Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

Corporate Government Sector
Cluster 2- Social Security Services and Housing

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October 16, 2019

Ms. Aurora C. Ignacio
President and Chief Executive Officer
Social Security System
East Avenue, Diliman, Quezon City

Dear President Ignacio:

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, 2018 and 2017.

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 a qualified opinion on the fairness of presentation of the financial statements of SSS for the years ended December 31, 2018 and 2017 because the valuation of SSS Investment Properties (IPs) for Pasay City (FCA 7 Site 2), Greenmeadows and Memorial Lots were measured at book value (BV) and not at fair value (FV), contrary to PAS 40, resulting in the understatement of the balances of both IP and Reserve Fund accounts in CYs 2017 and 2018 by P6.144 billion and P12.174 billion, respectively.

Likewise, the balance of Cash and Cash Equivalent cannot be relied upon because appropriate accounting entries are not taken up to effect adjustments for stale checks amounting to P138.753 million and reconciling items totaling P452.891 million.

Moreover, the reliability and validity of the balances of Loans and Interests Receivables-Member Loans (ML), related Penalty income and Other Current Liability (OCL) – ML Collections accounts are doubtful because of unposted collections totaling P1.196 billion and noted duplicate payments totaling P581.545 million that were recorded to OCL-ML Collections.

Lastly, the balance of Receivable Collecting Banks (CBs)/Collecting Agents (CAs) account was unreliable due to presence of abnormal balances amounting to P436.554 million brought about by delayed submission of collection documents by the Collecting Banks/Collecting Agents.

For the above observations that caused the issuance of a qualified opinion, we recommended that Management require:

On the valuation of investment properties

The Investments Accounting Department to effect appropriate accounting entries to: a) recognize the proper valuation of the IPs in the opening revised FS, January 1, 2017, 2017 and 2018, in accordance with PAS 40, and b) reclassify Toledo Property, Pasay City (FCA 7 Site 2), and Greenmeadows properties as IP in the opening revised FS, January 1, 2017 and onwards.

On the unrecorded bank reconciling items and stale checks not yet cancelled and replaced

The General Accounting Department, Branch Accounting Department and CDPRD to: a) strictly comply with SSS Office Order No. 2015-057 and Par. 15 PAS 1 (Revised), Presentation of Financial Statements – General features on Fair Presentation, and b) exert extra efforts to reconcile long outstanding dormant reconciling items of the Baby/Cluster Bank Statements and Cash Collecting Officer Main Office.

On the unposted member loan collections and duplicate payments

a. The Member Loan Department (MLD) and Information System Department (ISD) III to initiate actions for the correction of all duplicate payments recorded under the OCL–ML Collections account and hasten the full implementation of modules in the eLMS that could facilitate prompt posting of loan payments to proper GL accounts and to member-borrowers' Employee Subsidiary Ledgers (ESLs), and

b. The Investment Accounting Department (IAD) to continue the monitoring of actions taken by SSS Branches on the list of unpostable transactions of employers within their jurisdiction.

On the abnormal Receivable Collecting Banks CBs)/Collecting Agents (CAs) account balances

a. The General Accounting Department and Collection Data Processing and Reconciliation Department-Operations Accounting Department to continue the conduct of thorough analysis and reconciliation of collections between the subsidiary ledger and summary remittances of collections and effect necessary adjustments to Receivable-CBs/CAs and related income accounts, and

b. The Liquidity Management and Bank Deposits Department – Treasury Division to require the CBs/CAs to open individual depository/bank accounts for each CBs/CAs.

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

1. Member Loan overpayments not yet refunded or applied to new/subsequent/existing loans or adjusted due to erroneous postings recorded under Accounts Payable–SECSM Loans account totalling P5.350 billion as at December 31, 2018 deprived the member-borrowers of the use of their money.

We recommended that Management require:

a. SSS Branches/Processing Centers that processed the DDR benefit claims and where the claim folders are located to: a.1) inform the retirees, total disability claimants and beneficiaries of deceased members of validated over deductions so that request for refund can be filed, and a.2) process and post promptly and correctly the loan repayments;

b. MLD and concerned groups to inform member-borrowers of validated overpayments so that request for refund can be filed;

c. MLD and IAD to verify, reconcile and adjust/correct encoding/posting errors, mispostings and variances between the schedule of AP-SECSM and ESL loan balances, and

d. IAD, MLD and ISD III to implement on targeted dates the plan of actions contained in the Agency Action Plan and Status of Implementation submitted to the Audit Team on January 28, 2019.

2. Out of the total 7,921 dishonored check (DCs) collections amounting to P526.266 million for CY 2018, only P312.992 million for 4,213 checks were settled, thereby the amount of P213.274 million for 3,708 DCs or 40.53 per cent remained unsettled. Non–adherence to the prohibitions on accepting check payments from payors with DCs as mandated in SSS Office Order No. 2009-026 dated March 11, 2009, leniency in the implementation of the provisions of SSS Office Order No. 2016-027 dated April 26, 2016, among others, resulted in continuous increase of unsettled DCs from year to year.

We recommended that Management require the:

a. Corporate Legal Services Division and other Offices concerned to exhaust all appropriate actions, including legal remedies against erring employers/members pursuant to Section 22 and 28 of RA No. 8282 or the Social Security Act of 1997 (as amended by RA No. 11199) and Handling of DCs in accordance with SSS Office Order No. 2009-026;

b. Information Technology Management Group and Controllership Group to fast-track the implementation of DCMS to effectively monitor the DCs as basis for appropriate remedy/actions, and

c. Cash Department/Branch Tellering Office, Branch Offices, Large Account Department and Cluster Legal Units, among others, to closely monitor the issuers of DCs, pursuant to SSS Office Order No. 2009-026 as amended by SSS Office Order No. 2016-027.

3. Low collection performance resulted in delinquent Member Loan accounts totalling P45.333 billion, employers' delinquencies on remittances of premium contributions (including penalties) with total assessment of P19.525 billion, and uncollected balance amounting to P1.590 billion from delinquent Real Estate Loan (REL) borrowers, thereby depriving the System of funds needed in providing social security benefits to its members.

We recommended that Management require:

On delinquent ML accounts

The MLD, owner of the enhanced Loans Management System to: a) incorporate therein a procedure or a program that will utilize the date of reporting by new ERs of transferee employees (EEs) as basis to include in employer (ERs) billing statements the new unpaid loan amortizations and to generate periodic billing statement or statement of accounts to be sent to self-employed and voluntary (SE/VE) members; b) hasten the cleanup/correction of the delinquency reports in the Employer Delinquency Module so that SSS Branch Account Officers (AOs) can use the reports to enforce collection from employers of loan amortizations deducted from employees' salaries, and c) adopt a work plan with target timelines for the reduction of the delinquent accounts to acceptable level.

On employers' delinquencies on remittances of premium contributions

a. SSS branches to conduct massive information campaign through various platforms (radio, TV, newspaper, social media) on the penalty condonation program to increase awareness on the one-time amnesty program so that delinquent employers will avail of the same;

b. Legal Enforcement Group (LEG) to strengthen measures for the continuous and systematic filing of complaint and cases against delinquent employers, if circumstances warrant;

c. Account Management Group to expedite the Warrant of Distraint, Levy, and/or Garnishment of personal/real properties of delinquent employers, and

d. Human Resource Management Group to continuously recruit additional AOs and Legal Enforcement Officers for proper monitoring of the accounts of employers.

On delinquent REL borrowers

a. The HAAMD to: a.1) undertake more aggressive collection strategies and conduct strict monitoring of delinquent accounts to boost REL collection efficiency; a.2) to intensify foreclosure activities on highly delinquent and non-moving past due accounts in accordance with the Mortgage Contract for REL to recover loan exposure, and c) to consider hiring of additional manpower to focus on collection, foreclosure and disposal of units

b. The Information Technology Management Group to prioritize full implementation of eLMS and Message Blast Service to improve oversight of REL accounts and to facilitate the collection of loans.

The other audit observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on May 15, 2019 are discussed in detail in Part II of the report.

In a letter of even date, we respectfully requested the President and Chief Executive Officer of SSS that the recommendations contained in Parts II and III of the report be implemented and to inform this Commission of the actions taken thereon by submitting the Agency Action Plan and Status of Implementation within 60 days from the date of receipt.

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:

Ma. Lisa P. Inguillo

MA. LISA P. INGUILLO
Director III
Officer-in-Charge

Copy furnished:

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

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

	Note	2018	2017 As restated	As at January 1, 2017
ASSETS				
Current Assets				
Cash and cash equivalents	3	**15,440,541,241**	26,821,426,070	17,830,920,092
Financial assets	4.1	**37,059,803,639**	16,847,812,051	14,724,581,739
Receivables	5.1	**7,530,360,929**	5,315,919,475	7,936,704,988
Inventories	6	**169,465,093**	191,278,628	259,682,586
Non-current assets held for sale	7	**1,302,776,661**	1,368,887,125	3,643,780,781
Other current assets	8	**13,884,559**	12,272,251	17,429,982
Total Current Assets		**61,516,832,122**	50,557,595,600	44,413,100,168
Non-Current Assets				
Financial assets	4.2	**309,394,771,976**	326,900,661,415	318,857,542,993
Receivables	5.2	**92,745,974,541**	87,665,909,114	85,028,154,051
Investment property	9	**41,354,431,842**	38,424,359,615	25,648,748,397
Property and equipment - net	10	**5,854,268,084**	4,532,663,850	4,540,474,618
Intangible assets - net	11	**235,322,104**	203,095,350	237,252,642
Other non-current assets	12	**364,346,635**	347,748,743	335,583,885
Total Non-Current Assets		**449,949,115,182**	458,074,438,087	434,647,756,586
Total Assets		**511,465,947,304**	508,632,033,687	479,060,856,754
LIABILITIES				
Current Liabilities				
Financial liabilities	13	**8,203,528,955**	8,115,832,971	7,354,906,703
Inter-agency payables	14	**149,959,185**	178,002,873	172,209,608
Trust liabilities	15	**765,344,734**	654,719,321	605,437,289
Deferred credits/unearned income	16	**59,046,852**	122,309,497	28,113,117
Other payables	18	**1,990,631,097**	1,743,958,037	1,692,514,603
Total Current Liabilities		**11,168,510,823**	10,814,822,699	9,853,181,320
Non-current liabilities				
Financial liabilities	13	**45,390,960**	37,179,482	29,687,606
Deferred credits/unearned income	16	**382,762,849**	409,613,518	436,464,187
Provisions	17	**1,460,775,506**	1,466,426,806	1,607,005,231
Other payables	18	**50,000,000**	50,000,000	50,000,000
Total Non-Current Liabilities		**1,938,929,315**	1,963,219,806	2,123,157,024
Total Liabilities		**13,107,440,138**	12,778,042,505	11,976,338,344
EQUITY				
Revaluation surplus		**4,046,242,799**	2,879,088,355	2,879,088,355
Reserve fund		**523,865,881,162**	500,362,518,604	479,227,014,427
Cumulative changes in fair value		**(30,427,023,610)**	(8,161,549,950)	(15,650,037,897)
Member's equity		**873,406,815**	773,934,173	628,453,525
Total Equity	19	**498,358,507,166**	495,853,991,182	467,084,518,410
Total Liabilities and Equity		**511,465,947,304**	508,632,033,687	479,060,856,754

The Notes on pages 11 to 75 form part of these financial statements.

SOCIAL SECURITY SYSTEM
STATEMENTS OF COMPREHENSIVE INCOME
(In Philippine Peso)
For the Years Ended December 31, 2018 and 2017

	Note	2018	2017 As restated
Income			
Service and business income	20	**209,799,560,607**	185,984,942,636
Gains	21	**6,256,128,490**	16,673,012,511
Other non-operating income	22	**1,008,100,919**	833,984,167
Total Income		**217,063,790,016**	203,491,939,314
Expenses			
Benefit payments	23	**180,078,514,500**	170,683,577,389
Personnel services	24	**6,531,203,783**	6,307,554,940
Maintenance and other operating expenses	25	**2,947,696,555**	3,001,184,317
Financial expenses	26	**129,166,935**	178,025,015
Non-cash expenses	27	**4,897,456,460**	2,486,501,741
Total Expenses		**194,584,038,233**	182,656,843,402
Profit		**22,479,751,783**	20,835,095,912
Assistance and subsidy	28	**185,357,643**	541,076,050
Net income		**22,665,109,426**	21,376,171,962
Other comprehensive income (loss) for the period		**(20,037,126,495)**	7,488,487,947
Comprehensive Income		**2,627,982,931**	28,864,659,909

The Notes on pages 11 to 75 form part of these financial statements.

SOCIAL SECURITY SYSTEM
STATEMENTS OF CHANGES IN EQUITY
(In Philippine Peso)
For the Years Ended December 31, 2018 and 2017

	Cumulative Changes in Fair Value of Investment	Revaluation Surplus	Reserve Fund	Member's Equity	Total
BALANCE AT JANUARY 1, 2017	**(15,650,037,897)**	**2,879,088,355**	**476,562,642,952**	**628,453,525**	**464,420,146,935**
Adjustment:					
Effect due to change in accounting policy from cash to accrual of interest income on members loans, housing loans, sales contract and rental receivable of acquired assets	-	-	693,114,522	-	693,114,522
Effect of the reclassification of Non-current assets held for sale to Investment Property and Property and equipment	-	-	1,971,256,953	-	1,971,256,953
RESTATED BALANCE, JANUARY 1, 2017 (Note 2.11b)	**(15,650,037,897)**	**2,879,088,355**	**479,227,014,427**	**628,453,525**	**467,084,518,410**
CHANGES IN EQUITY FOR 2017					
Add/(Deduct):					
Members' contribution	-	-	-	169,730,585	169,730,585
Comprehensive income for the year	7,488,487,947	-	21,376,171,962	-	28,864,659,909
Other Adjustments					
SSS' share in ECC & OSHC corporate operating budget	-	-	(160,664,872)	-	(160,664,872)
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)
Effect of the reclassification of Non-current assets held for sale to Investment property and Property and Equipment	-	-	905,241	-	905,241
	7,488,487,947	-	21,135,504,177	145,480,648	28,769,472,772
RESTATED BALANCE, DECEMBER 31, 2017 (Note 2.11b, 19)	**(8,161,549,950)**	**2,879,088,355**	**500,362,518,604**	**773,934,173**	**495,853,991,182**

	Cumulative Changes in Fair Value of Investment	Revaluation Surplus	Reserve Fund	Member's Equity	Total
CHANGES IN EQUITY FOR 2018					
Assistance and subsidy					
Members' contribution	-	-	-	141,446,252	141,446,252
Comprehensive income for the year	(22,265,473,660)	1,167,154,444	23,726,302,147	-	2,627,982,931
Other Adjustments					
SSS' share in ECC & OSHC corporate operating budget	-	-	(202,694,321)	-	(202,694,321)
Withdrawal/Management cost	-	-	-	(79,960,186)	(79,960,186)
Guaranteed income/Annual incentive benefit	-	-	(19,316,372)	37,986,576	18,670,204
Effect of the reclassification of Non-current assets held for sale to Investment property and Property and Equipment	-		(928,896)		(928,896)
	(22,265,473,660)	1,167,154,444	23,503,362,558	99,472,642	2,504,515,984
BALANCE, DECEMBER 31, 2018 (Note 19)	**(30,427,023,610)**	**4,046,242,799**	**523,865,881,162**	**873,406,815**	**498,358,507,166**

The Notes on pages 11 to 75 form part of these financial statements.

SOCIAL SECURITY SYSTEM
STATEMENTS OF CASH FLOWS
(In Philippine Peso)
For the Years Ended December 31, 2018 and 2017

	Note	2018	2017 Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Members' contribution		**181,917,282,180**	159,724,023,283
Investment and other income		**8,631,856,649**	16,361,954,230
Payments to members and beneficiaries		**(180,078,887,666)**	(170,684,504,454)
Payments for operations		**(9,326,354,122)**	(9,161,586,423)
Net cash generated from operating activities		**1,143,897,041**	(3,760,113,364)
CASH FLOWS FROM INVESTING ACTIVITIES			
Loan releases and other investment purchases, net		**(12,060,994,429)**	12,957,656,853
Acquisition of property and equipment, net		**(265,339,600)**	(163,203,579)
Acquisition of intangible assets, net		**(75,990,894)**	(14,382,445)
Net cash used in investing activities		**(12,402,324,923)**	12,780,070,829
CASH FLOWS FROM FINANCING ACTIVITIES			
Assistance and subsidy			
Employees' Compensation Commission		**(66,459,245)**	(77,396,200)
Occupational Safety and Health Center		**(136,235,076)**	(83,268,675)
Flexi-fund members' equity			
Contribution		**114,653,652**	149,315,183
Withdrawal		**(72,930,753)**	(46,441,841)
Guaranteed income		**20,601,842**	12,750,225
Management cost of investment		**(7,029,433)**	(6,014,460)
Annual incentive benefit		**(1,931,638)**	(1,725,598)
PESO fund equity contribution			
Contribution		**26,792,600**	20,415,400
Withdrawal		-	(74,270)
Management cost of investment		-	26
Net cash used in financing activities		**(122,538,051)**	(32,440,210)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(11,380,965,933)**	8,987,517,255
Effects of exchange rate changes on cash and cash equivalents		**81,104**	2,988,723
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3	**26,821,426,070**	17,830,920,092
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	**15,440,541,241**	26,821,426,070

The Notes on pages 11 to 75 form part of these financial statements.

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

1. GENERAL INFORMATION

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 on 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 employers and their 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, 2018, are as follows. All inter-fund accounts have been eliminated.

	SSS	**EC-SIF**	**Total**
Total Assets	**473,049,041,815**	**38,416,905,489**	**511,465,947,304**
Liabilities	13,098,064,183	9,375,955	13,107,440,138
Equity	459,950,977,632	38,407,529,534	498,358,507,166
Total Liabilities and Equity	**473,049,041,815**	**38,416,905,489**	**511,465,947,304**

	SSS	EC-SIF	Total
Income	212,963,595,396	4,100,194,620	217,063,790,016
Expenses	192,680,781,096	1,903,257,137	194,584,038,233
Profit/(Loss)	20,282,814,300	2,196,937,483	22,479,751,783
Assistance and subsidy	185,357,643	-	185,357,643
Net Income	20,468,171,943	2,196,937,483	22,665,109,426
Other comprehensive income for the period	(18,833,867,535)	(1,203,258,960)	(20,037,126,495)
Total comprehensive income	1,634,304,408	993,678,523	2,627,982,931

The principal office address of SSS is located at East Avenue, Diliman, Quezon City. It has 173 local branches and 132 service and representative offices located in the various cities and municipalities of the country, and 27 foreign branch offices situated in Asia and Pacific, Europe, Middle East and North America.

The accompanying financial statements as at and for the year ended December 31, 2018 (including the comparative financial statements as at and for the year ended December 31, 2017) were approved and authorized for issue by the SSC on July 5, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of Preparation of Financial Statements

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

The financial statements of the SSS have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) and COA Circular No. 2017-004. PFRS includes all applicable PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC). COA Circular No. 2017-004 was issued on December 13, 2017 as guidelines on the preparation of financial statements and other financial reports and implementation of the PFRS by government corporations classified as Government Business Enterprises (GBE). Under COA Circular No. 2015-003 dated April 16, 2015, SSS is classified as a GBE.

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. <u>Basis of Measurement</u>

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 and government securities at fair value through other comprehensive income (FVTOCI) are measured at fair value;
- Investment properties are measured at fair value; and
- Land under property and equipment are measured at revalued amount.

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. FVTPL and FVTOCI 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. <u>Functional and Presentation Currency</u>

The financial statements are presented in Philippine peso, which is the System's functional and presentation currency. All amounts are rounded to the nearest peso, unless otherwise 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 2018 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, 2018:

- PAS 40 (Amendment), *Investment Property – Reclassification to and from Investment Property* – The amendments states that an entity shall transfer property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if a property meets, or ceases to meet, the definition of investment property. A mere change in management's intention for the use of a property by itself does not constitute evidence of a change in use. The amendment provided a non-exhaustive list of examples constituting change in use.

- PFRS 9 (2014), *Financial Instruments* – This new standard on financial instruments replaces PAS 39, Financial Instruments: Classification and Measurement, and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

  - Three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

  - An expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and

  - A new model of hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

  In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

  In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an entity instrument that is not held for trading in other comprehensive income.

  The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

  For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

The adoption of the foregoing new and revised PFRS has material effect on the financial statements. Additional disclosures have been included in the notes to financial statements, as applicable.

b. Effective in 2018 that are not relevant to the System

The following new PFRSs, amendments and annual improvements to existing standards are mandatory effective for annual periods beginning on or after January 1, 2018 but are not relevant to SSS financial statements:

- PAS 28, *Investment in Associates (Amendments) – Clarification on Fair Value through Profit or Loss Classification (effective January 1, 2018).* The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture.

- 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.

- 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.

- PFRS 15, *Revenue from contract customers* – This standard replaces PAS 18, Revenue, and PAS 11, Construction Contracts, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, Customer Loyalty Programmes, IFRIC 15, Agreement for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers and Standing Interpretations Committee 31, Revenue – This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

- PFRS 15 (Amendments), *Revenue from Contracts with Customers – Clarification to PFRS 15.* The amendments address three topics: identifying performance obligations, principal versus agent considerations and accounting for licenses of intellectual property. The amendments also provide some transaction relief for modified contracts and completed contracts.

  PFRS 15 requires an entity to identify performance obligations on the basis of distinct promise goods and 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, 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.

- Amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions for First-time Adopters* – The amendment is part of the Annual Improvements to PFRS 2014-2016 Cycle and deleted the short-term exemptions in paragraph E3-E37 of PFRS 1, because it has now served its intended purpose.

- PFRS 4, *Insurance Contract (Amendments) - Applying PFRS 9 'Financial Instruments' with PFRS 4 'Insurance Contracts'* – Amendments to PFRS 4 provided 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.

c. <u>Effective subsequent to 2018 but not adopted early</u>

Relevant new and revised PRFS which are not yet effective for the year ended December 31, 2018 and have not been applied in the preparation of the financial statements are summarized below.

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.

- PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation.* The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVTOCI.

- *PAS 28 (Amendment), Investment in Associates – Long-term Interest in Associates and Joint Venture.* The amendment clarifies that the scope exclusion in PFRS 9 (2014) applies only to ownership interests accounted for using the equity method. Thus the amendment further clarifies that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9 (2014), which shall also include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

- *PAS 19 Employee Benefits (Amendments)* – clarification on amendments, curtailment or settlement of a defined benefit plan, the current service cost and net interest for the remainder of the annual reporting period are calculated using updated actuarial assumptions – i.e. consistent with the calculation of a gain or loss on the plan amendment, curtailment or settlement.

Annual improvements to PFRSs 2015-2017 Cycle

- Amendments to PFRS 3, *Business Combinations and PFRS 11, Joint Arrangements* – Remeasurement of Previously Held Interest in a Joint Operation. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Company obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Company obtains joint control of the business.

- Amendments to PAS 12, *Income Taxes* – Tax Consequences of Dividends. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

- Amendments 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.

Effective for annual period beginning on or after January 1, 2020.

- Amendments to PFRS 3*, Business Combinations - Definition of a Business.* The amendments clarify the minimum requirements to be a business, remove the assessment of the market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments are effective and asset is not a business.

- Amendments to *PAS 1, Presentation of Financial Statements and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material.* The amendments refine the definition of material in PAS 1 and align the definition used to PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgments.

Effective for annual periods beginning on or after January 1, 2021:

- PFRS 17, *Insurance Contracts* – PFRS 17 is a comprehensive new accounting standard for issuance contracts covering recognition and measurement, presentation and disclosure. Once effective, PRFS 17 will replace PFRS 4, Insurance Contracts, which currently permits a wide variety of practices in accounting for insurance contracts. The new standard applies to all types of insurance contracts (i.e., life, non-life, direct insurance, and reinsurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. The core model of PFRS 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 new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.

Effectivity deferred indefinitely:

- *PFRS 10 (Amendments), Consolidated Financial Statements and PAS 28 (Amendments), Investment in Associates and Joint Venture.* The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, between an investor and its associate or joint venture. Any gains or loss resulting from the sale or contribution of assets that does not constitute a business is recognized only to the extent of unrelated investor's interest in the associate or joint venture. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that were sold or contributed a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

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 classifies its financial assets as subsequently measured at FVTPL or FVTOCI or at amortized cost based on the business model for managing the financial assets and their contractual cash flow characteristics. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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. Financial assets at amortized cost

Financial assets are measured at amortized cost if both of the following conditions are met: (1) the asset is held within the System's business model, the objective of which is to hold the assets in order to collect contractual cash flows; and (2) the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interests (SPPI) on the principal amount outstanding.

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

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

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.3. Financial assets at FVTOCI

Financial assets are measured at FVTOCI if both of the following conditions are met: (1) the asset is held within the business model, the objective of which is achieved both by collecting contractual cash flows and selling financial assets; and (2) the contractual terms of the instrument give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. Subsequent to initial recognition, FVTOCI 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 FVTOCI financial assets portion. When FVTOCI financial asset is derecognized, the cumulative gains or losses are not recognized to profit or loss, instead, it will remain part of the statement of comprehensive income. Dividends on FVTOCI equity instruments are recognized in profit or loss when the right to receive payments is established.

If an FVTOCI 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 FVTOCI 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.

The SSS has deferred the adoption of expected credit loss (ECL) model of PFRS 9 in the recognition and measurement of impairment of financial assets. The SSS in its memorandum to COA dated July 11, 2017 requested for an exemption on the application of the ECL on loans and receivables because receivables from member loan borrowers are assured of being paid through deduction from their final benefit claims.

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 and 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. Inventories

Supplies and materials are valued at lower of cost or net realizable value. Cost is determined 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 land or building 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 evidence giving considerations to the extent, character, and utility of the properties. The zoning and current land usage in the locality and the highest and best use of the property were used to collect data on current prices.

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

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

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

2.7. Property and equipment

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

Valuations are done by an external independent appraiser every three years or as the need arises. The value of land was arrived at using the Market Data Approach. In this approach, the value of the land is based on sales and listings of comparable properties registered within the vicinity. This approach requires the establishment of comparable properties by reducing reasonable comparative sales and listings to a common denominator with the subject. This is done by adjusting the differences between the value of 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, time element, quality, and prospective use. On improvement and building, the Cost Approach was adopted in arriving the market value of the building. This approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current prices for similar assets including costs of labour, transport, installation, commissioning and consultant’s fees. Adjustment is then made for accrued depreciation which encompasses condition, utility, age, wear and tear, functional and economic obsolescence.

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

The initial cost of property and equipment consist of its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable cost necessary in bringing the asset to its working condition and location for its intended use. Cost also includes an 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 capitalization threshold for an item to be recognized as property and equipment is P15,000 while items whose amounts are below the capitalization threshold are accounted as semi-expendable property.

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.

Consistent with COA Circular No. 2017-004, the estimated useful lives of property and equipment are as follows:

Assets	Useful Life
Building and other structures	30 years
Furniture, office and computer equipment	5-10 years
Fixtures and books	5 years
Land improvements	10 years
Transportation equipment	7 years
Leasehold improvements	5 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 are recorded or charged to current operations.

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 PFRS 5, 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 acquired in exchange of liability or in settlement of contribution and member/housing/other loan delinquencies (dacion en pago) are recognized at its fair value at the time of acquisition. Any difference between the property acquired and the liability is recognized as gain or loss in exchange. Impairment testing is done in subsequent measurement.

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. PFRS 15, Revenue from contract customers is inapplicable to SSS mainly because the relationship of SSS and its members is established by the provision of law per RA 8282 and not based on contract while interest and other income from investments are covered by PFRS 9.

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.

Effective January 1, 2018, the SSS changed its accounting policy in the recognition of interest income on Member Loans (ML), Housing Loans (HL), Sales Contract Receivables (SCR) and Rental on Acquired Assets from cash basis to accrual basis to conform to the standard. The accrued interests are computed following the provisions of the BSP Circular No.855 and 941 series of 2014 and 2017, respectively, which states as follows:

- Accrual of interest earned on loans shall only be allowed if the loans and other credit accommodations are current and performing.
- Loans are current and performing if any principal and/or interest are paid for at least ninety (90) days from contractual due date.
- No accrual of interest is allowed if a loan has become non-performing. Interest shall be taken up as income only when actual payments are recovered.

Previously, interest income from ML, HL and SCR are recognized upon collection. The effect of the change on the Statement of Financial Position and Statement of Comprehensive Income are presented in Note 32.

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.

In any case, SSS does not enter into a finance lease agreement.

2.14. Related party disclosures

PAS 24 ensures that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may be affected by the existence of related parties and by transactions and outstanding balances with such parties. Related party transactions are transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

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

3. CASH AND CASH EQUIVALENTS

This account is composed of the following:

	2018	2017
Cash on hand	**1,164,088,582**	725,166,750
Cash in bank	**1,067,522,659**	1,810,819,609
Cash equivalents	**13,208,930,000**	24,285,439,711
	15,440,541,241	26,821,426,070

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 0.25 per cent for savings and current accounts and 6.25 per cent to 7.5 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, 2018, P129 million is being maintained in several banks for such purpose.

Interest income earned from cash in banks and term deposits amounted to P773.195 million and P499.196 million as at December 31, 2018 and 2017, respectively (see Note 20).

4. FINANCIAL ASSETS

4.1 Current Financial Assets

This account is composed of equities, government securities and investment in mutual fund which are classified as financial assets at FVTPL.

	2018	2017
Financial assets at fair value through profit or loss		
Government securities	**19,500,923,120**	10,514,602,646
Equities – stocks	**8,273,430,506**	5,712,048,471
Mutual fund	**3,110,972,149**	-
Corporate bonds	**-**	93,065,507
Externally managed fund	**-**	1,011,565
	30,885,325,775	16,320,728,189
Financial assets – at amortized cost		
Investment in bonds – local		
Corporate bonds	**3,700,000,000**	-
Corporate notes	**2,034,537,470**	-

	2018	2017
Government bonds	**439,940,394**	517,050,000
Government notes	**-**	10,033,862
	6,174,477,864	527,083,862
	37,059,803,639	16,847,812,051

The fair value of financial assets through profit or 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.

Mutual fund investment is an investment vehicle made up of a pool of money collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and other assets managed by professional fund managers. Investment in domestic mutual fund was approved by SSC under Resolution Nos. 351 and 509 dated April 25 and June 20, 2018 respectively, with a P3 billion allotment. The said amount is invested and distributed at P1 billion each to the three accredited mutual fund companies, namely: Philequity Fund, Inc., Philippine Stock Index Fund Corp. and Sun Life of Canada Prosperity Balanced Fund, Inc. The release of fund was made in two tranches per Mutual Fund Company with a value amount of P500 million per tranche completed in six transaction days from June 27 to July 4, 2018. As at December 31, 2018, the value of invested fund went up to P3.110 billion or P110.972 million increase due to the appreciation of the Net Asset Value per Share (NAVPS).

The costs of the financial assets are as follows:

	2018	2017
Government securities	**19,951,638,456**	10,554,284,665
Equities – stocks	**9,468,377,242**	5,298,347,407
Mutual fund	**3,016,108,287**	-
Corporate bonds	**-**	100,472,351
Externally managed fund	**-**	1,000,000
	32,436,123,985	15,954,104,423

4.2 Non-Current Financial Assets

	2018	2017
Financial assets at amortized cost		
Investment in bonds – local		
Government bonds	**149,008,814,267**	191,756,311,666
Corporate bonds	**20,027,377,483**	20,843,130,000
Corporate notes	**8,886,666,667**	10,356,300,000
Government notes	**510,000,000**	500,000,000
	178,432,858,417	223,455,741,666

	2018	2017
Financial assets-FVTOCI	**89,222,053,301**	104,736,784,277
Allowance for impairment	**(1,291,864,528)**	(1,291,864,528)
	87,930,188,773	103,444,919,749
Government bonds	**42,561,993,428**	-
Corporate bonds	**469,731,358**	-
	130,961,913,559	103,444,919,749
	309,394,771,976	326,900,661,415

The fair value of the FVTOCI financial asset as at December 31, 2018 and 2017 are P129.114 billion and P101.596 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 1.50 to 12.50 per cent depending on the amount and terms of the investment. Interest income earned from financial asset at amortized cost investments in bonds – local as at December 31, 2018 and 2017 is P10.273 billion and P13.032 billion, respectively.

The SSC in its Resolution No. 310 dated April 16, 2018 approved the implementation of the PFRS 9 effective January 1, 2018. The SSS took advantage of the benefits of the PFRS 9 by categorizing some financial assets from/to other financial assets classes which were based on the best business model applicable to SSS without being affected by the tainting provisions of the accounting standard as well as maximizing the earning/profit potentials of the financial assets. Among the financial assets reclassified are as follows:

Financial Asset	**Original Classification**	**New Classification under PFRS 9**	Book Value (in Billion)
Equity securities	Held-for-Trading	FVTOCI	P1.79
Government securities	Held-to-Maturity	FVTOCI	44.54
	Held-for Trading	FVTOCI	0.73
Corporate notes and bonds	Held for Trading	Amortized cost	0.93

5. RECEIVABLES

5.1 Current Receivables

	2018	2017 Restated
Loans and receivable accounts		
Accounts receivable	**520,551**	497,688
Interest receivable	**4,268,925,781**	4,061,067,935
Allowance for impairment	**(20,801,340)**	-

	2018	2017 Restated
	4,248,124,441	4,061,067,935
Dividends receivable	**16,364,309**	33,217,293
Sales contract receivable	**4,876,277**	10,322,407
	4,269,885,578	4,105,105,323
Lease receivable		
Operating lease receivable	**79,475,886**	74,748,302
Other receivables		
Receivables – disallowances/charges	**25,007,198**	27,616,870
Due from officers and employees	**1,073,565**	1,535,160
Insurance claims receivable	**939,691**	-
Other receivables	**3,153,979,011**	1,106,913,820
	3,180,999,465	1,136,065,850
	7,530,360,929	5,315,919,475

The interest receivable account represents the accrued interest from various SSS investments like time and special savings deposits, notes and bonds, sales contract receivables, including those from member and housing loan accounts which are still uncollected as at December 31, 2018 and 2017. This account is credited whenever cash is collected, either monthly, quarterly, semi-annually or annually depending on the interest payment date of the investment.

The interest receivable as at December 31, 2017 was restated for the change in accounting policy set out in Note 2.11b relating to the recognition of interest income for ML, HL and SCR from cash to accrual basis. As at December 31, 2018 and 2017, the accrued interests are as follows:

	2018	2017
Member loans	**819,324,701**	744,731,493
Housing loans	**679,650**	3,299,228
Sales contract receivable	**5,483,714**	1,361,307
	825,488,065	749,392,028

Operating lease receivables represent accrual of rental income from tenants of SSS which are collectible within a year. Rental income is derived from investment property, ROPA and operating assets. Rental income recognized as at December 31, 2018 and 2017 amounted to P739.678 million and P554.542 million, respectively. (see Note 29.2)

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 agents accredited by SSS but not yet remitted to SSS as at December 31, 2018 and 2017. The said account is debited for the amount indicated to the collection documents or electronic data files from CB/CA and credited for the amount of remittances/deposits of the CBs/CAs. The balance of the account was presented net of negative balances totalling to P927.452 million, 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 was implemented last January 16, 2018 facilitated 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.

5.2 Non-Current Receivables

	2018	2017
Loans and receivables accounts		
Accounts receivable	**94,141,877,921**	87,630,638,578
Allowance for impairment – accounts Receivable	**(8,423,556,545)**	(7,955,144,003)
Net value – accounts receivable	**85,718,321,376**	79,675,494,575
Interest receivable	**12,707,637,960**	12,713,176,773
Allowance for impairment – interest Receivable	**(12,707,637,959)**	(12,707,637,959)
Net value – interest receivable	**1**	5,538,814
Loans receivable – other government corp	**10,075,956,292**	10,253,702,881
Allowance for impairment – loans Receivable - other government corp	**(5,037,978,146)**	(4,711,440,496)
Net value – loans receivable – other government corp	**5,037,978,146**	5,542,262,385
Sales contract receivable	**1,131,218,427**	984,139,142
Allowance for impairment – interest Receivable	**(54,761,680)**	(41,206,524)
Net value – interest receivable	**1,076,456,747**	942,932,618
Total loans and receivables	**91,832,756,270**	86,166,228,392
Lease receivable		
Operating lease receivable	**14,037,784**	13,880,442
Allowance for impairment – operating lease	**(14,037,781)**	(13,880,439)
Net value- operating lease receivable	**3**	3
Other receivable		
Due from officers and employees	**253,896,327**	251,716,637
Other receivables	**1,203,076,048**	1,731,546,136
Allowance for impairment – other receivable	**(543,754,107)**	(483,582,054)
Net value – other receivable	**659,321,941**	1,247,964,082
Total other receivable	**913,218,268**	1,499,680,719
	92,745,974,541	87,665,909,114

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

	2018	2017
Member loans	**91,648,063,718**	85,313,922,066
Housing loans	**2,002,860,547**	2,229,197,190
Pension loans	**403,955,977**	-
Commercial and industrial loans	**69,778,459**	70,300,102
Program member assistance for development entrepreneurship (MADE)	**17,219,220**	17,219,220
Total	**94,141,877,921**	87,630,638,578
Allowance for impairment	**(8,423,556,545)**	(7,955,144,003)
Net value – accounts receivable	**85,718,321,376**	79,675,494,575

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
Pension loans	10.0
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 March 7, 2018, the SSC under its Resolution No. 214-s.2018 approved the re-implementation of the Penalty Condonation Program/Loan Restructuring Program (LRP) by virtue of the approval of the President of the Republic of the Philippines through a Memorandum of Executive Secretary Salvador C. Medialdea dated 24 January 2018. Its implementing guidelines were issued under Officer Order No. 2018-023 covering member-borrowers affected by previous calamities/disaster. The objective of the program is to provide reprieve to 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 Management Council or by the National Government. The total principal and accrued interest of all past due short-term loans of the member-borrower shall be consolidated into one Restructuring 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 original availment period of the program is up to six months from April 2, 2018 until October 1, 2018 but was re-extended for another six months from October 2, 2018 to April 1, 2019.

As at December 31, 2018 member-borrowers availment of the LRP re-implementation reached to 490,751 with total loanable amount of P8.190 billion and condonable penalty of P7.124 billion.

On September 3, 2018 the Pension Loan Program (PLP) was launched which aims to provide financial aid to qualified SSS retiree pensioners by way of low interest loan. The program was approved by the SSC under Resolution No. 341 dated April 25, 2018 and its implementing guidelines were issued under Office Order No. 2018-033 dated 08 May 2018. The loanable amount that may be availed is based on the basic monthly pension together with the P1,000 additional benefit but not to exceed the maximum loan limit of P32,000. Interest rate is at 10% per annum until fully paid computed on a diminishing principal balance, which shall become part of the monthly amortization. As at December 31, 2018, availment reached to 18,424 approved loan applications amounting P403.955 million.

The Educational Assistance Loan Program amounted to P4.959 billion consisting of the 50:50 SSS and NG shares, has been expended/extended as loans to member beneficiaries as at December 31, 2018. 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, 2018 and 2017 are P41.326 million and P10.125 million, respectively.

Executive Order (EO) No. 90 mandated National Home Mortgage Finance Corporation (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 (GSIS), and Home Development Mutual Fund (HDMF), 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 No. 90, the SSC in its Resolution No. 509 dated August 4, 1988 approved the long-term loans 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. On 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, Moderate and High Delinquency) – P27.940 billion, Accrued Interest - P11.961 billion and Penalty – P614.105 million. The interest and penalty were not capitalized during the restructuring and are to be paid after full satisfaction of restructured principal obligation per Restructuring Agreement.

As at December 31, 2018, the total outstanding obligation of NHMFC is P22.655 billion (principal – P10.080 billion, interest – P11.961 billion and penalty – P614.105 million) . On-going joint meetings are conducted and collection letters have been sent to NHMFC for the settlement of the latter's outstanding loan obligation. SSS in its letter dated November 21, 2018 to Treasurer Rosalia V. De Leon requested the endorsement of SSS letter to Department of Finance Secretary Carlos G. Dominguez III requesting that P22.655 billion be included in the 2020 budget of National Government for immediate settlement of NHMFC obligations to SSS.

Non-current interest receivable includes those originated from Home Guaranty Corporation (HGC) guaranteed corporate notes and loan to NHMFC amounting to P120.443 million and P12.575 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, respectively, between and among SSS, HGC, and DOF. Upon approval of the SSC under Resolution No. 899 dated November 27, 2013, SSS formally filed with Office of the Government Corporate Counsel (OGCC) the Petition for Arbitration and Adjudication versus HGC (Arbitration Case No. 2013-004). Amount subject of arbitration is P5.07 billion covering principal, HGC-guaranteed interest, and compound interest. The case is still with OGCC. Several negotiations were made on the settlement of obligation including proposal for condonation of HGC-guaranteed interest and compound interest for endorsement to the Office of the President of the Philippines. On October 25, 2018, SSS sent a Memorandum of Agreement to HGC for its consideration of the latter's request for the condonation of the compound interest portion. As of end of 2018, SSS is coordinating with the Office of the Treasurer of the Philippines on updates and next actions to be taken.

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	25,415,428,982	1,163,385,141	354,879,793	26,223,934,330
Lease receivable	13,880,439	471,492	314,150	14,037,781
Other receivable	483,582,054	61,463,571	1,291,518	543,754,107
	25,912,891,475	**1,225,320,204**	**356,485,461**	**26,781,726,218**

The net impairment provisions for December 2018 and 2017 amounted to P1.225 billion and P2.202 billion, respectively, and are 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:

	2018	2017
Office supplies inventory	**152,711,290**	121,700,964
Accountable forms inventory	**7,370,318**	51,486,804
Drugs and medicines	**6,011,906**	17,297,970

	2018	2017
Medical, dental and laboratory supplies inventory	**3,371,579**	792,890
	169,465,093	191,278,628

Supplies and materials used or consumed as at December 31, 2018 and 2017 amounted to P212.186 million and P229.508 million, respectively (see Note 25). Out of the P212.186 million supplies and materials used as at December 31, 2018, P8.087 million was recorded as expense due to obsolescence.

7. NON-CURRENT ASSETS HELD FOR SALE

This account is composed of the following:

	Land	**Building**	**Acquired assets/ Registered**	**Total**
Carrying amount, January 1, 2018	190,100,192	629,886,600	597,414,724	1,417,401,516
Accumulated impairment loss	(1,075,262)	(33,157,271)	(14,281,859)	(48,514,392)
Net carrying amount, January 1, 2018	189,024,930	596,729,329	583,132,865	1,368,887,124
Additions	-	-	346,871,392	346,871,392
Transfer	(60,326,986)	(5,883,155)	-	(66,210,141)
Disposals	(245,700)	(82,271,610)	(268,313,505)	(350,830,815)
Impairment (loss)/recovery	1,075,263	25,823,911	(22,840,073)	4,059,101
Net carrying value, December 31, 2018	**129,527,507**	**534,398,475**	**638,850,679**	**1,302,776,661**

	Land	**Building**	**Acquired assets/ Registered**	**Total**
Carrying amount, January 1, 2017, before restatement	3,706,283,057	121,353,499	509,230,254	4,366,866,810
Reclassification from NCASH to IP/PPE	(693,086,029)	-	-	(693,086,029)
Restated carrying amount, January 1, 2017	3,013,197,028	121,353,499	509,230,254	3,643,780,781
Additions	-	-	311,975,395	311,975,395
Transfer	(2,782,127,278)	539,968,566	-	(2,242,158,712)
Disposals	(46,474,821)	(34,779,569)	(229,260,849)	(310,515,239)
Impairment (loss)/recovery	4,430,000	(29,813,186)	(8,811,932)	(34,195,100)
Restated Net carrying value, December 31, 2017	**189,024,929**	**596,729,328**	**583,132,868**	**1,368,887,125**
Restated carrying amount, January 1, 2017	**3,013,197,028**	**121,353,499**	**509,230,254**	**3,643,780,781**

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, 2018 the impairment loss of P 22.885 million and recoveries/reversals of impairment of P 26.993 million are recognized in profit or loss. (see Note 27)

Had there been no impairment, the carrying amount of the NCAHFS as at December 31, 2018 and 2017 are as follows:

	2018	2017
Land	**128,452,244**	184,594,929
Building	**508,574,564**	626,542,496
Acquired assets/Registered	**661,690,752**	591,944,800
Total	**1,298,717,560**	1,403,082,225

As for the internally appraised properties classified as NCAHFS, 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, 2018, SSS has sold 475 properties through cash and instalment bases generating gain on sale amounting P229.028 million.

ROPA can be leased out momentarily while waiting for its sale to maximize its potential income. As at December 31, 2018,111 ROPA properties with a total book value of ₱647.350 million are being leased out under a cancellable lease contract that can be terminated anytime without any penalty imposed to SSS. Rental income recorded as at December 31, 2018 and 2017 amounted to ₱26.480 million and ₱63.763 million, respectively.

The SSC in its Resolution No. 403-s.2019 dated 18 June 2019 approved the recommendation of the Management to reclassify to other asset classification, certain properties which were found out unsold ranging from 3 to 25 years due to ongoing development plan or some were used as SSS office facilities and some with pending cases. Likewise, the restatement of the affected financial statements has been approved. Accordingly, all previous Commission resolutions which approved earlier classifications of properties inconsistent with the above SSC resolution were deemed amended/revoked.

The restatement/reclassification is shown as follows:

Properties	Financial Statements			Remarks
	2016	2017	2018	
Pasay City (Site 2 FCA 7)		IP	IP	BV; no revaluation
Greenmeadows		IP	IP	BV; no revaluation
Memorial Lots		IP	IP	BV; no revaluation
Bonifacio Land	IP	IP	IP	FMV; with revaluation from 2016

Properties	Financial Statements			Remarks
	2016	2017	2018	
Manila Harbour Center	IP	IP	IP	FMV; with revaluation from 2016
SSS Sorsogon (Land & Bldg.)			PPE	BV; with depreciation on building
SSS Zamboanga (Land)			PPE	BV
Pryce Center Makati (portion only)		PPE/ NCAHFS	PPE/ NCAHFS	BV; with depreciation on building
Pryce Tower Davao (portion only)		PPE/ NCAHFS	PPE/ NCAHFS	BV; with depreciation on building
EGI (E. Ganzon)	PPE	PPE	PPE	BV; with retroactive depreciation on building
Toledo City		IP	IP	FMV; with revaluation from 2017

The properties reclassified to other asset accounts from 2016 to 2018 are as follows:

A. Transferred to Investment Property

- Pasay City (Site 2 FCA 7) and Bonifacio Land properties – these properties were among the five prime SSS-owned properties which management decided to develop rather than to sell. Consultative conferences and meetings with large property developers were held to solicit inputs on how best to develop said properties. Further, a portion of the Pasay City property has a pending expropriation case filed by the National Grid Corporation of the Philippines. (NGCP)

- Greenmeadows Property – the property was foreclosed by the SSS from Waterfront Philippines, Inc. in September 2005. It is subject of Civil Case for Sum of Money with Damages pending with the Court of Appeals. The proposed rezoning of the property from residential to commercial has yet to be passed by the City Council of Quezon City.

- Memorial Lots - the property was the subject of two Civil Cases: 1) a petition for declaratory relief entitled SSS vs. Pryce Corporation (Pryce) Civil Case which was filed by SSS on September 24, 2008 against Pryce questioning the imposition of a one-time Maintenance Adjustment Charge (MAC) on the 14,349 Memorial Lots; 2) a Civil Case for the collection of Sum of Money was subsequently filed by Pryce against the SSS with the RTC Makati City to collect supposed MAC which the SSS has been vigorously contesting from the onset.

- Manila Harbour Center Property - 80.49% of the property are being leased out and earns substantial rental income of ₱62.260-M. Also, it continues to increase in value at 7.9% average annual growth rate.

- Toledo City Property – the property was acquired through dacion en pago from Atlas Mining Corporation in 1995. The SSS has only the Tax Declarations for the remaining lots in its possession. Atlas Mining Corp. is supposed to replace the untitled lots with titled ones. However, as of reporting period, the TCTs in the name of SSS have not yet been delivered hence immediate sale is highly unlikely.

B. Transferred to Property and Equipment

- Sorsogon Property and Zamboanga Property – these properties were published for sale in 2016 but nobody participated during the public bidding. Management has decided to use the properties instead as SSS branch offices.

- EGI (E. Ganzon) Property – the condominium units of this property are currently being used by the SSS Contribution Accounting Department as storage area.

- Pryce Center Makati Property – an 805.25 sq.m. portion of the property with individual CCTs will be allocated for SSS office use.

- Pryce Tower Davao Property – An 843.10 sq.m. portion of the property with individual CCTs will be allocated for SSS office use.

The effect of the reclassification in the Statement of Financial Position and Statement of Comprehensive Income are shown in Note 32.

8. OTHER CURRENT ASSETS

This account is composed of the following:

	2018	2017
Advances	**-**	1,539,394
Prepayments	**13,884,559**	10,732,857
	13,884,559	12,272,251

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

Prepayment includes advances to contractors/suppliers, office rental, insurance premiums, and withholding tax at source. Advances to contractors/suppliers represents cash deposit to Procurement Service (PS)-PhilGEPS intended for the Government Fares Agreement (GFA). The GFA is an initiative of the Department of Budget and Management and the PS-PhilGEPS that will ensure fast, efficient, flexible and savings in time, energy and money when processing the air transportation needs of all government officers and personnel of their domestic trips. Withholding tax at source is a creditable withholding tax deducted by an entity, which is designated by BIR as authorized agent, from rental or other services.

9. INVESTMENT PROPERTY

This account is composed of the following:

	Land	Building	Development Cost	Total
Fair value, January 1, 2018	32,872,755,777	5,541,918,000	9,685,838	38,424,359,615
Additions	-	-	-	-
Disposals	-	-	-	-
Fair value gain (loss)	2,665,792,227	264,280,000	-	2,930,072,227
Fair value, December 31, 2018	**35,538,548,004**	**5,806,198,000**	**9,685,838**	**41,354,431,842**

	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
Effect of reclassification to IP and PE	2,664,454,776	(9,964,580)	-	2,654,490,196
Restated Fair value, January 1, 2017	**21,661,463,494**	**3,977,599,065**	**9,685,838**	**25,648,748,397**
Transfer	2,782,127,278	(614,696,246)	-	2,167,431,032
Disposals	-	(65,739,390)	-	(65,739,390)
Fair value gain (loss)	8,429,165,005	2,244,754,571	-	10,673,919,576
Restated Fair Value, December 31, 2017	**32,872,755,777**	**5,541,918,000**	**9,685,838**	**38,424,359,615**
Restated Fair Value, December 31, 2016	**21,661,463,494**	**3,977,599,065**	**9,685,838**	**25,648,748,397**

The costs of investment property as at December 31, 2018 and 2017 is P10.609 billion.

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.

Upon recommendation of Management, SSC, in its Resolution No. 403-s. 2019 dated June 18, 2019, approved the reclassification of six properties previously classified as NCAHFS to IP to reflect their real condition. SSS management decided to develop two properties rather than to sell; two had pending cases; one with absence of title and one for continued lease which makes the sale highly unlikely. Three properties of which are measured using the cost model in the total amount of ₱2.861 billion. The fair value of the properties is not reliably determinable on a continuing basis due to their pending legal cases mentioned in Note 7.

In 2013, the share of the SSS to the property located at Bonifacio Global City (BGC), Taguig increased from 17.19% to 49.11% due to acquisition of Union Bank of the Philippines (UBP) and Coca-Cola Bottlers Philippines, Inc.-Retirement Plan (CCBPI-RP) property shares. The transfer certificate of title (TCT) has not yet been in the name of SSS due to refusal of the co-owner, Armed Forces and Police Mutual Benefit Association, Inc. (AFPMBAI) to lend its title to SSS demanding SSS to reimburse its payment of the real property tax (RPT) corresponding to the shares of CCBPI-RP and UBP. SSS, on the other hand, is invoking its tax exemption status which is evidenced by letters dated October 29, 2018 and follow-ups on January 21, 2019 and June 20, 2019 to the Acting City Treasurer of TCTO.

The Financial Center Area 7 (FCA 7) property owned by SSS in the reclaimed area along the Manila Bay, Roxas Blvd., Pasay City was subjected for reconfiguration and re-subdivision of lots as evidenced by a Memorandum of Agreement (MOA). The MOA executed in September 14, 2012 by concerned FCA lot owners namely, GSIS, SSS and the Republic of the Philippines (RP) for Philippine National Construction Company (PNCC) have agreed to surrender their respective TCTs to the Bureau of the Treasury (BTr) to effect the consolidation and re-subdivision of the lots in accordance with their actual ownership. In a meeting with the representative of the BTr last January 31, 2019, it was explained that one of the lots owned by the RP has yet to be surrendered by the BTr which is presently encumbered in favor of the Privatization and Management Office due to unpaid obligations of PNCC to the government. Due to such on-going transactions on the reconfiguration and re-subdivision, the property has not been titled yet under the name of SSS. SSS has sent letters on February 18, 2019 and May 27, 2019 to the National Treasurer of the BTr seeking actions taken to enable the foregoing property owners to secure their respective titles.

The following amounts are recognized in the Statements of Comprehensive Income.

	2018	2017 Restated
Gain on fair value adjustment	**2,930,072,227**	10,673,919,576
Rental income	**702,943,572**	496,574,624
Penalty on rentals	**1,328,005**	1,106,753
Gain (loss) on sale/disposal	**-**	10,492,053
Direct operating expenses	**(65,653,288)**	(138,245,426)
Impairment loss	**-**	(104,417)
	3,568,690,516	11,043,743,163

The proceeds arising from the sale of investment properties is subject to the restriction provided under Sections 25 and 26 of the Republic Act 8282 or the Social Security 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. As at December 31, 2018, there are no investment properties sold.

Direct operating expenses incurred for investment properties generating revenue through lease as at December 31, 2018 and 2017 is P52.944 million and P118.581 million, respectively.

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, 2018	3,317,260,000	10,752,881	1,456,831,047	2,830,266,743	64,410,254	7,679,520,925
Additions	-	-	-	252,992,948	19,060,758	272,053,706
Transfers	58,954,200	8,587,438	39,337,054	-	(32,209,377)	74,669,315
Net revaluation increase	1,167,154,445	-	-	-	-	1,167,154,445
Retirement/cancellations/ disposal/adjustments	-	-	(84,855)	(68,378,752)	(4,199,486)	(72,663,093)
December 31, 2018	**4,543,369,645**	**19,340,319**	**1,496,083,246**	**3,014,880,939**	**47,062,149**	**9,120,735,298**
Accumulated depreciation						
January 1, 2018	-	8,724,180	864,023,972	2,134,587,504	-	3,007,335,656
Charge for the period	-	814,804	42,911,840	166,714,130	-	210,440,774
Transfer	-	1,098,340	2,280,296	-	-	3,378,636
Retirement/cancellations/ disposal/adjustments	-	-	-	(64,759,021)	-	(64,759,021)
December 31, 2018	**-**	**10,637,324**	**909,216,108**	**2,236,542,613**	**-**	**3,156,396,045**
Accumulated impairment loss						
January 1, 2018	-	948,351	138,573,067	-	-	139,521,418
Transfer	-	-	6,009,435			6,009,435
Impairment loss	-	188,699	(35,648,383)			(35,459,684)
December 31, 2018	**-**	**1,137,050**	**108,934,119**			**110,071,169**
Net book value, December 31, 2018	**4,543,368,645**	**7,565,945**	**477,933,019**	**778,338,326**	**47,062,149**	**5,854,268,084**

	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, as published	3,317,260,000	10,752,881	1,372,138,787	2,991,412,591	47,558,703	7,739,122,962
Effect of reclassification from Non-current asset held for sale	-		9,964,580	-	-	9,964,580
Restated gross carrying amount, January 1, 2017	3,317,260,000	10,752,881	1,382,103,367	2,991,412,591	47,558,703	7,749,087,542
Additions	-	-	-	148,714,856	17,059,629	165,774,485
Transfers	-	-	74,727,680	-	-	74,727,680

	Land	Land Improvement	Buildings and building/ leasehold improvements	Furniture and equipment, transportation equipment, computer hardware and others	Construction in progress	Total
Retirement/cancellations/ disposal/adjustments	-	-	-	(309,860,704)	(208,078)	(310,068,782)
Restated gross carrying amount, December 31, 2017	**3,317,260,000**	**10,752,881**	**1,456,831,047**	**2,830,266,743**	**64,410,254**	**7,679,520,925**
Accumulated depreciation						
January 1, 2017, as published	-	8,376,401	832,049,680	2,228,553,631	-	3,068,979,712
Effect of reclassification from Non-current asset held for sale	-	-	111,794	-	-	111,794
Restated Accumulated depreciation, January 1, 2017	-	8,376,401	832,161,474	2,228,553,631	-	3,069,091,506
Charge for the period	-	347,780	30,213,139	134,711,649	-	165,272,568
Transfers	-	-	1,649,359		-	1,649,359
Retirement/cancellations/ disposal/adjustments	-	-	-	(228,677,776)	-	(228,677,776)
Restated Accumulated depreciation, December 31, 2017	**-**	**8,724,181**	**864,023,972**	**2,134,587,504**	**-**	**3,007,335,657**
Accumulated impairment loss		-	-	-	-	-
January 1, 2017, as published	-	948,351	138,573,067	-	-	139,521,418
Impairment loss	-	-			-	
Restated Accumulated Impairment, December 31, 2017	**-**	**948,351**	**138,573,067**	**-**	**-**	**139,521,418**
Restated Net book value, December 31, 2017	**3,317,260,000**	**1,080,349**	**454,234,008**	**695,679,239**	**64,410,254**	**4,532,663,850**

Among the property and equipment only land is subject to revaluation. Revaluation was made by an independent appraiser in December 2018.

If land were stated on the historical cost basis, the carrying amount as at December 31, 2018 and 2017 is P 534.062 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, 2018 and 2017 is P4.046 billion and P2.879 billion, respectively, and this is not subject to any appropriations as at end of the reporting period.

Five properties from NCAHFS were transferred to Property and Equipment as mentioned in Note 7. Sorsogon and Zamboanga properties are intended for SSS branch office use. Similarly, portion of Pryce Center Makati and Pryce Tower Davao properties are also being allocated for SSS office use. On the other hand, EGI (E. Ganzon) property is being utilized as SSS storage area.

Rental income from operating assets amounting P8.813 million and P6.596 million as at December 31, 2018 and 2017, respectively, from a portion of five property and equipment under a cancellable lease agreement were included in the Statements of Comprehensive Income. The portion under lease cannot be sold separately and insignificant, thus, remains as Property and Equipment.

As at December 31, 2018 and 2017, the total carrying amount of fully depreciated property and equipment that are still in use are P38.087 million and P25.577 million, respectively.

11. INTANGIBLE ASSETS – NET

This account is composed of the following:

	2018	2017
Cost		
Balance, January 1	**733,191,548**	718,833,852
Additions	**90,586,599**	14,382,445
Transfers/adjustments	**(18,365,516)**	-
Retirement/disposals/cancellation	**-**	(24,749)
Balance, December 31	**805,412,631**	733,191,548
Accumulated amortization		
Balance, January 1	**454,267,971**	405,752,983
Amortization charge for the period	**39,994,329**	48,539,737
Retirement/disposals/cancellation	**-**	(24,749)
Balance, December 31	**494,262,300**	454,267,971
Accumulated impairment loss		
Balance, January 1	**75,828,227**	75,828,227
Retirement/disposals/cancellation	**-**	-

	2018	2017
Balance, December 31	**75,828,227**	75,828,227
Net book value, December 31	**235,322,104**	203,095,350

Intangible assets with definite and indefinite life include both computer software and licenses. The carrying amount of intangible assets with indefinite life as at December 31, 2018 and 2017 is P60.699 million. All intangibles with definite lives are amortized either over a period of five years or with twenty per cent annual amortization rate.

12. OTHER NON-CURRENT ASSETS

This account is composed of the following:

	2018	2017
Deposits	**85,501,716**	78,713,545
Other assets	**279,149,683**	269,309,513
Accumulated impairment - other assets	**(304,764)**	(274,315)
Net value - other assets	**278,844,919**	269,035,198
	364,346,635	347,748,743

Other assets account consists of fire insurance premium (FIP) and mortgage redemption insurance (MRI) advanced by SSS for properties mortgaged to the SSS. As at December 31, 2018, additional provision of impairment loss amounted to P30,449 and no recovery/reversal was recognized.

13. FINANCIAL LIABILITIES

This account is composed of the following:

	2018	2017
Current financial liabilities		
Accounts payable	**6,186,290,167**	5,816,701,502
Accrued expenses	**2,017,238,788**	2,299,131,469
	8,203,528,955	8,115,832,971
Non-current financial liabilities		
Rent payable	**45,390,960**	37,179,482
	8,248,919,915	8,153,012,453

Accounts payable and accrued expenses comprise of SSS' obligations payable to member-borrowers, suppliers, employees and officials.

Non-current financial liabilities represent 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:

	2018	2017
Due to BIR	**61,409,510**	89,560,457
Due to GSIS	**72,227,332**	72,878,772
Due to Philhealth	**6,397,490**	5,631,792
Due to SSS	**5,048,522**	5,036,939
Due to Pag-IBIG	**4,876,071**	4,706,839
Due to LGUs	**260**	188,074
	149,959,185	178,002,873

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.

Due to BIR includes among others, VAT payable, other taxes withheld for remittance and over remittance for offsetting in 2019. The VAT exemption of SSS was repealed by Section 86 of the R.A. 10963 also known as the Tax Reform for Acceleration and Inclusion (TRAIN) effective January 1, 2018.

15. TRUST LIABILITIES

This account is composed of the following:

	2018	2017
Trust liabilities	**387,608,609**	294,150,961
Guaranty/security deposits payable	**237,903,661**	228,465,408
Customers' deposits payable	**139,832,464**	132,102,952
	765,344,734	654,719,321

Trust liabilities consists of the following:

	2018	2017
Funds held in trust -		
Officials and employees	**352,382,314**	258,326,656
Suppliers and creditors	**4,462,820**	2,093,824
Borrowers and other payors	**3,717,714**	7,319,098
Dividends - stock investment loan program	**15,501,904**	15,492,454
Flexi-fund	**8,508,199**	6,576,562
SSS Provident fund and Medical Insurance	**3,035,658**	2,542,751
Educational loan fund – DECS	**-**	1,799,616
	387,608,609	294,150,961

Funds held in trust from officials and employees includes among others amounts deducted from their separation/retirement claims for the benefits received but subsequently disallowed in audit as at December 31, 2018 and 2017 amounted to P315.400 million and P223.586 million, respectively. This is done to assure collection once the pending appeal in court or COA will result in 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:

	2018	2017
Current deferred/unearned income		
Deferred credits - output tax	**1,098,026**	-
Unearned rental income	**57,948,826**	122,309,497
	59,046,852	122,309,497
Non-current unearned income		
Unearned income-unrealized gain-GBond	**382,762,849**	409,613,518
	441,809,701	531,923,015

The output tax is the value-added tax of SSS for its properties under lease while unearned rental income represents advance rental payments from tenants of SSS properties.

The non-current unearned income represents unrealized gain 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, 2018 and 2017 are as follows:

	2018	2017
Leave benefits payable	**564,916,238**	727,694,711
Retirement gratuity payable	**641,074,473**	641,074,473
Other provisions	**254,784,795**	97,657,622
	1,460,775,506	1,466,426,806

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 at December 31, 2018, there were 2,240 employees who availed of the monetization of leave credits with total amount of P98.067 million.

Retirement gratuity payable is 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 P5,000 for every year of service upon retirement. As at December 31, 2018, 219 employees were given RIA in the total amount of P34.145 million.

18. OTHER PAYABLES

This account is composed of the following:

	2018	2017
Current other payables	**1,990,631,097**	1,743,958,037
Non-current other payables	**50,000,000**	50,000,000
	2,040,631,097	1,793,958,037

The current other payables account represents the undistributed collections, as follows:

	2018	2017
Member loans (ML) collection	**1,762,462,284**	1,418,480,291
Undistributed collection	**73,568,465**	169,486,072
OFW collections	**89,131,581**	89,213,365
Sales contract receivable	**46,848,029**	57,701,653
Real estate loans collection	**18,620,738**	9,055,712
Employees' housing loan program	**-**	20,944
	1,990,631,097	1,743,958,037

These are collections for 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.

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.

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 a 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.

The non-current portion of Other Payable represents the P50 million seed money to fund the initial investment activities of the PESO fund.

19. EQUITY

The SSS Reserves is composed of the following:

	2018	2017 Restated
Reserve fund	**523,865,881,162**	500,362,518,604
Revaluation surplus	**4,046,242,799**	2,879,088,355
Members' equity	**873,406,815**	773,934,173
Cumulative changes in fair value	**(30,427,023,610)**	(8,161,549,950)
	498,358,507,166	495,853,991,182

The Reserve Fund as at December 2017 was restated to reflect the effect of the change in accounting policy set out in Note 2.11b, on the recognition of interest income on ML, HL, SCR and rental receivable from cash to accrual basis and on the reclassification of NCAHFS to IP and PPE accounts.

		2017 Restated
Balance at December 31, 2017, as published		496,595,968,020
Impact of the change in accounting policy		
At the beginning of January 1, 2017	693,114,522	
During the year of 2017	56,285,564	749,400,086
Impact of the classification of NCAHFS to IP and PPE		
At the beginning of January 1, 2017	1,972,162,194	
During the year of 2017	1,044,988,304	3,017,150,498
Restated balances at December 31, 2017		500,362,518,604

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

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

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

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

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

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 results of the 2011 Actuarial Valuation were 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 summary of results of the 2015 Valuation vis-à-vis the updated 2011 Valuation are presented in the table below.

Actuarial Valuation
Comparison of Key Projection Results
2015 Valuation versus 2011 Valuation

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

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

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

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

Comparison of Unfunded Liability
2015 Valuation versus 2011 Valuation
(Amounts in Trillion pesos)

	Computed as at 12/31/2013		Computed as at 12/31/2015	
Key Projection Results	2011 Valuation at 8% Discount Rate (A)	2011 Valuation at 6% Discount Rate (B)	2011 Valuation at 6% Discount Rate (C)	2011 Valuation at 6% Discount Rate (D)
Liability	1.56	3.45	3.91	3.87
Reserve fund	0.34	0.34	0.44	0.40
Unfunded liability	1.22	3.11	3.47	3.47

Based on the updated 2011 Valuation results, the unfunded liability was valued at P1.22 trillion using a discount rate of 8 per cent (see column A). Meanwhile, the unfunded liability of P3.47 trillion in the 2015 Valuation was computed at a discount rate of 6 per cent (see column D). The increase in unfunded liability can be attributed to two sources: (1) change in discount rate from 8 per cent to 6 per cent and (2) change of reference date of present value computations from December 31, 2013 to December 31, 2015.

If a discount rate of 6 per cent was used instead in the 2011 Valuation, the unfunded liability would be at P3.11 trillion (see column B). Further, if the reference date was updated to December 31, 2015, the unfunded liability would increase to P3.47 trillion (see column C), which is almost equal to the unfunded liability for the 2015 Valuation. This supports the result that fund file is maintained at 2042 in the 2015 Actuarial Valuation.

On the other hand, the summary of results for the original 2015 Valuation and the updated 2015 Valuation, which took into consideration the P1,000 additional pension allowance in 2017, are compared in the table below.

Comparison of Key Projection Results
Original 2015 Valuation versus Updated 2015 Valuation
(Amount in Trillion Pesos)

Key Projection Results	2015 Valuation		
	Original (A)	Updated (B)	With P1,000 Additional Pension Benefit (C)
Year Fund Will Last	2042	2042	2032
Year Net Revenue Becomes Negative	2034	2034	2022
Unfunded Liability Computation			
(Discount rate = 6%)	(as at Dec. 31, 2015)	(as at Jan. 1, 2017)	(as at Jan. 1, 2017)
Liability	3.87	4.11	5.38
Reserve Fund	0.40	0.44	0.43
Unfunded Liability	3.47	3.67	4.95

The implementation of the P1,000 additional pension benefit in 2017 reduced the fund's life by ten (10) years, from 2042 to 2032, and caused the net revenue to become negative by 2022, way earlier than 2034 which was projected in the original 2015 Valuation.

The unfunded liability was computed at P4.95 trillion as of January 1, 2017 (see column C). For proper comparison, the reference date of present value computations for the original 2015 Valuation was updated from December 31, 2015 to January 1, 2017. Performing this update resulted in an unfunded liability of P3.67 trillion (see column B). Thus, the increase in pension benefit in 2017 effectively increased the unfunded liability by P1.28 trillion.

This current UL 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 Republic Act No. 8282; MSC ceiling also was 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. As at December 31, 2018, P1.167 billion additional revaluation gain was recognized.

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

	2018	2017
Balance, January 1	**(8,161,549,950)**	(15,650,037,897)
Net gain (loss) arising on revaluation of financial assets at FVTOCI	**(22,265,473,660)**	7,663,808,305
Cumulative gain (loss) reclassified to profit or loss on sale/disposal of AFS financial assets	**-**	(175,320,358)
Balance, December 31	**(30,427,023,610)**	(8,161,549,950)

The cumulative changes in fair value represents the investments revaluation reserves arising on the revaluation of financial assets that have been recognized in other comprehensive income and net of amounts reclassified to profit or loss for assets sold/disposed on 2017.

20. SERVICE AND BUSINESS INCOME

This account is composed of the following:

	2018	2017 Restated
Members' contribution	**180,343,916,577**	158,359,431,047
Interest income	**22,107,910,860**	20,641,801,596
Dividend income	**3,078,353,241**	3,287,619,488
Fines and penalties- business income	**3,046,720,616**	2,682,336,974
Rent/lease income- investment property	**702,943,572**	484,182,681
Income from acquired/foreclosed assets	**26,480,172**	63,858,089
Management fees	**7,029,433**	6,014,775
Other business income	**486,206,136**	459,697,986
	209,799,560,607	185,984,942,636

As at December 31, 2018, members' contributions collections inclusive of related interests and penalties from employed sector registered the biggest amount of collection at P156.934 billion, followed by voluntary paying members at P18.616 billion and self-employed at P6.366 billion. The number of paying members as at December 31, 2018 and 2017 reached to 16.540 million and 15.287 million, respectively.

Interest income are derived from the following SSS investments:

	2018	2017 Restated
Bonds investments		
FAFVTPL	**652,909,618**	177,505,533
FVTOCI	**3,201,488,141**	-
FA at Amortized Cost	**10,273,689,088**	13,032,997,434
	14,128,086,847	13,210,502,967
Loans and receivables	**7,179,565,775**	6,926,971,175
Current/savings/term deposits	**773,195,154**	499,195,681
Time deposits	**17,385,000**	-
Others	**9,678,084**	5,131,773
	22,107,910,860	20,641,801,596

Interest income from loans and receivables as at December 2017 was restated from P6.871 billion to P6.927 billion or an increase of P56 million to reflect the effect of the accrual of interest income on ML, HL, SCR and rental of acquired assets.

Other business income includes among others service fees on salary loans granted, income from SSS ID replacement and rental income from operating assets amounting P358.400 million, P93.175 million and P10.253 million, respectively, as at December 31, 2018.

21. GAINS

	2018	2017
Gain from changes in fair value of investment Property	**3,275,374,484**	10,673,919,576
Gain from changes in fair value of financial Instruments	**2,087,104,052**	643,997,387
Gain on sale/redemption/transfer of Investment	**892,599,507**	5,341,245,650
Gain on foreign exchange (FOREX)	**564,573**	2,988,723
Gain on sale of property and equipment	**485,874**	369,122
Gain on sale of investment property	**-**	10,492,053
	6,256,128,490	16,673,012,511

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, 2018 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

	2018	2017
Other non-operating income		
Reversal of impairment loss	**434,443,321**	464,306,953
Miscellaneous income	**573,657,598**	369,677,214
	1,008,100,919	833,984,167

The SSS considers certain financial assets to have recovered from impairment losses amounting to P434.443 million due to the enhanced loan collection efforts and the implementation of loan restructuring. Majority of the recoveries came from member loans and housing loans amounting P124.883 million and P229.266 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 P180.079 billion with total number of claims of 30,665,451.

	2018	2017
Benefit payments		
Retirement	**104,822,602,023**	98,857,310,480
Death	**54,715,765,694**	53,146,012,198

	2018	2017
Disability	**6,765,319,427**	6,228,176,356
Maternity	**7,066,033,389**	6,111,415,659
Funeral grant	**3,906,046,527**	3,788,233,643
Sickness	**2,790,957,883**	2,538,444,318
Medical services	**10,830,855**	12,221,131
Rehabilitation services	**958,702**	1,763,604
	180,078,514,500	170,683,577,389

24. PERSONNEL SERVICES

This account is composed of the following:

	2018	2017
Salaries and wages	**2,882,894,684**	2,875,007,885
Other compensation	**1,556,748,429**	1,548,263,548
Personnel benefit contribution	**1,546,222,995**	1,536,614,733
Other personnel benefits	**545,337,675**	347,668,774
	6,531,203,783	6,307,554,940

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.

Other personnel benefits include the Program on Awards and Incentives for Service Excellence or the SSS PRAISE effective January 1, 2018. The Civil Service Commission (CSC) in its letter dated May 12, 2017 and the SSC under Resolution No. 274-s.2017 dated April 5, 2017 approved its implementation to encourage creativity, innovativeness, efficiency, integrity and productivity in the public service by recognizing and rewarding officials and employees, individually or in groups for their suggestions, innovative ideas, superior accomplishments and other personal efforts which contribute to the efficiency, economy or improvement in government operations which lead to organizational productivity. This caused the increase in other personnel benefits account in 2018 as compared in 2017 taking into account some of the increases in the employee's individual awards and incentives:

- Employee anniversary award from P1,000 to maximum of P8,000
- Masteral/Doctoral degree completion from P20,000 to P30,000
- Retirement incentive award from P2,000 to P5,000 per year of service

As at December 31, 2018, SSS has a total of 6,900 regular personnel of which 484 are new employees but net of 382 retired/separated employees.

25. MAINTENANCE AND OTHER OPERATING EXPENSES

This account is composed of the following:

	2018	2017
Labor and wages	**459,645,947**	467,626,716
General services	**301,112,117**	321,510,234
Repairs and maintenance	**262,428,075**	278,108,490
Communication expense	**247,701,305**	263,169,988
Utility expenses	**246,321,443**	236,116,889
Supplies and materials expenses	**212,185,975**	229,507,600
Professional expenses	**77,106,380**	68,197,712
Traveling expenses	**74,636,928**	72,010,612
Training and scholarship expenses	**51,260,537**	62,653,428
Taxes, insurance premiums and other fees	**24,670,208**	18,135,596
Confidential, intelligence and extraordinary Expenses	**1,552,681**	1,830,125
Awards/Rewards, prizes, and indemnities	**1,242,363**	-
Other maintenance and operating expenses	**987,832,596**	982,316,927
	2,947,696,555	3,001,184,317

Other maintenance and operating expenses consist of the following:

	2018	2017
Rent/lease expenses	**304,507,045**	284,033,513
Fees and commission expenses	**255,187,752**	236,338,515
Printing and publication expenses	**205,801,777**	217,589,131
Advertising, promotional and marketing expenses	**75,078,189**	95,596,137
Subscription expenses	**53,636,205**	42,571,530
Directors and committee members' fees	**22,105,636**	25,728,907
Transportation and delivery expenses	**16,766,387**	19,722,703
Membership dues and contributions to Organizations	**9,309,156**	9,461,842
Donations	**6,006,280**	15,425,751
Other maintenance and operating expenses	**39,434,169**	35,848,898
	987,832,596	982,316,927

26. FINANCIAL EXPENSES

This account is composed of the following:

	2018	2017
Bank charges	**885,955**	3,344,543
Other financial charges	**128,280,980**	174,680,472
	129,166,935	178,025,015

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:

	2018	2017
Losses	**3,361,248,235**	12,745,642
Impairment loss	**1,285,700,544**	2,241,716,996
Depreciation	**206,743,541**	183,499,366
Amortization	**43,764,140**	48,539,737
	4,897,456,460	2,486,501,741

In 2018, 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 P1.286 billion, of which P1.184 billion is for loans and receivables, P22.885 million for non-current assets held for sale and P15.506 million for building and improvements.

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 Special Allotment Release Order No. BMB-F-12-0031251 dated December 14, 2012. The total cash allocations released to SSS from 2012 to December 31, 2018 amounted to P2.828 billion, of which P2.480 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
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**

NCA No.	Date	Amount
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**
BMB-C-18-0019433	September 17, 2018	185,357,643
2018		**185,357,643**
Grand Total		**2,828,179,907**

29. OPERATING LEASE COMMITMENTS

29.1 SSS as lessee

The SSS leases offices for its various branches under cancellable operating lease agreements. The leases have varying terms, escalation clauses, and renewal rights. In 2018, SSS opened 3 new branches and 13 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 305 local branches, 163 branch/service/representative offices located in various locations nationwide are rent-free. As at December 31, 2018 and 2017, total lease payment recognized as expense amounted to P304.579 million and P284.033 million, respectively (see Note 25). Further, no sublease agreements made and no occurrences of contingent rent.

29.2 SSS as lessor

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 P3,342 per month. The leases have varying terms, escalation clauses, and renewal rights.

Total rental income earned as at December 31, 2018 and 2017 amounted to P739.678 million and P554.542 million, respectively, details as follow:

	2018	2017
Rental/lease income - investment property	**702,943,572**	496,574,624
Income from acquired/foreclosed assets	**26,480,172**	51,370,763
Other business income		
Operating assets	**10,253,805**	6,596,330
	739,677,549	554,541,717

30. RELATED PARTY DISCLOSURES

As at December 31, 2018, the composition of the Social Security Commission's board members is as follows:

Board Position	Name	Appointment
1. Chairperson	Aurora C. Ignacio	Representing the Employers' Group
2. Vice-Chairperson	Emmanuel F. Dooc	President & CEO, SSS
3. Ex-Officio Member	Silvestre H. Bello III	Secretary, DOLE
4. Member	Michael G. Regino	Representing the General Public Sector
5. Member	Ricardo L. Moldez	Representing the Employers' Group
6. Member	Diana Pardo-Aguilar	Representing the Employers' Group
7. Member	Anita Bumpus-Quitain	Representing the Workers' Group
8. Member	Gonzalo T. Duque	Representing the Workers' Group
9. Member	Arthur L. Amansec	Representing the Workers' Group

Key Management Personnel Remuneration and Compensation

The management personnel of SSS are the President and CEO, Executive Vice President and Senior Vice Presidents of the operating and support groups. The remuneration of key management personnel during the year is as follows:

	2018	2017
Salaries	**32,012,158**	31,364,097
Other allowances and benefits	**26,809,915**	23,529,486
	58,822,073	54,893,583

Meanwhile, the total remuneration received by the Board of Commissioners is as follows:

	2018	2017
Remuneration	**16,811,270**	19,060,753

31. FINANCIAL RISK MANAGEMENT

SSS manages the existing and emerging risks across the entire organization. These risks can be divided into four (4) principal risk categories: Financial Risks, Insurance & Demographic Risks, Strategic Risks, and Operational Risks. To provide systematic method of addressing these risks, SSS established and adopts an Enterprise Risk Management (ERM) approach. ERM is a continuous, proactive and integrated process used to identify, assess and manage risks across all areas and at all levels of the organization. This will ensure the alignment of strategic planning and risk management.

Under ERM, SSS implements a risk management process that is carried out in five (5) sequential phases – strategic plan, risk assessment, risk reporting, risk treatment and risk monitoring. The process runs in an iterative loop to continuously improve the management system by incorporating the lessons learned and feedback of stakeholders. It is conducted across the entire organization throughout the year while making investment decisions and when conducting day-to-day operations.

The SSS ERM has seven (7) key components, as follows:

1. Corporate Governance – to ensure that the SSC and the Management have established the appropriate organizational process and corporate controls to measure and manage risk across the organization.

   SSS established a Risk Management Committee (RMC) responsible for the adoption and oversight of risk management program of the System, in accordance with the guidelines prescribed by the Governance Commission for GOCCs (GCG). It also created the Risk Management Division (RMD), under the Actuarial and Risk Management Group (ARMG) that is responsible for ensuring that risk policies are in place among SSS units.

2. Line management to integrate risk management into the investment as well as operational activities of the organization.

   RMD conducts series of meetings and workshops to explain the concept of risk and describe the risk management process – ISO 9001:2015 Seminar/Workshop on Risk-based Thinking for all SSS Employees.

3. Portfolio management to aggregate risk exposures, incorporates diversification effects, and monitor risk concentrations against established risk limits.

   RMD together with the Investments Sector (IS) implements certain limits for SSS investments, these are debt and equity limits, Value-at-Risk (VAR) limits, Market-to-Acquisition Ration (MAR) limits, banking sector limits, real property and real estate related investment limits and other industry limits. Also, IS units have established their internal limits for each SSS investment asset (e.g. limit per broker, trading limit per day, allocation for each asset, limit per trader, etc).

4. Risk transfer to mitigate risk exposures that are deemed too high, or are more cost-effective to transfer out to a third party than to hold in the organization's risk portfolio.

   SSS transfer risk through acquisition of insurances to mitigate risk exposure that is deemed too high, which is consequently more cost effective than to hold in the System's risk portfolio. Insurance policies acquired by SSS include fire insurance for SSS properties, Directors' and Officers' Liability Insurance (DOLI) for SSC and the Management and Credit Group Life Insurance (CGLI) for SSS pensioners who availed of the Pension Loan Program.

5. Risk analytics to provide risk measurement, analysis and reporting tools to quantify the organization's risk exposures as well as track external drivers.

   SSS monitors various risk metrics using risk management tools that are developed for the analysis and assessment of risks, which help in the formulation of appropriate mitigating measures. Examples of risk management tools are VAR, MAR, Stop Loss/Cut Loss, etc.

6. Data and technology resources to support the analytics and reporting processes.

   Currently, RMD manually encodes in its internal database and processes through aggregation various risk-related data from different SSS units using Macro-embedded program in MS Excel. Risk metrics are programmed in MS Excel to generate risk reports.

7. Stakeholder management to communicate and report the organization's risk information to key stakeholders.

   RMD, as part of its risk reporting function, presents identified risks, both existing and emerging, and corresponding action plans during Management Review meetings. A document regarding how SSS manages its risks is published in the SSS website under the Transparency Seal.

   The SSS RMD developed four (4) risk manuals – Financial Risk Management Manual, Insurance and Demographic Risk Management Manual, Strategic Risk Management Manual and Operational Risk Management Manual – that will provide a common and systematic approach for managing risks. Each manual contains all risk management tools, policies and procedures that were approved by the SSC and proposed by the RMD. The risk management tools, policies and procedures currently utilized by SSS to manage the four (4) principal risk categories, are discussed below:

31.1 <u>Financial risk</u>

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

The SSC and 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 of 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.

a. <u>Market risk</u>

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

SSS 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. Also, SSS developed risk management tools to monitor and mitigate market risks, these are:

1. Value-at-Risk (VAR) – a risk management tool used to measure the equity portfolio's maximum loss under normal market movements for a specified time interval and at a given confidence level. Alternatively, it measures the minimum loss of portfolio under extreme market movements. Daily VAR estimates are monitored daily and compared to its limits.

   The VAR is designed to restrict potential loss to an amount tolerable by the Management, given the daily investment exposure on a trading portfolio. It is a general limit that incorporates a wide array of risks but encapsulates the quantification of these risks to a single number.

2. Market-to-Acquisition Ratio (MAR) – a risk indicator that measures the percentage of the asset or portfolio's daily market value relative to its acquisition cost. The MAR values range from zero to positive infinity. MAR values lower than 100% indicate unrealized losses while values greater than 100% indicate unrealized gains.

3. Stop Loss/Cut Loss Program – a disciplined/programmed divestment of losing stocks triggered by certain conditions (e.g. technical analysis/optimal portfolio recommendations, dividend yield, etc.) until all subject shares have been fully divested for the primary purpose of limiting losses to the equity portfolio.

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.

To avoid significant concentrations of exposures to specific industries or group of issuers and borrowers, SSS investments are regularly monitored against prescribed cumulative ceilings specified in Section 26 of SS Law.

The table below shows the maximum credit risk exposure and aging analysis of the SSS financial assets with past due as at December 31, 2018 and 2017.

2018

	Neither past due nor impaired	Past due but not impaired (Age in months) 1-12	13-36	37-48	49-60	Over 60	Expired	Impaired	Total
					(In Millions)				
Financial assets at FVTPL	30,885	-	-	-	-	-	-	-	30,885
Financial assets at FVTOCI	129,582	-	-	-	-	-	1,380	1,292	132,254
HTM investments:									
Corporate notes and bonds	34,649	-	-	-	-	-	-	-	34,649
Government notes and bonds	149,959	-	-	-	-	-	-	-	149,959
Loans and receivables:									
NHMFC	-	-	-	-	-	-	5,038	5,038	10,076
Housing loans	397	175	75	29	35	2	-	1,291	2,004
Member loans	44,920	10,663	10,591	-	5,511	12,906	-	7,057	91,648
Pension loans	404	-	-	-	-	-	-	-	404
Sales contract receivable	121	695	131	30	19	47	40	55	1,138
Commercial and industrial loans	1	-	-	-	-	-	10	59	70
Program MADE	-	-	-	-	-	-	-	17	17
	390,918	**11,533**	**10,797**	**59**	**5,565**	**12,955**	**6,468**	**14,809**	**453,104**

2017

	Neither past due nor impaired	Past due but not impaired (Age in months) 1-12	13-36	37-48	49-60	Over 60	Expired	Impaired	Total
					(In Millions)				
Financial assets at FVTPL	16,321	-	-	-	-	-	-	-	16,321
Financial assets at FVTOCI	102,065	-	-	-	-	-	1,380	1,292	104,737
HTM investments:									
Corporate notes and bonds	28,312	-	-	-	-	-	-	-	28,312
Government notes and bonds	175,983	-	-	-	-	-	-	-	175,983
Loans and receivables:									
NHMFC	-	-	-	1,624	-	-	3,919	4,711	10,254
Housing loans	479	131	68	32	-	-	1	1,519	2,230
Member loans	41,101	8,516	9,631	-	5,475	14,269	-	6,321	85,313
Sales contract receivable	448	296	86	24	16	49	33	41	993
Commercial and industrial loans	1	-	-	-	-	-	10	59	70
Program MADE	-	-	-	-	-	-	-	17	17
	364,710	**8,943**	**9,785**	**1,680**	**5,491**	**14,318**	**5,343**	**13,960**	**424,230**

To further ensure compliance with Section 26 of SSS Law, Policies and Guidelines in Determining and Managing Exposure Limits to Debt to Equity were established. The investment limits for Conglomerate/Group, Individual Corporation, Individual Corporation's Debt and Individual Corporation's Equity are determined based on two principles: IRF forecast-based principle and risk-based principle.

For the IRF forecast-based principle, the following are the limit ceilings as portion of IRF forecast, where the IRF forecast is computed from the previous year's IRF plus 90% of the current year's target net revenue:

10% for Conglomerate/Group
4% for Individual Corporation
3% for Individual Corporation's Debt
3% for Individual Corporation's Equity

The risk-based principle for computing investment limit is based on the company's value and its credit score.

Factors	Individual Corporation	
	Debt	Equity
Corporation's Value	Three times the Unimpaired Capital of the Corporation	10% of the Market Value of Total Issued and Outstanding Shares of the Corporation
Risk Measure	Merton Distance-to-Default	Altman Z-Score

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

1. Minimum requirements for stockbroker evaluation

   1.1 Stockbroker must be registered with the Securities and Exchange Commission (SEC) and a member of good standing of the Philippine Stock Exchange (PSE) as defined under Section 28 of the Securities Regulation Code (SRC).
   1.2 The stockbroker must belong to the top thirty (30) in terms of cumulative value of transactions during the past three (3) years.
   1.3 The stockbroker must be in operation for at least five (5) years and must be profitable for four (4) years in these five (5) years of operation. Provided that, the stockbroker must be profitable in the year prior to the application for accreditation.
   1.4 The stockbroker must have a minimum of unimpaired paid-up-capital of one hundred million pesos (Php100-M) or the minimum capitalization required by the SEC, whichever is higher.
   1.5 The stockbroker shall have a positive track record of service to other institutional clients.

2. Stockbroker transactions, allocations and limits

   2.1 Total daily transactions, excluding block transactions, per stockholder shall not exceed 50% of the stockholder's equity of stockbrokers.

2.2 Total transactions, excluding negotiated block transactions, for each of the accredited stockbrokers, during the accreditation period, shall not exceed the higher between one (1) over the number of active accredited stockbrokers x 100% and 15% of total SSS transactions.

2.3 Transactions, excluding negotiated block transactions, with the SSS by the stockbroker within the year of accreditation, shall not exceed 40% of its total market transactions. This ensures that SSS is not its only client.

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 ensure that investments in Marketable Securities shall be compliant to the basic principles of safety, liquidity and yield shall benefit as many members of the System, SSS only invests in shares of stock and equity related-issues that satisfies its stock accreditation guidelines.

Also, RMD developed a Risk Dashboard to provide the Management with bird's-eye view of the financial risks that SSS is facing. This dashboard will help the Management in identifying the issues that may arise from the cumulative impact of risks over time. It consists of risk reports like VaR, MAR Heat Maps, Ageing Reports, and Limit Monitoring, which are presented in tabular and graphical form. RMD also conducts validation, backtesting and stress testing on risk models used by the Investment Sector to ensure effectiveness and reliability of models.

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 actuarial valuation/studies and monitoring of experience. There are also mitigating measures to control SSS members' anti-selection practices, such as when a person who has better information on products and/or services, selectively uses it to gain personal advantage at the expense of the provider or another party. For example, SSS only allows self-employed members and voluntary members, including OFWs, aged 55 years old and above, to increase their monthly salary credit (MSC) brackets to only once in a given year but only one salary bracket from the last posted MSC. This is to control the practice of abruptly increasing one's monthly salary credit near retirement to increase expected pension.

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 to craft appropriate policies beneficial to the System and its members. SSS also implemented the No Gift Policy, No Noon Break Policy, Anti-Fixer Campaign and No Smoking Campaign which will enhance its image as a government institution.

31.4 Operational risk

Operational risk is the exposure to potential loss, whether direct or indirect, resulting from a range of operational weaknesses.

a. Internal fraud and External fraud

These are unexpected losses as a result of fraudulent action of persons internal to the firm or external to the firm.

b. Employment practices and workplace safety risk

These are unexpected losses as a result of employment practices followed by the System which may not meet applicable laws and standards of safety, health, and diversity.

c. Clients, products and business practices

These are unexpected losses arising from an unintentional or negligent failure to meet professional obligation to clients.

d. Physical Damage Risk and Business Disruptions/System Failures

These are unexpected losses as a result of physical damage to the asset or failure of its systems.

e. Execution, delivery and process management

These are the unexpected losses from failed transaction processing/process management and from relations with trade counterparties and vendors.

SSS monitors these risks by conducting regular Risk and Control Assessment (RCA) throughout the System. RCA provides insights on risks in each SSS unit, both existing or emerging. Identified operational risks through RCA are consolidated in a risk report, which is presented in Risk Management Committee meetings. Actual risk incidences are reported as well.

Through the RCA, SSS units become more aware of the risk present in their day-to-day operations. As such, they are able to identify gaps and ineffective controls and come up with sensible action plans to minimize possible loss and damage. The progress of the action plans is periodically monitored and reported.

Below are some of the risk management tools used to address operational risks:

a. Privacy Impact Assessment – SSS conducts Privacy Impact Assessment (PIA) to evaluate privacy impacts in all processing systems – existing, new and enhancements. The PIA takes into account the nature of personal data to be protected, threshold analysis, personal data flow, stakeholder engagement and risks to privacy and security in each processing system.

b. Directors' and Officers' Liability Insurance – SSS has been providing its Commissioners and Executives with an indemnity coverage to afford SSS, SSC and its Management the means to pursue their fiduciary duties and obligations to always act in the best interest of the System, with utmost good faith in all their dealings with the property and monies of SSS.

c. Personal Equity Investment Policy – SSS promotes high standards of integrity and professional excellence among its officers and employees in the investment of the Reserve Funds as provided under its Charter through regular monitoring and regulation the official and personal transactions and activities related to equity investments of concerned SSS officers and employees and the establishment of a disclosure mechanism for their personal equity investments.

d. Business Continuity Management Plan – Currently, the SSS trains its employees to be prepared against natural and manmade calamities through regular conduct of disaster preparedness programs, e.g. fire drill, earthquake drill, back-up and recovery of systems. For long term preparation, the SSS has created a Disaster Control Group that is responsible for planning strategies and mechanism to provide continuous delivery of services to the public amidst any disruption in operations caused by disaster.

32. RECLASSIFICATION AND RESTATEMENT

The following tables summarizes the effect of the adjustments made on the change in accounting policy from cash basis to accrual of interest income on Member Loans (ML), Housing Loans (HL), Sales Contract Receivables (SCR) and Rental on Acquired Assets and on the reclassification of NCAHFS to IP and PPE.

The SSC under Resolution No. 403-s.2019 dated June 18, 2019 approved the restatement of financial statements due to misclassification in eleven (11) properties between reporting periods 2016 and 2018 as presented under Note 7. This is in compliance to Audit Observation Memorandum No. 2019-03 (2018) issued by the Commission on Audit on January 9, 2019 as well as with respective applicable standards for properties held for sale, for own use or for investment purposes.

a. Effect on the Statement of Financial Position

	Current Asset		Non-Current Asset		Reserve
	Receivable	**NCAHFS**	**IP**	**PPE**	**Fund**
			In Million Pesos		
Balance at January 1, 2017, as published	7,244	4,337	22,994	4,531	476,563
Impact of the change in accounting policy-cash to accrual of interest income	693	-	-	-	693
Impact of the reclassifications of NCAHFS	-	(692)	2,654	10	1,972
Restated balances at January 1, 2017	**7,937**	**3,645**	**25,648**	**4,541**	**479,228**

	Current Asset		Non-Current Asset		Reserve
	Receivable	**NCAHFS**	**IP**	**PPE**	**Fund**
			In Million Pesos		
Balance at December 31, 2017, as previously reported	4,567	5,966	30,892	4,450	496,596
Impact of the change in accounting policy-cash to accrual of interest income					
At the beginning of January 1, 2017	693	-	-	-	693
During the year 2017	56	-	-	-	56
Sub-total	749	-	-	-	749
Impact of the reclassifications of NCAHFS					
At the beginning of January 1, 2017	-	(692)	2,654	10	1,972
During the year 2017	-	(3,905)	4,878	73	1,045
Sub-total	-	(4,597)	7,532	83	3,017
Restated balance of December 31, 2017	**5,316**	**1,369**	**38,424**	**4,533**	**500,362**

b. Effect on the Statement of Comprehensive Income

	2018	2017
	In Million Pesos	
Change in accounting policy – cash to accrual of interest		
Increase service and business income	**76**	56
Increase in profit for the year	**76**	56
Reclassification of NCAHFS		
Increase gains	**173**	1,045
Decrease other non-operating income	**(2)**	-
Increase non-cash expenses	**250**	0.4
Decrease in profit for the year	**(79)**	1,045
Increase OCI-revaluation surplus	**81**	-

33. EVENTS AFTER REPORTING PERIOD

As of reporting period, two properties donated to SSS by the Provincial Government of Isabela and the Provincial Government of Camarines Norte have not been transferred in the name of SSS. The same are not yet dropped from the books of the respective Provincial Government, hence not recognized in the SSS book.

The donation of a parcel of land measuring 4,000 square meters located within the Provincial Capitol of Ilagan, Isabela has an appraised value of P20 million at P5,000 per square meter and will be used to establish an SSS office in the City Ilagan, Isabela. On the other hand, the donated lot situated at Sitio Mat-I, Sto. Domingo, Vinzons, Camarines Norte with a 1,000 square meters has a fair market value of P428,570 at P428.57 per square meter and will be used to construct an SSS Provincial Field Office/Satellite Office and Processing Center.

On February 7, 2019, President Rodrigo R. Duterte signed into law the enactment of Republic Act No. 11199 otherwise known as the "Social Security Act of 2018". An Act rationalizing and expanding the powers and duties of the Social Security Commission to ensure the long-term viability of the Social Security System, Repealing RA No. 1161, as amended by RA No. 8282 or the Social Security Act of 1997.

Among the landmark provisions of the said law are the grant of unemployment or involuntary separation benefits, the mandatory coverage of Overseas Filipino Workers, the establishment of a Provident Fund exclusive to SSS members, the condonation of penalties on delinquent contributions, and the legislated adjustments in membership premium and monthly salary credits.

34. OTHER MATTERS

34.1 Commitments

Amount authorized but not yet disbursed for capital expenditures as at December 31, 2018 is approximately P1.190 billion.

35. 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 the 15th day of the following month except those withheld for the month of December which are remitted on or before the 20th day of January of the following year. Value-added taxes and final income taxes withheld are remitted on or before the 10th day of the following month.

	Amount
Taxes paid as at December 2018	
On compensation	387,111,287
Expanded	63,709,754
VAT and other percentage tax	99,114,304
Final tax	331,179
Output tax (VAT)	63,476,304
Taxes withheld (to be paid in CY 2019)	
On compensation	16,508,184
Expanded	7,345,149
VAT and other percentage tax	13,225,566
Final tax	1,840
Output tax (VAT)	5,796,208
	656,619,775

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.”*

However, the SSS exemption on VAT has been repealed under item q, Section 86 of the R.A. No. 10963 otherwise known as the “Tax Reform for Acceleration and Inclusion (TRAIN)’ Law effective January 1, 2018.

The amount of output tax on VAT paid by SSS as at December 31, 2018 amounted to P63.476 million.

36. STATUS OF LAWSUITS

The SSS is involved as a party in several legal proceedings pending for resolution that could materially affect its financial positon. Among these lawsuits are the following:

Description	Amount	Status
Arbitration case filed against Home Guaranty Corp. (HGC)	P5.073 billion	The case is still pending with OGCC. HGC is disputing the inclusion of compounded interest.

Description	Amount	Status
Expropriation case filed by the National Grid Corporation of the Philippines on 60,872 square meters portion of SSS property at Pasay City (Site 2 FCA 7)	2.625 billion	The case is still pending with the Supreme Court (SC)
Civil case for Sum of Money with Damages filed against Waterfront Philippines, Inc.	1.366 billion	Mediation was set by the Court of Appeals (CA) on 23 January and 27 February 2017, respectively. On both occasions, WPI failed to appear. Case was referred back to the Division handling the case. SSS still awaiting the resolution of its appeal.
Quieting of title filed by Desiderio Dalisay Investment, Inc (DDII) – "*Dacion en Pago*" (Cabaguio Ave. cor. Del Pilar Brgy Agdao Proper, Agdao, Davao City)	83.586 million	The SC denied DDII's Motion for Reconsideration with finality. SSS is awaiting the issuance of Entry of Judgement.
Civil case for Sum of Money filed by Pryce Corporation on One Time Maintenance Adjustment Charge (MAC) on SSS owned memorial lots	29.198 million	The pre-trial is set on November 19, 2019.