GOVERNMENT SERVICE INSURANCE SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017
(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL INFORMATION

The Government Service Insurance System (System) is a government financial institution, organized and created to administer its funds and implement the laws that govern the social security and insurance benefits of all government employees. The official address of its Home Office is at the GSIS Financial Center, Macapagal Avenue, Pasay City. The GSIS has 42 Branch Offices, 13 Extension Offices and 60 Service Desks strategically located in various cities and municipalities of the country.

The System was created by the Congress of the Philippines through Commonwealth Act (CA) No. 186 on November 14, 1936. Its primary objective is to promote the welfare of government employees through an insurance system that will provide for retirement benefits and protect its members or their respective beneficiaries against adverse economic effects of separation from service resulting from sickness, death, disability and old age.

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

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

The accompanying financial statements of the GSIS were authorized for issue by its Management represented by the Chairman of the Board of Trustees (BOT), President and General Manager and the Vice President – Controller Group on May 24, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

a. *Statement of compliance with Philippine Financial Reporting Standards (PFRSs) and Commission on Audit (COA) Circular No. 2017-004*

The accompanying financial statements are prepared in compliance with PFRSs and Philippine Accounting Standards (PAS) issued by the Philippine Financial Reporting Standards Council (PFRSC) and with COA Circular No. 2017-004. PFRSs are adopted by the PFRSC from the pronouncements issued by the International Accounting Standards Board (IASB) and approved by the Philippine Board of Accountancy (BOA). COA Circular No. 2017-004 was issued by the COA as guidelines on the preparation of financial statements and other financial reports and implementation of the PFRS by government corporations classified as government business enterprises and Philippine Public Sector Accounting Standards by non-government business enterprises.

b. *Presentation of financial statements*

The financial statements are presented in accordance with PAS 1, Presentation of Financial Statements. The System presents all items of income and expenses in a single Statement of Comprehensive Income (SCI).

c. *Basis of measurement*

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

- Equity securities, debt securities, externally managed funds and derivatives;
- Investment property; and
- Land and heritage assets classified under property and equipment.

d. *Accrual basis of accounting*

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

e. *Functional and presentation currency*

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

f. *Foreign currency translation*

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 prevailing functional currency rate at reporting date. Exchange rate differences arising from the restatement or settlement of monetary items are recognized in profit or loss in the year in which they arise. Non-monetary items that are measured at historical cost in foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items that are measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.2 Adoption of New and Revised PFRS and PAS

a. Effective beginning on or after January 1, 2018

The System adopted for the first time the following amendment and annual improvement to PFRS, which is mandatorily effective for annual periods beginning on or after January 1, 2018:

- PFRS 9, *Financial Instruments* (2014) – This standard replaced PAS 39, *Financial Instruments: Recognition and Measurement* (and all the previous versions of PFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

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

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

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

  The impact of the new impairment model has also been reviewed. This analysis requires the identification of the credit risk associated with the counterparties and, considering that the majority of the System’s financial assets, integrates some statistical data reflecting the past experience of losses incurred due to default.

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

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

- Amendments to PAS 40, *Investment Property - Transfers of Investment Property* – The amendments clarify that transfers to, or from, investment property (including assets under construction and development) should be made when, and only when, there is evidence that a change in use of a property has occurred.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of Annual Improvements to PFRS 2014 - 2016 Cycle), clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at FVPL. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

- Amendments to PFRS 4, *Insurance Contracts*, Applying PFRS 9, *Financial Instruments*, with PFRS 4, address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

- Philippine Interpretation on International Financial Reporting Interpretations Committee (IFRIC)-22, *Foreign Currency Transactions and Advance Consideration*, clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

- PFRS 15, *Revenue from Contract with Customers* – The new standard replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.).

- Amendments to PFRS 15, *Revenue from Contract with Customers - Clarification to PFRS 15* – The amendments provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts.

b. *New and amended PFRSs issued but not yet effective*

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the System does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements.

- <u>Effective beginning on or after January 1, 2019</u>

  - Amendments to PFRS 9, *Prepayment Features with Negative Compensation*, allow debt instrument to be measured at amortized cost or at fair value through other comprehensive income (FVOCI), provided that the contractual cash flows are solely payments of principal and interest on the principal amount outstanding (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted. The System is currently assessing the impact of adopting this standard.

- PFRS 16, *Leases*, sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees - leases of low-value assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*, address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and

  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

- Philippine Interpretation on IFRIC-23, *Uncertainty over Income Tax Treatments*, addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately;
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities;
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
  - How an entity considers changes in facts and circumstances.

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

- <u>Annual Improvements to PFRSs 2015-2017 Cycle effective January 1, 2019</u>

  - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*, clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*, clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*, clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

- <u>Effective beginning on or after January 1, 2020</u>

  - Amendments to PFRS 3, *Definition of a Business*, clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments are effective for annual reporting periods beginning on or after January 1, 2020 and apply prospectively. Earlier application is permitted.

  - Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*, refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. The amendments must be applied prospectively for annual periods beginning on or after January 1, 2020, with earlier application permitted.

  - PFRS 17, *Insurance Contracts*, covers recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and reinsurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach); or

- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted, provided the entity also applies PFRS 9 and PFRS 15 on or before the date it first applies PFRS 17.

- Deferred effectivity

  - Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

2.3 Segment reporting

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

a. Social Insurance (SI)

Under Section 3 of RA No. 8291, membership in the GSIS shall be compulsory for all government employees receiving compensation who have not reached the compulsory retirement age, irrespective of employment status, except members of the Armed Forces of the Philippines and the

Philippine National Police and contractual employees who have no employer and employee relationship with their agencies.

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

Section 11.1 of the Revised Implementing Rules and Regulations (RIRR) of RA No. 8291 approved on June 23, 2010 under Board Resolution (BR) No. 88 provides that the rate of contribution payable by the member and the government agency shall be nine per cent and 12 per cent, respectively, based on the actual monthly salary of the member.

Special members that include constitutional commissioners, members of the judiciary and those with equivalent ranks are required by law to remit to the GSIS, three per cent of their fixed monthly compensation for both employees' and government agency's share as life insurance premiums in order to answer for their life insurance benefits defined under RA No. 8291.

It is mandatory for all government agencies to deduct each month, from the monthly salary or compensation of each employee, the contribution payable by him in accordance with the schedule as specified under Section 11.1 of the RIRR of RA No. 8291, and remit directly to the GSIS the employer's and employees' contributions within the first 10 days of the calendar month following the month to which the contributions apply. In case of delay in remittance, the agencies have the legal obligation to pay interest as may be prescribed by the Board but not less than two per cent simple interest per month.

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

b. *Optional Life Insurance (OLI)*

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

  Prior to 2009 when the marketing of the OLI products came to a halt, GSIS members may opt to apply for additional optional life insurance which includes the following types of insurance: UOLI; CEAP; HIP; and GTI. The figures in the Statements of Financial Position (SFP) represent premiums for the remaining policies in force as at December 31, 2018.

  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 (Section 12.7.1 of RA No. 8291).

- Redemption Insurance (RI)

  RI premiums are paid by loan borrowers to cover the outstanding balances in case of premature death. The RI rate shall depend on the term of the loan and shall either be deducted in advance or embedded in the monthly amortization. If the member-borrower dies and the loan is up to date, the loan shall be deemed fully paid by virtue of the insurance coverage. Conversely, shall be deemed lapsed or cancelled once the loan account is declared in default. Consequently, if the member-borrower dies and the loan is in default, it shall not be covered by the RI.

c. *General Insurance (GI)*

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

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

d. *Pre-Need Insurance (PNI)*

The PNF was created pursuant to Section 26 of RA No. 8291. This covers pre-need coverage embracing education, health and memorial plans, which the GSIS offered to better respond to the growing needs of its members. The marketing of the pre-need plans has been suspended effective December 31, 1998. On September 27, 2012 under BR No. 151, the GSIS BOT approved and confirmed the termination of the implementation of the Family Hospitalization Plus Plan (FHPP) and the HIP effective January 1, 2013 and that GSIS shall no longer renew existing policies after their termination date or on December 31, 2012, whichever comes first, and shall accept and process claims covered by policies until June 30, 2013.

e. *Employees' Compensation Insurance (ECI)*

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

The ECIF shall be liable for compensation to the employee or his dependents, except when the disability or death was occasioned by the employee's intoxication, willful intention to injure or kill himself or another, notorious negligence, or otherwise provided under Article 172 of PD No. 626.

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

The ECIF is one of the funds administered by the GSIS pursuant to Section 34 of RA No. 8291. Under Article 178 of PD No. 626, all revenues collected by GSIS under the ECIF shall be deposited, invested, administered and disbursed in the same manner and under the same conditions, requirements and safeguards as provided by RA No. 1161, as amended, and CA No. 186, as amended, with regards to such other funds as are thereunder being paid to or collected by the Social Security System (SSS) and GSIS, respectively.

f. *Barangay and Sanggunian Officials Insurance (BSOI)*

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

However, the National Government has been delinquent in remitting the required premium contributions to the BSOIF since 1995. As a result of the huge amount of premium deficiencies and its failure to settle the same despite due notices, the GSIS has suspended payment of the claims for benefits under RA No. 6942 in November 2001 under BR No. 332.

g. *Property Replacement Fund (PRF)*

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

On April 9, 2002, GSIS formally notified the DBM of its intention to terminate the MOA regarding the PRF. The GSIS, in its letter dated December 29, 2003, formally requested to turn-over the amount of P26.566 million representing PRF's remaining cash balance as at November 30, 2003 to DBM.

This was further reiterated on August 18, 2015 in a letter to the DBM with the offer to return the remaining cash balance of the PRF amounting to P27.487 million and the intention to terminate the obligation of GSIS as administrator of the Fund. As at December 31, 2018, the total asset of the PRF amounts to P29.942 million.

2.4 Financial instruments

a. *Date of recognition*

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

b. *Initial recognition of financial instruments*

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

GSIS recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss, where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market. In cases where there is no observable data on inception, GSIS deems the transaction price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, GSIS determines the appropriate method of recognizing the "Day 1" difference.

c. *Classification of financial instruments*

GSIS classifies its financial assets as subsequently measured at amortized cost, or FVOCI or FVPL. The classification depends on the purpose for which the financial instruments were acquired or originated. The classification of the System's financial instruments largely depends on the business model and its contractual cash flow characteristics. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every balance sheet date.

Financial assets are either classified as held for trading or designated at FVPL. A financial instrument is classified as held for trading if it meets either of the following conditions:

- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

- on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

GSIS may, at initial recognition, designate a financial asset meeting the criteria to be classified at amortized cost or at FVOCI, as a financial asset at FVPL, if doing so eliminates or significantly reduces accounting mismatch that would arise from measuring these assets.

These financial assets are subsequently measured at fair market value. Realized and unrealized gains and losses arising from changes in fair market value of financial assets at FVPL are recognized in the SCI.

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

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise, on specified dates, to cash flow that are solely for payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as non-current assets.

Financial assets that meet the contractual cash flow characteristic and are not designated at FVPL under the fair value option, the financial assets shall be measured at FVOCI if both of the following conditions are met:

- Equity securities which are not held for trading, and for which GSIS has made an irrevocable election at initial recognition to recognize changes in FVOCI rather than FVPL; and

- Debt securities where the contractual cash flows are solely principal and interest and the objective of the GSIS' business model is achieved both by collecting contractual cash flows and selling financial assets.

d. *Valuation of financial instruments*

Investment assets and investment liabilities are recorded on a trade date basis and are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Fair value is determined as follows:

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

- For equity securities that are not traded in the market, the fair value is determined using appropriate valuation techniques. Non-traded stocks are revalued at year-end and recorded based on its net asset value;

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

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

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

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

e. *Offsetting*

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

f. *Impairment of financial assets*

GSIS adopted an ECL model in measuring credit impairment, in accordance with the provisions of PFRS 9. In this respect, GSIS recognizes credit impairment/allowance for credit losses even before an objective evidence of impairment becomes apparent.

Recognition of ECL in the SFP (impairment/loss provisions) and in SCI can be either 12-month or lifetime for each financial asset, depending on the impairment stage the asset falls in.

g. *Derecognition of financial assets and liabilities*

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

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

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

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

- *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 SCI.

2.5 Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in banks and high yield short-term placements. Cash in banks includes savings and demand deposit or checking account and cash equivalents include any placements made with maturities equal to or less than 90 days from the date of acquisition and are unrestricted as to withdrawal. Cash equivalents are held for the purpose of meeting short-term cash commitments and are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value and have short maturities. Cash and cash equivalents are presented at face value.

2.6 Contributions and premiums receivable

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

2.7 Loans receivable

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

2.8 Investment in Associates

Investments in associates are accounted for under the equity method in which investment is initially measured at cost and periodically increased/decreased by net income or loss, decreased by receipt or recognition of dividends and adjusted accordingly with the undervalued/overvalued assets of the investee.

2.9 Investment property

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

This account pertains to 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 GSIS. This also includes real properties which are subject of dacion-en-pago, government awards and donation in favor of GSIS, property subject of purchase and properties subject of exchange.

GSIS uses the fair value model for the accounting of investment property. Investment properties are initially recognized at cost, including transaction costs. Subsequently, these are measured at fair value with changes in fair value recognized in profit or loss.

In arriving at the fair value of the land and building, the market data approach is used. The market value is estimated using the gathered available market evidence and the depreciated replacement cost for other asset which has no available market evidence. Market value is the estimated amount for which a property should be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties have each acted knowledgeably, prudently, and without compulsion. Depreciated replacement cost, on the other hand, is the cost of replacement less accrued depreciation as evidenced by the observed condition in comparison with new units of the same kind tempered by consideration given to extent, character and utility of the property which is to be continued in its present use as part of a going concern but without specific relations to earnings.

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

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

2.10 Property, plant and equipment (PPE)

PPE are initially measured at cost which 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.

The cost of an item of PPE is recognized as assets if it meets the capitalization threshold of P15,000. This threshold which represents the minimum cost is applied on an individual asset or per item basis. Each item within the bulk acquisition with aggregate or total value of property and equipment, such as library books, computer peripherals and small items of equipment, should meet the capitalization threshold to be recognized as PPE.

Items below the capitalization threshold are accounted for as semi-expendable property (supplies and materials). These items which were previously recorded as PPE are reclassified to the respective supplies and materials accounts and are recognized as expenses upon issuance to the end-users.

Subsequent to initial recognition, PPE, except land and heritage assets, are stated at cost less accumulated depreciation and any impairment in value. Land and heritage assets are carried at revalued amount. Increase in value resulting from revaluation is credited to revaluation surplus. Any decrease in value is recognized as expense to the extent that it exceeds the revaluation surplus previously recognized.

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

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

Depreciation is calculated on a straight-line basis with 10 per cent residual value, except for software under Information Technology (IT) resources, over the estimated useful life of the asset prescribed by COA as follows:

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

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

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

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

An item of PPE is said to be fully depreciated when the carrying amount is equal to zero or its residual value. The cost of fully depreciated assets remaining in service and the related accumulated depreciation and accumulated impairment losses are not removed from the books of accounts until these items are disposed of or derecognized through donations or determined to be impaired or unserviceable. An asset is said to be unserviceable if it is no longer capable of providing the entity with future economic benefits or service potential. These items are derecognized from the books and any remaining book value is recognized as impairment loss.

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

2.11 Impairment of non-financial assets

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

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

2.12 Provisions and Contingencies

Provisions are recognized when the System has a present obligation (legal or constructive) as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized but are disclosed in the Notes to financial statements unless the possibility of an outflow of assets embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the Notes to financial statements when an inflow of economic benefits is probable.

2.13 Revenue recognition

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

a. *For revenues within the scope of PFRS 15*

   Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. To account for the revenues arising from contracts with customers, the System applies the following five-step model: (a) identify the contract(s) with a customer; (b) identify the performance obligations in the contract; (c) determine the transaction price; (d) allocate the transaction price to the performance obligations in the contract; and (e) recognize revenue when (or as) the entity satisfies a performance obligation.

b. For revenues outside the scope of PFRS 15

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

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

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

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

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

2.14 Expense recognition

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

2.15 Reinsurance

The premise of reinsurance was based on the provision under Section 221 of RA No. 10607, Amended Insurance Code of the Philippines, which states: "*No insurance company other than life, whether foreign or domestic, shall retain any risk on any one subject of insurance in an amount exceeding twenty per cent of its net worth*."

The GSIS has been maintaining its reinsurance program like all insurance companies. The objective of this program is to reduce GSIS' exposure to loss by sharing the risk of loss with a reinsurer or a group of reinsurers.

Reinsurance arrangements, however, do not relieve the GSIS of its obligations to its policyholders. Under this arrangement, both insurance premiums and insurance claims and losses are recorded at gross amounts. Reinsurance expenses are recorded using the accrual basis of accounting.

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

Due from reinsurer accounts are regularly reviewed for impairment. The impairment loss is recorded in the SCI.

2.16 Events after the reporting date

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

3. FINANCIAL RISK MANAGEMENT

The responsibility of risk management resides in all levels of the organization with the GSIS' BOT being ultimately responsible for the overall risk of the organization. The GSIS established the Enterprise Risk Management (ERM) System which is meant to ensure that corporate assets are managed properly and that quality service is rendered to the members and stakeholders of the organization. Using ERM framework, GSIS observes comprehensive, system-wide, and integrated approach to risk management to enhance governance mechanism and effectively identify, assess and manage risks. This means that groups or departments pursue risk management within the context of the whole organization in order to have a cross-cutting, enterprise-wide view of risk.

To ensure a robust risk management system in GSIS, the Risk Oversight Committee (ROC) assists the BOT in its risk policy and oversight functions by formulating risk policies, setting system-wide risk limits, and reviewing the risks of specific proposals. In 2017, to further strengthen risk management and corporate governance, the Risk Management Office (RMO) was transferred from the Actuarial and Risk Management Group (ARMG) to be directly under the ROC, functionally.

In addition to the ROC, the GSIS Assets and Liabilities Committee (ALCO) was created to replace the existing GSIS Investment Committee, to assist the BOT and the President and General Manager in the management of the funding risk. Its functions are to ensure efficient implementation of balance sheet management policies; review, assess, and recommend new loan products and investment proposals; recommend the strategic asset allocation according to risk appetite; and review financial performance versus targets.

In relation to financial management, the GSIS maintains investments in a variety of assets and financial instruments in accordance with its investment management strategy. The management team sets revenue and asset allocation targets yearly as incorporated in its budget as approved by the BOT. Targets are set in accordance with GSIS' mandate of generating return from its assets in order to meet or surpass the growth of its liabilities particularly in the SIF.

3.1 Financial risk factors

a. 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 credit risk of the GSIS fund arises principally from its outstanding loan receivables, debt securities held, derivative financial assets, and cash and cash equivalents.

In managing the credit risk of its loan receivables, the GSIS' basic strategy is to improve collection through: (a) policy changes, followed by strict enforcement; (b) procedural enhancement; and (c) utilization of information technology solutions that would enable the GSIS to track, monitor and promptly collect payment from borrowers.

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

The table below shows the credit rating of the GSIS' counterparties:

	Credit rating	Meaning
Corporate bonds - Peso	AAA	High grade
Corporate bonds - USD	AAA to BBB	High grade to lower medium grade
ROP notes and bonds - USD	BBB	Lower medium grade

Invesment Portfolio–Debt Instrument at FVOCI, the GSIS applies the general approach to these assets since these are financial assets classified at FVOCI. GSIS determined that Bond issued by the Republic of the Philippines (ROP) in Philippine Pesos shall not be subject to ECL because they are free of credit risk. They are considered free of credit risk/default free because they are direct, unconditional and general obligations of the ROP and backed by its full taxing power, making them practically free from default.

The ECL staging for GSIS FVOCI instrument:

Stages	Recognition of ECL	Probability of default (PD)	Loss given default (LGD)
1	12 month ECL	Derived from Bloomberg	Derived from Bloomberg
2	Lifetime ECL	Derived from Bloomberg	Derived from Bloomberg
3	Lifetime ECL	Derived from Bloomberg	Derived from Bloomberg

The System shall classify exposures to Stage 2 if the exposures have potential weaknesses based on current and/or forward-looking information that warrant management's close attention.

The System shall apply the following indicators of significant increase in credit risk and transfer to Stage 3 when the debt instruments have an event of missed payment.

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

	2018	2017 Restated
Loans receivable - net*	**296,480,003,704**	263,075,855,788
Financial assets - corporate bonds*	**76,823,670,091**	70,224,179,436
Financial assets - ROP notes & bonds - USD*	**34,179,684,914**	36,248,261,813
Cash in banks and cash equivalents*	**15,753,109,377**	24,742,111,865
Contributions and premiums receivable - net	**11,303,463,070**	17,938,941,144
Investments in time deposits*	**-**	9,121,368,410
	434,539,931,156	421,350,718,456

** Includes interest receivable.*

	2018		
	Neither past due nor impaired	**Past due but not impaired**	**Total**
Loans receivable - net*	**248,167,392,418**	**48,312,611,286**	**296,480,003,704**
Financial assets - corporate bonds*	**76,823,670,091**	**-**	**76,823,670,091**
Financial assets - ROP notes and bonds - USD*	**34,179,684,914**	**-**	**34,179,684,914**
Cash in banks and cash equivalents*	**15,753,109,377**	**-**	**15,753,109,377**
Contributions and premiums receivable - net	**10,449,308,508**	**854,154,562**	**11,303,463,070**
	385,373,165,308	**49,166,765,848**	**434,539,931,156**

** Includes interest receivable.*

	2017 Restated		
	Neither past due nor impaired	Past due but not impaired	Total
Loans receivable - net*	206,934,655,757	56,141,363,303	263,076,019,060
Financial assets - corporate bonds*	70,224,179,436	-	70,224,179,436
Financial assets - ROP notes and bonds - USD*	36,248,261,813	-	36,248,261,813
Cash in banks and cash equivalents*	24,742,111,865	-	24,742,111,865
Contributions and premiums receivable - net	8,720,045,929	9,218,904,840	17,938,950,769
Investments in time deposits*	9,121,368,410	-	9,121,368,410
	355,990,623,210	65,360,268,143	421,350,891,353

** Includes interest receivable.*

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

Credit risks arising from debt securities held, derivative financial assets and cash and cash equivalents are managed by dealing only with counterparties with good credit standing and by setting exposure limits to issuers of debt securities according to their credit rating. These policies are set in the Counterparty and Issuer Risk Guidelines (CIRG) and Investment Policy Guidelines (IPG) which the GSIS adheres in undertaking investment decisions.

The CIRG 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. It establishes credit exposure limits to a pre-approved list of transaction counterparties (banks), and provides guidelines for the calculation and monitoring of GSIS' credit exposures to each counterparty-bank.

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

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

b. *Liquidity risk*

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

GSIS manages this risk through the daily monitoring of cash flows in consideration of future payment due dates and daily collection amounts. GSIS also maintains sufficient portfolio of liquid assets that can easily be converted to cash as protection against unforeseen interruption in cash flows. GSIS also has the ability to readily dispose of certain investments that are traded in an active market. These include a liquid portfolio of publicly traded equity and debt securities, and short-term cash deposits.

	2018	2017 Restated
Financial assets at FVOCI	**454,679,639,874**	806,286,682
Financial assets at FVPL	**224,378,931,066**	689,841,422,039
Cash and cash equivalents	**16,207,288,179**	25,062,126,607
Investments in time deposits	**-**	9,102,243,398
	695,265,859,119	724,812,078,726
Liabilities	**19,774,839,459**	17,709,853,879

The liabilities do not include deferred credit/unearned income amounting to P1.976 billion and P1.416 billion in CY 2018 and CY 2017, respectively.

c. *Market risk*

Market risk arises from the possibility of financial loss caused by changes in financial instruments' fair values or future cash flows due to fluctuations in key variables, including interest rates, foreign exchange rates, equity market prices and real estate property market prices.

The GSIS' strategy for the management of market risk is driven by its objective to attain an investment return that will meet or exceed the actuarial solvency of the funds through strategic asset allocation, which is determined by the management and approved by the BOT.

The investment team is required to diversify the investments of the GSIS within the limits set under the GSIS IPG, which promotes the safety of the funds, optimizes the return on its investment, and satisfies the liquidity requirement of the GSIS. The IPG aims to define the types of investments and transactions that the fund may invest in, provide a framework for managing the risk of the portfolio, and incorporate best practices in the management of investments. In pursuit of its investment objectives, proposals are presented by FMG or the concerned functional group to the ALCO and ROC for subsequent endorsement to the BOT for approval.

d. *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 is cognizant of a liability-driven investment management. The GSIS under its IPG shall determine its risk-free hedge investment position in relation to its liabilities in order to establish a baseline for its investment strategy. Therefore, investing 100 per cent in risk-free debt securities is a baseline strategy for the funds of the GSIS. However, because risk-free returns may not satisfy the required return needed to meet its future liabilities the IPG set a maximum limit of 60 per cent of total investible fund held in debt securities issued by the ROP. In order to maximize returns, the GSIS may invest in debt securities other than the risk-free instrument with prescribed limits set in the IPG.

The sensitivity of the value of fixed income investment assets as a result of an increase or decrease in interest rates is immunized by the sensitivity of the present value of its total future liabilities from an increase or decrease in its discount factor.

The impact on the value of fixed income investments as a result of an increase or decrease in interest rates for CY 2018 (in millions) is summarized in the following table:

Change in interest rate	Impact on fixed income assets	
	2018	2017
1.00%	**(26,876)**	(31,213)
-1.00%	**32,531**	32,531

e. *Foreign currency risk*

GSIS is exposed to foreign currency risk through its cash and cash equivalents, financial assets, and GI receivables (premiums and due from reinsurers) and payables (claims and due to reinsurers) denominated in US dollars (USD).

Any depreciation or appreciation of the foreign currencies against the peso posts significant foreign exchange gains or losses relating to cash and cash equivalents, financial assets and GI receivables and payables. The GSIS manages risk affecting foreign currency transactions by entering into derivative contracts such as foreign exchange forwards and cross-currency swaps, for the purpose of enhancing returns or for hedging unwanted foreign currency risk. The derivative transaction is limited to Peso and other major currencies.

The GSIS' policy with respect to managing its currency risk is to limit its individual foreign exchange currency exposure to no greater than 10 per cent of total investible fund unless otherwise approved by the BOT as set in the IPG.

In translating monetary assets and liabilities into peso, the exchange rates used were P52.580 and P49.930 to USD based on the closing rate of Bankers Association of the Philippines (BAP) for CY 2018 and Philippine Dealing and Exchange Corporation (PDEX) for CY 2017, respectively.

	2018		2017 Restated	
	USD denominated balances	**Peso equivalent**	USD denominated balances	Peso equivalent
Financial assets				
FVOCI financial assets	**2,003,098,354**	**105,322,911,453**	-	-
FVPL financial assets	**646,367,252**	**33,985,990,110**	2,293,614,252	114,520,159,602
Cash and cash equivalents	**47,453,598**	**2,495,110,183**	86,584,983	4,323,188,201
Interest receivable	**22,648,702**	**1,190,868,751**	22,580,675	1,127,453,103
Due from reinsurers	**298,691**	**15,705,173**	46,675,349	2,330,500,176
Contributions and premiums receivable	**153,997**	**8,097,162**	11,208	559,615
Accounts receivable	**10,550**	**554,719**	-	-
Investments in time deposits	**-**	**-**	142,244,010	7,102,243,419
	2,720,031,144	**143,019,237,551**	2,591,710,477	129,404,104,116
Liabilities				
Accounts payable	**24,360,619**	**1,280,881,347**	51,398,867	2,566,345,429
Insurance/reinsurance premium payable	**1,359,198**	**71,466,631**	1,374,411	68,624,341

	2018		2017 Restated	
	USD denominated balances	**Peso equivalent**	USD denominated balances	Peso equivalent
Trust liabilities	**8,570**	**450,611**	-	-
	25,728,387	**1,352,798,589**	52,773,278	2,634,969,770

The following table sets out the impact of the range of reasonably possible movement in the USD and Peso exchange rates with all other variables held constant in the GSIS' income for the years ended December 31, 2018 and 2017.

Change in exchange rate against Peso	**Effect on income**	
	2018	2017
	USD1.00 = P52.580	USD1.00 = P49.930
1.00 increase	**2,694,302,757**	2,538,937,199
1.00 decrease	**(2,694,302,757)**	(2,538,937,199)

f. *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.

Price risk is monitored daily. It is managed by diversifying the portfolio through sector limits and exposure in global markets. The internally managed equity portfolio is subject to exposure limits below as approved in the IPG:

- Philippine Stock Exchange (PSE)-traded equity securities – up to 25 per cent of the total investible funds; and

- Equity-traded funds – shall not exceed five per cent of the total investible funds.

g. *Insurance risk*

Among the salient insurance risks in the GSIS, pricing risk is where premiums charged for the general insurance products are not priced adequately to cover for operating expenses, future losses and profits, while underwriting risk is where coverage has a different risk profile resulting in more frequent and large loss distributions which adversely affect underwriting profits. Aggregation risk is where risks underwritten are clustered in one area or location, rendering the insurer's business interests vulnerable to a single risk event. Reinsurance credit risk is the failure of the reinsurer to remit its share to the GSIS for the settlement of claims of insured government entities or policyholder, putting pressure on GSIS to settle insurance claims from its own GIF. Reserving risk refers to mispricing due to flawed expectations on loss distribution, maybe resulting from incorrect/insufficient data, unanticipated change in trend and inappropriate assumptions. It is also the failure to come up with a reasonable estimate of the required reserves for payment of future insurance claims, resulting in an overstatement of the GIF's financial strength. Solvency risk refers to the potential insufficiency of the GIF assets to pay for the insurance claims of affected insured government entities and policyholders, reflected in its measures of capital adequacy. Other insurance risks include reinsurance program design risk or the risk that the reinsurance program is insufficient to limit retained loss exposures to the System's risk tolerance, and reinsurance record-keeping, billing and accounting risk or the potential loss in reinsurance contributions due to inadequate record-keeping resulting in failure to collect reinsurance contributions.

The GSIS undertakes risk-mitigating measures to address these insurance risks including regular risk-monitoring.

3.2 Fair value estimation

The fair values of all of the GSIS financial assets and liabilities as at December 31, 2018 and 2017 are as follows:

	2018	2017 Restated
Cash and cash equivalents	**16,207,288,179**	25,062,126,607
Financial assets		
ROP notes and bonds	**334,062,592,625**	373,947,356,424
Stocks-traded	**215,034,990,265**	213,942,801,554
Corporate bonds	**76,130,707,934**	69,647,308,278
Externally managed funds	**33,260,976,894**	27,807,512,013
Treasury bills	**15,743,238,071**	-
Global peso notes	**4,019,778,470**	4,496,443,770
Stocks-non-traded	**806,286,681**	806,286,682
Investments in time deposits	**-**	9,102,243,398
Receivables		
Loans and receivable	**317,029,350,571**	292,725,467,001
Lease receivables	**50,472,328**	31,282,087
Other receivables	**1,005,498,238**	1,233,742,753
	1,013,351,180,256	1,018,802,570,567
Liabilities	**21,751,141,113**	19,126,246,572

The System uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

	Level 1	**Level 2**	**Level 3**	**Total**
Equities				
Stocks-traded	215,034,990,265	-	-	215,034,990,265
Stocks-non-traded	-	-	806,286,681	806,286,681
Fixed income				
ROP bonds	334,062,592,625	-	-	334,062,592,625
Corporate bonds	4,019,778,470	-	-	4,019,778,470
Global peso notes	76,130,707,934	-	-	76,130,707,934
Treasury bills	15,743,238,071	-	-	15,743,238,071
Externally managed funds	33,260,976,894	-	-	33,260,976,894
Total assets at fair value	**678,252,284,259**	**-**	**806,286,681**	**679,058,570,940**
Derivative liabilities	-	3,896,977,248	-	3,896,977,248
Net assets at fair value	**678,252,284,259**	**(3,896,977,248)**	**806,286,681**	**675,161,593,692**

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

- Quoted prices in active markets for identical assets or liabilities (level 1);
- Those involving inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- Those involving inputs for the asset or liability that are not based on observable market data (non-observable inputs) (level 3).

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

4.1 Judgments

In the process of applying accounting policies, Management has made judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

Operating lease commitments

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

GSIS as lessor. GSIS has determined that significant risks and benefits of ownership of the leased property remain with GSIS; hence, leases are accounted for as operating lease (see Note 32).

4.2 Estimates

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

a. *Estimation of impairment losses on receivables*

GSIS adopted the ECL model in measuring credit impairment, in accordance with the provisions of PFRS 9. GSIS recognized credit impairment/allowance for credit losses even before an objective evidence of impairment becomes apparent for loans receivable.

For other receivable accounts, GSIS maintains allowance for impairment losses on receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by Management on the basis of factors that affect the collectability of the accounts. These factors include the status of the members, age of receivables, debtor's payment behavior and known market factors. The amount and timing of recorded expenses for any period would differ if GSIS made different judgments or utilized different estimates.

b. *Premium receivables*

SI, OLI and ECI premiums receivable from inactive members are provided with 100 per cent allowance for impairment because probability of collection is deemed unlikely. Likewise, active members with long outstanding balances of ten years or more are also provided with 100 per cent allowance for impairment. For PNI premiums receivable, all accounts have been provided with 100 per cent allowance.

c. *Loans receivable*

The following table summarizes the recognition approach that was adopted in the recognition of ECL on outstanding service loans:

Stage	Coverage	Total length of service (TLS)	PD* (in per cent)	LGD**
1	Active members loan that are not due and demandable (DnD)	Less than three years	17	100
		At least three but less than 15 years	17	6
		At least 15 years	17	-
	Pensioners' loans		-	-
	Policy loan		0.50	20
3	Active members loan classified as DnD Inactive members loan		100	1-Recovery Rate (RR)

**Probability of default*
***Loss given default*

where:

PD – is based on the historical default rate of members' loan from 2017 to 2018

LGD – 1 minus RR

RR – is equal to the amount of loan balance covered by the estimate maximum computed future benefit entitlement of the borrower/member over the total outstanding loan.

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

For outstanding mortgage loans, the recognition approach that was adopted in the recognition of ECL is as follows:

Stage	Coverage	PD (in per cent)	LGD
1	Updated accounts and accounts with less than six months unpaid amortization		
1	Real Estate Loan (REL)	73	25
	Deed of Conditional Sale (DCS)	68	25
3	Accounts with more than six months unpaid amortizations	100	25

where:

PD – is based on the historical default rate of members' mortgage loan from 2017 to 2018

LGD – 1 minus RR

RR of 75 per cent is based on the assumption that the System can still recover from the collaterals.

For non-member loans and receivables, the following are considered in the recognition of ECL:

- One hundred per cent allowance for accounts of companies/entities which are already declared insolvent or bankrupt; and

- Based on aging of receivables:

Age	Percentage
More than two years up to four years	25
More than four years up to seven years	50
More than seven years for accounts of companies or entities which are already declared insolvent or bankrupt	100

This portfolio will not have a defined stage 1 and 2 classifications.

d. *Other receivables*

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

Age	Allowance for impairment (in per cent)
Three to four years	25
Over four years to seven years	50
Over seven years	100
Contested accounts including those with subpoena/accounts referred to Legal Services Group (LSG) – below seven years	50
Contested accounts including those with subpoena/accounts referred to LSG – seven years and above	100
Accounts of companies/entities that are already declared insolvent/bankrupt or non-operational companies by the Insurance Commission or accounts with no documents available to prove the claim as identified by the Insurance Group (IG)	100

e. *Provisions and contingencies*

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

f. *Provisions for estimated GI claims*

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

5. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2018	2017 Restated
Cash equivalents	**11,278,000,273**	17,300,000,273
Cash in bank - foreign currency	**2,494,032,734**	4,323,315,320
Cash in bank - local currency	**1,961,774,439**	3,077,285,604
Cash on hand	**473,480,733**	361,525,410
	16,207,288,179	25,062,126,607

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents include High Yield Short-Term Placements (HYSTP) and Special Savings Deposits (SSD) which are unrestricted in nature and are made for varying periods of three months or less, depending on the immediate cash requirements, and earn interest at the prevailing HYSTP and SSD rates.

Interest income earned from cash and cash equivalents recorded as part of interest on time deposits amounted to P359.084 million in 2018 and P325.178 million in 2017.

6. FINANCIAL ASSETS

	2018	2017 Restated
Current:		
Financial assets at FVPL		
Stocks-traded	**215,034,990,265**	213,942,801,554
Externally managed funds	**9,343,940,801**	27,807,512,013
ROP notes and bonds	**-**	373,947,356,424
Corporate bonds	**-**	69,647,308,278
Global peso notes	**-**	4,496,443,770
	224,378,931,066	689,841,422,039

	2018	2017 Restated
Non-current:		
Financial assets at FVOCI		
ROP notes and bonds	**334,062,592,625**	-
Corporate bonds	**76,130,707,934**	-
Externally managed funds	**23,917,036,093**	-
Treasury bills	**15,743,238,071**	-
Global peso notes	**4,019,778,470**	-
Stocks-non-traded	**806,286,681**	806,286,682
	454,679,639,874	806,286,682

In 2018, GSIS reclassified its various debt instruments into FVOCI category. Employing FVOCI classification is the appropriate business model for the System's strategic map. The System can optimize the returns for the fund not only by collection of contractual cash flows from its debt assets but also generate additional returns through actively trading its assets or dynamically changing its asset allocations required by changing market conditions. Moreover, holding an instrument until maturity is not prohibited when employing this business model.

Equity securities

Equity investments are made directly by GSIS in equity securities traded in the PSE. Such securities may include common shares or preferred shares of any solvent corporation or financial institution created or existing under the laws of the Philippines. Such securities include common shares, preferred shares, warrants, Real Estate Investment Trusts (REITs), and Exchange Traded Funds of any solvent corporation or financial institution created or existing under the laws of the Philippines. Equity securities also include investments in instruments or basket of equity securities that track the performance of a defined equity broad market index (BMI) other than PSE index. The fair value of equity investments amounts to P215.035 billion and P213.943 billion, respectively, as at December 31, 2018 and 2017.

The equity portfolio of the GSIS includes local and global investments as follows:

	2018		2017 Restated	
Domestic	**181,049,000,134**	**84.20%**	192,992,329,964	90.21%
Global	**33,985,990,131**	**15.80%**	20,950,471,590	9.79%
	215,034,990,265	**100.00%**	213,942,801,554	100.00%

Dividend income and income arising from sale of equity securities measured at FVPL recognized in the SCI for the year ended December 31, 2018 and 2017 amounts to P4.543 billion and P4.253 billion, respectively.

Dividend income and income arising from sale of equity securities measured at FVOCI recognized in the SCI for the year ended December 31, 2018 and 2017 amounts to P5.048 million and P31.625 million, respectively.

A loss from valuation of equity securities to its fair value amounting to P27.641 billion was recognized in the SCI for the year ended December 31, 2018, while a gain from valuation thereof amounting to P37.309 billion was recognized for the year ended December 31, 2017.

Externally managed funds (EMF)

This account consists of GSIS investments managed by domestic and foreign fund managers who provide additional windows for placement of investible funds that satisfy the requirements of safety, liquidity and yield. Included in this account is the Philippine Investment Alliance for Infrastructure (PINAI) fund, a 10-year, closed-end fund, dedicated to equity investments in Philippine infrastructure. The fund is managed by Macquarie Infrastructure Management (Asia) Pty Limited - Singapore Branch (MIMAL), a member of Macquarie Infrastructure and Real Assets (MIRA).

The GSIS BOT approved the investment in Macquarie Asia Infrastructure Fund (MAIF) 2 with a total committed amount of USD300 million or its peso equivalent on November 28, 2017 under BR No. 229. The Fund makes infrastructure real assets investments in telecommunications, energy and utilities sector. The MAIF 2 will make foreign infrastructure investments accessible to GSIS and will help diversify its risks and portfolio returns.

GSIS, under its business model, classifies all non-listed equity securities including those held in PINAI and MAIF 2 as FVOCI. All Local Fund Managers (LFM) investments are classified as FVPL. All LFM are mostly invested in listed securities, thus, the System will be able to respond appropriately to market conditions.

As at December 31, 2018 and 2017, the total investments in EMF amounted to P33.261 billion and P27.808 billion, respectively.

Income from this type of investment measured at FVPL and FVOCI recognized in the SCI for the year ended December 31, 2018 and 2017 amounts to P102.939 million and P219.532 million, respectively.

A loss from valuation to its fair value amounting to P1.212 billion was recognized in the SCI for the year ended December 31, 2018, while a gain from valuation amounting to P3.423 billion was recognized for the year ended December 31, 2017.

Fixed income securities

Government securities

Bonds consist of debt instruments denominated in Peso or any major currency that are issuances of or guaranteed by the ROP and its instrumentalities, or by ROP government-owned and/or controlled corporations (GOCCs). These include, but are not limited to, ROP bonds, treasury bills, fixed-rate treasury notes and retail treasury bonds. The total investments in ROP notes and bonds amounted to P334.063 billion and P373.947 billion, respectively, as at December 31, 2018 and 2017.

Global peso notes

In 2012, the GSIS diversified its investment by investing in global fixed income securities. These securities are bonds originally issued by a corporation registered in the Philippines denominated in dollars but subsequently sold and traded by a foreign corporation. The total investments in Global Peso Notes amounted to P4.020 billion and P4.496 billion as at December 31, 2018 and 2017, respectively.

Corporate bonds

The GSIS may invest and transact in debt instruments denominated in Peso or any major currency that are issued or guaranteed by foreign sovereign governments, supranational corporations, or private corporations that at the time of acquisition by the GSIS carry a long term credit rating equivalent to at least “A+” from Standard & Poor’s (S&P) or Fitch Ratings or “A1” from the Moody’s Investors Service (Moody’s). At any one time, GSIS may invest a maximum of 25 per cent of the total investible funds in high-credit quality debt instruments provided no more than 0.75 per cent of the total investible funds may be invested in any single issuer/borrower name or guarantee.

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

- If issued or guaranteed by a non-Philippine entity, the instrument at the time of acquisition by the GSIS must carry a minimum long term credit rating equivalent to “Baa3” from Moody’s or “BBB-” from S&P or Fitch Ratings. At any one time, GSIS may invest a maximum of 15 per cent of the total investible funds in instruments as described in the IPG provided no more than 0.50 per cent of the total investible funds may be invested in any single issuer/borrower name or guarantee; and

- If issued or guaranteed by a Philippine entity, the debt instrument or the issuer credit rating must carry a minimum credit rating equivalent to “PRS 1” for short term and “PRS Aaa” for long term from Philratings (or equivalent); or the issuer has outstanding debt that is *pari passu* with the debt instrument and that has a minimum credit rating equivalent to “PRS Aaa” for long term from Philratings at the time of acquisition by the GSIS. If the issuer or any of its outstanding debt instruments is not rated by S&P, Fitch Ratings and Moody’s, the minimum issuer credit rating shall be equivalent to “Ba2” from the Moody’s or “BB” from the S&P or Fitch Ratings. At any one time, GSIS may invest a maximum of 10 per cent of the total investible funds in instruments as lifted from the IPG provided no more than 0.50 per cent of the total investible fund may be invested in any single issuer or borrower name or guarantee.

As at December 31, 2018 and 2017, the total investments in corporate bonds amounted to P76.131 billion and P69.647 billion, respectively. This includes investments in local companies and foreign corporations from banking, utilities, energy, sovereign, industrial, commercial, communications, and properties sectors.

The terms to maturity of the bonds/bills issued and guaranteed by the ROP and those issued and guaranteed by foreign sovereign governments or private corporations as at December 31, 2018, are as follows (in millions):

	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Average effective yield (in per cent)
ROP notes and bonds						
Peso	22,412	35,637	22,348	203,803	284,200	5.68
USD	-	-	27,767	22,096	49,863	7.22
	22,412	35,637	50,115	225,899	334,063	6.45
Corporate bonds						
Peso	4,356	21,683	9,793	583	36,415	5.71
USD	-	7,035	2,294	30,387	39,716	5.19
	4,356	28,718	12,087	30,970	76,131	5.45
Global peso notes	-	2,586	-	1,434	4,020	5.03
Treasury Bills	15,743	-	-	-	15,743	2.38

Interest income from fixed income securities measured at FVOCI recognized in the SCI for the year ended December 31, 2018 and 2017 amounts to P23.463 billion and P24.610 billion, respectively.

A loss from valuation of fixed income securities to its fair value amounting to P41.475 billion was recognized in the SCI for the year ended December 31, 2018.

Treasury bills

In 2018, the GSIS diversified its investments by investing in treasury bills securities. Treasury bills are government securities which mature in less than a year. There are three tenors of treasury bills: (1) 91-day (2) 182-day (3) 364-day Bills. Treasury bills are quoted either by their yield rate, which is the discount, or by their price based on 100 points per unit.

The total investments in treasury bills is P15.743 billion as at December 31, 2018.

Interest income from treasury bills measured at FVOCI recognized in the SCI for the year ended December 31, 2018 amounts to P310.163 million.

Stocks-non-traded

Stocks-non-traded are equity investments that are no longer listed or traded in the PSE. The fair value of the investment amounts to P806.287 million as at December 31, 2018 and 2017.

Income/(loss) from financial assets

	2018	2017 Restated
FVPL		
Dividend on stocks	**3,986,510,174**	3,484,984,053
Gain on foreign exchange	**1,184,282,539**	219,531,597
Gain on sale of stocks	**556,402,970**	721,782,370
Loss on sale of stocks	**-**	(107,440,655)
Gain (loss) on valuation	**(29,245,324,652)**	31,644,350,946
Others	**(2,350,901,890)**	(2,068,626,691)
	(25,869,030,859)	33,894,581,620

	2018	2017 Restated
FVOCI		
Interest income on various debt instruments	**23,773,138,480**	24,609,806,981
Gain on foreign exchange	**4,440,682,916**	-
Dividend on stocks	**5,048,572**	23,028,244
Gain on sale of stocks	**-**	8,596,435
Others	**(4,971,921)**	-
	28,213,898,047	24,641,431,660
Other investment income		
Gain (loss) on foreign exchange	**571,281,677**	(152,933,607)
Other investment income - time deposits	**481,749,347**	563,753,727
	1,053,031,024	410,820,120
	3,397,898,212	58,946,833,400

7. INVESTMENT IN ASSOCIATES/AFFILIATES

This account consists of equity securities in private companies where GSIS has board seats. These securities were reclassified from Stocks-traded - FVOCI to Investment in associates in compliance with PAS 28 which requires that investments in an entity over which the investor has significant influence should be accounted for as Investments in associates.

The total amount of investments in associates is P2.018 billion and P2.142 billion as at December 31, 2018 and 2017, respectively.

8. OTHER INVESTMENTS

This account consists of investments in time deposits which are short-term investment placements with maturities of 91 to 120 days from the date of acquisition and are unrestricted as to withdrawal. As at December 31, 2018 and 2017, total investments in time deposits amount to nil and P9.102 billion, respectively.

9. RECEIVABLES

This account consists of the following:

	2018	2017 Restated
Current:		
Loans and receivables	**78,867,738,589**	76,245,366,082
Lease receivables	**50,472,328**	31,282,087
Other receivables	**635,289,144**	745,335,701
	79,553,500,061	77,021,983,870

	2018	2017 Restated
Non-current:		
Loans and receivables	**238,161,611,983**	216,480,088,021
Other receivables	**370,209,094**	488,419,952
	238,531,821,077	216,968,507,973

9.1 Loans and receivables

	2018	2017 Restated
Current:		
Interests receivable	**57,538,973,091**	62,889,353,789
Allowance for impairment - interests receivable	**(38,205,598,006)**	(40,554,707,836)
	19,333,375,085	22,334,645,953
Contributions and premiums receivable	**35,380,424,937**	32,389,316,069
Allowance for impairment - contributions and premiums receivable	**(24,076,961,867)**	(14,450,374,925)
	11,303,463,070	17,938,941,144
Due from reinsurer	**5,334,265,429**	6,778,035,257
Allowance for impairment - due from reinsurer	**(2,333,547,517)**	(2,337,081,021)
	3,000,717,912	4,440,954,236
Dividends receivable	**173,297,376**	175,105,039
Allowance for Impairment - dividends receivable	**-**	-
	173,297,376	175,105,039
Loans receivable-others	**45,056,885,146**	31,355,719,710
Allowance for impairment - loans receivable - others	**-**	-
	45,056,885,146	31,355,719,710
	78,867,738,589	76,245,366,082

Non-current:		
Mortgage contracts receivable	**9,256,522,392**	9,882,779,219
Allowance for impairment - mortgage contracts receivable	**(2,214,192,199)**	(1,297,576,828)
	7,042,330,193	8,585,202,391
Sales contract receivable	**5,477,359,242**	5,962,723,960
Allowance for impairment - sales contract receivable	**(1,275,429,373)**	(653,435,873)
	4,201,929,869	5,309,288,087
Deficiency claims receivable	**1,578,753,668**	1,175,168,386
Allowance for impairment - deficiency claims receivable	**(1,486,372,325)**	-
	92,381,343	1,175,168,386

	2018	2017 Restated
Loans receivable - local government units	**14,174,153**	14,174,153
Allowance for impairment-loans receivable - local government units	**(14,174,153)**	(14,174,153)
	-	-
Loans receivable-others	**247,722,872,696**	225,202,869,075
Allowance for impairment - loans receivable - others	**(20,897,902,118)**	(23,792,439,918)
	226,824,970,578	201,410,429,157
	238,161,611,983	216,480,088,021

a. *Interests receivable*

- Interest receivable on loans

	2018	2017 Restated
Surcharge receivable on loans	**10,235,854,097**	10,203,666,657
Salary loan	**9,071,309,757**	9,267,602,461
Consolidated loan	**7,651,621,219**	12,334,891,808
Emergency/calamity loans	**985,284,292**	1,277,884,341
Private loan	**823,153,174**	823,153,174
Housing loan/REL/DCS	**446,082,413**	693,791,801
Summer one-month salary (SOS) loan	**327,234,474**	333,358,352
Ecard/ecard plus cash advance loan	**297,585,283**	347,129,639
Emergency loan assistance	**191,856,951**	217,272,200
Home emergency loan program	**188,301,753**	212,125,036
Stock purchase loan	**178,431,389**	184,769,534
Educational assistance fund program loan	**95,327,038**	133,302,959
Interest receivable - GSIS financial assistance loan	**93,557,682**	-
Educational assistance loan	**27,244,847**	26,303,988
Pension loan	**9,088,180**	10,214,871
Interim loan	**908,737**	908,737
Pensioners' restructured loan	**420,813**	289,831
Fly PAL loan	**198,920**	236,817
Pensioners' emergency loan	**172,104**	136,138
	30,623,633,123	36,067,038,344
Allowance for impairment - interest receivable on loans	**(17,269,745,206)**	(19,651,821,900)
	13,353,887,917	16,415,216,444

Surcharge receivable on loans pertains to the imposition of penalties and surcharges for past due accounts.

- Interest receivable on investments

	2018	2017 Restated
ROP notes and bonds	**5,158,454,431**	5,140,798,522
Corporate bonds	**692,962,156**	576,871,158
Global peso notes	**102,664,379**	102,664,379
Short-term investment placements	**-**	19,125,011
	5,954,080,966	5,839,459,070

- Other interest receivable

	2018	2017 Restated
Interest receivable - others	**20,961,259,001**	20,982,856,375
Allowance for impairment - interest receivable - others	**(20,935,852,800)**	(20,902,885,936)
	25,406,201	79,970,439

b. *Contributions and premiums receivable*

	2018	2017 Restated
SI contributions receivable	**31,739,202,118**	31,096,018,890
ECI premiums receivable	**4,202,396,358**	4,379,817,495
OLI premiums receivable	**1,962,147,522**	2,254,969,611
GI premiums receivable	**468,418,592**	466,393,118
BSOI premiums receivable	**390,475,583**	390,475,583
PNI premiums receivable	**11,083,076**	18,001,901
Contributions and premiums receivable	**38,773,723,249**	38,605,676,598
Accounts for clearing	**(3,393,298,312)**	(6,216,360,529)
Allowance for impairment-contributions and premiums receivable	**(24,076,961,867)**	(14,450,374,925)
	11,303,463,070	17,938,941,144

Social Insurance

SI premiums receivable represent uncollected members' contributions which are required to be remitted by the different government agencies to the GSIS, pursuant to Sections 5 and 6 of RA No. 8291. Monthly billings to GSIS members, application of collections and other pertinent adjustments, increases and reduces the balance of the receivable account, respectively. The increase in the balance of this account was due to the implementation of the third tranche of Salary Standardization Law and the increase in the number of contributing members from 1,712,173 in CY 2017 to 1,787,555 in CY 2018.

Agency class	**2018**	2017	Increase/ Decrease
Department of Education (DepEd)	**916,065**	853,326	62,739
National Government Agencies	**319,756**	312,742	7,014
Local Government Units	**409,545**	405,415	4,130
GOCCs	**62,418**	61,710	708
Government Financial Institutions	**30,710**	29,787	923
Judiciary	**27,883**	27,623	260
Military	**21,178**	21,570	(392)
	1,787,555	1,712,173	75,382

Employees Compensation Insurance

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

Optional Life Insurance

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

General Insurance

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

Pre-Need Insurance

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

Accounts for clearing

Contributions and premiums receivable are presented at net of accounts for clearing amounting to P3.393 billion and P6.216 billion, as restated, in CY 2018 and CY 2017, respectively. The accounts for clearing represents collections on premiums and loans that have not yet been posted to the individual member's accounts.

The bulk of accounts for clearing pertains to unreconciled accounts (UA). Of the P4.265 billion balance of UA, P0.790 billion pertains to current year transactions and P3.475 billion pertains to 2017 and prior years transactions. The balance of the prior years' transactions was reduced by P1.404 billion in CY 2018.

To address the issue on unreconciled accounts, continuous coordination and reconciliation are being undertaken by the GSIS. This includes the enhancement of the Electronic Billing and Collection System (EBCS) where matching of compulsory premiums is required prior to the actual remittance of the agency, thus, reducing underpayments and overpayments in the collection of SIF premiums.

c. *Due from reinsurer*

	2018	2017 Restated
Due from reinsurer	**5,334,265,429**	6,778,035,257
Allowance for impairment - due from reinsurer	**(2,333,547,517)**	(2,337,081,021)
	3,000,717,912	4,440,954,236

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

	2018	2017 Restated
Due from RI – unadjusted losses recoverable	**2,804,036,069**	4,308,824,554
Due from RI – facultative	**2,350,832,985**	2,273,538,595
Due from RI – treaty	**179,396,375**	195,672,108
	5,334,265,429	6,778,035,257

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

The change in the carrying amount of Due from Reinsurers from P6.778 billion in CY 2017 to P5.334 billion in CY 2018, was mainly due to the significant amount of reinsurance share on losses settled in the amount of P1.307 billion and reduction in the estimated share on excess of losses (XOL) amounting to P0.765 billion.

As at year end, an amount totaling P7.903 million was written off pertaining to accounts identified by the Insurance Commission as Non-Operational Insurance Company (NOIC). The write-off was authorized by the COA-Supervising Auditor under Decision No. 2018-002 dated August 6, 2018, in the total amount of P193,715 for dormant receivables of less than P100,000; and by the COA-Cluster 2 Director under Decision No. 2018-002 dated November 29, 2018, in the total amount of P7.709 million, for dormant receivables of more than P100,000 but less than P1 million.

d. Loans receivable - others

	2018	2017 Restated
Current:		
Consolidated loan	**21,841,908,049**	22,092,098,800
Salary loan	**11,890,882,994**	(47,227,941)
Emergency/calamity loan	**4,819,438,029**	5,386,428,647
Policy loan	**1,265,671,646**	1,300,596,772
GSIS financial assistance loan	**1,613,500,491**	-
Pension loan	**926,174,327**	881,671,765
Home emergency loan program	**917,255,409**	974,036,399
Ecard/ecard plus cash advance loan	**779,376,124**	250,595
SOS loan	**415,633,347**	(191,490)
Educational assistance fund program loan	**365,369,786**	560,344,566
Pensioner's restructured loan	**150,153,279**	123,094,755
Pensioner's emergency loan	**71,500,203**	84,616,842
Program for restructuring loan	**21,462**	-
Loans receivable – others	**45,056,885,146**	31,355,719,710
Allowance for impairment - loans receivable – others	**-**	-
	45,056,885,146	31,355,719,710

	2018	2017 Restated
Non-current:		
Consolidated loan	**193,569,994,913**	164,318,521,504
Policy loan	**22,228,008,858**	22,826,576,702
GSIS financial assistance loan	**10,622,498,313**	-
Emergency/calamity loan	**10,290,562,351**	10,089,548,167
Home emergency loan program	**6,187,860,939**	7,358,851,685
Educational assistance fund program loan	**1,826,452,735**	2,441,090,924
Private loan	**1,514,525,562**	2,175,240,861
Pension loan	**535,628,725**	442,318,507
Emergency loan assistance	**440,914,949**	506,749,922
Pensioner's restructured loan	**154,822,145**	126,227,913
Lease purchases	**111,401,704**	111,401,704
Pensioner's emergency loan	**90,259,586**	65,664,206
Interim loan	**89,703,188**	89,703,188
Stock purchase loan	**30,105,232**	32,644,507
Educational assistance loan	**29,821,399**	25,811,916
Fly PAL loan	**312,097**	407,508
Salary loan	**-**	12,971,748,231
Ecard/ecard plus cash advance loan	**-**	1,138,965,745
SOS loan	**-**	481,395,885
Loans receivable – others	**247,722,872,696**	225,202,869,075
Allowance for impairment – loans receivable – others	**(20,897,902,118)**	(23,792,439,918)
	226,824,970,578	201,410,429,157

Consolidated loan

The consolidated loan is a loan program created in 2006 that merged five different loan products: salary loan, restructured salary loan, enhanced salary loan, emergency loan assistance, and SOS loan, under one account. By availing of the consolidated loan, a member automatically fully settles his/her obligations under any of the said loans (outstanding balances are deducted from the proceeds of the consolidated loan).

Beginning July 1, 2015, the Enhanced Conso-Loan Plus Program was launched which offers a 14-months salary loan to members who have at least 25 years of paid premiums and 12-months salary loan to those with at least 15 years of service. Previously, the credit limit for these members was only 10 times their salary. The program also extends the maximum payment term for the loan from six to 10 years for members with at least 10 years of paid premiums.

Consolidated loans granted to 851,089 borrowers amounted to P176.951 billion in CY 2018 and to 578,103 borrowers amounted to P115.176 billion in CY 2017.

Policy loan (regular and optional policy loan)

Policy loan is a loan program which a member can avail of from his GSIS life insurance policy, bearing an interest of eight per cent compounded monthly for Enhanced Life Policy (ELP) and eight per cent compounded annually for Life Endowment Policy (LEP). In this type of loan, the borrower may opt for a fixed monthly payment or have the loan balance deducted upon renewal, maturity, or termination of the policy.

The GSIS granted a total of P7.737 billion in policy loans to 336,458 borrowers in CY 2018 and P7.495 billion to 306,361 borrowers in CY 2017.

Emergency loan

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

A calamity-hit area must be declared as under state of calamity by the Office of the President (OP) upon the recommendation of the National Disaster Risk Reduction and Management Council or by the Local Sanggunian, upon the recommendation of the Local Disaster Risk Reduction and Management Council before members working or residing in the said area become eligible to avail of the EL.

Due to various calamities that hit the country, ELs granted to members amounted to P9.189 billion in 2018 and P6.133 billion in 2017.

Educational assistance fund program loan (EAFP)

The GSIS received a grant from the National Government in the amount of P1.500 billion on Labor Day, May 1, 2012, intended for GSIS members as educational assistance. The said grant was made in the understanding that GSIS shall provide counterpart funding.

On 26 April 2012, BR No. 84 was approved which provided for:

- The appropriation of P4.040 billion as counterpart funding for the grant from the National Government; and

- The implementation of the Educational Assistance Loan (EAL) for all active GSIS members, regardless of salary, length of service, and status of agency and members account (i.e., up-to-date, in arrears or suspended).

The assistance amount was P4,000, payable in five years with interest computed at six per cent per annum. The one-time EAL was offered from May to December 2012 and subsequently re-opened to members from April to December 2013. A total of 632,127 members availed of the EAL.

In 2017, the GSIS offered the EAL II amounting to P10,000 to provide GSIS members with existing EAL accounts an opportunity to avail of a loan that will pay off their EAL obligations.

Pensioners' restructured loan

In July 2011, the pensioners' 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. In CY 2018, P223.996 million was granted to 1,295 new availees of this loan, while in CY 2017, P177.683 million was granted to 1,113 availees.

Pensioners' emergency loan

The emergency loan granted to active members was extended to old-age pensioners who were affected by typhoons/Habagat season in areas declared under the state of calamity. The loanable amount is P20,000 with interest rate of six per cent per annum, computed in advance.

The GSIS granted a total of P114.200 million in pensioners' emergency loans to 5,710 borrowers in CY 2018 and P66.880 million to 3,345 borrowers in CY 2017.

Home emergency loan program

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

GSIS Financial Assistance Loan (GFAL)

In 2018, a financial assistance loan program named GFAL was offered exclusively to all active and permanent teaching and non-teaching personnel of DepEd nationwide to take out or refinance their outstanding loan obligations with DepEd-accredited lending institutions. This one-time loan package has maximum loanable amount of P500,000 payable in six years, with interest of six per cent per annum computed in advance.

A total of P12.409 billion was granted to 35,154 borrowers in 2018.

Allowance for Impairment

The roll forward analysis of allowance for impairment losses on loans receivable - others is as follows:

	2018	2017 Restated
Balance, January 1	**23,792,439,918**	25,164,650,676
Reversals	**(2,894,537,800)**	(1,372,210,758)
	20,897,902,118	23,792,439,918

9.2 Lease receivables

Lease receivables consist of operating lease receivable amounting to P50.472 million and P31.282 million in CY 2018 and CY 2017, respectively.

9.3 Other receivables

	2018	2017 Restated
Current:		
Due from officers and employees	**219,681,218**	223,538,323
Other receivables	**1,268,819,989**	1,346,911,381
	1,488,501,207	1,570,449,704
Allowance for impairment - other receivables	**(853,212,063)**	(825,114,003)
	635,289,144	745,335,701

	2018	2017 Restated
Non-current:		
Other receivables	**968,225,751**	945,505,722
Allowance for impairment - other receivables	**(598,016,657)**	(457,085,770)
	370,209,094	488,419,952

10. INVENTORIES

	2018	2017 Restated
Inventory held for consumption:		
Office supplies inventory	**5,395,349**	8,988,769
Other supplies and materials inventory	**56,062**	38,487
	5,451,411	9,027,256

11. INVESTMENT PROPERTY

Investment property consists of the following:

	2018				
	Big/medium ticket accounts	**Cancelled DCS**	**Foreclosed REL/REL redeemable**	**GSIS owned/ unawarded lots**	**Total**
Beginning balance - January 1, 2018	**54,105,426,426**	**10,191,227,839**	**317,125,922**	**1,795,426,096**	**66,409,206,283**
Additions:					
Gain on valuation	**31,678,315,542**	**1,078,679,899**	**144,561,640**	**719,035,240**	**33,620,592,321**
Subsidiary Ledger (SL) reclassification/unitization of accounts	**1,586,267,938**	**-**	**596,000**	**-**	**1,586,863,938**
Inclusion of various accounts	**-**	**13,969,742**	**5,769,680**	**110,500,533**	**130,239,955**
Various adjustments	**-**	**118,977**	**284,324**	**-**	**403,301**
	33,264,583,480	**1,092,768,618**	**151,211,644**	**829,535,773**	**35,338,099,515**
Deductions:					
SL reclassification/ unitization of accounts	**1,095,299,300**	**103,992,754**	**71,293,418**	**316,278,466**	**1,586,863,938**
Loss on valuation	**593,079,805**	**77,622,765**	**6,656,508**	**62,117,641**	**739,476,719**
Sale of various investment property	**150,480,000**	**91,287,639**	**2,318,800**	**27,729,800**	**271,816,239**
Reclassification to property under litigation account	**43,695,000**	**-**	**-**	**-**	**43,695,000**
	1,882,554,105	**272,903,158**	**80,268,726**	**406,125,907**	**2,641,851,896**
	85,487,455,801	**11,011,093,299**	**388,068,840**	**2,218,835,962**	**99,105,453,902**

	2017 Restated				
	Big /medium ticket accounts	Cancelled DCS	Foreclosed REL/REL redeemable	GSIS owned/ unawarded lots	Total
Beginning balance – January 1, 2017	51,475,997,111	9,430,349,191	269,133,141	1,792,251,075	62,967,730,518
Additions:					
Gain on valuation	3,755,538,734	955,666,668	58,686,628	899,598,728	5,669,490,758

2017 Restated					
	Big /medium ticket accounts	Cancelled DCS	Foreclosed REL/REL redeemable	GSIS owned/ unawarded lots	Total
SL reclassification/ unitization of accounts	1,423,731,442	-	7,256,879	-	1,430,988,321
	5,179,270,176	955,666,668	65,943,507	899,598,728	7,100,479,079
Deductions:					
Loss on valuation	1,929,318,742	141,136,129	13,308,847	76,077,083	2,159,840,801
SL reclassification/ unitization of accounts	596,678,019	10,641,800	4,641,879	819,026,624	1,430,988,322
Sale of various investment property	23,844,100	43,010,091	-	1,320,000	68,174,191
	2,549,840,861	194,788,020	17,950,726	896,423,707	3,659,003,314
	54,105,426,426	10,191,227,839	317,125,922	1,795,426,096	66,409,206,283

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

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

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

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

An investment property is reclassified to: (1) big tickets; (2) medium tickets; (3) cancelled DCS; (4) foreclosed REL; (5) REL redeemable; and (6) GSIS owned if its value increases or decreases as a result of valuation, thereby changing its classification from one account to another.

The appraisal of big and medium ticket accounts in CY 2018 and CY 2017 resulting in net gain on valuation amounting to P32.882 billion and P3.510 billion, respectively, has significantly contributed to the increase in the carrying value of the investment property account at P99.105 billion in CY 2018 and 66.409 billion in CY 2017.

12. PROPERTY, PLANT AND EQUIPMENT – NET

The property, plant and equipment account consists of the following (in millions):

2018									
Particulars	**Land**	**Land improve-ments**	**Building and other structures**	**Machinery and equipment**	**Transporta-tion equip-ment**	**Furniture, fixtures and books**	**Heritage assets**	**Construc-tion in progress**	**Total**
Cost:									
January 1, 2018	**7,900**	**193**	**5,572**	**1,830**	**158**	**130**	**659**	**27**	**16,469**
Additions/acquisitions	**-**	**-**	**59**	**86**	**-**	**2**	**-**	**183**	**330**
Reclassifications	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(171)**	**(171)**

2018									
Particulars	**Land**	**Land improve-ments**	**Building and other structures**	**Machinery and equipment**	**Transporta-tion equip-ment**	**Furniture, fixtures and books**	**Heritage assets**	**Construc-tion in progress**	**Total**
Disposals	**-**	**-**	**-**	**(227)**	**(2)**	**(3)**	**-**	**-**	**(232)**
Valuation	**7,582**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,582**
December 31, 2018	**15,482**	**193**	**5,631**	**1,689**	**156**	**129**	**659**	**39**	**23,978**
Accumulated depreciation:									
January 1, 2018	**-**	**171**	**3,361**	**1,104**	**61**	**72**	**-**	**-**	**4,769**
Depreciation	**-**	**-**	**230**	**219**	**17**	**8**	**-**	**-**	**474**
Disposals	**-**	**-**	**-**	**(204)**	**(1)**	**(1)**	**-**	**-**	**(206)**
December 31, 2018	**-**	**171**	**3,591**	**1,119**	**77**	**79**	**-**	**-**	**5,037**
Net book value - December 31, 2018	**15,482**	**22**	**2,040**	**570**	**79**	**50**	**659**	**39**	**18,941**

2017 Restated									
Particulars	Land	Land Impro-vements	Building and Other Structures	Machinery and Equipment	Transporta-tion Equipment	Furniture, Fixtures and Books	Heritage Assets	Construc-tion in Progress	Total
Cost:									
January 1, 2017	7,900	193	5,548	2,275	161	119	659	71	16,926
Additions/acquisitions	-	-	24	152	-	18	-	(44)	150
Disposals	-	-	-	(597)	(3)	(7)	-	-	(607)
December 31, 2017	7,900	193	5,572	1,830	158	130	659	27	16,469
Accumulated depreciation:									
January 1, 2017	-	171	3,134	1,410	47	56	-	-	4,818
Depreciation	-	-	227	231	17	19	-	-	494
Disposals	-	-	-	(537)	(3)	(3)	-	-	(543)
December 31, 2017	-	171	3,361	1,104	61	72	-	-	4,769
Net book value - December 31, 2017	7,900	22	2,211	726	97	58	659	27	11,700

PPE with a cost of P1.684 billion and P1.901 billion as at December 31, 2018 and 2017, respectively, are fully depreciated but are still serviceable.

13. INTANGIBLE ASSETS

	2018	2017 Restated
Cost, January 1	**1,281,126,671**	1,184,175,370
Additions/acquisitions	**24,493,885**	97,108,392
Disposals	**(10,423)**	(157,091)
Adjustments	**-**	-
December 31	**1,305,610,133**	1,281,126,671
Amortization and impairment, January 1	**1,021,717,643**	882,690,267
Amortization	**116,784,965**	139,184,467
Disposals	**-**	(157,091)
December 31	**1,138,502,608**	1,021,717,643
Net book value, December 31	**167,107,525**	259,409,028

14. OTHER ASSETS

	2018	2017 Restated
Current:		
Prepayments	**10,541,012**	3,951,145
Other assets	**-**	1,100,000
Advances	**(28)**	-
	10,540,984	5,051,145

Non-current:		
Deposits	**7,285,239**	7,663,548
Prepayments	**5,062,389**	5,062,389
Other assets	**754,160,161**	708,784,211
	766,507,789	721,510,148
Accumulated impairment losses - other assets	**(21,311,884)**	(21,311,884)
	745,195,905	700,198,264

Property under litigation

Non-current other assets include property under litigation amounting to P731.748 million net of accumulated impairment losses. There were 61 properties which were previously recorded as investment property and were reclassified to Other Assets – Property Under Litigation as these accounts are either covered by the Comprehensive Agrarian Reform Program or with pending legal case.

15. FINANCIAL LIABILITIES

This account consists of the following:

	2018	2017 Restated
Payables		
Accounts payable	**6,200,670,853**	7,631,300,764
Accrued benefits payable	**3,223,870,318**	2,484,519,115
Insurance/reinsurance premium payable	**2,466,689,144**	694,611,944
Due to officers and employees	**183,787,444**	124,937,551
Financial liabilities designated at FVPL	**3,896,977,248**	3,504,897,187
	15,971,995,007	14,440,266,561

15.1 Payables

a. Accounts payable

	2018	2017 Restated
Provision for estimated GI claims	**5,213,785,965**	6,559,825,663
GI claims, losses and benefits payable	**326,866,404**	254,228,838
Other accounts payable	**660,018,484**	817,246,263
	6,200,670,853	7,631,300,764

The change in the carrying amount of provision for estimated GI claims, from P6.560 billion in CY 2017 to P5.214 billion in CY 2018, was due to the significant amount of reversal of the provision for the claims settlement of P1.360 billion for the assureds under the power and energy sector.

b. Accrued benefits payable

	2018	2017 Restated
Claims payable		
Social insurance		
Retirement	**1,836,446,985**	1,258,181,323
Life insurance	**730,144,911**	605,677,662
Pension	**272,336,327**	382,963,931
Survivorship	**120,161,886**	97,794,584
Funeral	**33,402,480**	26,306,538
Others	**97,356,068**	68,790,904
Employee compensation insurance	**109,241,050**	15,905,696
Optional life insurance	**15,957,097**	20,156,440
Pre-need insurance	**8,823,514**	8,742,037
	3,223,870,318	2,484,519,115

Accrued benefits payable pertain to various claims due to members or policyholders as at December 31, 2018, but remain unpaid as at year-end. The liabilities for claims filed but unpaid as at December 31, 2018 are based on estimated amount per type of claim per member. The difference between estimate and final amount of claims are recognized as addition to or deduction from claims expense in the period in which the claim was processed or paid.

15.2 Financial liabilities designated at FVPL

This account consists of derivative liabilities arising from the negative fair value of derivative contracts held.

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

Derivative financial instruments are initially recognized at fair value on the date on which a derivative transaction is entered into, and are subsequently remeasured at fair value. Any gains or losses arising from changes in the fair values of derivatives are recognized in profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair values of derivative contracts held are as follows:

Derivative contracts	2018	2017 Restated
Foreign exchange contracts		
Non-deliverable forwards	**(1,027,934,021)**	(980,949,727)
Deliverable forwards	**(390,303,007)**	(267,672,888)
Interest rate contracts		
Cross-currency swaps interest rate swaps, deliverable	**(1,378,974,923)**	(1,157,069,373)
Cross-currency swaps interest rate swaps, non-deliverable	**(1,099,765,297)**	(1,099,205,199)
	(3,896,977,248)	(3,504,897,187)

The increase in derivative liabilities, is due to the decrease in valuation of the combined portfolio of forwards and cross-currency swaps, settlement of derivative contracts in CY 2018, and the change in foreign exchange rate from USD1.00 to P49.930 in December 2017 to USD1.00 to P52.580 in December 2018.

As at December 31, 2018, the outstanding notional amount of GSIS currency forwards and swaps increased by P0.834 billion from P77.533 billion to P78.367 billion due to actual conversion of USD to peso and increase in the combined portfolio of forwards and cross-currency swaps. The terms to maturity of the notional amounts for derivative contracts as at December 31, 2018, are as follows:

	2018			
	Within 1 year	**1 to 5 years**	**6 to 10 years**	**Total**
Foreign exchange contracts				
Non-deliverable forwards	**21,088**	**37,257**	**-**	**58,345**
Deliverable forwards	**924**	**2,701**	**-**	**3,625**
Interest rate contracts				
Cross-currency swaps interest rate swaps, deliverable	**3,929**	**4,579**	**-**	**8,508**
Cross-currency swaps interest rate swaps, non-deliverable	**4,096**	**3,793**	**-**	**7,889**
	30,037	**48,330**	**-**	**78,367**

2017				
	Within 1 year	1 to 5 years	6 to 10 years	Total
Foreign exchange contracts				
Non deliverable forwards	21,611	27,940	-	49,551
Deliverable forwards	1,544	3,471	-	5,015
Interest rate contracts				
Cross-currency swaps interest rate swaps, deliverable	3,964	7,095	1,412	12,471
Cross-currency swaps interest rate swaps, non-deliverable	3,144	7,352	-	10,496
	30,263	45,858	1,412	77,533

16. INTER-AGENCY PAYABLES

This account consists of the following:

	2018	2017 Restated
Due to BIR	**4,477,735**	70,279,314
Due to Local Government Unit (LGU)	**863,810**	527,387
	5,341,545	70,806,701

16.1 Due to BIR

Due to BIR pertains to taxes withheld by the GSIS from its suppliers, consultants, brokers and other service providers as well as its documentary stamp tax and premium tax liabilities due for remittance to the BIR.

16.2 Due to LGUs

Due to LGUs account represents the fire service taxes payable to the City Government of Pasay.

17. DEFERRED CREDITS/UNEARNED INCOME

This account consists of the following:

	2018	2017 Restated
Unearned revenue/income		
Reserve for unearned premiums	**1,890,292,197**	1,350,953,484
Other unearned revenue/income	**50,552,613**	50,595,873
Deferred credits		
Other deferred credits	**35,456,843**	14,843,336
	1,976,301,653	1,416,392,693

17.1 Reserve for unearned premiums

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

Increase in unearned premiums was mainly due to the increase in GI production in the last half of 2018 within which rates or factors applied to compute unearned income for these periods are high.

17.2 Other unearned revenue/income

This account pertains to advance rental payments from various lessees of investment property. The amount is applied to the monthly rent due, as stated in the lease contract.

17.3 Other deferred credits

Other deferred credits include various collections (premium and loan payments) credited in the bank but not yet identified, classified and distributed. It includes premium and loan collections amounting to P35.457 million in 2018 and P14.843 million in 2017, and other payments credited in the bank but not yet booked in their respective accounts.

18. PROVISIONS

This account consists of the following:

	2018	2017 Restated
Current:		
Leave benefits payable	**830,398,823**	656,108,237
Non-current:		
Other provisions	**131,995,000**	139,200,000
	962,393,823	795,308,237

18.1 Leave benefits payable

This account represents the accrual of money value of the earned leave credits of GSIS personnel.

18.2 Other provisions

This account pertains to liabilities for cases where it is probable that the GSIS will have to settle an obligation and a reliable estimate of the amount can be made.

19. OTHER PAYABLES

This account consists of the following:

	2018	2017 Restated
Return premiums payable	**191,076,011**	254,711,772
Dividends payable	**19,876,969**	34,563,899
Other payables	**1,919,586,927**	1,344,698,560
	2,130,539,907	1,633,974,231

19.1 Return premiums payable

Return premiums payable pertain to insurance premium overpayments due mainly to rate reduction on motor car insurance.

19.2 Dividends payable

In 2018, cash dividends of P13 million were granted to GSIS OLI policyholders whose life insurance coverage have been in force for at least one year as at December 31, 2017, except for the following:

- Policies which were terminated in CY 2017 due to death, maturity, or surrender; and

- Polices which lapsed in CY 2017.

19.3 Other payables

This account includes adjustments for unreleased checks and refunds to members pertaining to loan overpayments.

20. TRUST LIABILITIES

This account consists of the following:

	2018	2017 Restated
Trust liabilities	**608,251,534**	649,978,181
Guaranty/security deposits payable	**96,317,065**	119,519,390
Trust liabilities - disaster risk reduction and management fund	**578**	578
	704,569,177	769,498,149

Trust liabilities include the amount of statutory expenses deducted from the salaries of GSIS employees due for remittance to the GSIS Provident Fund, Philippine Health Insurance Corporation and Home Development Mutual Fund.

Guaranty/security deposits payable pertains to liabilities arising from cash received by the GSIS to guaranty performance by suppliers, contractors and other service providers of the terms of the contracts entered into with the agency.

21. RETAINED EARNINGS

This account consists of the following:

	2018	2017 Restated
Appropriated		
SIF	**1,052,688,000,000**	994,275,000,000
OLIF	**13,758,000,000**	11,844,000,000
ECIF	**12,095,000,000**	8,989,000,000
GIF	**10,991,000,000**	11,520,000,000
PNF	**1,563,000,000**	1,602,000,000
PRF	**27,487,087**	27,487,087
	1,091,122,487,087	1,028,257,487,087
Unappropriated		
Beginning balance, January 1	**44,373,129,905**	34,194,499,374
Add/(deduct):		
Net income	**63,948,686,873**	94,967,245,881
Increase in appropriations	**(62,865,000,000)**	(84,784,000,000)
Dividends declared	**(13,000,000)**	(4,615,350)
	45,443,816,778	44,373,129,905
	1,136,566,303,865	1,072,630,616,992

21.1 Actuarial Reserves

a. *Actuarial estimates and valuation*

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

The amounts for appropriation from the surplus of the SIF, OLIF, PNF and ECIF are estimated by the GSIS ARMG based on certain assumptions which are in accordance with generally accepted principles of actuarial valuation.

Social Insurance Fund

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

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

Social security

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

Compulsory life

- LEP; and
- ELP.

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

	2018	2017
Old age benefits	**836,557,601,301**	772,182,771,110
Survivorship benefits	**142,194,711,983**	129,560,752,358
Policies in force	**62,298,047,542**	62,009,667,314
Disability benefits	**25,718,711,845**	22,706,497,925
Burial benefits	**6,616,021,205**	6,490,688,420
Contingencies	**1,307,758,551**	1,240,193,346
	1,074,692,852,427	994,190,570,473

Optional Life Insurance Fund

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

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

	2018	2017
Policies in force		
Optional additional and UOLI	**2,364,334,278**	2,437,553,100
CEAP	**340,755,738**	331,500,811
HIP	**80,196**	80,196
	2,705,170,212	2,769,134,107
Redemption insurance		
Consolidated loan	**10,057,421,085**	7,799,750,764
Emergency loan	**70,728,520**	70,728,520
Mortgage	**67,256,749**	212,358,247
Pension loan	**57,036,905**	46,551,999
Sales	**50,793,583**	67,724,777
Pensioners’ emergency loan	**10,989,249**	7,618,268

	2018	2017
Pensioners' restructured loan	**8,001,546**	6,692,932
eCard plus cash advance	**650,000**	600,000
	10,322,877,637	8,212,025,507
Contingencies	**729,271,639**	862,787,488
	13,757,319,488	11,843,947,102

Employees' Compensation Insurance Fund

The ECI program provides government employees and their dependents with income benefits in the event of work-connected sickness, injury or death. The benefits considered in the valuation of the amounts for appropriation from the ECIF surplus are based on the provisions of PD No. 626, as amended. The benefits are as follows:

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

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

	2018	2017
Future claims	**11,855,726,051**	8,784,631,911
Occupational safety fund	**91,542,600**	86,145,000
ECC operating fund	**68,204,400**	51,330,600
Contingencies	**63,698,646**	63,547,831
Claims pending settlement	**13,675,979**	2,335,904
Rehabilitation services	**1,710,000**	855,000
	12,094,557,676	8,988,846,246

General Insurance Fund

The IG estimates the amounts to be set aside from the surplus of the GIF to protect against potential future losses. IG adopted the new Valuation Standards for Non-Life Insurance Policy reserves per Insurance Commission (IC) Circular No. 2016-67 dated December 28, 2016 where policy reserves refer to the aggregate of premium and claims liabilities.

The estimated reserve for contingencies is the Unearned Premium Reserves (UPR) as at December 31, 2018.

The claim liabilities reserves set aside for the payment of possible future losses are estimated taking into consideration the following:

- GI claims and losses including provision for estimated claims as at December 31, 2018;

- Losses incurred but not reported (IBNR);
- Zero Margin for Adverse Deviation (MfAD), the purpose of which is to consider the variability of claims experience within a class of business, the diversification between classes of business and conservatism in the best estimate; and
- Unpaid connectivity fees for the use of Certification of Cover Verification Facility (COCVF).

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

	2018	2017
Losses	**5,579,771,345**	6,951,845,924
Contingencies	**5,410,380,115**	1,350,953,484
	10,990,151,460	8,302,799,408

Pre-need Fund

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

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

	2018	2017
Edu-child	**1,477,644,659**	1,790,467,790
Memorial	**84,133,280**	85,162,242
Health	**480,283**	960,566
	1,562,258,222	1,876,590,598

b. Legal contingencies

The appropriations for legal contingencies pertain to cases wherein there are adverse lower court or quasi-judicial court decisions against GSIS, but for which GSIS has filed an appeal and believes that the outcome will be in its favor. The amounts of P61.798 million and P3.513 billion were appropriated from the surplus of the SIF and GIF, respectively, for legal contingencies.

21.2 Appropriated Surplus

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

GSIS records increase in appropriated surplus to the extent that can be covered by the accumulated earnings of each Fund.

Social Insurance Fund

The amounts appropriated for the SIF are as follows:

	2018	2017 Restated
Old age benefits	**818,883,000,000**	772,183,000,000
Survivorship benefits	**138,724,760,000**	129,560,760,000
Policies in force	**62,300,000,000**	62,009,868,000
Disability benefits	**24,892,000,000**	22,707,000,000
Burial benefits	**6,581,700,000**	6,490,689,000
Contingencies	**1,306,540,000**	1,323,683,000
	1,052,688,000,000	994,275,000,000

Optional Life Insurance Fund

The amounts appropriated for the OLIF are as follows:

	2018	2017 Restated
Policies in force		
Optional additional and UOLI	**2,364,400,000**	2,437,560,000
CEAP	**340,800,000**	331,509,000
HIP	**81,000**	81,000
	2,705,281,000	2,769,150,000
Redemption insurance		
Conso-loan	**10,057,500,000**	7,799,760,000
Emergency loan	**70,800,000**	70,730,000
Mortgage	**67,500,000**	212,360,000
Pension loan	**57,100,000**	46,560,000
Sales	**50,800,000**	67,730,000
Pensioners' emergency loan	**11,000,000**	7,620,000
Pensioners' restructured loan	**8,004,000**	6,700,000
eCard cash plus advance	**650,000**	600,000
	10,323,354,000	8,212,060,000
Contingencies	**729,365,000**	862,790,000
	13,758,000,000	11,844,000,000

Employees' Compensation Insurance Fund

The amounts appropriated for the ECIF are as follows:

	2018	2017 Restated
Future claims	**11,856,000,000**	8,784,700,000
Occupational safety fund	**92,200,000**	86,145,000

	2018	2017 Restated
ECC operating fund	**68,300,000**	51,350,000
Contingencies - ECIF	**64,000,000**	63,600,000
Claims pending settlement	**12,700,000**	2,350,000
Rehabilitation services	**1,800,000**	855,000
	12,095,000,000	8,989,000,000

General Insurance Fund

The amounts appropriated for the GIF are as follows:

	2018	2017 Restated
Losses	**5,580,000,000**	6,952,000,000
Contingencies	**5,411,000,000**	4,568,000,000
	10,991,000,000	11,520,000,000

Pre-need Fund

The amounts appropriated for the PNF are as follows:

	2018	2017 Restated
Edu-child	**1,478,300,000**	1,591,290,000
Memorial	**84,200,000**	9,900,000
Health	**500,000**	810,000
	1,563,000,000	1,602,000,000

Property Replacement Fund

The PRF balance of P27.487 million in CY 2018 and CY 2017 represents the amount appropriated and remitted by the National Government for the restoration of damaged government property.

22. SERVICE AND BUSINESS INCOME

This account is composed of the following:

	2018	2017 Restated
Business income		
Members' contribution	**115,084,168,985**	101,810,919,959
Interest income	**49,750,072,708**	48,194,675,334
Insurance/reinsurance premium	**5,576,641,182**	5,212,824,752
Dividend income	**3,991,558,747**	3,508,012,297
Fines and penalties-business income	**861,038,345**	635,121,120
Rent/lease income	**496,853,745**	495,034,464

	2018	2017 Restated
Share in the profit/revenue of associates/ affiliates	**95,475,566**	86,362,075
Other business income	**2,218,300,204**	2,095,015,302
	178,074,109,482	162,037,965,303
Service income		
Fees and commissions income	**380,080,609**	529,451,184
Other service income	**771,707**	937,308
	380,852,316	530,388,492
	178,454,961,798	162,568,353,795

22.1 Members' contribution

	2018	2017 Restated
Social insurance contributions	**110,975,127,295**	97,940,417,909
Employee compensation insurance premium	**2,592,885,697**	2,480,311,226
Optional insurance premium	**1,516,155,993**	1,382,322,178
Pre-need insurance premium	**-**	7,868,646
	115,084,168,985	101,810,919,959

22.2 Interest income

	2018	2017 Restated
Interest on loans		
Consolidated loan	**21,037,168,165**	18,470,086,917
Policy loans	**1,437,458,535**	1,498,130,093
Emergency/calamity loans	**1,086,474,667**	1,174,590,472
Home emergency loan program	**432,178,373**	502,996,769
Salary loans	**366,940,930**	412,793,246
Interest on GFAL	**319,293,269**	-
Pension loan	**242,808,393**	223,604,292
Educational assistance fund program loan	**208,700,205**	145,717,971
Real estate loans	**147,428,111**	234,580,558
Deeds of conditional sale	**79,747,455**	146,638,497
Ecard/ecard plus cash advance loan	**37,866,953**	48,584,747
Pensioners' restructured loan	**27,077,701**	21,422,345
Emergency loan assistance	**20,888,510**	26,137,867
SOS loan	**20,605,473**	26,144,857
Pensioners' emergency loan	**17,342,658**	17,600,535
Stock purchase loan	**2,721,542**	7,252,234
Educational assistance loan	**2,110,774**	2,734,890
Interest on fly PAL loan	**145,536**	322,335

	2018	2017 Restated
Private loans	**50,635**	52,746,893
	25,487,007,885	23,012,085,518
Interest on financial assets		
ROP notes and bonds	**18,775,348,654**	21,255,547,996
Corporate bonds	**4,478,219,220**	2,998,678,342
Time deposits	**481,749,347**	563,753,727
Treasury bills	**310,162,961**	-
Global peso notes	**209,407,645**	355,580,643
	24,254,887,827	25,173,560,708
Other interest income		
Premium arrearages	**8,176,996**	9,029,108
	8,176,996	9,029,108
	49,750,072,708	48,194,675,334

22.3 Rent/lease income

	2018	2017 Restated
Rent income from investment property	**334,092,861**	329,890,454
Rent income from PPE	**162,760,884**	165,144,010
	496,853,745	495,034,464

23. GAINS

	2018	2017 Restated
Gain on foreign exchange	**72,523,895,946**	6,378,744,134
Gain from changes in fair value of financial instruments	**53,254,855,270**	97,810,380,882
Gain from changes in fair value of investment property	**33,620,592,321**	5,669,490,722
Gain on sale/redemption/transfer of investments	**3,894,895,126**	2,001,300,820
Gain on sale of investment property	**4,605,220**	4,605,310
Gain on sale of PPE	**60,458**	136,909
	163,298,904,341	111,864,658,777

24. OTHER NON-OPERATING INCOME

	2018	2017 Restated
Reversal of impairment loss	**6,142,599,313**	20,549,185
Miscellaneous income	**348,743,345**	986,232,392
Sale of unserviceable property	**4,694,176**	4,736,237
	6,496,036,834	1,011,517,814

25. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2018	2017 Restated
Members' benefits	**104,424,911,319**	93,338,608,258
General services	**247,488,793**	223,365,513
Repairs and maintenance	**240,942,538**	241,083,918
Utility expenses	**166,699,085**	157,730,920
Communication expenses	**122,185,933**	156,372,230
Supplies and materials expense	**95,521,309**	97,559,001
Taxes, insurance premiums and other fees	**72,493,930**	188,903,369
Training and scholarship expenses	**63,195,403**	88,328,181
Professional services	**54,134,872**	56,276,139
Traveling expenses	**35,934,703**	33,442,215
Labor and wages	**570,038**	855,025
Other maintenance and operating expenses	**3,901,269,338**	4,127,586,775
	109,425,347,261	98,710,111,544

25.1 Members' benefits

	2018	2017 Restated
Claims and benefits		
Social insurance	**102,899,794,976**	91,975,682,440
Optional life insurance	**948,097,574**	928,246,012
Employee compensation insurance	**434,964,497**	220,846,378
Pre-need insurance	**142,054,272**	213,833,428
	104,424,911,319	93,338,608,258

25.2 General services

	2018	2017 Restated
Security services	**175,958,907**	159,796,740
Janitorial services	**69,871,086**	62,362,802
Environment/sanitary services	**453,400**	421,315
Other general services	**1,205,400**	784,656
	247,488,793	223,365,513

25.3 Repairs and maintenance

	2018	2017 Restated
Machinery and equipment	**208,948,368**	205,245,923
Buildings and other structures	**23,315,062**	27,790,464

	2018	2017 Restated
Transportation equipment	**6,337,852**	6,364,021
Furniture and fixtures	**2,341,256**	1,683,510
	240,942,538	241,083,918

25.4 Utility expenses

	2018	2017 Restated
Electricity expenses	**152,504,493**	141,885,924
Water expenses	**14,194,592**	15,844,996
	166,699,085	157,730,920

25.5 Communication expenses

	2018	2017 Restated
Postage and courier services	**80,730,490**	85,864,903
Telephone expenses	**31,397,891**	44,317,859
Internet subscription expenses	**9,461,005**	25,575,697
Cable, satellite, telegraph and radio expenses	**596,547**	613,771
	122,185,933	156,372,230

25.6 Supplies and materials expense

	2018	2017 Restated
Office supplies expenses	**77,201,398**	80,972,619
Fuel, oil and lubricants expenses	**12,002,779**	9,309,619
Medical, dental and laboratory supplies expenses	**865,396**	385,722
Semi-expendable furniture, fixtures and books expenses	**234,103**	148,294
Other supplies and materials expenses	**5,217,633**	6,742,747
	95,521,309	97,559,001

25.7 Taxes, insurance premiums and other fees

	2018	2017 Restated
Insurance expenses	**57,834,066**	129,346,423
Fidelity bond premiums	**14,243,055**	14,583,384
Taxes, duties and licenses	**416,809**	44,973,562
	72,493,930	188,903,369

25.8 Training and scholarship expenses

Training and scholarship expenses consist of training expenses amounting to P63.195 million and P88.328 million in 2018 and 2017, respectively.

25.9 Professional services

	2018	2017 Restated
Auditing services	**50,999,186**	49,987,147
Consultancy services	**3,135,686**	6,288,992
	54,134,872	56,276,139

25.10 Traveling expenses

	2018	2017 Restated
Traveling expenses-local	**35,751,736**	33,442,215
Traveling expenses-foreign	**182,967**	-
	35,934,703	33,442,215

25.11 Labor and wages

Labor and wages consist of expenses on internship program representing allowances for student trainees amounting to P570,038 and P855,025 in 2018 and 2017, respectively.

25.12 Other maintenance and operating expenses

	2018	2017 Restated
Underwriting expenses	**2,557,439,601**	2,820,889,971
Crop/non-crop insurance benefits	**804,040,376**	628,747,961
Fees and commission expenses	**311,255,055**	379,273,465
Rent/lease expenses	**63,710,839**	58,913,733
Litigation/acquired assets expenses	**54,046,083**	73,247,507
Advertising, promotional and marketing expenses	**52,505,060**	106,728,065
Major events and conventions expenses	**22,781,591**	26,021,087
Directors and committee members' fees	**12,776,000**	11,872,853
Representation expenses	**5,650,198**	7,211,350
Membership dues and contributions to organizations	**2,813,340**	2,801,766
Donations	**1,250,501**	-
Subscription expenses	**824,619**	755,373
Other maintenance and operating expenses	**12,176,075**	11,123,644
	3,901,269,338	4,127,586,775

26. PERSONNEL SERVICES

This account consists of the following:

	2018	2017 Restated
Salaries and wages	**2,029,237,629**	1,475,541,032
Other compensation	**1,592,603,583**	1,353,757,465
Personnel benefit contributions	**1,103,778,089**	813,998,596
Other personnel benefits	**343,731,933**	102,208,520
	5,069,351,234	3,745,505,613

26.1 Salaries and wages

	2018	2017 Restated
Salaries and wages - regular	**1,899,045,182**	1,394,825,893
Salaries and wages - casual/contractual	**130,192,447**	80,715,139
	2,029,237,629	1,475,541,032

26.2 Other compensation

	2018	2017 Restated
Year end bonus	**157,177,651**	247,531,165
Overtime and night pay	**133,150,286**	111,375,576
Personnel economic relief allowance	**112,282,446**	111,175,590
Representation allowance	**43,076,561**	42,493,399
Transportation allowance	**29,487,263**	29,224,401
Clothing/uniform allowance	**15,990,000**	21,568,000
Cash gift	**13,453,750**	13,501,000
Longevity pay	**9,288,897**	8,979,654
Hazard pay	**687,527**	707,215
Subsistence allowance	**113,779**	117,180
Laundry allowance	**40,636**	41,850
Other bonuses and allowances	**1,077,854,787**	767,042,435
	1,592,603,583	1,353,757,465

26.3 Personnel benefit contributions

	2018	2017 Restated
Provident/welfare fund contributions	**853,777,627**	626,897,274
Retirement and life insurance premiums	**227,625,081**	168,289,959
PhilHealth contributions	**15,943,028**	12,355,813
Pag-IBIG contributions	**3,220,498**	3,233,981
ECI premiums	**3,211,855**	3,221,569
	1,103,778,089	813,998,596

26.4 Other personnel benefits

	2018	2017 Restated
Terminal leave benefits	**274,395,964**	33,824,488
Retirement gratuity	**1,280,000**	1,300,000
Other personnel benefits	**68,055,969**	67,084,032
	343,731,933	102,208,520

27. FINANCIAL EXPENSES

Financial expenses consist of other financial charges which include expenses and other fees pertaining to investments such as broker's commission, charges for foreign currency transactions and Philippine Depository and Trust Corporation (PDTC) fees. As at December 31, 2018 and 2017, other financial charges amount to P103.287 million and P123.143 million, respectively.

28. NON-CASH EXPENSES

This account consists of the following:

	2018	2017 Restated
Losses	**155,299,064,304**	78,068,062,572
Impairment loss	**13,736,932,237**	(883,856,154)
Depreciation	**474,384,526**	494,381,312
Amortization	**116,784,964**	139,184,467
	169,627,166,031	77,817,772,197

28.1 Losses

	2018	2017 Restated
Loss from changes in fair value of financial instruments	**82,500,179,922**	66,166,029,937
Loss on foreign exchange	**66,365,041,696**	6,280,154,191
Loss on sale/redemption/transfer of investments	**5,694,365,967**	3,461,900,769
Loss from changes in fair value of investment property	**739,476,719**	2,159,840,766
Loss on sale of PPE	**-**	136,909
	155,299,064,304	78,068,062,572

28.2 Impairment loss

	2018	2017 Restated
Loans and receivables	**13,610,966,698**	(1,148,638,826)
PPE	**22,066,782**	61,371,330
Other investments	**18,286,476**	-
Other receivables	**85,612,281**	203,411,342
	13,736,932,237	(883,856,154)

28.3 Depreciation

	2018	2017 Restated
Buildings and other structures	**229,608,312**	227,363,509
Machinery and equipment	**219,010,344**	230,845,422
Transportation equipment	**17,216,979**	17,216,978
Furniture, fixtures and books	**8,218,101**	18,620,113
Land improvements	**330,790**	335,290
	474,384,526	494,381,312

28.4 Amortization

Amortization includes amortization of intangible assets amounting to P116.785 million and P139.184 million in 2018 and 2017, respectively.

29. FINANCIAL ASSISTANCE/SUBSIDY/CONTRIBUTION

This account includes the GSIS share in the ECC and Occupational Safety and Health Center (OSHC) budget for the year as approved by the DBM amounting to P76.065 million and P80.752 million in CY 2018 and CY 2017, respectively.

30. OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD

	2018	2017 Restated
Changes in fair value of investments		
Externally managed funds	**1,804,995,983**	-
Treasury bills	**2,881,069**	-
Stocks-non-traded	**-**	3,701,278
Share in other comprehensive income of associates	**(158,790,936)**	-
Global peso notes	**(450,320,688)**	-
Corporate bonds	**(7,959,965,126)**	-
ROP notes and bonds	**(33,064,788,215)**	-
	(39,825,987,913)	3,701,278

	2018	2017 Restated
Revaluation surplus	**7,581,712,500**	-
	(32,244,275,413)	3,701,278

In CY 2018, the GSIS reclassified its various debt instruments into FVOCI category wherein gains or losses resulting from changes in fair value are recognized in other comprehensive income (OCI). Any interest income, foreign exchange gains/losses and impairment are recognized immediately in profit or loss. Changes in fair value that have been recognized in OCI are recycled to profit or loss upon disposal of the debt instrument.

Revaluation surplus amounting to P7.582 billion pertains to the appraisal of land for CY 2018 conducted by independent appraiser. Valuation was done through the use of the generally accepted Market Data or Comparative Approach to Value. In this approach, the value of the property is based on sales and listings of comparable property registered within the vicinity and takes into account the highest and best use. The technique of this approach requires the establishment of comparable property by reducing comparative sales and listings to a common denominator with the subject. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. Comparisons were premised on the factors of location, land use, physical characteristics of the land, marketability and time element.

31. RELATED PARTY DISCLOSURE

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities.

31.1 Compensation of key management personnel

The key management personnel refers to the executive team, with the rank of Vice President and up, PGM. These individuals have the authority and responsibility for planning, directing, and controlling the activities of the System. The aggregate compensation to the executive officers and BOTs for CYs 2018 and 2017, are as follows:

	2018	2017 Restated
Salaries and wages	**122,337,535**	75,583,023
Other benefits	**66,840,252**	41,988,209
Retirement costs	**14,027,926**	4,499,176
	203,205,713	122,070,408

31.2 Other related party transaction

The System held direct ownership of 25.73 per cent of the outstanding common shares of the National Reinsurance Corporation of the Philippines (NRCP) and has three board seats in the latter. In CYs 2018 and 2017, the transaction with betweent the System and NRCP are the following:

	2018	2017 Restated
Loss recoveries collected	**1,363,915**	-
Loss recoveries	**1,224,882**	24,479,820
Losses incurred	**-**	33,870,811
Losses paid	**-**	1,090,297
	2,588,797	59,440,928

32. COMMITMENTS

32.1 Operating lease commitments – GSIS as lessee

GSIS has a total of 16 operating lease commitments for office space, six of which are expiring in CY 2019, three in CY 2020 and seven in CY 2021. All contracts of lease entered into with GSIS as lessee may be pre-terminated at any time by giving a 60-day prior written notice to the adverse party. Other lease agreements are renewed on a year to year basis.

As at December 31, 2018, the expected rental expenses on these operating lease commitments are as follows:

Due	Amount
Within one year	29,694,318
After one year	43,587,531

Operating lease commitments were also entered into by the GSIS for the rental of office equipment with eight contractors, seven of which are expiring in CY 2019 and one in CY 2021 having a total contract price of P4.030 million.

The GSIS has also entered into a lease contract on October 26, 2017 with a shuttle bus company to provide three units of shuttle buses for the GSIS Head Office to improve the efficiency of its operation and delivery of services to its members. The total contract price is P12.294 million for a period of 20 months which is subject to yearly performance evaluation/assessment to ensure satisfactory level of performance in maintenance throughout the term of the contract.

Rental expense recognized under “Other maintenance and operating expenses” amounted to P63.711 million in CY 2018 and P58.914 million in CY 2017 (see Note 25.12).

32.2 Operating lease commitments – GSIS as lessor

GSIS has entered into several commercial property leases on its property. These leases have terms of one to 25 years. The lessees of these property consist of private and government entities. The investment property account has 11 property under lease with 26 existing contracts while the property and equipment account has two property under lease with seven existing contracts.

Minimum rental receivables for PPE under operating leases as at December 31, 2018 and 2017 are as follows:

Due	**2018**	2017
Within one year	**168,189,128**	164,649,330
After one year but not more than five years	**77,686,658**	215,714,949

Rental income from PPE amounted to P162.761 million in CY 2018 and P165.144 million in CY 2017 (see Note 22.3).

Meanwhile, minimum and maximum rentals for investment property under operating leases as at December 31, 2018 are as follows:

	Minimum	Maximum
Less than one year to one year	100,000	6,780,678
More than one year to five years	827,066	27,873,627
More than five years	398,750	107,130,175

Rental income from investment property amounted to P334.093 million in 2018 and P329.890 million in CY 2017 (see Note 22.3).

33. ADMINISTRATIVE EXPENSE LOADING

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

For CY 2018, the administrative expense loading of the SIF is 3.65 per cent of the total income net of investment expenses, which is below the allowable limit of 12 per cent.

34. GSIS FEES AND COMMISSIONS

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

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

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

35. RESTATEMENTS

Below is the summary of the financial impact of the restatement of the 2017 financial statements:

Prior period adjustments	Income	Expenses	Assets	Liabilities	Equity
Adjustment due to continuous cleansing of migrated balances of various member-related accounts	-	-	(5,750,881,784)	(793,997)	(5,750,087,787)
Adjustment due to to the imposition of penalties and surcharges for past due accounts on service loans	-	-	13,029,904,376	-	13,029,904,376
Adjustment on impairment losses due to the implementation of ECL, the new impairment model for financial assets under PFRS 9	-	-	(11,447,268,879)	-	(11,447,268,879)
Adjustment on impairment of interest receivable from MOA with DBM (previously classified as non-admitted assets)	-	-	(21,230,247,147)	-	(21,230,247,147)
Reversal of–accrued milestone benefit for old age pensioners who were suspended and/or unlocated at the time of granting	-	-	-	(60,460,000)	60,460,000
Reversal of prior years' interest income on housing loan accounts which are accrued in excess of six months and other adjustments due to cleansing	65,633,273	(710,074)	212,850,833	-	212,850,833
Adjustments made to close the loan account of borrower and set up the deficiency claims receivable	-	-	1,089,306,623	-	1,089,306,623
Compliance with COA recommendation for the reclassification and adjustment of non-admitted assets and contingent income to admitted assets	211,051,163	-	473,255,869	-	473,255,869
Adjustment of newly discovered GSIS property with pending litigation due to cleansing of account	-	-	142,230,476	-	142,230,476
Adjustment/reversal pertaining to cancelled checks issued in prior years	-	(5,110,400)	(56,724)	(6,155,271)	6,098,547

Prior period adjustments	Income	Expenses	Assets	Liabilities	Equity
Adjustment on prior year's interest on Multi-window loans and closing of Private loan	56,654,570	-	56,053,188	-	56,053,188
Adjustment made to record the loss on sale of subsidiary	(551,257)	-	-	551,257	(551,257)
Adjustment on prior year's rental income	(359,389)	-	(359,389)	-	(359,389)
Adjustments/reversal due to cleansing of accounts payable/receivable pertaining to long outstanding accounts	27,600	-	(197,856)	(265,900)	68,044
Adjustment due to cleansing of Investment property accounts, retirement/inclusion from restructuring, full payment or sale, forfeiture of bid deposits	638,600	-	137,630,927	(5,435,591)	143,066,518
Reversal of prior years' Income from Investment in Stocks held at FVPL and recognition of Income from investment in Associates due to change in accounting policy-Changes in Investment accounts resulted from reclassification to Investment in associates under PAS 28 previously classified as Stocks held at FVPL under PFRS 9	(74,856,288)	-	15,335,414	-	15,335,414
Adjustment on estimated reinsurer's share on losses which should have been adjusted in prior years when the adjusters report became available	-	-	(714,896,793)	-	(714,896,793)
Adjustment for the payment of back wages/salaries in compliance with a Supreme Court decision	-	2,599,342	-	28,355,272	(28,355,272)
Adjustments made in relation to COA-AOM 2016 GDAS-005 on inventory	-	-	64,301,518	-	64,301,518
	258,238,272	**(3,221,132)**	**(23,923,039,348)**	**(44,204,230)**	**(23,878,835,118)**

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.

On December 19, 2017, the President of the Philippines signed into law the Tax Reform for Acceleration and Inclusion (TRAIN) Act or R.A. No. 10963, which effectively repealed

54 provisions on Value-Added Tax (VAT) exemption and zero-rating under special laws, including that of the GSIS. The law was made effective January 1, 2018.

37. COMPLIANCE WITH REVENUE REGULATIONS

In compliance with the requirements set forth by Revenue Regulation (RR) No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year (TY) 2017.

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

Withholding taxes

	2018	2017
Tax on compensation and benefits	**654,961,348**	483,508,033
VAT	**71,199,511**	70,763,032
Expanded withholding taxes (EWT)	**58,805,503**	52,054,092
Final taxes	**3,655,299**	3,084,609
	788,621,661	609,409,766

Of the P788.622 million withholding taxes accrued in CY 2018, P680.496 million was remitted within the year. Taxes withheld for the month of December 2018 in the amount of P108.126 million were remitted in January 2019.

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

In July 2017, the GSIS has started withholding Documentary Stamp Taxes (DST) on non-life insurance policies and remitted to BIR a total of P159.505 million and P249.917 million for the TY 2018 and TY 2017, respectively.

The table below shows the taxes paid and accrued relating to investment property, non-life insurance policies, and the remittance pertaining to BIR annual registration fees:

	2018	2017
National		
DST	**160,974,194**	252,772,502
Capital gains taxes	**5,620,367**	10,486,481
Transfer taxes	**461,594**	349,423
BIR annual registration	**28,000**	28,000
Local		
Real estate taxes	**132,844**	446,582
	167,216,999	264,082,988

Of the P167.217 million accrued taxes and fees payable, P163.596 million was remitted in CY 2018.

On January 5, 2017, the OP rendered its decision on OP Case No. 07-D-139 (formerly OSJ Case No. 2004-11) upholding the Department of Justice's (DOJ) Decision declaring that while GSIS is not personally liable for the DST, it is constituted as a withholding agent for the collection and remittance of tax; and ordering the BIR to conduct a new assessment of the DST. A motion for Partial Reconsideration of the OP's Decision was filed on January 25, 2017.

The BIR issued tax clearance under OCN3TC0000019138 BIR form No. 2324 dated September 26, 2017 certifying that GSIS has been cleared/no outstanding tax liabilities for the TY 2013.

During CY 2018, GSIS was issued three Letter of Authorities (LOAs) from the BIR: (1) LOA No. AUDR01/020490/2018 dated June 6, 2018 for TY 2015; (2) LOA No. AUDR01/019039/2018 dated May 9, 2018 for TY 2016; and (3) LOA No. AUDR01/020493/2018 dated June 6, 2018 for TY 2017.

On October 19, 2018, the GSIS received the Preliminary Assessment Notice (PAN) dated October 17, 2018. Pursuant to Section 228 of the Tax Code and its IRR, the GSIS is granted 15 days from receipt of the PAN, or until November 5, 2018 to file its written Reply. On October 31, 2018, the GSIS filed its Reply to the PAN through registered mail, copy of which was personally delivered to BIR Main Office on November 5, 2018.

On November 9, 2018, the GSIS received the Formal Letter of Demand (FLD) dated November 8, 2018. In accordance with the provisions of RR No. 18-2013, a protest letter to FLD was filed together, with the supporting documents, on December 7, 2018.

At this stage of BIR audit, no reliable estimate can be made of the amount of the obligation.

38. STATUS OF LAWSUITS

The System is involved as a defendant in several lawsuits pending for resolution that could materially affect its financial position. Among these lawsuits are the following:

Description	Pecuniary amount or liability involved	Status (As at March 31, 2019)
Appeal on the Complaint for Collection of Sum of Money	3.500 billion	A Petition for Review before the Supreme Court (SC) is pending decision/resolution.
Complaint for reformation of contract and damages with prayer for temporary restraining order (TRO) and writ of preliminary injunction filed	134 million	GSIS elevated the Court of Appeals (CA) Decision to the SC because the award in its favour was deleted and that GSIS is entitled to liquidated damages. The adverse party likewise filed a Petition for Review before the SC. On April 4, 2018, GSIS filed a Motion to

Description	Pecuniary amount or liability involved	Status (As at March 31, 2019)
		Resolve the Case. The same was noted by the SC in its Resolution dated June 6, 2018.
Reconveyance of real estate filed by by the adverse party against GSIS for reconveyance of 78 lots in Pasig City that were illegally foreclosed by GSIS	116 million	Pending resolution of the opposing party's Motion for Execution.
Complaint for rescission of contract, damages and injunction with prayer for issuance of TRO filed by the opposing party, et al. against GSIS and another individual	73 million (Las Pinas properties and Makati City property)	A Petition for Review was filed by GSIS on March 10, 2016 before the SC. The adverse party also filed a Petition before the SC and later consolidated. The cases are still pending with the SC.

Other lawsuits of which the System is a party are the 67 civil cases, 38 land registration cases, 15 HLURB cases, and 38 other administrative cases which includes one disputed BIR final assessment against GSIS on Documentary Stamp Taxes for CY 2000 filed before the Office of the President.