SMALL BUSINESS CORPORATION

dti DEPARTMENT OF TRADE & INDUSTRY PHILIPPINES

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Small Business Guarantee and Finance Corporation** is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2017 and 2016 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 Corporation'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 Corporation or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing the Corporation's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stakeholders.

The Commission on Audit, through its authorized representatives, has audited the financial statements of the Corporation pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 28 of the Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines. The audit was conducted in accordance with International Standards of Supreme Audit Institutions, and the auditor, in its report to the Board of Directors, has expressed its opinion upon completion of such audit.

USEC. ZENAIDA C. MAGLAYA
Acting Chairman of the Board

MA. LUNA E. CACANANDO
President/CEO

CORAZON A. DIMAYUGA
Head, Controllership Group

Signed this 20th day of June, 2018.

17th and 18th Floors, 139 Corporate Center, 139 Valero Street, Salcedo Village, Makati City, 1227 Makati City, Philippines
Telephone: (632)) 751-1888 Fax: (632) 813-5727 / 894-1677 E-mail: sbcorporation@sbgfc.org.ph
Website: www.sbgfc.org.ph

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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
Small Business Guarantee and Finance Corporation
17th and 18th Floors, 139 Corporate Center
139 Valero Street, Salcedo Village
Makati City

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Small Business Guarantee and Finance Corporation (SBGFC), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the SBGFC as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audit 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 SBGFC in accordance with the Code of Ethics for Government Auditors in the Philippines (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 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 opinion.

Responsibilities of Management and Those Charged with Governance for Financial Statements

Management is responsible for the preparation and fair presentation of these 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 misstatements, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing SBGFC'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 SBGFC or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of 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, and 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 the Company'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 SBGFC'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 the SBGFC 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 communicated 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.

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 required under Revenue Regulation 15-2010 in Note 28 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the Management of SBGFC. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

TERESITA B. TITULAR
OIC-Supervising Auditor

June 29, 2018

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
(SMALL BUSINESS CORPORATION)
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016
(In Philippine Peso)

	Note	2017	2016
ASSETS			
Current assets			
Cash and cash equivalents	4	**1,008,833,048**	251,939,161
Short-term held-to-maturity investments	5	**755,290,566**	410,959,414
Due from banks and other financing institutions - net, current portion	6	**943,351,712**	869,075,017
Loans and receivables - net, current portion	7	**913,693,704**	814,532,151
Other assets	13	**27,466,574**	1,923,206
		3,648,635,604	2,348,428,949
Non-current assets			
Financial assets at fair value through profit or loss	16	**34,417,396**	23,042,477
Long-term held-to-maturity investments	5	**1,383,283,786**	1,270,296,829
Due from banks and other financing institutions - net of current portion	6	**635,608,481**	354,745,109
Loans and receivables - net of current portion	7	**552,024,381**	641,912,308
Investment in equity instrument - net	8	**14,472,500**	14,472,500
Investment property - net	9	22,372,692	28,029,516
Non current assets held for sale - net	10	31,808,013	33,386,217
Property and equipment - net	11	71,241,514	74,506,980
Deferred tax assets	12, 22	**113,640,006**	78,154,011
Other assets	13	**19,764,869**	22,181,876
		2,878,633,638	2,540,727,823
TOTAL ASSETS		**6,527,269,242**	4,889,156,772
LIABILITIES AND EQUITY			
Current labilities			
Notes payable - current portion	14	**1,479,893,000**	1,402,207,083
Long-term liabilities - current portion	15	**127,238,960**	119,400,769
Other current liabilities	17	**883,403,092**	91,885,308
		2,490,535,052	1,613,493,160
Non-current liabilities			
Notes payable - net of current portion	14	**90,357,199**	57,056,948
Long-term liabilities - net of current portion	15	**1,036,881,244**	1,050,775,509
Deferred tax liabilities	22.5	**10,325,219**	-
Financial liabilities at fair value through profit or loss	16	**-**	29,005,176
		1,137,563,662	1,136,837,633
TOTAL LIABILITIES		**3,628,098,714**	2,750,330,793
Equity	18		
Share capital		**1,919,902,000**	1,919,902,000
Additional paid-in capital		**79,510,460**	79,510,460
Retained earnings		**899,758,068**	139,413,519
TOTAL EQUITY		**2,899,170,528**	2,138,825,979
TOTAL LIABILITIES AND EQUITY		**6,527,269,242**	4,889,156,772

The Notes on pages 8 to 46 form part of these financial statements.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
(SMALL BUSINESS CORPORATION)
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2017 and 2016
(In Philippine Peso)

	Capital stock		Additional paid-in capital	Retained Earnings			Total
	Common Shares	Preferred Shares		Valuation Reserve (FVTPL)	Appropriated	Unappropriated	
Note	18.1	18.1	18.1	16	18.1	18.1	
BALANCE AT DECEMBER 31, 2015	1,519,902,000	400,000,000	79,510,460	(100,425,449)	280,673,100	(7,502,932)	2,172,157,179
Reappropriation from Guarantee Reserved Funds to unappropriated Retained Earnings					(50,000,000)	50,000,000	-
Correction of Prior period adjustments	-	-	-	-	-	821,054	821,054
Declaration of cash dividend	-	-	-	-	-	(19,570,603)	(19,570,603)
Net change in derivative valuation - 2016	-	-	-	94,462,750	-	(94,462,750)	-
Expired NOLCO	-	-	-	-	-	(9,896,129)	(9,896,129)
Expired MCIT	-	-	-	-	-	(3,477,314)	(3,477,314)
Net income (loss)	-	-	-	-	-	(1,208,208)	(1,208,208)
BALANCE AT DECEMBER 31, 2016	**1,519,902,000**	**400,000,000**	**79,510,460**	**(5,962,699)**	**230,673,100**	**(85,296,882)**	**2,138,825,979**
Reappropriation from Guarantee Reserved Funds to unappropriated Retained Earnings	-	-	-	-	(60,000,000)	60,000,000	-
Correction of Prior period adjustments	-	-	-	-	-	(3,202,298)	(3,202,298)
Declaration of cash dividend	-	-	-	-	-	(12,129,601)	(12,129,601)
Net change in derivative valuation - 2017	-	-	-	40,380,095	-	(40,380,095)	-
Net income (loss)	-	-	-	-	840,608,266	(64,931,818)	775,676,448
BALANCE AT DECEMBER 31, 2017	**1,519,902,000**	**400,000,000**	**79,510,460**	**34,417,396**	**1,011,281,366**	**(145,940,694)**	**2,899,170,528**

The Notes on pages 8 to 46 form part of these financial statements.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
(SMALL BUSINESS CORPORATION)
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016
(In Philippine Peso)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash inflows:			
Interest on loans		**212,511,426**	197,123,377
Interest on investments		**64,088,779**	68,058,014
Guarantee fees	2.16 (c)	**966,069**	973,791
Other income		**20,471,637**	16,190,369
Collections of employees loan		**7,823,768**	8,474,769
Advances/Refund from suppliers and creditors		**17,703,770**	36,439,701
Subsidy form national government		**1,686,920,119**	-
Collection of loans		**1,799,687,236**	1,809,927,921
Payment received lodged under "Undistributed Collections"	17	**1,755,170**	1,115,840
		3,811,927,974	2,138,303,782
Cash outflows:			
Payment of operating expenses	21	**212,991,935**	196,729,304
Income tax paid		**19,425,708**	
Advances to suppliers and creditors		**11,490,205**	35,866,615
Loans granted to employees		**14,408,627**	9,432,157
Loans granted to borrowers	6, 7	**2,274,485,558**	1,752,633,764
		2,532,802,033	1,994,661,840
Net cash provided by (used in) operating activities		1,279,125,941	143,641,942
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash inflows:			
Proceeds from held-to maturity-investment	5	**1,027,452,456**	754,849,432
Proceeds from disposal of investment property (ROPA)	10	**3,148,744**	5,070,839
Proceeds from sale of disposed assets (PE)	11	**134,980**	-
		1,030,736,180	759,920,271
Cash outflows:			
Placement of held-to maturity-investment	5	**1,484,520,698**	891,927,401
Purchase of property and equipment (PE)	11	**4,470,951**	3,780,172
Foreclosed property	9	**1,062,334**	2,500,669
		1,490,053,983	898,208,242
Net cash provided by (used in) investing activities		**(459,317,803)**	(138,287,971)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash inflows:			
Issuance of MSME Notes to banks and other financial institutions	14	**972,183,111**	1,010,868,550
		972,183,111	1,010,868,550
Cash outflows:			
Payment of foreign loans	15	**119,377,433**	124,789,715
Payment of interest on loans and other finance costs	14,15	**52,778,117**	54,455,254
Payment of matured MSME Notes	14	**862,941,921**	740,949,201
		1,035,097,471	920,194,170
Net cash provided by (used in) financing activities		(62,914,360)	90,674,380
Effects of exchange rate changes on cash on bank and in banks		**109**	1,905
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**756,893,887**	96,030,256
Cash and cash equivalents, beginning		**251,939,161**	155,908,905
CASH AND CASH EQUIVALENTS, ENDING		**1,008,833,048**	251,939,161

The Notes on pages 8 to 46 form part of these financial statements.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
(SMALL BUSINESS CORPORATION)
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2017 and 2016
(In Philippine Peso)

	Note	2017	2016
INCOME			
Interest income from loans and receivables	6, 7	**223,767,445**	**215,434,047**
Investment income	4, 5	**61,300,467**	**65,078,279**
Guarantee fees	2.16 (c)	**966,069**	**1,042,873**
Other operating income	20	**31,869,395**	**24,871,524**
		317,903,376	**306,426,723**
FINANCE COST			
Interest expense on notes payable and other long-term borrowings	14, 15	**38,863,074**	**37,995,976**
		38,863,074	**37,995,976**
INCOME BEFORE PROVISION FOR IMPAIRMENT OF LOANS		**279,040,302**	**268,430,747**
Provision for impairment of loans and ROPA	3.3	**43,892,997**	**55,299,808**
		235,147,305	**213,130,939**
OTHER INCOME (LOSS)			
Other income		**5,869,836**	**9,569,910**
Realized foreign exchange gain (loss)		**15,644,870**	**7,900,169**
		21,514,706	**17,470,079**
EXPENSES			
Administrative expenses	21	**220,316,129**	**205,867,660**
Other expenses			
Litigation expenses		**986,249**	**331,473**
Foreclosure and acquired assets expenses		**805,607**	**1,664,275**
		222,107,985	**207,863,408**
INCOME BEFORE UNREALIZED GAINS (LOSSES)		**34,554,026**	**22,737,610**
UNREALIZED GAIN (LOSS)			
Unrealized gain (loss) on foreign exchange translation		**(122,559,398)**	**(54,290,445)**
Unrealized gain (loss) on derivative valuation		**(2,087,222)**	**53,719,091**
		(124,646,620)	**(571,354)**
INCOME (LOSS) BEFORE INCOME TAX		**(90,092,594)**	**22,166,256**
INCOME TAX EXPENSE			
Current		**(12,660,914)**	-
Deferred	22.5	**37,821,690**	**(23,374,464)**
		25,160,776	**(23,374,464)**
NET INCOME (LOSS)		**(64,931,818)**	**(1,208,208)**
Subsidy income from National Government			
Enterprise Rehabilitation Financing (ERF)	19.1	**3,774,432**	**9,351,910**
Credit Risk Guarante Fund (CRGF)	19.2	**13,293,839**	**-**
Pondo sa Pagbabago at Pag-asenso (P3)	19.3	**933,004,036**	**-**
		950,072,307	**9,351,910**
Expenses			
ERF	19.1	**3,774,432**	**2,788,852**
CRGF	19.2	**13,293,839**	**-**
P3	19.3	**10,000,000**	**-**
		27,068,271	**2,788,852**
Provision for impairment			
ERF	19.1	**-**	6,563,058
P3	19.3	**82,395,770**	-
		82,395,770	**6,563,058**
NET SUBSIDY		**840,608,266**	**-**
NET INCOME INCLUSIVE OF SUBSIDY		**775,676,448**	**(1,208,208)**

The Notes on pages 8 to 46 form part of these financial statements.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
(SMALL BUSINESS CORPORATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016
(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL INFORMATION

The Small Business Guarantee and Finance Corporation, commonly known as Small Business Corporation (SB Corporation), is a government corporation created on January 24, 1991 by virtue of Section 11 of Republic Act (RA) No. 6977, amended on May 6, 1997 by RA No. 8289, otherwise known as Magna Carta for Small and Medium Enterprises (SMEs). SB Corporation is under the policy program and administrative supervision of the Micro, Small and Medium Enterprise (MSME) Development Council of the Department of Trade and Industry (DTI), the primary agency responsible for the promotion and development of SMEs in the country.

On May 23, 2008, the President of the Philippines signed into law RA No. 9501, entitled *"An Act to Promote Entrepreneurship by Strengthening Development and Assistance Programs to Micro, Small and Medium Scale Enterprises Amending for the Purpose Republic Act No. 6977, as amended, otherwise known as the 'Magna Carta for Small and Medium Enterprises' and for other purposes".* The law, among others, increased the Corporation's authorized capital stock from P5.000 billion to P10.000 billion. Section 13 thereof, amending Section 11 of RA No. 6977, states that:

> "*Creation of Small Business Guarantee and Finance Corporation* – There is hereby created a body corporate to be known as the Small Business Guarantee and Finance Corporation, hereinafter referred to as the Small Business Corporation (SB Corporation), which shall be charged with the primary responsibility of implementing comprehensive policies and programs to assist MSMEs in all areas, including but not limited to finance and information services, training and marketing."

SB Corporation's focus is to provide access to finance, financial management and capacity building to MSMEs. It has several programs for the MSME market – wholesale lending to smaller financial institutions, cooperatives and foundations; retail or direct lending to MSMEs; and guarantee programs for larger banks to cover MSME loans without collateral or with insufficient collateral. SB Corporation also provides financial management and capacity building for rural banks with its Borrower Risk Rating System program.

The principal office of SB Corporation is at 139 Corporate Center, 139 Valero St., Salcedo Village, Makati City. It has four area offices, one unit office and 26 desk offices within the Philippines and has 137 and 136 regular employees for the CYs 2017 and 2016, respectively.

The financial statements of the SB Corporation as of and for the year ended December 31, 2017 (including the comparative financial statements as of and for the year ended December 31, 2016) were authorized for issue by the Corporation's Board of Directors (BOD) on May 25, 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of financial statements preparation

(a) Statement of compliance with Philippine Financial Reporting Standards

The accompanying financial statements of SB Corporation for the years ended December 31, 2017 and 2016 have been prepared by applying accounting policies in accordance with the Philippine Financial Reporting Standards (PFRS). PFRS are issued by the Financial Reporting Standards Council (FRSC) and approved by the Philippine Board of Accountancy (BOA) based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of financial statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Corporation presents all items of income and expenses in a single statement of comprehensive income (SCI).

(c) Functional and presentation currency

These financial statements are presented in Philippine pesos, the Corporation's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Corporation are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Corporation operates.

2.2. Adoption of new and amended PFRS

Discussed below are the relevant information about these amendment and improvements.

(a) Effective in 2017 that are relevant to the Corporation

The Corporation adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

(i) *Amendments to PAS 7, Cash Flow Statements – Disclosure Initiative.* These amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. At present, the disclosure can be observed on the Statement of Cash Flows since the Corporation only has one financing activity which is the issuance of MSME notes.

(ii) *Amendments to PAS 12, Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses.* The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

(b) Effective in 2017 that are not relevant to the Corporation

The annual improvement to PFRS 12, *Disclosure of Interests in Other Entities* is mandatorily effective for annual periods beginning on or after January 1, 2017 but is not relevant to the Corporation's financial statements:

(i) *Annual Improvements to PFRS (2014 – 2016 Cycle) – PFRS 12, Disclosure of Interest in Other Entities.* The amendments states that an entity need not present a summary of financial information for interests in subsidiaries, associates, or joint ventures that are classified as held for sale. These amendments have no significant impact to the financial statements of the Corporation.

(c) Effective subsequent to 2017 but not adopted early

The following pronouncements were issued before the year ending December 31, 2017 and are mandatorily effective for annual periods beginning on or after January 1, 2018. Unless otherwise indicated, the Corporation does not expect that future adoption of these pronouncements will have a significant impact on its financial statements.

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

(i) *PFRS 9 (2014), Financial Instruments.* This standard will replace PAS 39*, Financial Instruments – Recognition and Measurement*, and PFRS 9 (2009, 2010 and 2013) versions. This new standard contains, among others, the following:

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

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

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

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

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

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

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

Management is currently assessing the impact of PFRS 9 (2014) on the financial statements of the Corporation. A comprehensive study of the potential impact of this standard will be conducted prior to its mandatory adoption date to assess the impact of all changes

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

(iii) *Amendments to PFRS 4, Insurance Contracts, regarding the implementation of PFRS 9, Financial Instruments.* These amendments provide two options for entities that issue insurance contracts. An option for companies that issue insurance contracts to recognize in OCI, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued; this is the so-called overlay approach and an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4; this is the so-called deferral approach.

(iv) *Amendment to PAS 40, Transfer of Investment Property.* These amendments provide that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property.

(v) *IFRIC 22, Foreign Currency Transactions and Advance Consideration.* This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

(vi) *Annual Improvements to PFRS (2014 – 2016 Cycle).* The following improvements are relevant to the Corporation but had no material impact on its financial statements as these merely clarify existing requirements:

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

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

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

(vii) *PFRS 16, Leases.* The new accounting model under PFRS 16 requires a lessee to recognize a 'right-of-use asset' and a lease liability. The right of use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating distinction between operating and finance leases. Lessor accounting however remains unchanged and the distinction between operating and finance lease is retained.

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

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

(x) *IFRIC 23, Uncertainty Over Income Tax Treatments.* This IFRIC clarifies how the recognition and measurement requirements of PAS 12, *Income Taxes,* are applied where there is uncertainty over income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

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

(xi) *PFRS 17, Insurance Contracts.* This standard replaces PFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. PFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

(xii) *Annual improvements to PFRS (2015 – 2017 Cycle).* The following improvements are relevant to the Corporation but had no material impact on its financial statements as these merely clarify existing requirements:

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

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

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

Effectivity Deferred Indefinitely:

(xiii) *Amendments to PFRS 10, Consolidated Financial Statements, and to PAS 28, Investment in Associates and Joint Ventures – Sales or Contribution of Assets between an Investor and its Associates or Joint Venture.* The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. 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 are sold or contributed constitute 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.

On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

2.3. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and in banks, working funds, demand deposits, with short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, having been within three months of maturity when placed or acquired.

2.4. Financial assets

The Corporation classifies its financial assets in the following categories: (a) financial assets at FVTPL; (b) held-to-maturity (HTM) investments; and (c) loans and receivable. Management determines the classification of its investments at initial recognition and where appropriate, re-evaluates such classification at every reporting date. When financial assets are recognized initially, they are measured at fair value, plus directly attributable transaction costs in the case of investments not measured at FVTPL.

(a) HTM investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Corporation's management has the positive intention and ability to hold to maturity. These investments are carried at amortized cost using the effective interest rate method, less impairment in value. Gains and losses are recognized in the income statement when the HTM are derecognized and impaired, as well as through the amortization process.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are initially recognized at fair value. After initial measurement, these are subsequently measured at amortized cost using the effective interest method less provision for impairment. The amortization is included under interest income from loans and receivables in the SCI. The losses arising from impairment/allowance for doubtful accounts are recognized in the SCI.

(c) Financial assets at FVTPL

The currency risk of the Corporation on account of its foreign currency denominated borrowings is covered by the National Government through the Department of Finance (DOF) via a foreign exchange risk cover (FXRC) throughout the life of the loan at a cost of three per cent per annum on the outstanding balance. This is recorded in the books as derivative assets with fixed maturities whose value changes in response to the change in specific interest rate, financial instrument price, foreign exchange rate, index of prices of rates.

For valuation purposes, the Corporation adopts the currency option using the Garman Kohlhagen Model as its pricing valuation model. Changes in fair value are recognized in the SCI.

Acquisition and disposal of financial assets are recognized on the transaction date – the date on which the Corporation commits to acquire or dispose the asset. Loans and receivables are recognized when cash is advanced for direct loans to banks and individual borrowers.

2.5. Financial liability

Financial liabilities include bank loans, trade and other payables, and due to government agencies/institutions.

Financial liabilities are recognized when the Corporation becomes a party to the contractual agreements of the instrument. All interest and related charges are recognized as an expense in the SCI under the caption "Finance Cost" while the FXRC is capitalized under "Financial Assets at Fair Value through Profit or Loss."

Bank loans are raised for support of short and long-term funding of operations. They are recognized at proceeds received, net of direct issue costs. Finance charges, including direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Notes payable are obligations of SB Corporation to various financial institutions arising from its issuance of MSME Notes in the nature of promissory notes deemed as alternative compliance to the mandatory allocation provision under Section 13 of RA No. 6977 as amended by RA Nos. 8289 and 9501.

Trade payables are recognized initially at their nominal value and subsequently measured at amortized cost less settlement payments.

Dividend distributions to the stockholders are recognized as financial liabilities.

2.6. Impairment of assets

Assets are impaired if carrying amount exceeds the amount to be recovered through use or sale of the asset. An assessment is made at each statement of financial position (SFP) date whether there is objective evidence that a specific financial or non-financial asset maybe impaired. If such evidence exists, any impairment loss is recognized in the SCI.

(a) Impairment of financial assets

If there is evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the carrying amount and the present value of estimated cash flows discounted at the original effective interest rate. The carrying amount of the asset shall be reduced either directly or through the use of allowance account. The amount of loss is charged to the SCI.

If in subsequent year, the amount of impairment loss decreases because of the event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of the impairment loss is recognized in the SCI.

(b) Impairment of non-financial assets

Where an indicator of impairment exists, the Corporation makes a formal estimate of recoverable amount. An asset's recoverable amount is the higher of an asset's cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Impairment losses are recognized in the SCI in those expenses categories consistent with the function of the impaired assets.

If in subsequent year there is an indication that previously recognized impairment losses may no longer exist or may have decreased, a previously recognized impairment loss is reversed if there has been a change in estimates used to determine the asset's recoverable amount since the least impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the SCI.

2.7. Derecognition of financial instruments

(a) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Corporation retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-though" arrangement; or
- The Corporation has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Corporation has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Corporation's continuing involvement in the asset.

(b) Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or had expired.

2.8. Investment in equity instruments

The Corporation invests in equity instruments for current income, capital appreciation, development impact, or all three. The Corporation does not take operational, controlling, or strategic positions with its investees. Equity investments are acquired through direct ownership of equity instruments of investees and are recorded at cost as at date when the investor entity becomes a party to the contractual provisions of the instrument.

If there is objective evidence that an impairment loss has been incurred on the equity instrument, the amount of impairment is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

2.9. 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 measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (a) in the principal market for the asset or liability, or (b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that the market participants act in their best economic interest.

Assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

a. Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

b. Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and,

c. Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Corporation determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

As of December 31, 2017 and 2016, the carrying values of the Corporation's financial assets and liabilities as reflected in the SFP and related notes approximate their respective fair value as of reporting date. Specifically, the financial asset at FVPTL is carried at its Level 1 fair value of P34,417,396 and P23,042,477 as at December 31, 2017 and 2016.

2.10. Investment property

Investment property are booked initially at the carrying amount of the loan (outstanding loan balance less allowance for credit losses computed based on PAS 39, *Financial Instruments: Recognition and Measurement* provisioning requirements, which take into account the fair value of the collateral) plus booked accrued interest less allowance for credit losses (computed based on PAS 39 provisioning requirements) plus transaction costs incurred upon acquisition.

Subsequently, the carrying amount of the acquired assets is subject to depreciation and impairment testing (computed based on PAS 36, *Impairment of Assets*) reckoning from the time of acquisition. Transaction costs including taxes such as capital gains tax and documentary stamp tax paid by the Corporation are capitalized as part of cost. Buildings and other non-financial assets are depreciated over the remaining useful life of the assets, which shall not exceed ten years and three years from the date of acquisition, respectively.

Expenditures incurred to protect and maintain these investment properties, such as real estate taxes, insurance, repairs and maintenance costs, are normally charged against current operation in the period in which cost is incurred.

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gains or losses on retirement or disposal of an investment property are recognized in the SCI in the year of retirement or disposal.

2.11. Non-current assets held for sale (NCAHFS)

NCAHFS consists of real and other properties acquired (ROPA) through foreclosure of mortgaged properties, dacion-en-pago arrangements, or Sales Contract Receivables (SCR) rescissions, where the foremost objective is immediate disposal generally under cash or term transactions.

Initial carrying amount is computed as the outstanding balance of the loan less allowance for impairment plus transaction costs, where allowance for impairment is set up if the carrying amount exceeds the fair value of the ROPA.

2.12. Property and equipment

The Corporation's depreciable properties are stated at cost less accumulated depreciation and any impairment in value. Pursuant to COA Circular Nos. 2015-007 and 2016-006 dated October 22, 2015 and December 29, 2016, respectively, a capitalization threshold of P15,000 is applied as the minimum cost of an individual asset to be recognized as property and equipment. Tangible items below the capitalization threshold are accounted for as semi-expendable property.

The initial cost of property and equipment consists of its purchase price, including taxes and any directly attributable costs of bringing the asset to its working condition and intended use. Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance, are charged against operations in the year in which the costs are incurred. When property and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is reflected as income or loss in the SCI.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets (cost less residual value over useful life).Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The estimated useful lives of the Corporation's depreciable assets follow:

Item of property and equipment	Estimated useful life
Condominium unit and leasehold improvements	10 to 30 years
Office furniture and fixtures	10 years
Business machines and equipment	5 years
Transportation equipment	7 years

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized in the SCI.

2.13. Semi-expendable property

Semi-expendable property or those tangible items with cost below the capitalization threshold for property and equipment are initially recorded at cost. These items are recognized as expense in full upon issuance to end users but recorded under the Report on the Physical Count of Inventories for monitoring purposes.

2.14. Intangible assets

Intangible assets are stated in the financial statements at cost less accumulated amortization and any impairment in value. They comprise of software licenses, among others.

The Corporation adopted the straight-line amortization method for the intangible assets over five years. The carrying amount of the intangible assets is subject to review for impairment when events or changes in the circumstances indicate that the carrying amount might exceed their recoverable amount. Impairment losses are then included in the SCI.

2.15. Borrowing costs

Borrowing costs represent interest and other pertinent financial charges and costs incurred in connection with the availments of domestic and foreign borrowings. In compliance with PAS 23*, Borrowing Costs* which prescribes the accounting treatment for borrowing costs, such costs are generally recognized and accrued as an expense in the period in which they are incurred.

2.16. Revenue and cost recognition

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

(a) Interest on loans

Interest income on loans is recorded as income on an accrual basis. Loan origination costs are expensed as incurred. Loan origination fees and other processing fees are recognized as income when received. The Corporation does not recognize income on loans when collectability is in doubt or payments of interest or principal are past due in accordance with the Bangko Sentral ng Pilipinas (BSP) guidelines unless Management anticipates that collection of interest will occur in the near future.

Any interest accrued on a loan placed in non-accrual status is reversed out of income and is thereafter recognized as income only when the actual payment is received. Interest not previously recognized but capitalized as part of a debt restructuring is recorded as deferred income included in the balance sheet in payables and other liabilities, and credited to income only when the related principal is received.

(b) Investment income

Interest on interest-bearing placements and securities are recognized as the interest accrues, taking into account the effective yield on such assets. This includes gains and losses from fair value measurements.

(c) Guarantee fees

The Corporation extends financial guarantee facilities to its clients to provide credit enhancement for their debt securities and trade obligations. Under the terms of the guarantee, the Corporation agrees to assume responsibility for the client's financial obligations in the event of default by the client (i.e.failure to pay when payment is due). Guarantees are regarded as issued when the Corporation commits to the guarantee. This date is also the "inception" of the guarantee contract. Guarantees are regarded as outstanding when the underlying financial obligation of the client is incurred and called when the Corporation's obligation under the guarantee has been invoked.

When the guarantees are called, the amount disbursed is recorded as a guarantee paid account, and specific reserves are established based on the estimated probable loss. These reserves are included in the reserve against losses on loans in the SFP. Guarantee fees are recorded as income as the stand-ready obligation to perform is fulfilled.

Cost and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred.

2.17. Employee benefit plan

The Corporation has a Provident Fund consisting of contributions made both by its officers and employees and the Corporation. Corporate contribution is vested to the employee after completing five years of service in the Corporation. Details of the employee benefits are discussed in Note 25.

2.18. Leases

Finance leases, which transfer to/from the Corporation substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included as interest expense in the SCI.

Capital leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating lease. Operating lease payments are recognized as an expense in the SCI on a straight-line basis over the lease term.

2.19. Provisions and contingencies

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized but are disclosed in the financial statements (Note 23) unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

2.20. Income taxes

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the SCI.

Deferred tax is provided, using the balance sheet method on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the balance sheet method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets which are recognized for all deductible temporary differences and the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred income tax asset can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the SCI. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities are charged or credited directly to equity.

2.21. Foreign currency transactions

The accounting records of the Corporation are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates (BSP rate) which approximate those prevailing on transaction dates. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the SCI.

2.22. Events after balance sheet date

Post year events that provide additional information about the Corporation's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post year events that are non-adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in accordance with PFRSs requires the Corporation to make estimates and assumptions that affect the reported amounts of resources, liabilities, income and expenses and disclosure of contingent resources and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change.

Estimates and judgments 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. While the estimates are based on the most reliable data available, actual results, in the near term, could differ significantly from those estimates depending upon certain events and uncertainties including:

- The extent to which the Corporation can maximize the sale and recoveries from the assets it acquires as foreclosed from borrowers; and
- The probability of recovery through successful lawsuits as appropriate against relevant parties.

3.1. Contingencies

The Corporation is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with counsel handling and monitoring the defense in these matters and is based upon an analysis of potential results.

The Corporation currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by the changes in the estimates.

3.2. HTM investments

The Corporation classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investment. This classification requires significant judgment. In making this judgment, the Corporation evaluates its intention and ability to hold such investments to maturity. If the Corporation fails to keep these investments to maturity other than in certain specific circumstances, it will be required to reclassify the entire portfolio to available-for-sale investments. The investments would therefore be measured at fair value and not at amortized cost.

3.3. Allowance for loan impairment/doubtful accounts

The Corporation reviews its loans and receivables to assess potentially uncollectible receivables annually. In determining the level of allowance, the Corporation makes judgments as to whether there is any observable development and information indicating that there is a measurable decrease in the estimated future cash flows from the loans and receivables. The Corporation observes BSP criteria and guidelines on the classification of receivables in establishing specific loan loss reserves/provisioning.

3.4. Impairment loss on property and equipment and investment property

The Corporation assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Corporation recognizes an impairment loss/provision for probable loss whenever the carrying amount of an asset exceeds the recoverable amount.

3.5. Estimated useful lives of property and equipment and investment property

The Corporation uses the prescribed estimated useful lives of Property and Equipment as prescribed in COA Circular No. 2015-007dated October 22, 2015 and ROPA/Investment Property as prescribed in BSP Circular No. 520 dated March 20, 2006.

4. CASH AND CASH EQUIVALENTS

The account consists of the following:

	2017	2016
Cash in bank	**293,833,208**	62,799,319
Short-term investments	**714,999,840**	189,139,842
	1,008,833,048	251,939,161

Cash in bank consists of funds deposited with government banks for payroll and corporate operating fund which earns interest at rates based on average monthly deposit balances.

Short-term investments refer to investments maturing within three months from transaction date with interest ranging from 0.85 to 2.5 per cent per annum for 2017 and 1.375 to 2.3 per cent per annum for 2016 (*See Note 2.3).*

5. HELD-TO-MATURITY INVESTMENTS

Funds which are not yet earmarked for loan releases, operating and other administrative expenses are temporarily invested in government securities consisting of treasury bills, fixed and retail treasury bonds, and dollar time deposits with the Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP) and the Bureau of the Treasury. These investments which have various maturity dates over three months from transaction date at rates ranging from 3.125 per cent per annum to 8.875 per cent per annum for 2017 consist of the following:

	2017	2016
Investments in treasury bills	**1,968,990,969**	1,527,436,084
Investments in treasury bills – guarantee reserve fund (GRF)	**169,405,003**	153,577,384
Investments in bonds	**178,380**	242,775
	2,138,574,352	1,681,256,243
Short-term	**755,290,566**	410,959,414
Long-term	**1,383,283,786**	1,270,296,829

6. DUE FROM BANKS AND OTHER FINANCING INSTITUTIONS – NET

The Corporation extends loans to banks and other financing institutions at an interest rate ranging from 3.5 per cent to 10.70 per cent per annum for relending under SB Corporation special lending programs for MSMEs.

Details of the loan portfolio are as follows:

	2017	2016
Wholesale financing	**1,199,662,347**	1,459,294,812
Allowance for doubtful accounts	**(235,476,411)**	(235,474,686)
	964,185,936	1,223,820,126
Wholesale financing – P3	**692,785,082**	-
Allowance for doubtful accounts	**(78,010,825)**	-
	614,774,257	-
	1,578,960,193	1,223,820,126
Current	**943,351,712**	869,075,017
Non-current	**635,608,481**	354,745,109

Classification of the above total loan portfolio as current or non-current for 2016 was restated to reflect the reclassification of loans amounting to P131,296,050 from current to non-current.

7. LOANS AND RECEIVABLES – NET

The account consists of the following:

	2017	2016
Loans receivable – retail	**1,367,373,739**	1,198,832,687
Allowance for doubtful accounts	**(256,986,141)**	(217,690,801)
	1,110,387,598	981,141,886
Loans receivable – ERF	**389,158,990**	504,566,561
Allowance for doubtful accounts	**(164,859,750)**	(165,035,380)
	224,299,240	339,531,181
Loans receivable – P3	**9,420,172**	-
Allowance for doubtful accounts	**(4,384,945)**	-
	5,035,227	-
Loans receivable – others	**42,273,906**	53,834,349
Interest receivable – loans	**44,177,674**	49,216,284
Interest receivable on investment	**18,759,287**	15,135,987
	105,210,867	118,186,620
Allowance for doubtful accounts	**(5,272,245)**	(5,272,245)
	99,938,622	112,914,375
Guarantee paid accounts	**80,448,441**	78,477,449
Allowance for doubtful accounts	**(79,909,066)**	(77,783,139)
	539,375	694,310
Accounts receivable – others	**26,367,316**	23,057,971
Allowance for doubtful accounts	**(895,264)**	(895,264)

	2017	2016
	25,472,052	22,162,707
Accounts receivable – others – P3	**45,971**	-
	1,465,718,085	1,456,444,459

The current and non-current portions of the account, net of related allowance for doubtful accounts, are broken down below:

	2017	2016
Current		
Loans receivable – retail	**673,571,704**	580,184,841
Loans receivable – ERF	**131,348,650**	118,487,922
Loans receivable – P3	**5,035,227**	
Loans receivable and interest receivable– others	**99,938,622**	112,914,375
Accounts receivable – others	**3,753,530**	2,945,013
Accounts receivable – others – P3	**45,971**	-
	913,693,704	814,532,151
Non-current		
Loans receivable – retail	**436,815,894**	400,957,045
Loans receivable – ERF	**92,950,590**	221,043,259
Loans receivable – P3	-	-
Guarantee paid accounts	**539,375**	694,310
Accounts receivable – others	**21,718,522**	19,217,694
	552,024,381	641,912,308

Classification of the above loans as current or non-current for 2016 was restated to reflect the reclassification of loans receivable – retail and loans receivable – ERF of P53,439,674 and P138,093,099, respectively from current to non-current.

Loans receivable – retail carry interest rates ranging from 6.00 per cent to 17.10 per cent per annum as at December 31, 2017.

Loans receivable – ERF represents soft loans extended to MSMEs located in calamity hit area such as those devastated by typhoon Yolanda and carry interest rate ranging from 6.0 per cent to 9.0 per cent per annum.

Interest receivable on investments represents accrued interest receivable from investment in government-issued debt instruments.

Guarantee paid accounts represent the amount paid by SB Corporation to banks for the unpaid loans of its SB Corporation guaranteed borrowers who defaulted in their regular loan amortizations to the banks concerned.

Accounts receivable – others consist of the following:

	2017	2016
Agricultural Credit Policy Council (ACPC) re: Administrative fee for the Comprehensive Agricultural Loan Fund (CALF)	**9,400,000**	**10,700,000**
Participating financial institution's share in expenses relative to foreclosure in the management of acquired assets	**1,565,706**	**83,408**
All other accounts receivable	**15,401,611**	**12,274,563**
	26,367,317	**23,057,971**

ACPC re: CALF represents unclaimed administrative fees as at June 1, 2001 from ACPC for the CALF which was transferred to Quedan and Rural Credit Guarantee Corporation (QUEDANCOR) on June 18, 2001. Pursuant to Section 5 of Department of Agriculture (DA) Administrative Order No. 10, series of 2001, the transfer of said CALF carries an obligation of QUEDANCOR, attached as a colatilla, to answer for the liability of such fund in accordance with the Memorandum of Agreement (MOA) between DA – ACPC and the Guarantee Fund for Small and Medium Enterprises (GFSME, now SB Corporation) that is the payment of administrative fees.

Movements in the allowance for doubtful accounts for the year are as follows:

	Balance, January 1, 2017	Additional Provision	Recovery/ Reversal	Balance, December 31, 2017
Loans receivable – retail	217,690,801	39,295,340	-	256,986,141
Loans receivable – ERF	165,035,380	-	(175,630)	164,859,750
Loans receivable – P3	-	4,384,945	-	4,384,945
Loans receivable and interest receivable – others	5,272,245	-	-	5,272,245
Guarantee paid accounts	77,783,139	2,125,927	-	79,909,066
Accounts receivable – others	895,264	-	-	895,264
	466,676,829	**45,806,212**	**(175,630)**	**512,307,411**

8. INVESTMENT IN EQUITY INSTRUMENTS – NET

The account represents the Corporation's Equity Ventures Program, an equity financing program for SMEs which calls for the participation of a private sector venture or an equity capital company which will match the investment of the Corporation in selected SME corporations.

The Corporation, in cooperation with various SME corporations invested P8,760,000 in preferred shares and P9,937,620 in common shares holding 11.25 to 43.75 per cent ownership with minor controlling interest and returns to investments through dividends. The nature of businesses under the investment account were engaged in the manufacture of acoustic and padded fabric wall and ceiling system; Citronella Home Essences and Insect Repellant organic fertilizer manufacturing; fabrication, rental and trading of generator sets, catering and lodging house services and Seaweeds production.

This account is presented herewith net of P4,225,120 impairment provision both as at December 31, 2017 and 2016.

9. INVESTMENT PROPERTY – NET

The account consists of real and other properties acquired in settlement of receivables and guarantee paid accounts from borrowers. All properties acquired are intended for sale except for those properties being held by the corporation for its use. Details are as follows:

	2017	2016
Investment property	**28,676,500**	35,904,510
Allowance for depreciation	**(3,196,448)**	(4,604,584)
Allowance for impairment	**(1,604,172)**	(1,768,388)
Equity of originating financial institutions on acquired assets	**(1,503,189)**	(1,502,022)
	22,372,692	28,029,516

10. NON - CURRENT ASSETS HELD FOR SALE

Details are as follows:

	2017	2016
Non-current assets held for sale	**49,719,465**	51,075,836
Allowance for impairment	**(16,839,335)**	(16,617,502)
Equity of originating financial institutions on acquired assets	**(1,072,117)**	(1,072,117)
	31,808,013	33,386,217

11. PROPERTY AND EQUIPMENT – NET

The account consists of the following:

	Buildings/ Structures	**Furniture and Other Equipment**	**Transport Equipment**	**Total**
Cost				
January 1, 2017	142,768,470	26,687,642	18,026,322	187,482,434
Additions	1,471,807	4,175,888	-	5,647,695
Reclassification	-	(1,121,839)	-	(1,121,839)
Disposals	(239,669)	(92,330)	(2,184,723)	(2,516,722)
December 31, 2017	**144,000,608**	**29,649,361**	**15,841,599**	**189,491,568**

	Buildings/ Structures	Furniture and Other Equipment	Transport Equipment	Total
Accumulated depreciation				
January 1, 2017	85,298,077	18,036,217	9,641,160	112,975,454
Additions	4,146,245	2,383,776	1,358,011	7,888,032
Reclassification	-	(446,866)	-	(446,866)
Disposals	(148,310)	(52,005)	(1,966,251)	(2,166,566)
December 31, 2017	**89,296,012**	**19,921,122**	**9,032,920**	**118,250,054**
Net book value, December 31, 2017	**54,704,596**	**9,728,239**	**6,808,679**	**71,241,514**
Net book value, December 31, 2016	57,470,393	8,651,425	8,385,162	74,506,980

12. DEFERRED TAX ASSET

This account consists of the following:

	2017	2016
Minimum corporate income tax	**726,278**	13,387,192
Provision for impairment losses	**76,145,908**	62,978,009
Unrealized losses on forex	**36,767,820**	-
Financial liability at FVTPL	**-**	1,788,810
	113,640,006	78,154,011

13. OTHER ASSETS

The account consists of the following:

	2017	2016
Motor vehicle lease purchase plan	**15,757,383**	13,381,650
Prepayments	**21,601,902**	5,236,769
Receivables – officers and employees	**1,218,515**	1,209,093
Guarantee deposit	**1,385,753**	941,723
Office supplies	**512,961**	347,981
Due from BMBE	**193,013**	366,132
Due from P3	**3,044,536**	-
Other assets	**3,517,380**	2,621,733
	47,231,443	24,105,081
Current	**27,466,574**	1,923,206
Non-current	**19,764,869**	22,181,875

14. NOTES PAYABLE

Notes payable represents the obligations of SB Corporation to various financial institutions arising from its issuance of MSME Notes in the nature of promissory notes deemed as alternative compliance to the mandatory allocation provision under Section 13 of RA No. 6977 as amended by RA Nos. 8289 and 9501. The promissory notes carry interest rates that range from 1.44 per cent to 2.57 per cent per annum for 2017. Details of the account follow:

	2017	2016
Current portion	**1,479,893,000**	1,402,207,083
Non-current portion	**90,357,199**	57,056,948
	1,570,250,199	1,459,264,031

15. LONG-TERM LIABILITIES

The account consists of the following:

	2017	2016
Foreign currency denominated loans		
Asian Development Bank (ADB)	**478,773,219**	554,662,102
Kreditanstalt fur Weiderafbau (KfW)	**658,031,556**	586,314,924
Peso denominated loans		
International Fund for Agricultural Development (IFAD)	**27,315,429**	29,199,252
	1,164,120,204	1,170,176,278
Current	**127,238,960**	119,400,769
Non-current	**1,036,881,244**	1,050,775,509

The loan from ADB is a US$25 million (JPY2.746 billion) denominated loan for SME Development Support Project guaranteed by the Republic of the Philippines (ROP). The loan is on a 15 year term payable with a grace period of 36 months and carries an interest rate of JPY LIBOR plus 0.60 per cent per annum and a commitment fee of 0.75 per cent per annum on the unutilized portion of the loan. The conversion rate of JPY to Peso as at December 31, 2017 was at P0.4450. The loan was fully availed of in 2009.

The loan from the KfW is an€11.7 million denominated loan for the purpose of financing loan for micro, small and medium sized private enterprises located mainly in Mindanao and Visayas. The loan is guaranteed by the ROP and bears an interest rate of 0.75 per cent per annum plus a commitment fee of 0.25 per cent per annum based on the undisbursed loan amount. The loan shall be amortized on a semi-annual basis for 40 years with a principal grace period of 10 years. The conversion rate of Euro to Peso as at December 31, 2017 was at P60.2593. The loan was fully availed of in 2010.

In consideration of the government guarantee and assumption of the foreign exchange risk for both loans, SB Corporation in addition to the guarantee fee of one per cent, shall pay the National Government a FXRC fee of three per cent or the difference between the weighted average interest rate (WAIR) and total cost of funds (which includes ADB cost, guarantee fee and SB Corporation's operational expense/spread), whichever is higher based on the outstanding principal balance of the loan.

As at December 31, 2017, the outstanding balance of ADB and KfW loans amounted to JPY1.076 billion and €10.920million, respectively.

The loan from the IFAD is a subsidiary loan from the ROP in peso amount equivalent to 10 million Special Drawing Rights to finance the implementation of the Rural Micro-Enterprise Promotion Programme (RuMEPP). The loan is on a 25-year term inclusive of eight years grace period on principal repayment and carries an interest rate of 4.75 per cent per annum payable on a semi-annual basis. As at December 31, 2014, the project was already completed.

16. FINANCIAL LIABILITIES (ASSETS) AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial liabilities (asset) at FVTPL represents the fair value of the FXRC of the Corporation's borrowings from multilateral agencies amounting to P1.139 billion in 2017 and P1.141 billion in 2016 which is treated as derivative financial instrument.

Under a MOA between SB Corporation and the National Government through the DOF, the latter guarantees and assumes the foreign exchange risk relating to SB Corporation's foreign currency denominated borrowings from the ADB and KfW. In consideration thereof, SB Corporation shall pay the National Government a guarantee fee of one per cent per annum and a FXRC fee of three per cent per annum.

The fair value changes on the FXRC are reported in the SCI. As at December 31, 2017, the outstanding notional amount of FXRC amounted to JPY1.076 billion and €10.920million.

17. OTHER CURRENT LIABILITIES

The account consists of the following:

	2017	2016
Accounts payable and accrued expenses	**858,452,608**	73,365,624
Deferred interest income	**17,213,751**	17,403,844
Undistributed collection	**1,755,170**	1,115,840
Accounts payable and accrued expenses – P3	**5,981,563**	-
	883,403,092	91,885,308

Accounts payable and accrued expenses pertains to payables to suppliers and those payable to other agencies such as employee/employer premiums due to the Government Service and Insurance System (GSIS), Philippine Health Insurance Corporation (PhilHealth), Home Development Mutual Fund (HDMF)and taxes due to the Bureau of Internal Revenue (BIR). This account also includes interest payable on

MSME notes as well as in foreign and domestic borrowings and payables/accrued expenses undertheP3 program.

The significant increase in the account pertains to the Credit Risk Guarantee Fund (CRGF) received from the DTI. The CRGF, a component of the Yolanda Comprehensive Rehabilitation and Recovery Fund (YCRRF), is an initiative by both the DTI and SB Corporation to continue to provide a reliable financing support to Yolanda-affected MSMEs that will enhance their capability to build back and forever.

The CRGF is a credit guarantee program that provides assistance to MSMEs affected by typhoon Yolanda in accessing credit from financial institutions (FIs) for the recovery and rehabilitation of their businesses.SB Corporation partners with FIs with capacity to provide financing to disaster-affected MSMEs with a guarantee support to cover credit risk. Fund balance as of December 31, 2017 is P743,579,037 (See Note 19.2).

Undistributed collection represents the accumulated unidentified inter-branch deposits made at SB Corporation bank account which remains unidentified as at audit date. Proper applications of deposits are subsequently taken up in the books when identification and verification processes are duly satisfied.

18. EQUITY

The Corporation has an authorized capital stock of P10 billion divided into 80 million common shares and 20 million preferred shares both with a par value of P100 per share. Details of its existing capital structure are as follows:

18.1. Capital structure

	2017	2016
Capital stock		
Common shares		
National Government	**804,944,300**	804,944,300
LBP	**393,611,500**	393,611,500
DBP	**218,673,100**	218,673,100
Philippine National Bank	**40,000,000**	40,000,000
GSIS	**16,000,000**	16,000,000
Social Security System (SSS)	**46,673,100**	46,673,100
	1,519,902,000	1,519,902,000
Preferred shares		
SSS	**200,000,000**	200,000,000
GSIS	**200,000,000**	200,000,000
	400,000,000	400,000,000
	1,919,902,000	1,919,902,000
Additional paid-in capital	**79,510,460**	79,510,460

	2017	2016
Retained earnings		
Appropriated retained earnings		
Guarantee Reserve Fund (GRF)	**140,000,000**	200,000,000
Pondo sa Pagbabago at Pag-asenso (P3)	**840,608,266**	-
Appropriated for dividend	**30,673,100**	30,673,100
	1,011,281,366	230,673,100
Unappropriated retained earnings (deficit)	**(145,940,694)**	(85,296,882)
FVTPL reserve	**34,417,396**	(5,962,699)
	899,758,068	139,413,519
	2,899,170,528	2,138,825,979

On December 13, 1993, the BOD passed Board Resolution(BR)No. 102 which provided the terms and conditions of the preferred stock, to wit: (a) with a fixed annual dividend of eight per cent; (b) with participating rights as to dividends; (c) with voting rights; (d) convertible into common stocks within ten years from date of issue at the option of the holder; (e) with redemption rights after the lapse of the ten year period from date of issue at the option of the holder. The redemption price shall be based on the adjusted book value of the stock at the time of redemption.

On September 26, 2003, the BOD passed and approved BR No. 1074 which superseded BR No. 102, series of 1993 and ratified during the 10th Annual Stockholders Meeting on January 29, 2005. The approved new features of the preferred stocks are as follows:

a. Preference in the payment of dividends in accordance with the principle of equity with common stockholders in the declaration and distribution of corporate dividends;

b. Preference in the claim against corporate asset in the event of dissolution or bankruptcy;

c. Each share of its outstanding preferred stocks is entitled to a vote during stockholders meeting;

d. Entitled to exercise its preemptive right to increase shareholdings through the equivalent unissued common shares;

e. Entitled to a Board seat in accordance with Section 11 and 3 of RA No. 6977 as amended by RA No. 8289; and

f. The appropriated portion of the retained earnings in the amount of P61,346,200 represents unissued shares corresponding to the cumulative dividends of the preferred shareholders (GSIS and SSS) representing its cumulative dividends from January 2002 to December 31, 2007. In 2013, the amount P30,673,100 in previously appropriated retained earnings was released to GSIS upon presentation of its certificate of acceptance.

18.2. Additional paid-in capital

The account, which first appeared in SB Corporation audited financial statements as at December 31, 2002, represents the ten per cent excess of par for shares issued by the Corporation to the National Government for the GFSME assets turned over to SB Corporation pursuant to Executive Order No. 28 dated July 30, 2001 which mandated the consolidation of GFSME and SBGFC with the latter as the surviving entity.

19. SUBSIDY INCOME FROM NATIONAL GOVERNMENT

19.1. Enterprise Rehabilitation Financing (ERF)

The account which started in 2014 represents the P200 million fund allocated by the National Government to SB Corporation to support the Corporation's ERF, a special credit facility for the rehabilitation of micro and small enterprises located in hardly hit calamity areas like those devastated by typhoon Yolanda. This financial assistance is aimed to leverage the said fund by four times to be funded by the Corporation's internally generated funds. As at December 31, 2017 amount released to ERF borrowers amounted to P635 million. While the subsidy ended in December 2016, the CY 2017 subsidy pertains to the unreleased portion for the interest expense subsidy.

	2017	2016
Receipts		
Beginning balance –support from NG	**-**	2,288,059
2017 Release (OR# 164843-A dated 4/11/17)	**3,774,432**	
2016 Release (OR# 145006-A dated 8/30/16)		7,063,851
	3,774,432	9,351,910
Expenses		
Maintenance and other operating expenses		
Contractual and other administrative services	**-**	1,264,581
Travelling expenses	**-**	315,996
Rental	**-**	142,339
Repairs and maintenance	**-**	124,178
Gasoline	**-**	127,298
Communication expense	**-**	46,200
Power, light and water	**-**	33,311
Supplies and materials	**-**	19,539
Printing and binding	**-**	-
Business development cost	**-**	12,123
Business promotion	**-**	199,511
Advertising and publicity	**-**	-
Miscellaneous expenses	**-**	2,983
	-	2,288,059
Provision for probable losses	**-**	6,563,058
Interest expense subsidy	**3,774,432**	500,793
	3,774,432	9,351,910
Excess of receipts over expenses	**-**	-

19.2. Credit Risk Guarantee Fund

In May 2017, a P750 million fund was transferred to the Corporation from the DTI. The fund pertains to the CRGF release to cover the rehabilitation and recovery programs, projects, and activities in accordance with the Yolanda Comprehensive Rehabilitation and Recovery Plan (YCRRP). Funding source per the Special Allotment Release Order (SARO) came from the National Disaster Risk Reduction and Management Fund (Calamity Fund). The fund was booked as payable to the DTI. However, the fund includes a 5 per cent mobilization fund for operation. The subsidy booked for this purpose is equivalent to the actual mobilization fund utilized for the year.

	Amount
Receipts	**13,293,839**
Maintenance and other operating expenses	
Development cost	**4,420,820**
Contractual and other admin. services	**1,298,358**
Communication expense	**898,997**
Rental expense	**527,911**
Security and janitorial expense	**499,022**
Power, light and water	**489,991**
Business development cost	**452,394**
Repairs and maintenance	**450,301**
Condominium dues	**446,322**
Fuel, oil and lubricants	**370,875**
Travelling expenses	**245,746**
Supplies and materials	**207,511**
Depreciation expenses	**31,643**
Board and committee expense	**12,905**
Insurance expense and premiums	**10,520**
Taxes and licenses	**5,558**
Printing and binding	**375**
Miscellaneous expense	**2,924,590**
	13,293,839
Excess of receipts over expenses	**-**

19.3. Pondo sa Pagbabago at Pag-asenso (P3)

P3 is the Duterte Administrations's flagship program for providing economic and employment opportunities through the encouragement of entrepreneurship. The program aims to provide microenterprises with an alternative source of financing that is easy to access and at a reasonable cost to boost the development of entrepreneurship in the MSME sector.

In April 2017, the pertinent SARO for P1.0 billion was released with the following breakdown: P841.5 million for microfinance on lending, P148.5 million for cost of credit risk and P10.0 million for mobilization and monitoring. Total fund released for the year is P933.0 million, the balance pertains to the unreleased cost of credit risk. Presented below is the breakdown of expenses other the microfinance on lending.

	Amount
Receipts	**933,004,036**
Expenses	
Maintenance and other operating expenses	
Other contractual services	**2,371,975**
Auditing services	**2,204,180**
Travelling expenses	**1,120,424**
Communication	**898,456**
Rental expenses	**547,249**
Security and janitorial expense	**442,632**
Power, light and water	**401,188**
Condominium dues	**337,379**
Business development expense	**330,956**
Repairs and maintenance	**321,635**
Advertising expense	**286,776**
Supplies and materials	**264,250**
Gasoline, oil and lubricant expense	**231,939**
Taxes and licenses	**52,657**
Business promotion	**31,774**
Board and committee expenses	**12,905**
Printing and binding expenses	**8,000**
Training expenses	**7,800**
Miscellaneous expense	**127,825**
	10,000,000
Provision for probable losses	**82,395,770**
	92,395,770
Fund balance, December 31, 2017	**840,608,266**

The fund balance at year-end forms part of the Appropriated Retained Earnings to ensure continuous delivery of activities under the P3 program.

20. OTHER OPERATING INCOME

The account consists of the following:

	2017	2016
Processing fee	**4,448,815**	4,201,209
Miscellaneous	**166,057**	768,696
Evaluation fee	**5,579,258**	4,522,781
Restructuring fee	**109,424**	59,000
Out of town	**1,817,000**	1,729,000
Commitment fee	**145,850**	256,062
Amendment fee	**62,000**	76,500
Extension fee	**-**	4,559
Other fines and penalties	**5,764,967**	4,315,320
Other fines and penalties-P3	**6,184**	-
Processing fee-P3	**395,625**	-
Evaluation fee-P3	**4,044,500**	-

	2017	2016
Interest income on bank deposit	**227,681**	-
Miscellaneous income-P3	**347**	-
Interest on bank deposit	**163,725**	140,094
Dividend income-equity financing	**851,200**	851,200
Interest income –car loan	**7,975**	-
Interest income on calamity loan	**9,307**	15,609
Interest income on acquired asset disposal	**2,833,389**	5,820,287
Rental income on acquired asset	**94,000**	-
Miscellaneous income-management fee	**5,142,091**	2,111,207
	31,869,395	**24,871,524**

21. ADMINISTRATIVE EXPENSES

This account consists of the following:

	2017	2016
Personal services		
Salaries and wages – basic	**91,883,655**	58,275,357
Bonus and other incentives	**24,741,877**	30,891,459
Provident fund employer contribution	**12,518,515**	8,043,899
GSIS employer contribution	**10,483,985**	6,560,868
Other employee benefits	**862,501**	6,353,850
Representation and transportation allowance	**4,883,563**	5,017,099
Employee benefits – PERA/ACA	**3,342,431**	3,301,245
Board fees	**952,000**	680,000
HDMF employer contribution	**167,300**	165,100
PhilHealth employer contribution	**671,949**	547,200
Salaries and wages – overtime pay	**166,155**	128,408
	150,673,931	119,964,485
Maintenance and other operating expenses		
Taxes and licenses	**12,836,458**	12,385,435
Security, janitorial and other contracted services	**11,775,498**	10,884,760
Depreciation	**8,122,621**	6,989,884
Extraordinary/miscellaneous expense	**4,046,433**	4,249,935
Communication services	**2,050,293**	3,636,564
Auditing services	**4,465,379**	3,218,138
Power, light and water	**1,723,819**	2,633,045
Development cost	**4,220,703**	5,784,197
Repairs and maintenance	**2,355,275**	2,628,769
Rental	**2,479,172**	3,336,013
Condominium dues	**1,617,697**	2,213,398
Travelling expenses	**2,077,764**	3,147,536
Supplies, materials and printing	**1,829,681**	3,411,403
Insurance premiums	**1,024,029**	1,542,591
Training and seminars	**1,969,801**	1,767,651
Fuel, oil and lubricants	**442,631**	779,576

	2017	2016
Business development expenses	**1,012,213**	818,194
Management and other professional fees	**1,395,445**	6,642,636
Board and committee expenses	**609,046**	520,408
Advertising and business promotion	**250,294**	798,688
Subscription and periodicals	**58,830**	48,359
Others	**3,279,116**	8,465,995
	69,642,198	85,903,175
	220,316,129	205,867,660

ERF expense for CY 2016 amounting to P2,788,852 was transferred to Note 19.1 under Enterprise Rehabilitation Facility.

22. INCOME TAX

22.1 Regular corporate income tax (RCIT)

Particulars	Amount
Net income(loss) before income tax	(90,092,594)
Permanent differences	
Non-deductible expenses	
Provision for probable losses– P3	82,395,770
Maintenance and other operating expense– P3	10,000,000
Maintenance and other operating expense – CRGF	13,293,839
Interest expense subsidy– ERF	3,774,432
Interest arbitrage limitation	25,447,898
Non-taxable income	
Support from National Government	(109,464,041)
Interest income on investments on government securities	(61,300,467)
Interest income on bank deposits	(391,406)
Accounting income subject to tax	**(126,336,569)**
Temporary differences	
Provision for impairment of loans/acquired properties	43,892,997
Unrealized loss	124,646,620
Taxable income	**42,203,048**
Tax rate	30%
Tax still due	**12,660,914**

22.2 Minimum corporate income tax (MCIT)

Particulars	Amount
Income before provision for impairment loss	279,040,302
Other income	21,514,705
Gross income	**300,555,007**
Reconciling items	
Investment in government securities	(61,300,467)
Interest on bank deposits and government bond	(391,406)
Litigation expense	(986,249)

Particulars	Amount
Foreclosure and acquired asset expense	(805,607)
Interest arbitrage limitations	25,447,898
Taxable gross income	**262,519,176**
MCIT rate	2%
MCIT due	**5,250,384**
Available tax credit carried over	
Excess minimum corporate income taxes paid over normal income tax	(12,660,914)
Tax still due	-

22.3 Income tax benefit computation

Particulars	Amount
Deferred tax asset – allowance for doubtful accounts (ADA)	
2017 provision for probable loss	43,892,997
Tax rate	30%
Income tax benefit– ADA for 2017	**13,167,899**
Deferred tax asset – ADA, January 1, 2017	62,978,009
Deferred tax asset – ADA, December 31, 2017	**76,145,908**
Deferred tax asset – financial liability (FL) at FVTPL	
Financial asset at FVTPL, December 31, 2017	34,417,396
Tax rate	30%
Deferred tax liability – FA at FVTPL, December 31, 2017	**10,325,219**

22.4 MCIT schedule

Minimum corporate income tax					
Year Occurred	**Available until**	**MCIT**	**Excess MCIT over Normal Income Tax**	**Expired/Used portion of excess MCIT**	**Balance MCIT still allowable tax credit**
2016	2019	4,882,376	-	4,156,099	726,278
2015	2018	4,872,463	-	4,872,463	-
2014	2017	3,632,353	-	3,632,353	-
Total		**13,387,192**			**726,278**

22.5 Deferred tax asset and liabilities schedule

The deferred tax assets relate to the following as at year-end:

	Statement of financial position		Profit or loss	
	2017	**2016**	**2017**	**2016**
Deferred tax assets				
MCIT	726,278	13,387,192	-	-
NOLCO	-	-	-	(11,625,580)

	Statement of financial position		Profit or loss	
	2017	**2016**	**2017**	**2016**
Provision for impairment losses	76,145,908	62,978,009	13,167,899	16,589,941
Unrealized losses on forex	36,767,820	-	36,767,820	-
Financial liability at FVTPL	-	1,788,810	(1,788,810)	(28,338,825)
	113,640,006	78,154,011	**48,146,909**	(23,374,464)
Deferred tax liabilities				
Financial asset at FVTPL	10,325,219	-	(10,325,219)	
	10,325,219	-	**(10,325,219)**	**-**
Net deferred tax assets	**103,314,787**	78,154,011		
Net income tax benefit (expense)			**37,821,690**	(23,374,464)

23. CONTINGENT LIABILITY

As at December 31, 2017 and 2016, the Corporation's outstanding guarantees amounted to P599,796,369 and 64,269,426, respectively, broken down as follows:

	2017	2016
Regular guarantee	**61,935,617**	64,269,426
CRGF	**537,860,752**	-
	599,796,369	64,269,426

Contingent liability for CY 2016 was restated to reflect the accurate amount to be disclosed in the financial statements which was previously presented based on the total guaranteed portfolio.

23.1. Regular Guarantee Facility

Under the guarantee agreement executed by and between SB Corporation and its accredited financial institutions (AFIs), the former guarantees to the latter the payment to the extent of 85 per cent of the loan balance outstanding, including unpaid interest for one repayment period, of loans extended to SMEs in case of non-repayment by the AFIs' borrower in consideration for a two per cent guarantee fee of the outstanding guarantee of the loan.

On May 26, 2006, the BOD passed and approved BR No. 1319, series of 2006 for the setting aside of the amount of P250 million as GRF to back up the Corporation's guarantee commitments on a 3 to 1 leverage ratio. The said fund was formally established in December 2007 consisting of treasury bills with various maturity dates and interest rates. The fund will be used solely to back-up calls on SB Corporation guarantee issued to AFIs. Through the years with the low level of contingent liability, the fund was decreased and by year-end of 2017, the fund balance is at P140 million.

23.2. Credit Risk Guarantee Fund

The Corporation was able to lend close to P800.0 million to typhoon Yolanda-affected MSMEs through its Enterprise Rehabilitation Financing (ERF) Program. The loan portfolio was backed up by a P200.0 million credit risk support fund from the National Government. Given the positive turnout of the ERF, SB Corporation was tasked by the National Government to manage a CGRF of P750,001,277 which is a component of the YCRRF (See Note 19.2).At year-end, contingent liability under the CRGF is at P537,860,752.

24. RELATED PARTY TRANSACTIONS

Section 10 of RA No. 9178, otherwise known as the *"Barangay Micro Business Enterprises (BMBE) Act of 2002"*had set up an endowment fund of P300.5 million from the Philippine Amusement and Gaming Corporation (PAGCOR) and to be administered by the Small and Medium Enterprise Development (SMED) Council and now MSMED Council, an inter-agency body attached to the DTI. The MSMED Council designated SB Corporation, as the Fund Manager of the BMBE Development Fund per MOA dated December 28, 2004. Total remittance of P300.5 million to SB Corporation was invested in government securities and earned interest income of P166,741,191 and P152,426,260 as at December 31, 2017 and 2016, respectively. A total of P10,477,465 was disbursed to the different beneficiaries identified by the MSMED Council covering the period 2004 to 2011.

Upon advice of BSP as affirmed by the Commission on Audit that the BMBE account is a trust account that should not be reported in the SB Corporation's books, the Corporation took off from its records said account and set up a separate books of accounts for the BMBE Development Fund effective December 31, 2012.

As at December 31, 2017and 2016, the BMBE Development Fund showed a balance of P456,763,726 and P442,448,795, respectively.

25. EMPLOYEE BENEFITS

25.1. Provident fund

The fund is a defined contribution plan made by both the SB Corporation and its officers and employees. The affairs and business of the fund are directed, managed and administered by its 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 corporate contributions and investment earnings thereon.

The creation of the provident fund was authorized by the BOD per BR No. 396, series of 1997 as amended by the Department of Budget and Management in its letter dated March 13, 2003.

25.2. Retirement benefits

Retirement benefits are available to qualified employees under any one of the following laws:

Covering law	Coverage	Available benefits	Paying institution
RA No. 1616	Employees as at May 31, 1977 with 20 years of service (YoS), the last three years of which are continuous	One month basic salary (BS) for the first 20 YoS, 1.5 BS in excess of 20 up to 30 YoS and 2.0 BS in excess of 30 YoS	SB Corporation
RA No. 8291	At least 15 YoS, if below age 60 upon retirement, benefit is payable at age 60	Monthly pension or cash payment	GSIS

25.3. Terminal leave benefits

This represents the cash value of the accumulated vacation and sick leave credits of employees, 50 per cent of which can be monetized.

26. LEASES

The Corporation leases the premises which serves as SB Corporation extension offices in Cebu, Davao, Baguio and other desk offices in the different regions of the country for a period of one year and have the option to renew such leases annually under certain terms and conditions.

27. FINANCIAL RISK MANAGEMENT

The Corporation is exposed to a variety of financial risks such as market risk (including currency risk, interest rate risk and price risk), credit risk, and liquidity risk. The financial risks are identified, measured and monitored through various control mechanisms to assess adequately the market circumstances to avoid disastrous financial consequences to the Corporation.

The Corporation's risk management policies for each financial risk factors are summarized below:

27.1. Market risk – interest rate risk and currency risk

The Corporation measures and manages its interest rate sensitivity position to ensure its long-run earning power and build-up of its investment portfolio. Special emphasis is placed on the change in net interest income/expense that will result from possible fluctuations in interest rates, changes in portfolio mix and tenor.

The Corporation manages its currency risk against the foreign exchange rate fluctuations on its foreign currency denominated borrowings through a FXRC secured from the DOF at a given cost for the term of the loan.

The Corporation's exposure to market risk for changes in interest rates relates primarily to the Corporation's loans from various financial institutions.

27.2. Credit risk

In view of its mandate to safeguard the interest of the public and contribute in the promotion of stability in the economy, credit risk to the Corporation is the risk that the loans granted to borrowers and/or other financial institutions will not be paid when due.

Therefore, the Corporation exercises prudence in the grant of loans over its exposures to credit risk. This is managed through the implementation of the borrower risk rating and monitoring of the loan covenants in the loan agreements. The Corporation likewise mitigates such risk through the provision of secondary source of payment (collateral).

27.3 Liquidity risk

The Corporation seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Corporation intends to use internally generated funds and available long-term and short-term credit facilities.

As part of its liquidity risk management, the Corporation regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise. Fund raising activities may include bank loans and capital market issues.

28. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below is the supplementary information which is required by the BIR under its existing Revenue Regulations (RRs) to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

28.1. Requirements under RR No. 15-2010

In compliance with the requirements set forth by Revenue Regulations (RR) No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year 2016.The taxes and licenses paid/accrued during the year are as follows:

(a) Withholding taxes

	2017	2016
Taxes on compensation and benefits	**13,176,785**	12,008,164
Value added taxes (VAT)	**3,432,003**	2,741,371
Expanded withholding taxes (EWT)	**1,851,604**	1,754,563
Gross receipt taxes (GRT)	**12,263,491**	12,022,446
	30,723,883	28,526,544

These taxes, except for taxes on compensation and benefits, were remitted in the SB Corporation's capacity as withholding agent pursuant to RR No. 17-2003 as amended by RR No. 14-2008, with SB Corporation having been determined as one of the top 20,000 corporations and as such, was designated as a withholding agent by the BIR.

(b) Other taxes

	2017	2016
Local		
Real estate taxes	**748,852**	896,579
Corporate community tax	**10,500**	10,500
	759,352	907,079
National		
Capital gains taxes	**-**	730,230
Documentary stamp taxes	**19,701,463**	16,832,161
Transfer taxes	**-**	48,159
BIR annual registration	**500**	500
	19,701,963	17,611,050
	20,461,315	18,518,129

28.2. Requirements under RR No. 19-2011

In addition to the required information under RR No. 15-2010 on December 9, 2011, the BIR No. 19-2011 (and as further amended by RR No. 2-2014 dated January 24, 2014) which prescribes the new annual income tax reforms that will be used for filing effective taxable year 2011. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements. For the taxable year December 31, 2017, the Corporation reported the following revenues and expenses for income tax purposes:

	Amount
Revenues	
Operations	277,726,209
Expenses	
Cost of services	15,207,032
Itemized Deductions	
Advertising and promotions	250,294
Communication, light and water	3,774,112
Depreciation	8,122,621

	Amount
Director’s fee	952,000
Fuel and oil	442,631
Insurance	1,024,029
Janitorial and messengerial services	474,685
Management and consultancy services	1,395,444
Miscellaneous	4,046,433
Office supplies	1,888,511
Other supplies	15,457,889
Rental	4,096,869
Repairs and maintenance-materials/supplies	2,355,275
Representation and entertainment	1,621,259
Salaries and allowances	138,398,697
Security services	308,304
SSS, GSIS, Philhealth and other contributions	11,323,234
Taxes and licenses	12,836,458
Trainings and seminars	1,969,801
Transportation and travel	2,077,764
Others	7,499,819
	220,316,129