GOVERNMENT SERVICE INSURANCE SYSTEM
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL INFORMATION

The Government Service Insurance System (GSIS) is a government financial institution, organized and created to administer the System's funds and implement the laws that govern the social security and insurance benefits of all government employees. The official address of its Home Office is at the Government Financial Center, Roxas Boulevard, Pasay City. GSIS has 16 Regional Offices, 25 Branch Offices, and 18 Satellite Offices strategically located in various cities and municipalities in the country.

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

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

Pursuant to Section 34 of RA 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 8291. In addition, the GSIS shall administer the Optional Insurance Fund for the insurance coverage described in Section 26 hereof, the Employees' Compensation Insurance Fund created under PD No. 626, as amended, the General Insurance Fund created under Act No. 656, as amended, and such other special funds existing or that may be created for special groups or persons rendering services to the government.

The accompanying consolidated financial statements of the GSIS were signed by the GSIS management represented by the President and General Manager and the Senior Vice President – Controller Group on March 29, 2012.

2. BASIS OF PREPARATION

2.1 <u>Statement of compliance</u>

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

2.2 Basis of measurement

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

- Financial assets at fair value through profit or loss (FVPL) are measured at fair value;
- Financial assets classified as available-for-sale (AFS) are measured at fair value;
- Investment property accounts are measured at fair value; and
- Land under property and equipment is measured at revalued amount.

2.3 Functional and presentation currency

The financial statements are presented in Philippine Peso, which is the System's functional currency. All amounts are rounded to the nearest peso.

2.4 Use of judgments and estimates

The preparation of the financial statements in conformity with IFRS 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only or the period of the change and future periods, if the change affects both.

Judgments

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

a. Operating leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date or whether the fulfillment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset.

- GSIS as lessee

Leases which do not transfer to the GSIS substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense on a straight-line basis over the lease term.

- GSIS as lessor

Leases where the System does not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as rental income on a straight-line basis over the lease term.

b. Contingencies

The GSIS is currently involved as a defendant in various legal proceedings. The estimate of the probable losses from the resolution of these legal claims has been developed in consultation with the legal counsels handling these matters and is based upon an analysis of potential results. The System has recognized provisions for probable and estimable losses that are expected to be incurred in connection with these litigations.

Estimates and assumptions

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

a. Impairment of AFS securities

The System classifies certain financial assets as AFS securities and recognizes movements in their fair values as other comprehensive income.

When the fair value of certain AFS securities declines, management makes assumptions to determine whether it is an objective evidence of impairment. The net unrealized loss previously reported as part of equity is recognized in profit and loss when there is an objective evidence of impairment evidenced by deterioration in the financial health, industry and sector performance and operational and financing cash flows of the investee.

The System treats AFS equity securities as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" generally is 20 per cent or more of the original cost of the investment, and "prolonged," if it is greater than six months. As at December 31, 2011 and 2010, the GSIS has not recognized any impairment loss on AFS securities.

b. Impairment and credit losses on loans and receivables

The System considers evidence of impairment for loans and receivables. In assessing impairment, the System uses historical trends to determine probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment to consider the prevailing economic conditions.

3. BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the GSIS and its subsidiaries as at December 31, 2011. Subsidiaries are consolidated from the date on which control is transferred to the Group and ceased to be consolidated from the date on which control is transferred out of the Group. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The following steps as specified in International Accounting Standards (IAS) 27 were applied in the consolidation process:

- The carrying amount of GSIS' investment in each subsidiary and the GSIS portion of equity of each subsidiary are eliminated;

- Intra-group balances, transactions, income and expenses are eliminated in full;

- The accounts for both GSIS and those of the subsidiaries were combined line by line by adding together like items of assets, liabilities, equity, income and expenses;

- Minority interests in the profit or loss of consolidated subsidiaries for the reporting period are identified; and

- Minority interests in the net assets of consolidated subsidiaries are identified separately from the GSIS' net assets.

In view of the lack of activity in GSIS Properties, Inc. (GPI), the GSIS Board of Trustees in its Resolution No. 188 dated December 8, 2010, approved the dissolution of GPI. Moreover, the total share of GSIS with Meat Packing Corporation of the Philippines (MPCP) was purchased by Consolidated Prime Development Corporation in 2011.

Thus, as at December 31, 2011, the consolidated financial statements only include GSIS Family Bank having a GSIS ownership of 99.55 per cent.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Financial instruments

a. Date of recognition

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

b. Initial recognition of financial instruments

Financial instruments are recognized initially at 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 fair value through profit or loss (FVPL), includes transaction costs.

c. Classification of financial instruments

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

- Financial assets at FVPL

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

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

- HTM financial assets

These are non derivative financial assets with fixed or determinable payments and fixed maturity for which there is the positive intention and ability to hold the financial assets to maturity. Such assets are carried at amortized cost using the effective interest method.

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

- AFS financial assets

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

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

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

- Loans and receivables

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

d. Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting arrangements, and the related assets and liabilities are presented at gross in the statement of financial position.

4.2 Cash and cash equivalents

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

4.3 Premiums and loans receivable

This represents receivable arising from unremitted members' contribution and other premiums already due but not yet collected. Loans receivable are based on outstanding balance.

Premiums receivable

- Social insurance

This represents members' contributions held by different government agencies to be remitted to GSIS. Pursuant to Section 5 of RA 8291, it shall be mandatory for all the covered members of the GSIS to pay monthly contributions based on the members' Monthly Compensation (MC), as follows: nine per cent thereof payable by the member and 12 per cent payable by the employer.

- Optional life insurance

Optional life insurance premiums receivable represents uncollected premiums on various life insurance contracts written by the GSIS.

- General insurance

This represents uncollected premiums on non-life insurance policy contracts covering various government properties insured with the GSIS. Pursuant to Section 5 of Republic

Act No. 656 (otherwise known as the “Property Insurance Fund”; enacted on June 15, 1951), every government unit, except municipalities below first class, is required to insure its properties with the Property Fund against any insurable risk therein provided and pay the premiums thereon which shall not exceed the premiums charged by private insurance companies.

- Pre-need insurance

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

- Employees compensation insurance

The Board of Trustees in its Resolution No. 25 dated January 27, 2011, approved the change in the accounting for Employees’ Compensation (EC) Premium Contributions from cash to accrual basis in compliance with COA audit recommendation to readily recognize in the books the mandatory contributions as EC premium receivable as they become due and demandable from the employers. This will help decision-makers evaluate the previous, current as well as future events and transactions affecting the EC Fund.

4.4 Derivative instruments

Effective June 1, 2010, the GSIS is counterparty to derivative contracts, such as forward transactions and foreign exchange swaps. The GSIS engage in foreign exchange and other cash or derivative financial transactions on a deliverable or non-deliverable basis for the purpose of enhancing returns or hedging unwanted risks. Derivative instruments are carried on the balance sheet of GSIS at fair value. Any gains or losses arising from changes in 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.

For the purpose of hedge accounting, hedges are classified primarily as either; a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge).

The GSIS did not apply hedge accounting for its derivatives transactions.

4.5 Investment in subsidiary

Investment in subsidiary is accounted for by using the equity method whereby the investment is initially recorded at cost. Subsequently, the carrying value of investment is increased or decreased by the share in the net increase/decrease in the net assets of the subsidiary. All dividends received are recorded as a reduction of the carrying value of the investment. However, consolidated financial statements of the group are also being prepared.

4.6 Investment in joint venture

The GSIS has an interest in a joint venture which is a jointly controlled entity. A joint venture is a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest. The GSIS recognizes its interest in the joint venture using equity method of accounting. The interest in the joint venture is carried in the GSIS' share of the net assets of the joint venture, less any impairment in value.

4.7 Investment property

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

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

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

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

4.8 Property and equipment

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

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

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

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

Asset Class	Useful Life Year/Period
Land improvements	10
Building and building improvements	30
IT resources-hardware components	5
IT resources-peripheral devices and auxiliary equipment	5
IT resources-software components and databases	5
IT resources-leasehold	5
Furniture and fixtures	10
Office equipment	5
Ordinance (firearms)	10
Medical equipment	10
Dental equipment	10
Laboratory equipment	10
Communications equipment	10
Sports equipment	10
Firefighting equipment and accessories	7
Library books	5
Transportation equipment-land	7
Transportation equipment-water	10
Transportation equipment-air	10

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the statement of comprehensive income in the year the asset is derecognized.

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

4.9 Impairment of financial assets

The recognition of allowance for impairment loss for 2011 was based on the following assumptions:

- All premiums receivable except for General Insurance aged more than 10 years were provided a 100 per cent allowance for impairment corresponding to the unposted collection of migrated balances.

- The following percentages were applied to General Insurance premiums receivable in estimating impairment losses:

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

- All outstanding service loans of inactive members were provided 100 per cent allowance for impairment since the probability of collection is deemed nil.

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

4.10 Impairment of non-financial assets

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

Impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. The carrying amount of the assets 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 value changes is recognized in other comprehensive income/loss and presented as appraisal surplus. Depreciation and amortization charge for future periods is adjusted.

An impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized in prior years.

4.11 Revenue recognition

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

4.12 Members' contribution

Revenue is recognized as the members' contribution become due.

4.13 Interest income

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

4.14 Dividend income

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

4.15 Rental income

Rental income is recognized when earned.

4.16 Premium income

Premium income from direct business is recognized upon issuance of policy while reinsurance commission income is recognized upon signing of the reinsurance binder. Inward reinsurance income for inward premium is recognized upon acceptance of the reinsurance binder.

4.17 Foreign currency transactions and translations

Foreign currency income and expenses are translated into Philippine Pesos based on the Philippine Dealing System Weighted Average Rate (PDSWAR) exchange rate prevailing on transaction dates. Foreign currency-denominated assets and liabilities are translated into Philippine Pesos based on the closing rate at the end of the reporting period.

The unrealized and actual gains or losses arising from translation of the System's financial assets and liabilities in foreign currencies with respect to the Philippine peso are recognized in profit or loss.

4.18 Expense recognition

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

4.19 Administrative loading

Pursuant to Section 35, RA 8291, the total budget for administrative and operating expenses for the year, including any supplemental appropriation, shall in no case exceed the maximum expense loading of 12 per cent of the year's total revenues net of insurance and investment expenses from all sources.

4.20 Claims and benefits

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

4.21 Unearned premiums on non-life insurance

Non-life insurance policies normally cover a period of one year. For policies whose period of coverage is more than one year, the excess over 365 days is recorded as Unearned Premiums. This unearned portion is recognized as earned during the subsequent period until the expiration of the policy.

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

4.22 Actuarial reserves

Actuarial Reserve requirements for the mandated obligations of the System are computed monthly by the GSIS Actuarial Group based on certain assumptions which are in accordance with generally accepted principles of actuarial valuation.

Actuarial Reserves are the funds that must be set up to ensure payment of the benefits guaranteed by the GSIS Charter (Republic Act 8291) and the policy contracts as and when they fall due. The Social Insurance Fund (SIF) covers members' benefits due to old-age, disability, survivorship (for death of member), burial and life insurance coverage. As such, the reserve liabilities set up conform to this set of benefits.

The generally accepted actuarial method for computing the reserve requirement, wherein Reserves are expressed as the excess of the present value of future benefits (PVFB) over the present value of future contributions/net premiums (PVFC), is used for computing the SIF actuarial reserves, given a sustainable annual interest rate, and taking into consideration the following:

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

- Contributions are projected based primarily on a salary increase assumption.

The actuarial reserves are set-up/appropriated out of the accumulated earnings of the Fund.

4.23 Liability adequacy test for the Social Insurance Fund

To ensure adequate provision of reserves, the GSIS Board of Trustees approved the conduct of a Liability Adequacy Test (LAT) for the Social Insurance Fund (SIF).

Shown below are the LAT results for the SIF (in millions):

Present Value of Claims	1,208,173
Less: Present value of contributions	681,863
Add: Present value of expenses	65,270
Less: Financial reserves	514,328
Resulting Contingent Reserves	**77,252**

The above contingent reserves amounting to P77,252 million shall be amortized for a period of 20 years, at an interest rate of 6.05 per cent, resulting in an annual amortization of P6,762 million, starting 2011.

Since the above results were based on a closed group (current membership and beneficiaries), the LAT shall be conducted yearly to factor in new entrants and beneficiaries, socio-economic, demographic and other relevant factors.

5. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2011	2010
Cash on hand and in banks	3,619,935,025	2,903,890,131
Cash equivalents		
High yield short-term placements	36,172,780,725	50,726,965,000
Special savings deposit	120,304,782	116,462,702
Demand deposits and special deposit account	207,247,829	164,953,420
	40,120,268,361	**53,912,271,253**

Cash in bank earn interest at the respective bank deposit rates. High yield short-term placements and special savings deposits are made for varying periods of up to 91 days depending on the immediate cash requirements of GSIS and earn interest at the prevailing high yield short term placement and special savings deposit rates.

Demand deposits and special deposit account represent cash equivalents of GSIS Family Bank.

6. PREMIUMS AND LOANS RECEIVABLE - NET

This account consists of the following:

	2011	2010 (as restated)
Premiums receivable		
Social insurance	32,973,763,229	32,788,269,439
Employee compensation insurance	4,269,731,017	4,262,626,858
Optional insurance	1,937,725,975	1,476,812,160
General insurance	1,036,943,339	838,308,496
Pre-need insurance	20,294,994	18,091,101
	40,238,458,554	39,384,108,054
Allowance for impairment loss	12,911,074,107	12,911,074,107
	27,327,384,447	26,473,033,947

	2011	2010 (as restated)
Loans receivable		
Consolidated loan	124,753,808,876	102,325,638,543
Policy loan	22,911,884,144	21,314,461,411
Salary loan	20,268,295,523	24,230,879,805
Real estate loan	12,469,093,735	13,140,617,909
Government loan	11,229,081,763	6,229,081,764
Emergency loan	8,970,903,940	6,255,009,727
Deeds of conditional sale	6,583,441,683	6,269,611,250
eCard/eCard plus cash advance loan	6,174,959,896	7,006,514,745
Private loan	1,921,000,186	2,583,049,108
Pension loan	1,827,955,372	1,627,830,683
Summer one month salary loan	977,238,460	1,257,011,665
Emergency loan assistance	933,756,045	1,147,167,783
Notes receivable	439,190,000	22,168,720,037
Loan receivable - subsidiaries	360,547,541	728,604,164
Lease purchase	111,401,704	111,401,704
Interim loan	91,168,588	123,877,708
Stock purchase loan	37,256,419	1,080,884
Pensioners' restructured loan	17,621,943	-
Educational assistance loan	548,508	(676,404)
Fly PAL	108,813	293,523
	220,079,263,139	216,520,176,009
Allowance for impairment loss	27,920,964,630	30,781,384,008
	192,158,298,510	185,738,792,001
Premiums and loans receivable	219,485,682,957	212,211,825,948
Accounts for clearing	11,158,143,441	11,098,355,495
Net Premiums and loans receivable	**208,327,539,516**	**201,113,470,453**

Increase in social insurance premiums receivable is due to higher contributions from members resulting from the third tranche of salary adjustment under the newly enacted Salary Standardization Law (SSL) III approved last June 17, 2009.

6.1 Loans receivable

Although the number of borrowers for consolidated loan decreased by four per cent from 715,525 in 2010 to 689,173 in 2011, the gross loan disbursements increased by seven per cent or P6.297 billion. This is mainly due to higher loanable amount as a result of the third tranche of salary adjustment under the newly enacted Salary Standardization Law III which was approved last June 17, 2009.

Several typhoons hit the country in 2011 and caused massive damage in various areas declared under state of calamity. As at December 31, 2011, members who have availed of the emergency loan reached 275,252 with total gross loan amount of P5.505 billion.

A new loan facility was also offered to retiring members as an option for the settlement of their obligations. Procedural Policy Guidelines (PPG) No. 209-11 was issued concerning the modification of the Claims and Loans Interdependency Policy (CLIP) to Choice of Loan Amortization Schedule for Pensioners (CLASP). As at December 31, 2011, 253 retirees have availed of this new loan facility since it started in July 2011.

Government loan increased by P5 billion due to a 20-year loan agreement with Home Development Mutual Fund (HDMF) as approved per Board Resolution No. 192 dated August 25, 2011.

The decrease in notes receivable of P21.730 billion, on the other hand, is primarily due to the full payment of San Miguel Corporation on the installment sale of MERALCO shares in October 2008.

Below is the status of the delinquent loan accounts under litigation/foreclosure proceedings as at December 31, 2011:

	Endorsed for Filing	**Filed**	**Auctioned**	**COS on Hand***	**COS Endorsed to BDARO**	**COS Ready for Release by the Courts**	**COS to be Requested from the Courts****
Dec. 31, 2011	1874	1874	1602	238	238	439	226
Dec. 31, 2010	1633	1633	1386	1013	39	49	324

Note:
* *Certificate of Sale (COS)*
** *The Clerk of Court concerned has not yet billed the amount of Sheriff's Sale.*

6.2 Accounts for clearing (Formerly named Unreconciled Accounts)

Premiums and loans receivable are presented net of allowance for impairment loss and accounts for clearing amounting to P11.158 billion in 2011 and P11.098 billion in 2010, to reflect the fair balance of the account. The accounts for clearing represent collections (both premiums and loans) that have not yet been posted to the individual member's accounts due to timing differences. These unposted payments are mostly due to remittances for new members whose accounts are yet to be created in the GSIS database, and those resulting from the late updating of members' data with GSIS by their respective agencies.

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

GSIS is currently evaluating the capabilities of its computer systems for further enhancements. It has also started coordinating with the top 20 agencies to bring down the number of accounts for clearing which are attributable to errors in the preparation of agency remittance files.

6.3 Events after balance sheet date

Restructuring of National Home Mortgage and Finance Corporation (NHMFC) account

The GSIS Board of Trustees in its Resolution No. 89 dated March 31, 2011, approved the 100 per cent provision for impairment loss in 2010 for the NHMFC account, both for the outstanding balance of the principal obligation and interest due to non-payment of the account for the past seven years. Details are as follows:

Principal	6,214,907,610
Interest	1,669,353,075
Balance per book as at December 31, 2010	**7,884,260,685**

GSIS made several attempts to collect the outstanding amounts under the Loan Agreement with National Home Mortgage and Finance Corporation (NHMFC).

However, on May 12, 2011, the GSIS Board of Trustees in its resolution no. 118 approved and confirmed the Dacion-en-Pago and Service Agreement with the NHMFC. The agreement provides among others the following conditions:

- NHMFC will dacion the GSIS account portfolio in favor of GSIS as full settlement of their loan obligation to GSIS; and

- GSIS shall enter into a collection/servicing agreement with NHMFC and shall pay for services rendered by NHMFC.

On March 22, 2012, the GSIS Board of Trustees in its resolution No. 50 approved and confirmed the restructuring agreement with NHMFC as proposed by the Real Estate Asset Disposition and Management Office. The Restructured Obligation payable approved by the Board amounts to P1.886 billion to be paid in the following manner:

- Upon signing of the agreement, NHMFC shall pay an initial amount of P 500 million as principal repayment, which amount shall be deducted from the Restructured Obligation; and

- The balance of the Restructured Obligation in the amount of P1.386 billion shall be paid in a period of 10 years at five per cent per annum compounded monthly, based on diminishing balance, with a fixed monthly amortization of P14.697 million.

On April 1, 2012, the restructuring agreement between GSIS and NHMFC was signed.

To date, NHMFC has remitted a total of P602.88 million for the period January to July 2012 under the Restructuring Agreement.

7. INVESTMENTS

This account consists of the following:

	2011	2010 (as restated)
Securities - held for trading (HFT)		
Stocks-traded-HFT	352,978,918	811,447,644
Derivatives	166,607,464	3,899,438

	2011	2010 (as restated)
Securities of subsidiaries - FVPL	-	4,270,332,400
	519,586,382	5,085,679,482
Securities - available for sale (AFS)		
ROP notes and bonds - AFS	92,543,718,938	12,872,683,385
Stocks-traded-AFS	55,825,072,707	34,552,415,271
Externally managed funds - domestic	10,238,996,402	5,918,321,095
Corporate bonds and global peso notes - AFS	3,176,128,787	-
Stocks-non-traded	1,136,689,683	1,167,101,683
Externally managed funds - GSIS Mutual fund	-	-
Externally managed funds - Global	-	30,378,536,495
Securities of subsidiaries - AFS	-	1,288,017,758
	162,920,606,517	86,177,075,687
Securities - held to maturity (HTM)		
ROP notes and bonds - HTM	172,964,194,369	168,226,843,375
Securities of subsidiary - HTM	429,182,121	654,470,359
Corporate bonds and Global peso notes - HTM	-	75,000,000
ROP bills	-	4,089,360,863
	173,393,376,490	173,045,674,597
Investment in joint venture	1,167,448,341	1,467,712,241
Investments-securities-equities-subsidiaries	-	1,129,775
	338,001,017,730	**265,777,271,782**

7.1 Derivatives

As at December 31, 2011, the outstanding notional amount of GSIS Currency Forwards and Swaps decreased by P20.120 billion due to actual conversion of dollars to pesos and a decrease in the combined portfolio of Forwards and Cross Currency Swaps.

	Notional Value	
	2011	**2010**
Non-deliverable cross currency swaps	33,518,000,000	15,025,850,000
Non-deliverable forward	8,723,000,000	52,424,105,000
Deliverable forward	4,220,975,000	-
Deliverable cross currency swaps	867,600,000	-
	47,329,575,000	**67,449,955,000**

The decrease in investment in derivatives is due to the settlement of 2010 derivative contracts in 2011, the decrease in the combined portfolio of Forwards and Cross Currency Swaps, and the minimal change in foreign exchange rate from $43.885 in December 2010 to $43.919 in December 2011.

	2011	2010
Non-deliverable cross currency swaps	213,831,584	3,899,438
Deliverable forward	24,081,609	-
Deliverable cross currency swaps	(13,861,637)	-

	2011	2010
Non-deliverable forward	(57,444,092)	-
	166,607,464	**3,899,438**

7.2 Externally managed funds - global

a. Liquidation of GSIS Investments under the Global Investment Program

The GSIS' Board of Trustees in its Resolution No. 87 dated March 31, 2011 approved the liquidation of GSIS Investments under the Global Investment Program (GIP) and directed to begin redeeming the funds invested under the GIP over a period which will not unduly penalize the GSIS' returns but not going beyond June 2011.

In April 2011, termination letters were sent to AMUNDI Asset Management and PIMCO Asia Limited and in June 2011 the entire outstanding portfolio handled by the two fund managers were fully liquidated. AMUNDI and PIMCO started liquidating the funds on April 28, 2011 and on June 15, 2011, respectively.

b. AMUNDI Fund Performance

The net asset value of the funds managed by Amundi posted an investment growth of 20 per cent in peso terms and realized an actual gain of P3.667 billion over a period of 37 months from the actual transfer of GIP funds in March 2008 to the last full month before liquidation was initiated in April 2011, as summarized:

Date	Particulars	Peso Value
2008	Asset Under Management from inception and additional placement	17,132,400,000
2011	Net Asset Value until full redemption of fund	20,799,867,760
Dec. 2011	Realized gain	3,667,467,760
	Per cent of growth	21.407%

c. PIMCO Fund Performance

Over a period of 15 months from the actual transfer of GIP funds in March 2010 to the last full month before liquidation was initiated in June 2011, the net asset value of the funds managed by PIMCO posted an investment growth of 12 per cent in peso terms and realized an actual gain of P1.059 billion, summarized as follows:

Date	Particulars	Peso Value
2010	Asset Under Management from inception	9,092,381,866
2011	Net Asset Value upon full redemption of fund	10,151,156,366
Dec. 2011	Realized gain	1,058,774,500
	Percent of growth	11.644%

7.3 Externally managed funds – domestic

a. Migration of Investments in GMFI to the New Investment Management Agreement with Philam Assets Management, Inc. (PAMI)

The GSIS Board of Trustees in its Resolution No. 134 dated May 26, 2011, approved the redemption of funds invested under GMFI and authorized the management of GSIS to enter into an Investment Management Agreement with PAMI. In 2011, total funds transferred to PAMI from its inception in June 2011 amounted to P4.147 billion. The Net Asset Value of the fund transferred as at December 31, 2011 is P4.181 billion, an investment growth of P33.155 million or one per cent.

b. MBTC and BDO Funds

The net asset value of the funds managed by MBTC increased by P156.18 million or 4.94 per cent while that of BDO decreased by P16.09 million or 0.60 per cent from the same period last year. Moreover, from inception date to December 31, 2011, the funds managed by MBTC and BDO already posted an investment growth of P1.162 billion or 58 per cent and P896.63 million or 45 per cent, respectively.

7.4 Investment in joint venture

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

	2011	**2010**
Empire East Land Holdings, Inc.	439,675,000	439,675,000
Queens Row - New San Jose Builders	385,910,249	385,910,249
GSIS City - Metro Homes - New San Jose Builders	175,291,965	175,291,965
Cogeo - New Solidcon Development Builders	139,487,000	139,487,000
Collective Project Management, Inc. (Fairview Parkl	27,084,127	27,348,027
GSIS PAL Vernida - San Miguel Corporation	-	300,000,000
	1,167,448,341	**1,467,712,241**

GSIS and Empire East Land Holdings, Inc. JVA

The GSIS Board of Trustees in its resolution dated July 22, 2009 approved the Settlement and Compromise Agreement with Empire East Land Holdings, Inc. (EELHI) and the execution of a Joint Venture Agreement (JVA) with EELHI for the development and management of an office building in one of the properties of EELHI conveyed to GSIS as a result of the compromise agreement.

On July 24, 2009, GSIS and EELHI entered into a JVA which contains, among others, the following major provisions:

- The creation of a Joint Venture Condominium Corporation (JVCC) with an agreed equity sharing of 65 and 35 per cent in favor of EELHI and GSIS, respectively, upon completion of the office building;
- EELHI shall surrender the ownership of its properties located in Quezon City (Eastwood City) to the JVCC by way of a Deed of Conveyance;
- The Quezon City Properties (Eastwood City) with an agreed value of P439.675 million shall serve as the equity contribution of the GSIS in the JVCC; and
- The cost of land development and building construction with an agreed value of P914 million shall serve as the equity contribution of EELHI.

GSIS and San Miguel Properties Inc. (SMPI) JVA

On October 31, 2007, GSIS and SMPI formed a joint venture corporation to develop a certain property of GSIS located along Legaspi Street, Legaspi Village, Makati City (known as the PAL Vernida Property).

The equity participation of the parties in the capital stock of the JVA is as follows:

	No. of Shares Subscribed	Equity Participation (%)
SMPI	325,000,000	52
GSIS	300,000,000	48
	625,000,000	**100**

One of the provisions of the JVA is that SMPI grants GSIS the option to sell to SMPI, and require SMPI to purchase (Put Option) all the shares of stock of the JVA issued in the name of GSIS.

On May 16, 2011, GSIS manifests its intention to exercise the Put Option invoking Section 4.3 of the JVA on its shares in the JVA at an exercise price amounting to P399 million, with the following details:

	Amount
Share in the JVA	300,000,000
Interest (10 per cent per year)	99,000,000
Total Proceeds	**399,000,000**

SMPI accepted the offer of GSIS and a Deed of Sale of Shares was executed on July 25, 2011 after payment was received by GSIS.

7.5 Investment in subsidiaries

The balances of the investment in subsidiaries as at December 31, 2011 and 2010 prior to consolidation are as follows:

	No. of Shares 12/31/2011	**2011**	**2010**
GSIS Family Bank	25,198,764	407,698,207	686,951,206
GSIS Properties, Inc.	-	-	87,150,889
Meat Packing Corporation of the Philippines	-	-	1,129,775
		407,698,207	**775,231,870**

Operation of GSIS Family Bank (GFB)

In 2011, the operation of GFB showed decreasing figures on its assets and liabilities with average monthly net assets of 500 million. The net asset value of the funds with GFB decreased by P279.25 million or 40.65 per cent from the same period last year.

Dissolution and Liquidation of GSIS Investment in GSIS Properties, Inc. (GPI)

In view of the lack of activity in GPI, the GSIS Board of Trustees in its Resolution No. 188 dated December 8, 2010, approved the dissolution of GPI. On April 7, 2011, the SEC has issued the Order of Revocation of GPI and GSIS dissolved and liquidated its investment in GPI.

Meat Packing Corporation of the Philippines

In 2010, the total share of GSIS with Meat Packing Corporation of the Philippines (MPCP) was purchased by Consolidated Prime Development Corporation (CPDC) and GSIS received the sum of P1.1 billion as consideration for the purchase. All the accounts pertaining to MPCP were closed in the books of GSIS and the remaining balance after deducting the proceeds of the sale from the Investment in Subsidiary account amounting to P1.130 million was transferred to Sundry Accounts Receivable – CPDC.

8. PROPERTY AND EQUIPMENT - NET

The property and equipment account consists of the following:

	Land and land improvement	**Building and building improvement**	**Real estate appreciation**	**Information technology resources**	**Construction In progress**	**Furniture, fixtures and equipment**	**Total**
Cost							
January 1, 2011	485,610,725	5,130,388,098	69,781,103	1,825,991,873	40,134,581	847,098,682	8,399,005
Additions	-	52,812	-	152,359,557	348,073,314	65,005,499	565,49
Adjustments	-	(28,259)	-	1,144,518	(199,738,216)	948,555	(197,673
Derecognition in books (due to donations/sale)	-	-	-	(21,279,343)	-	(16,172,407)	(37,45
Dec. 31, 2011	**485,610,725**	**5,130,412,651**	**69,781,103**	**1,958,216,605**	**188,469,679**	**896,880,329**	**8,729,371**

	Land and land improvement	Building and building improvement	Real estate appreciation	Information technology resources	Construction In progress	Furniture, fixtures and equipment	Total
<u>Accumulated depreciation</u>							
January 1, 2011	169,728,639	1,921,126,826	-	1,153,762,455	-	416,865,535	3,661,48
Depreciation charges during the year	355,581	191,247,316	-	190,812,186	-	60,958,143	443,37
Derecognition in books (due to donations/sale)	-	-	-	(19,114,291)	-	(14,412,977)	(33,52
Adjustments		(30,457)				(162,225)	(19
Dec. 31, 2011	**170,084,220**	**2,112,343,685**	**-**	**1,325,460,350**	**-**	**463,248,476**	**4,071,13**
Net Book Value – Dec. 31, 2011	**315,526,505**	**3,018,068,966**	**69,781,103**	**632,756,255**	**188,469,679**	**433,631,853**	**4,658,23**
Net Book Value – Dec. 31, 2010, as restated	**315,882,086**	**3,209,261,272**	**69,781,103**	**672,229,418**	**40,134,581**	**430,233,147**	**4,737,52**

9. INVESTMENT PROPERTY

As at December 31, 2011, investment property is broken down as follows:

	Foreclosed Real Estate Loans (REL)	Cancelled Deeds of Conditional Sale (DCS)	Big Accounts	Others	Total
Balance, December 31, 2010, as restated	**151,469,470**	**11,651,639,906**	**15,546,965,803**	**585,585,362**	**27,935,660,541**
Add:					
Year-end adjustment on valuation of IP	561,384	269,720,169	1,345,165,765	-	1,615,447,318
Foreclosure of various REL accounts	20,501,262	-	-	-	20,501,262
Booking of various un-awarded Lots	-	100,454,966	-	-	100,454,966
Cancellation of various DCS accounts	-	47,542,292	-	-	47,542,292
Various adjustments (reversal of sale, reclassification of accounts)	45,500	3,673,895	-	198,737,183	202,456,578
Reversal of joint venture of Gloria Mariz Property to Megaworld, Inc. and reclassify as Investment Property	-	-	386,808,000	-	386,808,000
Foreclosure of Former Water Fun Property (one of the collaterals of New San Jose Builders)	-	-	180,322,223	-	180,322,223
Capitalization of renovation expenses on Coconut Palace Arts and Crafts Property	-	-	8,382,867	-	8,382,867
Foreclosure of Pasig Central Business Park (one of the collaterals on Private Loan of Empire East Holdings)	-	-	903,231,333	-	903,231,333
Reclassification from Non Admitted Assets-IP:	-	-	-	-	-
National Press Club Property	-	-	527,124	-	527,124
Former PLDT Building Property	-	-	414,169	-	414,169
	21,108,146	421,391,322	2,824,851,481	198,737,183	3,466,088,132

	Foreclosed Real Estate Loans (REL)	Cancelled Deeds of Conditional Sale (DCS)	Big Accounts	Others	Total
Less:					
Valuation of newly cancelled DCS (loss on valuation)	-	11,691,417	-	-	11,691,417
Sale of various Investment Properties	-	626,896,498	-	-	626,896,498
Various exclusions (accounts fully paid, for restructuring and other adjustments)	-	373,895,287	769,170,148	12,215,831	1,155,281,266
Adjustment of Baguio Convention Center (sold to City of Baguio)	-	-	337,678,000	-	337,678,000
Joint venture of Gloria Mariz Property to Megaworld, Inc. (right road of way)	-	-	77,168,000	-	77,168,000
	-	1,012,483,202	1,184,016,148	12,215,831	2,208,715,181
Balance, December 31, 2011	**172,577,616**	**11,060,548,026**	**17,187,801,136**	**772,106,714**	**29,193,033,492**

Foreclosed Real Estate Loan (REL) are real properties that were previously the subject of individual real estate loan which were foreclosed in favor of GSIS due to non-payment. Cancelled Deeds of Conditional Sales (DCS) are also real properties or accounts which were titled in the name of GSIS and subsequently awarded to individual and were later cancelled due to non-payment. Big accounts are real properties that were previously the subject of mortgage loan, commercial-industrial loan, and lease purchase agreement to corporations which were foreclosed or acquired through dacion-en-pago in favor of the GSIS due to non-payment. Others include investment property of the GSIS Family Bank.

The net increase is mainly due to the year-end valuation of the investment properties conducted by an independent appraiser which resulted to an increase amounting to P1.615 billion.

Manila International Port Terminal Inc. (MIPTI) Property

The Investment Property account includes the Manila International Port Terminal Inc. (MIPTI) property at the North Harbor, Manila Bay, which was valued at P110 million when it was acquired by the GSIS in 1976. The property is currently worth at least P8.6 billion based on an independent appraisal report as of March, 2012.

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

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

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

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

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

PPA paid GSIS the amount of P1.381 million, which was determined by a Committee composed of MIPTI, PPA and the Commission on Audit (COA) as the actual and reasonable expenses incurred in the pre-development undertaking of the Project and has reflected the property in their books.

PPA believes that PD 1284 totally repealed PD 802 and that GSIS lost all the rights to the property. Thus, PPA claims ownership of the property. However, GSIS believes that PD 1284 did not provide for the transfer of ownership over the property, which remains vested in GSIS. Due to the conflict between the PPA and the GSIS, the Office of the Executive Secretary has directed both parties to submit for arbitration with the Office of the Government Corporate Counsel (OGCC) last May 3, 2012. The arbitration proceedings are still pending before the OGCC as of date.

GSIS management and its legal counsels believe that the arbitration will be settled in its favor and will not result to the impairment of its investment property. The title to the property was vested in GSIS as additional contribution of the National Government for the benefit of its members. The payment to GSIS of P1.381 million under PD 1284 was not for the purpose of paying for the value of the property but for the refund of the reasonable expenses incurred in the predevelopment undertaking of the project. When PD 802 was repealed, MIPTI was a mere lessee of the property. The authority, power and responsibility to plan, design, construct and develop the International Port Complex at North Harbor, which was transferred from MIPTI to PPA, did not require the ownership of the land on which the developments are located, but rather mere access to it. Moreover, On June 4, 2002, the President of the Philippines recognized GSIS' ownership over the MIPTI property when Executive Order (EO) No. 108 was issued declaring a portion of the property as a social housing site. To carry out the mandate in EO 108, OCT No. 10722 was subdivided into two (2) Transfer Certificates of Title (TCT) – TCT No. 272971 and TCT No. 272972, which are both still in the name of GSIS.

10. OTHER ASSETS

The other asset account consists of the following:

	2011	2010 (as restated)
Income receivable	15,942,861,069	14,800,250,007
Allowance for impairment loss	3,726,268,600	4,164,597,710
Income receivable - net	12,216,592,469	10,635,652,297
Agency receivable	817,995,022	637,443,080
Sundry accounts receivable - net	479,113,226	436,564,100
Due from reinsurer	432,941,174	753,057,388
Paintings and tapestries	411,918,054	411,918,037
Other assets - subsidiaries	230,874,736	139,464,695
Prepaid expenses	135,965,729	-
Supplies and materials in stock	42,160,911	13,170,346
Medicines and other medical supplies	19,778,321	20,374,044
Accounts receivable for deficit cases - net	12,901,563	2,413,932
Deposit and indent orders	9,137,590	9,059,590
Permanent partial disability osteoporosis	835,868	1,821,732
Cash advances	108,487	1,361,773
Deficiency claims receivable	89,053	369,525
Cash held in escrow	-	73,035,000
	14,810,412,203	**13,135,705,539**

Income receivable pertains to interests on members' and non members' loan receivables, interests on premiums in arrears, interests on investments and accrued rental. The net increase of P1.581 billion in net income receivable is brought about by the increase in loan availments from members towards the end of 2010 until 2011. Moreover, there were additional purchases of ROP notes and bonds in 2011 which resulted to an increase in interest accrual for the year.

Agency receivable represents receivable from various government agencies with Memorandum of Agreement (MOA) entered into by the GSIS with these agencies that have long outstanding accounts due to non-remittance. To date, 86 agencies have already entered into a MOA with GSIS, 35 of which have fully paid their obligation at the end of 2011.

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

Cash Held in Escrow pertains to the Almeda case which resolved to open an escrow account with the Land Bank of the Philippines in compliance with court ruling approved under Board Resolution No. 120 dated October 28, 2010. This was fully settled in December 2011 and charged to legal expenses-losses on litigation for the current year.

11. LIABILITIES

This account consists of the following:

	2011	2010 (as restated)
Claims and benefits payable	7,047,708,354	11,309,646,006
Other liabilities	10,674,029,885	10,825,771,424
	17,721,738,239	**22,135,417,430**

11.1 Claims and benefits payable

Claims and benefits payable pertain to various claims due to members/policyholders as at December 31, 2011 but remain unpaid as of year-end.

The GSIS' Board of Trustees under Resolution Nos. 255 and 256 dated December 15, 2011 approved and confirmed the grant and distribution of the 2011 annual cash dividends of P818 million to Compulsory Life Insurance policy holders and P87.140 million to Optional Life Insurance policy holders, chargeable against the surplus of each fund.

	2011	2010 (as restated)
Claims payable		
Social insurance		
Retirement	2,956,351,857	3,863,097,927
Survivorship	675,334,194	1,014,102,431
Life insurance	559,162,486	3,153,668,571
Pension	130,518,173	30,414,574
Funeral	30,455,531	119,061,477
Others	3,707,755	-
	4,355,529,996	8,180,344,980
General insurance	803,082,537	679,778,323
Optional life insurance	69,815,377	220,560,767
Pre-need insurance	29,847,943	73,387,824
Employee compensation insurance	11,044,100	44,835,145
	913,789,957	1,018,562,059
Provision for unadjusted claims	1,451,372,662	1,141,355,336
Dividends payable	327,015,739	969,383,631
	1,778,388,401	2,110,738,967
	7,047,708,354	**11,309,646,006**

11.2 Other liabilities

This account consists of the following:

	2011	2010 (as restated)
Sundry accounts payable	4,424,986,480	3,576,458,668
Due to reinsurers	2,704,654,467	2,441,525,346
Derivative liability	936,273,660	1,538,518,695
Provision for pending litigation	915,502,353	915,502,353
Funds held in trust	746,663,038	776,779,063
Other liabilities - subsidiaries	945,949,887	1,576,987,299
	10,674,029,885	**10,825,771,424**

Sundry accounts payable

This account consists of the following:

	2011	2010 (as restated)
Accrued employee benefits and expenses	1,209,076,095	591,292,256
Second installment payment received from the conditional sale of MERALCO shares in 2009	936,273,660	-
Administrative, operating and other expenses incurred, goods delivered and services rendered that are unpaid as of balance sheet date	791,395,867	1,162,533,522
Refund of member loans and interest on premiums in arrears	571,399,651	632,079,496
Unreleased checks as of balance sheet date	447,987,245	742,703,518
Investment placements unpaid as of balance sheet date	270,011,310	103,164,350
Sundry accounts payable - subsidiaries	88,751,563	154,227,776
Bank service fee on eCrediting transactions	55,726,482	131,535,251
Extra remuneration payable	54,364,607	58,922,499
	4,424,986,480	**3,576,458,668**

Derivative liability

This account represents the first installment payment or 10 per cent down payment received from the conditional sale of MERALCO shares. This will be forfeited in favor of the GSIS in case of buyer's default.

Full payment for PHILEX shares has been received as at December 31, 2011. Thus, derivative liability pertaining to these shares has been fully closed.

Provision for pending litigation

At present, there are lawsuits and claims that are either awaiting decisions by the courts or are subject to settlement agreements. In the opinion of Management and its legal counsels, the provision for losses arising thereto amounts to P915.502 million.

Funds held in trust

This account consists of the following:

	2011	2010 (as restated)
Bid security deposits, performance bond and other funds held in trust from various suppliers	549,636,367	528,963.680
Downpayments, payments and bidder's deposits on sale of investment properties	101,779,342	124,847.581
GSIS self-administered hospitalization program	39,784,522	58,606,153
Cash collateral for performance bonds, surety bonds, judicial bonds	36,267,967	41,184,034
10 per cent retention fee of contractors	19,194,839	23,177,613
	746,663,037	**776,779,063**

On October 17, 2000, the GSIS Board of Trustees approved Board Resolution No. 326 wherein they adopted the GSIS Employees Loyalty Incentive Plan (ELIP). The objective of this plan is to motivate and reward employees for meritorious, faithful and satisfactory service. The plan covers all present permanent employees and members of the Board and those who may hereafter be appointed.

Board Resolution No. 326 was subsequently amended through Board Resolution No. 360 dated November 21, 2000 which provided for a single rate for all positions, regardless of salary grade, in the computation of creditable service. On January 16, 2001 Board Resolution No. 6 was approved renaming the plan from ELIP to GSIS Retirement/Financial Plan (RFP).

The Commission on Audit, in its decision number 2003-062 dated March 18, 2003 disallowed the plan. Pending appeal of said decision, the loyalty incentive of the GSIS retired employees who availed of the ELIP in the total amount of P84.395 million was withheld. The GSIS invested these funds and earned a total amount of P28.840 million from 2003 to 2011.

Board Resolution Nos. 326, 360 and 6 were eventually declared void by the Supreme Court in its decision issued on October 11, 2011. Hence, the Funds Held in Trust for the ELIP was closed to the Surplus Adjustment in December 2011.

Other liabilities – subsidiaries

This account consists of the following:

	2011	2010 (as restated)
Deposit liabilities	924,721,183	1,545,213,236
Cashier's check	4,427,501	4,640,674
Due to the unclaimed balances	1,847,178	1,809,653
Bills payable	767,424	798,267
Payment Order Payable	304,770	304,770
Others	13,881,831	24,220,699
	945,949,887	**1,576,987,299**

12. DEFERRED CREDITS

This account consists of the following:

	2011	2010 (as restated)
Unearned premiums	1,041,056,169	761,530,148
Unrealized income	19,763,528	7,969,299
	1,060,819,697	**769,499,447**

13. MINORITY INTEREST IN THE NET ASSETS OF CONSOLIDATED SUBSIDIARIES

This account consists of the following:

	2011	2010 (as restated)
GSIS Family Bank	1,842,935	3,097,483
GSIS Mutual Fund, Inc.	-	1,581,378,441
	1,842,935	**1,584,475,924**

14. PROPERTY REPLACEMENT FUND

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

The Fund 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, DBM in its letter dated July 13, 1998 directed GSIS to immediately suspend PRF claims operation to preserve the viability of the Fund and to hedge against ensuing adverse impact of the depletion of the PRF.

The Fund's balance of P27.487 million in 2011 represents the amount appropriated and remitted by the National Government for the restoration of damaged government properties.

15. RESERVES

A comparison between the actuarial reserve requirements and actual financial reserves is shown as follows:

	Actuarial Reserve Requirement	Actual Financial Reserve	Deficiency
Social insurance	575,462,508,906	575,462,508,906	-
General insurance	6,507,010,878	6,507,010,878	-
Optional life insurance	7,385,387,135	7,385,387,135	-
Pre-need insurance	8,169,547,350	6,297,010,194	1,872,537,156
Employee compensation insurance	633,400,532	633,400,532	-
	598,157,854,801	**596,285,317,645**	**1,872,537,156**

The variance pertains to pre-need insurance reserve deficiencies amounting to P1.873 billion.

For pre-need, the actual reserve set-up was less than the actuarial reserve requirement because of the continuous payment of claims and benefits to the policy holder claimants despite the discontinued selling and marketing of this product since 1998 which resulted to the depletion of the fund. These reserves consist of the following:

	2011	2010 (as restated)
Edu-child	6,077,874,822	6,303,328,879
Memorial	183,404,428	181,029,374
Health	35,730,944	27,123,318
	6,297,010,194	**6,511,481,571**

Reserves for the Social Insurance Fund consist of the following:

	2011	2010 (as restated)
Old age benefits	418,004,488,512	365,355,912,917
Policies in force	73,879,619,232	65,767,413,521
Survivorship benefits	67,066,300,147	64,078,634,936
Disability benefits	12,227,954,226	12,170,542,975
Burial benefits	2,806,554,405	1,986,186,060

	2011	2010 (as restated)
Contingencies	1,477,592,385	1,315,348,270
	575,462,508,907	**510,674,038,679**

For Optional Life Insurance Fund, reserves consist of the following:

	2011	2010 (as restated)
Policies in force		
Optional additional and UOLI	3,306,621,048	3,164,254,137
College education assurance plan	313,266,248	310,651,067
Hospitalization insurance plan	855,425	883,324
	3,620,742,721	3,475,788,528
Redemption insurance		
Consolidated loan redemption insurance	3,035,234,207	2,403,907,400
Mortgage redemption insurance	271,623,708	57,183,064
Sales redemption insurance	51,944,149	31,665,841
eCard cash plus advance redemption insurance	40,706,072	31,655,311
Emergency loan redemption insurance	13,451,176	23,006,420
Salary loan redemption insurance	-	363,658
	3,412,959,312	2,547,781,694
Contingencies	351,685,102	301,178,511
	7,385,387,135	**6,324,748,733**

Reserves for the General Insurance Fund consist of the following:

	2011	2010 (as restated)
Contingencies	4,148,494,928	3,506,291,966
Losses	2,358,515,950	2,358,515,950
	6,507,010,878	**5,864,807,916**

For Employee Compensation Insurance, reserves are as follows:

	2011	2010
Future claims	526,985,254	-
Contingencies	49,009,410	-
Occupational safety fund	31,156,155	-
ECC operating fund	24,779,096	-
Claims pending settlement	1,128,617	-
Rehabilitation services	342,000	-
	633,400,532	**-**

16. REVENUE FROM INSURANCE

This account consists of the following:

	2011	2010 (as restated)
Contributions and premiums		
Social insurance contributions	63,274,746,159	56,212,468,606
General insurance premium	3,812,222,247	4,224,119,731
Employee compensation insurance premium	1,969,636,204	1,966,781,513
Optional insurance premium	870,684,939	807,677,503
Pre-need insurance premium	4,019,004	5,382,178
	69,931,308,553	63,216,429,531
Commission on reinsurance	207,158,859	170,173,051
Gain/(loss) on foreign exchange	44,511,051	(3,259,244)
Interest on premium arrearages	35,860,236	182,592,755
	287,530,146	349,506,562
	70,218,838,699	**63,565,936,093**

17. REVENUE FROM LOANS AND RECEIVABLES

This account consists of the following:

	2011	2010 (as restated)
Interest on consolidated loan	12,306,480,533	9,586,238,726
Interest on policy loans	1,442,158,401	1,345,955,047
Interest on emergency loans	568,037,983	505,404,818
Interest on eCard plus cash advance	561,443,469	359,800,424
Interest on government guaranteed loans	378,082,576	201,081,029
Interest on deeds of conditional sale	356,520,590	273,716,102
Interest on real estate loans	338,231,938	382,482,872
Interest on pension loan	264,770,751	213,480,335
Interest on emergency loan assistance	59,046,680	56,618,070
Interest on stock purchase loans	26,938,349	-
Interest on salary loans	11,163,657	20,999,863
Interest on private loans	10,888,732	12,193,036
Interest on interim loans	5,853,281	-
Interest on SOS loan	747,719	633,037
Interest on pensioners' restructured loan	334,446	-
Interest on eCard cash advance	306,653	290,274
Interest on educational assistance loan	26,546	-
Service income	1,229,551,430	1,191,031,123
Surcharge on loans in arrears	91,784,061	139,809,709
Interest income from loans - subsidiaries	34,771,586	70,244,394
	17,687,139,381	**14,359,978,859**

The bulk of the increase in revenue from loans came from interest on consolidated loans amounting to P2.720 billion due to increase in loan availments in 2011. This is mainly due to higher loanable amount as a result of the third tranche of salary adjustment under the newly enacted Salary Standardization Law (SSL) III approved last June 17, 2009.

18. REVENUE FROM INVESTMENTS

This account consists of the following:

	2011	2010 (as restated)
Revenue from securities - HFT		
Gain on investment - derivatives	2,362,651,473	480,619,438
Gain on sale of stocks	35,315,188	42,443,312
Dividend on stocks	30,024,165	461,650
Unrealized gain on stocks - HFT	4,431,274	163,100,034
	2,432,422,100	686,624,434
Revenue from securities - AFS		
Interest on ROP notes and bonds - AFS	4,011,576,991	337,318,137
Fixed term interest from sale of shares of stocks	701,934,775	1,926,131,585
Interest on corporate bonds and global peso notes - AFS	75,003,421	-
Income/(loss) on investment in externally managed funds	5,661,863,660	(1,326,145,489)
Gain on sale of stocks	3,035,426,765	2,652,511,554
Dividend on stocks	972,090,669	376,396,089
Loss on sale of bonds	(53,794,915)	-
Loss on foreign exchange	(325,914,609)	(1,339,013,012)
	14,078,186,757	2,627,198,864
Revenue from securities - HTM		
Interest on ROP notes and bonds - HTM	12,941,522,264	13,045,514,700
Interest on corporate bonds and global peso notes - HTM	-	7,805,955
Interest on ROP bills	33,395,671	559,644,880
Gain on sale of bonds	1,416,343,281	260,727,088
Gain/(loss) on foreign exchange	24,103,996	(2,557,281,385)
	14,415,365,212	11,316,411,238
Revenue from investment in subsidiaries		
Gain on sale of stocks - subsidiaries	-	22,607,483
Equity share in net decrease in the net assets of the subsidiaries	-	(83,151,625)
	-	(60,544,142)

	2011	2010 (as restated)
Revenue of subsidiaries from investments	14,312,992	2,158,633,030
Loss on foreign exchange	(998,876)	(157,993,064)
Other investment revenue	1,750,350,165	1,436,865,447
	1,763,664,281	3,437,505,413
	32,689,638,350	**18,007,195,807**

The increase in revenue from investments is mainly due to the increase in income on externally managed funds which was caused by the liquidation of funds under the Global Investment Program managed by AMUNDI and PIMCO and full redemption of funds from GSIS Mutual Fund Inc. (GMFI). Liquidation for AMUNDI started in April 2011 until June 2011 generating an income of P3.67 billion while PIMCO liquidations started on June 2011 until August 2011 generating an income of P1.15 billion. Redemption of funds from GMFI started in July 2011 until Sept 2011 generating an income of P936 million.

In 2011, there was also an increase in realized gain from derivatives transactions. An actual gain from Non-Deliverable Forwards and Cross Currency Swaps upon settlement/ termination date mainly due to captured interest rate differentials/ FX forward points and falling interest rate differentials/ FX forward points.

Realized gain from matured/settled derivatives	**2011**	**2010**
Non-deliverable forward	1,626,102,397	476,720,000
Non-deliverable cross currency swaps	368,315,840	-
Deliverable forward	205,525,211	-
	2,199,943,448	**476,720,000**

Other factors are the increase in interest on ROP notes and bonds – AFS due to the purchase of peso denominated bonds during the year and amortization of discount and increase in gain on sale of bonds due to amortization of gain from bond swaps made last December 2010, July 2011 and October 2011.

19. REVENUE FROM INVESTMENT PROPERTY

This account consists of the following:

	2011	2010 (as restated)
Gain/(loss) on valuation of investment property	1,503,109,124	(245,748,658)
Gain on disposition of acquired assets	4,927,640	71,795,490
Rental from investment property	165,838,945	153,378,905
	1,673,875,709	**(20,574,263)**

The net increase of P1.694 billion is primarily due to the gain recognized from the valuation/adjustment of investment properties based on their current market value as at December 31, 2011.

20. OTHER REVENUE

This account consists of the following:

	2011	2010 (as restated)
Revenue from rental	117,886,151	107,839,384
Interest on receivables on agencies with MOA	31,298,546	63,804,202
Interest on bank deposits	11,754,818	11,024,579
Service income	2,422,222	2,014,383
Refund of gratuity and discount from lump sum benefits	510,651	904,568
Recoveries from adverse parties/obligors	199,266	-
Loss recoveries	179,123	-
Interest on permanent partial disability osteoporosis	93,395	-
Loss on disposition of assets	(1,653,112)	(3,250,632)
Others	1,764,362,447	71,899,366
	1,927,053,507	**254,235,850**

The GSIS recorded a gain of P1.886 billion as recovery from impairment loss for the NHMFC account which was fully impaired in 2010. In 2011, the NHMFC submitted a proposal to GSIS to restructure its loan and the parties agreed to enter into a compromise agreement. On March 22, 2012, the GSIS Board of Trustees in its Resolution No. 50 approved and confirmed the restructuring agreement with NHMFC. The Restructured Obligation payable approved by the Board amounts to P1.886 billion.

21. CLAIMS AND BENEFITS PAID

This account consists of the following:

	2011	2010 (as restated)
Social insurance	51,670,463,236	44,516,944,372
Optional life insurance	774,878,097	704,614,492
General insurance	500,960,032	543,194,701
Pre-need insurance	324,352,401	245,929,088
Employee compensation insurance	67,811,950	30,811,288
	53,338,465,716	**46,041,493,941**

The increase in social insurance claims and benefits is primarily due to the increase in retirement claims, monthly old age pension and life insurance benefits. The number of retirement claims processed increased from 20,545 in 2010 to 25,698 in 2011, monthly old age pension from 195,582 in 2010 to 215,248 in 2011 and life insurance from 43,273 in 2010 to 49,604 in 2011.

22. INVESTMENT EXPENSES

This account consists of the following:

	2011	2010 (as restated)
Expenses on eCard	93,792,499	97,651,631
Interest expenses	32,228,883	20,768,799
Expenses on investment properties	22,601,425	352,384,457
Investments fees and others	17,343,629	13,437,695
Foreclosure expenses	3,761,672	11,212,568
	169,728,108	**495,455,150**

23. INSURANCE EXPENSES

This account consists of the following:

	2011	2010 (as restated)
Reinsurance expense	2,390,939,619	2,507,379,226
Extra remuneration	59,832,439	59,372,211
Service fee	12,167,780	3,412,584
Commission expense	1,953,606	1,345,612
Other insurance expense	294,586	530,760
Bad debts expenses	-	319,959,003
	2,465,188,030	**2,891,999,396**

24. PERSONAL SERVICES

This account consists of the following:

	2011	2010 (as restated)
Salaries and wages	1,426,934,960	1,323,058,564
Statutory expenses	931,658,406	898,396,909
Allowances	491,687,400	493,507,944
Bonus/Awards	369,616,468	364,223,312
GSIS early retirement program	332,405,036	6,603,396
Fringe benefits	273,272,487	137,654,147
Contractual services	53,987,590	17,437,771
Overtime expenses	45,198,652	55,467,839
	3,924,760,999	**3,296,349,882**

Pursuant to Board Resolution No. 128 dated May 12, 2011 and the approval of the President of the Republic of the Philippines on November 28, 2011, the GSIS Early Retirement Program 2011 or GERP 2011 was offered to GSIS officials and employees in line with the implementation of the new organization structure.

25. OPERATING EXPENSES

This account consists of the following:

	2011	2010 (as restated)
Depreciation expense	449,689,823	398,798,135
Separation pay	277,959,071	58,722,497
Miscellaneous expenses	239,039,386	206,539,478
Electric and water consumption	153,292,358	156,644,429
Insurance expense	142,973,110	118,674,502
Assets and facilities maintenance expense	134,814,264	137,216,510
Contributions	84,191,486	54,655,036
Communication services	70,012,970	63,600,467
Computer expenses	60,995,667	51,704,707
Auditing expenses	44,101,943	89,937,486
Office supplies expenses	36,628,617	241,869,648
Retainers and consultants	32,246,670	109,636,465
Seminars and workshops	28,848,993	30,179,295
Taxes and licenses	28,404,500	94,587,883
Rental expenses	26,408,124	27,522,389
Traveling expenses	23,879,788	28,393,615
Public relations and advertisement	22,932,935	87,849,492
GSIS scholarship program	22,813,403	24,961,085
Fuel and gasoline consumption	17,849,540	16,242,520
MOA related expenses	14,162,000	15,470,400
Athletic and cultural expenses	13,148,896	9,982,917
Representation expenses	6,343,825	9,501,152
Education, training and scholarship	1,717,793	4,685,814
Medical supplies expenses	1,171,286	8,327,467
Library books and materials	324,176	115,953
Discretionary expenses	-	6,942,984
	1,933,950,624	**2,052,762,326**

Separation pay includes estimated payable for GSIS employees who may opt to retire under the provisions of RA 1616. Qualified to retire under this Act are employees hired prior to May 31, 1977.

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

Miscellaneous expenses include litigation expenses. In October 2010, an escrow account was set up with Land Bank of the Philippines in the amount of P73 million in favor of Almeda et al per Board Resolution No. 120 dated October 28, 2010.

The escrow account was set up in compliance with the decision of the Court of Appeals dated July 21, 2009, in the case entitled Leonito Almeda, et al. vs. Queen's Row Subdivision, Inc., et al. which directed the GSIS as defendant to immediately pay the purchase price of P73,035,000 due to the plaintiffs, by opening an Escrow Account with the Land Bank of the Philippines, Roxas Boulevard Branch in the name of all the plaintiffs and to release the same upon the execution of the necessary document necessary to transfer title in the name of the defendant GSIS.

The fund was released in 2011 thus, litigation expense of P73 million was recognized.

26. MINORITY INTEREST IN THE NET INCOME/(LOSS) OF CONSOLIDATED SUBSIDIARIES

This account consists of the following:

	2011	2010
GSIS Mutual Fund, Inc.	-	527,308,685
GSIS Family Bank	(987,126)	555,009
	(987,126)	**527,863,694**

27. RELATED PARTY TRANSACTIONS

GSIS Family Bank (GFB) is 99.55 per cent owned by the GSIS. The Bank's Board of Directors, in its Board Resolution No. 09-008 dated February 9, 2008, authorized the Bank to borrow any fund or money from the government, its political subdivisions and instrumentalities and government-owned or controlled corporations.

As part of the investment activities of the GSIS, GFB acts as its conduit for the reverse repurchase facility of the Bangko Sentral ng Pilipinas (BSP). As at December 31, 2011, total short-term placements of the GSIS in GFB amounted to P650 million which were in-turn invested by the Bank in the reverse repurchase facility of the BSP. Maturities of the overnight placements of the GSIS were credited to GSIS investment account with the Union Bank of the Philippines (UBP) via the Real-Time Gross Settlement System (RTGS).

28. ADMINISTRATIVE LOADING

For CY 2011, the administrative loading of the Social Insurance Fund is 5.02 per cent which is below the allowable limit of 12 per cent.

29. GSIS FEES AND COMMISSIONS

The Social Insurance Fund (SIF), being the administrator of the General Insurance Fund (GIF), Optional Life Insurance Fund (OLIF), Pre-Need Fund (PNF) and Employees Compensation Insurance Fund (ECIF), charges the administered funds with administration fees, marketing commissions, and management fees, as follows:

- 10 per cent Administration Fee based on the Optional and General Insurance Premiums retained;

- 20 per cent Marketing Commission based on General Insurance Fund net premiums retained only; and

- 10 per cent Management fee on Employees Compensation Insurance Fund premium collections.

However, the revenue accounts pertaining to these fees in the SIF Financial Statements and the expense accounts under the individual Financial Statements of the Administered Funds are eliminated upon consolidation of the Financial Statements of all Funds.

30. EXEMPTION FROM TAX

Pursuant to Section 39 of RA 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.

31. REGISTRATION OF COMPUTERIZED ACCOUNTING SYSTEM (CAS) WITH BUREAU OF INTERNAL REVENUE (BIR)

On December 23, 2009, the BIR issued the Revenue Regulation (RR) No. 9-2009 requiring all Large Taxpayers (LP) who are currently maintaining their books of accounts and accounting records in manual form are required to register their Computerized Accounting System (CAS).

The GSIS registered its CAS on April 30, 2010.

32. COMPLIANCE WITH REVENUE REGULATIONS NO. 15-2010

In compliance with the requirements set forth by RR No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year 2011.

Documentary stamp tax

The documentary stamp tax paid/accrued in the amount of P1.240 million for 2011 and P992,830 for 2010 pertains to the investment property (foreclosed and cancelled DCS) accounts.

Taxes

	2011	2010
Local		
Real estate taxes	5,469,694	5,323,365
Capital gains taxes	4,326,598	4,573,712
Transfer taxes	258,298	3,115,860
	10,054,590	13,012,937
National		
BIR annual registration	30,000	500

Other taxes and withholding

	2011	2010
Tax on compensation and benefits	446,469,220	320,526,847
Value added taxes (VAT)	51,183,552	76,523,088
Expanded withholding taxes (EWT)	34,792,712	41,145,772
Percentage taxes on premiums	1,460,526	1,129,809
Final taxes	1,139,744	1,855,159
	535,045,754	**441,180,675**

Others

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

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

33. PRIOR PERIOD ADJUSTMENTS

International Accounting Standards (IAS) 8 on prior period adjustments requires an entity to restate the comparative information to correct the error prospectively from the earliest date practicable. Disclosures relating to prior period adjustments include the nature of the prior period error and the amount and extent of the correction.

The following is a summary of the financial impact of the restatement on the 2011 financial statements:

Effects on the Financial Statements - Increase/(Decrease)					
	Assets	**Liabilities**	**Net Worth (Beginning Surplus and Reserves)**	**Revenue**	**Expenses**
Adjustment on MOA with Agencies (DBM and other LGUs) due to erroneous entry made in SAP upon migration (erroneously credited to clearing account instead of migration asset account).	7,793,434,697		7,793,434,697		
Adjustment on the recorded allowance for impairment loss on salary loan (principal and interest) taken up in December 2010 but already cleansed/ deducted from loan renewal and claims in 2011.	4,210,678,539		4,210,678,539		
Adjustment to record outstanding EC premiums receivable as at December 31, 2010 due to change in accounting method from cash to accrual basis as approved per Board Resolution No. 25 dated January 27, 2011.	3,978,693,937		3,978,693,937		
Adjustments to close outstanding loan and interest of Empire East Land Holdings, Inc. (EELHI) upon settlement through dacion en pago and to record joint venture with EELHI with equity contribution of 35 per cent based on the agreed value of the property under the Joint Venture agreement.	1,341,675,000		1,341,675,000		
Reversal of members' transactions not posted to the GL balances due to posting errors that were taken-up as at December 31, 2010 and corresponding set-up as at December 31, 2011.	393,871,290		393,871,290		
Reconstruction of subsidiary ledgers in SAP for the following loan accounts: Educational Assistance Loan, Stock Purchase Loan, FlyPAL and the corresponding outstanding interest.	392,291,815		392,291,815		

Effects on the Financial Statements - Increase/(Decrease)					
	Assets	Liabilities	Net Worth (Beginning Surplus and Reserves)	Revenue	Expenses
Reversal of allowance for probable loss on private loan which was already included in the adjustment on the allowance for impairment loss as at December 31, 2011.	312,993,076		312,993,076		
Adjustment on the final settlement for the sale of Philex shares.	279,065,293			279,065,293	
Adjustment on recorded allowance for impairment loss on General Insurance premiums receivable.	245,137,121		245,137,121		
Adjustments on Investment Property (IP) - Cancelled DCS, the most significant of which pertains to the valuation of IP - unawarded lots.	182,972,491		182,972,491		
Adjustment on the Interest Receivable from Interim Loan pertaining to the full settlement of the outstanding account of Fumitechniks Realty and Development Corporation as approved per Board Resolution No. 227 dated October 27, 2011.	68,764,024		68,764,024		
Adjustment on allowance for impairment loss on premiums and loans receivable and interest on loans as approved under Board Resolution No. 89 dated March 31, 2011.	(5,589,334,767)		(5,589,334,767)		
Adjustment on CRMS posting (agency collections misclassified under payment types 'direct payment', 'unclassified' and 'unlisted'), which were not considered in 2009 closing of GL balances.	(4,855,069,064)		(4,855,069,064)		
Adjustment on abnormal balance of clearing accounts due to migration error.	(3,959,036,681)		(3,959,036,681)		
Adjustment on payments made by DBM on December 28, 2004 for receivables from MOA which were previously charged to interest instead of principal.	(1,000,000,000)		(1,000,000,000)		

Effects on the Financial Statements - Increase/(Decrease)					
	Assets	**Liabilities**	**Net Worth (Beginning Surplus and Reserves)**	**Revenue**	**Expenses**
Adjustment on unrealized gain/loss on non-deliverable forwards pertaining to prior year.	(987,409,006)			(987,409,006)	
Posting of unposted premium in arrears deducted from claims (prior migration to CPAS). Massive posting was done only in December 2011.	(810,071,425)		(810,071,425)		
Adjustments made on members' accounts affecting premiums and loans receivable due to reversal, waiver of surcharges, contract withdrawal of migrated loan balances, correction of migrated data and updating of members' records.	(788,421,367)		(787,607,636)	(813,731)	
Adjustments on Investment Property (IP) - Big Accounts as follows: 1) adjustment of the MIPTI account based on COA recommendation; 2) reversal of valuation on Baguio Convention Center, this was already sold to City of Baguio in 2004; 3) reclassification/ adjustments on the valuation of IP; and 4) other adjustments.	(6,671,717,852)		(6,648,829,421)	(22,888,431)	
Adjustments on Due from Reinsurers account as follows: 1) to record additional allowance for probable loss; 2) to take-up losses recoverable re: excess of loss; and 3) other adjustments.	(315,642,234)		(315,642,234)		
Adjustment to close advances to contractors, other assets - construction in progress and investment properties - others in compliance with current accounting standards.	(275,478,390)		(275,478,390)		
Adjustments on General Insurance premiums receivable from prior year/s, the most significant of which pertains to the National Power Corporation account.	(218,501,694)		(174,283,208)	(44,218,486)	

Effects on the Financial Statements - Increase/(Decrease)					
	Assets	**Liabilities**	**Net Worth (Beginning Surplus and Reserves)**	**Revenue**	**Expenses**
Reversal of Joint Venture Agreement with Megaworld, Inc. on the Gloria Maris Sharks Fin Restaurant property affecting Investment in Joint Venture and Investment Property accounts.	(90,360,000)			(90,360,000)	
Adjustment on Notes Receivable to record collection of penalty from CITRA account per Promissory Note No. 04.	(73,214,504)		(73,214,504)		
Adjustment on non-admitted accounts (Stock Purchase Loan and Educational Assistance Loan); subsidiary ledgers were already created and considered as admitted assets.	(33,966,585)		(33,966,585)		
Adjustments on Claims Payable under SIF, OLIF, PNF and ECIF as follows: 1) claims processed in 2011 but pertaining to prior year/s; 2) reclassification of survivorship and old age pension which the system automatically recorded as surplus adjustment upon application of pension accrual; 3) adjustment on "proportionate pension" paid in December 2011; 4) bank reconciliation adjustments; and 5) stale checks for those issued July 2009 to April 2010.		4,986,165,972	(1,578,968,754)		3,407,197,218
Adjustments on Due to Reinsurers account as follows: 1) adjustment/ reclassification of 2008 to 2010 excess of loss; 2) correction of erroneous cancellation of reinsurance with Malayan Insurance; and 3) other adjustments.		975,638,052	(770,767,630)		204,870,422

Effects on the Financial Statements - Increase/(Decrease)					
	Assets	**Liabilities**	**Net Worth (Beginning Surplus and Reserves)**	**Revenue**	**Expenses**
Reclassification of legal contingent liabilities from Reserve on Contingencies to Provision for Pending Litigation.		915,502,353	(915,502,353)		
Dividend declaration for 2010 under Social and Optional Life Insurance Funds as approved per Board Resolution Nos. 255 and 256 dated December 15, 2011.		905,140,000			905,140,000
Filed SIF, OLIF and PNF claims but unpaid as at December 31, 2011 (pertaining to prior year/s).		436,654,673	(16,938,250)		419,716,423
Adjustments on Sundry Accounts Payable account as follows: 1) settlement of Santiago case in February 2011; 2) refund of premium and loan overpayment pertaining to prior years; and 3) other adjustments.		357,435,925	(34,724,889)		322,711,036
Adjustment on unexpended prior year dividends under Social and Optional Life Insurance Funds.		(879,974,750)			(879,974,750)
Adjustment on previously reported non-admitted income accounts in compliance with current accounting standards.	(147,432,486)	(733,732,391)	586,299,905		
Adjustment on payments made in 2011 to previously disapproved survivorship claim which were already accrued in 2010.		(290,395,959)	290,395,959		
Various adjustments affecting prior year/s assets, liabilities and networth.	29,085,001	38,201,644	(2,680,869)	(4,949,736)	1,486,038
	(6,586,993,771)	**6,710,635,519**	**(8,044,908,806)**	**(871,574,097)**	**4,381,146,387**

- Of the P7.793 billion adjustment, P7.1 billion pertains to DBM MOA which upon migration in SAP was erroneously credited to a clearing account (GL 6148300400) instead of to migration asset account (GL 6148390000). The adjustment was effected to correct the abnormal balance of clearing account GL 6148300400.

The open items migrated in SAP were already net of the related open items covered under this MOA.

- The adjustment of P6.672 billion in the Investment Property account includes adjustment on the MIPTI account to reflect the value of the property when it was acquired by the GSIS in 1976, in view of the conflicting claims of GSIS and PPA which is already under arbitration before the OGCC.

- The Cash Receipting Monitoring System (CRMS) adjustment amounting to P4.855 billion refers to Agency collections, the Official Receipts (ORs) of which were issued in CRMS when the SAP Cash Desk facility was not available. These ORs were not considered in the 2009 and 2010 closing of GL balances for the reason that they were misclassified under payment types ‘direct payment’, ‘unclassified’ and ‘unlisted’ in the Order of Payment (OP) facility.

  The related Electronic Remittance Files (ERF) of these ORs was already posted to the individual members’ subsidiary ledgers through the posting program (ZBROKER) in SAP upon collection.

  The Claims and Pension Administration System (CPAS) adjustment represents clipped premiums and loans from claims processed in the Mainframe (MF) system but after the migration of premiums and loans in SAP. These clipped items were erroneously credited to the 8 series accounts (series used to migrate 2007 audited General Ledger (GL) balances), upon template upload of MF claims, rather than to clearing accounts since these deductions were automatically posted in SAP upon claims processing through the interface program.

  These adjustments were effected to correct the abnormal balance of clearing accounts. These clearing accounts are accounts to which postings are recorded temporarily. Postings may need to be made to a clearing account because of (1) a time gap between transactions, (2) organizational task distribution (bank clearing) and (3) accounting transactions requiring clarifications.

- Adjustment due to various processes made in SAP are adjustments made on members’ accounts affecting premiums and loans receivable due to ERF postings, massive clearings, resetting, reversal, waiver and contract withdrawals. These transactions can be viewed on a per member basis in SAP.

- Reconciliation keys (RKs) in SAP are used to consolidate Collection and Disbursement (CD) Module accounting entries before transferring to Financial Accounting-General Ledger Module in batches. Untransferred RKs represent various (posted) transactions which cannot be transferred to Financial Accounting-General Ledger due to posting errors like fund center, profit center, closed posting period, etc. These items render the GL balance incomplete/unupdated since these are transactions which have already been effected in the subsidiary ledgers.

Adjustments to take up untransferred RKs are regularly done monthly.

34. FINANCIAL RISK MANAGEMENT

Introduction

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

The Board of Trustees (BOT) and the GSIS management are active in the evaluation, scrutiny, and credit approval process on all investments being undertaken by GSIS. The System develops risk management policies and procedures that address specific financial risks and monitors strict compliance thereto through its internal audit function.

Overview

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

- Credit risk
- Liquidity risk
- Interest rate risk
- Foreign currency risk

Credit risk

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

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

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

The GSIS shall constantly monitor the financial terms and conditions of member loan programs to ensure that the programs remain financially viable for the GSIS, responsive to changing market conditions, and suited to member requirements.

The table below shows an aging analysis of some financial assets (in millions):

	Neither Past Due Nor Impaired	Past Due But Not Impaired	Past Due and Impaired	Total
Loans and receivable				
Consolidated loan	109,454	11,984	3,315	124,753
Policy loan	19,041	221	3,650	22,912
Salary loan	-	8,318	11,951	20,269
Real estate loan	5,213	7,256	-	12,469
Government loan	5,014	-	6,215	11,229
Emergency loan	4,703	2,894	1,374	8,971
Deeds of conditional sale	4,687	1,897	-	6,584
eCard/eCard plus cash advance loan	3,636	2,044	495	6,175
Private loan	94	-	1,827	1,921
Pension loan	1,741	87	-	1,828
Summer one month salary loan	-	595	382	977
Emergency loan assistance	-	539	395	934
Notes receivable	-	439	-	439
Loan receivable - subsidiaries	143	218	-	361
Lease purchase	-	-	111	111
Interim loan	-	-	91	91
Stock purchase loan	-	37	-	37
Pensioners' restructured loan	18	-	-	18
Educational assistance loan	-	1	-	1
	153,742	**36,530**	**29,806**	**220,078**

Liquidity risk

Liquidity risk is the risk to the System's earnings and capital arising from the inability to meet funding requirements in a timely manner. The GSIS manages this risk through the daily monitoring of cash flows in consideration of future payment due dates and daily collection amounts. The System also maintains sufficient portfolio of highly liquid assets that can easily be converted to cash as protection against unforeseen interruption to cash flows.

Interest rate risk

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

The GSIS under its Investment Policies and Guidelines (IPGs) may transact in fixed income derivatives, such as interest rate swaps, long dated FX forwards, or interest rate cross current swaps and options on bonds as a way to modify the interest rate risk in its existing fund portfolio. The GSIS shall only transact in fixed income derivatives relating to existing underlying asset exposures on a particular interest rate curve in any of the major currencies. Further, the GSIS shall only engage in fixed income derivatives in maturities not longer than 10 years, except for options on bonds where maturities should not exceed one year.

The sensitivity of the results of operations is measured as the effect of the assumed changes in the interest rates on the net interest income for one period based on the floating rate of financial assets and financial liabilities held as at December 31, 2011 and 2010. The sensitivity of other comprehensive income is calculated by revaluing fixed-rate AFS securities as at December 31, 2011 and 2010. The total sensitivity of other comprehensive income is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes

Foreign currency risk

The GSIS under its Investment Policy Guidelines dated February 10, 2011, may deal in foreign currency exchange, cash or derivative transactions such as foreign exchange (FX) forwards, cross currency swaps and options, for the purpose of enhancing returns or eliminate unwanted foreign currency risk. Such transactions should be limited to Philippine peso and the major currencies. Further, the GSIS Board of Trustees in its resolution no. 104 dated October 14, 2010, authorized the hedging of up to 100 per cent of GSIS' foreign exchange risk and to effect such FX hedging through the use of FX swaps and forward transactions on a deliverable or non-deliverable basis.

Details of the foreign currency financial assets in dollar and euro are shown below:

GSIS Foreign Currency Risk (In US Dollar)

FCY Financial Assets	**2011**	**2010**
ROP and BSP notes and bonds - HTM	965,657,075	944,981,896
Short-term placements	37,275,000	-
ROP, BSP, Corporate bonds - interest receivable	20,198,980	19,769,436
Corporate bonds - AFS	14,171,511	-
Notes receivable and interest receivable - CITRA	10,236,712	10,234,246
ROP and BSP notes and bonds - AFS	3,381,245	25,653,606
Managed funds – global	-	464,976,600
	1,050,920,523	**1,465,615,784**

GSIS Foreign Currency Risk (In Euro) FCY Financial Assets	2011	2010
ROP notes and bonds - HTM	23,043,119	23,139,500
ROP notes and bonds - HTM interest receivable	1,127,322	1,127,322
	24,170,441	**24,266,822**

For every P1.00 change in foreign exchange rate, the GSIS gains or losses over P1.074 billion for 2011 and P1.479 billion for 2010.