June 30, 2017

SOCIAL SECURITY COMMISSION
30 JUN 2017
9:35 pm
OFFICE OF THE COMMISSION SECRETARY

The Social Security Commission
Social Security System
East Avenue, Diliman, Quezon City

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the Social Security System for the years ended December 31, 2016 and 2015.

The report consists of the Independent Auditor's Report, the Audited Financial Statements, the Observations and Recommendations, and the Status of Implementation of Prior Years' Audit Recommendations.

The Auditor expressed an unqualified opinion on the fairness of the presentation of the financial statements of the SSS, with emphasis of matter.

Without qualifying our opinion, we draw attention to Note 6 to financial statements on the Receivables – Collecting Banks/Collecting Agents (CBs/CAs) account was presented net of negative balances totaling to P1.657 billion and P11.337 billion as at December 31, 2016 and 2015, respectively. In CY 2016, the negative balances were primarily due to timing differences in the submission of collection documents and remittances for electronic collection reports that did not pass validation criteria, thus, not posted in the subsidiary ledgers of CBs/CAs. The negative balances reduced the total Receivables – CBs/CAs to a net positive balance thereby understating the receivable and related income accounts. There are initiatives to improve the submission of documents and electronic collection reports.

We also draw attention to Note 18 to financial statements stating that the Other Current Liabilities – Member Loans Collections account amounting to P1.135 billion and P1.399 billion as at December 31, 2016 and 2015, respectively, representing undistributed collections on loan amortizations and contributions that have not yet been posted to individual members or borrowers and other accounts pending receipt of collecting agencies/employers documents and actual distribution of collections and payments whose nature are not indicated by the payors. The unposted collections resulted in the overstatement of the balances of Receivable-Member Loans and understatement of corresponding interest and penalty income accounts. There are on-going initiatives to manage the unposted collections.

Other significant audit observations and recommendations that need immediate action are as follows:

1. Uncollected/delinquent Member Loans (ML) accounts aged more than two years totaling to P31.463 billion constituted the breach over Investment Reserve Fund (IRF) limit of P28.494 billion or 61.82 per cent of P78.584 billion Receivable – ML balance as at December 31, 2016, thus, hindering the System from reinvesting or using the funds for more viable and profitable investments. The SSS Charter limit of 10 per cent of the IRF for investment in ML may no longer be responsive to the existing loan programs and investment realities.

1.1 We recommended that Management:

a. Hasten the implementation of the enhanced collection policies, guidelines, system modules and other courses of action to address the problem on delinquent accounts and limit member loans at reasonable level; and

b. Revisit, for possible amendment, the ceilings of the IRF set forth in Section 26 of Republic Act. No. 8282 to provide greater flexibility in investment decisions with the end view of earning highest possible yield on investible funds.

2. Delinquency in premium contributions and penalties for 38,088 NCR and regional branch and large accounts employers (ERs) were assessed at P8.040 billion as of December 31, 2016, thus, depriving the System of additional funds to be extended for the social security protection and benefits for its members/beneficiaries.

2.1 We recommended and Management agreed that:

a. For the branches to refer delinquent accounts to the Operations Legal Department (OLD) immediately after the prescribed period of compliance of the billing or demand letter;

b. For the Operations Legal Services Division I and II to continuously resolve delinquent ERs referred by the OLD. Make representations with the Prosecutor's Office, concerned courts, and SSC for the speedy resolution of filed cases;

c. Implement the reporting of delinquency status prescribed under SSS Office Order No. 2016-058 to facilitate the efficient monitoring and identification of delinquent ERs and the determination of the correct amount of delinquencies in contribution and the corresponding penalties;

d. Continue to encourage the delinquent ERs to avail of the installment program or through dacion en pago; and

e. Consider a condonation program to draw ERs to pay their delinquency in premium contributions.

3. Member Loan overpayments were not refunded or applied to new/subsequent/existing loans, and the erroneous posting of payments not adjusted totaling to P4.747 billion as at December 31, 2016 recorded under GL AP - SECSM Loans account, thus, deprived the member-borrowers of the use of their money. Also, deficiencies in recording of restructured loans and the variance in balances between the Listing of Member Loan - Negative Balances and Employee Subsidiary Ledger (ESL), if not corrected, may result in the misstatement of the Receivable - ML account and ESL balances.

3.1 We recommended that Management:

a. Hasten the verification from collection documents and ESLs the overpayments recorded under the AP-SECSM Loans account and accordingly correct/adjust any erroneous postings;

b. Verify the "nil" ESL balances and the variance between the Listing of Member Loan – Negative Balances and the ESL and accordingly correct/adjust any erroneous postings; and

c. Inform the member-borrowers of their validated overpayments for refunds.

4. Real estate loans (REL) totaling to P1.531 billion for 8,489 member-borrowers remained long outstanding from over three years to over 25 years as at December 31, 2016, however, the foreclosure of the mortgaged properties in accordance with the Mortgage Contract for REL were not instituted depriving the SSS of additional funds for reinvesting to more viable and profitable investments and if not recovered may result in losses to the System.

4.1 We recommended that Management:

a. Adopt more aggressive collection measures on past due accounts and initiate foreclosure actions in accordance with the provisions of Mortgage Contract for REL provisions;

b. Update member addresses and contact information of REL member-borrowers, consider sending statement of accounts and loan balances through e-mail and tele-marketing to facilitate the collection of past due loans;

c. Review the status Receivable-REL-Regular accounts considering that some accounts are for registration, for consolidation, fully paid, registered and consolidated. Accordingly prepare the necessary adjusting journal entries; and

d. Hasten the implementation of the REL system and make available to this Office for audit reference.

The other audit observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on June 9, 2017 are discussed in detail in Part II of the report.

In a letter of even date, we respectfully requested the President and Chief Executive Officer of SSS to inform this Office of the actions taken thereon by accomplishing and submitting the attached Annex A - Agency Action Plan and Status of Implementation on the audit observations and recommendations contained in the report within 60 days from the date of receipt hereof.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:

MARY S. ADELINO
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library

Social Security System
East Ave., Quezon City

JUN 30 4 04 PM 17

OFFICE OF THE PRES. & CEO
Received by: Sherlyn

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City
Corporate Government Sector
Cluster 2 – Social Security Services and Housing

June 30, 2017

Mr. Emmanuel F. Dooc
President and Chief Executive Officer
Social Security System
East Avenue, Diliman, Quezon City

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The report consists of the Independent Auditor's Report, the Audited Financial Statements, the Observations and Recommendations, and the Status of Implementation of Prior Years' Audit Recommendations.

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d. Continue to encourage the delinquent ER to avail of the installment program or through dacion en pago; and

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c. Review the status Receivable-REL-Regular accounts considering that some accounts are for registration, for consolidation, fully paid, registered and consolidated. Accordingly prepare the necessary adjusting journal entries; and

d. Hasten the implementation of the REL system and make available to this Office for audit reference.

The other audit observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on May 19 ,2016 are discussed in detail in Part II of the report.

We therefore respectfully request that the recommendations contained in the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing and submitting the attached Annex A - Agency Action Plan and Status of Implementation within 60 days from the date of receipt hereof.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:

MARY S. ADELINO
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library

Annex A

SOCIAL SECURITY SYSTEM
East Avenue, Diliman, Quezon City

AGENCY ACTION PLAN and STATUS OF IMPLEMENTATION
Audit Observations and Recommendations
For the Calendar Year 2016
As of ______________________

Ref.	Audit Observations	Audit Recommendations	Agency Action Plan				Status of Implementation	Reason for Partial/Delay/Non-Implementation, if applicable	Action Taken/ Action to be Taken
			Action Plan	Person/Dept. Responsible	Target Implementation Date				
					From	To			

Agency sign-off:

______________________________ ____________________
Name and Position of Agency Officer Date

Note: Status of Implementation may either be (a) Fully Implemented (FI, (b) Ongoing (O), (c) Not Implemented (NI), (d) Partially Implemented (PI), or (e) Delayed (D)

SOCIAL SECURITY SYSTEM
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015
(In Philippine Peso)

	Note	2016	2015 (As restated)
ASSETS			
Current assets			
Cash and cash equivalents	3	**17,830,920,092**	19,112,368,217
Financial assets at fair value through profit or loss	4	**7,639,380,364**	4,295,367,446
Held-to-maturity investments	5	**7,085,201,375**	23,447,522,042
Loans and other receivables	6	**7,243,590,466**	8,212,204,921
Non-current assets held for sale	7	**4,336,866,810**	4,386,197,083
Other current assets	8	**277,112,568**	300,476,320
		44,413,071,675	59,754,136,029
Non-current assets			
Loans and other receivables	9	**83,028,792,064**	79,067,897,352
Financial assets	10	**318,857,542,993**	279,308,305,720
Investment property	11	**22,994,258,201**	19,488,937,709
Property and equipment - net	12	**4,530,621,832**	4,414,892,489
Intangible assets - net	13	**237,252,642**	141,272,897
Other non-current assets	14	**2,334,945,872**	2,223,852,256
		431,983,413,604	384,645,158,423
TOTAL ASSETS		**476,396,485,279**	444,399,294,452
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	15	**7,404,906,703**	4,060,149,416
Funds held in trust	16	**777,646,897**	765,881,517
Deferred income	17	**28,113,117**	47,346,854
Other current liabilities	18	**1,692,514,603**	2,018,275,379
		9,903,181,320	6,891,653,166
Non-current liabilities			
Accrued retirement benefits	19	**1,607,005,231**	1,501,493,328
Rent payable	20	**29,687,606**	18,455,690
Deferred income	21	**436,464,187**	463,314,857
		2,073,157,024	1,983,263,875
TOTAL LIABILITIES		**11,976,338,344**	8,874,917,041
RESERVES	22	**464,420,146,935**	435,524,377,411
TOTAL LIABILITIES AND RESERVES		**476,396,485,279**	444,399,294,452

The notes on pages 8 to 50 form part of these financial statements.

SOCIAL SECURITY SYSTEM
STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the Years Ended December 31, 2016 and 2015
(In Philippine Peso)

	Note	2016	2015
REVENUES			
Members' contribution		**144,364,882,509**	132,615,001,628
Investment and other income	23	**30,096,245,230**	29,486,866,666
		174,461,127,739	162,101,868,294
EXPENSES			
Benefit payments	24		
Retirement		**78,105,736,297**	63,084,598,735
Death		**39,205,006,057**	34,793,885,370
Maternity		**5,288,927,150**	5,213,138,153
Disability		**4,513,863,558**	4,152,579,448
Funeral grant		**3,582,870,714**	3,073,285,313
Sickness		**2,267,691,293**	2,226,135,701
Medical services		**13,119,467**	15,973,343
Rehabilitation services		**1,559,715**	1,224,384
		132,978,774,251	112,560,820,447
Operating expenses			
Personnel services	25	**6,273,888,426**	5,755,113,245
Maintenance and other operating expenses	26	**3,203,491,651**	3,091,267,562
		9,477,380,077	8,846,380,807
		142,456,154,328	121,407,201,254
PROFIT FOR THE PERIOD		**32,004,973,411**	40,694,667,040
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may be reclassified subsequently to profit or loss			
Available-for-sale financial assets			
Reclassification adjustments	22.3	**(181,158,664)**	(167,841,422)
Net gain (loss) on fair value adjustment	22.3	**(2,820,600,913)**	(24,362,335,815)
Items that may not be reclassified subsequently to profit or loss			
Net gain on revaluation of land		**-**	1,122,325,680
		(3,001,759,577)	(23,407,851,557)
TOTAL COMPREHENSIVE INCOME		**29,003,213,834**	17,286,815,483

The notes on pages 8 to 50 form part of these financial statements.

SOCIAL SECURITY SYSTEM
STATEMENTS OF CHANGES IN RESERVES
For the Years Ended December 31, 2016 and 2015
(In Philippine Peso)

	Note	Reserve fund	Investments revaluation reserve	Flexi-fund members' equity	PESO fund members' equity	Property valuation reserve	Contingent surplus	Donated property	Total Reserves
Balance, January 1, 2015		404,204,260,496	11,881,898,917	448,307,588	-	1,763,625,900	7,040,647	11,391,980	418,316,525,528
Changes in reserves for the year									
Corporate operating budget of:									
Employees Compensation Commission		(71,150,494)	-	-	-	-	-	-	(71,150,494)
Occupational Safety and Health Center		(83,518,400)	-	-	-	-	-	-	(83,518,400)
Contribution		-	-	93,820,752	6,484,000	-	-	-	100,304,752
Withdrawal		-	-	(26,870,360)	-	-	-	-	(26,870,360)
Guaranteed income		-	-	8,218,450	-	-	-	-	8,218,450
Management cost of investment		-	-	(4,538,514)	-	-	-	-	(4,538,514)
Annual incentive benefit		(14,090,344)	-	12,681,310	-	-	-	-	(1,409,034)
Reclassification from Property and Equipment-land					-				-
to investment property		6,863,225	-	-		(6,863,225)	-	-	-
Total comprehensive income (loss) for the year		40,694,667,040	(24,530,177,237)	-	-	1,122,325,680	-	-	17,286,815,483
BALANCE, DECEMBER 31, 2015	22	**444,737,031,523**	**(12,648,278,320)**	**531,619,226**	**6,484,000**	**2,879,088,355**	**7,040,647**	**11,391,980**	**435,524,377,411**
Changes in reserves for the year									
Corporate operating budget of:									
Employees Compensation Commission		(83,124,300)	-	-	-	-	-	-	(83,124,300)
Occupational Safety and Health Center		(93,020,200)	-	-	-	-	-	-	(93,020,200)
Contribution		-	-	103,555,450	15,154,600	-	-	-	118,710,050
Withdrawal		-	-	(47,479,019)	(100,000)	-	-	-	(47,579,019)
Guaranteed income		-	-	11,246,161	-	-	-	-	11,246,161
Management cost of investment		-	-	(5,175,409)	-	-	-	-	(5,175,409)
Annual incentive benefit		(14,609,462)	-	13,148,516	-	-	-	-	(1,460,946)
Reclassification from contingent surplus									-
to Reserve Fund		-	-	-	-	-	(7,040,647)	-	(7,040,647)
Total comprehensive income (loss) for the year		32,004,973,411	(3,001,759,577)	-	-	-		-	29,003,213,834
BALANCE, DECEMBER 31, 2016	22	**476,551,250,972**	**(15,650,037,897)**	**606,914,925**	**21,538,600**	**2,879,088,355**	**-**	**11,391,980**	**464,420,146,935**

The notes on pages 8 to 50 form part of these financial statements.

SOCIAL SECURITY SYSTEM
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015
(In Philippine Peso)

	Note	2016	2015 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Members' contribution		**144,364,882,509**	132,615,001,628
Investment and other income		**20,707,435,157**	21,570,446,995
Payments to members and beneficiaries		**(132,977,719,470)**	(112,560,881,711)
Payments for operations		**(8,968,781,671)**	(8,771,131,661)
Net cash generated from operating activities		**23,125,816,525**	32,853,435,251
CASH FLOWS FROM INVESTING ACTIVITIES			
Loan releases and other investment purchases, net		**(23,910,755,138)**	(27,356,719,766)
Acquisition of property and equipment, net		**(260,378,529)**	(309,599,740)
Acquisition of intangible assets, net		**(135,727,320)**	(79,689,038)
Net cash used in investing activities		**(24,306,860,987)**	(27,746,008,544)
CASH FLOWS FROM FINANCING ACTIVITIES			
Corporate operating budget of:			
Employees' Compensation Commission		**(83,124,300)**	(71,150,494)
Occupational Safety and Health Center		**(93,020,200)**	(83,518,400)
Flexi-fund members' equity			
Contribution		**103,555,450**	93,820,752
Withdrawal		**(47,479,019)**	(26,870,361)
Guaranteed income		**11,246,161**	8,218,450
Management cost of investment		**(5,175,409)**	(4,538,514)
		(1,460,946)	(1,409,034)
PESO fund equity contribution			
Contribution		**15,154,600**	6,484,000
Withdrawal		**(100,000)**	-
Net cash used in financing activities		**(100,403,663)**	(78,963,601)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(1,281,448,125)**	5,028,463,106
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**19,112,368,217**	14,083,905,111
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	**17,830,920,092**	19,112,368,217

The notes on pages 8 to 50 form part of these financial statements.

1. REPORTING ENTITY

The Social Security System (SSS) is a government financial institution which administers social security protection to workers in the private sector. Social security provides replacement income for workers in times of death, disability, sickness, maternity and old age.

On September 1, 1957, Republic Act (RA) No. 1161 or the "Social Security Act of 1954" was implemented. Thereafter, the coverage and benefits given by SSS have been expanded and enhanced through the enactment of various laws. On May 1, 1997, RA No. 8282, otherwise known as the "Social Security Act of 1997", was enacted to further strengthen the SSS. Under this Act, the government accepts general responsibility for the solvency of the SSS and guarantees that prescribed benefits shall not be diminished. Section 16 of RA No. 1161, as amended by RA No. 8282, exempts the SSS and all its benefit payments from all kinds of taxes, fees or charges, customs or import duty.

Pursuant to Section 9 of RA No. 8282, coverage in the SSS shall be compulsory upon all private employees not over 60 years of age and their employers, household-helpers earning at least P1,000 a month, and self-employed persons, regardless of trade, business or occupation, with an income of at least P1,000 a month. It also allows voluntary coverage of separated members, overseas Filipino workers (OFWs) and non-working spouses of SSS members.

It is mandatory for the covered employees and employers, household helpers and their employers, and self-employed persons to pay their monthly contributions in accordance with the SSS Contribution Schedule and to remit the same to the SSS on the payment deadline applicable.

Under Section 26-B of RA No. 8282, the SSS as part of its investment operations, acts as insurer of all or part of its interest on SSS properties mortgaged to the SSS, or lives of mortgagors whose properties are mortgaged to the SSS. For this purpose a separate account known as the "Mortgagors' Insurance Account" was established wherein all amounts received by the SSS in connection with the aforesaid insurance operations are placed in the said account.

Under Section 4.a.2 of RA No. 8282, a voluntary provident fund for OFWs was authorized. The supplementary benefit program known as the "Flexi-Fund" was established and approved by the Social Security Commission (SSC) under Resolution No. 288 dated April 18, 2001 and by the President of the Philippines on September 17, 2001.

Membership to the Flexi-Fund of the SSS is on voluntary basis for those with at least P16,000 monthly earnings either covered under existing program or new entrant with requirement of initial contributions to the SSS program. Voluntary membership starts upon first payment of contribution to the supplementary program.

Another voluntary provident fund program of SSS is the Personal Equity and Savings Option (PESO) Fund which was established and approved by the SSC on March 16, 2011 under Resolution No. 349, and by the President of the Philippines on June 6, 2011. It is offered exclusively to SSS members in addition to the regular SSS Program. It aims to provide SSS members the opportunity to receive additional benefits on their capacity to contribute more.

Membership to the PESO Fund is open to all employees, self employed, voluntary and OFW members who have met the following qualifications: (a) below 55 years of age; (b) have paid contributions in the regular SSS program for at least six consecutive months within the 12-month period immediately prior to the month of enrollment; (c) self-employed, voluntary and OFW should be paying the maximum amount of contributions under the regular SSS program; and (d) have not filed claim under the regular SSS program . Membership begins with the payment of the first contribution to the PESO Fund. Each member shall be allowed a maximum contribution of P100,000 per annum and a minimum of P1,000 per contribution.

The SSS also administers Employees' Compensation and State Insurance Fund as provided for by Presidential Decree (PD) No. 626, as amended. The Employees' Compensation Commission (ECC), a government corporation, is attached to the Department of Labor and Employment for policy coordination and guidance. It was created in November 1, 1974 by virtue of PD No. 442 or the Labor Code of the Philippines. It, however, became fully operational with the issuance of PD No. 626 which took effect January 1, 1975.

The ECC is a quasi-judicial corporate entity created to implement the Employees' Compensation Program (ECP). The ECP provides a package of benefits for public and private sector employees and their dependents in the event of work-connected contingencies such as sickness, injury, disability or death.

The State Insurance Fund (SIF) is established to provide funding support to the ECP. It is generated from the employers' contributions collected by both GSIS and SSS from public and private sector employers, respectively.

Coverage in the SIF shall be compulsory upon all employees not over 60 years of age, provided, that an employee who is over 60 years of age and paying contributions to qualify for the retirement of life insurance benefit administered by the System shall be subject to compulsory coverage.

The summary of the financial performance and result of operations of the funds as of December 31, 2016, are as follows. All inter-fund accounts have been eliminated.

	SSS	EC-SIF	Total
Assets			
Investments	406,396,763,635	33,680,303,429	440,077,067,064
Cash and cash equivalent	17,274,756,665	556,163,427	17,830,920,092
Receivables	6,452,461,767	319,236,632	6,771,698,399
Property and equipment	4,767,874,474	-	4,767,874,474
Others	6,941,624,045	7,301,205	6,948,925,250
Total assets	**441,833,480,586**	**34,563,004,693**	**476,396,485,279**
Liabilities	11,963,972,948	12,365,396	11,976,338,344
Reserves	429,869,507,638	34,550,639,297	464,420,146,935
Total liabilities and reserves	**441,833,480,586**	**34,563,004,693**	**476,396,485,279**

	SSS	EC-SIF	Total
Revenues			
Members' contribution	142,451,262,957	1,913,619,552	144,364,882,509
Investment and other income	28,517,757,613	1,578,487,617	30,096,245,230
	170,969,020,570	3,492,107,169	174,461,127,739
Expenses			
Benefit payments	131,883,668,840	1,095,105,411	132,978,774,251
Operating expenses	9,399,665,560	77,714,517	9,477,380,077
	141,283,334,400	1,172,819,928	142,456,154,328
Profit for the year	**29,685,686,170**	**2,319,287,241**	**32,004,973,411**
Other comprehensive income (loss)			
Net unrealized gain (loss) on available for sale financial assets	(2,496,948,450)	(504,811,127)	(3,001,759,577)
Total comprehensive income	**27,188,737,720**	**1,814,476,114**	**29,003,213,834**

The principal office address of SSS is located at East Avenue, Diliman, Quezon City. It has 168 local branches and 108 service and representative offices located in the various cities and municipalities of the country, and 21 foreign branch offices situated in Asia and Pacific, Europe, Middle East and North America.

The accompanying financial statements as of and for the year ended December 31, 2016 (including the comparative financial statements as of and for the year ended December 31, 2015) were approved and authorized for issue by the SSC on April 5, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of preparation

a. Statement of compliance

The financial statements of the SSS have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS includes all applicable PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

b. Presentation of financial statements

The financial statements are presented in accordance with PAS 1, Presentation of Financial Statements. The System presents all items of income and expenses in a single statement of comprehensive income.

c. Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the following items:

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

c.1. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a non-financial asset is measured on its highest and best use. The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The SSS classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- *Level 1* – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Held-for-trading and AFS investments fall under this level.

- *Level 2* – inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter derivative contracts.

- *Level 3* – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market prices in its valuations where possible. Investment properties and non-current assets held for sale are within this level.

d. Presentation currency

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

e. Estimates and judgments

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

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

f. Provisions

Provisions are measured at the best estimate (including risks and uncertainties) of the expenditure required to settle the present obligation, and reflects the present value of expenditures required to settle obligation where the time value of money is material.

SSS recognizes a provision if, and only if: (a) a present obligation (legal or constructive) has arisen as a result of a past event (the obligating event); (b) payment is probable (more likely than not), and (c) the amount can be estimated reliably.

g. Events after reporting period

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

2.2. Adoption of new and amended PFRS

a. Effective in 2016 that are relevant to the System

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

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

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

- Amendment to PAS 19, *Employee Benefits* – The amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated that is important, and not the country where they arise. The assessment whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used. The amendment is retrospective but limited to the beginning of the earliest period presented.

- Amendment to PAS 34, *Interim Financial Reporting* – The amendment clarifies what is meant by the reference in the standard to information disclosed elsewhere in the interim financial report. It further amends PAS 34 to require cross-reference from interim financial statements to the location of that information. The amendment is retrospective.

- Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Methods of Disposal* – The amendment clarifies that, when an asset (or disposal group) is reclassified from held for sale to held for distribution, or vice versa, this does not constitute a change of plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as held for sale or held for distribution simply because the manner of disposal had changed. The amendment also rectifies an omission in the standard by explaining that the guidance on changes in plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not reclassified as held for sale.

- Amendments to PFRS 7, *Servicing Contacts and Interim Financial Statements* – PFRS 7 provide guidance on what is meant by continuing involvement. The amendment on *Servicing Contracts* adds specific guidance to help management determine whether the terms of an arrangement to service is a financial asset which has been transferred constitute continuing involvement. This amendment is prospective with an option to apply retrospectively. A consequential amendment to PFRS 1 is included to give the same relief to first-time adopters. The amendment on *Interim Financial Statements* clarifies that the additional disclosure required by the amendments to PFRS 7, *Disclosure – Offsetting Financial Assets and Financial Liabilities* is not specifically required for all interim periods, unless required by PAS 34. The amendment is retrospective.

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

b. Effective in 2016 that are not relevant to the System

Other standards, amendments and interpretations which become effective for the financial year beginning on January 1, 2016 are considered not relevant to the company, as follows:

- Amendment to PAS 16, *Property, Plant and Equipment* and PAS 41, *Agriculture – Agriculture: Bearer Plants* – The amendments distinguish bearer plants from other biological assets as bearer plants are solely used to grow produce over their productive lives. Bearer plants are seen as similar to an item of machinery in a manufacturing process and therefore will be classified as Property Plant and Equipment and accounted for under PAS 16.

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

- Amendment to PFRS 10, *Consolidated Financial Statements,* PFRS 12, *Disclosures of Interest in Other Entities,* PAS 28 – *Investment* Entities*: Applying the Consolidation Exception* – The amendments clarify the application of the consolidated exception for investment entities and their subsidiaries.

- Amendments to PFRS 11, *Joint Arrangement – Accounting for Acquisitions of Interest in Joint Operations* – The amendments provide specific guidance on accounting for the acquisition of an interest in a joint operation (JO) that is a business. The amendments address diversity in practice related to the accounting for these transactions.

- PFRS 14*, Regulatory Deferral Accounts* –PFRS 14 only applies to first-time adopters of PFRS that apply PFRS 1 and conduct rate-regulated activities. Rate regulation is a framework where the price that an entity charges to its customers for good and services are subject to oversight and/or approval by an authorized body.

c. Effective subsequent to 2016 but not adopted early

Relevant new and revised PRFS which are not yet effective for the year ended December 31, 2016 and have not been applied in the preparation of the financial statements are summarized below.

Effective annual periods beginning on or after January 1, 2017:

- Amendment to PAS 7, *Cash Flow Statements – Disclosure Initiative* – These amendments PAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure initiative, which continues to explore how financial statements disclosure can be improved.

- Amendments to PAS 12, *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses* – These amendments clarify the requirements for recognizing deferred tax assets on unrealized losses. The amendments clarify accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets.

Effective for reporting periods beginning or after January 1, 2018:

- Amendments to PFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions* – These amendments clarify the accounting for cash-settled share-based payment transactions that include a performance condition, classification of share-based payment transactions with net settlement features and accounting for modifications of share-based payment transactions from cash –settled to equity-settled.

- PFRS 9, *Financial Instruments* – PFRS 9 requires an entity to classify financial assets as subsequently measured at either amortized cost or fair value on the *basis* of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. A financial asset shall be measured at amortized cost if both of the following conditions are met: (a) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

  A financial asset shall be measured at fair value unless it is measured at amortized cost.

  A gain or loss on a financial asset that is measured at fair value shall be recognized in profit or loss. However, at initial recognition an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading. If an entity makes the election, it shall recognize in profit or loss dividends from that investment when the entity's right to receive payment of the dividend is established.

- Amendments in Applying PFRS 9, *Financial Instruments* with PFRS 4, *Insurance Contracts* – The amendments to PFRS 4 provide two options for entities that issue insurance contracts. An option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach and an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4; this is the so-called deferral approach.

- PFRS 15, *Revenue from Contract Customers* – The amendments address three topics: identifying performance obligations, principal versus agent considerations and licensing. PFRS 15 requires an entity to identify performance obligations on the basis of distinct promised goods or services. When another party is involved in providing goods or services to a customer, it requires an entity to determine whether it is the principal in the transaction or the agent on the basis of whether it controls the goods or services before they are transferred to the customer. When an entity grants a license to a customer that is distinct from other promised goods or services, the entity has to determine whether the license is transferred at a point in time or over time on the basis of whether the contract requires the entity to undertake activities that significantly affect the intellectual property to which the customer has rights.

Effective for reporting periods beginning or after January 1, 2019:

- PFRS 16 – *Leases* – The new accounting model under PFRS 16 requires a lessee to recognize a right-of-use asset and a lease liability. The right of use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. This will typically produce a front-loaded expense profile as an assumed linear depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating distinction between operating and finance leases. Lessor accounting however remains unchanged and the distinction between operating and finance lease is retained. PFRS 16 is likely to have a significant impact on the financial statements of a number of lessees. The new standard will affect both the balance sheet and related ratios, such as debt/equity ratios. Depending on the particular industry and the number of lease contracts previously classified as operating leases under PAS 17, the new approach will result in a significant increase in debt on the balance sheet.

The SSS plans to adopt prospectively all relevant and applicable standards from the date of its effectivity.

2.3. <u>Financial assets</u>

a. <u>Date of recognition</u>

The SSS initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets are recognized initially on the trade date at which the SSS becomes a party to the contractual provisions of the instrument.

b. Initial recognition

The SSS initially recognizes a financial asset at fair value. Transaction costs are included in the initial measurement, except for financial assets measured at FVTPL.

c. Determination of fair value

The SSS determines fair value based on the nature of the financial assets classified according to the intention of the management following the fair value hierarchy of PFRS 13. This seeks to increase consistency and comparability in fair value measurements and related disclosures. Based on the hierarchy category which considers the inputs used in valuation techniques into three levels. SSS financial assets fall under Levels 1 and 3 only.

d. Classification

The SSS has the following non-derivative financial assets at FVTPL, held-to-maturity financial assets, loans and receivables and AFS financial assets.

d.1. Financial assets at FVTPL

Financial assets at FVTPL consist of held-for-trading financial assets. Held-for-trading financial assets are financial assets acquired or held for the purpose of selling in the short term or for which there is a recent pattern of short-term profit taking.

Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at FVTPL are measured at fair value and changes therein are recognized in profit or loss.

d.2. Held-to-maturity (HTM) financial assets

HTM financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity for which there is the positive intention and ability to hold to maturity. They are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, HTM investments are measured at amortized cost using the effective interest method, less any impairment in value.

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

d.3. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at cost or amortized cost less impairment in value.

A loan or receivable is deemed impaired when it is considered that it will probably not be possible to recover all the amounts due according to the contractual terms, or equivalent value. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indicators that such loans and receivables are impaired.

d.4. AFS financial assets

AFS financial assets are non-derivative financial assets that are designated as AFS and that are not classified in any of the other categories. Subsequent to initial recognition, AFS financial 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 reserves in the 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 and presented as a reclassification adjustment within the statement of comprehensive income. Dividends on AFS equity instruments are recognized in profit or loss when the right to receive payments is established.

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from reserves to profit or loss and presented as a reclassification adjustment within the statement of comprehensive income. Reversals in respect of equity instruments classified as AFS are not recognized in profit or loss.

e. Impairment of financial assets

The System assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The carrying value of the impaired account is reduced to the extent that it exceeds the asset's net realizable value. Impairment losses are recognized in full in profit or loss.

If in subsequent period, the amount of accumulated impairment loss has decreased because of an event occurring after impairment has been recognized, the decrease is allowed to be reversed to profit or loss to the extent that the resulting carrying value will not exceed the amortized cost determined had no impairment been recognized.

f. Derecognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the SSS either has transferred substantially all risks and rewards of ownership or has neither transferred nor retained substantially all the risks and rewards of ownership, but has transferred control of the asset.

2.4. Cash equivalents

Cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of 90 days or less and are subject to an insignificant risk of change in value.

2.5. Supplies and materials

Supplies and materials are valued at cost using the weighted average method.

2.6. Investment property

Investment property account consists of property held to earn rentals and/or for capital appreciation. This account also includes real properties that were previously subject of mortgage loan, individual real estate loan, commercial and industrial loan which were foreclosed or acquired through *dacion en pago*, cancelled or relinquished by former owners in favor of SSS due to non-payment.

An investment property is initially measured at cost, including transaction costs. Such cost should not include start-up costs, abnormal waste, or initial operating losses incurred before the investment property achieves the planned level of occupancy. After initial recognition, it is measured at fair value with any change therein recognized in profit or loss.

The fair values of investment properties are determined annually at the reporting date by an independent professionally qualified valuer. The market value is estimated using gathered available market evidences giving considerations to the extent, character and utility of the properties. The zoning and current land usage in the locality and the highest and best use of the property were used to collect data on current prices.

The Sales Comparison Approach was also used to measure land under the investment property category by gathering current values thru analyses of comparable properties recently sold and current asking prices. For buildings and improvements, the appraisers used the Modified Quantity Survey Method, taking into account the current replacement cost of the property.

The fair valuation of these investment properties is considered to represent a Level 3 valuation based on significant non-observable inputs being the location and condition of the property.

Transfers to or from investment property are made when there is a change in use, evidenced by: (a) commencement of owner-occupation; (b) end of owner-occupation; or (c) commencement of an operating lease to another party.

2.7. Property and equipment

Property and equipment, except land, are stated at cost less accumulated depreciation, amortization and any impairment in value. Land is carried at revalued amount. Increase in value as a result of revaluation is credited to reserves under property valuation reserve unless it represents the reversal of a revaluation decrease of the same asset previously recognized as an expense, in which case it is recognized as income. On the other hand, a decrease arising as a result of a revaluation is recognized as an expense to the extent that it exceeds any amount previously credited to property valuation reserve relating to the same asset.

Cost includes all costs necessary to bring the asset to working condition for its intended use. This would include not only its original purchase price but also costs of site preparation, delivery and handling, installation, related professional fees for architects and engineers, and the estimated cost of dismantling and removing the asset and restoring the site.

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the SSS, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Depreciation is calculated over the depreciable amount less its residual value. It is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The estimated useful lives of property and equipment are as follows:

Assets	Useful Life
Building/building improvements	10-30 years
Furniture and equipment/computer hardware	5-10 years
Land improvements	10 years
Transportation equipment	7 years
Leasehold improvements	10-30 years or the term of lease whichever is shorter

Property and equipment except land have residual value equivalent to ten per cent of the acquisition/appraised value.

Construction in progress (CIP) represents building and building/leasehold improvements under construction and is stated at cost. CIP is not depreciated until such time as the relevant assets are completed and put into operational use.

2.8. Intangible assets

Acquired computer software/licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Computer software/licenses with finite lives are amortized on a straight-line basis over their estimated useful lives, while those with indefinite useful lives or those used perpetually or for as long as there are computers compatible with them are carried at cost and tested annually for impairment.

2.9. Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met when the sale is highly probable and the asset is available for immediate sale in its present condition.

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Any excess of carrying amount over fair value less costs to sell is an impairment loss. No depreciation is recognized for these assets while classified as held for sale.

Non-current assets held for sale include real and other properties acquired (ROPA) in settlement of contribution and member/housing/other loan delinquencies through foreclosure or dation in payment. They are initially booked at the carrying amount of the contribution/loan delinquency plus transaction costs incurred upon acquisition. When the booked amount of ROPA exceeds the appraised value of the acquired property, an allowance for impairment loss equivalent to the excess of the amount booked over the appraised value is set up.

2.10. Impairment of non-financial assets

The carrying amount of non-financial assets, other than investment property and non-current assets held for sale is assessed to determine whether there is any indication of impairment or an impairment previously recognized may no longer exist or may have decreased. If any such indication exists, 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 asset is reduced through the use of an allowance account and the amount of loss is recognized in profit or loss unless it relates to a revalued asset where the value changes are recognized in other comprehensive income/loss and presented within reserves in the property valuation reserve portion. Depreciation and amortization charge for future periods is adjusted.

An impairment loss is reversed if there has been a 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.

2.11. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the SSS and the amount of revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

a. Member's contribution

Revenue is recognized upon collection, except for contributions from Flexi-Fund and PESO Fund members which are directly credited to equity.

b. Interest income

Revenue is recognized as the interest accrues, taking into account the effective yield on the asset. Excluded is interest income from member and housing loans which is recognized upon collection.

c. Dividend income

Dividend income is recognized at the time the right to receive the payment is established.

d. Rental income

Rental income is recognized on a straight-line basis over the lease term.

2.12. Expense recognition

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

2.13. Operating leases

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

a. SSS as lessee

Leases which do not transfer to the SSS 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.

b. SSS as lessor

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

2.14. Related party disclosures

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to as the reporting entity). In such a case, SSS considers the following as related party to the organization: (a) Members of the SSC; (b) President and Chief Executive Officer (PCEO); and (c) Executive Vice President.

3. CASH AND CASH EQUIVALENTS

This account is composed of the following:

	2016	2015
Cash on hand and in bank	**2,583,634,786**	4,856,248,305
Time and special savings deposits	**15,247,285,306**	14,256,119,912
	17,830,920,092	19,112,368,217

Cash in banks earns interest at the respective bank deposit rates. Time and special savings deposits are made for varying periods of up to 90 days depending on the immediate cash requirements of SSS and earn interest at the prevailing time and special savings deposit rates. Interest rates per annum range from 0.10 per cent to 1.15 per cent for savings and current accounts and 1.3 per cent to 2.9 per cent for time and special savings deposits.

In consideration of the banks' making their deposit pick up facility available to the SSS, the latter agreed to maintain an average daily balance of P1 million in a non-drawing interest bearing current account/savings account (CASA) with each of the banks' servicing branches. As at December 31, 2016, P96 million is being maintained in several banks for such purpose.

Interest income earned from cash in banks and term deposits amounted to P325.06 million and P291.84 million as at December 31, 2016 and 2015, respectively (See Note 23).

4. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The fair value of financial assets held for trading are measured using active quoted market prices, recurring and Level 1 based on the level of fair value hierarchy. They are measured at fair value to properly reflect the changes and actual values of the asset in the market.

	2016	2015
Equities – stocks	**6,426,563,297**	4,295,367,446
Government securities	**1,114,690,177**	-
Corporate bonds	**97,117,653**	-
Externally managed fund	**1,009,237**	-
	7,639,380,364	4,295,367,446

The costs of the financial assets are as follows:

	2016	2015
Equities – stocks	**6,656,857,292**	4,336,936,746
Government securities	**1,152,394,743**	-
Corporate bonds	**100,472,351**	-
Externally managed fund	**1,000,000**	-
	7,910,724,386	4,336,936,746

On April 18, 2016, Resolution No. 266-s. 2016 and on February 18, 2015, Resolution No. 156-s. 2015, the SSC approved the trading (buying and selling) of corporate bonds and government securities, respectively, with portfolio size of P1 billion each. Further, the SSC in its meeting held on May 4, 2016 with Resolution No. 304-s. 2016, approved the classification of trading corporate bonds and government securities as held-for-trading financial assets.

5. HELD-TO-MATURITY INVESTMENTS

This account is composed of the following:

	2016	2015
Short-term money placements	**-**	4,812,861,865
Government bonds	**646,700,000**	15,645,200,000
Corporate notes	**5,938,501,375**	2,989,460,177
Corporate bonds	**500,000,000**	-
	7,085,201,375	23,447,522,042

Short-term money placements are short-term investments with original maturities of more than 90 days. Interest income earned recorded under current investment income-held to maturity as at December 31, 2016 and 2015 amounted to P391.45 million and P349.03 million, respectively (See Note 23).

6. LOANS AND OTHER RECEIVABLES

This account is composed of the following:

	2016	2015
Loan to National Home Mortgage Finance Corporation (NHMFC)	**457,526,254**	457,526,254
Commercial and industrial loans	**5,725,100**	60,861,093
Sales contract receivable – investment property	**8,640,713**	8,060,776
Loan to other government agencies – UP-PGH	**-**	22,334,251
	471,892,067	548,782,374
Collecting banks/agents/bayad center	**3,050,349,542**	3,684,297,010
Interest receivable	**3,289,604,212**	3,359,823,217
Other receivables	**431,744,645**	619,302,320
	7,243,590,466	8,212,204,921

The Receivable – Collecting Banks/Agents (CB/CA) account represents premiums and loans receivables collected by banks and remittance companies accredited by SSS but were not yet remitted to SSS as of December 31, 2016 and 2015. Said account is debited for the amount indicated to the collection documents or electronic data files from CB/CA for the amount of remittances/deposits of the CBs/CAs. The balance of the account was presented net of negative balances totalling to P1.657 billion, primarily due to timing differences in the submission of collection documents and remittances for electronic collection reports that did not pass validation criteria.

The interest receivable account represents the accrued interests from various SSS investments like time deposits, special savings deposits, government notes and bonds, corporate notes and bonds, which are still uncollected as at December 31, 2016 and 2015. This account is credited whenever cash is collected, either monthly, quarterly, semi-annually or annually depending on the interest payment date of the investment.

7. NON-CURRENT ASSETS HELD FOR SALE

This account is composed of the following:

	Land	Building	Acquired assets/ Registered	Total
Carrying amount, January 1, 2016	3,768,911,410	164,785,775	466,158,751	4,399,855,936
Accumulated impairment loss	(1,846,078)	(3,311,947)	(8,500,828)	(13,658,854)
Net carrying amount, January 1, 2016	3,767,065,332	161,473,828	457,657,923	4,386,197,082
Additions	2,631,510	-	291,436,392	294,067,902
Transfer	-	(40,088,173)	-	(40,088,173)
Disposals	(59,754,600)	-	(232,283,375)	(292,037,975)
Impairment (loss)/recovery	(3,659,185)	(32,155)	(7,580,686)	(11,272,026)
Fair value, December 31, 2016	**3,706,283,057**	**121,353,499**	**509,230,254**	**4,336,866,810**
Fair value, December 31, 2015	**3,767,065,332**	**161,473,828**	**457,657,923**	**4,386,197,083**

The fair value of non-current asset held for sale is measured based on the assessment of internal/external expert, non-recurring and is Level 3 based on the level of fair value hierarchy due to unobservable inputs. It is measured at the lower of carrying amount and fair value less cost to sell. As at December 31, 2016, the impairment loss of P12.17 million and recoveries/reversals of impairment of P3.91 million are recognized in profit or loss (See Note 23).

As for the internally appraised properties classified as non-current assets held for sale, the value of land was established using the Market Data Approach. The initial value of the land is based on the sales and listings of comparable properties. Adjustments were then applied to the gathered value of land by comparing the physical and locational characteristics of the subject property and the comparable properties.

The value of the improvements was arrived at using the Cost Approach. The current reproduction cost-new of the improvement or structure is first established in accordance with the prevailing market prices of construction materials, labor, contractors' overhead, profits and fees. Adjustments are then made to reflect depreciation resulting from physical deterioration and obsolescence.

Due to the change of management intention on the use of the Aurora Milestone Building located at 1045 Aurora Boulevard, Brgy. Loyola Heights, Quezon City, with carrying value of P40.09 million, such asset has been reclassified to Property, Plant and Equipment as approved by the PCEO duly noted by the Investment and Oversight Committees on June 15, 2016.

8. OTHER CURRENT ASSETS

This account is composed of the following:

	2016	2015
Supplies and materials inventory	**259,682,586**	286,341,614
Prepaid expenses	**15,197,595**	12,466,871
Revolving fund	**1,682,355**	1,499,947
Advances-officials and employees	**550,032**	167,888
	277,112,568	300,476,320

Supplies and materials used or consumed as at December 31, 2016 and 2015 amounted to P207.17 million and P178.68 million, respectively (See Note 26).

9. NON-CURRENT LOANS AND OTHER RECEIVABLES

This account is composed of the following:

	2016	2015
Member loans	**80,395,895,902**	71,560,002,916
Accumulated impairment loss	**(5,811,544,735)**	(5,058,555,915)
	74,584,351,167	66,501,447,001
Loan to NHMFC	**9,998,396,352**	10,352,131,691
Accumulated impairment loss	**(4,482,415,902)**	(1,080,965,795)
	5,515,980,450	9,271,165,896
Housing loans	**2,476,228,000**	2,675,746,114
Accumulated impairment loss	**(397,658,746)**	(203,775,994)
	2,078,569,254	2,471,970,120
Commercial and industrial loans	**73,235,947**	207,767,007
Accumulated impairment loss	**(61,003,337)**	(63,807,556)
	12,232,610	143,959,451
Program Members Assistance for the Development of Entrepreneurship (MADE)	**17,219,220**	17,219,220
Accumulated impairment loss	**(17,219,219)**	(17,219,219)
	1	1
Sales contract receivable	**869,180,938**	713,086,001
Accumulated impairment loss	**(31,522,356)**	(33,731,118)
	837,658,582	679,354,883
	83,028,792,064	79,067,897,352

Loans and other receivables earn interest at their respective rates, as follows:

	Interest Rate (Per Annum)
Member loans	3.0 to 10.0
Loan to NHMFC	4.0
Housing loans	3.0 to 12.0
Commercial and industrial loans	2.5 to 14.0
Sales contract receivable	6.0 to 9.0

On April 25, 2016, SSS issued the guidelines on the Loan Restructuring Program (LRP) for member-borrowers affected by previous calamities/disaster under Office Order No. 2016-026. The objective of the program is to provide reprieve for members with past due calamity loans and other short-term member loans residing or working in calamity/disaster-stricken areas as declared by the National Disaster Risk Reduction and Management Council. The total principal and accrued interests of all past due short-term loans of the member-borrower shall be consolidated into one Restructured Loan (RL1). Penalties shall be condoned after full payment of outstanding principal and interest of RL1 within the approved term. The balance of RL1 should be zero at the end of the term. Otherwise, the unpaid principal of RL1 and the proportionate balance of condonable penalty shall become part of a new principal under Restructured Loan 2 (RL2). The availment period of the program is up to one year from April 28, 2016 until April 27, 2017.

As of December 31, 2016, member-borrowers availment of the LRP reached 384,552 with condonable penalty of P6.08 billion. The principal and interest capitalized amounted to P6.02 billion and collected P1.84 billion.

On September 9, 2015, SSS participated in the Republic of the Philippines' Liability Management Program (Bond Exchange) 2015, wherein eligible bonds offered for exchange have been accepted/cancelled and replaced by new Benchmark Bonds for 25-year in the amount of P3.98 billion. No Day 1 profit or loss has been recognized. The unrealized gains of P135.49 million will be amortized over the term of the new Benchmark Bonds.

The Educational Assistance Loan Program is funded on a 50:50 basis from the National Government (NG) and SSS. The NG counterpart of P3.5 billion was released under SARO No. BMB-F-12-0031251 dated December 14, 2012. The total cash allocations released to SSS from 2012 to December 31, 2016 amounted to P2.10 billion as follows:

NCA No.	Date	Amount
BMB-F-12-0023901	December 14, 2012	45,279,995
BMB-F-13-0017483	September 23, 2013	480,771,648
BMB-F-13-0020336	November 11, 2013	278,800,497
BMB-F-14-0005474	May 2, 2014	260,637,040
BMB-F-14-0012071	August 27, 2014	178,052,884
BMB-F-14-0016332	November 10, 2014	332,923,150
BMB-F-15-0005560	April 29, 2015	32,207,250
BMB-F-15-0016231	October 26, 2015	374,662,670
BMB-C-16-0006531	April 28, 2016	64,198,930
BMB-C-16-0016736	September 15, 2016	54,212,150
		2,101,746,214

The total amount of P4.38 billion consisting of the 50:50 SSS and NG shares has been expended/extended as loans to member beneficiaries as at December 31, 2016. The loans for degree course shall be payable in five years to start 18 months for semestral courses, 15 months for trimestral courses, or 14 months and 15 days for quarter term courses from the scheduled last release date or from the date of last release for those who will not avail of the subsequent releases. For technical/vocational courses, the loan shall be payable in three years to start 18 months for semestral courses from the scheduled last release date or from the date of last release for those who will not avail of the subsequent release. Interest income as of December 31, 2016 and 2015 is P0.81 million and P0.63 million, respectively.

Movements during the year in accumulated impairment losses for non-current loans and other receivables are as follows:

	Balance, January 1	Additional Provision	Recovery/ Reversal	Balance, December 31
Member loans	5,058,555,915	835,887,931	82,899,112	5,811,544,735
Loan to NHMFC	1,080,965,795	3,401,450,108	-	4,482,415,902
Housing loans	203,775,994	195,476,414	1,593,662	397,658,746
Commercial and industrial loans	63,807,556	-	2,804,219	61,003,337
Program MADE	17,219,219	-	-	17,219,219
Sales contract receivable	33,731,118	804,777	3,013,539	31,522,356
	6,458,055,597	**4,433,619,230**	**90,310,532**	**10,801,364,295**

The net impairment provisions for 2016 and 2015 amounted to P4.43 billion and P394.24 million, respectively, and were recognized in the books using the Guidelines in Identifying and Monitoring of Financial Assets and Setting-up of Allowance for impairment Losses which was approved by the SSC under Resolution No. 181-s. 2014.

10. FINANCIAL ASSETS

This account is composed of the following:

	2016	2015
AFS financial assets		
Marketable securities		
Cost	**118,053,572,790**	105,979,106,262
Unrealized gain	**(15,650,668,196)**	(12,648,278,320)
	102,402,904,594	93,330,827,942
Ordinary and preference shares		
Cost	**1,211,576,087**	1,211,245,786
Accumulated impairment loss	**(743,467,449)**	(743,304,410)
	468,108,638	467,941,376
Corporate notes		
Cost	**1,928,259,985**	1,928,259,985
Accumulated impairment loss	**(548,397,079)**	(548,397,079)
	1,379,862,906	1,379,862,906

	2016	2015
Total AFS financial assets	**104,250,876,138**	95,178,632,224
HTM investments		
Notes and bonds	**214,606,666,855**	184,129,673,496
	318,857,542,993	279,308,305,720

Notes and bonds earn interest at 3.375 to 11.25 per cent depending on the amount and terms of the investment.

The fair value of the marketable securities classified as AFS financial asset as at December 31, 2016 and 2015 is P102.40 billion and P93.33 billion, respectively, and are measured using active quoted market prices, recurring and level 1 based on the level of fair value hierarchy. They are measured at fair value to properly reflect the changes and actual values of the asset in the market. Fair value gains/losses are recognized in the other comprehensive income.

11. INVESTMENT PROPERTY

This account is composed of the following:

	Land	Building	Development Cost	Total
Fair value, January 1, 2016	15,477,175,176	4,002,076,695	9,685,838	19,488,937,709
Adjustments	-	12,129,872	-	12,129,872
Disposals	(177,826,750)	(7,060,000)	-	(184,886,750)
Fair value gain (loss)	3,697,660,292	(19,582,922)	-	3,678,077,370
Fair value, December 31, 2016	**18,997,008,718**	**3,987,563,645**	**9,685,838**	**22,994,258,201**
Fair value, December 31, 2015	**15,477,175,176**	**4,002,076,695**	**9,685,838**	**19,488,937,709**

The costs of investment property as at December 31, 2016 and 2015 is P7.44 billion and P7.53 billion, respectively.

The fair value gains and losses on the land and building are reported in the statement of profit or loss as part of investment income.

The fair value of investment property is determined based on valuations performed by independent appraisers, non-recurring and is Level 3 based on the level of fair value hierarchy due to unobservable inputs. They are measured at fair value to properly reflect the increase/decrease in the value of the properties.

The following amounts are recognized in the statements of profit or loss and other comprehensive income:

	2016	2015
Gain (loss) on fair value adjustment	3,678,077,370	1,531,505,110
Rental income	543,138,606	507,811,127
Penalty on rentals	955,284	1,282,336
Gain (loss) on sale/disposal	86,173,250	72,000
Direct operating expenses	(71,317,913)	(83,892,499)
Impairment loss	(401,739)	-
	4,236,624,858	**1,956,778,074**

The proceeds arising from the sale of investment properties is subject to the restriction provided under Sections 25 and 26 of the SS Law which states that three per cent of other revenues shall be used for administrative and operational expenses. All revenues that are not needed to meet the current administrative and operational expenses shall be accumulated in the Investment Reserve Fund.

Direct operating expenses incurred for income and non-income generating investment properties as of December 31, 2016 is P66.53 million and P2.98 million, respectively.

The cumulative change in fair value of sold investment properties if the cost model is used is as follows:

	2016	2015
Selling price	271,060,000	1,072,000
Acquisition cost	(107,403,177)	(1,045,000)
Fair value gain (loss)	**163,656,823**	**27,000**

As of December 31, 2016, no investment property has been reclassified to Non-current asset held for sale or Property, Plant and Equipment.

12. PROPERTY AND EQUIPMENT – NET

This account is composed of the following:

	Land and land improvement	Buildings and building/ leasehold improvements	Furniture and equipment, transportation equipment, computer hardware and others	Construction in progress	Total
Gross carrying amount					
January 1, 2016	3,328,012,881	1,378,173,270	2,878,393,826	28,396,099	7,612,976,076
Additions	-	-	236,450,061	25,978,014	262,428,075
Transfers	-	46,903,583	-	(6,815,410)	40,088,173
Retirement/cancellations/ disposal/adjustments	-	(52,938,066)	(123,431,296)	-	(176,369,362)
December 31, 2016	**3,328,012,881**	**1,372,138,787**	**2,991,412,591**	**47,558,703**	**7,739,122,962**

	Land and land improvement	Buildings and building/ leasehold improvements	Furniture and equipment, transportation equipment, computer hardware and others	Construction in progress	Total
Accumulated depreciation					
January 1, 2016	7,946,998	854,112,388	2,196,502,783	-	3,058,562,169
Charge for the period	429,403	30,875,328	153,702,839	-	185,007,570
Retirement/cancellations/ disposal/adjustments	-	(52,938,036)	(121,651,991)	-	(174,590,027)
December 31, 2016	**8,376,401**	**832,049,680**	**2,228,553,631**	**-**	**3,068,979,712**
Accumulated impairment loss					
January 1, 2016	948,351	138,573,067	-	-	139,521,418
Impairment loss	-	-	-	-	-
December 31, 2016	**948,351**	**138,573,067**	**-**	**-**	**139,521,418**
Net book value, December 31, 2016	**3,318,688,129**	**401,516,040**	**762,858,960**	**47,558,703**	**4,530,621,832**
Net book value, December 31, 2015	**3,319,117,533**	**385,487,817**	**681,891,042**	**28,396,097**	**4,414,892,489**

Among the property, plant and equipment, only land is subject to revaluation. It was revalued by an independent appraisers in December 2015. Valuations were made on the basis of market value. The value of land was arrived by the use of the generally accepted Market Data or Comparative Approach. In this approach, the value of the property is based on sales and listings of comparable property registered within the vicinity. This approach requires the establishment of comparable property by reducing comparative sales and listings to a common denominator with the subject. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. Comparisons were premised on the factors of location, land use, physical characteristics of the land and time element.

If land, buildings and building improvements were stated on the historical cost basis, the net carrying amounts would be as follows:

	2016	2015
Land and land improvement	**485,860,527**	475,107,646
Accumulated depreciation	**(8,535,178)**	-
	477,325,349	475,107,646
Building and building improvement	**1,237,332,892**	1,197,244,720
Accumulated depreciation	**(754,761,078)**	(724,497,981)
	482,571,814	472,746,739
	959,897,163	947,854,385

Any increase in the value of the land as a result of revaluation is recorded under property revaluation reserves while a decrease is recognized as an expense to the extent that it exceeds any amount previously credited to property valuation reserve. The balance of the property revaluation reserves as at December 31, 2016 and 2015 is P2.88 billion and this is not subject to any appropriations as at end of the reporting period.

Rental income-operating assets amounting to P9.18 million and P11.03 million for the year ended December 31, 2016 and 2015 were included in the statements of profit or loss and other comprehensive income.

As at December 31, 2016, the total gross carrying amount of fully depreciated Property, Plant and Equipment that are still in use is P1.46 billion. The carrying amount of Property, Plant and Equipment retired from active use and held for sale amounted to P0.20 million.

13. INTANGIBLE ASSETS – NET

This account is composed of the following:

	2016	2015
Cost		
Balance, January 1	**593,431,886**	534,246,359
Additions	**135,727,320**	79,837,753
Retirement/disposals/cancellation	**(10,325,354)**	(20,652,225)
Balance, December 31	**718,833,852**	593,431,887
Accumulated amortization		
Balance, January 1	**376,330,764**	330,970,690
Amortization charge for the period	**39,746,904**	46,258,115
Retirement/disposals/cancellation	**(10,324,685)**	(898,042)
Balance, December 31	**405,752,983**	376,330,763
Accumulated impairment loss		
Balance, January 1	**75,828,227**	75,828,227
Impairment for the period	**-**	-
Retirement/disposals/cancellation	**-**	-
Balance, December 31	**75,828,227**	75,828,227
Net book value, December 31	**237,252,642**	**141,272,897**

The carrying amount of intangible assets with indefinite lives as at December 31, 2016 and 2015 amounted to P60.70 million and P44.57 million, respectively. All intangible assets with definite lives are amortized with the period of five years or twenty per cent annual amortization rate.

14. OTHER NON-CURRENT ASSETS

This account is composed of the following:

	2016	2015
Receivable-collecting banks	**1,684,478,096**	1,615,613,722
Accumulated impairment loss	**(152,366,883)**	(122,348,843)
	1,532,111,213	1,493,264,879
Interest receivable	**12,713,910,411**	12,715,155,119
Accumulated impairment loss	**(12,707,637,959)**	(12,707,637,957)
	6,272,452	7,517,162
Advances-fire/MRI/foreclosure proceedings/RPT	**259,759,446**	224,745,648
Accumulated impairment loss	**(444,689)**	(541,806)
	259,314,757	224,203,842
Others	**1,046,933,207**	1,004,921,789
Accumulated impairment loss	**(509,685,757)**	(506,055,416)
	537,247,450	498,866,373
	2,334,945,872	2,223,852,256

Non-current interest receivable includes those originated from Home Guaranty Corporation (HGC) guaranteed corporate notes and loan to NHMFC amounting to P120.44 million and P12.58 billion, respectively.

The SSC approved SSS participation and invested in various HGC-guaranteed Asset Participation Certificates (APC) from 1995 to 2000. However, the Asset Pools failed to service the regular interest due on the APCs. In view of this, the SSS decided to call on the guaranty of HGC from November 2000 to July 2001. HGC was unable to pay in full guarantee obligations and partially settled it through the issuance of debenture bonds and transfer of 19 lots through dacion en pago. From year 2005 to 2013 correspondences and meetings were sent and conducted between and among SSS, HGC, and DOF. In November 27, 2013 the SSC under Resolution No. 899, approved the filing of a petition for arbitration and adjudication with the Office of the Government Corporate Counsel (OGCC) and by December 23, 2013 SSS formally filed with the OGCC the Petition for Arbitration and Adjudication versus HGC. On August 20, 2015, SSS submitted a motion for early resolution of the case while on December 1, 2015, OGCC requested SSS to pay arbitration fee in the amount of P19.8 million (50 per cent share in P39.6 million total arbitration fees to be shared equally by SSS and HGC). SSS in its letter dated February 1, 2016 replied that payment of arbitration fee may not pass in audit per COA's rules and regulations. The last communication of SSS to OGCC was on December 14, 2016 and to date there was no decision yet.

The non-current interest receivable from loan to NHMFC represents portion of the total restructured loan amount that SSS and NHMFC have allocated to unpaid interest and penalty as at cut-off date, March 31, 2002, payment of which shall be sourced from the residuals of the cash flows of the remaining accounts upon full payment of low, moderate and high delinquency outstanding obligations.

Movements during the year in accumulated impairment losses for non-current other assets are as follows:

	Balance, January 1	Additional Provision	Recovery/ Reversal	Balance, December 31
Receivable-collecting banks	122,348,843	30,018,040	-	152,366,883
Interest receivable	12,707,637,957	2	-	12,707,637,959
Advances-fire/MRI/foreclosure proceedings/RPT	541,806	37,651	134,768	444,689
Others	506,055,416	6,010,239	2,379,898	509,685,757
	13,336,584,022	**36,065,932**	**2,514,666**	**13,370,135,288**

15. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account is composed of the following:

	2016	2015
Accounts payable	**5,349,314,089**	2,368,330,125
Accrued expenses	**2,055,592,614**	1,691,819,291
	7,404,906,703	4,060,149,416

16. FUNDS HELD IN TRUST (FHT)

This account includes among others bidders' deposits, withholding taxes and retention withheld from suppliers and creditors to answer for defective deliveries or services, contributions to GSIS, PHIC, HDMF and SSS Provident Fund and equity of Flexi-fund members, details as follows:

	2016	2015
Officials and employees	**327,704,032**	290,332,087
Suppliers and creditors	**249,047,481**	265,713,519
Borrowers and other payors	**151,866,535**	159,369,369
Due to other government units	**26,890,498**	28,365,172
Dividend – stock investment loan program	**15,492,454**	15,492,454
Flexi-fund -10 per cent retained earnings	**4,850,964**	3,390,018
Educational loan fund – DECS	**1,794,933**	1,794,933
Unified multi-purpose ID fund	**-**	1,423,965
	777,646,897	765,881,517

FHT – officials and employees includes amount deducted from the separation/retirement claims of SSS officials and employees for the benefits received but were subsequently disallowed in audit. Total funds withheld as at December 31, 2016 amounted to P182.99 million. This is done to assure collection once the pending appeal in court or COA will result to an unfavorable decision and disallowances become final and executory. However, in the event that the decision will be in favor of SSS and its employees, all withholdings will be returned.

On July 2016, COA Order of Execution has been issued for the disallowed incentives and as of December 31, 2016, P13.30 million withheld under FHT were applied as partial settlement.

17. DEFERRED INCOME – CURRENT

This account represents advance rental payments from tenants of SSS property as at December 31, 2016 and 2015 amounting P28.11 million and P47.35 million, respectively.

18. OTHER CURRENT LIABILITIES

This account represents undistributed collections on loan amortizations and contributions that have not yet been posted to individual members or borrowers and other accounts pending receipt of collecting agencies'/employers documents and actual distribution of collections and payments whose nature are not indicated by payors. Hence, undistributed collection accounts always carry respective balances at the end of any given period.

This account is composed of the following:

	2016	2015
Member loans collection	**1,476,853,447**	1,789,307,539
OFW collections	**99,434,795**	106,312,636
Undistributed collection	**77,902,695**	88,188,264
Sales contract receivable	**38,315,758**	23,811,495
Real estate loans collection	**7,908**	10,650,631
Employees' housing loan program	**-**	4,814
	1,692,514,603	2,018,275,379

On member loans collection, the SSS has undertaken efforts to enhance computer programs and systems that helped address the posting issues and expedited the reconciliation process which resulted to a decrease in unposted/undistributed repayments.

As a long-term solution package, the new Loan Management System (e-LMS) which is composed of seven modules are either under development and User's Acceptance Testing phase. The Loans Granting module has been fully implemented in April 2016 while Billing/Collection module has been tested and will be deployed once the database migration from LMS to eLMS is completed. The Loans Records Management module is under testing and the rest of the modules, i.e. Library Maintenance, Inquiry Management Report and Delinquency modules, are still being deployed. The new system will facilitate posting to ensure that borrowers' accounts reflect the correct loan balances, including the corresponding charge, such as interest and penalties.

19. ACCRUED RETIREMENT BENEFITS

The accrued retirement benefits of employees as at December 31, 2016 and December 31, 2015 are as follows:

	2016	2015
Terminal leave pay	**870,551,608**	775,117,532
Retirement benefits/gratuity	**641,074,474**	641,074,473
Retirement incentive allowance	**95,379,149**	85,301,323
	1,607,005,231	1,501,493,328

19.1. Retirement benefits

Retirement benefits are available to qualified employees under any one of RA No. 1616, RA No. 660 and RA No. 8291. Under RA No. 1616, SSS, as the last employer of the qualified employees, pays the gratuity benefit of those who opt to retire under the said law. Benefits under RA No. 660 and RA No. 8291 are paid by GSIS. Thus, the liability only pertains to RA No. 1616.

19.2. Terminal leave benefits

This represents the cash value of the accumulated vacation and sick leave credits of employees, 50 per cent of which can be monetized once a year and the balance payable upon resignation/retirement.

19.3. Retirement incentive award

Employees with at least 20 years of creditable service are entitled to P2,000 for every year of service upon retirement.

20. RENT PAYABLE

This account represents rent payments for lease contracts entered by the SSS for its various branches.

21. DEFERRED INCOME – NON-CURRENT

This account represents unrealized gains or losses from SSS participation in the Republic of the Philippines' Domestic Debt Consolidation Program (Bond Exchange) 2011 and 2014, and Liability Management Program (Bond Exchange) 2015.

22. RESERVES

22.1. Investment reserve fund (IRF)

All revenues of the SSS that are not needed to meet the current administrative and operational expenses are accumulated in the reserve fund. Such portion of the reserve fund as are not needed to meet the current benefit obligations is known as the IRF which the

SSC manages and invests with the skill, care, prudence and diligence necessary under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would exercise in the conduct of an enterprise of a like character and with similar aims, subject to prescribed ceilings under Section 26 of the SS Law.

No portion of the IRF or income thereof shall accrue to the general fund of the National Government or to any of its agencies or instrumentalities, including government-owned or controlled corporations, except as may be allowed under the SS Law. It also provides that no portion of the IRF shall be invested for any purpose or in any instrument, institution or industry over and above the prescribed cumulative ceilings as follows: 40 per cent in private securities, 35 per cent in housing, 30 per cent in real estate related investments, 10 per cent in short and medium-term member loans, 30 per cent in government financial institutions and corporations, 30 per cent in infrastructure projects, 15 per cent in any particular industry and 7.5 per cent in foreign-currency denominated investments.

In its Resolution No. 402-s. 2007, the SSC adopted the use of acquisition cost of shares of stock as the basis for computing the 30 per cent limit in equity investments, based on the opinion dated June 25, 2007 of the Legal and Adjudication Sector of COA.

22.2. <u>Actuarial valuation of the reserve fund of the SSS</u>

The SS Law requires the Actuary of the System to submit a valuation report every four years, or more frequently as may be necessary, to determine the actuarial soundness of the reserve fund of the SSS and to recommend measures on how to improve its viability.

The reserve fund is affected by (a) changes in demographic factors (such as increased life expectancy, ageing of population, declining fertility level and delay in retirement) and (b) the economic conditions of the country. Economic factors on which assumptions are made include interest rates, inflation rates and salary wage increases. With these and other assumptions, and taking into account the uncertainty of future events, the life of the fund is projected.

In the 1999 Actuarial Valuation, the Social Security Fund (SSF) was projected to last only until 2015. Given such projections, the SSS, implemented measures (e.g. increases in the contribution rate from 8.4 per cent to 9.4 per cent in March 2003, increase in the maximum salary base for contributions from P12,000 to P15,000 and the redefinition of credited years of service) and operational developments (e.g. tellering system, more accounts officers, cost saving measures, improved investment portfolio and management, etc.) to strengthen the SSF.

The System's concerted efforts have resulted in improved actuarial soundness. Results of the 2003 Actuarial Valuation indicate an extension on the life of the fund by sixteen years, from 2015 to 2031.

An update of the 2003 Actuarial Valuation was later undertaken, to include the effect of the increase in the contribution rate to 10.4 per cent effective January 2007, and the grant of 10 per cent across-the-board increases in pension effective September 2006 and September 2007. This update showed that the actuarial life of the SSF has extended further to 2036. The 2007 Actuarial Valuation was later conducted, which projected the fund lasting until 2039.

The SSF life extended further to 2043 in the conduct of 2011 Actuarial Valuation, which considered the Reform Agenda items implemented on January 1, 2014, particularly the increase in contribution rate to 11 per cent, and the increase in Monthly Salary Credit (MSC) ceiling to P16,000. The 2011 Actuarial Valuation was then updated to consider the five per cent across-the-board pension increase implemented in June 2014. This update showed a reduction of the fund life by one year to 2042.

The results of the 2015 Actuarial Valuation showed that the SSF was projected to last until 2042, similar to the projection of the updated 2011 Actuarial Valuation. The summary of results of the updated 2011 Valuation, as well as the previous 2015 Actuarial Valuation results, are presented in the table below.

Actuarial Valuation
Comparison of Key Projection Results
2015 Valuation versus 2011 Valuation
Under the Baseline Scenario

	Key Projection Results	2011 Valuation*	2015 Valuation**
No future across-the-board increase in pensions	Year fund will last	2042	2042
	Year net revenue becomes negative	2034	2034

** Updated results upon considering the effect of the 5 per cent across-the-board pension increase effective June 2014*
***As published in the 2015 Actuarial Valuation Report*

Despite these improvements in the projected fund life throughout the past Actuarial Valuation, the SSS, like most defined-benefit social security schemes, is faced with the reality of a less-than-ideal actuarial fund life, and a considerable level of unfunded liabilities. There is unfunded liability when the liability (the difference between the present value of future benefits and operating expenses, and the present value of future contributions) is greater than the reserve fund.

The liability of the SSS in the updated 2011 Actuarial Valuation was computed using a discount rate of 8 per cent. With the low interest rate regime, the discount rate for the 2015 Actuarial Valuation was set to 6 per cent, reflecting yields of long term government bonds. The comparison of liability and unfunded liability in the updated 2011 Valuation and 2015 Valuation is presented in the following table.

Actuarial Valuation
Comparison of Unfunded Liability
2015 Valuation versus 2011 Valuation Under the Baseline Scenario
(Amounts in Trillion pesos)

Key Projection Results	2011 Valuation at 8% Discount Rate*	2015 Valuation at 6% Discount Rate**
Liability	1.56	3.87
Reserve fund	0.34	0.40
Unfunded liability	1.22	3.47

** Present values were computed as of December 31, 2013 using discount rate of 8 per cent.*
*** Present values were computed as of December 31, 2015 using discount rate of 6 per cent.*

Based on the updated 2011 Valuation results, the unfunded liability was valued at P1.22 trillion using a discount rate of 8 per cent. Meanwhile, the unfunded liability of P3.47 trillion in the 2015 Valuation was computed at a discount rate of 6 per cent. If a discount rate of 8 per cent was used instead in the 2015 Valuation, then the unfunded liability would be at P1.42 trillion. Thus, the increase in unfunded liability of P2.05 trillion is due to the update of the discount rate reflective of the current market environment.

This current unfunded liability and fund life situation was caused in part by a structural imbalance, brought about by the mismatch of the increases in pension, monthly salary credit (MSC) ceiling and contribution rate. During the period from 1980 to 2016, pensions were increased through across-the-board pension increases of up 20 per cent (22 times) and increases in minimum pension amount through RA No. 8282; MSC ceiling was also increased 12 times. The contribution rate, on the other hand, was only increased 4 times during the same period, from 8 per cent to 8.4 per cent in 1980, 8.4 per cent to 9.4 per cent in 2003, then to 10.4 per cent in 2007, and finally to 11 per cent in 2014.

The effect of demographic change on the fund should also be recognized, as there may not be enough contributors remitting to pay all the expenses and benefits of the growing number of pensioners due to declining population growth rate and lengthening life spans.

To address these and other issues on the viability of the reserve fund, actuarial valuations and other studies are conducted regularly, the results of which serve as basis of recommendations for policy reforms. The recommendations mentioned in the valuations include improving the contribution collection, raising the contribution rate, increasing the minimum and maximum MSC, revisiting the pension formula, reviewing the qualifications for eligibility for long-term benefits, raising the retirement age, and exploring other means to improve the adequacy of benefits. Further reform packages and other measures shall be formulated, which simultaneously address the interest of the stakeholders of SSS: benefit adequacy for current pensioners, and financial sustainability for future pensioners, who are now active contributors of the SSS.

22.3. Investments revaluation reserve

	2016	2015
Balance, January 1	**(12,648,278,320)**	11,881,898,917
Net gain (loss) arising on revaluation of AFS financial assets	**(2,820,600,913)**	(24,362,335,815)
Cumulative gain (loss) reclassified to profit or loss on sale/disposal of AFS financial assets	**(181,158,664)**	(167,841,422)
Balance, December 31	**(15,650,037,897)**	(12,648,278,320)

The investments revaluation reserve represents the cumulative gains and losses arising on the revaluation of AFS financial assets that have been recognized in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

23. INVESTMENT AND OTHER INCOME

This account is composed of the following:

	2016	2015
Investment income		
Income from current investments		
HTM investments		
Interest income	**391,447,530**	349,030,439
Gain(loss) on fair value adjustment	**974,418**	-
Held-for-trading financial assets		
Dividend Income	**137,245,796**	168,700,037
Interest Income	**61,922,963**	-
Gain(loss) on fair value adjustment	**(229,783,959)**	(1,498,549,950)
Gain(loss) on sale/disposal	**623,897,937**	404,818,118
Investment expense	**(38,013,093)**	(37,387,834)
Total income from current investments	**947,691,592**	(613,389,190)
Income from non-current investments		
AFS financial assets		
Dividend income	**3,362,240,404**	3,164,431,467
Gain on sale/disposal	**4,580,667,682**	5,868,817,041
Investment expense	**(8,845,291)**	(7,737,934)
Impairment loss	**(463,038)**	-
	7,933,599,757	9,025,510,574
HTM investments		
Interest income	**12,459,220,047**	12,449,067,682
Penalty on overdue amortization	**721,386**	-
Gain(loss) on sale/disposal	**26,850,669**	23,237,721
Investment expense	**(921,380)**	(811,678)
	12,485,870,722	12,471,493,725
Loans and receivable		
Interest income	**5,930,100,109**	3,413,717,785
Penalty on overdue amortization	**1,355,696,867**	1,968,370,253
Investment expense	**(108,713)**	(117,133)
Impairment loss	**(4,433,097,586)**	(457,243,439)
	2,852,590,677	4,924,727,466
Investment property (See Note 11)	**4,236,624,857**	1,956,778,073
Total income from non-current investments	**27,508,686,013**	28,378,509,838
	28,456,377,605	27,765,120,648

	2016	2015
Other income		
Interest income – cash in bank/term deposits	**325,062,364**	291,836,646
Directors' fee	**47,586,901**	65,326,540
Non-current assets held for sale		
Rental income	**81,752,828**	67,267,008
Gain on sale/disposal	**245,512,788**	137,723,798
Income from cancelled sale	**1,391,915**	3,789,441
Related expense	**(2,245,594)**	(3,564,471)
Impairment loss	**(12,171,396)**	(6,076,305)
Reversal of impairment loss/revaluation gain	**93,202,920**	137,611,878
Service fee – salary loan	**310,447,933**	288,607,785
Subsidy income from NG	**118,411,080**	406,869,920
Others	**430,915,886**	332,353,778
	1,639,867,625	1,721,746,018
Total investment and other income	**30,096,245,230**	29,486,866,666

In 2016, the SSS incurred a significant decline in the collection of some loans and receivables, AFS financial assets and the decrease in value on non-current asset held for sale, hence carried out a review of its recoverable amount. The review led to the recognition of impairment loss of P4.45 billion, of which P4.43 billion is from loans and receivables, P12.17 million from non-current asset held for sale and P0.46 million from AFS financial assets.

Due to the enhanced loan collection efforts of the organization and the implementation of loan restructuring, SSS considers that certain financial assets are determined to be collectible. The above schedule shows a total of P93.2 million recoveries of which the majority comes from the recovery of impairment loss on member loans amounting to P82.90 million.

As of December 31, 2016, no accrual of interest income has been made on impaired financial assets.

24. BENEFIT PAYMENTS

This account represents payments to members and their beneficiaries in the event of disability, sickness, maternity, old age, death and other contingencies resulting in loss of income or financial burden. Total benefit payments as of December 31, 2016 amounted to P132.98 billion, of which P10.54 billion represents pension adjustments arising from the un-lumping of 1985 to1989 contributions. The project on the 1985 to 1989 contribution was implemented to breakdown the lumped contributions and credited years of service to arrive at the correct computation of pension benefit in compliance with SS Law amendment in 1997 or the RA No. 8282. The policies regarding the 1985-1989 contribution posting and computation of pension benefit adjustment was approved under SSC Resolution No. 291 dated May 4, 2016 and further amended by SSC Resolution No. 394 dated June 22, 2016.

25. PERSONNEL SERVICES

This account is composed of the following:

	2016	2015
Salaries and wages	**2,658,488,108**	2,422,720,545
Mandatory contributions	**1,419,614,827**	1,294,858,883
Bonus and rice grant	**995,020,488**	857,782,283
Incentive award	**437,654,698**	535,383,523
Allowances	**343,098,244**	320,308,358
Terminal leave pay	**207,211,309**	132,229,299
Other personal services	**212,800,752**	191,830,354
	6,273,888,426	5,755,113,245

Provident fund, which forms part of mandatory contributions, is a defined contribution plan made by both the SSS and its officers and employees. The affairs and business of the fund are directed, managed and administered by a Board of Trustees. Upon retirement, death or resignation, the employee or his heirs will receive from the fund payments equivalent to his contributions, his proportionate share of the SSS' contributions and investment earnings thereon.

As of December 31, 2016, SSS has a total of 6,388 personnel with a total of 731 new employees and 174 retired/separated employees.

26. MAINTENANCE AND OTHER OPERATING EXPENSES

This account is composed of the following:

	2016	2015
Maintenance and repairs – building/leased offices	**346,556,702**	309,265,161
Service bureau expenses	**328,412,809**	283,129,663
Office space rentals	**248,987,678**	227,949,317
Communication expenses	**246,124,417**	220,123,791
Light and water	**226,496,745**	227,185,627
Depreciation/amortization	**224,754,474**	221,442,671
Supplies and materials	**207,174,626**	178,684,720
Maintenance and repairs – furniture and equipment	**201,919,521**	171,979,883
Special project	**155,514,155**	235,044,183
COA audit services	**55,089,379**	45,440,553
Impairment loss – operating assets	**35,626,541**	51,232,730
Maintenance and repairs – transportation equipment	**23,886,199**	24,256,718
Other operating expenses	**902,948,405**	895,532,545
	3,203,491,651	3,091,267,562

27. OPERATING LEASE COMMITMENTS

27.1. <u>SSS as lessee</u>

The SSS leases offices for its various branches under cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

SSS opened/relocated 15 branches and 5 new service offices nationwide to provide a conducive member-centric environment and entered into a cancellable operating lease agreement with various property owners. As of December 31, 2016, total lease payment recognized as expense amounted to P248.99 million (See Note 26). Further, no sublease agreements made and no occurrences of contingent rent.

27.2. <u>SSS as lessor</u>

The SSS leases out portion of its office space to various tenants under cancellable operating lease agreements and the minimum lease rental amounts to at least P6,000 per month. The leases have varying terms, escalation clauses and renewal rights.

Total rental income earned and recognized in the statement of profit or loss as of December 31, 2016 and 2015 amounted to P604.48 million and P567.53 million, respectively.

28. RELATED PARTY DISCLOSURES

The total compensation and benefits of key management personnel which consists of short term benefits amounted to P24.04 million and P33.19 million as of December 31, 2016 and 2015, respectively. Key management compensation and benefits form part of the Personnel Services and Maintenance and Other Operating Expenses accounts (See Notes 25 and 26, respectively).

29. FINANCIAL RISK MANAGEMENT

The SSC and SSS management are active in the evaluation, scrutiny and credit approval process on all investments being undertaken by the SSS. The SSC has adopted adequate policies on investment procedures, risk assessment and measurement and risk monitoring by strict observance on the statutory limit provided under the SS Law and compliance to the investment guidelines. Internal controls are also in place and comprehensive audit is being done by Internal Audit Services.

The SSS has identified four major risk groups affecting its operations: financial risk, insurance and demographic risk, strategic risk and operational risk. These risks should be properly managed to ensure sound operations in SSS. The SSC and SSS management review and agree on the policies for managing these risks, as summarized below.

29.1. <u>Financial risk</u>

This is the risk that results from unexpected changes in external markets, prices, rates and liquidity supply and demand.

a. <u>Market risk</u>

Market risk is the SSS exposure to potential loss due to unexpected changes in external markets, prices or rates related to general market movements or a specific asset on the balance sheet. This risk arises from (a) fluctuations in market prices of equities due to changes in demand and supply for the securities (*Equity Risk)*, (b) volatility in the absolute level of interest rates (*Interest Rate Risk*), and (c) fluctuations in exchange rates due to changes in global and local economic conditions and political developments that affect the value of SSS' foreign-denominated investments (*Foreign Currency Risk*).

SSS manages market risk by monitoring the daily changes in the market price of the investments. Also, the SSS Equities Portfolio is subject to Stop-Loss/Cut-Loss Program (Selling at a Loss) to limit SSS loss on a position in a security.

SSS strictly adheres to the provisions of Section 26 of the SS Law which states that the funds invested in various corporate notes/bonds, loan exposures and other financial instruments shall earn an annual income not less than the average rates of treasury bills or any acceptable market yield indicator. Currently, the SSS has achieved a mix of financial investments with interest rates that are within acceptable level. Significant investments in said instruments have fixed interest rates while repricing rates of investments in corporate notes/bonds that carry floating interest rates are always based on acceptable yield (i.e. prevailing 3 months Philippine Dealing System Transaction-Fixing Rate plus a spread of not less than 0.50 per cent).

b. <u>Credit risk</u>

This refers to the risk of loss arising from SSS' counterparty to perform contractual obligations in a timely manner. This includes risk due to (a) failure of a counterparty to make required payments on their obligations when due (*Default Risk*) and (b) default of a counterparty before any transfer of securities or funds or once final transfer of securities or funds has begun but not been completed (*Settlement Risk*).

SSS implements structured and standardized evaluation guidelines, credit ratings and approval processes. Investments undergo technical evaluation to determine their viability/acceptability. Due diligence process (i.e. credit analysis, evaluation of the financial performance of the issuer/borrower to determine financial capability to pay obligations when due, etc.) and information from third party (e.g. CIBI Information, Inc., banks and other institutions) are used to determine if counterparties are credit-worthy.

With respect to stockbrokers, the SSS has adopted the following mitigating measures:

- Evaluation of stockbrokers, at the minimum, is based on the stockholder's (i) good standing in the Exchange, (ii) minimum capitalization, (iii) profitability, and (iv) positive track record of service; and

- Transactions of a stockholder must (i) on a daily basis, not exceed a certain percentage of the stockbroker capitalization/stockholder's equity; (ii) in terms of total transaction, not exceed a certain percentage of total SSS transaction except for negotiated block transaction, and (iii) within a year of accreditation, not exceed a certain percentage of its total market transactions to ensure that the stockbroker does not rely heavily on SSS for its business.

To avoid significant concentrations of exposures to specific industries or group of issuers and borrowers, SSS investments are regularly monitored to ensure that these are always within the prescribed cumulative ceilings specified in Section 26 of the SS Law. To further ensure compliance with Section 26 of SS Law, Policies and Guidelines in Determining and Managing Exposure Limits to Debt and Equity were established.

The following table shows the latest aging analysis of some financial assets:

2016

	Neither past due nor impaired	Past due but not impaired (Age in months) 3-12	13-36	37-48	49-60	Over 60	Expired	Impaired	Total
	(In Millions)								
Financial assets at FVTPL	7,639	-	-	-	-	-	-	-	7,639
AFS financial assets	104,251	-	-	-	-	-	-	1,292	105,543
HTM investments:									
Short-term money placements	-	-	-	-	-	-	-	-	-
Corporate notes and bonds	37,611	-	-	-	-	-	-	-	37,611
Government notes and bonds	184,081	-	-	-	-	-	-	-	184,081
Loans and receivables:									
NHMFC	5,974	-	-	-	-	-	-	4,482	10,456
Commercial and industrial loans	6	-	-	-	-	-	12	61	79
Program MADE	-	-	-	-	-	-	-	17	17
Other government agencies	-	-	-	-	-	-	-	-	-
	339,562	**-**	**-**	**-**	**-**	**-**	**12**	**5,852**	**345,426**

2015

	Neither past due nor impaired	Past due but not impaired (Age in months) 3-12	13-36	37-48	49-60	Over 60	Expired	Impaired	Total
	(In Millions)								
Financial assets at FVTPL	4,295	-	-	-	-	-	-	-	4,295
AFS financial assets	95,179	-	-	-	-	-	-	1,292	96,471
HTM investments:									
Short-term money placements	4,813	-	-	-	-	-	-	-	4,813
Corporate notes and bonds	32,761	-	-	-	-	-	-	-	32,761
Government notes and bonds	169,966	-	-	-	-	-	-	-	169,966
Loans and receivables:									
NHMFC	9,729	-	-	-	-	-	-	1,081	10,810
Commercial and industrial loans	190	-	-	-	-	2	12	64	268
Program MADE	-	-	-	-	-	-	-	17	17
Other government agencies	22	-	-	-	-	-	-	-	22
	316,955	**-**	**-**	**-**	**-**	**2**	**12**	**2,454**	**319,423**

c. Liquidity risk

This refers to the risk of loss, though solvent, due to insufficient financial resources to cover for liabilities as they fall due. It also involves the risk of excessive costs in securing such resources. This risk also refers to (a) unanticipated changes in liquidity supply and demand that may affect the organization through untimely sale of assets, inability to meet contractual obligations or default (*Funding Liquidity Risk*) and (b) asset illiquidity or the risk of loss arising from inability to realize the value of assets, without significant reduction in price, due to bad market conditions (*Market Liquidity Risk*).

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

To manage this risk in SSS equity investments, liquidity requirements are included in SSS' Stock Accreditation Guidelines.

29.2. Insurance and demographic risk

This refers to the risk of loss arising from variation in pension fund claim experience and exposure to adverse persistency, and uncertainty in demographic assumptions when pension and other benefits were designed and valued.

a. Longevity risk

This risk is the loss of fund due to higher than expected payout ratio as a result of changes in life expectancy trends among pensioners.

b. Mortality risk

This risk is due to changes in actual mortality rates that adversely differ from assumptions.

c. Morbidity risk

This risk is due to deviations of actual disability and illness rates from what is expected or assumed.

d. Claims inflation risk

This risk is due to increase in the total amount of claims over time.

SSS manages these risks through regular conduct of studies and monitoring of experience.

29.3. Strategic risk

This is the risk arising from unanticipated changes in key elements of strategy formulation and/or execution leading to actual strategic outcomes that adversely differ from expectations.

a. Governance risk

This risk arises from governance not functioning as expected.

b. Political risk

This is the risk of loss in investment returns due to political changes or instability.

c. Strategic relationship risk

This risk is due to unexpected changes in strategic relationships such as joint ventures/partnerships.

d. External relations risk

This risk is due to unanticipated changes in relationship with external stakeholders such as the public, media, regulators, rating agencies and politicians.

e. Legislative/Regulatory risk

This risk is due to changes in laws/government regulations.

f. Economic risk

This risk arises from unanticipated changes in the economy such as changes in consumer disposable income affecting ability to pay contributions or loan balances.

SSS manages these risks by creating harmonious relationship with various stakeholders, monitoring new and pending bills, and conducting regular economic researches and studies used in crafting appropriate policies beneficial to the organization and its members.

29.4. Operational risk

Operational risk is the exposure to potential loss, whether direct or indirect, due to ineffective and inefficient internal processes, human resource failures, system failures or external events.

a. Internal fraud

The losses are due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/discrimination events, which involve at least one internal party.

b. External fraud

The losses due to acts of a type intended to defraud, misappropriate property or circumvent law, by a third party.

c. Employment practices and workplace safety

The losses arise from acts inconsistent with employment, health or safety laws or agreements, from payments of personal injury claims, or from diversity/discrimination events.

d. Clients, products and business practices

The losses arise from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements) or from the nature or design of a product.

e. Damage to physical assets

The losses arise from loss or damage to physical assets from natural disasters or other events.

f. Business disruption and system failures

The losses arise from disruption of business or system failures.

g. Execution, delivery and processes management

The losses are from failed transaction processing or process management, from relations with trade counterparties and vendors.

SSS manages risks related to human resources failures by promoting high standards in hiring competent and knowledgeable personnel to uphold utmost professionalism in the workplace. Compensation program and rewards system are enhanced to attract and retain qualified personnel.

SSS manages risks related to inadequate processes by studying all existing policies, procedures and programs, and by developing new ones for applicable improvement and enhancement. Policies are reviewed periodically to reflect changes in SSS' thrust and SSC's risk appetite.

SSS manages risks related to system failures by improving and enhancing IT systems. Impact of external events is managed by implementing several measures to prepare and protect itself and its properties against some natural calamities.

As at December 31, 2016 financial year, the Risk Management Department is working on defining the proposed Financial Risk Metrics. The metrics will be submitted to the PCEO for endorsement to the SSC for approval. Once approved, such metrics will be incorporated in the notes.

30. EVENTS AFTER REPORTING PERIOD

For the past few years, numerous bills have been filed in the Senate and in the House of Representatives which seek to provide increases in pensions. Such initiatives prospered in the 16th Congress in 2015, which culminated in the passing of a bill which sought to provide a P2,000 across-the-board pension (ATBP) increase to all existing and future pensioners. However, in January 2016, the President Benigno Aquino III vetoed the said bill, which could have dire financial consequences to the SSS. The bills on the ATPB increase were refiled when the 17th Congress opened in June 2016.

On February 22, 2017 a memorandum from the Executive Secretary of the Office the President of the Philippines confirmed the approval of the P1,000 increase in the benefits of qualified SSS retirees, survivors and permanently disabled pensioners effective January 2017.

The SSC in its meeting held on February 22, 2017 under Resolution No. 175 approved for the implementation of the grant for additional monetary benefits which shall effect the release of the said benefits for January, February and March 2017 on March 3, 10 and 17, 2017, respectively.

31. OTHER MATTERS

31.1. Commitments

Amount authorized but not yet disbursed for capital expenditures as at December 31, 2016 is approximately P1.01 billion.

31.2. Compliance with tax laws

The SSS is withholding and remitting to the Bureau of Internal Revenue (BIR) applicable taxes withheld imposed under the National Internal Revenue Code and its implementing rules and regulations. Income taxes withheld on compensation and expanded withholding tax are remitted on or before 15th day of the following month except those withheld for the month December which are remitted on or before 20th day of January of the following year. Value added taxes and final income taxes withheld are remitted on or before 10th day of the following month.

In compliance with the requirements set forth under the Revenue Regulations No. 15-2010, hereunder are the taxes paid/remitted during the taxable year:

Period Covered	BIR Form 1600 (Vat and Other Percentage Taxes Withheld)	BIR Form 1604-E (Creditable IT Withheld Expanded)	BIR Form 1604-CF (Taxes Withheld from Employees)	BIR Form 1604-CF (Final Tax)
Jan. to Dec. 2016	123,435,545	91,535,903	632,891,953	18,304

The SSS is exempted from all kinds of taxes pursuant to Sec. 16 of RA No. 8282 which states that *"All laws to the contrary notwithstanding, the SSS shall likewise be exempt from* *all kinds of taxes, fees or charge SSS and all its assets and properties, all contributions collected and all accruals thereto and income or investment earnings therefrom, as well as all supplies, equipment, papers or documents shall be exempt from any tax assessment, fee, charge, or customs or import duty; and all benefit payments made by the SSS shall likewise be exempt from all kinds of taxes, fees or charges and shall not be liable to attachments, garnishments, levy or seizure by or under any legal or equitable process whatsoever, either before or after receipt but the person or persons entitled thereto, except to pay any debt of the member to the SSS. No tax measure of whatever nature enacted shall apply to the SSS, unless it expressly revokes the declared policy of the State in Section 2 hereof granting Tax-exemption to the SSS. Any tax assessment imposed against the SSS shall be null and void."*