Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines
Corporate Government Sector
Cluster 2- Social Security and Housing

Jul 29 5 00 PM '18
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SOCIAL SECURITY COMMISSION
OFFICE OF THE COMMISSION SECRETARY
DATE: July 2, 2018
TIME: 8:00 AM
RECEIVED BY:

June 27, 2018

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, 2017 and 2016.

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.

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

FINANCIAL STATEMENT PRESENTATION

While the following audit observations impact on the balances of the accounts affected, taken together, they did not exceed the materiality level set for the 2017 and 2016 audits of the accounts and transactions to warrant a qualified or adverse opinion.

1. The total assets of Social Security System (SSS) are understated by a net amount of P2.164 billion and P1.414 billion in CYs 2017 and 2016, respectively, primarily due, among others, to the unadjusted unreleased outstanding and stale checks, and other reconciling items of P1.841 billion, as well as loan collections of P1.150 billion not posted to the Employees' Subsidiary Ledger (ESLs). Consequently, the liabilities are overstated by P365.852 million and P1.135 billion in CYs 2017 and 2016, respectively, and the equity is understated by P2.164 billion and P2.549 billion in CYs 2017 and 2016, respectively, contrary to Conceptual Framework for financial reporting, Paragraph 15 of Philippine Accounting Standard (PAS) 1 (Revised) and Section 111 of Presidential Decree (PD) No. 1445, on keeping of accounts.

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1.1. We recommended that Management:

On the unadjusted reconciling items in the net amount of P1.841 billion

a. Require the GAD, Branch Accounting Department and CDPRD to strictly comply with SSS Office Order No. 2015-057, PAS 1 (Revised), Presentation of Financial Statements – General features on Fair Presentation and compliance with IFRS and in compliance to SSS Office Order No. 2015-057; and

b. Exert extra efforts to identify the long outstanding dormant reconciling items of the Baby/cluster Bank Statements and CCO – MO and thereafter prepare the necessary journal entry to correct the balances of the accounts.

On the overstatement of Receivable-ML account by P1.150 billion

c. Analyze the OCL – ML collection account balance to enable the posting of all payments to the appropriate ESLs and effect the necessary corrections in the books of accounts;

d. Instruct all SSS branches to process promptly received ML2s and to send letters or coordinate personally with employers who failed to submit the ML2, to correct the invalid and unbalanced transactions to immediately resolve errors in the posting of their payments; and

e. Hasten the implementation of Enhanced Loans Management System (eLMS) modules that will aid in the management of the undistributed ML collections.

2. Overpayments of ML accounts lodged under AP - SECSM Loans account amounting to P5.378 billion as of December 31, 2017 for a total of 6.084 million loans were not yet refunded or applied to new/subsequent/existing loans or adjusted for erroneous postings resulting in the over/understatement of Receivable-ML and other related accounts, contrary to Paragraph 15 of PAS 1 and Section 111 of PD 1445. Likewise, the member-borrowers were deprived of the use of their money.

2.1. We reiterated our recommendations and Management agreed to:

a. Hasten the verification of collection documents and ESLs for the overpayments recorded under the AP-SECSM Loans account;

b. Immediately correct postings in the ESLs and record the necessary adjusting entries;

c. Seek out and inform the concerned member-borrowers of validated overpayments so that they can file requests for refund; and

d. Determine the status of the retired/deceased members who were more than 86 years old or their beneficiaries and consider the inclusion in the monthly pensions if they are still living or active, if not, and if there are no active or living beneficiaries, forfeit the overpayments in favor of the SSS.

PERFORMANCE AUDIT

3. Uncollected/delinquent ML accounts aged two years or more totaling P30.230 billion constituted the breach of P30.111 billion or 61.65 per cent over Investment Reserve Fund (IRF) limit of P48.843 billion as of December 31, 2017, 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 member loan programs and investment realities.

3.1. We reiterated our recommendations and Management agreed to:

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

b. Pursue the collection from delinquent employers of unremitted loan amortizations already deducted from the salaries of their employees; and

c. Include in the proposed amendment of the SSS Charter the revision of investment ceilings of the IRF.

4. The delinquencies in the remittance of premium contributions including penalties, of 122,658 employers accumulated to P13.723 billion as of December 31, 2017 due to lack of Account Officers (AOs) to monitor the remittances. Thus, the System was deprived of additional funds for administering social security protection for its members.

4.1. We recommended and Management agreed to:

a. Expedite the recruitment of additional AOs and LEO for proper monitoring of delinquent employers;

b. Study the option of the availment of the services of collection agents to assist the SSS account officer/s and legal enforcement officer/s to facilitate collection from delinquent employers; and

c. Consider to seek authorization from proper authority the probability of granting condonation of penalty, in order to encourage the delinquent employers to settle their accounts.

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 4, 2018 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
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SOCIAL SECURITY SYSTEM
STATEMENTS OF FINANCIAL POSITION
(In Philippine Peso)
As at December 31, 2017 and 2016

	Note	2017	2016 As restated
ASSETS			
Current Assets			
Cash and cash equivalents	3	**26,821,426,070**	17,830,920,092
Financial assets	4.1	**16,847,812,051**	14,724,581,739
Receivables	5.1	**4,566,519,389**	7,243,590,466
Inventories	6	**191,278,628**	259,682,586
Non-current assets held for sale	7	**5,966,330,784**	4,336,866,810
Other current assets	8	**12,272,251**	17,429,982
Total Current Assets		**54,405,639,173**	44,413,071,675
Non-Current Assets			
Financial assets	4.2	**326,900,661,415**	318,857,542,993
Receivables	5.2	**87,665,909,114**	85,028,154,051
Investment property	9	**30,892,248,159**	22,994,258,201
Property and equipment - net	10	**4,450,181,149**	4,530,621,832
Intangible assets - net	11	**203,095,350**	237,252,642
Other non-current assets	12	**347,748,743**	335,583,885
Total Non-Current Assets		**450,459,843,930**	431,983,413,604
Total Assets		**504,865,483,103**	476,396,485,279
LIABILITIES			
Current Liabilities			
Financial liabilities	13	**8,115,832,971**	7,354,906,703
Inter-agency payables	14	**178,002,873**	172,209,608
Trust liabilities	15	**654,719,321**	605,437,289
Deferred credits/unearned income	16	**122,309,497**	28,113,117
Other payables	18	**1,743,958,037**	1,692,514,603
Total Current Liabilities		**10,814,822,699**	9,853,181,320
Non-current liabilities			
Financial liabilities	13	**37,179,482**	29,687,606
Deferred credits/unearned income	16	**409,613,518**	436,464,187
Provisions	17	**1,466,426,806**	1,607,005,231
Other payables	18	**50,000,000**	50,000,000
Total Non-Current Liabilities		**1,963,219,806**	2,123,157,024
Total Liabilities		**12,778,042,505**	11,976,338,344
EQUITY			
Revaluation surplus		**2,879,088,355**	2,879,088,355
Reserve fund		**496,595,968,020**	476,562,642,952
Cumulative changes in fair value		**(8,161,549,950)**	(15,650,037,897)
Member's equity		**773,934,173**	628,453,525
Total Equity	19	**492,087,440,598**	464,420,146,935
Total Liabilities and Equity		**504,865,483,103**	476,396,485,279

The Notes on pages 9 to 57 form part of these financial statements.

SOCIAL SECURITY SYSTEM
STATEMENTS OF COMPREHENSIVE INCOME
(In Philippine Peso)
For the Years Ended December 31, 2017 and 2016

	Note	2017	2016 As restated
Income			
Service and business income	20	**185,928,657,072**	169,453,408,660
Gains	21	**15,627,623,695**	9,262,363,950
Other non-operating income	22	**833,984,167**	459,230,939
Total Income		**202,390,264,934**	179,175,003,549
Expenses			
Benefit payments	23	**170,683,577,389**	132,978,774,251
Personnel services	24	**6,307,554,940**	6,252,840,686
Maintenance and other operating expenses	25	**3,001,041,031**	2,955,768,330
Financial expenses	26	**178,168,301**	141,093,400
Non-cash expenses	27	**2,486,101,229**	4,959,964,551
Total Expenses		**182,656,442,890**	147,288,441,218
Profit		**19,733,822,044**	31,886,562,331
Assistance and subsidy	28	**541,076,050**	118,411,080
Net income		**20,274,898,094**	32,004,973,411
Other comprehensive income (loss) for the period		**7,488,487,947**	(3,001,759,577)
Comprehensive Income		**27,763,386,041**	29,003,213,834

The Notes on pages 9 to 57 form part of these financial statements.

SOCIAL SECURITY SYSTEM
STATEMENTS OF CHANGES IN EQUITY
(In Philippine Peso)
For the Years Ended December 31, 2017 and 2016

	Cumulative Changes in Fair Value of Investment	Revaluation Surplus	Reserve Fund	Member's Equity	Total
BALANCE AT JANUARY 1, 2016	**(12,648,278,320)**	**2,879,088,355**	**444,755,464,150**	**538,103,227**	**435,524,377,412**
CHANGES IN EQUITY FOR 2016					
Add/(Deduct):					
Members' contribution	-	-	-	118,710,050	118,710,050
Comprehensive income for the year	(3,001,759,577)	-	32,004,973,411	-	29,003,213,834
Other Adjustments					
SSS' share in ECC & OSHC corporate operating budget	-	-	(176,144,500)	-	(176,144,500)
Withdrawal/Management cost	-	-	-	(52,754,429)	(52,754,429)
Guaranteed income/Annual incentive benefit	-	-	(14,609,462)	24,394,677	9,785,215
Reclassification from contingent surplus to reserve fund	-	-	(7,040,647)	-	(7,040,647)
	(3,001,759,577)	-	31,807,178,802	90,350,298	28,895,769,523
BALANCE, DECEMBER 31, 2016 (Note 19)	**(15,650,037,897)**	**2,879,088,355**	**476,562,642,952**	**628,453,525**	**464,420,146,935**
CHANGES IN EQUITY FOR 2017					
Assistance and subsidy					
Members' contribution	-	-		169,730,585	169,730,585
Comprehensive income for the year	7,488,487,947	-	20,274,898,097	-	27,763,386,044
Other Adjustments					
SSS' share in ECC & OSHC corporate operating budget	-	-	(160,664,875)	-	(160,664,875)
Withdrawal/Management cost	-	-		(52,530,545)	(52,530,545)
Guaranteed income/Annual incentive benefit	-	-	(17,255,982)	28,280,608	11,024,626
Reclassification of property and equipment below P15K capitalization threshold to semi-expendable property	-	-	(63,652,172)	-	(63,652,172)
	7,488,487,947	-	20,033,325,068	145,480,648	27,667,293,663
BALANCE, DECEMBER 31, 2017 (Note 19)	**(8,161,549,950)**	**2,879,088,355**	**496,595,968,020**	**773,934,173**	**492,087,440,598**

The Notes on pages 9 to 57 form part of these financial statements.

SOCIAL SECURITY SYSTEM
STATEMENTS OF CASH FLOWS
(In Philippine Peso)
For the Years Ended December 31, 2017 and 2016

	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Members' contribution		**159,724,023,283**	144,364,882,509
Investment and other income		**16,364,942,953**	20,707,435,157
Payments to members and beneficiaries		**(170,684,504,454)**	(132,977,719,470)
Payments for operations		**(9,161,586,423)**	(8,968,781,671)
Net cash generated from operating activities		**(3,757,124,641)**	23,125,816,525
CASH FLOWS FROM INVESTING ACTIVITIES			
Loan releases and other investment purchases, net		**12,957,656,853**	(23,910,755,138)
Acquisition of property and equipment, net		**(163,203,579)**	(260,378,529)
Acquisition of intangible assets, net		**(14,382,445)**	(135,727,320)
Net cash used in investing activities		**12,780,070,829**	(24,306,860,987)
CASH FLOWS FROM FINANCING ACTIVITIES			
Assistance and subsidy			
Employees' Compensation Commission		**(77,396,200)**	(83,124,300)
Occupational Safety and Health Center		**(83,268,675)**	(93,020,200)
Flexi-fund members' equity			
Contribution		**149,315,183**	103,555,450
Withdrawal		**(46,441,841)**	(47,479,019)
Guaranteed income		**12,750,225**	11,246,161
Management cost of investment		**(6,014,460)**	(5,175,409)
Annual incentive benefit		**(1,725,598)**	(1,460,946)
PESO fund equity contribution			
Contribution		**20,415,400**	15,154,600
Withdrawal		**(74,270)**	(100,000)
Management cost of investment		**26**	-
Net cash used in financing activities		**(32,440,210)**	(100,403,663)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**8,990,505,978**	(1,281,448,125)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3	**17,830,920,092**	19,112,368,217
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	**26,821,426,070**	17,830,920,092

The Notes on pages 9 to 57 form part of these financial statements.

SOCIAL SECURITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016
(All amounts in Philippine Peso unless otherwise stated)

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 P500,000 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) was 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 at December 31, 2017, are as follows. All inter-fund accounts have been eliminated.

	SSS	EC-SIF	Total
Total Assets	**467,248,559,531**	**37,616,923,572**	**504,865,483,103**
Liabilities	12,777,664,265	378,240	12,778,042,505
Equity	454,470,895,266	37,616,545,332	492,087,440,598
Total Liabilities and Equity	**467,248,559,531**	**37,616,923,572**	**504,865,483,103**

	SSS	EC-SIF	Total
Income	198,073,632,275	4,316,632,659	202,390,264,934
Expenses	181,340,754,174	1,315,688,716	182,656,442,890
Profit/(Loss)	16,732,878,101	3,000,943,943	19,733,822,044
Assistance and subsidy	541,076,050	-	541,076,050
Net Income	17,273,954,151	3,000,943,943	20,274,898,094
Other comprehensive income for the period	7,262,860,981	225,626,966	7,488,487,947
Total comprehensive income	24,536,815,132	3,226,570,909	27,763,386,041

The principal office address of SSS is located at East Avenue, Diliman, Quezon City. It has 171 local branches and 120 service and representative offices located in the various cities and municipalities of the country, and 23 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, 2017 (including the comparative financial statements as of and for the year ended December 31, 2016) were approved and authorized for issue by the SSC on April 11, 2018.

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 2017 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, 2017:

- Amendments 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.

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

b. Effective in 2017 that are not relevant to the System

Other standards, amendments and interpretations which become effective for the financial year beginning on January 1, 2017 are considered not relevant to the company, as follows:

- 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.

- 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.

c. Effective subsequent to 2017 but not adopted early

Relevant new and revised PRFS which are not yet effective for the year ended December 31, 2017 and have not been applied in the preparation of the financial statements are summarized below.

Effective annual periods beginning on or after January 1, 2018:

- Amendments to PAS 40 – *Transfers of Investment Property* – The amendments clarify when an entity should transfer property including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intention for the use of a property does not provide evidence of a change in use. The amendments will eliminate diversity in practice.

- 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.

- PFRIC Interpretation 22 – *Foreign Currency Transactions and Advance Consideration* – The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The amendments are intended to eliminate diversity in practice, when recognizing the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration received or paid in foreign currency.

- Amendments to PFRS 1*, First-time Adoption of PFRS*. The amendments deleted short-term exemptions for first-time adopters regarding PFRS 7, *Financial Instruments – Disclosures*, PAS 19, *Employee Benefits* and PFRS 10.

- *Amendments to PAS 28, Investments in Associates and Joint Ventures*. The amendments clarify that the election to measure at FVTPL an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

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.

- PFRIC Interpretation 23 – *Uncertainty over Income Tax Treatments* – The interpretation specifically addresses (a) whether an entity considers uncertain tax treatments separately (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities (c) how an entity determines taxable profit (tax loss), tax bases unused tax losses, unused tax credits and tax rates and (e) how an entity considers changes in facts and circumstances. Applying the interpretation could be challenging for entities, particularly those that operate in more complex multinational tax environments. Entities may also need to evaluate whether they have established appropriate processes and procedures to obtain information on a timely basis that is necessary to apply the requirements in the interpretation and make the required disclosures.

- Amendments to PFRS 9*, Financial Instruments – Prepayment Features with Negative Compensation.* These amendments confirm that when a financial liability measured at amortized cost is modified without this resulting in de-recognition, a gain or loss should be recognized immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rates.

- Amendments to PAS 28*, Investment in Associates – Long-term Interests in Associates and Joint Ventures.* These amendments clarify that an entity applies PFRS 9, *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

Effective for reporting periods beginning or after January 1, 2021:

- PFRS 17 – *Insurance Contracts* – PFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

- The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. The core model of IFRS 17 is the general model, supplemented by (a) a specific adaptation for contracts with direct participation features (the variable fee approach) (b) a simplified approach (the premium allocation approach) mainly for short-duration contracts.

The main features of the new accounting model for insurance contracts are as follows:

- ➢ The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfillment of cash flows)
- ➢ A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfillment of cash flows of a group of contracts, representing unearned profitability of the insurance contracts to be recognized in profit or loss over the service period.
- ➢ Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognized in profit or loss over the remaining contractual service period.
- ➢ The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.
- ➢ The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept services provided during the period.
- ➢ Amounts that the policy holder will always receive regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognized directly on the balance sheet.
- ➢ Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense.

- Extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts

IFRS 17, together with IFRS 9, will result in a profound change to the accounting in IFRS financial statements for insurance companies. This will have a significant impact on data, systems and processes used to produce information for financial reporting purposes. The new model is likely to have a significant impact on the profit and total equity of some insurance companies, resulting in increased volatility compared to the present model.

- Amendments to PFRS 3*, Business Combinations* and PFRS 11*, Joint Arrangements – Re-measurement of Previously Held Interests in a Joint Operation.* The amendments to PFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it re-measures previously held interests in that business. The amendments to PFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not re-measure previously held interests in that business.

- Amendments to PAS 12*, Income Taxes – Tax Consequences of Dividends.* The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.

- *Amendment to PAS 23, Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

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

2.3. Financial assets

a. Date of recognition

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 and cash equivalents comprise cash on hand and cash in bank, deposit on call and highly liquid investments with original maturity of three months or less, which are readily convertible to known amount of cash 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. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operation of the SSS.

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 and construction in progress, 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 revaluation surplus 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. 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 asset are completed and put into operational use.

The initial cost of property and equipment consist of its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs necessary in bringing the asset to its working condition and location for its intended use. Cost also includes initial estimate for dismantling and removing the item or restoring the site on which it is located, the obligation for which an entity incurs when the item is acquired.

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. An item of property and equipment is derecognized when either it has been disposed or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gains or losses on the retirement and disposal of an item of property and equipment are recognized in the consolidated statements of income in the period of retirement or disposal.

Expenditures incurred after the item has been put into operations, such as repairs and maintenance, are normally recognized as expense in the period such cost are 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 and construction in progress have residual value equivalent to ten per cent of the acquisition cost.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation and amortization is recorded or charged to current operations.

Pursuant to COA Circular 2016-006 dated December 29, 2016, SSS issued Office Order No. 2017-019 dated March 17, 2017 to align with the Revised Chart of Accounts for Government Corporations. Items whose amounts are below the capitalization threshold of P15,000 shall be accounted as semi-expendable property or furniture and equipment.

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 or whenever there is an indication that the assets may be impaired.

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. Upon in-depth assessment that properties classified as non-current held for sale ceases to meet the conditions set under IFRS 15, such assets will be reclassified to other asset classification which best suits the individual assessment criteria of the property. The reclassification will be subject to the approval of the SSS Commission.

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. Members' 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

The SSS regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the system, or vice versa. The key management personnel of the SSS are the following: (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:

	2017	2016
Cash on hand	**725,166,750**	697,559,982
Cash in bank	**1,810,819,609**	1,886,074,804
Cash equivalents	**24,285,439,711**	15,247,285,306
	26,821,426,070	17,830,920,092

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 0.40 per cent to 1.9 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, 2017, P96 million is being maintained in several banks for such purpose.

Interest income earned from cash in banks and term deposits amounted to P499.19 million and P325.06 million as at December 31, 2017 and 2016, respectively (See Note 20).

4. FINANCIAL ASSETS

4.1 Current Financial Assets

This account is composed of financial assets at fair value through surplus/profit or deficit/loss and investment in bonds maturing within the year.

	2017	2016
Financial assets designated at fair value through surplus/profit or deficit/loss		
Government securities	**10,514,602,646**	1,114,690,177
Equities – stocks	**5,712,048,471**	6,426,563,297
Corporate bonds	**93,065,507**	97,117,653
Externally managed fund	**1,011,565**	1,009,237
	16,320,728,189	7,639,380,364
Financial assets – held to maturity		
Investment in bonds – local		
Government bonds	**517,050,000**	646,700,000
Government notes	**10,033,862**	-
Corporate notes	**-**	5,938,501,375
Corporate bonds	**-**	500,000,000
	527,083,862	7,085,201,375
Total current financial assets	**16,847,812,051**	14,724,581,739

The fair value of financial assets through surplus/profit or deficit/loss 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.

Government securities classified as held-for-trading increased significantly in CY 2017, and there are no maturing corporate notes and bonds in CY 2018 to be classified as current assets.

The costs of the financial assets are as follows:

	2017	2016
Government securities	**10,554,284,665**	1,152,394,743
Equities – stocks	**5,298,347,407**	6,656,857,292
Corporate bonds	**100,472,351**	100,472,351
Externally managed fund	**1,000,000**	1,000,000
	15,954,104,423	7,910,724,386

4.2 Non-Current Financial Assets

	2017	2016
Financial assets – held to maturity		
Investment in bonds – local		
Government bonds	**191,756,311,666**	182,924,468,566
Corporate bonds	**20,843,130,000**	20,797,530,000
Corporate notes	**10,356,300,000**	10,374,600,000

	2017	2016
Government notes	**500,000,000**	510,068,289
	223,455,741,666	214,606,666,855
Financial asset – available for sale securities	**104,736,784,277**	105,542,740,666
Allowance for impairment	**(1,291,864,528)**	(1,291,864,528)
	103,444,919,749	104,250,876,138
Total non-current financial assets	**326,900,661,415**	318,857,542,993

The fair value of the marketable securities classified as AFS financial asset as at December 31, 2017 and 2016 is P101.60 billion and P102.40 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.

Notes and bonds earn interest at 2.125 to 8.50 per cent depending on the amount and terms of the investment. Interest income earned from investments in bonds – local as at December 31, 2017 and 2016 is P13.21 billion and P12.52 billion, respectively.

5. RECEIVABLES

5.1 Current Receivables

	2017	2016
Loans and receivable accounts		
Accounts receivable	**497,688**	5,725,100
Interest receivable	**3,311,675,908**	3,289,604,212
Dividends receivable	**33,217,293**	32,500,680
Loans receivable – other government corp.	**-**	457,526,254
Sales contract receivable	**10,322,407**	8,640,713
	3,355,713,296	3,793,996,959
Lease receivable		
Operating lease receivable	**74,740,243**	84,015,528
Other receivables		
Receivables – disallowances/charges	**27,616,870**	29,562,172
Due from officers and employees	**1,535,160**	1,568,028
Insurance claims receivable	**-**	918,260
Other receivables	**1,106,913,820**	3,333,529,519
	1,136,065,850	3,365,577,979
Total current receivables	**4,566,519,389**	7,243,590,466

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, 2017 and 2016.

This account is credited whenever cash is collected, either monthly, quarterly, semi-annually or annually depending on the interest payment date of the investment. On the other hand, the policy on the accrual of interest for Member Loans (ML) and Housing Loans (HL) will be formulated for integration in the electronic Loan Management System (e-LMS) in accordance with related policy enhancements for loans granting, billing, payment, posting and reporting. The system will be enhanced to facilitate accurate computation, clearing, reconciliation and reporting of accrual and collection transactions which shall be the basis in recording interest income and receivable. Meantime, the unrecorded accrued interest for ML and HL including Sales Contract Receivables is estimated at around P749 million and P693 million as at December 31, 2017 and 2016, respectively, computed following the provisions of the BSP Circular Nos. 202 and 772 on Non-performing loans. The circular states that “No accrual of interest income is allowed if a loan has become non-performing as defined under this Circular. Interest on non-performing loans shall be taken up as income only when actual payments thereon are received. In the case of loans payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three (3) or more installments are in arrears.”

Loans receivable from the National Home Mortgage Corporation classified as moderate delinquent (Mod Del) will expire on January 1, 2018, thus, unpaid balance is recognized as non-current.

Operating lease receivables represent accrual of rental income from tenants of SSS which are collectible within a year. Income collected as at December 31, 2017 and 2016 amounted to P6.60 million and P9.18 million, respectively.

Receivable – disallowances/charges are disallowances in audit due from SSS officials and employees which have become final and executory.

Other receivables consisting of Receivable – Collecting Banks/Agents (CB/CA) account represents premiums and loans receivables collected by banks and remittance companies accredited by SSS but collection documents or electronic data files were not yet submitted to SSS as at December 31, 2017 and 2016. 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 P1.72 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 electronic Collection System which will be implemented in January 16, 2018 will facilitate the real-time recording/posting of SSS contribution payments. All accredited bank and non-bank payment channels are mandated to shift from the current process of collecting and reporting into an electronic payment system using the Payment Reference Number (PRN) in the payment of contributions. All payment channels shall equip their system to accept the PRN of the electronically-generated collection list on or before February 4, 2018.

5.2 Non-Current Receivables

	2017	2016
Loans and receivables accounts		
Accounts receivable	**87,630,638,578**	82,962,579,069

	2017	2016
Allowance for impairment – accounts receivable	**(7,955,144,003)**	(6,287,426,038)
Net value – accounts receivable	**79,675,494,575**	76,675,153,031
Interest receivable	**12,713,176,773**	12,713,910,411
Allowance for impairment – interest receivable	**(12,707,637,959)**	(12,707,637,959)
Net value – interest receivable	**5,538,814**	6,272,452
Loans receivable – other government corp.	**10,253,702,881**	9,998,396,352
Allowance for impairment – loans receivable -other government corp.	**(4,711,440,496)**	(4,482,415,902)
Net value – loans receivable – other government corp.	**5,542,262,385**	5,515,980,450
Sales contract receivable	**984,139,142**	869,180,938
Allowance for impairment – interest receivable	**(41,206,524)**	(31,522,356)
Net value – interest receivable	**942,932,618**	837,658,582
Total loans and receivables	**86,166,228,392**	83,035,064,515
Lease receivable		
Operating lease receivable	**13,880,442**	14,581,294
Allowance for impairment – operating lease	**(13,880,439)**	(14,581,291)
Net value- operating lease receivable	**3**	3
Other receivable		
Due from officers and employees	**251,716,637**	221,530,095
Other receivables	**1,731,546,136**	2,419,027,812
Allowance for impairment – other receivable	**(483,582,054)**	(647,468,374)
Net value – other receivable	**1,247,964,082**	1,771,559,438
Total other receivable	**1,499,680,719**	1,993,089,533
Total non-current receivable	**87,665,909,114**	85,028,154,051

Accounts receivable account is composed of short-term loans, housing loans, commercial and industrial loans to SSS members.

	2017	2016
Member loans	**85,313,922,066**	80,395,895,902
Housing loans	**2,229,197,190**	2,476,228,000
Commercial and industrial loans	**70,300,102**	73,235,947
Program member assistance for development entrepreneurship (MADE)	**17,219,220**	17,219,220
Total	**87,630,638,578**	82,962,579,069
Allowance for impairment	**(7,955,144,003)**	(6,287,426,038)
Net value – accounts receivable	**79,675,494,575**	76,675,153,031

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

	Interest Rate (Per Annum)
Member loans	3.0 to 10.0
Housing loans	3.0 to 12.0
Commercial and industrial loans (CIL)	2.5 to 14.0
Loan to other govt. corp. – NHMFC	4.0
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 at December 31, 2017, member-borrowers availment of the LRP reached to P856,437 with total loanable amount of P13.83 billion and condonable penalty of P13.46 billion.

The Educational Assistance Loan Program amounted to P4.76 billion consisting of the 50:50 SSS and NG shares, has been expended/extended as loans to member beneficiaries as at December 31, 2017. 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 and penalty on overdue amortization as at December 31, 2017 and 2016 is P10.12 million and P0.81 million, respectively.

Executive Order No. 90 mandated NHMFC to be the major government home mortgage institution whose initial main function was to operate a viable home mortgage market, utilizing long-term funds principally provided by the SSS, the Government Service Insurance System, and Home Development, to purchase mortgages originated by both the private and public institutions within the Unified Home Loan Program (UHLP) guidelines. In accordance with the mandates of EO 90, the SSC in its Resolution No. 504 dated August 4, 1988 approved the long-term funds to NHMFC for low-income SSS members. Total loan releases from 1988 to 1995 amounted to P30.075 billion with a total housing loan borrowers/beneficiaries of 135,229. In 1996, a substantial number of UHLP Portfolio borrowers defaulted in the payment of their loans to NHMFC, thereby causing NHMFC also to default in its payments to SSS. To address the deterioration of NHMFC's financial position, a Memorandum of Agreement dated June 5, 1996 was executed by the parties. In December 17, 2003, the SSC under Resolution No. 684 approved the restructuring of

NHMFC's total obligations of P40.515 billion broken down into: Principal (Low, Mod & High Del) – P27.94 billion, Accrued Interest - P11.961 billion and Penalty – P0.614 billion. On-going joint meetings are conducted and collection letters have been sent to NHMFC for the settlement of the latter's outstanding loan obligation. As of December 31, 2017, the outstanding principal balance is P10.25 billion.

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. As of December 31, 2017, settlement negotiations are ongoing.

Movements during the year in accumulated impairment losses of non-current receivables are as follows:

	Balance, January 1	**Additional Provision**	**Recovery/ Reversal**	**Balance, December 31**
Loans and receivable	23,509,002,255	2,196,385,816	289,959,089	25,415,428,982
Lease receivable	14,581,291	4,780,768	5,481,620	13,880,439
Other receivable	647,468,374	1,362,772	165,249,091	483,582,054
	24,171,051,919	**2,202,529,356**	**460,689,800**	**25,912,891,476**

The net impairment provisions for 2017 and 2016 amounted to P2.20 billion and P4.43 billion, 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.

6. INVENTORIES

This account is composed of the following:

	2017	2016
Office supplies inventory	**121,700,964**	109,933,994
Accountable forms inventory	**51,486,804**	138,302,145

	2017	2016
Drugs and medicines	**17,297,970**	10,709,825
Medical, dental and laboratory supplies inventory	**792,890**	736,622
	191,278,628	259,682,586

Supplies and materials used or consumed as at December 31, 2017 and 2016 amounted to P229.51 million and P227.28 million, respectively (See Note 25).

7. NON-CURRENT ASSETS HELD FOR SALE

This account is composed of the following:

	Land	Building	Acquired assets/ Registered	Total
Carrying amount, January 1, 2017	3,711,788,320	124,697,603	517,343,374	4,353,829,297
Accumulated impairment loss	(5,505,264)	(3,344,104)	(8,113,120)	(16,962,488)
Net carrying amount, January 1, 2017	3,706,283,056	121,353,499	509,230,254	4,336,866,809
Additions	-	-	311,975,395	311,975,395
Transfers from Investment property	1,040,140,586	624,660,826	-	1,664,801,412
Disposals	(46,474,821)	(34,779,569)	(229,260,849)	(310,515,239)
Impairment (loss)/recovery	3,524,760	(31,510,421)	(8,811,932)	(36,797,593)
Fair value, December 31, 2017	**4,703,473,581**	**679,724,335**	**583,132,868**	**5,966,330,784**
Fair value, December 31, 2016	**3,706,283,057**	**121,353,500**	**509,230,253**	**4,336,866,810**

The fair value of non-current asset held for sale (NCAHFS) 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, 2017, the impairment loss of P45.50 million and recoveries/reversals of impairment of P8.06 million are recognized in profit or loss (See Note 27).

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 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.

NCAHFS are real and other properties acquired (ROPA) which are held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. As of December 31, 2017, SSS has sold 379 properties through cash and installment bases generating gain on sale amounting P254.26 million and transferred one ROPA to IP and twelve properties reclassified from IP with total book value of P1.66 billion.

ROPA can be leased out momentarily while waiting for its sale to maximize its potential income. Rental income recorded as of December 31, 2017 and 2016 amounted to P88.98 million and P81.75 million, respectively.

8. OTHER CURRENT ASSETS

This account is composed of the following:

	2017	2016
Advances	**1,539,394**	2,232,387
Prepayments	**10,732,857**	15,197,595
	12,272,251	17,429,982

Advances account consist of advances to Special Disbursing Officer and Officers and Employees.

9. INVESTMENT PROPERTY

This account is composed of the following:

	Land	**Building**	**Development Cost**	**Total**
Fair value, January 1, 2017	18,997,008,718	3,987,563,645	9,685,838	22,994,258,201
Transfers to NCAHFS	(1,040,140,586)	(624,660,826)	-	(1,664,801,412)
Disposals	-	(65,739,390)	-	(65,739,390)
Fair value gain (loss)	7,383,776,189	2,244,754,571	-	9,628,530,760
Fair value, December 31, 2017	**25,340,644,321**	**5,541,918,000**	**9,685,838**	**30,892,248,159**
Fair value, December 31, 2016	**18,997,008,718**	**3,987,563,645**	**9,685,838**	**22,994,258,201**

The costs of investment property as at December 31, 2017 and 2016 is P6.20 billion and P7.44 billion, respectively.

The fair value of investment property is determined based on the Cost and Market Approach methods performed by independent appraisers, non-recurring and is Level 3 based on the level of fair value hierarchy due to unobservable inputs. Market values were based on the evidence of reliable transactions like recent land sales and sales offerings of comparable properties within the vicinity and the application of land capitalization rate. Data gathered from interviews with brokers and other real estate practitioners who are conversant with the property market were also used as bases. Adjustment factors were likewise considered such as the date of appraisal, size, location, corner/road influence, and conditions of sale.

The fair value gain on the land and building recognized as of December 31, 2017 and 2016 is P9.63 billion and P3.68 billion, respectively. The result of the 2017 valuation report shows significant increase in Fair Value of the land, specifically on FCA 5 site (site 1), Makati, Aseana, and on building, specifically the Philam property and Cyber One (Eastwood, Libis), due to the economic boom and extensive development in the area and the scarcity of available land for sale/development in the vicinity, not to mention the prime location and saleable features of the properties.

The following amounts are recognized in the statements of profit or loss and other comprehensive income. (See Note 20 and 21)

	2017	2016
Gain (loss) on fair value adjustment	**9,628,530,760**	3,678,077,370
Rental income	**458,964,849**	543,138,606
Gain (loss) on sale/disposal	**10,492,053**	86,173,250
Penalty on rentals	**1,106,753**	955,284
Direct operating expenses	**(137,651,242)**	(71,317,913)
Impairment loss	**(104,417)**	(401,739)
	9,961,338,756	**4,236,624,858**

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 generating investment properties as of December 31, 2017 and 2016 is P117.99 million and P66.53 million, respectively.

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

	2017	2016
Selling price	**76,231,443**	271,060,000
Acquisition cost	**(61,791,390)**	(107,403,177)
Fair value gain (loss)	**14,440,053**	**163,656,823**

As of December 31, 2017, 15 units from the three investment properties were sold, 12 properties were reclassified to NCAHFS and one property was transferred to IP from NCAHFS.

10. PROPERTY AND EQUIPMENT – NET

This account is composed of the following:

	Land	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, 2017	3,317,260,000	10,752,881	1,372,138,787	2,991,412,591	47,558,703	7,739,122,962
Additions	-	-	-	148,714,856	17,059,629	165,774,485
Retirement/cancellations/ disposal/adjustments	-	-	-	(309,860,704)	(208,078)	(310,068,782)
December 31, 2017	**3,317,260,000**	**10,752,881**	**1,372,138,787**	**2,830,266,743**	**64,410,254**	**7,594,828,665**
Accumulated depreciation						
January 1, 2017	-	8,376,401	832,049,680	2,228,553,631	-	3,068,979,712
Charge for the period	-	347,779	29,764,734	151,289,087	-	181,401,600
Retirement/cancellations/ disposal/adjustments	-	-	-	(245,255,214)	-	(245,255,214)
December 31, 2017	**-**	**8,724,180**	**861,814,414**	**2,134,587,504**	**-**	**3,005,126,098**
Accumulated impairment loss						
January 1, 2017	-	948,351	138,573,067	-	-	139,521,418
Impairment loss	-	-	-	-	-	-
December 31, 2017	**-**	**948,351**	**138,573,067**	**-**	**-**	**139,521,418**
Net book value, December 31, 2017	**3,317,260,000**	**1,080,350**	**371,751,306**	**695,679,239**	**64,410,254**	**4,450,181,149**

	Land	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	3,317,260,000	10,752,881	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	**3,317,260,000**	**10,752,881**	**1,372,138,787**	**2,991,412,591**	**47,558,703**	**7,739,122,962**
Accumulated depreciation						
January 1, 2016	-	8,376,401	854,112,388	2,196,502,783	-	3,058,991,172
Charge for the period	-	-	30,875,328	153,702,839	-	184,578,167
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	**3,317,260,000**	**1,428,129**	**401,516,040**	**762,858,960**	**47,558,703**	**4,530,621,832**

Among the property, plant and equipment, only land is subject to revaluation. It was revalued by 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 were stated on the historical cost basis, the carrying amount for 2017 is the same as 2016 amounting to P475.11 million.

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, 2017 and 2016 is P2.88 billion and this is not subject to any appropriations as at end of the reporting period.

Out of the P309.86 million retired/cancelled/disposed/adjusted property, plant and equipment P63.65 million are semi-expendable property.

Rental income-operating assets amounting to P6.0 million and P9.18 million as of December 31, 2017 and 2016 were included in the statements of profit or loss and other comprehensive income.

As of December 31, 2017, the total carrying amount of fully depreciated property and equipment that are still in use is P25.58 million and assets already retired from active use and held for sale amounted to P0.85 million.

11. INTANGIBLE ASSETS – NET

This account is composed of the following:

	2017	2016
Cost		
Balance, January 1	**718,833,852**	593,431,886
Additions	**14,382,445**	135,727,320
Retirement/disposals/cancellation	**(24,749)**	(10,325,354)
Balance, December 31	**733,191,548**	718,833,852
Accumulated amortization		
Balance, January 1	**405,752,983**	376,330,764
Amortization charge for the period	**48,539,737**	39,746,904
Retirement/disposals/cancellation	**(24,749)**	(10,324,685)
Balance, December 31	**454,267,971**	405,752,983
Accumulated impairment loss		
Balance, January 1	**75,828,227**	75,828,227

	2017	2016
Impairment for the period	**-**	-
Retirement/disposals/cancellation	**-**	-
Balance, December 31	**75,828,227**	75,828,227
Net book value, December 31	**203,095,350**	237,252,642

Intangible assets with indefinite life only include computer software. The carrying amount as at December 31, 2017 and 2016 is P60.70 million. All intangible assets with definite lives are amortized with the period of five years or twenty per cent annual amortization rate.

12. OTHER NON-CURRENT ASSETS

This account is composed of the following:

	2017	2016
Deposits	**78,713,545**	73,569,002
Other assets	**269,309,513**	262,459,572
Accumulated impairment- other assets	**(274,315)**	(444,689)
Net value- other assets	**269,035,198**	262,014,883
	347,748,743	335,583,885

Other assets consist of fire insurance premium (FIP) and mortgage redemption insurance (MRI) advanced by SSS for properties mortgaged to the SSS. During the year 2017, additional provision of impairment loss amounted to P59,550 while the recovery/reversal recognized was P229,924.

13. FINANCIAL LIABILITIES

This account is composed of the following:

	2017	2016
Current financial liabilities	**8,115,832,971**	7,354,906,703
Non-current financial liabilities	**37,179,482**	29,687,606
	8,153,012,453	7,384,594,309

Current liabilities comprise of SSS' obligations to members, suppliers and other creditors. Accounts payable and accrued expenses as at December 31, 2017 amounted to P5.82 billion and P2.30 billion, respectively. The non-current portion represents rent payables for lease contracts entered by the SSS for the use of its various branches.

14. INTER-AGENCY PAYABLES

This account is composed of the following:

	2017	2016
Due to BIR	**89,560,457**	89,558,655
Due to GSIS	**72,878,772**	67,462,704
Due to Philhealth	**5,631,792**	5,143,210
Due to SSS	**5,036,939**	5,283,562
Due to Pag-IBIG	**4,706,839**	4,573,449
Due to LGUs	**188,074**	188,028
	178,002,873	172,209,608

This account includes withholding taxes, contributions to GSIS, PHIC, HDMF and loan amortization due to SSS which were deducted from the payroll of SSS employees.

15. TRUST LIABILITIES

This account is composed of the following:

	2017	2016
Trust liabilities	**294,150,961**	279,314,245
Guaranty/ security deposits payable	**228,465,408**	203,178,716
Customers' deposits payable	**132,102,952**	122,944,328
	654,719,321	605,437,289

Trust liabilities includes among others, funds held in trust from officials and employees deducted from their separation/retirement claims for the benefits received but subsequently disallowed in audit as at December 31, 2017 amounted to P223.59 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.

Guaranty/security deposits payable is composed of bidder's deposits, performance or cash bonds and retention money from winning bidders in the procurement of goods and services, infrastructure and consultancy services.

Customers' deposits payable are rental deposits made by tenants of SSS properties.

16. DEFERRED CREDITS/UNEARNED INCOME

This account is composed of the following:

	2017	2016
Current unearned income	**122,309,497**	28,113,117

	2017	2016
Non-current unearned income	**409,613,518**	436,464,187
	531,923,015	464,577,304

The current unearned income represents advance rental payments from tenants of SSS properties and the non-current portion 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.

17. PROVISIONS

The accrued retirement benefits of employees as at December 31, 2017 and 2016 are as follows:

	2017	2016
Leave benefits payable	**727,694,711**	870,551,608
Retirement gratuity payable	**641,074,473**	641,074,474
Other provisions	**97,657,622**	95,379,149
	1,466,426,806	1,607,005,231

Leave benefits payable represent 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. As of December 31, 2017, there were 2,571 employees who availed of the monetization of leave credits with total amount of P108.37 million.

Retirement gratuity payable 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.

Other Provisions pertain to Retirement Incentive Award (RIA) given to employees with at least 20 years of creditable service and are entitled to P2,000 for every year of service upon retirement. As of December 31, 2017, 72 employees were given RIA in the total amount of P4.90 million.

18. OTHER PAYABLES

This account is composed of the following:

	2017	2016
Current other payables	**1,743,958,037**	1,692,514,603
Non-current other payables	**50,000,000**	50,000,000
	1,793,958,037	1,742,514,603

The current portion of Other Payables account represent the 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 is composed of the following:

	2017	2016
Member loans (ML) collection	**1,418,480,291**	1,476,853,447
Undistributed collection	**169,486,072**	77,902,695
OFW collections	**89,213,365**	99,434,795
Sales contract receivable	**57,701,653**	38,315,758
Real estate loans collection	**9,055,712**	7,908
Employees' housing loan program	**20,944**	-
	1,743,958,037	1,692,514,603

On member loans collection, the SSS has undertaken various efforts to address the posting issues and expedited the reconciliation process through (1) enhancing computer programs and systems, (2) continues sending of Lists of No Collection Reports to branches and (3) regular clean-up of unpostables and reconciliation. These undertakings resulted to decrease in unposted/undistributed repayments.

On the other hand, the modules in the electronic Loan Management System (e-LMS) will aid in the management of the undistributed collections on member loans. Billing and collection module will hasten posting of payments and minimize unpostables through simplified process in the issuance of billing and receipt of collection list. Loan Record Management module will facilitate availability of reports on employers payments without collection list and with collection list but underpaid. The posting of loan payments under the Payment Management module will be based only from Cash Collection System without manual encoding of loan payments.

19. RESERVES

The SSS Reserves is composed of the following:

	2017	2016
Reserve fund	**496,595,968,020**	476,562,642,952
Revaluation surplus	**2,879,088,355**	2,879,088,355
Members' equity	**773,934,173**	628,453,525
Cumulative changes in fair value	**(8,161,549,950)**	(15,650,037,897)
	492,087,440,598	464,420,146,935

19.1 Investment reserve fund (IRF)

All revenues of 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 dated September 5, 2007, the SSC adopted the use of acquisition cost as the basis in computing the 30 per cent exposure limit for shares of stocks in equity investments based on the opinion of the Legal and Adjudication Sector of COA dated June 25, 2007.

19.2 Actuarial valuation of the reserve fund of the SSS

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.

In January 2007, the contribution rate was increased to 10.4 per cent. On the other hand, two sets of 10 per cent across-the-board increases were given in September 2006 and in August 2007. The effects of these developments were reflected in the 2007 Actuarial Valuation, which showed that the actuarial life will last until 2039.

The SSF life extended further to 2043 when the result of the 2011 Actuarial Valuation was published in 2014, 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 5 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 2015 Actuarial Valuation was then updated to consider the P1,000 additional pension allowance implemented in January 2017. This update showed a reduction of the fund life by ten years to 2032.

The summary of results of the updated 2011 Valuation, as well as the previous 2015 Actuarial Valuation results, are presented in the table below. There are two columns under the 2015 Valuation: (1) the original results as published in the 2015 Actuarial Valuation report; and (2) the updated results that take into consideration the P1,000 additional pension allowance.

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

	Key Projection Results	2011 Valuation*	2015 Valuation	
			Original**	Updated***
No future across-the-board increase in pensions	Year fund will last	2042	2042	2032
	Year net revenue becomes negative	2034	2034	2022

** 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*
****Updated results upon considering the effect of theP1,000 additional pension allowance effective January 2017*

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**	
		Original	Updated
Liability	1.56	3.87	5.08
Reserve fund	0.34	0.40	0.40
Unfunded liability	1.22	3.47	4.68

** 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 original 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 original 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. On the other hand, the increase in unfunded liability by P1.21 trillion from the original to the updated 2015 Valuation is due to P1,000 additional pension allowance implemented in January 2017.
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 raising the contribution rate, improving the contribution collection, 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.

19.3 Revaluation Surplus

Revaluation surplus is the result of revaluation of assets. The balance represents the excess of revaluation/appraisal value over the book value of the revalued asset.

19.4 Members' Equity

Members' equity represents the contributions of Flexi Fund and PESO Fund members which earn interest based on guaranteed rates. Guaranteed earning shall be computed based on SSS' short term peso placement rate or 91-day Treasury Bill rate, whichever is higher for Flexi Fund, and for PESO Fund, it shall be based on the 5-year Treasury Bond rate and 364-day Treasury Bill rate.

19.5 Cumulative Changes in Fair Value

	2017	2016
Balance, January 1	**(15,650,037,897)**	(12,648,278,320)
Net gain (loss) arising on revaluation of AFS financial assets	**7,663,808,305**	(2,820,600,913)
Cumulative gain (loss) reclassified to profit or loss on sale/disposal of AFS financial assets	**(175,320,358)**	(181,158,664)
Balance, December 31	**(8,161,549,950)**	(15,650,037,897)

The cumulative changes in fair value represents the investments revaluation reserves 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.

20. SERVICE AND BUSINESS INCOME

This account is composed of the following:

	2017	2016
Members' contribution	**158,359,431,047**	143,327,699,608
Interest income	**20,585,521,009**	19,180,048,856
Dividend income	**3,287,619,488**	3,499,486,199
Fines and penalties- business income	**2,682,336,974**	2,392,734,874
Rent/lease income- investment property	**458,964,849**	543,138,606
Income from acquired/foreclosed assets	**89,070,944**	83,144,743
Management fees	**6,014,775**	5,176,996
Other business income	**459,697,986**	421,978,778
	185,928,657,072	169,453,408,660

Members' contributions collections from employed sector registered the biggest amount of collection at P137.16 billion, followed by voluntary paying members at P15.07 billion and self-employed at P7.02 billion. The number of paying members as at December 31, 2017 and 2016 reached to 15,107,327 and 14,165,247, respectively.

Interest income is derived from the following SSS investments:

	2017	2016
Investment in bonds-local		
FAFVTPL	**13,032,997,435**	12,459,220,047
HTM	**177,505,533**	61,922,963
	13,210,502,968	12,521,143,010
Loans and receivables	**6,870,690,588**	5,930,100,109
Current/savings/term deposits	**499,195,681**	325,062,364
Time deposits	**-**	391,447,530
Others	**5,131,772**	12,295,843
	20,585,521,009	19,180,048,856

Other business income includes among others service fees on salary loans granted and income from SSS ID replacement amounting P337.32 million and P110.72 million, respectively, as of December 31, 2017.

21. NON-OPERATING INCOME/GAIN

	2017	2016
Gains		
Gain from changes in fair value of investment property	**9,628,530,760**	3,697,660,292
Gain on sale/redemption/transfer of investment	**5,341,245,650**	5,477,894,258
Gain from changes in fair value of financial instruments	**643,997,387**	9,237
Gain on sale of investment property	**10,492,053**	86,173,250
Gain on foreign exchange (FOREX)	**2,988,723**	
Gain on sale of property and equipment	**369,122**	626,913
Total gains	**15,627,623,695**	9,262,363,950

Investment properties are remeasured at fair value, which is the amount for which the property could be exchanged between knowledgeable, willing parties in arm's length transaction. Gain or losses arising from changes in the fair value of the investment property must be included in net profit or loss for the period in which it arises. The fair value gain on investment properties as at December 31, 2017 is brought about by the continuous developments and economic growth in the country's Central Business Districts and the rising demand for space in the areas where SSS properties are located.

22. OTHER NON-OPERATING INCOME

	2017	2016
Other non-operating income		
Reversal of impairment loss	**464,306,953**	93,202,920

	2017	2016
Miscellaneous income	**369,677,214**	366,028,019
Total other non-operating income	**833,984,167**	459,230,939

The SSS considers certain financial assets to have recovered from impairment losses amounting to P464.31 million due to the enhanced loan collection efforts and the implementation of loan restructuring. Majority of the recoveries came from member loans and deficiency claim from Waterfront Phils. Inc. (WPI) of P287.56 million and P164.43 million, respectively.

23. 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 for the year amounted to P170.68 billion, of which P33.21 billion represents the P1,000 additional pension benefit starting January 2017. The 3rd and 4th tranches pension adjustment arising from un-lumping of 1985 to 1989 contributions amounted to P72.43 million and P66.92 million were given in June 2017 and September 2017, respectively, to retirement, SS death and SS disability pensioners.

The total number of claims for benefit payments for the years 2017 and 2016 reached P30,622,749 and P27,111,688, respectively.

24. PERSONNEL SERVICES

This account is composed of the following:

	2017	2016
Salaries and wages	**2,875,007,885**	2,654,150,776
Other compensation	**1,548,263,548**	1,673,197,115
Personnel benefit contribution	**1,536,614,733**	1,419,614,826
Other personal benefits	**347,668,774**	505,877,969
	6,307,554,940	6,252,840,686

Provident fund, which forms part of the personnel benefit 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.

SSS celebrated its 60th anniversary in September 2017 and a P3,000 anniversary milestone bonus is granted to its officials and employees in accordance with the provisions specified under DBM National Budget Circular No. 452 dated May 20, 1996 and Administrative Order No. 263 dated March 28, 1996.

As of December 31, 2017, SSS has a total of 6,798 regular and casual employees of which 594 new employees but net of 184 retired/separated employees.

25. MAINTENANCE AND OTHER OPERATING EXPENSES

This account is composed of the following:

	2017	2016
Labor and wages	**467,626,716**	501,416,703
General services	**321,510,234**	290,711,477
Repairs and maintenance	**278,069,092**	281,650,944
Communication expenses	**263,169,988**	246,124,417
Utility expenses	**236,116,889**	226,496,745
Supplies and materials expenses	**229,507,600**	227,282,788
Traveling expenses	**72,010,612**	68,005,535
Professional expenses	**68,197,712**	69,685,400
Training and scholarship expenses	**62,653,428**	57,709,702
Taxes, insurance premiums and other fees	**18,120,264**	18,780,327
Confidential, intelligence and extraordinary expenses	**1,830,125**	1,765,333
Other maintenance and operating expenses	**982,228,371**	966,138,959
	3,001,041,031	2,955,768,330

Other maintenance and operating expenses consist of the following:

	2017	2016
Advertising, promotional and marketing expenses	**95,596,137**	109,313,804
Printing and publication expenses- ID card production	**181,438,344**	234,001,819
Printing and publication expenses- photocopying/others	**36,150,787**	27,816,268
Freight charges	**19,722,703**	19,946,095
Office space rentals	**284,033,513**	248,987,678
Membership dues and contributions to organizations	**9,373,286**	6,386,972
Subscription expenses	**42,571,530**	68,288,720
Donations	**15,425,751**	4,569,379
Directors and committee members' fees	**25,728,907**	20,355,518
Fees and commission expenses – collection agency charges	**81,920,851**	54,148,335
Fees and commission expenses – data capture fee	**154,417,664**	136,039,641
Other maintenance and operating expenses	**35,848,898**	36,284,730
	982,228,371	966,138,959

26. FINANCIAL EXPENSES

This account is composed of the following:

	2017	2016
Bank charges	**3,344,543**	8,390,048
Other financial charges	**174,823,758**	132,703,352
	178,168,301	141,093,400

Other financial charges represent investment related expenses incurred in connection with managing the investment properties, broker's commissions on trading financial assets and other depository maintenance and off exchange trade fees.

27. NON-CASH EXPENSES

This account is composed of the following:

	2017	2016
Impairment loss	**2,243,414,249**	4,481,797,950
Depreciation	**181,401,601**	185,007,569
Amortization	**48,539,737**	39,746,904
Losses	**12,745,642**	253,412,128
	2,486,101,229	4,959,964,551

In 2017, the SSS incurred a decline in the collection of some loans and receivables, decrease in value on non-current assets held for sale, and non-submission of collection documents from collecting banks/agents, hence carried out a review of its recoverable amount. The review led to the recognition of impairment loss of P2.24 billion, of which P2.20 billion is for loans and receivables, P45.50 million for non-current assets held for sale and P1.36 million for receivable-collecting banks/agents.

28. ASSISTANCE AND SUBSIDY

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, 2017 amounted to P2.64 billion, of which P2.38 billion has been released as loans to member beneficiaries, as follows:

NCA No.	Date	Amount
BMB-F-12-0023901	December 14, 2012	45,279,995
2012		**45,279,995**
BMB-F-13-0017483	September 23, 2013	480,771,648
BMB-F-13-0020336	November 11, 2013	278,800,497
2013		**759,572,145**
BMB-F-14-0005474	May 2, 2014	260,637,040

NCA No.	Date	Amount
BMB-F-14-0012071	August 27, 2014	178,052,884
BMB-F-14-0016332	November 10, 2014	332,923,150
2014		**771,613,074**
BMB-F-15-0005560	April 29, 2015	32,207,250
BMB-F-15-0016231	October 26, 2015	374,662,670
2015		**406,869,920**
BMB-C-16-0006531	April 28, 2016	64,198,930
BMB-C-16-0016736	September 15, 2016	54,212,150
2016		**118,411,080**
BMB-C-17-0000790	January 9, 2017	193,867,300
BMB-C-17-0007120	May 17, 2017	72,955,264
BMB-C-17-0015979	October 11, 2017	274,253,486
2017		**541,076,050**
Grand Total		**2,642,822,264**

29. OPERATING LEASE COMMITMENTS

29.1 <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 3 new branches and 16 new service offices nationwide to provide a conducive member-centric environment and entered into a cancellable operating lease agreement with various property owners. Out of the 290 local branches, 132 branch/service/representative offices located in various locations nationwide are rent-free. As of December 31, 2017 and 2016, total lease payment recognized as expense amounted to P284.03 million and P248.99 million, respectively (See Note 25). Further, no sublease agreements made and no occurrences of contingent rent.

29.2 <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 from investment property (see note 19), acquired assets and operating assets as of December 31, 2017 and 2016 amounted to P554.54 million and P634.07 million, respectively.

30. RELATED PARTY DISCLOSURES

The total compensation and benefits of key management personnel which consists of short term benefits amounted to P37.92 million and P24.04 million as of December 31, 2017 and 2016, respectively. Key management compensation and benefits form part of the Personnel Services and Maintenance and Other Operating Expenses accounts (See Notes 24 and 25, respectively).

31. 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.

31.1 Financial risk

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

a. Market risk

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. Credit risk

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:

2017

		Past due but not impaired (Age in months)							
	Neither past due nor impaired	**3-12**	**13-36**	**37-48**	**49-60**	**Over 60**	**Expired**	**Impaired**	**Total**
					(In Millions)				
Financial assets at FVTPL	16,320	-	-	-	-	-	-	-	16,320
AFS financial assets	102,065	-	-	-	-	-	1,380	1,292	104,737
HTM investments:									
Corporate notes and bonds	31,199	-	-	-	-	-	-	-	31,199
Government notes and bonds	192,783	-	-	-	-	-	-	-	192,783
Loans and receivables:									
NHMFC	-	-	-	1,624	-	-	3,919	4,711	10,254
Commercial and industrial loans	1	-	-	-	-	-	10	59	70
Program MADE	-	-	-	-	-	-	-	17	17
	342,368	**-**	**-**	**1,624**	**-**	**-**	**5,309**	**6,079**	**355,380**

	2016								
		Past due but not impaired (Age in months)							
	Neither past due nor impaired	**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:									
Corporate notes and bonds	37,611	-	-	-	-	-	-	-	37,611
Government notes and bonds	184,081	-	-	-	-	-	-	-	184,081
Loans and receivables:									
NHMFC	-	458	-	1,219	-	-	4,296	4,483	10,456
Commercial and industrial loans	6	-	-	-	-	-	12	61	79
Program MADE	-	-	-	-	-	-	-	17	17
	333,588	**458**	**-**	**1,219**	**-**	**-**	**4,308**	**5,853**	**345,426**

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.

31.2 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.

31.3 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.

31.4 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.

32. EVENTS AFTER REPORTING PERIOD

Starting January 16, 2018, the SSS implements the Enhanced Contributions Collection Process that mandates the use of Payment Reference Number (PRN) and the Real-Time Processing of Contributions (RTPC) in all payment channels through the electronic Collection System (e-CS). Employer and individual members are required to register/enroll in My.SSS at the SSS website and use the PRN in the payment of contribution.

The e-CS includes generation of the electronic Contribution Collection List (e-CL) for the ERs and Statement of Account (SOA) for the individual members, facility to enable payors to review/edit the e-CL/SOA, automatic generation of corresponding PRN upon confirmation of the e-CL/SOA and sending of electronic notifications and reminders. This will enable real-time processing and posting of payments and contribution details in the members' account and allow faster and more accurate processing of members' benefit claims and loan proceeds.

The SSC in its Resolution No. 94-s 2018 dated January 30, 2018 approved the recommendation to provide assistance for SSS members/pensioners affected by Mayon Volcano Phreatic Eruption. The assistance will cover the following: (a) Calamity Loan Assistance Program, (b) three-month advance pension for SS and EC pensioners, and (c) reduction of interest rates for Direct House Repair and Improvement Loan.

Section 86 (q) of RA No. 10963 otherwise known as the Tax Reform for Acceleration and Inclusion (TRAIN) repealed SSS exemption on Value Added Tax (VAT) effective January 01, 2018. SSS shall apply Section 33 of the said RA amending Section 108 of the NIRC which states that: "There shall be levied, assessed and collected, a value-added tax equivalent to twelve percent (12%) of gross receipts derived from the sale or exchange of services, including the use of lease properties."

33. OTHER MATTERS

33.1 Commitments

Amount authorized but not yet disbursed for capital expenditures as at December 31, 2017 is approximately P1.20 billion.

34. COMPLIANCE WITH TAX LAWS

Presented under the following table is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under the Revenue Regulations No. 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

The SSS is withholding and remitting to the 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.

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. 2017	120,676,593	85,275,672	621,789,277	15,873

Details of withholding taxes are as follows:

Withholding VAT & Other Percentage Tax

Nature of Income Payment	Tax Rate	ATC	Amount
VAT Withholding on government money payments – tax on carriers/keepers on garages	3.00%	WB030	4,935.00
VAT Withholding on franchise tax on gas and water utilities	2.00%	WB040	58,566.30
VAT Withholding on persons exempt from VAT under Sec.109V (Creditable)-government withholding agent	3.00%	WB080	3,164,559.48
VAT Withholding on persons exempt from VAT under Sec.109V (Final)	3.00%	WB084	16,589.69
Withholding tax on VAT on purchase of goods	5.00%	WV010	9,209,845.82
Withholding tax on services rendered by contractors	5.00%	WV020	108,222,097.04
Total			**120,676,593.33**

Expanded Withholding Tax

Nature of Income Payment	Tax Rate	ATC	Amount
EWT-professional talent fee paid to juridical (Gross Inc <= 720,000)	10.00%	WC010	13,383.93

Expanded Withholding Tax

Nature of Income Payment	Tax Rate	ATC	Amount
EWT-professional talent fee paid to juridical (Gross Inc > 720,000)	15.00%	WC011	1,069,632.39
EWT-management and technical consultants (Gross Inc > 720,000)	15.00%	WC051	3,259,701.19
EWT-rentals (Corp.)	5.00%	WC100	9,891,157.22
EWT-contractors (Corp.)	2.00%	WC120	5,510,754.48
EWT-amounts paid to certain brokers and agents (Corp.)	10.00%	WC140	26,361,922.24
EWT-payment by government to local/resident supplier (Corp.-Services)	2.00%	WC157	29,987,102.89
EWT-payments made to suppliers of agricultural products (Corp.)	1.00%	WC610	3,213.59
EWT-payment by government to local/resident supplier (Corp.-Goods)	1.00%	WC640	2,922,051.91
EWT-lawyers, CPAs, Engr (Gross Inc <= 720,000)	10.00%	WI010	629,789.05
EWT-lawyers, CPAs, Engr (Gross Inc > 720,000)	15.00%	WI011	131,693.18
EWT-management and technical consultants (Gross Inc > 720,000)	15.00%	WI051	32,528.31
EWT-fees of directors not employee of company (Gross Inc > 720,000)	15.00%	WI091	2,464,500.00
EWT-rentals (Individual)	5.00%	WI100	2,117,367.70
EWT-contractors (Individual)	2.00%	WI120	119,208.15
EWT-payment to medical practitioners thru hospital/clinics (Gross Inc > 720,000)	15.00%	WI150	89,604.85
EWT-payment by government to local/resident supplier (Individual-Services)	2.00%	WI157	220,039.40
EWT-payment by government to local/resident supplier (Individual-Goods)	1.00%	WI640	452,021.11
Total			**85,275,671.59**

Final Tax

Nature of Income Payment	Tax Rate	ATC	Amount
Derived by non-resident lessor of machineries and equipment (hardware)	7.50%	WC300	15,873.31

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."*