



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

**SMALL BUSINESS GUARANTEE AND FINANCE
CORPORATION**
(Small Business Corporation)

For the Years Ended December 31, 2018 and 2017



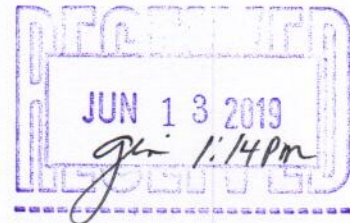
REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

Corporate Government Sector
Cluster 2-Social Security Services and Housing

June 11, 2019

The Board of Directors

Small Business Guarantee and Finance Corporation
17th and 19th Floors, 139 Corporate Center Building
139 Valero St., Salcedo Village
Makati City



Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of Small Business Guarantee and Finance Corporation (SB Corporation) for the years ended December 31, 2018 and 2017.

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

We rendered an unmodified opinion on the fairness of presentation of the financial statements of SB Corporation as at December 31, 2018 and 2017.

The significant audit observations and recommendations that need immediate actions are as follows:

1. Submitted Financial Statements (FS) of SB Corporation for Calendar Year 2018 are not yet converted to the prescribed chart of accounts, contrary to COA Circular Nos. 2015-010 and 2016-006 dated December 1, 2015 and December 29, 2016, respectively.

We recommended and Management agreed to:

- a. Direct the Controllership Group to fast track the request for the enhancement/revision of their existing computerized accounting system to be able to convert to the Revised Chart of Accounts (RCA) all its financial transactions to comply with the requirements of COA Circular No. 2015-010 dated December 1, 2015; and
- b. Submit immediately to COA-SB Corporation and COA-Government Accountancy Sector the complete set of financial statements for CY 2018 using the RCA and additional/modified accounts prescribed under COA Circular No. 2016-006 dated December 29, 2016.

2. Undistributed Collection (UC) amounting to P2.765 million as at December 31, 2018 showed an increase of P1.010 million or 57.55 per cent from that of CY 2017, thus, affecting the outstanding balance of Loans Receivables, Past due Loans, Interest Income and other related accounts in the financial statements, as well as increasing the Past due rate, and consequently, affecting the collection efficiency ratio of the Corporation.

We recommended and Management agreed to:

- a. Effect immediately the payments made by the identified depositors to their corresponding accounts;
 - b. Prioritize the identification of loan accounts recorded under UC. Accordingly, create a team who will conduct the confirmation of payments made on the affected loan accounts and effect immediately the application of payment to the identified borrower's account; and
 - c. Ensure that UC account is properly administered and controlled to make certain that operating policies and procedures are in effect like, establishing the acceptable length of time/number of days an item in the UC may remain unadjusted/unidentified.
3. The staffing pattern and compensation structure that was submitted by SB Corporation to the GCG for their evaluation relative to the Corporation's application for the adoption of the Modified Salary Schedule (MSS) was merely Board-approved and has no approval from the President of the Philippines. Thus, using the said compensation structure in the conversion to the MSS is contrary to the requirements of Sections 7.2, 7.2.2.1 and 10.1 of GCG Memorandum Circular (MC) No. 2017-03 dated August 24, 2017.

We recommended that Management:

- a. Formally inform the GCG that in SB Corporation's application for the adoption of the MSS per EO No. 36, the job levels submitted for conversion to equivalent salary grades were based on the Board-approved Compensation Structure/Staffing Pattern (CSSP) that does not have the approval of the President of the Philippines, and accordingly, wait for further instructions of the GCG; and
 - b. Present a more convincing/valid justifications to the Office of the President, through the Department of Budget and Management (DBM), for the immediate approval of their Board-approved Organizational Structure/Staffing Pattern to legitimize the plantilla positions/salary rates the Corporation is presently using, pursuant to Section 6 of Presidential Decree No. 1597 and Item 9 of Joint Resolution No. 4.
4. The procedural guidelines in the handling of past due accounts in default as provided under Section A of SB Corporation Memorandum dated August 04, 2009 and Credit Committee Resolution No. 05, Series of 2017 were not strictly implemented, resulting in the increase of Regular Lending Program's (RLP) Past Due Loan Accounts Receivable to P802.748 million as at December 31, 2018, or an increase of P153.028 million from CY 2017 of P649.720 million or a past due rate of 28.75 per cent. Thus, the liquidity and credit risks of the Corporation are also increased.

We recommended that Management:

- a. Revisit the procedural guidelines in the handling of past due accounts as embodied under SB Corporation Memorandum dated August 4, 2009 and modify those procedures that will be found no longer feasible/applicable in the present set up; and
 - b. Accordingly, require the concerned officer/employee to strictly implement the said procedural guidelines in the handling of past due accounts.
5. Procurement procedures for consultancy services undertaken by SB Corporation in the selection of cloud service provider/fin tech partner to provide web-based services for the implementation of Pondo sa Pagbabago at Pag-asenso Program, were not strictly in accordance with the pertinent provisions of RA No. 9184, thus, the governing principles on government procurement of transparency, competitiveness and public monitoring of procurement process were not observed/achieved.

We recommended that Management follow strictly the prescribed procurement procedures under RA No. 9184 and its IRR to refrain from incurring irregular expenditures.

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

In a letter of even date, we requested the SB Corporation's President and Chief Executive Officer to take appropriate actions on the recommendations contained in the report and to inform this Commission of the actions taken thereon within 60 days from the date of receipt.

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

Very truly yours,

COMMISSION ON AUDIT

By:

Ma. Lisa P. Inguillo

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

Copy furnished:

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

TABLE OF CONTENTS

	Page
PART I – AUDITED FINANCIAL STATEMENTS	
Independent Auditor’s Report	1
Statement of Management’s Responsibility for the Financial Statements	4
Statements of Financial Position	5
Statements of Comprehensive Income	6
Statements of Changes in Equity	7
Statements of Cash Flows	8
Notes to Financial Statements	9
PART II – OBSERVATIONS AND RECOMMENDATIONS	50
PART III – STATUS OF IMPLEMENTATION OF PRIOR YEARS’ AUDIT RECOMMENDATIONS	75

TABLE OF CONTENTS

	Page
PART I – AUDITED FINANCIAL STATEMENTS	
Independent Auditor’s Report	1
Statement of Management’s Responsibility for the Financial Statements	4
Statements of Financial Position	5
Statements of Comprehensive Income	6
Statements of Changes in Equity	7
Statements of Cash Flows	8
Notes to Financial Statements	9
PART II – OBSERVATIONS AND RECOMMENDATIONS	50
PART III – STATUS OF IMPLEMENTATION OF PRIOR YEARS’ AUDIT RECOMMENDATIONS	75



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 accompanying financial statements of Small Business Guarantee and Finance Corporation (SB Corporation), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the SB Corporation as at December 31, 2018 and 2017, 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 audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of SB Corporation 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 audits 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 misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing SB Corporation'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 SB Corporation'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 SB Corporation'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 SB Corporation to cease to continue as a going concern; and

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

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2018 required under Revenue Regulation Nos. 15-2010 and 19-2011 as disclosed 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 supplementary information is the responsibility of the Management of SB Corporation. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, 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

May 6, 2019

TABLE OF CONTENTS

	Page
PART I – AUDITED FINANCIAL STATEMENTS	
Independent Auditor’s Report	1
Statement of Management’s Responsibility for the Financial Statements	4
Statements of Financial Position	5
Statements of Comprehensive Income	6
Statements of Changes in Equity	7
Statements of Cash Flows	8
Notes to Financial Statements	9
PART II – OBSERVATIONS AND RECOMMENDATIONS	50
PART III – STATUS OF IMPLEMENTATION OF PRIOR YEARS’ AUDIT RECOMMENDATIONS	75

**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, 2018 and 2017 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, Controllershship Group

Signed this 30th day of April 2019

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
(SMALL BUSINESS CORPORATION)
STATEMENTS OF FINANCIAL POSITION
As at December 31, 2018 and 2017
(In Philippine Peso)

	Note	2018	2017
ASSETS			
Current assets			
Cash and cash equivalents	4	787,230,145	1,008,833,048
Short-term held-to-maturity investments	5	210,880,223	755,290,566
Due from banks and other financing institutions - net	6	670,612,277	943,351,712
Loans and receivables - net	7	712,411,894	913,693,704
Other assets	13	23,336,255	27,466,574
		2,404,470,794	3,648,635,604
Non-current assets			
Financial assets at fair value through profit or loss	16	151,549,399	34,417,396
Long-term held-to-maturity investments	5	1,316,398,104	1,383,283,786
Due from banks and other financing institutions - net	6	1,947,489,432	635,608,481
Loans and receivables - net	7	616,976,245	552,024,381
Investment in equity instrument - net	8	35,415,000	14,472,500
Investment property - net	9	23,758,073	22,372,692
Non current assets held for sale - net	10	25,871,087	31,808,013
Property and equipment - net	11	71,686,770	71,241,514
Deferred tax assets	12, 22	132,466,559	113,640,006
Other assets	13	20,347,265	19,764,869
		4,341,957,934	2,878,633,638
TOTAL ASSETS		6,746,428,728	6,527,269,242
LIABILITIES AND EQUITY			
Current liabilities			
Notes payable - current portion	14	800,948,160	1,479,893,000
Long-term liabilities - current portion	15	134,946,847	127,238,960
Other current liabilities	17	902,117,781	883,403,092
		1,838,012,788	2,490,535,052
Non-current liabilities			
Notes payable - net	14	67,893,450	90,357,199
Long-term liabilities - net	15	928,728,860	1,036,881,244
Deferred tax liabilities	22.5	55,790,038	10,325,219
		1,052,412,348	1,137,563,662
TOTAL LIABILITIES		2,890,425,136	3,628,098,714
Equity			
Share capital	18	1,919,902,000	1,919,902,000
Additional paid-in capital		79,510,460	79,510,460
Retained earnings		1,856,591,132	899,758,068
TOTAL EQUITY		3,856,003,592	2,899,170,528
TOTAL LIABILITIES AND EQUITY		6,746,428,728	6,527,269,242

The Notes on pages 9 to 49 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, 2018 and 2017
(In Philippine Peso)

	Note	2018	2017
INCOME			
Interest income from loans and receivables	6, 7	223,527,285	223,767,445
Investment income	4, 5	70,113,275	61,300,467
Guarantee fees	2.16 (c)	1,530,445	966,069
Other operating income	20	27,762,942	31,869,395
		322,933,947	317,903,376
FINANCE COST			
Interest expense on notes payable and other long-term borrowings	14, 15	49,444,263	38,863,074
		49,444,263	38,863,074
INCOME BEFORE PROVISION FOR IMPAIRMENT OF LOANS			
Provision for impairment of loans and ROPA	3.3	273,489,684	279,040,302
		10,126,282	43,892,997
		263,363,402	235,147,305
OTHER INCOME (LOSS)			
Other income		4,321,101	5,869,836
Realized foreign exchange gain (loss)		13,935,938	15,644,870
		18,257,039	21,514,706
EXPENSES			
Administrative expenses	21	248,999,220	220,316,129
Other expenses			
Litigation expenses		276,826	986,249
Foreclosure and acquired assets expenses		415,714	805,607
		249,691,760	222,107,985
INCOME BEFORE UNREALIZED GAINS (LOSSES)			
		31,928,681	34,554,026
UNREALIZED GAIN (LOSS)			
Unrealized gain (loss) on foreign exchange translation		(35,986,983)	(122,559,398)
Unrealized gain (loss) on derivative valuation		84,086,475	(2,087,222)
		48,099,492	(124,646,620)
INCOME (LOSS) BEFORE INCOME TAX			
		80,028,173	(90,092,594)
INCOME TAX EXPENSE			
Current		(4,992,574)	(12,660,914)
Deferred	22.5	(26,638,266)	37,821,690
		(31,630,840)	25,160,776
NET INCOME (LOSS)			
		48,397,333	(64,931,818)
Subsidy income from National Government			
Enterprise Rehabilitation Financing (ERF)	19.1	-	3,774,432
Credit Risk Guarante Fund (CRGF)	19.2	-	13,293,839
Pondo sa Pagbabago at Pag-asenso (P3)	19.3	1,066,995,964	933,004,036
		1,066,995,964	950,072,307
Expenses			
ERF	19.1	-	3,774,432
CRGF	19.2	-	13,293,839
P3	19.3	48,009,287	10,000,000
		48,009,287	27,068,271
Provision for impairment			
P3	19.3	85,856,744	82,395,770
		85,856,744	82,395,770
NET SUBSIDY			
		933,129,933	840,608,266
NET INCOME INCLUSIVE OF SUBSIDY			
		981,527,266	775,676,448

The Notes on pages 9 to 49 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, 2018 and 2017
(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, 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
Reappropriation from guarantee reserved funds to unappropriated retained earnings	-	-	-	-	(105,000,000)	105,000,000	-
Correction of prior period adjustments	-	-	-	-	-	8,817,392	8,817,392
Declaration of cash dividend	-	-	-	-	-	(33,511,594)	(33,511,594)
Net change in derivative valuation - 2018	-	-	-	117,132,003	-	(117,132,003)	-
Net income (loss)	-	-	-	-	933,129,933	48,397,333	981,527,266
BALANCE AT DECEMBER 31, 2018	1,519,902,000	400,000,000	79,510,460	151,549,399	1,839,411,299	(134,369,566)	3,856,003,592

The Notes on pages 9 to 49 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, 2018 and 2017
(In Philippine Peso)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash inflows:			
Interest on loans		190,578,554	212,511,426
Interest on investments		84,941,369	64,088,779
Guarantee fees	2.16 (c)	1,487,968	966,069
Other income		29,864,087	20,471,637
Collections of employees loan		9,070,861	7,823,768
Advances/Refund from suppliers and creditors		50,773,082	17,703,770
Subsidy from national government		1,105,229,629	1,686,920,119
Collection of loans		2,003,298,459	1,799,687,236
Payment received lodged under "Undistributed Collections"	17	2,349,842	1,755,170
		3,477,593,851	3,811,927,974
Cash outflows:			
Payment of operating expenses	21	292,529,155	212,991,935
Income tax paid		-	19,425,708
Advances to suppliers and creditors		39,200,711	11,490,205
Loans granted to employees		9,305,681	14,408,627
Loans granted to borrowers	6, 7	3,145,433,566	2,274,485,558
		3,486,469,113	2,532,802,033
Net cash provided by (used in) operating activities		(8,875,262)	1,279,125,941
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash inflows:			
Proceeds from held-to maturity-investment	5	1,056,547,023	1,027,452,456
Proceeds from disposal of investment property (ROPA)	10	1,981,123	3,148,744
Proceeds from sale of disposed assets (PE)	11	32,672	134,980
		1,058,560,818	1,030,736,180
Cash outflows:			
Placement of held-to maturity-investment	5	345,011,076	1,484,520,698
Purchase of property and equipment (PE)	11	4,327,816	4,470,951
Foreclosed property	9	905,241	1,062,334
		350,244,133	1,490,053,983
Net cash provided by (used in) investing activities		708,316,685	(459,317,803)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash inflows:			
Issuance of MSME Notes to banks and other financial institutions	14	797,273,843	972,183,111
		797,273,843	972,183,111
Cash outflows:			
Payment of foreign loans	15	137,827,379	119,377,433
Payment of interest on loans and other finance costs	14,15	79,907,596	52,778,117
Payment of matured MSME Notes	14	1,500,574,942	862,941,921
		1,718,309,917	1,035,097,471
Net cash provided by (used in) financing activities		(921,036,074)	(62,914,360)
Effects of exchange rate changes on cash on bank and in banks		(8,252)	109
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(221,602,903)	756,893,887
Cash and cash equivalents, beginning		1,008,833,048	251,939,161
CASH AND CASH EQUIVALENTS, ENDING		787,230,145	1,008,833,048

The Notes on pages 9 to 49 form part of these financial statements.

**SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
(SMALL BUSINESS CORPORATION)
NOTES TO FINANCIAL STATEMENTS**

December 31, 2018 and 2017

(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 Development (MSMED) 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 billion to P10 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.

On July 23, 2018, EO No. 58 was issued mandating the creation of a single entity handling the government guarantee system. Under the EO, within one year from the effectivity thereof, the guarantee-related functions, programs, funds, assets and liabilities of the SB Corporation, among others, shall be transferred to the Trade and Investment Development Corporation of the Philippines.

The principal office of SB Corporation is at 139 Corporate Center, 139 Valero St., Salcedo Village, Makati City. It has five area offices and 16 desk offices and 55 Pondo sa

Pagbabago at Pag-Asenso (P3) provincial offices within the Philippines and has 155 and 137 regular employees for CYs 2018 and 2017, respectively.

The financial statements of the SB Corporation as at and for the year ended December 31, 2018 (including the comparative financial statements as at and for the year ended December 31, 2017) were approved and authorized for issue by the Corporation's Board of Directors (BOD) under Board Resolution No. 2019-04-2747 dated April 30, 2019.

2. SUMMARY OF 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, 2018 and 2017 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).

SB Corporation has opted to defer the adoption of PFRS 9 as it planned to hire a consultant from a recognized accounting and auditing firm to provide guidance for its Controllership Group in the formulation of policies/guidelines for the assessment, classification, measurement, and recognition of financial instruments, to include impairment losses.

Further, the Commission on Audit has resolved, under COA Resolution No. 2019-006 dated March 27, 2019, that all Government Corporations (GCs) classified as Government Business Enterprises (GBEs) that have not taken into consideration the early application of the provisions of PFRS 9 shall mandatorily apply the provisions of PFRS 9 effective January 1, 2019.

(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.

(d) *Going Concern Basis of Accounting*

The financial statements were prepared on a going concern basis which assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

2.2. Adoption of new and amended PFRSs

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

(a) *Effective in 2018 that are relevant to the Corporation*

The Corporation adopted the following amendments to PFRS, which are effective for annual periods beginning on or after January 1, 2018:

- (i) **PFRS 9 (2014), *Financial Instruments***. This standard replaces PAS 39, *Financial Instruments – Recognition and Measurement*, and PFRS 9 (2009, 2010 and 2013) versions. This standard contains, among others, the following:
- Three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
 - An expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and
 - A new model 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 Solely Payments of Principal and Interest (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.

- (ii) **PFRS 15, Revenue from Contract Customers.** The amendment addresses 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) **Amendment to PAS 40, Transfer of Investment Property.** This amendment provides 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.

(b) *Effective in 2018 that are not relevant to the Corporation*

- (i) ***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.
- (ii) ***Amendments to PFRS 2, Share-based Payment – Classification and Measurement of Share-based Payment Transactions.*** These amendments clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment transactions, the accounting for shared based payment transactions with a net settlement feature for withholding tax obligations, and the effect of a modification to the terms and conditions of a shared-based payment that changes the classification of the transaction from cash-settled to equity settled.
- (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) ***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.

c. *Effective subsequently to 2018 but not adopted early*

The following are the new standards that were issued but are not yet effective as at December 31, 2018. SB Corporation intends to adopt the applicable issuances when these become effective.

- (i) ***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.
- (ii) ***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.
- (iii) ***Amendments to PAS 19, Employee Benefits – Plan Amendment, Curtailment or Settlement.*** The amendments specify how companies remeasure a defined benefit plan when a change – an amendment, requires entities to use the updated assumptions from this remeasurement to determine current service cost and net interest cost for the remainder of the reporting period after the change to the plan.
- (iv) ***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.
- (v) ***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.
- (vi) ***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.

Effective for reporting periods beginning on or after January 1, 2020:

- (i) **Amendments to PFRS 3, Business Combinations – Definition of a Business.** The amendments clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.
- (ii) **Amendment to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material.** The amendments refine the definition of material in PAS 1 and align the definition of material in PAS 1 and align the definition used across PFRSs

and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgment.

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

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.

Effectivity Deferred Indefinitely:

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 sale or 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 of the asset. Loans and receivables are recognized when cash is advanced for direct loans to banks and individual borrowers.

As recommended by the BSP, the valuation model being adopted for the derivative asset is subject to periodic review as to its applicability. The Garman Kohlhagen pricing valuation model was adopted in 2015 and is currently being reviewed by a third party validator. Significant changes in the valuation of the derivative asset shall be effected in the 2019 financial statements.

2.5. Financial liabilities

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 Micro, Small and Medium Enterprise (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 may be 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 expense 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 last 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-through" 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.

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. 2017-004 and 2016-006 dated December 13, 2017 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 asset

Intangible assets are stated in the financial statements at cost less accumulated amortization and any impairment in value.

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: (a) the Corporation has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) 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.

SB Corporation is a party to various legal cases. Based on the status of these cases as at December 31, 2018, decisions of some cases are in favor with SB Corporation, however, Management is still in the process of filing of Motion for Writ of Execution in Court and request for skip tracing and property search. Management believes that these have no material impact of the Financial Statements.

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 Reporting Period

Subsequent 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. Subsequent 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 are observable development and information indicating 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. 2017-004 dated December 13, 2017 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:

	2018	2017
Cash in bank	429,987,230	293,833,208
Short-term investments	357,242,915	714,999,840
	787,230,145	1,008,833,048

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 90 days from transaction date with interest ranging from 4.21 to 5.13 per cent per annum for 2018 and 0.85 to 2.5 per cent per annum for 2017 (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 7.875 per cent per annum for 2018 consist of the following:

	2018	2017
Investments in treasury bills	1,492,131,538	1,968,990,969
Investments in treasury bills – guarantee reserve fund (GRF)	35,000,000	169,405,003
Investments in bonds	146,789	178,380
	1,527,278,327	2,138,574,352
Short-term	210,880,223	755,290,566
Long-term	1,316,398,104	1,383,283,786

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 2.0 per cent to 11.50 per cent per annum for relending under SB Corporation special lending programs for MSMEs.

Details of the loan portfolio are as follows:

	2018	2017
Wholesale financing	1,231,392,645	1,199,662,347
Allowance for doubtful accounts	(235,476,411)	(235,476,411)

	2018	2017
	995,916,234	964,185,936
Wholesale financing – P3	1,765,237,827	692,785,082
Allowance for doubtful accounts	(143,052,352)	(78,010,825)
	1,622,185,475	614,774,257
	2,618,101,709	1,578,960,193
Current	670,612,277	943,351,712
Non-current	1,947,489,432	635,608,481

7. LOANS AND RECEIVABLES – NET

This account consists of the following:

	2018	2017
Loans receivable – retail	1,321,528,699	1,367,373,739
Allowance for doubtful accounts	(265,592,632)	(256,986,141)
	1,055,936,067	1,110,387,598
Loans receivable – ERF	266,149,527	389,158,990
Allowance for doubtful accounts	(163,056,209)	(164,859,750)
	103,093,318	224,299,240
Loans receivable – P3	75,228,680	9,420,172
Allowance for doubtful accounts	(25,200,162)	(4,384,945)
	50,028,518	5,035,227
Loans receivable – others	35,746,171	42,273,906
Interest receivable – loans	47,007,866	44,177,674
Interest receivable on investment	13,167,868	18,759,287
Interest receivable on investment – P3	798,485	-
	96,720,390	105,210,867
Allowance for doubtful accounts	(5,272,245)	(5,272,245)
	91,448,145	99,938,622
Guarantee paid accounts	79,273,189	80,448,441
Allowance for doubtful accounts	(79,189,238)	(79,909,066)
	83,951	539,375
Accounts receivable – others	27,010,060	26,367,316
Allowance for doubtful accounts	(895,264)	(895,264)
	26,114,796	25,472,052
Accounts receivable – others – P3	2,683,344	45,971
	1,329,388,139	1,465,718,085

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

	2018	2017
Current		
Loans receivable – retail	523,389,814	673,571,704
Loans receivable – ERF	70,240,417	131,348,650
Loans receivable – P3	50,028,518	5,035,227
Loans receivable and interest receivable–other	60,974,219	99,938,622

	2018	2017
Accounts receivable – others	5,095,582	3,753,530
Accounts receivable – others – P3	2,683,344	45,971
	712,411,894	913,693,704
Non-current		
Loans receivable – retail	532,546,253	436,815,894
Loans receivable – ERF	32,852,901	92,950,590
Loans receivable and interest receivable- others	30,473,926	-
Guarantee paid accounts	83,951	539,375
Accounts receivable – others	21,019,214	21,718,522
	616,976,245	552,024,381

Loans receivable – retail carry interest rates ranging from 7.50 per cent to 16.90 per cent per annum as at December 31, 2018.

Loans receivable – Enterprise Rehabilitation Financing (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:

	2018	2017
Agricultural Credit Policy Council (ACPC) re: Administrative fee for the Comprehensive Agricultural Loan Fund (CALF)	9,400,000	9,400,000
Participating financial institution's share in expenses relative to foreclosure in the management of acquired assets	2,002,006	1,565,706
All other accounts receivable	15,608,054	15,401,611
	27,010,060	26,367,317

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 for 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, 2018	Additional Provision	Recovery/ Reversal	Balance, December 31, 2018
Loans receivable – retail	256,986,141	9,711,104	(1,104,613)	265,592,632
Loans receivable – ERF	164,859,750	-	(1,803,541)	163,056,209
Loans receivable – P3	4,384,945	20,815,217	-	25,200,162
Loans receivable and interest receivable – others	5,272,245	-	-	5,272,245
Guarantee paid accounts	79,909,066	-	(719,828)	79,189,238
Accounts receivable – others	895,264	-	-	895,264
	512,307,411	30,526,321	(3,627,982)	539,205,750

While the Corporation reviews its loans and receivables to assess potentially uncollectible receivables annually, a monthly accrual of allowance for doubtful accounts (ADA) is recognized in the financial statements to cushion the one-time lump sum effect of the yearly provisioning requirement. The said monthly accruals of ADA has been budgeted and reflected in DBM Form No. 3 under the Non-Cash items of the 2018 approved COB of the Corporation.

Also, the periodic provisioning complies with the general provisioning requirement of the BSP. Upon review of the annual provisioning requirement, the booked provisioning is adjusted to the required provisioning for the year whereby either additional allowance are recognized or reversed in the event a decrease in provisioning requirement is encountered.

For the current year, a significant increase in the required provisioning was encountered as a result of the policy change in complying with the provisions of the BSP Circular 941 re: loan classification. This resulted to a significant cost implication in the financial statements of the Corporation. Further, there is still a need to review the loan classification system taking into consideration the adjustments made on the glitches encountered in the application of payments which include, among others, the non-capture of collateral cover.

Thus, under Board Resolution No. 2019-03-2707 dated March 13, 2019, as favorably endorsed by the Risk Oversight Committee, it was decided that to allow the Corporation reasonable time to adapt to the policy change brought about by the BSP Circular and to absorb its cost implication, 94% of the provisioning requirement will be booked as of current year equivalent to P753.707 million, with the remaining six per cent to be recognized in CY 2019.

The P753.707 million ADA booked for CY 2018 is composed of the following:

- a. Allowance for Doubtful accounts of Wholesale Regular amounting to P235.476 million (see Note 6);
- b. Total retail allowance for doubtful accounts in Note 7 amounting to P539.206 million less allowance attributable to Loans Receivable P3 amounting to P25.200 million or a net of P514.006 million; and

- c. The allowance reported in Note 8 Investment in Equity Ventures amounting to P4.225 million.

Corresponding action plan in managing the additional cost to be assumed in CY 2019 has likewise been made.

8. INVESTMENT IN EQUITY INSTRUMENTS – NET

This 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 million in preferred shares and P9.938 million 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.

Total amount of this account is P35.415 million and P14.472 million, net of P4.225 million impairment provision both as at December 31, 2018 and 2017.

With the implementation of the Pondo sa Pagbabago at Pag-Asenso (P3) another equity/Investment facility for micro entrepreneurs was provided. Named as the "Equity Investment for KIA-WIA Families", the investment facility aims to help the soldiers/police officers who were wounded and families of those who were killed while performing their duties. Specifically, it will provide an investment with liberal terms and conditions for the establishment of a start-up business or expansion of an existing business.

SB Corp has allotted P50 million from P3 funds to provide microenterprise investments for families of KIA/WIAs with investments ranging from P50,000 to P100,000. The investment is interest-free if paid within two years. Otherwise, amortization will start on the third year with an interest of two per cent per annum. As at December 31, 2018, the equity investment from this facility amounted to P20.942 million.

9. INVESTMENT PROPERTY – NET

This 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 of the Investment Property-Net account are as follows:

	2018	2017
Investment property	29,692,115	28,676,500
Allowance for depreciation	(3,181,040)	(3,196,448)
Allowance for impairment	(1,451,978)	(1,604,172)
Equity of originating financial institutions on acquired assets	(1,301,024)	(1,503,188)
	23,758,073	22,372,692

10. NON - CURRENT ASSETS HELD FOR SALE

This account consists of the following:

	2018	2017
Non-current assets held for sale	42,637,499	49,719,465
Allowance for impairment	(15,714,185)	(16,839,335)
Equity of originating financial institutions on acquired assets	(1,052,227)	(1,072,117)
	25,871,087	31,808,013

11. PROPERTY AND EQUIPMENT – NET

This account consists of the following:

	Buildings/ Structures	Furniture and Other Equipment	Transport Equipment	Total
Cost				
January 1, 2018	144,000,608	29,649,361	15,841,599	189,491,568
Additions	1,953,423	2,763,338	-	4,716,761
Reclassification	5,869,895	(52,065)	-	5,817,830
Disposals	-	(386,188)	(732,858)	(1,119,046)
December 31, 2018	151,823,926	31,974,446	15,108,741	198,907,113
Accumulated depreciation				
January 1, 2018	89,296,012	19,921,122	9,032,920	118,250,054
Additions	4,256,700	2,351,710	1,273,462	7,881,872
Reclassification	2,083,845	(7,240)	-	2,076,605
Disposals	-	(328,616)	(659,572)	(988,188)
December 31, 2018	95,636,557	21,936,976	9,646,810	127,220,343
Net book value, December 31, 2018	56,187,369	10,037,470	5,461,931	71,686,770
Net book value, December 31, 2017	54,704,596	9,728,239	6,808,679	71,241,514

12. DEFERRED TAX ASSET

This account consists of the following:

	2018	2017
Minimum corporate income tax	5,718,852	726,278
Provision for impairment losses	79,183,793	76,145,908
Unrealized losses on forex	47,563,914	36,767,820
	132,466,559	113,640,006

13. OTHER ASSETS

This account consists of the following:

	2018	2017
Motor vehicle lease purchase plan	14,490,377	15,757,383
Prepayments	16,076,784	21,601,902
Receivables – officers and employees	2,584,439	1,218,515
Receivables – officers and employees – P3	43,450	-
Guarantee deposit	1,898,679	1,385,753
Office supplies	60,998	512,961
Due from BMBE	190,096	193,013
Due from P3	4,354,375	3,044,536
Other assets	3,984,322	3,517,380
	43,683,520	47,231,443
Current	23,336,255	27,466,574
Non-current	20,347,265	19,764,869

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 1.50 per cent to 3.10 per cent per annum for 2018.

Details of the account follow:

	2018	2017
Current portion	800,948,160	1,479,893,000
Non-current portion	67,893,450	90,357,199
	868,841,610	1,570,250,199

15. LONG-TERM LIABILITIES

This account consists of the following:

	2018	2017
Foreign currency denominated loans		
Asian Development Bank (ADB)	405,717,530	478,773,219
Kreditanstalt für Weiderrafbau (KfW)	632,526,570	658,031,556
Peso denominated loans		
International Fund for Agricultural Development (IFAD)	25,431,607	27,315,429
	1,063,675,707	1,164,120,204
Current	134,946,847	127,238,960
Non-current	928,728,860	1,036,881,244

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, 2018 was at P0.4790. 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, 2018 was at P60.0690. 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 an foreign exchange risk cover (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, 2018, the outstanding balance of ADB and KfW loans amounted to JPY847.009 million and €10.530 million, respectively.

The loan from the International Fund for Agricultural Development (IFAD) is a subsidiary loan from the ROP in peso amount equivalent to 10 million Special Drawing Rights (SDR) 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 ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial asset at FVTPL represents the fair value of the FXRC of the Corporation's borrowings from multilateral agencies amounting to P1.038 billion in 2018 and P1.137 billion in 2017 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 an FXRC fee of three per cent per annum.

The fair value changes on the FXRC are reported in the SCI. As at December 31, 2018, the outstanding notional amount of FXRC amounted to JPY847.009 million and €10.530 million.

As at December 31, 2018 and 2017, 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 FVTPL is carried at its Level 1 fair value of P151.549 million and P34.417 million as at December 31, 2018 and 2017.

17. OTHER CURRENT LIABILITIES

This account consists of the following:

	2018	2017
Accounts payable and accrued expenses	827,816,366	858,452,608
Deferred interest income	21,171,414	17,213,751
Undistributed collection	1,826,156	1,755,170
Undistributed collection – P3	523,686	-
Accounts payable and accrued expenses – P3	50,780,159	5,981,563
	902,117,781	883,403,092

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 under the P3 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 recover.

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 at December 31, 2018 is P753,315 million (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

	2018	2017
Capital stock		
<i>Common shares</i>		
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
<i>Preferred shares</i>		
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
Retained earnings		
<i>Appropriated retained earnings</i>		
Guarantee Reserve Fund (GRF)	35,000,000	140,000,000
Pondo sa Pagbabago at Pag-Asenso (P3)	1,773,738,199	840,608,266
Appropriated for dividend	30,673,100	30,673,100
	1,839,411,299	1,011,281,366
<i>Unappropriated retained earnings (deficit)</i>	(134,369,566)	(145,940,694)
FVTPL reserve	151,549,399	34,417,396
	1,856,591,132	899,758,068
	3,856,003,592	2,899,170,528

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; and (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 million 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 million in previously appropriated retained earnings was released to GSIS upon presentation of its certificate of acceptance.

18.2. Additional paid-in capital

This 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 Small Business Guarantee Finance Corporation with the latter as the surviving entity.

19. SUBSIDY INCOME FROM NATIONAL GOVERNMENT

19.1. Enterprise Rehabilitation Financing (ERF)

This 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.

	2018	2017
Receipts		
2017 Release (OR# 164843-A dated 4/11/17)	-	3,774,432
	-	3,774,432
Expenses		
Interest expense subsidy	-	3,774,432
	-	3,774,432
Excess of receipts over expenses	-	-

19.2. Credit Risk Guarantee Fund (CRGF)

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 five per cent mobilization fund for operation. For CY 2018, CRGF enrolled accounts are still being monitored by the Corporation (see Note 23.2 for the related Contingent Liability).

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.

CY 2018 is P3s second year of operation. P3 funding is included as a Tier 1 funding of P1.0 billion in the 2018 General Appropriations Act. The fund is inclusive of a five per cent mobilization fund. Further, the unreleased cost of credit risk subsidy in 2017 was likewise released.

In April 2017, the pertinent SARO for the initial 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 million for mobilization and monitoring. Total fund released for 2017 is P933.004 million, the balance pertains to the unreleased cost

of credit risk which was subsequently released in 2018. Presented below is the two-year year-end fund balance with breakdown of expenses incurred for the program implementation:

	2018	2017
Receipts	1,066,995,964	933,004,036
Expenses		
<i>Maintenance and other operating expenses</i>		
Security, janitorial and other contracted services	11,893,373	2,814,607
Travelling expenses- local-P3	5,467,963	1,920,424
Supplies and materials	4,237,267	964,250
Business development expense-P3	4,145,926	330,956
Advertising expenses-P3	3,560,629	366,776
Repairs and maintenance	3,254,580	321,635
Taxes & licenses-DST-P3	3,020,542	52,658
Rental expense	2,434,726	547,249
Communication	2,198,266	898,456
Training expenses	1,570,815	7,800
Power, light and water	1,551,296	401,188
Consultancy	1,349,500	-
Condominium dues	1,203,644	337,379
Gasoline, oil & lubricants expenses	676,793	231,939
Development cost	614,525	-
Printing and binding expense	229,594	8,000
Business promotion-P3	208,245	255,953
Board & committee expenses	-	12,905
Miscellaneous expense	391,603	527,825
	48,009,287	10,000,000
Provision for probable losses	85,856,744	82,395,770
	133,866,031	92,395,770
Fund balance	933,129,933	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

This account consists of the following:

	2018	2017
Processing fee-P3	7,828,804	395,625
Other fines and penalties	6,422,982	5,764,967
Evaluation fee	4,923,354	5,579,258
Processing fee	3,830,988	4,448,815
Interest income on acquired asset disposal	1,995,420	2,833,389
Out of town	1,277,762	1,817,000
Evaluation fee-P3	810,000	4,044,500
Other fines and penalties-P3	300,032	6,184
Interest on bank deposit-P3	224,524	227,681
Interest income on bank deposit	173,665	163,725
Rental income on acquired asset	134,900	94,000
Restructuring fee	104,000	109,424
Amendment fee	53,000	62,000
Interest income-car loan	18,324	7,975
Interest income on calamity loan	5,766	9,307
Commitment fee	-	145,850
Dividend income-equity financing	-	851,200
Gain/Loss on Pre-Term	(5,950,209)	-
Miscellaneous income-management fee	5,523,626	5,142,091
Miscellaneous	83,643	166,057
Miscellaneous income-P3	2,361	347
	27,762,942	31,869,395

21. ADMINISTRATIVE EXPENSES

This account consists of the following:

	2018	2017
Personnel services		
Salaries and wages – basic	109,263,882	91,883,655
Bonus and other incentives	27,233,332	24,741,877
Provident fund employer contribution	14,878,850	12,518,515
GSIS employer contribution	13,096,200	10,483,985
Representation and transportation allowance	6,417,860	4,883,563
Employee benefits – PERA/ACA	3,783,728	3,342,431
Other employee benefits	3,374,871	862,501
Board fees	1,062,000	952,000
PhilHealth employer contribution	941,977	671,949
Salaries and wages – overtime pay	286,570	166,155
HDMF employer contribution	190,300	167,300
	180,529,570	150,673,931

	2018	2017
Maintenance and other operating expenses		
Taxes and licenses	12,075,154	12,836,458
Security, janitorial and other contracted services	9,870,883	11,775,498
Depreciation	8,350,562	8,122,621
Auditing services	5,009,948	4,465,379
Extraordinary/miscellaneous expense	4,834,360	4,046,433
Development cost	4,421,391	4,220,703
Rental	2,180,619	2,479,172
Management and other professional fees	2,106,121	1,395,445
Repairs and maintenance	2,033,407	2,355,275
Communication services	1,942,174	2,050,293
Supplies, materials and printing	1,854,637	1,829,681
Travelling expenses	1,851,170	2,077,764
Training and seminars	1,556,880	1,969,801
Power, light and water	1,529,410	1,723,819
Condominium dues	1,319,020	1,617,697
Insurance premiums	963,417	1,024,029
Fuel, oil and lubricants	759,667	442,631
Advertising and business promotion	678,701	250,294
Board and committee expenses	483,909	609,046
Business development expenses	403,372	1,012,213
Subscription and periodicals	48,509	58,830
Others	4,196,339	3,279,116
	68,469,650	69,642,198
	248,999,220	220,316,129

The significant increase in the amount of personnel services expense pertain to the adoption of the 3rd tranche of the Modified Salary System wherein approval was granted by the Governance Commission for GOCCs in June 2018.

22. INCOME TAX

22.1 Regular corporate income tax (RCIT)

Particulars	Amount
Net income(loss) before income tax	80,028,173
<i>Permanent differences</i>	
Non-deductible expenses	
Interest arbitrage limitation	29,085,979
Non-taxable income	
Interest income on investments on government securities	(70,113,275)
Interest income on bank deposits	(398,189)
Accounting income subject to tax	38,602,688
<i>Temporary differences</i>	

Particulars	Amount
Provision for impairment of loans/acquired properties	10,126,282
Unrealized net loss on ForEx Translation	35,986,983
Unrealized net gain on Derivative Valuation	(84,086,475)
Taxable income	(629,478)
Tax rate	30%
Tax still due	188,843

22.2 Minimum corporate income tax (MCIT)

Particulars	Amount
Income before provision for impairment loss	273,489,684
Other income	18,257,039
Gross income	291,746,725
<i>Less : Income subject to final income tax</i>	
Investment in government securities	(70,113,275)
Interest on bank deposits and government bond	(398,189)
Litigation Expense	(276,826)
Acquired asset expense	(415,714)
Interest arbitrage limitations	29,085,979
Taxable gross income	249,628,699
MCIT rate	2%
MCIT due	4,992,574
Available tax credit carried over	
Prior year's income tax payments	(4,992,574)
Tax still due	-

22.3 Income tax benefit computation

Particulars	Amount
Deferred tax asset – allowance for doubtful accounts (ADA)	
2018 provision for probable loss	10,126,282
Tax rate	30%
Income tax benefit– ADA for 2018	3,037,885
Deferred tax asset – ADA, January 1, 2018	76,145,909
Deferred tax asset – ADA, December 31, 2018	79,183,794
Financial asset at FVTPL, December 31, 2018	151,549,399
Tax rate	30%
Deferred tax liability – FA at FVTPL, December 31, 2018	45,464,820

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
2018	2021	4,992,574	-	-	4,992,574
2016	2019	726,278	-	-	726,278
Total		5,718,852	-	-	5,718,852

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	
	2018	2017	2018	2017
Deferred tax assets				
MCIT	5,718,852	726,278	4,992,574	-
Provision for impairment losses	79,183,793	76,145,908	3,037,885	13,167,899
Unrealized losses on forex	47,563,914	36,767,820	10,796,095	36,767,820
Financial liability at FVTPL	-	-	-	(1,788,810)
	132,466,559	113,640,006	18,826,554	48,146,909
Deferred tax liabilities				
Financial asset at FVTPL	55,790,038	10,325,219	(45,464,820)	(10,325,219)
Net deferred tax assets	76,676,521	103,314,787		
Net deferred income tax benefit (expense)			(26,638,266)	37,821,690

23. CONTINGENT LIABILITY

As at December 31, 2018 and 2017, the Corporation's contingent liability arising from outstanding guarantees amounted to P689.450 million and P599.796 million, respectively, broken down as follows:

	2018	2017
Regular guarantee	76,061,700	61,935,617
CRGF	613,388,752	537,860,752
	689,450,452	599,796,369

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 2018, the fund balance is at P35 million with an adjusted 5x leverage ratio.

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 CRGF of P750.001 million, which is a component of the YCRRP (See Note 19.2). At year-end, contingent liability under the CRGF is at P613,388,752.

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 P181.228 million and P166.741 million as at December 31, 2018 and 2017, respectively. A total of P19.926 million was disbursed to the different beneficiaries identified by the MSMED Council covering the period 2004 to 2018.

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, 2018 and 2017, the BMBE Development Fund showed a balance of P461.801 million and P456.764, 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 serve 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 has 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 factor 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 an 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. Fundraising 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 2018. The taxes and licenses paid/accrued during the year are as follows:

(a) Withholding taxes

	2018	2017
Taxes on compensation and benefits	24,222,100	13,176,785
Value added taxes (VAT)	4,506,065	3,432,003
Expanded withholding taxes	1,799,970	1,851,604
Gross receipt taxes (GRT)	11,352,953	12,263,491
	41,881,088	30,723,883

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

	2018	2017
Local		
Real estate taxes	698,925	748,852
Corporate community tax	10,500	10,500
	709,425	759,352
National		
Capital gains taxes	-	-
Documentary stamp taxes	34,036,461	19,701,463
Transfer taxes	-	-
BIR annual registration	500	500
	34,036,961	19,701,963
	34,746,386	20,461,315

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 RR No. 19-2011 (and as further amended by RR No. 2-2014 dated January 24, 2014) 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, 2018, the Corporation reported the following revenues and expenses for income tax purposes.

	2018	2017
Revenues		
Operations	270,679,525	277,726,209
Expenses		
Cost of services	21,050,825	15,207,032
Itemized Deductions		
Salaries and Allowances	165,239,093	138,398,697
SSS, GSIS, Philhealth and Other Contributions	14,228,477	11,323,234
Other Services	13,807,512	15,457,889
Taxes and Licenses	12,075,154	12,836,458
Depreciation	8,350,565	8,122,621
Representation and Entertainment	5,721,641	1,621,259
Communication, Light and Water	3,471,584	3,774,112
Rental	2,180,619	4,096,869
Management and Consultancy Services	2,106,121	1,395,444
Transportation and Travel	1,851,170	2,077,764
Miscellaneous	1,816,273	4,046,433
Repairs and Maintenance-Labor	1,786,915	-
Office Supplies	1,602,141	1,888,511
Trainings and Seminars	1,556,880	1,969,801
Director's Fees	1,062,000	952,000
Insurance	963,417	1,024,029
Fuel and Oil	759,667	442,631
Advertising and Promotions	678,701	250,294
Janitorial and Messengerial Services	605,390	474,685
Security Services	467,929	308,304
Repairs and Maintenance-Materials/Supplies	246,492	2,355,275
Charitable Contributions	117,935	-
Others	8,303,544	7,499,819
	248,999,220	220,316,129