM INVESTMENT PROPERTIES

Revenue from investment properties consists of the following:

	2012	**2011 (as restated)**
Gain on valuation of investment properties	615,601,510	1,503,109,124
Rental from investment properties	161,179,702	165,838,945
Gain on disposition of acquired assets	1,525,962	4,927,640
	778,307,174	**1,673,875,709**

22. OTHER REVENUES

This account consists of the following:

	2012	2011 (as restated)
Reversal of provision for losses on litigation	710,345,623	19,800,349
Prior year adjustments	548,949,822	-
Agency under remittance	346,671,858	8,302,319
GS share for educational assistance fund Program	200,000,000	-
Revenue from rental	119,974,347	117,886,151
Interest on receivables on agencies with MOA	43,720,700	31,298,546
Recovery from impairment loss	37,741,635	1,885,627,007
Refund of gratuity and discount from lumpsum benefits	12,817,886	510,652
Interest on bank deposits	9,353,851	11,754,818
Loss recoveries	2,142,818	179,123
Service income	1,510,149	2,422,222
Recoveries from adverse parties/obligors	300,000	199,266
Interest on permanent partial disability osteoporosis	199,223	93,395
Others	25,983,247	29,127,419
Loss on disposition of assets	(7,864,898)	(1,653,112)
	2,051,846,261	**2,105,548,155**

23. CLAIMS AND BENEFITS

This account consists of the following:

	2012	2011 (as restated)
Social insurance	62,966,520,654	51,693,276,639
Optional life insurance	838,899,740	774,878,097
Dividend expense-SIF & OLIF	681,245,496	905,140,000
General insurance	650,473,236	500,960,032
Pre-need insurance	368,740,381	324,352,401
Employee compensation insurance	38,245,572	67,811,950
	65,544,125,079	**54,266,419,119**

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

The increase in social insurance claims and benefits is primarily due to the increase in retirement, monthly old age pension and life insurance claims. The number of retirement claims processed increased from 32,765 in 2011 to 34,705 in 2012; monthly old age pension increased from 215,248 in 2011 to 230,285 in 2012; while life insurance from 55,206 in 2011 to 56,592 in 2012. Retirement and life claims include claims filed but not yet paid totaling 9,682 and 10,780, respectively.

24. INVESTMENT EXPENSES

This account consists of the following:

	2012	2011 (as restated)
Expenses on e-card	76,380,519	93,792,499
Investments fees and others	21,903,875	17,343,628
Expenses on investment properties	28,676,303	22,601,425
Interest expense	17,714,194	32,228,884
Foreclosure expenses	7,705,679	3,761,672
Expenses on loans	550,937	-
	152,931,507	**169,728,108**

25. INSURANCE EXPENSES

This account consists of the following:

	2012	2011 (as restated)
Reinsurance expense	2,223,764,462	2,390,939,619
Other insurance expense	145,312,270	294,586
Extra remuneration	57,252,880	59,832,439
Service fee	2,447,065	12,167,780
Commission expense	2,007,845	1,953,606
	2,430,784,522	**2,465,188,030**

Reinsurance expense is the amount of premium ceded to another insurance company for the purpose of distributing the risks or reducing the amount of possible loss. The premise of reinsurance was based on the provision under Sec. 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.”*

Treaty reinsurance amounting to P0.297 billion and facultative reinsurance of P1.926 billion comprise the P2.223 billion reinsurance expenses in 2012.

26. PERSONAL SERVICES

This account consists of the following:

	2012	2011 (as restated)
Salaries and wages	1,277,216,973	1,401,902,710
Statutory expenses	717,789,280	934,810,079
Allowances	451,248,091	491,687,400
Bonus/awards	359,055,609	376,765,756
Fringe benefits	273,229,764	284,445,764

	2012	2011 (as restated)
Overtime expenses	56,142,409	45,198,652
Contractual services	52,348,014	53,987,590
GSIS early retirement program	-	332,405,036
	3,187,030,140	**3,921,202,987**

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

	2012	2011 (as restated)
Salaries and wages	69,259,325	50,880,610
Other benefits	38,747,420	29,862,352
Retirement costs	5,745,321	67,977,805
	113,752,066	**148,720,767**

27. OPERATING EXPENSES

This account consists of the following:

	2012	2011 (as restated)
Impairment loss on loans, premiums and other receivable	2,050,307,753	196,551,786
Depreciation expense	457,188,184	449,689,823
Assets and facilities maintenance expense	198,075,591	183,711,993
Electric and water consumption	172,760,587	160,314,247
Insurance expense	146,689,107	148,836,874
Supplies and materials expenses	80,626,438	73,629,943
Communication services	78,994,349	75,496,773
Miscellaneous expenses	63,078,997	143,110,060
Contributions	62,202,178	84,280,935
Rental expenses	48,468,621	45,106,295
Auditing expenses	47,335,375	45,052,802
Separation pay	45,655,846	281,457,296
Taxes	32,725,269	22,600,523
Public relations and advertisement	22,792,168	23,141,954
Retainers and consultants	21,273,678	32,246,670
Seminars and workshops	20,616,412	28,848,993
Traveling expenses	20,414,500	24,463,763
Athletic and cultural expenses	18,960,063	13,914,353
Fuel and gasoline consumption	16,003,695	18,615,920
MOA related expenses	9,395,380	14,162,000
Representation expenses	6,028,245	6,438,736
Education, training and scholarship	4,249,463	1,717,793
	3,623,841,899	**2,073,389,532**

Separation pay includes estimated payable for GSIS employees who may opt to retire under the provisions of RA No. 1616. Employees hired prior to May 31, 1977 are qualified to retire under this Act.

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

Impairment losses amounting to P1.677 billion were taken up for members' accounts from the allowance computed as of 2011 representing receivables from inactive members, the recovery of which have become improbable. The breakdown of this increase is as follows:

	(In billion)
Premium receivable	0.900
Loans receivable	0.539
Loans interest receivable	0.215
Other receivables	0.023
	1.677

Impairment losses on non-traded stocks amounting to P0.023 billion was also recorded due to improbability of recovery resulting from dissolution or revocation of SEC registration of the corporation.

Impairment losses on government loans amounting to P0.014 billion was charged due to improbability of collections of various accounts uncollected for more than seven years.

Impairment losses also include balances of rental receivables from the Senate of the Philippines on account of taxes withheld from rental payments to the GSIS for the period 1996 to 2003, which have been remitted to the BIR.

Impairment losses on GI Premiums Receivables and Due from Reinsurers in the aggregate amount of P0.326 billion was provided for potential uncollectible receivables. The allowance is computed based on the Allowance for Impairment Loss rates applied to the outstanding aged receivables.

28. OTHER COMPREHENSIVE INCOME

- Unrealized Gain on Investments

The unrealized gain on investments consists of the following:

	2012	2011
Stocks traded – AFS	12,398,453,946	1,211,206,572
Externally managed funds	3,746,154,527	(4,520,425,592)
Fixed Income		
ROP peso bonds-AFS	7,650,191,378	12,215,076,908
Corporate peso bonds-AFS	976,950,698	135,524,390

	2012	2011
FCY Corp bonds-AFS	377,621,488	2,245,631
FCY ROP notes & bonds	30,084,095	71,685,457
Global peso notes- AFS	(791,267)	39,606,632
FCY Bonds-HTM-bond swap	(13,298,032)	261,140,924
ROP peso bonds-HTM-bond swap	(561,212,186)	3,269,645,595
	24,604,154,647	**12,685,706,517**

The recorded net unrealized gain on GSIS investments in 2012 in the total amount of P24.6 billion is mainly due to mark to market valuation and amortization of bond swap transactions.

- Appraisal Surplus

Appraisal surplus was a result of the valuation of land conducted by an independent appraiser.

29. RELATED PARTY TRANSACTIONS

GSIS Family Bank (GFB) is 99.55 per cent owned by the GSIS. The Bank's Board of Directors, in its Board Resolution No. 09-008 dated 09 February 2008, authorized the Bank to borrow any fund or money from the government, its political subdivisions and instrumentalities and government-owned or controlled corporations.

As part of the investment activities of the GSIS, GFB acts as its conduit for the reverse repurchase facility of the Bangko Sentral ng Pilipinas. As at 31 December 2012, total short-term placements of the GSIS in GFB amounted to P550 million which were in-turn invested by the Bank in available for sale securities and special savings deposit accounts.

In 2012, the GSIS under Board Resolution No. 192 dated December 26, 2012, also infused additional capital to GFB amounting to P125 million through subscription to perpetual non-cumulative preferred shares of GFB.

30. ADMINISTRATIVE LOADING

Pursuant to Section 35 of RA No. 8291, a maximum expense loading of twelve percent (12%) 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 2012, the administrative loading of the SIF (parent only), is 3.50 per cent of total revenues net of investment expenses, which is below the allowable limit of 12 per cent.

a.	Administrative and operating expenses	5,855,352,567
b.	Impairment loss	1,323,033,446
c.	Gross revenue	128,852,291,490

d.	Investment expenses	135,111,762
e.	GSIS fees	800,919,646
Administrative loading ratio (A-B) ÷ (C-D+E)		3.50%

Impairment losses amounting to P1.32 billion was excluded from Administrative and Operating Expenses in the computation of administrative loading ratio due to its extraordinary nature. Moreover, there were no cash disbursements for this expense.

31. GSIS FEES AND COMMISSIONS

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

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

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

32. PRIOR PERIOD ADJUSTMENTS

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

The following is the summary of the financial impact of the restatement on the 2012 financial statements, P1.839 billion of which pertains to CY 2011 while P0.266 billion pertains to CY 2010 and prior years.

Prior Period Adjustment	Revenues	Expenses	Assets	Liabilities	2012 Net Worth (Beginning Surplus and Reserves)
Correction of prior year adjustment regarding recording of Dividend expenses		905,140,000			905,140,000

Prior Period Adjustment	Revenues	Expenses	Assets	Liabilities	2012 Net Worth (Beginning Surplus and Reserves)
Adjustment due to cleansing of various member related accounts: Premium receivable of Agency under MOA Service Gap Error and MSP updating MOA entered by DepEd equivalent to 50per cent of government share			(2,402,406,384)		(2,402,406,384)
Reclassification of Pre-Need Credit Open Items Premium Receivable for Edu Child to SAP Refund			230,650,463	230,650,463	
Adjustment on Unrealized Gain on bond swap (recomputed based on life of New Bonds) to conform with PFRS 9 on consistency on accounting treatment	(954,084,059)				954,084,059
Reclassification of contingent liability as of December 31, 2012 per LSG memo dated 4/8/2013	19,800,349			(19,800,349)	
To take up COA Disallowance per S.C. Notice of final Judgement re: Board Res #360 dated Nov. 21, 2000 as amended by No.6 dated Jan 16, 2001 approving the Employees Loyalty Incentive Plan (ELIP)			66,628,899		66,628,899
	(934,283,710)	**905,140,000**	**(2,105,127,022)**	**210,850,114**	**(476,553,426)**

33. COMMITMENTS

- <u>Operating Lease Commitments – System as Lessee</u>

The System has no operating lease commitment. Lease agreements are renewed on year to year basis.

- <u>Operating Lease Commitments – System as Lessor</u>

The System has entered into several commercial property leases on its properties. These leases have terms of one to twenty-five years. The lessees of these properties consist of private and government entities. The investment property account has nine properties under lease with 29 existing contracts while the property and equipment account has two properties under lease with four existing contracts.

Minimum rental receivables for property and equipment under operating leases as at December 31, 2012 are as follows:

	2012	2011
Within one year	117,162,471	117,780,874
After one year but not more than five years	55,539,369	168,776,030
More than five years	5,518,296	9,444,106

Meanwhile, minimum and maximum rentals for investment properties under operating leases as at December 31, 2012 are as follows:

	Minimum	Maximum
Less than 1 year to 1 year	20,400	4,800,000
More than 1 year to 5 years	108,000	21,699,089
More than 5 years	758,880	102,798,627

34. FINANCIAL RISK MANAGEMENT

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

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

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

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

Credit Risk

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

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

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

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

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

	2012	2011
Financial assets at FVPL	3,354,263,019	166,607,464
Loans and receivables		
Cash*	35,056,357,638	39,785,480,286
Premiums and loans receivable - net	221,723,716,310	206,155,720,413
HTM financial assets	163,237,644,174	173,393,376,491
AFS financial assets	140,083,947,938	95,719,847,725
Total credit risk exposure	**563,455,929,078**	**515,221,032,379**

* excludes cash on hand.

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

	2012			2011		
	Neither Past Due nor Impaired	Past Due but not Impaired	Total	Neither Past Due nor Impaired	Past Due but not Impaired	Total
Financial assets at FVPL	3,354,263,019	-	3,354,263,019	166,607,464		166,607,464
Loans and receivables:						
Cash*	35,056,357,638		35,056,357,638	39,785,480,286		39,785,480,286
Premiums and loans receivable - net	176,722,516,836	45,001,199,174	221,723,716,310	160,621,198,769	45,534,521,644	206,155,720,413
HTM financial assets	163,237,644,174		163,237,644,174	173,393,376,491		173,393,376,491
AFS financial assets	140,083,947,938		140,083,947,938	95,719,847,725		95,719,847,725
	518,454,729,605	**45,001,199,474**	**563,455,920,079**	**469,686,510,735**	**45,534,521,644**	**515,221,032,379**

*Excludes cash on hand

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

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

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

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

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

Liquidity Risk

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

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

	2012	**2011**
Financial assets at FVPL	3,504,357,614	519,586,382
Cash	35,348,722,239	40,120,268,360
HTM financial assets	163,237,644,174	173,393,376,491
AFS financial assets	244,662,292,505	162,920,606,517
	446,753,016,532	**376,953,837,750**
Other financial liabilities	**19,690,526,891**	**18,993,408,050**

Interest Rate Risk

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

The GSIS under its Investment Policies and Guidelines (IPGs) may transact in fixed income derivatives, such as interest rate swaps, long dated FX forwards, or interest rate cross current swaps and options on bonds as a way to modify the interest rate risk in its existing fund portfolio.

The sensitivity of the results of operations is measured as the effect of the assumed changes in the interest rates on the net interest income for one period based on the floating rate of financial assets and financial liabilities held as at December 31, 2012 and 2011. The sensitivity of other comprehensive income is calculated by revaluing fixed-rate AFS securities as at December 31, 2012 and 2011. The total sensitivity of other comprehensive income is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

Foreign Currency Risk

The System is exposed to foreign currency risk through its cash and cash equivalents, AFS investments, HTM investments, and GI receivables (premiums and due from reinsurers) and payables (claims and due to reinsurers) denominated in U.S. dollar, and Euro. Any depreciation or appreciation of the foreign currencies against the Philippine peso posts material foreign exchange losses relating to cash and cash equivalents, AFS investments, HTM investments and GI receivables and payables. In translating these monetary assets and liabilities into Philippine peso, the exchange rate used was P41.078 and P43.919 to USD1.00 as at December 31, 2012 and 2011.

	2012		**2011**	
	U.S Dollar-denominated Balances	**Philippine Peso Equivalent**	**U.S Dollar-denominated Balances**	**Philippine Peso Equivalent**
Financial Assets				
Cash and cash equivalents	7,191,184	295,399,433	37,300,167	1,638,186,027
AFS financial assets	82,635,337	3,394,494,378	17,552,756	770,899,476
HTM financial assets	955,552,223	39,252,174,209	965,657,075	42,410,693,070
ROP, BSP, Corp Bonds – Int. receivable	20,767,552	853,089,488	20,198,980	887,118,986
GI premium receivables	20,749,282	852,339,010	22,283,467	978,667,580
Due from reinsurers	3,259,955	133,912,431	3,216,843	141,280,528
Notes and Int. receivable–CITRA	-	-	10,236,712	449,586,154
Foreign currency denominated assets	**1,090,155,533**	**44,781,408,949**	**1,076,446,000**	**47,276,431,821**

	2012		**2011**	
	U.S Dollar-denominated Balances	**Philippine Peso Equivalent**	**U.S Dollar-denominated Balances**	**Philippine Peso Equivalent**
Financial Liabilities				
Claims payable	236,265	9,705,294	227,947	10,011,204
Due to reinsurers	19,893,875	817,200,597	4,583,483	201,301,990
Others	6,000	246,468	6,000	263,514
Foreign currency denominated liabilities	**20,136,140**	**827,152,359**	**4,817,430**	**211,576,708**

	2012		2011	
	Euro denominated Balances	**Philippine Peso Equivalent**	**Euro denominated Balances**	**Philippine Peso Equivalent**
Financial Assets				
Cash and cash equivalents	4,526	245,359	-	-
AFS financial assets	-	-	-	-
HTM financial assets	22,945,840	1,243,907,781	23,043,119	1,309,872,298
ROP Bonds – Int. receivable	1,127,322	61,112,821	1,127,322	64,081,963
Foreign currency denominated assets	**24,077,688**	**1,305,265,961**	**24,170,441**	**1,373,954,261**

The following table sets out the impact of the range of reasonably possible movement in the U.S. dollar and Philippine peso exchange rates with all other variables held constant in the System's income for the years ended December 31, 2012 and 2011.

Year	Change in Exchange Rate in U.S dollar against Philippine Peso	Effect on Income
2012	1.00 increase	1,070,019,393
2012	1.00 decrease	(1,070,019,393)
2011	1.00 increase	1,071,628,570
2011	1.00 decrease	(1,071,628,570)

Year	Change in Exchange Rate in Euro against Philippine Peso	Effect on Income
2012	1.00 increase	24,077,688
2012	1.00 decrease	(24,077,688)
2011	1.00 increase	24,170,441
2011	1.00 decrease	(24,170,441)

Equity (Stock Price) Risk

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

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

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

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

35. FAIR VALUES OF FINANCIAL INSTRUMENTS

A comparison by category of carrying and fair values of all of the Company's financial assets and financial liabilities as at December 31, 2012 and 2011 are as follows:

	2012		2011	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets at FVPL				
Derivatives-deliverable and Non-deliverable	3,354,263,019	3,354,263,019	166,607,464	166,607,464
Stocks- Traded – HFT	150,094,595	150,094,595	352,978,918	352,978,918
HTM financial assets				
ROP notes and bonds - HTM	163,237,644,173	213,675,677,523	173,339,376,491	208,801,270,932
Investment placement in BSP			54,000,000	54,000,000
AFS financial assets				
ROP notes and bonds – AFS	126,098,109,544	126,098,109,544	92,543,718,939	92,543,718,939
Corporate bonds - AFS	12,879,011,913	12,879,011,913	3,176,128,787	3,176,128,787
Global peso notes – AFS	1,106,826,480	1,106,826,480	-	-
Stocks - traded – AFS	84,297,810,503	84,297,810,503	55,825,072,707	55,825,072,707
Stocks - non-traded	778,348,811	778,348,811	1,136,689,683	1,136,689,683
Externally managed funds - Domestic	19,485,150,929	19,485,150,929	10,238,996,401	10,238,996,401
Externally managed funds – Global	17,034,324	17,034,324		
Loans and receivables				
Cash	35,348,722,239	35,348,722,239	40,120,268,361	40,120,268,361
Premiums and loans	221,723,716,310	221,723,716,310	206,155,720,413	206,155,720,413
	668,476,732,841		**583,109,558,164**	
Other financial liabilities	**19,690,526,891**	**19,690,526,891**	**18,993,408,050**	**18,993,408,050**

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

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

36. EXEMPTION FROM TAX

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

37. COMPLIANCE WITH REVENUE REGULATIONS NO.15-2010

In compliance with the requirements set forth by RR No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year 2012.

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

Withholding Taxes

	2012	**2011**
Tax on compensation and benefits	423,721,278	446,469,220
Value added taxes (VAT)	54,352,732	51,183,552
Expanded withholding taxes (EWT)	38,202,314	34,792,712
Percentage taxes on premiums	2,111,313	1,460,526
Final taxes	1,960,793	1,139,744
	520,348,430	**535,045,754**

Other Taxes

	2012	**2011**
Local		
Real estate taxes	5,521,054	5,469,694
Capital gains taxes	8,451,670	4,326,598
Transfer taxes	252,753	258,298
National		
BIR annual registration	30,000	30,000
	14,255,477	**10,084,590**

The GSIS has pending appeal with the Office of the President [Case No. 07-D-139 (OSJ Case No. 2004-11)], regarding various amounts of Documentary Stamp Tax (DST), Withholding Tax on Compensation (WTC), Expanded Withholding Tax (EWT), Withholding Tax on VAT and Percentage Tax, which is still pending with the Office of the President.

The WTC has been settled by the GSIS on December 29, 2006, as evidenced by a Certification issued by the BIR on the same date.