SOCIAL SECURITY COMMISSION
OFFICE OF THE COMMISSION SECRETARY
DATE: Sept. 30, 2020
TIME: 1:00 PM
RECEIVED BY:

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

September 30, 2020

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

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the Social Security System for the years ended December 31, 2019 and 2018.

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 as at December 31, 2019 and 2018 because of misstatements, briefly discussed below that exceeded the materiality level set for said years.

1. Philippine Accounting Standards 40 requires that the entity shall apply the chosen accounting policy to all of its Investment Properties (IPs). In the case of SSS, its chosen accounting policy is the fair value model for the measurement of its IPs after recognition. However, some of its Investment Properties (IPs), namely: Pasay City (FCA 7 Site 2), Green Meadows, Quezon City and Pryce Davao (Memorial Park) are measured using the cost model. This resulted in the understatement of both the IP and Reserve Fund accounts by 6.144 billion, P12.174 billion and P P16.957 billion in CYs 2017, 2018 and 2019. The balance of the Fair Value Gain – IP-Land account is likewise understated by P4.784 billion in CY 2019.

2. The account balances of the Loans and Receivables of P 101.741 billion in 2019 and P95.112 billion in 2018; Investments in Debt Securities at Amortized Cost of P220.764 billion in 2019 and P197.816 billion in 2018, Investments in Debt Securities at Fair Value through Other Comprehensive Income of P52.968 billion in 2019 and P43.412 billion in 2018 or a total of P375.473 billion and P336.340 billion as at December 31, 2019 and 2018, respectively, are misstated by undetermined amounts due to the non-adoption of the provisions of the Philippine Financial Reporting Standard 9 on the recognition and measurement of expected credit losses through a loss allowance.

We recommended that Management require:

On the valuation of investment properties

The Investments Accounting Department to properly effect appropriate accounting entries to reflect the proper valuation of the Pasay City (Site 2 FCA 7), Green Meadows and Pryce Davao (Memorial Park) in the opening revised Financial Statement of CY 2018 and year-end balances of CYs 2018 and 2019, in accordance with International Accounting Standard (IAS) 40.

On the non-adoption of the Expected Loss Model under Philippine Financial Reporting Standard (PFRS) No. 9

A policy/guideline adopting the requirements of PFRS 9 on the recognition and measurement of impairment on financial assets be recommended by the Project Committee for the Implementation of PFRS 9 created last February 3, 2016 for approval by Senior Management and the Social Security Commission. The SSS Departments handling the loans and debt securities compute the impairment provisions based on the policy/guidelines that will be approved recognize in the books the impairment provisions and the concerned Departments disclose in the notes to financial statements, information on the adoption of PFRS 9.

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

1. The balance of Cash and Cash Equivalent cannot be relied upon because appropriate accounting entries are not taken up to effect adjustments for outstanding checks, stale checks and other reconciling items amounting to P1.612 billion, P38.184 million and P1.467 billion, in that order.

We recommended that Management require the:

a. The General Accounting Department (GAD), Branch Accounting Department (BRAD) and Collection Data Processing and Reconciliation Department (CDPRD) to cancel outstanding checks that are beyond the validity period and to record related accounting entries in the Financial Accounting System (FAS) not later than the 18th day of the following month, pursuant to SSS Office Order No. 2015-057;

b. GAD, BRAD, CDPRD and Treasury Division - Cash Management Department (TD-CMD) to exert extra efforts to reconcile/adjust long outstanding dormant reconciling items to their respective maintaining Banks pertaining to Main Bank accounts, Baby/Cluster and Regional Division Bank accounts by setting target percentage of reduction of reconciling items from this date until December 31, 2020 and in the succeeding year until all the CY 2019 reconciling items are adjusted.

c. The TD-CMD to regularly monitor the remittances of the CBs/CAs in compliance with the terms and conditions of the Agency Agreement to be able to immediately update the report on collections; and

d. Accreditation Department and CDPRD to strictly enforce the Agency Agreement executed by and between SSS and Collecting Banks/Collecting Agents to improve collection and remittance of the agency and to impose applicable penalty for non-compliance with the Agency Agreement, if warranted.

2. Member Loan (ML) overpayments not yet refunded or applied to new/subsequent/existing loan or adjusted due to erroneous postings under Accounts Payable – Salary, Emergency, Calamity, Structured Member (AP-SECSM) Loans account totaling P5.179 billion as of December 31, 2019 and noted variances between the negative balance of sample loan accounts in the Schedule of AP-SECSM and the Employee Subsidiary Ledgers totaling P18.742 million, contrary to the Conceptual Framework for Financial Reporting (QC12), may result in the misstatement of the balances of the account and affected Receivables - ML accounts. Further, this will deprive the member-borrowers of the use of their money.

   We recommended that Management require:

   a. SSS Branches/Processing Centers process and post promptly and correctly loan payments;

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

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

   d. To set target percentage of reduction of the balance of ML overpayments.

3. Despite the Condonation Penalty Contribution Program (CPCP), the assessed delinquencies on the remittance of premium contributions including penalties for 463,261 employers amounted to P186.201 billion as at December 31, 2019, due to lack of monitoring related to the assessment and collection of delinquencies. Moreover, although in the implementation of the CPCP in CY 2018, 55,750 or 49.75 per cent of the 112,043 of the assessed delinquent employers were able to avail of the Program, penalty income in the total amount of P3.88 billion have been forgone, which deprived the System of additional funds needed for providing social security benefits to its members/beneficiaries.

   We recommended that Management require:

   a. Through the Branch Operations Sector and Large Account Department to exert more effort in the collection of delinquency and to revisit Account Officers' assignments to comply with the maximum number of employer accounts handled per AMS, for a more systematic and efficient monitoring of delinquent employers; and

   b. Through the AOs, to continue to pursue and properly identify employers with reported delinquency in the remittance of premium, who are are already closed, suspended, or unlocated.

4. Uncollected/delinquent member loan accounts totaling P63.505 billion that represents 67 per cent of the balance of ML accounts totaling P95.277 billion as of December 31, 2019, and from 2015 to 2018, the same being more than 50 per cent of the balance of ML accounts, hindered the use of fund for more viable and profitable investments.

   We recommended that Management require:

   a. The Member Loans Department to monitor the enforcement of collections by Branch Account Officers of delinquent accounts indicated in the Employer Delinquency Report;

   b. The PCEO or her authorized Officer to set target dates for the completion/implementation of the mentioned responsibilities of the Task Force on Loan Payment and Loan Delinquency; and

   c. To ensure the implementation of the planned activities as stated in the Management comments.

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 September 22, 2020 are discussed in detail in Part II of the report.

In a letter of even date, we respectfully requested the President and Chief Executive Officer of SSS to take appropriate action on the recommendations contained in the report and to inform this Commission of the action taken thereon within 60 days from the date of receipt hereof.

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

Very truly yours,

COMMISSION ON AUDIT

By:

Ma. Lisa P. Inguillo

MA. LISA P. INGUILLO
Director IV

Copy furnished:

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

REPUBLIC OF THE PHILIPPINES
SOCIAL SECURITY SYSTEM
Office of the President & CEO
Date/Time Received : 09/30/20 ; 6:00 PM
Received by : Cherlyn

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

September 30, 2020

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

Dear Madam:

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, 2019 and 2018.

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Very truly yours,

COMMISSION ON AUDIT

By:

Ma. Lisa P. Inguillo

MA. LISA P. INGUILLO
Director IV

Copy furnished:

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

INDEPENDENT AUDITOR'S REPORT

The SOCIAL SECURITY COMMISSION
Social Security System
East Avenue, Diliman, Quezon City

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of Social Security System (SSS), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the *Bases for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of SSS as at December 31, 2019 and 2018 and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Bases for Qualified Opinion

Philippine Accounting Standards 40 requires that the entity shall apply the chosen accounting policy to all of its Investment Properties (IPs). In the case of SSS, its chosen accounting policy is the fair value model for the measurement of its IPs after recognition. However, some of its Investment Properties (IPs), namely: Pasay City (FCA 7 Site 2), Green Meadows, Quezon City and Pryce Davao (Memorial Park) are measured using the cost model. This resulted in the understatement of both the IP and Reserve Fund accounts by P6.144 billion, P12.174 billion and P16.957 billion in CYs 2017, 2018 and 2019. The balance of the Fair Value Gain – IP-Land account is likewise understated by P4.784 billion in CY 2019.

Further, the account balances of the Loans and Receivables of P101.741 billion in 2019 and P95.112 billion in 2018; Investments in Debt Securities at Amortized Cost of P220.764 billion in 2019 and P197.816 billion in 2018, Investments in Debt Securities at Fair Value through Other Comprehensive Income of P52.968 billion in 2019 and P44.412 billion in 2018 or a total of P375.473 billion and P337.340 billion as at December 31, 2019 and 2018, respectively, are misstated by undetermined amounts due to the non-adoption of the provisions of the Philippine Financial Reporting Standard 9 on the recognition and measurement of expected credit losses through a loss allowance.

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the SSS in accordance with the Code of Conduct and Ethical Standards for commission on Audit Officials and Employees (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing SSS's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate SSS or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the SSS's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SSS's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on SSS's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause SSS to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 36 to the financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of the management of SSS. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, except for the effects of the matters described in the *Bases for Qualified Opinion* section, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

ELIZABETH M. SAVELLA
Supervising Auditor
CGS, C2-B

September 22, 2020

Republic of the Philippines
SOCIAL SECURITY SYSTEM
East Ave., Diliman, Quezon City
Tel. Nos. (632) 920-6401 • (632) 920-6446
E-mail: member_relations@sss.gov.ph • Web site: http://www.sss.gov.ph

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of the Social Security System is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2019 and December 31, 2018 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Social Security System's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Social Security System or to cease operations, or has no realistic alternative to do so.

The Social Security Commission is responsible for overseeing the Social Security System's financial reporting process.

The Social Security Commission reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders or members.

SEC. CARLOS G. DOMINGUEZ III
Chairperson, Social Security Commission

DEPARTMENT OF FINANCE • REPUBLIC OF THE PHILIPPINES
010900

AURORA C. IGNACIO
President and CEO, Social Security System

Date: AUG 28 2020

SOCIAL SECURITY SYSTEM
STATEMENTS OF FINANCIAL POSITION
As at December 31, 2019 and 2018
(In Philippine Peso)

	Note	2019	2018 As Restated	At 1 January 2018 Restated
ASSETS				
Current assets				
Cash and cash equivalents	3	**22,417,193,110**	15,440,541,241	26,821,426,070
Financial assets	4.1	**64,101,424,305**	37,059,803,639	16,847,812,051
Other investments	5	**400,000,000**	-	-
Receivables	6.1	**5,804,339,088**	7,587,064,294	5,366,312,531
Inventories	7	**95,920,305**	169,465,093	191,278,628
Non-current assets held for sale	8	**892,154,670**	857,806,720	937,654,203
Other current assets	9	**15,232,643**	13,884,559	12,272,251
		93,726,264,121	61,128,565,546	50,176,755,734
Non-current assets				
Financial assets	4.2	**314,927,150,411**	310,291,214,588	326,900,661,415
Receivables	6.2	**98,797,021,388**	92,745,974,541	87,665,909,114
Investment property	10	**53,088,685,217**	42,140,785,244	39,186,222,532
Property and equipment	11	**7,134,302,971**	5,854,268,084	4,532,663,850
Intangible assets	12	**195,626,815**	235,322,104	203,095,350
Other non-current assets	13	**267,142,205**	249,554,303	347,748,743
		474,409,929,007	451,517,118,864	458,836,301,004
TOTAL ASSETS		**568,136,193,128**	512,645,684,410	509,013,056,738
LIABILITIES				
Current liabilities				
Financial liabilities	14	**8,248,289,339**	8,203,528,955	8,115,832,971
Inter-agency payables	15	**167,940,551**	149,959,185	178,002,873
Trust liabilities	16	**861,095,497**	765,344,734	654,719,321
Deferred credits/Unearned income	17	**76,445,128**	59,046,852	122,309,497
Other payables	19	**1,063,119,232**	1,990,631,097	1,743,958,037
		10,416,889,747	11,168,510,823	10,814,822,699
Non-current liabilities				
Financial liabilities	14	**765,314,040**	45,390,960	37,179,482
Deferred credits/Unearned income	17	**355,912,179**	382,762,849	409,613,518
Provisions	18	**1,313,064,493**	1,460,775,506	1,466,426,806
Other payables	19	**50,000,000**	50,000,000	50,000,000
		2,484,290,712	1,938,929,315	1,963,219,806
TOTAL LIABILITIES		**12,901,180,459**	13,107,440,138	12,778,042,505
EQUITY				
Reserve fund		**581,651,564,402**	525,441,040,184	500,743,541,655
Cumulative changes in fair value of investments		**(31,501,686,059)**	(30,822,445,526)	(8,161,549,950)
Revaluation surplus		**4,046,242,799**	4,046,242,799	2,879,088,355
Members' equity		**1,038,891,527**	873,406,815	773,934,173
TOTAL EQUITY	20	**555,235,012,669**	499,538,244,272	496,235,014,233
TOTAL LIABILITIES AND EQUITY		**568,136,193,128**	512,645,684,410	509,013,056,738

The notes on pages 9 to 71 form part of these financial statements

SOCIAL SECURITY SYSTEM
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2019 and 2018
(In Philippine Peso)

	Note	2019	2018 As restated
INCOME			
Service and business income	21	**248,187,576,776**	209,808,600,735
Gains	22	**17,167,544,339**	6,266,881,956
Other non-operating income	23	**1,949,691,850**	1,008,100,919
		267,304,812,965	217,083,583,610
EXPENSES			
Benefit payments	24	**196,761,172,845**	180,078,514,500
Personnel services	25	**6,797,376,912**	6,531,203,783
Maintenance and other operating expenses	26	**2,423,770,163**	2,947,696,555
Financial expenses	27	**308,761,390**	129,166,935
Non-cash expenses	28	**5,338,422,615**	5,014,978,609
		211,629,503,925	194,701,560,382
PROFIT		**55,675,309,040**	22,382,023,228
Assistance and Subsidy	29	**-**	185,357,643
Net Income		**55,675,309,040**	22,567,380,871
Other comprehensive income/(loss) for the period			
Gain on sale of FA at FVTOCI		**796,228,646**	1,061,192,721
Changes in fair value of FA at FVTOCI		**(679,240,533)**	(22,660,895,575)
Revaluation surplus		**-**	1,167,154,445
Other Comprehensive Income for the year		**116,988,113**	(20,432,548,409)
TOTAL COMPREHENSIVE INCOME		**55,792,297,153**	2,134,832,462

The notes on pages 9 to 71 form part of these financial statements

SOCIAL SECURITY SYSTEM
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2019 and 2018
(In Philippine Peso)

	Cumulative Changes in Fair Value of Investments	Revaluation Surplus	Reserve fund	Members' Equity	Total
BALANCE AT JANUARY 1, 2018	(8,161,549,950)	2,879,088,355	500,362,518,604	773,934,173	495,853,991,182
Adjustment:					
Reclassification of NCAHFS to Investment Property	-	-	330,629,995	-	330,629,995
Accrual of penalty income	-	-	50,393,056	-	50,393,056
RESTATED BALANCE AT JANUARY 1, 2018	(8,161,549,950)	2,879,088,355	500,743,541,655	773,934,173	496,235,014,233
CHANGES IN EQUITY FOR 2018					
Add/(Deduct):					
Members' contribution	-	-	-	141,446,254	141,446,254
Net income for the period	-	-	-	-	-
Comprehensive income for the year	(22,265,473,660)	1,167,154,444	23,726,302,147	-	2,627,982,931
SSS' share in ECC 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
Valuation of land	-	-	-	-	-
Adjustments:					
Effect of the reclassification of NCAHFS to IP and PPE	-	-	(928,894)	-	(928,894)
Accrual of penalty income	-	-	9,040,128	-	9,040,128
Prior period adjustment- AFSFA from cost to FV	(395,421,916)	-	1,291,864,525	-	896,442,609
Recognition of allowance for impairment on penalty receivable and other non-current assets	-	-	(117,522,150)	-	(117,522,150)
Valuation of reclassified NCAFHS to IP	-	-	10,753,466	-	10,753,466
RESTATED BALANCE AT DECEMBER 31, 2018	(30,822,445,526)	4,046,242,799	525,441,040,184	873,406,817	499,538,244,274
CHANGES IN EQUITY FOR 2019					
Add/(Deduct):					
Members' contribution	-	-	-	187,775,745	187,775,745
Comprehensive income/(loss) for the year	(679,240,533)		56,471,537,686	-	55,792,297,153
Other adjustments					
SSS' share in ECC corporate operating budget	-	-	(243,408,494)	-	(243,408,494)
Withdrawal	-	-	-	(73,847,753)	(73,847,753)
Guaranteed income/annual incentive benefit	-	-	(17,604,974)	51,556,718	33,951,744
BALANCE AT DECEMBER 31, 2019	**(31,501,686,059)**	**4,046,242,799**	**581,651,564,402**	**1,038,891,527**	**555,235,012,669**

The notes on pages 9 to 71 form part of these financial statements

SOCIAL SECURITY SYSTEM
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018
(In Philippine Peso)

	Note	2019	2018 Restated
Cash flows from operating activities			
Members' contribution	21	**220,379,478,961**	181,917,282,180
Investment and other income		**15,215,515,112**	8,631,856,648
Payments to members and beneficiaries		**(196,758,118,302)**	(180,078,887,666)
Payments for operations		**(10,425,007,710)**	(9,326,354,122)
Net cash generated by operating activities		**28,411,868,061**	1,143,897,040
Cash flows from investing activities			
Loan releases and other investment purchases		**(20,841,054,807)**	(12,060,994,429)
Acquisition of property and equipment		**(484,665,361)**	(265,339,600)
Acquisition of intangible assets		**(14,000,000)**	(75,990,894)
Net cash used in investing activities		**(21,339,720,168)**	(12,402,324,923)
Cash flows from financing activities			
Corporate operating budget of:			
Employees' compensation commission		**(243,408,494)**	(202,694,321)
Contribution		**159,585,771**	114,653,653
Withdrawal		**(73,482,268)**	(72,930,753)
Guaranteed income		**35,712,242**	13,572,409
Annual incentive benefit		**(1,760,497)**	(1,931,638)
PESO fund equity			
Contribution		**27,824,489**	26,792,600
Net cash used in financing activities		**(95,528,757)**	(122,538,050)
Net increase/(decrease) in cash and cash equivalents		**6,976,619,136**	(11,380,965,933)
Effect of exchange rate changes in cash and cash equivalents		**32,733**	81,104
Cash and cash equivalents at beginning of the year	4	**15,440,541,241**	26,821,426,070
Cash and cash equivalents at end of the year	4	**22,417,193,110**	15,440,541,241

The notes on pages 9 to 71 form part of these financial statements

1. GENERAL INFORMATION

The Social Security System (SSS) is an independent and accountable government-owned and controlled corporation which administers social security protection to Filipino workers, local and overseas and their beneficiaries. Social security provides replacement income for workers in times of death, disability, sickness, maternity, old age, unemployment or involuntary separation and other contingencies.

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.

On February 7, 2019, RA No. 11199 or the "Social Security Act of 2018", was enacted to rationalize and expand the powers and duties of the Social Security Commission to ensure the long-term viability of the Social Security System, repealing for the purpose RA No. 1161, as amended by RA No. 8282, otherwise known as the Social Security Act of 1997. Among the landmark provisions of the RA No. 11199 are the grant of unemployment or involuntary separation benefits for the first time in the country, the mandatory coverage of Overseas Filipino Workers (OFWs), 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. In pursuit of its policy, a social security program shall be developed emphasizing the value of "work, save, invest and prosper" for a more responsive SSS. The maximum profitability of investable funds and resources of the program shall be ensured through a culture of excellence in management grounded upon sound and efficient policies employing internationally recognized best practices.

Pursuant to Section 9 to 11 of RA No. 11199, coverage in the SSS shall be compulsory upon all private employees including domestic workers not over 60 years of age and their employers, self-employed persons, regardless of trade, business or occupation and sea-based and land-based OFWs. Compulsory coverage of the employer shall take effect on the first day of his operation and that of the employee on the day of his employment, while coverage of self-employed person shall take effect upon his registration with the SSS. Non-working spouse of SSS member and Filipino permanent migrants, including Filipino immigrants, permanent residents and naturalized citizens of their host countries may be covered by the SSS on a voluntary basis. Likewise, SSS members separated from employment including OFWs may continue to pay contributions on a voluntary basis to maintain their rights to full benefits

Under Section 26-B of RA No. 11199, 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 of RA No. 11199, a Provident Fund for the members which will consist of contributions of employers and employees, self-employed, OFW and voluntary members shall be established based on (i) the SSS contribution rate in excess of twelve per cent (12%), or (ii) monthly salary credit in excess of P20,000.00 up to the prescribed maximum monthly salary credit and their earnings, for the payment of benefits to such members or their beneficiaries in addition to the benefits provided for under this Act. A member may contribute voluntarily in excess of the prescribed SSS contribution rate and/or the maximum monthly salary credit, subject to such rules and regulations as the Social Security Commission may promulgate. The rate of contributions as well as the minimum and maximum monthly salary credits shall be in accordance with the schedule defined under Section 4.a.9 of the law. The rate of penalty on unpaid loan amortizations shall be determined and fixed by the SSC from time to time through rules and regulations on the basis of applicable actuarial studies, rate of benefits, inflation, and other relevant socioeconomic data.

Under Section 4 of RA No. 8282, voluntary provident funds known as the Flexi-Fund and the Personal Equity and Savings Option (PESO) Fund were established and approved on September 2001 and June 2011, respectively. Membership to the Flexi-Fund 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. The PESO Fund 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. Each member of the PESO Fund shall be allowed a maximum contribution of P500,000 per annum and a minimum of P 1,000 per contribution. These two funds shall cease upon implementation of the new provident fund provided under Section 4 of RA No. 11199.

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. On March 6, 2019, the ECC in its Board Resolution No. 19-03-05 approved the expanding the coverage of the ECP to the self-employed compulsory members of the SSS.

The summary of the financial performance and result of operations of the funds as at December 31, 2019, are as follows. All inter-fund accounts have been eliminated.

	SSS	EC-SIF	Total
Total Assets	**527,808,783,780**	**40,327,409,348**	**568,136,193,128**
Liabilities	12,895,962,507	5,217,952	12,901,180,459
Equity	514,912,821,273	40,322,191,396	555,235,012,699
Total Liabilities and Equity	**527,808,783,780**	**40,327,409,348**	**568,136,193,128**

	SSS	EC-SIF	Total
Income	262,855,837,997	4,448,974,968	267,304,812,965
Expenses	209,783,040,185	1,846,463,740	211,629,503,925
Profit/(Loss)	53,072,797,812	2,602,511,228	55,675,309,040
Net Income	53,072,797,812	2,602,511,228	55,675,309,040
Other comprehensive income for the period	564,699,013	(447,710,900)	116,988,113
Total comprehensive income	**53,637,496,825**	**2,154,800,328**	**55,792,297,153**

** SSS includes Flexi-Fund, Peso Fund and Mortgagors' Insurance Account*

The principal office address of SSS is located at East Avenue, Diliman, Quezon City. It has 176 local branches and 144 service and representative offices located in the various cities and municipalities of the country, and 26 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, 2019 (including the comparative financial statements as at and for the year ended December 31, 2018) were approved and authorized for issue by the SSC on August 2, 2020.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation of Financial Statements

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

The accompanying financial statements are prepared in compliance with PFRSs and Philippine Accounting Standard (PAS) issued by the Philippine Financial Reporting Standards Council (PFRSC) and with COA Circular No. 2017-004. PFRS are adopted by the PFRSC from the pronouncements issued by the International Accounting Standard Board and approved by the Philippine Board of Accountancy. COA Circular No. 2017-004 was issued by the COA as partly modified by COA resolution No. 2020-013 dated January 31, 2020, as guidelines on the preparation of financial statements and implementation of the PFRS by government corporations classified as a commercial public entity.

The PFRS/PAS that were not applied for the reporting period are as follows.

PFRS 15 – Revenues from contract customer is inapplicable to SSS mainly because the relationship of SSS and its members is established by the provision of law per RA1161, as amended by RA 8282 and RA 11199.

PRFS 9 - Expected Credit Loss (ECL) model for impairment allowance was not yet applied in the reporting period until a rational and sound ECL model is established based on best practices.

PAS 1 – Accrual basis of accounting was not applied due to absence of a reliable basis to estimate/determine the income and expense for the following.

- Premium contributions collectible from SSS members
- Unpaid benefit claims filed by SSS members and still in-process

PAS 19 – Employee Benefits - is calculated each year by the Actuarial and Risk Management Group, with the assumption that all regular SSS employees would retire by the end of the following year. The salary increases and leave credits are projected up to the retirement year, which are then the basis for the computation of the employee retirement benefits. Computation was not done using the Projected Unit Credit cost method. Full compliance with PAS 19 shall be effected in the following year.

b. Presentation of Financial Statements

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

c. Basis of Measurement

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

- Financial assets at fair value through profit or loss (FVTPL) are measured at fair value;
- Financial assets at fair value through other comprehensive income (FVTOCI) are measured at fair value;
- Investment properties are measured at fair value, or at cost in exceptional cases;
- Non-current assets held for sale are measured at the lower of carrying amount or fair value less cost to sell; 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. Functional and Presentation Currency

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 and Interpretations

a. Effective in 2019 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, 2019:

- PFRS 16, Leases – The new accounting model under the standard requires a lessee to recognize an asset (right-of-use asset) and a financial liability to pay rentals (lease liability). The right-of-use asset is treated the same as other non-financial asset and depreciated accordingly, the liability accrues interest. This will produce a front-loaded expense profile as an assumed straight-line 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. This 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.

- Amendments to PFRS 9, *Financial Instruments – Prepayment Features with* Negative *Compensation*. The amendments clarify that a financial assets passes the SPPI criterion regardless of the event or circumstances that cause the early termination of the contract and irrespective of which party pays or receives reasonable compensation for early termination of the contract. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVTOCI. Gain or loss should be recognized immediately in the 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. <u>Effective in 2019 that are not relevant to the System</u>

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:

- PFRIC Interpretation 23, Uncertainty over Income Tax Treatments – The interpretation specifically addresses (a) whether an entity considers uncertain tax treatments separately (b) the assumptions that an entity makes about the examination of tax treatments by taxation authorities (c) how an entity determines taxable profit (tax loss), tax bases on 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.

- PAS 28 (Amendment), Investment in Associate – 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 interest, that in substance, form part of the entity's net investment in an associate or joint venture.

- PAS 19 (Amendments) Employee Benefits – 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.

c. 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.

d. Effective subsequent to 2019 but not adopted early

- 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.

- Relevant new and revised PRFS which are not yet effective for the year ended December 31, 2019 and have not been applied in the preparation of the financial statements are summarized below.

Effective for annual period beginning on or after January 1, 2023 (globally); January 1, 2025 (local-Philippines).

- PFRS 17, Insurance Contracts – PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 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.

- Relevant new and revised PRFS which are not yet effective for the year ended December 31, 2019 and have not been applied in the preparation of the financial statements are summarized below.

- The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consisted for insurers. The code model of PFRS 17 is the general model, supplemented by (a) a specific adaptation for contracts with direct participation features (the variable fee 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. 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 gain or losses arising on the sale or contribution of assets that constitute a business as defines in PFRS 3, between an investor and its 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.

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition that are an integral part of the effective interest rate.

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.

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 equity 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.

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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 amount 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 ECL model of PFRS 9 was not yet applied as cited in Note 2.1.a.

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 Non-current assets held for sale (NCAHFS)

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.

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

Upon in-depth assessment that properties classified as NCAHFS 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.

2.7 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.

The fair values of investment properties are determined annually at the reporting date by an independent professionally qualified valuer and internal appraiser. The SSC in its Resolution No. 156-s.2020 approved the interim use of the weighted average valuation comprising 2/3 for external appraisal report and 1/3 for SSS In-house appraisal report.

The Market Data Approach, Cost Approach, and Income Approach were used by the in-house and external appraisers in determining the value of the properties. The market value is estimated using gathered available local market conditions giving considerations to the following: (a) extent, character and utility of the properties, (b) comparable properties which have been sold recently, plus current asking prices; (c) zoning and current land usage in the locality, and (d) highest and best use of the property.

The generally accepted Market Data or Comparative Approach was used to measure land under the investment property based on sales and listings of comparable property registered within the vicinity. Comparisons are premised on the factors of location, land use, physical characteristics of the land and time element. The value of the land with improvements, the appraisers used the Cost Approach taking into account the current cost of reproduction, new of the replaceable property in accordance with the prevailing market prices for materials, labor, contractor's overhead, and profit and fees. In arriving the value of the improvements, the modified quantity survey method was used by analyzing the various construction elements of the property (foundations, columns and beams, flooring walls, roof, etc.). In Income Approach, the value of the property is determined using the interest rates and yields as well as the records of rental income and operating expenses. However, in some cases when there are no comparable listings in the open market, the Value Opinion from other appraisers or the BIR Zonal Valuation are used which are considered as Level 3 valuation.

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.

2.8 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 equity 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.

Effective January 1, 2019, the system recognizes the right-of-use (ROU) asset for the right to use the underlying asset over the lease term. ROU asset is initially measured based on the present value of the lease payments plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset on which it is located, less any lease incentives received.

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	10-30 years
Land improvements	10 years
Transportation equipment	7 years
Leasehold improvements	10-3- years or the term of lease whichever is shorter
Rights of Use Asset	Term of the lease

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.

2.9 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.

2.10 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 equity 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 and penalty income

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

Effective January 1, 2019, the SSS changed its accounting policy in the recognition of penalty income on the financial assets from cash basis to accrual basis to conform to the standard. The accrued interests are computed following the approved policy:

- 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.
- Loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal, interest and penalty is unlikely without foreclosure of collateral, if any.
- All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest and/or penalty are unpaid for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

  The effect of the change on the Statement of Financial Position and Statement of Comprehensive Income are presented in Note 33.

  The interest income per PFRS 9 is interrelated with ECL implementation. Since ECL was not implemented in 2019, the approved accounting policy for interest and penalty income may not necessarily be aligned with PFRS 9.

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 Leases

a. SSS as lessee

The SSS has applied PFRS 16 effective January 1, 2019 using the modified retrospective approach which does not require a restatement of prior period numbers and be reported under PAS 17.

At inception of the contract, the SSS has assessed that the contract contains a lease that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The System assessed whether:

- The contract involves the use of an identified asset – which the asset is physically distinct or represents substantially all the capacity of a physically distinct asset.

- The System has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and

- The System has the right to direct the use of the asset and that it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

As a lessee, the SSS classified leases as an operating lease based on its assessment of non-transferability of the risks and rewards of ownership. The right-of-use asset is recognized for lease contracts that have a term of more than twelve months at the commencement date of the lease.

The lease liability is initially measured at the present value of the lease payments that are not yet paid at the commencement date, discounted using applicable Bloomberg's PHP BVAL rates. The weighted average BVAL rate used in 2019 is at 6.512%.

In applying PFRS 16 for the first time, SSS has used the following practical expedients permitted by the Standard:

- The use of a weighted average rate to a portfolio of leases with reasonably similar characteristics;

- Reliance on previous assessments on whether leases are onerous;

- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases (straight-line basis);

- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and

- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

SSS has also elected not to reassess existing lease contracts at the date of initial application. Instead, for contracts entered into before the transition date SSS relied on its assessment made applying PAS 17. Accrued rent payable is also adjusted accordingly.

The SSS leases various offices nationwide. Rental contracts are typically made for fixed periods of 3 to 8 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

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.

3. CASH AND CASH EQUIVALENTS

This account is composed of the following:

	2019	2018
Cash on hand	**1,447,893,465**	1,164,088,582
Cash in bank	**2,305,950,645**	1,067,522,659
Cash equivalents	**18,663,349,000**	13,208,930,000
	22,417,193,110	15,440,541,241

Cash in banks earns interest at the respective bank deposit rates. Time and special savings deposits are made for varying periods of up to 90 days depending on the immediate cash requirements of SSS and earn interest at the prevailing time and special savings deposit rates.

Interest rates per annum range from 0.10 per cent to 1.15 per cent for savings and current accounts and 3.40 per cent to 4.25 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 ranging from P1 million to P25 million in a non-drawing interest bearing current account/savings account (CASA) with each of the banks' servicing branches. As at December 31, 2019, P407 million is being maintained in several banks for such purpose.

Interest income earned from cash in banks and term deposits amounted to P902.991 million and P773.195 million as at December 31, 2019 and 2018, respectively (see Note 21).

4. FINANCIAL ASSETS

This account consists of the following:

Current Financial Assets

	2019	2018
Financial assets – at FVTPL		
Government securities	**24,825,049,102**	19,500,923,120
Equities – stocks	**10,388,295,423**	8,273,430,506
Externally managed fund	**7,325,411,817**	-
Investment in mutual fund	**3,299,001,358**	3,110,972,149
	45,837,757,700	30,885,325,775
Financial assets – at amortized cost		
Investment in bonds – local		
Government bonds	**11,942,467,652**	439,940,394
Corporate notes	**3,045,858,953**	2,034,537,470
Corporate bonds	**3,275,340,000**	3,700,000,000
	18,263,666,605	6,174,477,864
	64,101,424,305	37,059,803,639

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.

Pursuant to Section 26-A of the RA No. 11199, the SSC under its Resolution No. 1035-A dated December 12, 2018 approved the engagement of seven (7) local fund managers who shall be responsible in the fund management and investment of a portion of SSS Investment Reserve Fund. The deployment strategy of funds totaling P7 billion or P1 billion per fund manager are as follows:

Balanced Fund Mandate

- Rizal Commercial Banking Corporation
- BPI Asset Management and Trust Corporation
- ATRAM Trust Corporation

Pure Equity Fund Mandate

- BPI Asset Management and Trust Corporation
- Metropolitan Bank and Trust Company
- Philequity Management, Inc.

Pure Fixed Income Mandate

- BPI Asset Management and Trust Corporation

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. As at December 31, 2019 and 2018, the value of invested funds amounted to P3.299 billion and P3.111 billion, respectively.

The costs of the financial assets are as follows:

	2019	2018
Government securities	**24,231,594,697**	19,951,638,456
Equities – stocks	**12,528,068,526**	9,468,377,242
Externally managed fund	**7,000,000,000**	-
Investment in Mutual fund	**3,057,305,012**	3,016,108,287
	46,816,968,235	32,436,123,985

Non-Current Financial Assets

	2019	2018 Restated
Financial assets at amortized cost		
Investment in bonds – local		
Government bonds	**153,179,565,710**	149,008,814,267
Corporate bonds	**23,928,209,942**	20,027,377,483
Corporate notes	**5,819,000,000**	8,886,666,667
Government notes	**510,000,000**	510,000,000
	183,436,775,652	178,432,858,417

(forward)

	2019	2018 Restated
Financial assets-FVTOCI		
Equity securities	**78,522,400,585**	86,487,880,699
Government bonds	**50,104,017,976**	42,561,993,428
Corporate notes	**2,338,750,686**	2,338,750,686
Corporate bonds	**525,205,512**	469,731,358
	131,490,374,759	131,858,356,171
	314,927,150,411	310,291,214,588

The fair value of the FVTOCI financial asset 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. The cost of the financial assets as at December 31, 2019 and 2018 is P162.992 billion and P162.680 billion, respectively.

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 investments in bonds – local as at December 31, 2019 and 2018 is P10.721 billion and P10.273 billion, respectively (see Note 21).

5. OTHER INVESTMENTS

This account consists of Investment in Time Deposit in local currency beginning on August 07, 2019 with original maturities of more than 90 days and earns interest at 3.4 to 3.8 per cent. As at December 31, 2019, the book value of the time deposit amounted to P400 million.

6. RECEIVABLES

This account consists of the following:

Current Receivables

	2019	2018 Restated
Loans and receivable accounts	**4,555,352,854**	4,290,686,918
Lease receivable	**95,566,946**	79,479,033
Other receivables	**1,188,852,700**	3,240,432,649
	5,839,772,500	7,610,598,600

Loan and receivables account are measured at amortized cost pursuant to PFRS 9. These are composed mainly of the following details:

	2019	2018 Restated
Accounts receivable	**269,176**	520,551
Interest receivable	**4,526,613,949**	4,268,925,781
Dividends receivable	**27,110,161**	16,364,309
Sales contract receivable	**1,359,568**	4,876,277
	4,555,352,854	4,290,686,918

The interest receivable account represents the accrued interest from various SSS investments such as cash equivalents, notes and bonds, and loans and receivables which are still uncollected as at reporting period. Likewise, the penalty receivable represents the accrual of penalty income from various delinquent loans. These accounts are credited whenever cash is collected, either monthly, quarterly, semi-annually or annually depending on the interest/penalty payment dates of the investment.

Lease receivable is composed of operating lease receivables from contract of lease executed with the lessees amounting to 95.597 million.

Other receivables are composed mainly of the following:

	2019	2018 Restated
Penalty receivable	**214,334,106**	59,433,184
Receivables – disallowances/charges	**22,353,125**	25,007,198
Due from officers and employees	**387,967**	1,073,565
Insurance claims receivable	**322,388**	939,691
Other receivables	**951,455,114**	3,153,979,011
	1,188,852,700	**3,240,432,649**

Impairment loss for loans and receivables is broken down as follows:

	2019	2018 Restated
Interest receivable	**19,007,245**	20,801,340
Operating lease receivable	**6,466,038**	3,147
Other receivables	**9,960,129)**	2,729,819
	(35,433,412)	(23,534,306)

As at December 31, 2019 and 2018, the accrued interests and penalty are as follows:

	2019	2018
Interest Receivable		
Government notes and bonds	**3,312,385,641**	3,141,712,299
Member loans	**884,869,784**	819,324,701
Corporate notes and bonds	**260,172,272**	265,902,709
Cash equivalent and STMP	**65,303,876**	35,822,708
Housing loans	**2,158,030**	679,650
Sales contract receivable	**1,724,346**	5,483,714
	4,526,613,949	4,268,925,781
Allowance for impairment	**(19,007,245)**	(20,801,340)
	4,507,606,704	4,248,124,441

Dividend receivables are cash dividends earned but not yet received on shares of stocks that are held as FA at FVTPL and FA at FVTOCI.

Sale contract receivables are contracts arising from deed of conditional sale executed by the commission with properties under NCASH to various buyer of the said properties

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 and recognized P732.765 million and P739.678 million income as at December 31, 2019 and 2018, respectively. (see Note 30.2)

Other receivables consist mainly of Receivable from Sale of Equity Securities amounting to P414.481 million and Receivable – Collecting Banks/Agents (CB/CA) of P533.472 million. Receivable – 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, 2019 and 2018. 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 as of December 31, 2019 was presented net of negative balances totaling to P870.971 million which are mostly prior years unsubmitted collection documents that did not pass the validation criteria.

It also includes Receivable – disallowances/charges are disallowances in audit due from SSS officials and employees which have become final and executory amounting to 22.353 million and 25.007 million as at December 31, 2019 and 2018, respectively.

The SSC Resolution No. 97-s.2020 dated 12 February 2020 approved the Policy on Revenue Recognition of Penalty Income on Financial Assets from cash to accrual basis, hence the 2018 amounts were restated. The effect of the restatement is shown in Note 33. Penalty receivables is broken down as follows:

	2019	2018 Restated
Penalty Receivable		
Member loans	**212,784,241**	58,531,491
Housing loans	**980,086**	517,779
Rental receivable	**525,262**	383,914
Sales contract receivable	**35,517**	-
	214,325,106	59,433,184
Allowance for impairment	**(9,960,129)**	(2,729,819)
	204,364,977	56,703,365

The implementation of the PRN which resulted to the immediate posting to the subsidiary ledger of the members effected the recording of the collections thus decreasing the Receivable from CB/CA.

Non-Current Receivables

	2019	2018 Restated
Loans and receivable accounts	**122,864,082,672**	118,056,690,600
Lease receivable	**15,738,293**	14,037,784
Other receivables	**1,316,150,805**	1,458,130,489
	124,195,971,770	119,528,858,873

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, as follows:

	2019	2018
Member loans	**95,294,306,035**	91,648,063,718
Pension loans	**2,009,395,882**	403,955,977
Housing loans	**1,737,963,123**	2,002,860,547
Commercial and industrial loans	**69,509,283**	69,778,459
Program member assistance for development entrepreneurship (MADE)	**17,219,220**	17,219,220
	99,128,393,543	94,141,877,921
Allowance for impairment	**(7,113,034,156)**	(8,423,556,545)
	92,015,359,387	85,718,321,376

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

	Interest Rate (Per Annum)
Member loans	3.0 to 10.0
Pension loans	10.0

(forward)

	Interest Rate (Per Annum)
Housing loans	3.0 to 12.0
Commercial and industrial loans (CIL)	2.5 to 14.0
Loan to other government corporation	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) extending the availment period up to 6 months from 2 October 2018 to 1 April 2019. The implementing guidelines under Officer Order No. 2018-023 covered the member-borrowers affected by previous calamities/disaster with the objective of providing 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 Restructured Loan (RL1). Penalties shall be condoned after full payment of outstanding principal and interest of RL1 within the approved term. The balance of RL1 should be zero at the end of the term. Otherwise, the unpaid principal of RL1 and the proportionate balance of condonable penalty shall become part of a new principal under Restructured Loan 2 (RL2). As at April 1, 2019, member-borrowers availment of the re-implemented LRP reached to 658,402 with total loan amount of P11.409 billion and condonable penalty of P9.529 billion.

The Educational Assistance Loan Program amounted to P5.063 billion consisting of the 50:50 SSS and NG shares, has been expended/extended as loans to member beneficiaries as at December 31, 2019, which is one of the main compositions of the member loans. 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 and penalty on overdue amortization as at December 31, 2019 and 2018 are P509.306 million and P41.326 million, respectively.

For the Pension Loan Program (PLP) launched on September 3, 2018, this aims to provide financial aid to qualified SSS retiree pensioners by way of providing 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. After 10 months of implementation, the SSC under its Resolution No. 429-s.2019 dated 05 July 2019 approved the enhancement of the program in terms and conditions of the PLP. Among the highlights of the enhancements are as follows: (1) the maximum loan limit increased from P32,000 to P200,000; (2) the age of the retiree pensioner at end of the month of loan term changed from 80 years of age or below to 85 years of age and below; and (3) longer loan repayment terms from 12 months to 24 months. The monthly amortization of the pension loan shall be deducted from the monthly pension of the pension loan borrower in which the first monthly amortization shall become due on the second month after the loan was granted. Interest rate remains at 10% per annum until fully paid computed on a diminishing principal balance, which shall become part of the monthly amortization. The number of loan releases reached to 74,503 or an increase of 56,328 from 18,175 releases in

2018. As at December 31, 2019 and 2018, total loans amounted to P2.009 billion and P403.956 million, and interest income recognized is P92.192 million and P3.156 million, respectively.

Loan to other government corporation refers to loans from National Home Mortgage Finance Corporation (NHMFC) as mandated under Executive Order (EO) No. 90 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 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 & High Delinquency) – P27.940 billion, Accrued Interest - P11.961 billion and Penalty – P0.614 billion. 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, 2019, the total outstanding obligation of NHMFC is P21.792 billion, broken down as follows:

Principal	9,830,770,308
Interest	11,961,415,991
Penalty	614,940
	21,792,801,239

The Department of Finance (DoF) in its letter to Department of Budget and Management (DBM) dated July 3, 2019 requested for the P10 billion allocation in the 2020 National Budget for the account of NHMFC for the full settlement of the latter's obligation to SSS. Also, the SSC in its Resolution No. 681-s.2019 dated September 25, 2019 approved the condonation of accrued interests and penalties which shall take effect once the request of the DoF to the DBM for provision of an annual Net Lending Program for CY2020-2022 is approved and allocated by the latter.

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 were sent and meetings were conducted 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 the 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. The Risk Management and Investment Committee (RMIC) in its meeting held on June 27, 2019 directed Management to request clearance from the DoF Secretary to renegotiate for better terms towards settlement of HGC's obligation to SSS. As of December 31, 2019, on-going negotiation between SSS and HGC involving cash repayment of the remaining balance and the compromise agreement within acceptable terms and conditions is being undertaken.

Impairment loss for Non-Current Receivables is composed of the following:

	2019	2018 Restated
Accounts receivable	**7,113,034,156**	8,423,556,545
Interest receivable	**12,707,637,959**	12,707,637,959
Loans receivable – other government corporation	**4,915,385,154**	5,037,978,146
Sales contract receivable	**46,548,792**	54,761,680
Operating lease receivable	**15,738,290**	14,037,781
Other receivables	**600,606,031**	544,912,221
	25,398,950,382	**26,782,884,332**

Movements in Allowance for Impairment Loss of non-current receivables for CY 2019 are as follows:

	Balance, January 1 (Restated)	**Additional Provision**	**Recovery/ Reversal**	**Balance, December 31**
Loans and receivable	26,223,934,330	47,991,686	1,489,319,953	24,782,606,063
Lease receivable	14,037,781	1,705,324	4,815	15,738,290
Other receivable	544,912,221	74,524,112	18,830,302	600,606,031
	26,782,884,332	**124,221,122**	**1,508,155,070**	**25,398,950,384**

The net impairment provisions as of December 31, 2019 and 2018 amounted to P124.221 million and P1.225 billion, respectively and are recognized in the books using the Guidelines in Identifying and Monitoring of Financial Assets and Setting of Allowance for Impairment Losses which was approved by the SSC under Resolution No. 161-s 2014. However, for the Loan Restructuring Program which ended in March 2019, the impairment provision rate was maintained at 20% (or the rate for substandard accounts that was used since the start of the program).

7. INVENTORIES

This account is composed of the following:

	2019	2018
Office supplies inventory	**118,590,907**	152,711,290
Accountable forms inventory	**5,468,002**	7,370,318
Drugs and medicines	**3,006,051**	6,011,906
Medical, dental and laboratory supplies inventory	**302,565**	3,371,579
	127,367,525	169,465,09
Allowance for Impairment	**(31,447,220)**	-
	95,920,305	169,465,093

Supplies and materials issued and recognized as expense during CYs 2019 and 2018 amounted to P168.091 million and P212,186 million, respectively (see Note 26). The amount of written-down inventories which have become obsolete in CY2019 amounted to P31.447 million.

8. NON-CURRENT ASSETS HELD FOR SALE

This account is composed of the following:

	Land	Building	Acquired assets/ Registered	Total
Carrying amount, January 1, 2019	7,631,638	526,020,315	345,370,840	879,022,793
Accumulated impairment loss	-	(491,840)	(20,724,233)	(21,216,073)
Net carrying amount, January 1, 2019	7,631,638	525,528,476	324,646,606	857,806,720
Additions	-	582,660	346,072,715	346,655,375
Transfer	-	-	(16,036,590)	(16,036,590)
Disposals	(5,000,128)	-	(280,906,270)	(285,906,398)
Impairment (loss)/recovery	-	491,840	(10,856,277)	(10,364,437)
Net carrying amount, December 31, 2019	2,631,510	526,602,975	362,920,185	892,154,670

	Land	Building	Acquired assets/ Registered	Total
Net Carrying amount, January 1, 2018, as reported	189,024,930	596,729,329	583,132,865	1,368,887,124
Reclassification to IP	(121,895,867)	(8,870,000)	(300,467,054)	(431,232,921)
Restated Net carrying amount, January 1, 2018	67,129,063	587,859,329	282,665,811	937,654,203
Additions	-	-	346,871,393	346,871,393
Transfer	(60,326,986)	(5,883,155)	(13,737,020)	(79,947,161)
Disposals	(245,700)	(82,271,610)	(268,313,504)	(350,830,814)
Impairment (loss)/recovery	1,075,262	25,823,911	(22,840,073)	4,059,100
Restated Restated Net carrying amount, December 31, 2018	7,631,638	525,528,475	324,646,607	857,806,720
Restated Net carrying amount, December 31, 2017	67,129,062	587,859,329	282,665,811	937,654,20

The non-current asset held for sale (NCAHFS) is measured at the lower of carrying amount and fair value less cost to sell. The fair value is measured based on the assessment of internal/external expert, non-recurring and is level 2 and 3 based on the level of fair value hierarchy. As at December 31, 2019, the impairment loss of P14.715 million and recoveries/reversals of impairment of P4.869 million are recognized in profit or loss. This also includes impairments on the Sales Contract Receivables that were reverted back to Acquired assets/ Registered account amounting to 0.518 million.

Had there been no impairment, the carrying amount of the NCAHFS as at December 31, 2019 and 2018 are as follows:

	2019	2018 Restated
Land	**2,631,510**	6,556,376
Building	**526,111,136**	499,704,564
Acquired assets/Registered	**373,776,463**	347,486,679
	902,519,109	853,747,619

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 includes 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, 2019, SSS has sold 401 properties through cash and instalment bases generating gain on sale of P221.227 million.

NCAHFS/ROPA can be leased out momentarily while waiting for its sale to maximize its potential income. As at December 31, 2019, 222 ROPA properties with a total book value of P30.055 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, 2019 and 2018 for these ROPA amounted to P41.706 million and P26.480 million, respectively.

The following NCAHFS properties, which were not sold for more than five years even with continuous marketing efforts except for NCAHFS-ROPA-Registered, are reclassified to Investment Property:

Properties	Carrying Amount
NCAHFS - ROPA – Land	121,895,868
NCAHFS - ROPA – Building	8,870,000
NCAHFS - ROPA - Acquired Assets	78,315,038
NCAHFS - ROPA – Registered	261,580,466
	470,661,372

9. OTHER CURRENT ASSETS

This account is composed of the following prepayments:

	2019	2018
Prepaid rent	**11,472,281**	10,685,347
Advances to contractors/suppliers	**3,000,000**	3,000,000
Prepaid insurance	**420,314**	336
Other prepayments	**340,048**	198,876
	15,232,643	**13,884,559**

Advances to contractors/suppliers represent 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. Other prepayments which consist mainly of withholding tax at source is a creditable withholding tax from rental or other services deducted by an entity designated by BIR as authorized agent.

10. INVESTMENT PROPERTY

This account is composed of the following:

	Land	Building	Development Cost	Total
Fair value, January 1, 2019	36,311,377,358	5,819,722,048	9,685,838	42,140,785,244
Transfer	16,036,590	(45,969,000)	-	(29,932,410)
Fair value gain (loss)	11,177,059,478	(199,227,095)	-	10,977,832,383
Fair value, December 31, 2019	47,504,473,426	5,574,525,953	9,685,838	53,088,685,217

	Land	Building	Development Cost	Total
Fair value, January 1, 2018, as previously reported	32,872,755,777	5,541,918,000	9,685,838	38,424,359,615
Reclassification from NCAHFS	757,512,917	4,350,000	-	761,862,917
Restated Fair value, January 1, 2018	33,630,268,694	5,546,268,000	9,685,838	39,186,222,532
Transfer	13,737,019	-	-	13,737,019
Fair value gain (loss)	2,667,371,645	273,454,048	-	2,940,825,693
Restated Fair Value, December 31, 2018	36,311,377,358	5,819,722,048	9,685,838	42,140,785,244
Restated Fair Value, December 31, 2017	33,630,268,694	5,546,268,000	9,685,838	39,186,222,532

The total costs of investment property as of December 31, 2019 and 2018 is P10.770 billion.

The fair value of investment property is determined based on the Cost and Market Approach methods performed by independent appraisers and in-house appraisers, non-recurring and is Level 2 and 3 based on the level of fair value hierarchy. 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.

Some IPs were measured at cost model because the fair value cannot be determined reliably due to legal cases still pending with RTC-Makati and Supreme Court for the FCA 7, Memorial Lots and Green Meadows properties, respectively (Note 37).

Investment Property	As at December 31, 2019	
	Book Value	**Estimated Appraised Value**
Pasay City (FCA 7 Site 2)	2,624,825,000	18,155,039,600
Pryce - Memorial Lots	446,555,000	656,199,450
Green Meadows	120,379,000	1,338,330,152
	3,191,759,000	20,149,569,202

The appraised value was not used due to the fact that the appraisers did not include in their valuation the effect of the pendency of legal cases on the said properties. Thus, the fair value cannot be ascertained. The fair market value for the said properties consist of the following:

Investment Property	**2019**	**2018**	**2017**
Pasay City (FCA 7 Site 2)	18,155,039,600	13,799,080,000	8,249,450,000
Pryce - Memorial Lots	656,199,450	409,948,028	580,096,500
Green Meadows	1,338,330,152	1,156,972,100	506,258,890
	20,149,569,202	15,366,000,128	9,335,805,390

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

	2019	2018 Restated
Net gain on fair value adjustment	**10,977,832,382**	2,940,825,693
Rental income	**683,122,051**	702,943,572
Penalty on rentals	**5,362,127**	1,543,977
Direct operating expenses	**(111,587,958)**	(65,653,288)
Impairment loss	**(7,901,974)**	(8,576)
	11,546,826,628	3,579,651,378

The rentals or sale proceeds on the investment property are subject to the restriction provided under Sections 25 and 26 of the Social Security Law which states that ten 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, 2019, there are no investment properties sold.

Direct operating expenses incurred for investment properties generating revenue through lease as at December 31, 2019 and 2018 is P112.832 million and P52.944 million, respectively.

11. PROPERTY AND EQUIPMENT – NET

This account is composed of the following:

	Land	Land Improvement	Buildings and building/ leasehold improvements	Right of Use asset	Furniture and equipment, transportation equipment, computer hardware and others	Construction in progress	Total
Gross carrying amount							
January 1, 2019	4,543,368,645	19,340,319	1,496,083,246	-	3,014,880,939	47,062,148	9,120,735,297
Additions	-	-	-	1,136,766,737	551,855,889	23,109,965	1,711,732,591
Transfers	-	-	57,065,387	-	-	(11,096,387)	45,969,000
Retirement/cancellations/ disposal/adjustments	-	-	(41,411,825)	(6,404,306)	(46,878,750)	(815,579)	(95,510,460)
December 31, 2019	**4,543,368,645**	**19,340,319**	**1,511,736,808**	**1,130,362,431**	**3,519,858,077**	**58,260,148**	**10,782,926,428**
Accumulated depreciation							
January 1, 2019	-	10,637,324	909,216,108	-	2,236,542,613	-	3,156,396,045
Depreciation Expense	-	1,053,881	44,765,621	220,543,525	200,617,504	-	466,980,531
Transfer	-	-	-	-	-	-	-
Retirement/cancellations/ disposal/adjustments	-	-	(42,199,467)	(1,065,264)	(41,559,557)	-	(84,824,288)
December 31, 2019	**-**	**11,691,205**	**911,782,262**	**219,478,261**	**2,395,600,566**	**-**	**3,538,552,288**
Accumulated impairment loss							
January 1, 2019	-	1,137,050	108,934,119	-	-	-	110,071,169
Transfer	-	-	-	-	-	-	-
Impairment loss	-	-	-	-	-	-	-
December 31, 2019	**-**	**1,137,050**	**108,934,119**	**-**	**-**	**-**	**110,071,169**
Per cost model, December 31, 2019	**4,543,368,645**	**6,512,065**	**491,020,427**	**910,884,170**	**1,124,257,517**	**58,260,148**	**7,134,302,971**

	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
Depreciation Expense	-	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**
Per cost Model, December 31, 2018	**4,543,368,645**	**7,565,945**	**477,933,019**	**778,338,326**	**47,062,149**	**5,854,268,084**

Among the property and equipment, only land is subject to revaluation which was made by an independent appraiser in December 2018. 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, 2019 and 2018 is P4.046 billion and is not subject to any appropriations as at end of the reporting period.

If land were stated at the historical cost basis, the carrying amount as at December 31, 2019 and 2018 is P534.062 million.

Rental income from a portion of five property and equipment under a cancellable lease agreement as at December 31, 2019 and restated December 31, 2018 is P7.937 million and P10.183 million, respectively, were included in the Statements of Comprehensive Income. The portion under lease cannot be sold separately and insignificant, thus, remains as Property and Equipment.

The SSS recognizes the Right-of-Use Asset (ROU) for the right to use the underlying leased asset. As at December 31, 2019 the carrying amount of the ROU asset is P910.884 million. ROU assets are depreciated each year on a straight-line over the term of the lease (see note 14).

As at December 31, 2019 and 2018, the total carrying amount of fully depreciated property and equipment that are still in use are P71.833 million and P38.087 million, respectively.

12. INTANGIBLE ASSETS – NET

This account is composed of the following:

	2019	2018
Cost		
Balance, January 1	**805,412,631**	733,191,548
Additions	**14,000,000**	90,586,599
Transfers/adjustments	**-**	(18,365,516)
Retirement/disposals/cancellation	**(27,844,602)**	-
Balance, December 31	**791,568,029**	805,412,631
Accumulated amortization		
Balance, January 1	**494,262,300**	454,267,971
Amortization for the period	**53,695,288**	39,994,329
Retirement/disposals/cancellation	**(1,912,374)**	-
Balance, December 31	**546,045,214**	494,262,300
Accumulated impairment loss		
Balance, January 1	**75,828,227**	75,828,227
Retirement/disposals/cancellation	**(25,932,227)**	-
Balance, December 31	**49,896,000**	75,828,227
Per Cost Value Model, December 31	**195,626,815**	235,322,104

Intangible assets with definite and indefinite life include both computer software and licenses. The carrying amount of intangible assets with indefinite life as of December 31, 2019 and 2018 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. As at December 31, 2019 and 2018, the total carrying amount of fully depreciated/amortized intangible assets that are still in use are P477.212 million and P471.653 million, respectively

13. OTHER NON-CURRENT ASSETS

This account is composed of the following:

	2019	2018 Restated
Deposits	**92,177,631**	85,501,716
Other assets	**285,493,590**	279,149,683
	377,671,221	364,651,399
Accumulated impairment - other assets	**(110,529,016)**	(115,097,096)
	267,142,205	249,554,303

Other assets account consists of fire insurance premium (FIP) and mortgage redemption insurance (MRI) advanced by SSS for properties mortgaged to the SSS.

14. FINANCIAL LIABILITIES

This account is composed of the following:

	2019	2018
Current financial liabilities		
Accounts payable	**6,161,118,482**	6,186,290,167
Accrued expenses	**1,891,812,205**	2,017,238,788
Lease liability	**195,358,652**	-
	8,248,289,339	8,203,528,955
Non-current financial liabilities		
Operating lease payable	**-**	45,390,960
Lease liability	**765,314,040**	-
	765,314,040	45,390,960
	9,013,603,379	8,248,919,915

Accounts payable and accrued expenses comprise of SSS' obligations payable to members, suppliers, employees and officials and refund to member-borrowers for loan overpayments.

Non-current financial liabilities represent rent payables for lease contracts entered by the SSS as of December 31, 2018 and for 2019, it represents the lease payable for the right to use the underlying leased asset up to the end of the lease contract in accordance with PFRS 16 as follow:

	Amount
Beginning Balance, 1 January 2019	-
Setup/Additions	1,136,766,737
Lease Payments	(83,183,697)
Retirement/Cancellation/Adjustments	(92,910,348)
Ending Balance, 31 December 2019	960,672,692
Current lease liabilities	195,358,652
Non-current lease liabilities	765,314,040

The associated right-of-use assets are measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognized as shown in the table below. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

	Amount
Beginning balance, 1 January 2019	-
Set up/Additions	1,136,766,737
Retirement / Cancellation/Adjustment	(5,339,042)
Depreciation	(220,543,525)
Net Carrying Amount, 31 December 2019	**910,884,170**

SSS as a lessee maintains 145 lease contracts with variable terms ranging from more than one year to 10 years that are recognized as asset and liability, while 11 contracts with term of less than one year are recognized as operating expense.

As at December 31, 2019 and 2018, the total rent payout amounted to P153.568 million and P259.116 million, respectively (see Note 29)

15. INTER-AGENCY PAYABLES

This account is composed of the following:

	2019	2018
Due to BIR	**81,074,602**	61,409,510
Due to GSIS	**74,523,169**	72,227,332
Due to Philhealth	**7,052,449**	6,397,490
Due to Pag-IBIG	**5,290,331**	4,876,071
Due to SSS	**-**	5,048,522
Due to LGUs	**-**	260
	167,940,551	**144,910,403**

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 2020. 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.

16. TRUST LIABILITIES

This account is composed of the following:

	2019	2018
Trust liabilities	**462,395,219**	387,608,609
Guaranty/security deposits payable	**230,385,454**	237,903,661
Customers' deposits payable	**168,314,824**	139,832,464
	861,095,497	765,344,734

Trust liabilities consist of the following:

	2019	2018
Funds held in trust -		
Officials and employees	**410,245,623**	352,382,314
Borrowers and other payors	**33,128,217**	3,717,714
Suppliers and creditors	**4,637,210**	4,462,820
SSS Provident fund and Medical Insurance	**3,378,624**	3,035,658
Flexi-fund	**10,268,696**	8,508,199
Dividends - stock investment loan program	**649,767**	15,501,904
Educational loan fund – DECS	**87,082**	-
	462,395,219	387,608,609

Funds held in trust (FHT) from officials and employees includes among others the amounts deducted from their separation/retirement claims for the benefits received but subsequently disallowed in audit which as at December 31, 2019 and 2018, amounted to P380.554 million and P315.400 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 Supreme Court decision should be in favor of SSS and its employees, the amount withheld from these retired employees will be returned in full.

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.

17. DEFERRED CREDITS/UNEARNED INCOME

This account is composed of the following:

	2019	2018
Current:		
Deferred credits - output tax	**1,143,797**	1,098,026
Unearned rental income	**75,301,331**	57,948,826
	76,445,128	59,046,852
Non-current:		
Unearned income-unrealized gain-GBond	**355,912,179**	382,762,849
	432,357,307	441,809,701

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.

18. PROVISIONS

The accrued retirement benefits of employees as at December 31, 2019 and 2018 are as follows:

	2019	2018
Leave benefits payable	**1,003,172,055**	564,916,238
Retirement gratuity payable	**28,691,057**	641,074,473
Other provisions	**281,201,381**	254,784,795
	1,313,064,493	1,460,775,506

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, 2019, there were 2,420 employees who availed of the monetization of leave credits with total amount of P123.953 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, 2019, 149 employees were given RIA in the total amount of P24.811 million.

The provision is calculated each year by the Actuarial & Risk Management Group (ARMG), with the assumption that all regular SSS employees would retire by the end of the following year. The salary increases and leave credits are projected up to the retirement year, which are then the basis for the computation of the employee retirement benefits.

19. OTHER PAYABLES

This account is composed of the following:

	2019	2018
Current	**1,063,119,232**	1,990,631,097
Non-current	**50,000,000**	50,000,000
	1,113,119,232	2,040,631,097

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

	2019	2018
Member loans (ML) collection	**883,045,940**	1,762,462,284
Undistributed collection	**33,059,838**	73,568,465
OFW collections	**89,087,523**	89,131,581
Sales contract receivable	**49,233,771**	46,848,029
Rental Receivable	**8,679,434**	-
Real estate loans collection	**9,553**	18,620,738
Employees' housing loan program	**3,173**	-
	1,063,119,232	1,990,631,097

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 balance of unposted collections decreased to P883.046 million because the SSS has undertaken various efforts to address the posting issues and expedited the reconciliation process through (1) enhancing computer programs and systems, (2) continuous sending and monitoring of No Collection Lists and Unbalance Transactions to branches, (3) regular clean-up of unpostables and reconciliation and (4) improved frequency of generating the Actual Distribution of payments in the electronic Loan Management System (e-LMS) on a semi-monthly basis.

On the other hand, the modules in the e-LMS aid in the management of the undistributed collections on member loans. Billing and collection module hastened posting of payments and minimized 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.

20. EQUITY

The SSS Equity is composed of the following:

	2019	2018 Restated
Reserve fund	**581,651,564,402**	525,441,040,184
Revaluation surplus	**4,046,242,799**	4,046,242,799
Members' equity	**1,038,891,527**	873,406,815
Cumulative changes in fair value of investments	**(31,501,686,059)**	(30,822,445,526)
	555,235,012,669	499,538,244,272

The Reserve Fund as at December 2018 was restated to reflect the effect of the change in accounting policy set out in Note 2.11b, on the recognition of penalty income on ML, HL, SCR and rental receivable from cash to accrual basis, reclassification of NCAHFS to IP and other prior period adjustments, as follows:

	2018 Restated
Balance at December 31, 2018, as reported	498,358,507,166
Reclassification of NCAHFS to IP	
At the beginning of January 1, 2018	330,629,995
During the year of 2018	10,753,465
	341,383,460
Accrual of penalty income	
At the beginning of January 1, 2018	50,393,056
During the year of 2018	9,040,128
	59,433,184
Prior period adjustment	
Available for sale financial assets from cost to fair value measurement	896,442,612
Impairment of penalty receivables and other non-current assets	(117,522,150)
Balance at December 31, 2018, as restated	499,538,244,272

Investment Reserve Fund (IRF)

The Investment Reserve Fund as at 31 December 2019 and restated 2018 is P550.835 billion and P495.139 billion, respectively.

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 to earn an annual income not less than the average rate of treasury bills or any other acceptable market yield indicator in any or in all of the undertaking, under such rules and regulations as may be prescribed by the SSC.

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: 60 per cent in private securities, 5 per cent in housing, 30 per cent in real estate related investments, 25 per cent in short and medium-term member loans, 30 per cent in government financial institutions and corporations, 15 per cent in any particular industry and 7.5 per cent in foreign-currency denominated investments, 5 per cent in private-sponsored infrastructure projects without guarantee, 5 per cent in private and government sponsored infrastructure projects with guarantee, 5 per cent in private and government sponsored infrastructure projects.

As at December 31, 2019, all investment categories are within the SSS charter limits of the RA 11199.

Long-Term Viability of the Philippine Social Security System

The Social Security Act of 2018 requires the SSS Actuary to submit a valuation report every three years (every four years, in previous law) 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.

The recent actuarial valuations have shown some improvements in the projected fund life, i.e., from the fund life lasting up to 2031 in the 2003 Actuarial Valuation, it extended to 2042 in the 2015 Valuation. However, 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 reserve fund is lower than the liability (the difference between the present value of future benefits and operating expenses, and the present value of future contributions).

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 next table.

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

	2015 Valuation	
Key Projection Results	Original*	Updated
	(A)	(B)
Year Fund Will Last	2042	2042
Year Net Revenue Becomes Negative	2034	2034
Unfunded Liability Computation (Discount rate = 6%)		
	(as at Dec. 31, 2015)	(as at Jan. 1, 2017)
Liability	3.87	4.11
Reserve Fund	0.40	0.44
Unfunded Liability	3.47	3.67

**As published in the 2015 Actuarial Valuation report*

The implementation of the P1,000 additional pension benefit in 2017 reduced the fund life by ten (10) years, from 2042 to 2032, and caused the net revenue to be projected 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.

On February 7, 2019, RA 11199, also known as the Social Security Act of 2018, was signed into law. Among the salient features of the law are the following:

1. Increase in contribution rate and minimum and maximum monthly salary credit (MSC) in accordance with the following schedule effective January of the year of implementation.

Year of Implementation	Contribution Rate	Share		Monthly Salary Credit
		Employer	Employee	
2019	12%	8%	4%	P2,000
2021	13%	8.5%	4.5%	P3,000
2023	14%	9.5%	4.5%	P4,000
2025	15%	10%	5%	P5,000

- Mandatory coverage of Overseas Filipino Workers (OFWs)
- Introduction of unemployment benefit
- Establishment of voluntary and mandatory provident funds
- Rationalized powers and duties of the Social Security Commission (SSC)
- Enhanced investment capabilities

On February 20, 2019, RA 11210, also known as the 105-Day Expanded Maternity Leave Law, was also signed into law. This law increased the number of compensable days for any instance of live birth from 60 and 78 days to 105 days, with additional 15 days for solo parents. Also, the maternity benefit can now be availed regardless of the number of deliveries or miscarriages.

The effect of the two new laws on the updated 2015 Valuation, with the P1,000 additional pension allowance in 2017, is summarized in the table below.

Comparison of Key Projection Results
Updated 2015 Valuation with RA 11199 and RA 11210
(Amount in Trillion Pesos)

Key Projection Results	2015 Valuation With P1,000 Additional Pension Benefit (A1)	(A2)
Year Fund Will Last	2032	2032
Year Net Revenue Becomes Negative	2022	2022
Unfunded Liability Computation (Discount rate = 6%)		
	(as at Jan. 1, 2017)	(as at Jan. 1, 2019)
Liability	5.38	6.01
Reserve Fund	0.43	0.45
Unfunded Liability	4.95	5.56

(Valuation period up to year 2080)

The implementation of RA 11199 and RA 11210 in 2019 extended the fund life by twelve (12) years, from 2032 to 2044, and projected the net revenue to turn negative by 2037, much later than 2022 which was previously projected.

Prior to the passage of the two new laws, the unfunded liability as of January 1, 2017 was computed at P4.95 trillion. Adjusting the reference date of present value computation to January 1, 2019, the unfunded liability increased to P5.56 trillion. However, considering the effect of the new laws, the unfunded liability was reduced to P4.72 trillion.

The SSF life and unfunded liabilities presented above were determined using an open group projection method, where members who will join the System in the future are considered in the projection of revenues and expenditures. The SSS program, as with other social security schemes, was designed such that the contributions of the current paying members fund the benefits of the current pensioners; hence, there is income transfer across generations. With the continuous membership of future generations into the System, the benefits of the current and future pensioners are continuously funded by the contributions of the former; hence, the open-group projection method is appropriate in assessing the sustainability of the SSS program.

Meanwhile, the closed group projection method considers only the existing members up to end of reporting date while continuing their contribution up to certain date. The unfunded liability computed with this approach is highly theoretical, as it is only truly meaningful for a program that is intended to be fully funded. Nevertheless, it provides an insight as to the magnitude of the unfunded liability of a program that is designed to be partially funded, such as the SSS program. The comparison of the unfunded liabilities computed under the open and closed group projection methods are presented in the following table.

Updated 2015 Valuation
Comparison of Key Projection Results
Open Group versus Closed Group
(Amount in Trillion Pesos)

Key Projection Results	Open Group (A)	Closed Group (B)
Year Fund Will Last	2044	2036
Year Net Revenue Becomes Negative	2037	2030
Unfunded Liability Computation (Discount rate = 6%)		
	(as at Jan. 1, 2020)	(as at Jan. 1, 2020)
Liability	5.48	6.85
Reserves	0.48	0.48
Unfunded Liability	5.00	6.37

As expected of a partially funded program, the SSF life under the closed group method is shorter by eight (8) years at 2036, compared to 2044 under the open group method.

The unfunded liability as of December 31, 2019 at P6.37 trillion under the closed group method is greater as well, compared to P5.00 trillion computed under the open group method.

The current unfunded liability and fund life situation presented above 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.

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.

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.

Cumulative Changes in Fair Value

	2019	2018 Restated
Balance, January 1	**(30,822,445,526)**	(8,556,971,866)
Net gain (loss) arising on revaluation of financial assets at FVTOCI	**(679,240,533)**	(22,265,473,660)
Balance, December 31	**(31,501,686,059)**	(30,822,445,526)

The cumulative changes in fair value represent the investments revaluation reserves arising on the revaluation of financial assets that have been recognized in other comprehensive income.

21. SERVICE AND BUSINESS INCOME

This account is composed of the following:

	2019	2018 Restated
Members' contribution	**219,619,614,559**	180,343,916,577
Interest income	**20,908,556,958**	22,107,910,860
Fines and penalties- business income	**3,412,317,758**	3,055,759,562
Dividend income	**2,964,937,904**	3,078,353,241
Rent/lease income- investment property	**683,122,051**	702,943,572
Income from acquired/foreclosed assets	**41,705,847**	26,480,172
Management fees	**8,938,207**	7,029,433
Other business income	**548,383,492**	486,207,318
	248,187,576,776	209,808,600,735

As at December 31, 2019, the combined SSS and ECC collection of members' contributions including related interests and penalties totaled P220.379 billion. Contributions from employed sector registered the biggest amount of collection at P190.203 billion, followed by voluntary paying members at P23.906 billion and self-employed at P6.270 billion. The number of paying members for the period from January to December 2019 reached to 17.581 million and 16.540 million for the same period in 2018.

ECC members' contribution for the year ended December 31, 2019 and 2018 amounted to P2.402 billion and P2.251 billion, respectively.

Interest income are derived from the following SSS investments:

	2019	2018
Bonds investments		
FAFVTPL	**1,005,343,581**	652,909,618
FVTOCI	**2,775,112,231**	3,201,488,141
FA at Amortized Cost	**10,720,870,637**	10,273,689,088
	14,501,326,449	14,128,086,847
Loans and receivables	**5,399,820,066**	7,179,565,775
Current/savings/term deposits	**902,990,641**	773,195,154
Time deposits	**72,982,018**	17,385,000
Others	**31,437,784**	9,678,084
	20,908,556,958	22,107,910,860

Other business income includes among others, service fees on salary loans granted and income from SSS ID replacement amounting to P400.282 million and P94.278 million, respectively, for CY 2019.

22. GAINS

This account is composed of the following:

	2019	2018 Restated
Gain from changes in fair value of investment property	**12,113,402,674**	3,286,127,950
Gain from changes in fair value of financial instruments	**3,845,422,727**	2,087,104,052
Gain on sale/redemption/transfer of investment	**1,208,187,834**	892,599,507
Gain on foreign exchange (FOREX)	**305,237**	564,573
Gain on sale of property and equipment	**225,867**	485,874
	17,167,544,339	6,266,881,956

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 are included in net profit or loss for the period in which they arise.

23. OTHER NON-OPERATING INCOME

This account is composed of the following:

	2019	2018
Reversal of impairment loss	**1,530,031,607**	434,443,321
Miscellaneous income	**419,660,243**	573,657,598
	1,949,691,850	1,008,100,919

The SSS considers certain financial assets to have recovered from impairment losses amounting to P1.530 billion due to the enhanced loan collection efforts and digitalization initiatives implemented by SSS. Majority of the recoveries came from member loans and housing loans amounting P1.356 billion and P137.816 million, respectively.

24. BENEFIT PAYMENTS

This account represents payments to members and their beneficiaries in the event of disability, sickness, maternity, old age, death and other contingencies resulting in loss of income or financial burden. Total benefit payments amounted to P196.761 billion and P180.079 billion, with total number of beneficiaries of 3,989,776 and 3,681,447, for CYs 2019 and 2018, respectively, as follows:

	2019	2018
Retirement	**114,267,999,625**	104,822,602,023
Death	**57,065,755,182**	54,715,765,694
Maternity	**10,411,803,431**	7,066,033,389
Disability	**7,369,931,044**	6,765,319,427
Funeral grant	**4,230,672,378**	3,906,046,527
Sickness	**3,226,363,930**	2,790,957,883
Unemployment	**177,863,624**	-
Medical services	**10,783,631**	10,830,855
Rehabilitation services	**-**	958,702
	196,761,172,845	180,078,514,500

The unemployment or involuntary separation benefit is given to qualified SSS member as provided under Section 14-B of the RA 11199. A member who is not over sixty (60) years of age who has paid at least thirty-six (36) months contributions twelve (12) months of which should be in the eighteen-month period immediately preceding the involuntary unemployment or separation shall be paid benefits in the form of monthly cash payments equivalent to fifty per cent (50%) of the average monthly salary credit for a maximum of two (2) months: Provided, that an employee who is involuntary unemployed can only claim unemployment benefits once every three (3) years and provided, further that in case of concurrence of two or more compensable contingencies, only the highest benefits shall be paid, subject to the rules and regulations that the Commission may prescribe.

The SSS has paid unemployment or involuntary separation benefit from August to December 2019 to 14,993 SSS members in the total amount of P177.863 million.

Pursuant to RA 11210 or the 105 Day Expanded Maternity Leave Law (EMLL) increasing the maternity leave period to 105 days for female workers with an option to extend for an additional 30 days without pay, and granting an additional 15 days for solo mothers, SSS has paid P2.22 billion from March to December 2019.

25. PERSONNEL SERVICES

This account is composed of the following:

	2019	2018
Salaries and wages	**2,980,063,635**	2,882,894,684
Other compensation	**1,709,321,420**	1,556,748,429
Personnel benefit contribution	**1,601,466,068**	1,546,222,995
Other personnel benefits	**506,525,789**	545,337,675
	6,797,376,912	6,531,203,783

Personnel benefit contribution includes Provident Fund which consists of contributions made by both the SSS and its officials and employees and their earnings, for the payment of benefits to such officials and employees or their heirs as provided under Section 4.a.3 of the RA No. 11199. 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 grant of Service Recognition Incentive amounting to P72.369 million which was given to all SSS officials and employees in December 2019, as authorized under Malacañang Administrative Order 19.

As at December 31, 2019, SSS has a total of 7,252 regular personnel of which 664 are new employees but net of 319 retired/separated employees.

26. MAINTENANCE AND OTHER OPERATING EXPENSES

This account is composed of the following:

	2019	2018
General services	**398,091,098**	301,112,117
Repairs and maintenance	**285,673,055**	262,428,075
Utility expenses	**252,937,751**	246,321,443
Labor and wages	**235,542,353**	459,645,947
Communication expense	**220,886,199**	247,701,305
(forward)		

	2019	2018
Supplies and materials expenses	**168,091,312**	212,185,975
Professional expenses	**81,845,282**	77,106,380
Traveling expenses	**73,337,345**	74,636,928
Taxes, insurance premiums and other fees	**20,962,022**	24,670,208
Training and scholarship expenses	**24,846,022**	51,260,537
Awards/Rewards, prizes, and indemnities	**2,708,950**	1,242,363
Confidential, intelligence and extraordinary Expenses	**2,191,374**	1,552,681
Other maintenance and operating expenses	**656,657,400**	987,832,596
	2,423,770,163	2,947,696,555

Other maintenance and operating expenses consist of the following:

	2019	2018
Fees and commission expenses	**304,931,326**	255,187,752
Printing and publication expenses	**121,815,733**	205,801,777
Rent/lease expenses	**70,384,385**	304,507,045
Subscription expenses	**57,609,636**	53,636,205
Advertising, promotional and marketing expenses	**35,214,635**	75,078,189
Transportation and delivery expenses	**15,803,283**	16,766,387
Directors and committee members' fees	**14,223,334**	22,105,636
Membership dues and contributions to Organizations	**9,353,634**	9,309,156
Donations	**745,522**	6,006,280
Other maintenance and operating expenses	**26,575,912**	39,434,169
	656,657,400	987,832,596

27. FINANCIAL EXPENSES

This account is composed of the following:

	2019	2018
Interest expenses - lease liability	**63,377,239**	-
Bank charges	**18,796,715**	885,955
Other financial charges	**226,587,436**	128,280,980
	308,761,390	129,166,935

The SSS recognizes interest expense on the lease liability calculated using the effective interest method in view of the new leasing standard (see Note 2.13).

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 as well as management fee expenses of the Flexi Fund and PESO Fund.

28. NON-CASH EXPENSES

This account is composed of the following:

	2019	2018 Restated
Losses	**4,623,986,054**	3,361,248,235
Depreciation	**466,011,313**	206,743,541
Impairment loss	**194,729,960**	1,403,222,693
Amortization	**53,695,288**	43,764,140
	5,338,422,615	5,014,978,609

The SSS recognizes losses on fair value adjustments of financial assets and investment properties as at December 31, 2019 in the amount of P3.308 billion and P1.136 billion, respectively.

The depreciation expense recorded for the ROU assets starting January 2019 amounted to P220.543 million.

29. 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 2018 amounted to P2.828 billion, as follows:

NCA No.	Date	Amount
2012		
BMB-F-12-0023901	December 14, 2012	45,279,995
2013		
BMB-F-13-0017483	September 23, 2013	480,771,648
BMB-F-13-0020336	November 11, 2013	278,800,497
		759,572,145
2014		
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
		771,613,074
2015		
BMB-F-15-0005560	April 29, 2015	32,207,250
BMB-F-15-0016231	October 26, 2015	374,662,670
		406,869,920

(forward)

NCA No.	Date	Amount
2016		
BMB-C-16-0006531	April 28, 2016	64,198,930
BMB-C-16-0016736	September 15, 2016	54,212,150
		118,411,080
2017		
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
		541,076,050
2018		
BMB-C-18-0019433	September 17, 2018	185,357,643
		2,828,179,907

30. LEASE COMMITMENTS

30.1 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. Extension option is exercisable up to one year after the lease period has expired as running from month-to-month with the same terms and conditions as stipulated. On the other hand, if either party desires to terminate prior to expiration of the lease period, the desiring party shall inform the other party in writing of such intention at least 60 days before the intended termination date. There are no residual value guarantees and sale and leaseback transactions in the lease agreement.

In 2019, SSS opened 3 new branches and 12 new service/representative offices nationwide to provide a conducive member-centric environment and entered into a cancellable operating lease agreement with various property owners. Out of the 320 local branches, 167 branch/service/representative offices located in various locations nationwide are rent-free. As at December 31, 2019 and 2018, the total lease payment made amounted to P153.568 million and P259.116 million, respectively. (see Notes 14 and 26) Further, there is no sublease agreements made and no occurrences of contingent rent.

30.2 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 P3,593 per month. The leases have varying terms, escalation clauses and renewal rights. Renewal option is available to the lessee who shall give a written notice of its intention to renew at least sixty (60) calendar days prior to the expiration of the lease period. If the lessee continues in the occupation of the leased premises with the consent of the lessor after the term, said extension of the contract shall be understood as running from month to month basis under the same terms and conditions stipulated in the agreement, but the monthly rental shall all be escalated based on the SSS leasing guidelines. For the pre-termination terms, either party may pre-terminate the lease for any reason provided that the party who will initiate the pre-termination shall inform the other party in writing at least sixty (60) calendar days before

the intended date of termination. In the case lessee voluntarily pre-terminates the lease agreement, the lessee shall pay the SSS a pre-termination fee to be deducted from the security deposit.
Total rental income earned as of December 31, 2019 and 2018 amounted to P732.765 million and P739.678 million, respectively, details as follows:

	2019	2018
Investment property	**683,122,051**	702,943,572
Leased acquired/foreclosed assets	**41,705,847**	26,480,172
Operating assets	**7,937,248**	10,253,805
	732,765,146	739,677,549

31. RELATED PARTY DISCLOSURES

As at December 31, 2019, the composition of the Social Security Commission's board members is as follows:

Board Position	Name	Appointment
1. Ex-Officio Chairperson	Carlos G. Dominguez III	Secretary, Department of Finance
2. Vice-Chairperson	Aurora C. Ignacio	President & CEO, SSS
3. Ex-Officio Member	Silvestre H. Bello III	Secretary, DOLE
4. Member	Michael G. Regino	Representing the Workers'
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	Manuel L. Argel, Jr	Representing the Employers' Group
9. Member	Bai Norhata Macatbar Alonto	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:

	2019	2018
Salaries	**36,400,922**	32,012,158
Other allowances and benefits	**34,071,073**	26,809,915
	70,471,995	58,822,073

Meanwhile, the total remuneration received by the Board of Commissioners amounted to P14.742 million and P16.811 million for CYs 2019 and 2018, respectively.

32. 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.

In the management of financial risks, the Social Security Commission (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 on the statutory limit provided under the Social Security Law and compliance to the investment guidelines. Internal controls are also in place and comprehensive audit is being done by the Internal Audit Services Group.

Financial risk is defined as the potential losses due to changes in external markets, prices, rates and liquidity supply and demand. Types of financial risks and risk management tools, policies and procedures currently utilized by SSS are discussed below.

1. Market Risk

Market Risk is the risk of SSS investments declining in value because of economic developments or other events that affect the entire market. This risk arises from (i) fluctuations in market prices of equities due to changes in demand and supply for the securities (*Equity Price Risk*), (ii) changes in SSS' investment value due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship (*Interest Rate Risk*) and (iii) fluctuations in exchanges 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*).

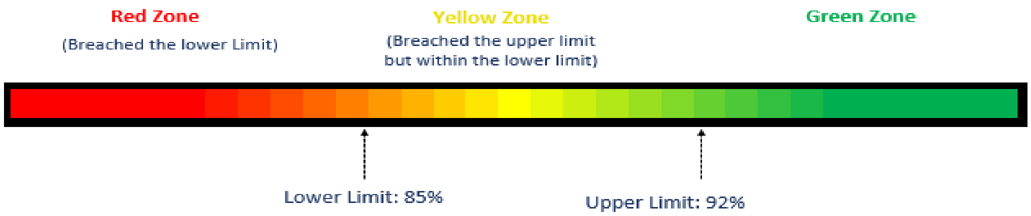
SSS strictly adheres to the provisions of Section 26 of the SS Law, which states that the funds invested in equities, corporate notes/bonds, loans, mutual funds and other financial instruments shall earn an annual income not less than the average rates of treasury bills or any acceptable market yield indicator. Also, SSS developed risk management tools to monitor and mitigate market risks, these are:

a. *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 a portfolio under extreme market movements. Daily VaR estimates are monitored daily and compared to its limits.

   The VaR limit 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.

b. *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.

The daily MAR values were translated into colors to indicate the magnitude of risks on the portfolio. These MAR values are visually represented using a MAR Heat Map.



c. 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.

2. Credit Risk

Credit risk refers to the risk of an economic loss from the failure of counterparty to fulfill its contractual obligations or from the increased risk of default during the term of the transaction. This includes risk due to (i) SSS debtor's incapacity or refusal to meet debt obligations, whether interest or principal payments on the loan contracted, when due (*Default Risk*); (ii) taking over the collateralized or escrowed assets of a defaulted SSS borrower or counterparty (*Bankruptcy Risk*); (iii) potential for a loss in value of an SSS investment portfolio when an individual or group of exposures move together in an unfavorable direction (*Concentration Risk*); (iv) deterioration of perceived credit creditworthiness of the borrower or counterparty (*Downgrade Risk*) and (v) failure of a counterparty to deliver a security or its value in cash when the security was traded after SSS have already delivered security or cash value, as per the trade agreement (*Settlement Risk*).

SSS implements structures and standardized evaluation guidelines, credit ratings and approval processes. Investments undergo technical evaluation to determine their viability/acceptability. Due diligence process (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 are used to determine if counterparties are creditworthy.

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, 2019 and 2018.

2019									
Past due but not impaired (Age in months)									
	Neither past due nor impaired	1-12	13-36	37-48	49-60	Over 60	Expired	Impaired	Total
	(In Millions)								
Financial assets at FVTPL	35,213	-	-	-	-	-	-	-	35,213
Financial assets at FVTOCI	131,490	-	-	-	-	-	-	-	131,490
Financial assets at amortized cost									-
Short-term money placements	400	-	-	-	-	-	-	-	400
Corporate notes and bonds	36,082	-	-	-	-	-	-	-	36,082
Government notes and bonds	160,158	-	-	-	-	-	-	-	160,158
Loans and receivables:									-
NHMFC	-	-	-	-	-	-	4,915	4,915	9,830
Housing loans	347	112	1	-	-	-	-	1,277	1,737
Member loans	31,518	29,760	11,554	-	4,713	11,990	-	5,759	95,294
Pension loans	2,009	-	-	-	-	-	-	-	2,009
Sales contract receivable	1,032	6	17	6	1	43	47	47	1,199
Rental receivable	-	26	43	-	-	-	-	22	91
Commercial and industrial loans	-	-	-	-	-	-	10	59	69
Program MADE	-	-	-	-	-	-	-	17	17
	398,249	**29,904**	**11,615**	**6**	**4,714**	**12,033**	**4,972**	**12,096**	**473,589**

2018									
Past due but not impaired (Age in months)									
	Neither past due nor impaired	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**

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 30 in terms of cumulative value of transactions during the past three years.
   1.3 The stockbroker must be in operation for at least five years and must be profitable for four years in these five 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 (P100 Million) 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 per cent 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 over the number of active accredited stockbrokers x 100 per cent and 15 per cent 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 per cent of its total market transactions. This ensures that SSS is not its only client.

3. <u>Liquidity risk</u>

Liquidity risk refers to the risk that a company may be unable to meet short term financial demands. This usually occurs due to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process. This risk also refers to (i) unanticipated changes in liquidity supply and demand that may affect SSS through untimely sale of assets, inability to meet contractual obligations or default (*Funding Liquidity Risk*) and (ii) the possibility that an institution will not be able to execute a transaction at the prevailing market price because there is temporarily no appetite for the deal on the other side of the market (*Trading 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, back testing and stress testing on risk models used by the Investment Sector to ensure effectiveness and reliability of models.

Other financial risks that might affect SSS, which were identified and are still under study by RMD are discussed below.

4. Reinvestment Risk

   This is the possibility that an investor will be unable to reinvest cash flows (e.g. coupon payments) at a rate comparable to the current investment's rate of return. The term also sometimes refers to the risk that principal repayments on such security may be paid prior to maturity, thereby forcing the asset manager to seek reinvestment of principal at a time when interest rates may be lower than the rate that was payable on the security.

5. Asset-Liability Mismatch Risk

   This is the risk of a change in value from a deviation between asset and liability cash flows, prices or carrying amounts, caused by change in actual cash flow, change in expectations on future cash flows and accounting inconsistencies.

6. Inflation Risk

   This is the risk of a loss in the purchasing power because the value of the investments does not keep up with inflation.

7. Systemic Risk

   This is the risk of potential failure of one institution to create a chain reaction or domino effect on other institutions and consequently threaten the stability of financial markets and even the global economy.

33. RESTATEMENT

The following tables summarize the effect of the adjustments made on the change in accounting policy, accounting error and reclassification of asset accounts.

Effect on the Statement of Financial Position

	December 31, 2018			January 1, 2018		
	(in million pesos)					
	As Previously Reported	Effect of Restatement/ reclassification	As Restated	As Previously Reported	Effect of Restatement/ reclassification	As Restated
Receivables	7,530	56	7,586	5,316	50	5,366
Accrual of penalty income	50	9	59	50	0	50
Reclassification of NCAHFS to IP	1,303	(445)	858	1,369	(431)	938
Non-Current Assets Held for Sale	41,354	787	42,141	38,424	762	39,186

Effect on the Statement of Comprehensive Income

	2019	2018
	in million pesos	
Accrual of penalty income		
Increase in service and business income	155	9
Increase in profit for the year	155	9
Reclassification of NCAHFS to IP		
Increase in gains	141	11
Increase in non-cash expenses	7	-
Increase in profit for the year	134	11
AFSFA measured at cost from fair value		
Increase in other comprehensive income	0.04	395
Impairment of penalty receivable and non-current asset		
Increase in non-cash expense	10	118
Increase in other non-operating income	5	-
Decrease profit for the year	5	118

34. EVENTS AFTER REPORTING PERIOD

The approval of the following policies and guidelines by the SSC after the reporting period are considered adjusting events, hence, financial statements are adjusted accordingly.

On February 12, 2020, the SSC under Resolution no. 97-s. 2020 approved the Policy on Revenue Recognition of Penalty Income on Financial Assets, the implementation of which is effective January 2019.

On February 26, 2020 the SSC under Resolution no. 156-s. 2020 approved the interim use of the weighted average valuation of one external appraisal and the SSS in-house appraisal for the determination of the 2019 Fair Market Value of IPs and ROPAs for the year-end reporting in the SSS Financial Statements.

In view of the Proclamation No. 929 s. 2020 dated March 16, 2020 declaring a State of Calamity throughout the Philippines due to Coronavirus Disease 2019 (COVID-19) for a period of six months, unless earlier lifted, in relation to Proclamation No. 922 s. 2020 dated March 8, 2020 declaring a State of Public Health Emergency due to COVID-19 and the declaration of Code Red sub-level two of the code alert system for COVID-19, all issued by the Office of the President of the Philippines, the Social Security Commission approved the following Resolutions:

Resolution No. 205-s.2020 dated 25 March 2020

- Moratorium on short-term loan payments of SSS members affected by COVID-19 for applicable months of February to April 2020.
- Resolution No. 206-s.2020 dated March 25, 2020, pursuant to Section (4)(a)(8) and Section 22(a) of the Social Security Act of 2018
- Extension of deadline of remittance of contributions by employers (Regular and Household) and Self-employed, Voluntary and Non-Working Spouse members on or before June 1, 2020.
- Resolution No. 258-s.2020 dated 19 May 2020
- Moratorium on housing loan payments of SSS members affected by COVID-19 shall commence from the applicable month of March 2020 with due date on April 10, 2020 until the lifting of the imposition of Enhanced Community Quarantine (ECQ) in the covered areas.

Resolution No. 261-s.2020 dated May 27, 2020, pursuant to Section (4) (a)(8) and Section 22(a) of the Social Security Act of 2018

- Further extension of deadline of remittance of contributions by employers (Regular and Household) and Self-employed, Voluntary and Non-Working Spouse members on or before June 15, 2020.

Resolution No. 294-s.2020 dated 27 May 2020, pursuant to Section (4)(a)(1) and Section 22(a) of the Social Security Act of 2018

- Further extension of deadline of remittance of contributions by employers (Regular and Household) and Self-employed, Voluntary and Non-Working Spouse members on or before June 15, 2020.

Type of Payor	Deadline of Remittance
Regular Employers	Contributions for the applicable months of February, March and April 2020 may be paid on or before June 30, 2020
Household Employers	Contributions for the applicable months of January, February and March or for the quarter ending March 31, 2020 may be paid on or before 30 June 2020
Self-Employed, Voluntary Members and Non-Working Spouses	Contributions for the applicable months of January, February and March or the first quarter of Year 2020 may be paid on or before June 30, 2020

Per Resolution No. 403 s. 2019, FCA7 was valued at book value as the appraisal report for said property indicate that the same was valued on an “as is where is” basis without considering expected value arising from litigation pending with the Regional Trial Court and Supreme Court. At the end of the reporting period, said property was subject of cases pending with the Regional Trial Court and Supreme Court. In addition, the COVID19 pandemic and its economic impact which may be considered a subsequent event (after the reporting date) may result in negative effect to the FV of IPs as at end of 2019 (i.e. without considering yet the impact of the pandemic).

35. OTHER MATTERS

Commitments

Amount authorized but not yet disbursed for capital expenditures as at December 31, 2019 is approximately P1.295 billion.

36. 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 15^{th} day of the following month except those withheld for the month of December which are remitted on or before the 20^{th} day of January of the following year. Value-added taxes and final income taxes withheld are remitted on or before the 10^{th} day of the following month.

	Amount
Taxes paid as at December 2018	
On compensation	341,217,649
Expanded	71,490,100
VAT and other percentage tax	99,608,136
Final tax	1,269,370
Output tax (VAT)	70,386,646
Taxes withheld (to be paid in CY 2020)	
On compensation	14,702,581
Expanded	8,846,743
VAT and other percentage tax	14,673,689
Final tax	91,699
Output tax (VAT)	7,066,456
	629,353,069

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."*

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

The amount of output tax on VAT paid by SSS as of December 31, 2019 and 2018 amounted to P70.387 million and P63.476 million, respectively.

37. STATUS OF LAWSUITS

The SSS is involved as a party in several legal proceedings pending for resolution that could materially affect its financial position. 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. The Risk Management and Investment Committee (RIMC) directed Management to request clearance from the DoF Secretary to renegotiate for better terms towards settlement of HGC obligations to SSS. Approval of which was secured from DoF in its letter to SSS dated August 02, 2019. Negotiation is on-going between SSS and HGCG (now PhilGuarantee) involving cash repayment of the remaining balance and compromise agreement within acceptable terms and condition.
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)	1.461 billion	The case is still pending with the Supreme Court (SC)

Description	Amount	Status
Civil case for Sum of Money with Damages filed against Waterfront Philippines, Inc.	1.151 billion	On 30 August 2019, SSS appeal with the Court of Appeals was decided in favor of the SSS. On 14 November 2019, the Office of the Solicitor General (OSG) received a copy of the Petition for Review on Certiorari dated 04 November 2019 filed by WPI with the SC. OSG still awaiting order from the SC to file its comment.
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	DDI to execute the Deed of Sale over the properties in favor of SSS and surrender the Owner's Duplicate of TCT Nos T-18203, T-18204, T-255986 and T-255985, as well as the Tax declarations over the said properties. SSS to re-compute petitioner's obligations, accordingly, reckoned from June 17, 1982, the date when respondent communicated its acceptance of the offer. SSS Davao was requested to inquire from the Regional Trial Court of Davao City, Branch 14, whether the records of the case have already been remanded by the SC. This is preparatory for OSG/SSS to file Motion for Execution of Judgment.
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	Hearing of the case on-going (RTC- Branch 61, Makati City)