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

Corporate Government Sector
Cluster 2-Social Security Services and Housing

August 28, 2020

MS. MA. LUNA E. CACANANDO
President and Chief Executive Officer
Small Business Guarantee and Finance Corporation
17th and 18th Floors, 139 Corporate Center Building
139 Valero St., Salcedo Village
Makati City

Dear Ms. Cacanando:

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, 2019 and 2018.

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

We rendered an unmodified opinion on the fairness of the presentation of the financial statements of SB Corporation as at December 31, 2019 and 2018.

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

1. SB Corporation had an under remittance of dividends to the National Government (NG) for Calendar Years (CYs) 2014 and 2015 in the amount of P8.322 million and P8.039 million, respectively, since computation of the same were not strictly in accordance with the prescribed method of computation provided under Annex C of the 1998 Revised Implementing Rules and Regulations (IRR) of Republic Act (RA) 7656, thus, depriving the NG of the much needed revenue to finance its various projects. Furthermore, the non-taking up of the correct amount of dividends Due to the NG in the books of the Corporation resulted in the misstatement of the balances of Dividends Payable and Retained Earnings at year end, contrary to the requirements of the Philippine Accounting Standards (PAS) 1.

   We recommended and Management agreed to:

   a. Comply strictly with the prescribed method of computation of dividends provided under Annex C of the 1998 Revised IRR of RA 7656 and Section 5.a (i) of the 2016 Revised IRR of the same Act, where applicable, with consideration of

SB CORPORATION
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BY:
DATE: 8/28/20
TIME:
OFFICE OF THE PRESIDENT

Section 16 of RA 9501, to provide the much needed revenue of the NG to finance various projects for its citizenry;

b. Remit promptly to the BTr the annual dividend due the NG to avoid incurrence of penalty that may be charged by the BTr/DOF pursuant to Section 9(a) of the 2016 Revised IRR of RA 7656;

c. Be mindful of the above cited provision of Section 9 of the 2016 Revised IRR of RA 7656 relative to the responsibility of officers of the Corporation tasked to declare/remit the proper amount of dividends to the NG, to refrain from being charged of any penalty/sanctions for non-compliance to any of the Rules cited in the subject Act; and

d. Set up the Dividends Payable (Due to NG) corresponding to the amount of under remittances of dividend to reflect the correct balance of retained earnings pursuant to the requirement of PAS 1.

2. The selection of a Cash Management Partner (CMP) to assist the Corporation to perform the disbursement (loan releases) and collection requirements of the Pondo sa Pagbabago at Pag-asenso (P3) funds was undertaken through direct contracting method instead of the required competitive bidding, in violation of Sections 4 and 10 of the 2016 Revised IRR of RA 9184, thus, pre-procurement planning was not given due emphasis, resulting in piece meal addresses of procurement and accounting issues that cropped up one after another, after direct contracting has been perfected with a selected CMP.

   We recommended and Management agreed to comply strictly with Sections 4 and 10 of the Revised IRR of RA 9184 with considerations to Sections 4.4, 4.5 and 48.2 in all procurement activities of the Corporation to be assured of transparency, competitiveness, system of accountability and public monitoring in all their procurement transactions.

3. Absence of a Memorandum of Agreement defining the responsibilities of the selected CMP in the collection of P3 loans, caused the improper accounting of cash collections, which ultimately resulted in delay in the recording of P3 collections in the amount of P22.330 million and non -recording of the same for at least P4.088 million, thus, misstating the balances of cash, loans receivable and interest income at any point in time; contrary to the requirements of Par. 15 of PAS 1.

   We recommended and Management agreed to:

   a. Collect all outstanding remittances from CMP - A as reflected in their submitted report sent via e-mail last December 06, 2019; and correspondingly record the payments/update the subsidiary ledgers of all affected P3 borrowers;

   b. Require the Head, Treasury Office to cause the conduct of reconciliation for the collections received by CMP - A per record of SB Corporation's Regional/Head Office Coordinators as against the Report of Collections submitted by CMP - A as of December 06, 2019 and address immediately any noted discrepancies; and

   c. Direct all Regional Coordinators to forward within the day to SB Corporation Head Office all payments made by P3 borrowers for prompt collection of remittances from CMP - A. Likewise, efforts should be exerted by Management to compel

CMP - A to submit at least a weekly Report of Collection for prompt reconciliation of collections/remittances; and

d. Henceforth, the SB Corporation to consider the provision of DOF Circular No.1-2017 in the TOR for the CMP to deposit daily receipts/collections the next banking day to its government depositary bank in compliance to Section 2 of said DOF Circular dated May 11, 2017.

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 July 21, 2020, are discussed in detail in Part II of the report.

We respectfully request that the recommendations contained in Parts II and III of the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached as Annex A) and returning the same to us within 60 days from date of receipt of the report.

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

Very truly yours,

COMMISSION ON AUDIT

By:

Ma. Lisa P. Inguillo

MA. LISA P. INGUILLO
Director IV

Copy furnished:

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

Annex A

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
139 Valero St., Salcedo Village, Makati City

AGENCY ACTION PLAN and STATUS OF IMPLEMENTATION
Audit Observations and Recommendations
For the Calendar Year 2019

Ref.	Audit Observations	Audit Recommendations	Agency Action Plan				Status of Implementation	Reason for Partial/Delay/ Non-Implementation, if applicable	Action Taken/ Action to be Taken
			Action Plan	Person/Dept. Responsible	Target Implementation Date				
					From	To			

Agency sign-off:

______________________________ ____________________
Name and Position of Agency Officer Date

Note: Status of Implementation may either be (a) Fully Implemented (FI), (b) Ongoing (O), (c) Not Implemented (NI), (d) Partially Implemented (PI), or (e) Delayed (D)

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

Corporate Government Sector
Cluster 2-Social Security Services and Housing

August 28, 2020

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THE BOARD OF DIRECTORS
Small Business Guarantee and Finance Corporation
17th and 18th 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 the Small Business Guarantee and Finance Corporation (SB Corporation), for the years ended December 31, 2019 and 2018.

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

We rendered an unmodified opinion on the fairness of the presentation of the financial statements of SB Corporation as at December 31, 2019 and 2018.

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b. Remit promptly to the BTr the annual dividend due the NG to avoid incurrence of penalty that may be charged by the BTr/DOF pursuant to Section 9(a) of the 2016 Revised IRR of RA 7656;

c. Be mindful of the above cited provision of Section 9 of the 2016 Revised IRR of RA 7656 relative to the responsibility of officers of the Corporation tasked to declare/remit the proper amount of dividends to the NG, to refrain from being charged of any penalty/sanctions for non-compliance to any of the Rules cited in the subject Act; and

d. Set up the Dividends Payable (Due to NG) corresponding to the amount of under remittances of dividend to reflect the correct balance of retained earnings pursuant to the requirement of PAS 1.

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   c. Direct all Regional Coordinators to forward within the day to SB Corporation Head Office all payments made by P3 borrowers for prompt collection of remittances from CMP - A. Likewise, efforts should be exerted by Management to compel CMP - A to submit at least a weekly Report of Collection for prompt reconciliation of collections/remittances; and

   d. Henceforth, the SB Corporation to consider the provision of DOF Circular No.1-2017 in the TOR for the CMP to deposit daily receipts/collections the next banking day to its government depositary bank in compliance to Section 2 of said DOF Circular dated May 11, 2017.

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 July 21, 2020, 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 IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
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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, 2019 and 2018

EXECUTIVE SUMMARY

INTRODUCTION

The Small Business Guarantee and Finance Corporation, is a government corporation created on January 24, 1991 by virtue of Section 11 of Republic Act (RA) No. 6977, as amended on May 6, 1997 by RA No. 8289, otherwise known as “Magna Carta for Small and Medium Enterprises”. Further, 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”. The law increased the Corporation’s authorized capital stock from P5 billion to P10 billion. Section 13 of the said RA No. 9501, further amended Section 11 of the same Act quoted as follows:

> *SEC.13. Section 11 of the same Act, as amended, is hereby further amended to read as follows: “SEC. 11. 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.”*

The SB Corporation is under the policy program and administrative supervision of the Micro, Small and Medium Enterprises Development (MSMED) Council of the Department of Trade and Industry (DTI).

The mission of SB Corporation is to grow the Micro, Small and Medium Enterprises (MSME) sector by developing and implementing financing and capacity building support programs for underserved enterprises and for grassroots MSME organizations and advocating for measures and policies that will promote a stronger MSME finance industry.

The policy making body of the Corporation is the Board of Directors composed of 11 members headed by a Chairman, appointed by the President of the Philippines and the members are the Secretary of the DTI, the Secretary of the Department of Finance, a private sector representative and seven representatives of SB Corporation’s common stock shareholders with two positions vacant.

The Corporation is headed by the President and Chief Executive Officer, appointed by the President of the Philippines for a term of one year. She is assisted by three senior vice presidents and 15 vice presidents. For the calendar year 2019, SB Corporation personnel complement totaled to 335, consisting of 164 regular employees, 1 with coterminous appointment, 130 contractual employees, and 40 agency hired personnel.

The Corporation’s principal address is at the 17th and 18th Floors, 139 Corporate Center, Valero Street, Salcedo Village, Makati City. It has five area offices, 11 desk offices and 50 Pondo sa Pagbabago at Pag-Asenso (P3) provincial offices within the Philippines.

The proposed CY 2019 SB Corporation's Corporate Operating Budget (COB) submitted to the Department of Budget and Management (DBM) under Board Resolution No. 2018-12-2667 dated December 17, 2018 amounted to P4.126 billion. Of said amount, the DBM only approved P4.123 billion, thus, not considering the total amount of P2.891 million, representing the variance in MOOE *pertaining to the excess computation based on the highest FY 2017 audited/FY 2018 actual and inflation rate. However, notwithstanding the above indicated variances in some MOOE items, the SB Corporation has been given the flexibility to modify its utilization within the DBM-approved budget level for each allotment class for items funded out of the corporate funds support. In case of those funded out of the NG budgetary support, Section 76 of the General Provisions of RA No. 11260 on the rules on the modification in allotment shall apply.*

The actual utilization of the said budget amounted to P3.843 billion resulting in a difference of P280.006 million, summarized as follows:

	Per DBM Approved COB	**Actual Utilization**	**Difference**
Personnel services	231,457,000	206,283,742	25,173,258
Maintenance and other operating expenses	1,561,040,000	138,872,603	1,422,167,397
Capital outlay	2,330,496,000	3,497,830,347	(1,167,334,347)
	4,122,993,000	**3,842,986,692**	**280,006,308**

The significant variance between the Budget per approved COB and the actual utilization in MOOE and Capital Outlay in the above table is attributed to the nature of expenditure specified in the Special Allotment Release Order (SARO) released by DBM to SB Corporation for the implementation of P3 Program, particularly the object - Micro Finance on Lending, in the total amount of P1.45 billion. The said SARO explicitly states that its object of expenditures is under MOOE. However, the Micro Finance on Lending (P3 loans) was capitalized.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

	2019	2018 As restated	Increase (Decrease)
Assets	**6,467,406,535**	7,032,366,828	(564,960,293)
Liabilities	**1,362,183,136**	3,164,928,815	(1,802,745,679)
Equity	**5,105,223,399**	3,867,438,013	1,237,785,386

II. Comparative Results of Operations

	2019	2018 As restated	Increase (Decrease)
Income	**573,739,877**	684,601,604	(110,861,727)
Expenses	**827,728,992**	742,602,936	85,126,056
Net income (loss) before tax	**(253,989,115)**	(58,001,332)	(195,987,783)
Income tax expense (benefit)	**(54,828,738)**	20,056,580	74,885,318
Net income (loss) after tax	**(199,160,377)**	(78,057,912)	(121,102,465)
Subsidy from National Government	**1,500,000,000**	1,066,995,964	433,004,036
Comprehensive income	**1,300,839,623**	988,938,052	311,901,571

SCOPE OF AUDIT

Our audits covered the examination of the accounts and financial transactions of SB Corporation for the years ended December 31, 2019 and 2018 in accordance with the International Standards of Supreme Audit Institutions. Our audits were aimed to ascertain the accuracy of the financial records and reports and the fairness of presentation of the financial statements in accordance with Philippine Financial Reporting Standards, and to assess the propriety of financial transactions and compliance of SB Corporation with laws, rules and regulations.

AUDITOR'S OPINION

We rendered an unmodified opinion on the fairness of presentation of the financial statements of SB Corporation as at December 31, 2019 and 2018.

SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATION

1. SB Corporation had an under remittance of dividends to the National Government (NG) for Calendar Years (CYs) 2014 and 2015 in the amount of P8.322 million and P8.039 million, respectively, since computation of the same were not strictly in accordance with the prescribed method of computation provided under Annex C of the 1998 Revised Implementing Rules and Regulations (IRR) of Republic Act (RA) 7656, thus, depriving the NG of the much needed revenue to finance its various projects. Furthermore, the non-taking up of the correct amount of dividends Due to the NG in the books of the Corporation resulted in the misstatement of the balances of Dividends Payable and Retained Earnings at year end, contrary to the requirements of the Philippine Accounting Standards (PAS) 1.

   We recommended and Management agreed to:

   a. Comply strictly with the prescribed method of computation of dividends provided under Annex C of the 1998 Revised IRR of RA 7656 and Section 5.a (i) of the 2016 Revised IRR of the same Act, where applicable, with consideration of Section 16 of RA 9501, to provide the much needed revenue of the NG to finance various projects for its citizenry;

b. Remit promptly to the Bureau of Treasury the annual dividend due the NG to avoid incurrence of penalty that may be charged by the BTr/DOF pursuant to Section 9(a) of the 2016 Revised IRR of RA 7656;

c. Be mindful of the above cited provision of Section 9 of the 2016 Revised IRR of RA 7656 relative to the responsibility of officers of the Corporation tasked to declare/remit the proper amount of dividends to the NG, to refrain from being charged of any penalty/sanctions for non- compliance to any of the Rules cited in the subject Act; and

d. Set up the Dividends Payable (Due to NG) corresponding to the amount of under remittances of dividend to reflect the correct balance of retained earnings pursuant to the requirements of PAS 1.

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   We recommended and Management agreed to comply strictly with Sections 4 and 10 of the Revised IRR of RA 9184 with considerations to Sections 4.4, 4.5 and 48.2 in all procurement activities of the Corporation to be assured of transparency, competitiveness, system of accountability and public monitoring in all their procurement transactions.

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   a. Collect all outstanding remittances from CMP - A as reflected in their submitted report sent via e-mail last December 06, 2019; and correspondingly record the payments/update the subsidiary ledgers of all affected P3 borrowers;

   b. Require the Head, Treasury Office to cause the conduct of reconciliation for the collections received by CMP - A per record of SB Corporation’s Regional/Head Office Coordinators as against the Report of Collections submitted by CMP - A as of December 06, 2019 and address immediately any noted discrepancies; and

c. Direct all Regional Coordinators to forward within the day to SB Corporation Head Office all payments made by P3 borrowers for prompt collection of remittances from CMP - A. Likewise, efforts should be exerted by Management to compel CMP - A to submit at least a weekly Report of Collection for prompt reconciliation of collections/remittances; and

d. Henceforth, the SB Corporation to consider the provision of DOF Circular No.1-2017 in the TOR for the CMP to deposit daily receipts/collections the next banking day to its government depositary bank in compliance to Section 2 of said DOF Circular dated May 11, 2017.

The other audit observations together with the recommendations are discussed in Part II of this Report.

STATUS OF SUSPENSIONS, DISALLOWANCES AND CHARGES AS AT DECEMBER 31, 2019

As at December 31, 2019, audit disallowances amounted to P169.247 million.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 21 audit recommendations embodied in the CY 2018 Annual Audit Report, 16 were fully implemented, two were partially implemented, and three were not implemented. Out of the five partially and not implemented audit recommendations, two were reiterated in Part II of this Report and two were with issued Notices of Disallowance. Details are presented under Part III of this Report.

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PART I –

AUDITED FINANCIAL STATEMENTS

PART II –

OBSERVATIONS AND RECOMMENDATIONS

Part III –

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

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, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies 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, 2019 and 2018, 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 Conduct and Ethical Standards for Commission on Audit Officials and Employees (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 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. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

TERESITA B. TITULAR
Acting Supervising Auditor

July 21, 2020

SMALL BUSINESS CORPORATION
Transforming the MSME landscape

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, 2019 and 2018 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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. BLESILA A. LANTAYONA
Acting Chairman of the Board

MA. LUNA E. CACANANDO
President/CEO

CORAZON A. DIMAYUGA
Head, Controllership Group

Signed this 17th day of JULY 2020.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
(SMALL BUSINESS CORPORATION)
STATEMENTS OF FINANCIAL POSITION
As at December 31, 2019 and 2018
(Amounts in Philippine Peso)

	Notes	2019	2018 (As restated)	January 1, 2018 (As restated)
ASSETS				
Current assets				
Cash and cash equivalents	4	**226,221,155**	787,230,145	1,008,833,048
Investments	5	**11,468,965**	227,713,766	1,152,645,027
Receivables	6	**2,839,192,755**	1,388,860,055	1,861,053,513
Inventories	2.6	**133,421**	60,998	512,961
Non-current asset held for sale	7	**54,728,782**	26,923,314	26,923,314
Other assets	10	**11,008,092**	17,439,373	22,945,516
		3,142,753,170	2,448,227,651	4,072,913,379
Non-current assets				
Investments	5	**917,227,880**	1,772,467,060	1,343,229,870
Receivables	6	**2,163,045,257**	2,580,292,530	1,203,390,244
Property and equipment	8	**68,228,675**	71,686,770	71,241,514
Deferred tax assets	9	**159,053,356**	132,466,559	113,640,006
Other assets	10	**17,098,197**	27,226,258	31,264,879
		3,324,653,365	4,584,139,177	2,762,766,513
TOTAL ASSETS		**6,467,406,535**	7,032,366,828	6,835,679,892
LIABILITIES AND EQUITY				
Current liabilities				
Financial liabilities	11	**269,202,408**	1,034,859,645	1,713,270,138
Inter-agency payables	12	**17,678,803**	770,569,935	753,157,484
Trust liablities	13	**904,220**	3,774,185	3,118,694
Deferred credits/Unearned income	14	**22,173,275**	21,171,414	17,213,752
Other payables	15	**41,455,969**	37,882,704	36,704,079
		351,414,675	1,868,257,883	2,523,464,147
Non-current liabilities				
Financial liabilities	11	**998,618,648**	1,250,730,739	1,396,971,948
Deferred tax liabilities	21	**12,149,813**	45,940,193	12,049,634
		1,010,768,461	1,296,670,932	1,409,021,582
TOTAL LIABILITIES		**1,362,183,136**	3,164,928,815	3,932,485,729
Equity				
Share premium	16	**79,510,460**	79,510,460	79,510,460
Retained earnings	17	**3,143,304,539**	1,868,025,553	903,781,703
Stockholders equity	18	**1,882,408,400**	1,919,902,000	1,919,902,000
TOTAL EQUITY		**5,105,223,399**	3,867,438,013	2,903,194,163
TOTAL LIABILITIES AND EQUITY		**6,467,406,535**	7,032,366,828	6,835,679,892

The Notes on pages 9 to 55 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, 2019 and 2018
(Amounts in Philippine Peso)

	Notes	2019	2018 (As restated)
INCOME			
Service and Business income	19	**358,495,812**	326,106,870
Gains	19	**210,583,248**	354,017,145
Other non-operating income	19	**4,660,817**	4,477,589
		573,739,877	684,601,604
EXPENSES			
Personal services	20	**206,283,742**	180,529,571
Maintenance and other operating expenses	20	**138,872,603**	108,344,062
Financial expenses	20	**25,163,093**	49,921,116
Non-cash expenses	20	**457,409,554**	403,808,187
		827,728,992	742,602,936
NET LOSS BEFORE TAX		**(253,989,115)**	(58,001,332)
Income tax expense/(Benefit)	21	**(54,828,738)**	20,056,580
NET LOSS AFTER TAX		**(199,160,377)**	(78,057,912)
Subsidy income from National Government	22	**1,500,000,000**	1,066,995,964
TOTAL COMPREHENSIVE INCOME		**1,300,839,623**	988,938,052

The Notes on pages 9 to 55 form part of these financial statements.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2019 and 2018
(Amounts in Philippine Peso)

	Retained earnings	Share Premium	Stockholders' Equity	Total
	Note 17	Note 16	Note 18	
BALANCE AT JANUARY 1, 2019 (As restated)	1,868,025,553.00	79,510,460.00	1,919,902,000.00	3,867,438,013.00
Comprehensive income for the year	1,300,839,623.00	0	0	1,300,839,623.00
Dividends	(19,844,511.00)	0	0	(19,844,511.00)
Other adjustments	(5,716,126.00)	0	(37,493,600.00)	(43,209,726.00)
Balance at December 31, 2019	**3,143,304,539.00**	**79,510,460.00**	**1,882,408,400.00**	**5,105,223,399.00**
Balance at January 1, 2018	899,758,067.00	79,510,460.00	1,919,902,000.00	2,899,170,527.00
Prior period errors	4,023,636.00	0	0	4,023,636.00
Restated total equity, January 1, 2018	903,781,703.00	79,510,460.00	1,919,902,000.00	2,903,194,163.00
Comprehensive income for the year	988,938,052.00	0	0	988,938,052.00
Dividends	(33,511,594.00)	0	0	(33,511,594.00)
Other adjustments	8,817,392.00	0	0	8,817,392.00
Balance at December 31, 2018	1,868,025,553.00	79,510,460.00	1,919,902,000.00	3,867,438,013.00

The Notes on pages 9 to 55 form part of these financial statements.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2019 and 2018
(Amounts in Philippine Peso)

	Notes	2019	2018 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash inflows			
Collection of income/revenue		**310,095,725**	306,871,978
Receipt of assistance/subsidy		**1,500,000,000**	1,066,995,964
Collection of receivables		**2,794,919,195**	2,003,298,456
Other receipts		**39,521,506**	62,193,785
		4,644,536,426	3,439,360,183
Cash outflows			
Payment of expenses		**379,817,097**	262,660,372
Grant of cash advances		**806,891**	2,620,176
Prepayments		**17,940,263**	39,200,711
Release of loans to financial institutions and mSMEs		**4,437,424,674**	3,145,433,558
Other disbursement		**6,338,940**	3,042,694
		4,842,327,865	3,452,957,511
Net Cash Used in Operating Activities		**(197,791,439.00)**	(13,597,328.00)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash inflows			
Proceeds from:			
Sale/disposal of investment property		**3,039,029**	1,981,123
Sale/disposal of property and equipment		**0**	32,672
Maturity/redemption of long-term investments/return on investments		**4,842,366,934**	1,094,780,685
		4,845,405,963	1,096,794,480
Cash outflows			
Purchase/construction of property and equipment		**7,701,044**	5,233,057
Purchase of investments		**4,225,705,953**	345,011,076
		4,233,406,997	350,244,133
Net Cash Provided By Investing Activities		**611,998,966**	746,550,347
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash inflows			
Proceeds from domestic and foreign loans		**0**	797,273,842
		0	797,273,842
Cash outflows			
Payment of long-term liabilities		**896,502,786**	1,638,402,321
Payment of interest on loans and other financial charges		**58,847,982**	79,907,596
Payment of cash dividends		**19,844,511**	33,511,594
		975,195,279	1,751,821,511
Net Cash Used In Financing Activities		**(975,195,279)**	(954,547,669)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(560,987,752)**	(221,594,650)
Effects of exchange rate changes on cash and cash equivalents		**(21,238)**	(8,253)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**787,230,145**	1,008,833,048
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	**226,221,155**	787,230,145

The Notes on pages 9 to 55 form part of these financial statements.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
(SMALL BUSINESS CORPORATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018
(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 MSMEs 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 SB 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 mandate 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.

However, on July 23, 2018, EO No. 58 was issued mandating the creation of a single entity handling the government guarantee system. Under the said 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, now known as the Philippine Guarantee Corporation (PhilGuarantee). On August 31, 2019, all assets, liabilities, funds and guarantee function of SB Corporation was transferred to PhilGuarantee in compliance to EO No. 58.

The principal office of SB Corporation is at 139 Corporate Center, 139 Valero St., Salcedo Village, Makati City. It has five area offices, 11 desk offices and 50 Pondo sa Pagbabago at Pag-Asenso (P3) provincial offices within the Philippines. Manpower complement is 164 and 155 regular employees for CYs 2019 and 2018, respectively.

The financial statements of the SB Corporation as at and for the year ended December 31, 2019 (including the comparative financial statements as at and for the year ended December 31, 2018) were approved and authorized for issue by SB Corporation's Board of Directors (BOD) under Board Resolution (BR) No. 2020-03-2902A dated June 8, 2020.

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, 2019 and 2018 have been prepared by applying accounting policies in accordance with the Philippine Financial Reporting Standards (PFRS). PFRS are issued by the Financial Reporting Standards Council (FRSC) and approved by the Philippine Board of Accountancy (BOA) based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

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

(b) Presentation of Financial Statements

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

Starting January 1, 2019, SB Corporation adopted the guidelines laid down under COA Circular No. 2017-004 dated December 13, 2017 on the preparation of financial statements and other financial reports and implementation of the PFRS by government corporations classified as Government Business Enterprises (GBEs). Under COA Circular No. 2015-003 dated April 16, 2015, SB Corporation is classified as a GBE.

Accordingly, the SB Corporation modified the presentation of the prior years' amounts to conform to current year's presentation.

For the succeeding year and part of the continuing education of finance staff, SB Corporation will commission the services of a consultant 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, including appropriateness of its tax compliance activities.

SB Corporation presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

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

Items included in the financial statements of SB 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 SB 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 2019 that are relevant to SB Corporation

The SB 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 Other Comprehensive Income (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) Amendments to PAS 19, Plan Amendment, Curtailment or Settlement

The amendments in Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) are:

- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.

- In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

(iii) Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures

In this amendment it is clarified that the exclusion in PFRS 9 applies only to interests a company accounts for using the equity method. A company applies PFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures.

(iv) Amendments to PFRS 9, Prepayment Features with Negative Compensation

Prepayment Features with Negative Compensation amends the existing requirements in PFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

Under the amendments, the sign of the prepayment amount is not relevant, i. e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of a early repayment gain.

(v) Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments

PAS 12, not PAS 37 Provisions, contingent liabilities and contingent assets, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities if there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that approach will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

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 of 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

a. Classification and initial measurement

Financial assets are classified, at initial recognition, as either subsequently measured at amortized cost, at FVTOCI, or at FVTPL. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics. It is initially measured at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs.

Where assets are measured at fair value, gains and losses are either recognized entirely in profit or loss (fair value through profit or loss, FVTPL), or recognized in other comprehensive income (fair value through other comprehensive income, FVTOCI).

The classification of a financial asset is made at the time it is initially recognized, namely when the Corporation becomes a party to the contractual provisions of the instrument [PFRS 9, paragraph 4.1.1]. If certain conditions are met, the classification of an asset may subsequently need to be reclassified.

b. Subsequent measurement

Financial assets are measured at amortized cost if both of the following conditions are met: (i) the asset is held to collect contractual cash flows; and (ii) the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

SB Corporation classified cash and cash equivalents, receivables and investments in treasury bills as financial assets at amortized cost.

Financial assets are measured at FVTOCI if both of the following conditions are met: (i) the asset is held, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and (ii) the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at FVTOCI are subsequently measured at fair value. Interest income calculated using the EIR method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

c. Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when: (i) the right to receive cash flows from the asset has expired; or (ii) the Corporation has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and either SB Corporation has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.5 Receivables

SB Corporation's receivables are non-derivative assets with fixed or determinable payments that are not quoted in an active market. These are initially recognized at fair value when cash is advanced for direct loans to participating financial institutions (conduits) and individual borrowers. 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.

2.6 Inventories

Inventories are tangible items with cost below the capitalization threshold for property and equipment and are initially recorded at cost. These items are recognized as expense in full upon issuance to end users. Unissued inventories are regularly presented in the Monthly Inventory report for monitoring purposes.

2.7 Non-current asset held for sale (NCAHFS)

NCAHFS are booked initially at the outstanding balance of the loan less allowance for impairment plus transaction cost incurred upon acquisition. After classification as Non-current assets held for sale, they are measured at the lower of carrying amount and fair value less costs to sell and is subject to impairment.

2.8 Investments in joint ventures

Investments in joint ventures are investments 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. SB Corporation does not take operational, controlling, or strategic positions with its investees.

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 Other investments

SB Corporation other investments are similarly recognized initially at cost when investment is made. Periodic assessment is made to determine if impairment losses are incurred. The process in determining impairment losses in joint ventures is applied. Losses arising from impairments/allowance for impairment are recognized in the SCI.

2.10 Property and equipment

SB 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 inventories.

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 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.

2.11 Financial liabilities

a. Initial recognition and measurement

Financial liabilities are classified, at initial recognition, either as: (i) financial liabilities at FVTPL; (ii) loans and borrowings; (iii) payables; or (iv) derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

b. Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings, accounts payable and accrued expenses.

On the other hand, after initial recognition, financial guarantee contracts are subsequently measured at the higher of: (i) the amount of the loss allowance determined in accordance with PFRS 9; and (ii) the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of PFRS 15.

c. Derecognition

A financial liability is removed when it is extinguished, that is, when the obligation specified in the contract is either discharged or cancelled or expires. [PFRS 9] Where there has been an exchange between parties of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. A gain or loss from extinguishment of the original financial liability is recognized in profit or loss. [PFRS 9].

2.12 Impairment of assets

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

(a) Impairment of financial assets

If there is evidence that an impairment loss on assets not held at FVTPL (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 EIR. The carrying amount of the asset shall be reduced either directly or through the use of allowance account. The allowance recognized for expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that SB Corporation expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. The amount of loss , on the other hand, 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.

SB Corporation shall implement beginning 1 January 2020 simple loan loss methodologies fundamentally anchored on the principle of recognizing expected credit loss (ECL). As such, SB Corporation shall adopt the ECL model in measuring credit impairment/allowance for credit losses even before an objective evidence of impairment becomes apparent. Further, in compliance with the requirements of PFRS 9, SB Corporation shall now consider past events, current conditions and forecasts of future economic conditions in assessing impairment.

(b) *Impairment of non-financial assets*

Where an indicator of impairment exists, SB 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.

2.13 De-recognition 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;
- SB 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
- SB 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 SB 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 SB 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.

2.14 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, SB 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.

2.15 Intangible asset

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

2.16 Borrowing costs

Borrowing costs represent interest and other pertinent financial charges and costs incurred in connection with 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.

2.17 Revenue and cost recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow 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 and similar income derived from financial instruments measured at amortized cost and interest-bearing financial instruments is recorded at the EIR method. EIR is a measurement technique whose purpose is to calculate amortised cost and allocate interest revenue over the relevant time period. SB Corporation uses the expected credit loss impairment model based on the Bangko Sentral ng Pilipinas (BSP) Circular No. 1011 on loan classification.

Interest income, processing fees and penalties due on delayed payment are recognized upon collection.

(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*

SB 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, SB 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 SB 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 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.

As of August 31, 2019, all guarantee-related operations were transferred to the PhilGuarantee Corporation pursuant to EO No. 58, s. of 2018.

2.18 Employee benefit plan

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

2.19 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.

2.20 Provisions and contingencies

Provisions are recognized when: (a) SB 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.

2.21 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.

2.22 Foreign currency transactions

SB Corporation's accounting records 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.

2.23 Events after Reporting Period

Subsequent events that provide additional information about SB 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.

A more conservative approach for loan provisioning under the P3 program was adopted. The revision was well within the risk appetite and risk management policy of SB Corporation. Per BR No. 2019-10-2847 a stricter definition of past due was approved

With the onset of the COVID19 pandemic, the downturn of the economic activity will greatly affect the quality of SB Corporation's loan portfolio for 2020. This will result to material impact in SB Corporation's liquidity and profitability. Following are subsequent activities undertaken to cushion the effects of the pandemic to the MSMEs:

1. Compliant to the directives of the Bayanihan Act to Heal as One, loan amortization moratorium for the period when the country is under lockdown was effected.

2. SB Corporation provided an up to 6-months extended amortization grace period for borrowers affected by the pandemic.

3. Provision of the Covid19 Assistance to Restart Enterprises (CAREs) Program to support the MSMEs affected by the economic impact of the pandemic.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in accordance with PFRSs requires SB 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 SB 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

SB 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.

SB Corporation is a party to various legal cases and except for the BIR Final Assessment Notice (FAN), it 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.

On December 20, 2018, the BIR issued a FAN to SB Corporation for deficiency tax amounting to P 124 million. On June 4, 2019, SB Corporation counter filed a Manifestation with Motion to Suspend Proceedings before the Department of Justice and is currently awaiting its resolution.

On the other hand, there are Criminal Complaints for Violation of Batas Pambansa 22 involving three borrowers that if resolved positively in favor of the SB Corporation will result to positive collection of P 91 million.

3.2 Financial Asset at amortized cost

SB Corporation classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as financial asset at amortized cost. This financial asset is initially measured at fair value plus transaction cost. Contractual cash flows are solely payment of principals and interest and held under a hold to collect model. Subsequent measurement is carried at amortized cost. Classification of financial assets requires significant judgment. In making this judgment, SB 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

SB Corporation reviews its loans and receivables to assess potentially uncollectible receivables annually. In determining the level of allowance, it 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. SB 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

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

4. CASH AND CASH EQUIVALENTS

The account consists of the following:

	2019	2018 (As restated)
Cash on hand	**24,928**	14,763
Cash in bank-local currency	**170,583,583**	429,338,927
Cash in bank-foreign currency	**613,095**	633,540
Cash equivalents	**54,999,549**	357,242,915
	226,221,155	787,230,145

Cash on hand and Cash in bank pertain to deposits with government banks for payroll and corporate operating fund which earn interest at rates based on average monthly deposit balances.

Cash equivalents refer to short-term investments maturing within 90 days from transaction date with interest ranging from 3.11 to 3.85 per cent per annum for 2019 and 4.21 to 5.13 per cent per annum for 2018 (See Note 2.3).

5. FINANCIAL ASSETS

Financial Assets at amortized cost

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 Rate Treasury Notes and Retail Treasury Bonds, Tier 2 Capital Notes with the Land Bank of the Philippines (LBP), Bureau of the Treasury (BTr) and Development Bank of the Philippines (DBP) respectively. These investments which have various maturity dates over three months from transaction date at rates ranging from 3.250 per cent per annum to 6.499 per cent per annum for 2019 consist of the following:

	2019	2018 (As restated)
Investments in treasury bills	**-**	99,991,824
Investments in treasury bonds	**484,859,893**	1,287,139,714
Capital Notes	**105,000,000**	105,000,000
Investments in treasury bonds – guarantee reserve fund (GRF)	**-**	35,000,000
	589,859,893	1,527,131,538
Short-term	**-**	210,880,223
Long-term	**589,859,893**	1,316,251,315

The significant decrease in the financial assets pertains to 1) expiration of the provisions in the Magna Carta for MSMEs (RA 9501) and 2) transfer of the guarantee reserve fund as compliance to EO 58, series of 2018.

Under the Magna Carta for MSMEs, SB Corporation is authorized by law to offer alternative compliance (MSME Notes) in the mandatory allocation of financial institutions of their loan portfolio to the MSMEs. Upon expiration of the provision of the law in 2018, financial institutions refrained from availing of the MSME Notes resulting to decrease in the liquid assets of SB Corporation.

Further decrease is attributed to the transfer of SB Corporation's guarantee reserve fund and guarantee managed fund (Credit Risk Guarantee Fund) to the PhilGuarantee in compliance to E.O 58, series of 2018.

Financial Assets at Fair Value through Surplus/Profit or Deficit/Loss

	2019	2018 (As restated)
Asian Development Bank (ADB)	**40,875,025**	90,517,775
Kreditanstalt fur Wiederafbau (KfW)	**246,209,927**	346,969,724
	287,084,952	437,487,499
Current	**11,468,965**	16,833,543
Non-current	**275,615,987**	420,653,956

Financial asset at FVTPL represents the fair value of the Foreign Exchange Risk Cover (FXRC) of SB Corporation's borrowings from multilateral agencies amounting to P866.62 million in 2019 and P1.038 billion in 2018 which is treated as derivative financial instrument.

Under a MOA between SB Corporation and the National Government (NG) 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 NG a guarantee fee of one per cent per annum and an FXRC fee of three per cent per annum.

Investments in Joint Ventures and Other Investments

	2019	2018 (As restated)
Investments in Joint Ventures, net	**19,972,500**	14,472,500
Investments in stocks	**146,500**	146,789
Other investments	**31,633,000**	20,942,500
	51,752,000	35,561,789

Investments in Joint Ventures represent the Corporation's Joint 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 SB Corporation in selected SME corporations. The amount is presented net of its allowance amounting to P4.225million for CY 2019 and 2018.

SB Corporation, in cooperation with various SME corporations invested P8.760 million in preferred shares and P15.438 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; seaweeds production; micro propagation of planting materials; and commercial production of ACTIcon.

SB Corporation invested in the following company:

Venture Partner	Amount	Allowance	Carrying Amount
Agricultural Inoculants Phils.	2,000,000.00		2,000,000.00
Greentop Seaweeds Production Co.,Inc.	725,120.00	725,120.00	0
Starlight Homessences Inc.	3,500,000.00	3,500,000.00	0
Walls In Motion, Inc.	3,712,500.00		3,712,500.00
REG Supreme Power Trading, Inc.	3,760,000.00		3,760,000.00
Epifanie Ventures, Inc.	5,000,000.00		5,000,000.00
Balance as at December 21, 2018	18,697,620.00	4,225,120.00	14,472,500.00
Elbitech, Inc.	2,500,000.00		2,500,000.00
Binhi, Inc.	3,000,000.00		3,000,000.00
	24,197,620.00	**4,225,120.00**	**19,972,500.00**

Dividends receivable to date from joint venture investments are as follows:

	2019	2018 (As restated)
REG Supreme Power Trading, Inc.	**1,353,600**	1,353,600
Epifanie Ventures, Inc.	**1,200,000**	1,200,000
	2,553,600	**2,553,600**

Other investments pertain to an equity investment program under the Pondo sa Pagbabago at Pag-Asenso (P3), 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 provides an investment with liberal terms and conditions for the establishment of a start-up business or expansion of an existing business. Initially introduced in 2018, significant availments were experienced in the succeeding years of the program.

SB Corporation has allotted P50 million from P3 funds for this investment program 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.

6. RECEIVABLES

This account consists of the following:

	2019	2018 (As restated)
Accounts receivable	**36,984,233**	39,277,631
Notes receivable	**5,845,613,132**	4,665,367,934
Interest receivable	**46,314,163**	60,974,219
Intra-agency receivable	**3,952,231**	6,897,020
Dividends receivable (See note 5)	**2,553,600**	2,553,600
Subrogated claims receivable	**78**	79,273,189
Sales contract receivable	**17,674,655**	29,915,615
Other receivables	**2,479,376**	2,627,890
	5,955,571,468	4,886,887,098

	2019	2018 (As restated)
Allowance for impairment of accounts receivable	**(895,264)**	(895,264)
Allowance for impairment of notes receivable	**(952,438,114)**	(837,650,011)
Allowance for impairment of subrogated claims receivable	**(78)**	(79,189,238)
	(953,333,456)	(917,734,513)

	2019	2018 (As restated)
Total carrying amount	**5,002,238,012**	3,969,152,585
Current	**2,839,192,755**	1,388,860,055
Non-current	**2,163,045,257**	2,580,292,530

Accounts Receivable consists of the following:

	2019	2018 (As restated)
Agricultural Credit Policy Council (ACPC) re: Administrative fee for the Comprehensive Agricultural Loan Fund (CALF), net	**8,504,736**	8,504,736
Participating financial institution's share in expenses relative to foreclosure in the management of acquired assets	**4,988,754**	4,936,858
Lease purchase for officers	**17,577,942**	14,490,378
Lease purchase - resigned officers	**2,067,758**	3,022,014
Foreclosure-related expenses	**1,194,099**	2,002,005
Documentary stamp tax remittance for mSME Notes	**294,150**	3,795,582
Advances made for contract-of-service employees	**161,530**	330,794
Travel Fund as required by the DBM-PhilGeps	**1,300,000**	1,300,000
	36,088,969	38,382,367

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. However, when Quedancor was closed, their assets were put under the receivership of the PDIC. To date, the Corporation is still awaiting PDIC's resolution of the payment of Quedancor's creditors.

SB Corporation has a car plan program for officers under a lease purchase arrangement. The amortization is periodically deducted from the payroll based on the preferred amortization period but not to exceed 10 years. Once an officer resigns before the maturity of the lease purchase arrangement, the balance is to be deducted from all payables to the officer. In the event that such payables are not sufficient to fully pay the car plan, the balance may be amortized for a maximum period of five years under the prevailing market interest rate.

Notes receivable refers to loans extended by SB Corporation to banks, other financing institutions and MSME direct borrowers at an interest rate ranging from 2.0 per cent to 30.0 per cent per annum for relending under its special lending programs for MSMEs.

	2019	2018 (As restated)
Regular Wholesale-SME and MICRO	**979,933,121**	995,916,234
Regular Retail	**852,196,806**	1,056,150,410
ERF Retail	**5,970,957**	103,093,318
P3 Wholesale	**2,923,861,717**	1,622,185,475
P3 Retail	**130,918,946**	50,028,518
Others	**293,471**	343,968
	4,893,175,018	**3,827,717,923**

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

The periodic impairment 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 allowances are recognized or reversed in the event a decrease in provisioning requirement is encountered.

Interest receivable represents accrued interest receivable from the following investment in government-issued debt instruments and notes receivable that are still to be collected at the balance sheet date.

	2019	2018 (As restated)
Short-Term investments	**146,009**	2,808,062
Financial assets – amortized cost	**4,085,998**	11,158,292
Notes receivable – Loans	**42,082,156**	47,007,865
	46,314,163	**60,974,219**

Subrogated claims receivable represents the amount of guarantee 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.

However, on August 31, 2019, all guarantee-related assets, liabilities and funds were transferred to the PhilGuarantee in compliance with EO No. 58, series of 2018.

Sales contract receivable are receivables from disposal of real and other properties acquired (ROPA) through term amortizations.

Other receivables

	2019	2018 (As restated)
Disallowances/Charges	**1,113,067**	1,326,459
Due from officers and employees	**1,366,309**	1,301,431
	2,479,376	2,627,890

Disallowances pertain to COA disallowances which are already final and executory, booked as receivables and being collected from responsible officers and employees thru salary deductions.

7. NON - CURRENT ASSETS HELD FOR SALE

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 sale transactions. Details as follows:

	2019	2018 (As restated)
Non-current assets held for sale	**66,874,663**	42,637,499
Allowance for impairment	**(12,145,881)**	(15,714,185)
	54,728,782	26,923,314

8. PROPERTY AND EQUIPMENT – NET

This account consists of the following:

	Buildings/ Structures/ Lease Asset Improvements	Furniture and Other Equipment	Transport Equipment	Total
Cost				
January 1, 2019	151,823,926	31,974,446	15,108,741	198,907,113
Additions	1,875,230	3,645,416	0	5,520,646
Disposals	0	(2,771,312)	0	(2,771,312)
December 31, 2019	**153,699,156**	**32,848,550**	**15,108,741**	**201,656,447**

	Buildings/ Structures/ Lease Asset Improvements	Furniture and Other Equipment	Transport Equipment	Total
Accumulated depreciation				
January 1, 2019	95,636,557	21,936,976	9,646,810	127,220,343
Additions	4,978,884	2,687,176	1,001,544	8,667,604
Disposals	0	(2,460,175)	0	(2,460,175)
December 31, 2019	**100,615,441**	**22,163,977**	**10,648,354**	**133,427,772**
Carrying amount, December 31, 2019	**53,083,715**	**10,684,573**	**4,460,387**	**68,228,675**

	Buildings/ Structures Lease Asset Improvements	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	0	4,716,761
Reclassification	5,869,895	(52,065)	0	5,817,830
Disposals	0	(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)	0	2,076,605
Disposals	0	(328,616)	(659,572)	(988,188)
December 31, 2018	**95,636,557**	**21,936,976**	**9,646,810**	**127,220,343**
Carrying amount, December 31, 2018	**56,187,369**	**10,037,470**	**5,461,931**	**71,686,770**

9. DEFERRED TAX ASSET

This account consists of the following:

	2019	2018 (As restated)
Excess minimum corporate income tax	**4,905,319**	5,718,852
Provision for impairment losses	**118,564,635**	79,183,793
Unrealized losses on ForEx	**35,583,402**	47,563,914
	159,053,356	**132,466,559**

10. OTHER ASSETS

This account consists of the following:

	2019	2018 (As restated)
Prepayments	**11,008,092**	17,439,373
Deposits	**1,386,589**	1,898,679
Foreclosed property/assets	**23,105,104**	29,692,114
Other assets	**4,757,462**	4,757,462
	40,257,247	53,787,628
Accumulated Impairment Losses – foreclosed property/asset	**(10,288,681)**	(7,259,720)
Accumulated Impairment Losses – other assets	**(1,862,277)**	(1,862,277)
	(12,150,958)	(9,121,997)
Carrying amount	**28,106,289**	44,665,631
Current	**11,008,092**	17,439,373
Non-current	**17,098,197**	27,226,258

11. FINANCIAL LIABILITIES

This account consists of the following:

	2019	2018 (As restated)
Payables	**131,066,202**	937,561,154
Bills/Bonds/Loans payable	**890,169,279**	1,063,675,707
Financial liabilities designated at Fair Value through Surplus/Profit or Deficit/Loss	**246,585,575**	284,353,523
	1,267,821,056	2,285,590,384
Current	**269,202,408**	1,034,859,645
Non-current	**998,618,648**	1,250,730,739

Payables consists of the following:

	2019	2018 (As restated)
Accounts payable	**22,039,295**	61,245,962
Notes payable	**107,221,186**	868,841,610
Interest payable	**1,805,721**	7,473,582
	131,066,202	937,561,154

Accounts payable is used to recognize acquisition of goods or services in the normal course of trade and business operation that remains to be unpaid as at the end of the year.

	2019	2018 (As restated)
SB Regular	**21,993,630**	21,228,522
P3	**45,665**	40,017,440
	22,039,295	61,245,962

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 2019.

Details of the account as follows:

	2019	2018 (As restated)
Current portion	**89,431,738**	800,948,160
Non-current portion	**17,789,448**	67,893,450
	107,221,186	868,841,610

Interest Payable represents accrued interest expense on domestic and foreign borrowings as follows:

	2019	2018 (As restated)
Asian Development Bank (ADB)	**148,601**	49,910
International Fund for Agricultural Development (IFAD)	**394,229**	425,768
Notes payable - mSME Notes	**1,262,891**	6,997,904
	1,805,721	**7,473,582**

Bills/Bonds/Loans Payable

This account consists of SB Corporation's borrowings:

	2019	2018 (As restated)
Loans payable – Foreign		
ADB	**288,849,365**	405,717,530
KfW	**577,772,130**	632,526,570
Loans payable – Domestic		
IFAD	**23,547,784**	25,431,607

	2019	2018 (As restated)
	890,169,279	1,063,675,707
Current	**131,063,982**	134,946,847
Non-current	**759,105,297**	928,728,860

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, 2019 was at P0.4673. 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 is being 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, 2019 was at P56.9795. 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 NG a 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, 2019, the outstanding balance of ADB and KfW loans amounted to JPY618.124 million and €10.140 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. The program was completed in December 31, 2014.

Financial Liabilities Designated at Fair Value through Surplus/Profit or Deficit/Loss

	2019	2018 (As restated)
Asian Development Bank (ADB)	**15,151,108**	26,858,548
Kreditanstalt fur Wiederafbau (KfW)	**231,434,467**	257,494,975
	246,585,575	284,353,523
Current	**24,861,672**	30,245,094
Non-current	**221,723,903**	254,108,429

Financial liabilities designated at FVTPL represents the fair value of the FXRC of SB Corporation's borrowings from multilateral agencies amounting to P866.62 million in 2019 and P1.038 billion in 2018 which is treated as derivative financial instrument.

Under a MOA between SB Corporation and the NG 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 NG 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, 2019, the outstanding national amount of FXRC amounted to JPY618.124 million and €10.140 million.

As at December 31, 2019 and 2018, the carrying values of SB 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 P246.586 million and P284.354 million as at December 31, 2019 and 2018, respectively.

12. INTER-AGENCY PAYABLES

Inter-agency payables comprise of obligations or liabilities due to government agencies/institutions relating to current or prior reporting period that are unpaid as at the balance sheet date such as payments for statutory and regulatory obligations. It also includes payable to other National Government Agencies (NGA) or to other funds as follows:

	2019	2018 (As restated)
Due to BIR	**11,898,600**	9,375,300
Due to GSIS	**1,475,427**	18,210
Due to Pag-ibig	**52,272**	83,103
Due to PhilHealth	**83,667**	82,851

	2019	2018 (As restated)
Due to NGAs	**0**	756,656,096
Due to Other Funds	**4,168,837**	4,354,375
	17,678,803	770,569,935

The significant decrease in the Due to NGAs account pertains to the Credit Risk Guarantee Fund (CRGF) which was transferred to the PhilGuarantee in compliance with EO 58, series of 2018. 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.

13. TRUST LIABILITIES

These pertain to security deposits in the form of performance bonds or cash for guaranty. Said security deposit is issued to SB Corporation by the winning bidder as a guarantee against its failure to meet the obligations in the contract.

Outstanding balance of this account is P0.904 million and P3.774 million as at December 31, 2019 and 2018 respectively.

14. DEFERRED CREDITS/UNEARNED INCOME

This account refers to unearned income from capitalized interest and charges of a restructured loan. When an account becomes past due and is granted with approved restructuring agreement, accrued interest is recorded with a corresponding set up of the liability account.

	2019	2018 (As restated)
Regular loan agreement	**19,376,499**	18,672,008
Compromise agreement	**2,796,776**	2,499,406
	22,173,275	21,171,414

15. OTHER PAYABLES

	2019	2018 (As restated)
Undistributed collections	**4,019,925**	2,349,842
Other payables	**37,436,044**	35,532,862
	41,455,969	37,882,704

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

Other payables account contains amount payable to Originating Financial Institution (OFI) for their share in the proceeds from sale/disposal of foreclosed/acquired properties of SB Corporation wherein OFI has equity. It also includes amount payable for terminated cased cases wherein the judgment was rendered against SB Corporation.

16. SHARE PREMIUM

The share premium pertains to the Additional paid in capital representing the ten per cent excess of par for shares issued by SB Corporation to the NG for the GFSME assets turned over to SB Corporation pursuant to EO 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.

17. RETAINED EARNINGS

	2019	2018 (As restated)
Appropriated retained earnings		
Guarantee Reserve Fund (GRF)	**0**	35,000,000
Pondo sa Pagbabago at Pag-Asenso (P3)	**3,186,151,112**	1,773,738,199
Appropriated for dividend	**30,673,100**	30,673,100
Total Appropriated Retained Earnings	**3,216,824,212**	1,839,411,299
Unappropriated retained earnings (deficit)		
Accumulated Net Income, before extra ordinary gains/(losses)	**169,093,979**	142,360,421
Extra-Ordinary Gains/(Losses)		
Net Unrealized Gain/(Loss)from Changes in Fair Value of Financial Instruments	**(65,694,192)**	103,108,334
Net Unrealized Gain/(Loss) on Foreign Exchange (FOREX) Translation	**(176,919,460)**	(216,854,501)
Total Unappropriated Retained Earnings	**(73,519,673)**	28,614,254
	3,143,304,539	1,868,025,553

Presentation of Financial Statements-Restatement

In 2019, the Company restated its 2018 and 2017 financial statements to reflect the amounts of financial assets at fair value through profit or loss and deferred premium option that were previously offset. The restatement resulted in material retrospective restatement on certain accounts in the comparative financial statements for December 31, 2018 and 2017.

The effect of this restatement in the comparative financial statements for December 31, 2018 and January 1, 2018 on the affected assets and equity component is shown below.

	As Previously Reported	**Effects of Restatement**	**As Restated**
December 31, 2018			
Changes in assets and liabilities			
Financial assets at FVTPL	151,549,400	285,938,099	437,487,499
Financial liabilities at FVTPL	0	(284,353,523)	(284,353,523)
Deferred tax liability	(55,790,038)	9,849,845	(45,940,193)
Net increase in equity		11,434,421	
Changes in equity			
Retained earnings - Net FA at FVTPL	151,549,399	(151,549,399)	0
Retained earnings Unappropriated	(134,369,566)	162,983,820	28,614,254
Net increase in equity		11,434,421	
January 1, 2018			
Changes in assets and liabilities			
Financial assets at FVTPL	34,417,396	308,410,650	342,828,046
Financial liabilities at FVTPL	0	(302,662,599)	(302,662,599)
Deferred tax liability	(10,325,219)	(1,724,415)	(12,049,634)
Net increase in equity		4,023,636	
Changes in equity			
Retained earnings - Net FA at FVTPL	34,417,396	(34,417,396)	0
Retained earnings - Unappropriated	(145,940,694)	38,441,032	(107,499,662)
Net increase in equity		4,023,636	
Loss from changes in FV of Financial instruments	(99,418,312)	4,163,474	(95,254,838)
Income Tax Expense-Deferred	26,638,266	(11,574,260)	15,064,006
Net decrease in equity		(7,410,786)	

18. STOCKHOLDERS' EQUITY

SB 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 this account are as follows:

	2019		2018 (As restated)	
	Amount	**No. of Shares**	Amount	No. of Shares
Capital stock				
Common shares				
National Government	**767,450,700**	**7,674,507**	804,944,300	8,049,443
LBP	**393,611,500**	**3,936,115**	393,611,500	3,936,115
DBP	**218,673,100**	**2,186,731**	218,673,100	2,186,731
Philippine National Bank	**40,000,000**	**400,000**	40,000,000	400,000
GSIS	**46,673,100**	**466,731**	46,673,100	466,731
Social Security System (SSS)	**16,000,000**	**160,000**	16,000,000	160,000
	1,482,408,400	**14,824,084**	1,519,902,000	15,199,200
Preferred shares				
SSS	**200,000,000**	**2,000,000**	200,000,000	2,000,000
GSIS	**200,000,000**	**2,000,000**	200,000,000	2,000,000
	400,000,000	**4,000,000**	400,000,000	4,000,000
	1,882,408,400	**18,824,084**	1,919,902,000	19,199,200

On December 13, 1993, the BOD passed 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 were released to GSIS upon presentation of its certificate of acceptance.

On August 5, 2019, BR No. 2019-08-2803 approved the transfer of all guarantee-related functions, programs, funds, assets and liabilities of SB Corporation to the PhilGuarantee pursuant to EO 58, series of 2018. Total assets transferred amounted to P 37.49 million taken from the equity of the NG.

19. INCOME

Service and Business Income

Being a government-owned and controlled corporation primarily mandated to provide, among others, financing to the MSME sector, income generation is mostly derived from its lending operation, which includes both service and business income.

a) ***Service Income***

	2019	2018 (As restated)
Processing fees	**19,578,872**	11,650,792

b) ***Business Income***

	2019	2018 (As restated)
Interest income	**307,553,217**	296,058,258
Fines and penalties	**9,383,216**	6,723,014
Management fees	**782,069**	2,279,014
Guarantee fees	**660,718**	1,530,446
Dividend income	**500,000**	469,687
Rent/Lease income	**372,000**	134,900
Other business income	**19,665,720**	7,260,759
	338,916,940	314,456,078

Gains

	2019	2018 (As restated)
Gain on foreign exchange (FOREX)	**102,882,578**	123,583,622
Gain from changes in fair value of investment	**99,216,248**	227,840,063
Gain on sale/redemption/transfer of investment	**2,743,445**	0
Gain on sale of property and equipment	**0**	1,500
Other gains	**5,740,977**	2,591,960
	210,583,248	354,017,145

Other Non-Operating Income

	2019	2018 (As restated)
Miscellaneous income	**4,660,817**	4,477,589

Miscellaneous income includes income from management fees of funds being managed by SB Corporation particularly the CRGF and BMBE. It also includes income from bank's share in the capacity building program. This account may also include recovery of accounts previously written off entered into compromise agreement and all other miscellaneous income.

20. EXPENSES

Financial Expenses

Financial expenses pertain to operating expenses comprised of both personnel cost and maintenance and other operating expenses.

The significant increase in the amount of personnel services expense pertain to the adoption of the 4th tranche of the Modified Salary System wherein approval was granted by the Governance Commission for GOCCs in June 2018.

	2019	2018 (As restated)
Personnel services		
Salaries and wages	**125,793,772**	107,252,305
Other compensation	**40,081,390**	41,919,607
Personnel benefit contributions	**34,375,825**	29,107,327
Other personnel benefits	**6,032,755**	2,250,332
	206,283,742	180,529,571

	2019	2018 (As restated)
Maintenance and other operating expenses		
Professional services	**59,488,709**	32,530,519
Taxes, insurance premiums and other fees	**19,831,168**	16,059,113
Rent/Lease Expenses	**10,127,240**	7,138,008
Confidential, intelligence and extraordinary	**7,476,910**	5,960,263
Supplies and materials	**7,112,365**	7,275,868
Travelling	**5,540,139**	7,319,133
Communication	**4,862,261**	4,140,440
Repairs and maintenance	**4,682,669**	5,287,987
Advertising, Promotional and Marketing	**3,880,737**	3,560,629
Representation Expenses	**3,408,738**	5,920,153
Utility	**3,348,130**	3,080,706
General services	**2,798,233**	2,120,697
Training and scholarship	**1,914,724**	3,127,695
Litigation/Acquired Assets Expenses	**1,262,875**	692,540
Printing and Publication Expenses	**482,544**	482,090
Membership Dues and Contributions	**60,433**	129,392
Subscription Expenses	**41,618**	48,509
Donations	**0**	117,935
Major Events and Conventions Expenses	**0**	964,028
Other Maintenance and Operating Expenses	**2,553,110**	2,388,357
	138,872,603	108,344,062

Financial Expenses

	2019	2018 (As restated)
Interest	**14,466,602**	37,827,405
Guarantee fees	**9,647,463**	11,227,042
Bank charges	**446,881**	476,853
Trusteeship fees	**3,693**	216,488
Other financial charges	**598,454**	173,328
	25,163,093	49,921,116

Non-Cash Expenses

	2019	2018 (As restated)
Losses	**317,073,569**	299,474,599
Impairment loss	**131,269,474**	95,983,026
Depreciation	**9,066,511**	8,350,562
	457,409,554	403,808,187

21. INCOME TAX

21.1 Regular corporate income tax (RCIT)

	2019	2018
Net income before income tax	**1,246,010,885**	1,008,994,632
Permanent differences		
Non-deductible expenses		
Maintenance and other operating expenses-P3	**52,298,712**	47,701,287
Interest arbitrage limitation	**14,466,602**	29,085,979
Non-taxable income		
Subsidy from NG – P3	**(1,500,000,000)**	(1,066,995,964)
Interest income on government securities	**(39,952,496)**	(70,113,275)
Interest income on bank deposits	**(319,672)**	(398,189)
Accounting income subject to tax	**(227,495,969)**	(51,725,530)
Temporary differences		
Provision for impairment of loans/acquired properties	**131,269,474**	95,983,025
Unrealized net loss on ForEx Translation	**(39,935,041)**	35,986,983
Unrealized net gain on Derivative Valuation	**157,368,107**	(79,615,000)
Taxable income	**21,206,571**	629,478
Tax rate	**30%**	30%
Tax still due	**6,361,971**	188,843

21.2 Minimum corporate income tax (MCIT)

Particulars	2019	2018
Gross revenue	**374,099,374**	340,975,300
Less: Finance charges	**25,115,830**	49,921,116
Gross income	**348,983,544**	291,054,184
Reconciling Items:		
Investment in government securities	**(39,952,496)**	(70,113,275)
Interest income on bank deposits	**(319,672)**	(398,189)
Interest arbitrage limitations	**14,466,602**	29,085,979
Taxable gross income	**323,177,978**	249,628,699
MCIT rate	**2%**	2%
MCIT due	**6,463,560**	4,992,574
Available tax credits		
Creditable withholding tax	**(1,754,756)**	0
Prior year's income tax payments	**(4,708,804)**	(4,992,574)
Tax still due	**0**	0

21.3 Income tax benefit computation

Particular	Amount
Deferred tax asset – allowance for impairment accounts (AIA)	
2019 provision	131,269,474
Tax rate	30%
Income tax benefit– AIA for 2019	**39,380,842**
Deferred tax asset – AIA, January 1, 2019	79,183,793
Deferred tax asset – AIA, December 31, 2019	**118,564,635**
Financial asset at FVTPL	40,499,377
Tax rate	30%
Deferred tax liability – FA at FVTPL, December 31, 2019	**12,149,813**

21.4 MCIT schedule

		Minimum corporate income tax				
Year Occurred	**Available until**	**Excess MICT Prior Years**	**Excess MCIT Current Year**	**Excess MCIT over Normal Income Tax**	**Expired /Used portion of excess MCIT**	**Balance MCIT still allowable tax credit**
2019	2022		101,588	0	0	101,588
2018	2021	4,992,574	0	0	188,843	4,803,731
2016	2019	726,278	0	0	726,278	0
Total		**5,718,852**	101,588	0	915,121	**4,905,319**

21.5 Deferred tax asset and liabilities schedule

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

	Statement of Financial Position		Statement of Comprehensive Income	
	2019	**2018**	**2019**	**2018**
Deferred tax assets				
MCIT	**4,905,319**	5,718,852	0	4,992,574
Provision for impairment	**118,564,635**	79,183,793	**39,380,842**	3,037,884
Unrealized losses on forex	**35,583,402**	47,563,914	**(11,980,512)**	10,796,095
	159,053,356	132,466,559	**27,400,330**	18,826,553
Deferred tax liabilities				
Financial asset at FVTPL	**12,149,813**	45,940,193	**33,790,380**	(33,890,559)
Net deferred tax assets	**146,903,543**	86,526,366		
Net income tax benefit (expense)			**61,190,710**	(15,064,006)

22. SUBSIDY INCOME FROM NATIONAL GOVERNMENT

22.1 Credit Risk Guarantee Fund (CRGF)

In May 2017, a P750 million fund was transferred to SB 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 under Inter Agency Payables. Further, the fund includes a five per cent mobilization fund for operation. As of August 31, 2019, the CRGF was transferred to the PhilGuarantee in compliance with EO 58, series of 2018. As of September 30, 2019, fund balance amounts to P 578,104,894, net of remittance to the BTr of P 135,914,425 on January 25, 2019 for the unutilized portion of the fund and a P 52,079,715 investment maturity directly credited to the PhilGuarantee. Full transfer of P 578,104,894 fund balance was made on October 2, 2019.

22.2 Pondo sa Pagbabago at Pag-Asenso (P3)

P3 is the Duterte Administration'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 2019 is P3s third year of operation. P3 funding is included as a Tier 1 funding of P1.0 billion with a Tier 2 funding of P500 million in the 2019 General Appropriations Act. The Tier 1 fund is inclusive of a five per cent mobilization fund.

Presented below is the two-year comparative fund balance with breakdown of expenses incurred for the program implementation:

	2019	**2018** (As restated)
Receipts	**1,500,000,000**	1,066,995,964
Expenses		
Maintenance and other operating expenses		
Security, janitorial and other contracted services	**28,731,108**	11,893,373
Supplies and materials	**4,115,458**	4,237,267
Rental expense	**3,266,442**	2,434,726
Advertising expenses-P3	**2,466,417**	3,560,629
Travelling expenses- local-P3	**2,283,560**	5,467,963
Taxes and licenses-DST-P3	**2,131,876**	3,020,542
Communication	**2,117,039**	2,198,266
Repairs and maintenance	**1,621,818**	3,254,580

	2019	**2018** (As restated)
Power, light and water	**1,404,843**	1,551,296
Condominium dues	**1,157,944**	1,203,644
Development cost	**655,087**	614,525
Training expenses	**623,072**	1,570,815
Business development expense-P3	**585,814**	4,145,926
Gasoline, oil and lubricants expenses	**482,413**	676,793
Business promotion-P3	**250,953**	208,245
Printing and binding expense	**138,895**	229,594
Management Committee Expense-P3	**2,046**	-
Consultancy	**-**	1,041,500
Miscellaneous expense	**263,928**	391,603
	52,298,713	47,701,287
Provision for probable losses	**101,269,474**	85,856,744
	153,568,187	133,558,031
Fund balance	**1,346,431,813**	933,437,933

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

23. CONTINGENT LIABILITY

As at August 31, 2019 and December 31, 2018, SB Corporation's contingent liability arising from outstanding guarantees amounted to P491.30 million and P689.45 million, respectively, broken down as follows:

	2019	2018 (As restated)
Regular guarantee	**58,662,362**	76,061,700
CRGF	**432,641,499**	613,388,752
	491,303,861	689,450,452

In compliance with EO No. 58, series of 2018 transferring the guarantee functions, programs and funds of the SB Corporation to the PhilGuarantee, both the regular guarantee program and the CRGF were transferred including its contingent liabilities.

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 SB 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 the time that the guarantee fund was transferred to the PhilGuarantee in September 2019, the fund balance is at P35 million with an adjusted 5x leverage ratio.

23.2 Credit Risk Guarantee Fund

SB 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 NG. Given the positive turnout of the ERF, SB Corporation was tasked by the NG to manage a CRGF of P750.001 million, which is a component of the YCRRP.

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 P300.500 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 net income of P185.856 million and P181,228 million as at December 31, 2019 and 2018, respectively. A total of P20.286 million was disbursed to the different beneficiaries identified by the MSMED Council covering the period 2004 to 2019. On September 26, 2019, the Corporation partially remitted to BTr an amount of P453,617 million as instructed by MSMED Council dated August 15, 2019.

As at December 31, 2019 and 2018, the BMBE Development Fund showed a balance of P30.453 million and P461.801 million, respectively.

25. EMPLOYEE BENEFITS

25.1 Provident fund

The provident 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 DBM 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

SB Corporation leases the premises which serve as its 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

SB 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 adverse financial consequences. This is to ensure that SB Corporation performs its mandate as a government-owned and controlled corporation (GOCC) and not merely duplicates what the private sector and other GOCCs are already doing. This is to likewise optimize the utilization of NG investments by not contributing to the cycle of poverty and debt for small business owners.

SB Corporation's risk management policies for each financial risk factor are summarized below:

a. Credit Risk

In view of its mandate to safeguard the interest of the public and contribute to the promotion of stability in the economy, SB Corporation manages credit risk at all relevant levels of the organization. It defines credit risk as the risk that the loans granted to borrowers and/or other financial institutions will not be paid when due, thereby causing incurrence of financial losses.

SB Corporation therefore exercises prudence in the grant of loans over its exposures to credit risk, taking into consideration its developmental objectives as mandated by the Magna Carta for MSMEs. This is managed through the implementation of the borrower risk rating and monitoring of loan covenants in the loan agreements. The borrower risk rating is being used, among others, as basis for determining credit worthiness of loan applicants. Further, SB Corporation mitigates such credit risks through the acceptance of eligible collaterals as secondary form of payment.

b. Market Risk – Interest Rate Risk and Foreign Exchange Risk

SB Corporation anticipates, measures, and manages its interest rate sensitivity position to ensure its long-run earning power, build-up of its investment portfolio and avoid economic losses. 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.

SB Corporation manages its currency risk against foreign exchange rate fluctuations on its foreign currency denominated borrowings through a Foreign Exchange Risk Cover (FXRC) secured from the DOF at a given cost for the term of the loan. SB Corporation's exposure to market risk for changes in interest rates relates primarily to its loans from various financial institutions.

c. Liquidity Risk

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

As part of its liquidity risk management, SB Corporation regularly evaluates its projected and actual cash flows and institutes liquidity risk controls. 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 RR No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year 2019. The taxes and licenses paid/accrued during the year are as follows:

(a) Withholding taxes

	2019	2018 (As restated)
Taxes on compensation and benefits	**22,303,507**	24,222,100
Value added taxes (VAT)	**5,057,155**	4,506,065
Expanded withholding taxes	**1,823,942**	1,799,970
Gross receipt taxes (GRT)	**10,887,399**	11,352,953
	40,072,003	41,881,088

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

	2019	2018 (As restated)
Local		
Real estate taxes	**598,246**	698,925
Corporate community tax	**10,500**	10,500
	608,746	709,425
National		
Capital gains taxes	**2,339,814**	0
Documentary stamp taxes	**33,350,955**	34,036,461
BIR annual registration	**500**	500
	35,691,269	34,036,961
	36,300,015	34,746,386

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, 2019, SB Corporation reported the following revenues and expenses for income tax purposes.

	2019	**2018** (As restated)
Revenues		
Operations	**333,827,206**	270,679,525
Expenses		
Cost of services	**10,649,228**	21,050,825
Itemized Deductions		
Salaries and allowances	**188,423,390**	165,239,093
Other services	**25,695,246**	13,807,512
Taxes and licenses	**16,713,342**	12,075,154
SSS, GSIS, Philhealth and other contributions	**16,506,353**	14,228,477
Depreciation	**8,666,566**	8,350,565
Representation and entertainment	**7,166,995**	5,721,641
Communication, light and water	**4,688,510**	3,471,584
Rental	**3,984,014**	2,180,619
Transportation and travel	**3,256,579**	1,851,170
Repairs and maintenance - labor	**2,758,450**	1,786,915
Miscellaneous	**2,401,659**	1,816,273
Management and consultancy services	**1,937,143**	2,106,121

	2019	2018 (As restated)
Office supplies	**1,715,439**	1,602,141
Janitorial and messengerial services	**1,535,844**	605,390
Advertising and promotions	**1,414,320**	678,701
Director's fees	**1,354,000**	1,062,000
Trainings and seminars	**1,291,651**	1,556,880
Insurance	**985,950**	963,417
Fuel and oil	**799,056**	759,667
Security services	**618,204**	467,929
Repairs and maintenance-Materials/supplies	**302,400**	246,492
Charitable contributions	**0**	117,935
Others	**9,756,299**	8,303,544
	301,971,410	248,999,220

OBSERVATIONS AND RECOMMENDATIONS

1. SB Corporation had an under remittance of dividends to the National Government (NG) for Calendar Years (CYs) 2014 and 2015 in the amount of P8.322 million and P8.039 million, respectively, since computation of the same were not strictly in accordance with the prescribed method of computation provided under Annex C of the 1998 Revised Implementing Rules and Regulations (IRR) of Republic Act (RA) 7656, thus, depriving the NG of the much needed revenue to finance its various projects. Furthermore, the non-taking up of the correct amount of dividends Due to the NG in the books of the Corporation resulted in the misstatement of the balances of Dividends Payable and Retained Earnings at year end, contrary to the requirements of the Philippine Accounting Standards (PAS) 1.

Under remittance of dividends:

1.1 Section 1 of RA 7656 -*An Act Requiring Government- Owned or Controlled Corporations (GOCC) to Declare Dividends Under Certain Conditions to the NG, and for Other Purposes* provides*:*

> *Section 1- Declaration of Policy.- It is hereby the declared policy of the State that in order for NG to realize additional revenues, government–owned or- controlled corporations, without impairing their viability and the purposes for which they have been established, shall share a substantial amount of their net earnings to the NG.*

1.2 Furthermore, Section 7 (a) of the 1998 Revised IRR of RA 7656 states that:

> *(a) Except as otherwise provided herein, all GOCCs shall declare cash dividends and shall remit to the Bureau of the Treasury (BTr) at* ***least fifty percent (50%)*** *of the dividend due on or before April 30 following the dividend year, based on the financial statements submitted to COA for audit.(emphasis ours)*
>
> *The balance thereof shall be computed based on the COA audited net income and shall be remitted to the BTr within seven (7) working days after receipt of the COA Annual Audit Report for the dividend.*

1.3 On the other hand Section 16 of RA 9501- *An Act to Promote Entrepreneurship by Strengthening Development and Assistance Programs to Micro, Small and Medium Scale Enterprises* provides the following:

> *To allow for capital build-up SB Corporation shall be given a five (5) year grace period on dividend commitments beginning*

on the date of the effectivity of this amendment. Thereafter, it ***may only declare as dividend not more than thirty percent (30%) of its net income*** *and the rest withheld as retained earnings.* (emphasis ours)

1.4 Audit disclosed that besides the NG, there are five other government corporations that have equity investments in SB Corporation in the form of common and preferred stocks, as shown below:

Common Stocks	No. of Common Shares	No. of Preferred Shares	Total Shares per shareholder	Percentage Holdings (%)
National Government	8,049,443		8,049,443	41.93
Land Bank of the Philippines	3,936,115		3,936,115	20.50
Development Bank of the Philippines	2,186,731		2,186,731	11.39
Philippine National Bank	400,000		400,000	2.08
Government Service Insurance System	466,731	2,000,000	2,466,731	12.85
Social Security System	160,000	2,000,000	2,160,000	11.25
Total	**15,199,020**	**4,000,000**	**19,199,020**	**100.00**

Thus, the NG has only 41.93 per cent share in the total amount of declared dividends of the Corporation for a given year.

1.5 The foregoing facts, rules and regulations were used as bases in determining the correctness of the dividends declared by the Corporation for audit period CYs 2014 to 2018.

1.6 Shown below are the cash dividends declared/paid by SB Corporation to the NG for CYs 2014 to 2018 earnings, to wit:

CY	Amount of total Dividends Declared/ Paid (a)	NG Share (41.93%) (b)	Date Paid (c)	Dividends Obligation per prescribed computation (d)	NG share per prescribed computation (41.93%) (e)	Actual amount of dividends remitted to NG (f)
2018	19,844,511	8,320,803	05/15/2019	19,844,511	8,320,803	8,320,803
2017	27,540,396	11,547,688	05/15/2018	27,540,396	11,547,688	11,547,688
2016	12,129,601	5,085,942	05/16/2017	18,100,799	7,589,665	7,589,665
	5,971,198	2,503,723	03/28/2018			
2015	19,570,602	8,205,953	05/18/2016	38,742,094	**16,244,560**	**8,205,953**
2014	2,278,149	955,228	05/13/2015	22,126,328	**9,277,569**	**955,228**

a. For CYs 2014 and 2015, computations of Dividends Payable were based on the 30 per cent of the net income after tax, sourced from the submitted Financial Statement (FS) to COA and no second payment was made despite an increase in the net income after audit, contrary to the prescribed method of computation under Annex C of the 1998

Revised IRR of RA 7656. Thus, there was under remittance of cash dividend to the BTr of P8.322 million and P8.039million, respectively (Please see above table, column e-f).

b. As can be gleaned in the preceding table, there was also an under declaration/remittance of P2.504 million for dividend declared/paid to the NG in CY 2016 since the Corporation used the guidelines prescribed under the 1998 Revised IRR of RA 7656 instead of the 2016 Revised IRR. Inasmuch as the declared dividends were based on the FS submitted to COA (per 1998 Revised IRR) instead of the Net Earnings of the Corporation as reflected in their Annual Income Tax Return (ITR) as received by the BIR, it also resulted in an understatement of dividend paid to the NG by P2.504 million.

Relative thereto, they were instructed by the Department of Finance (DOF) in a letter dated July 27, 2017, to remit the subject amount of understatement of declared dividends. The Corporation remitted the balance of P2.504 million to the BTr under Official Receipt (OR) No.2547037 dated March 28, 2018, thus, incurring a delay in payment of 316 days.

1.7 It was also noted that for CYs 2014 to 2016, the Corporation failed to present proof of submission of schedules showing computation of Dividends due/supporting documents to DOF-Corporate Affairs Group (CAG) as required under Section 6 of the 1998 Revised IRR of 7656. The said section provides the following:

Simultaneous with the payment of the Dividends to the BTr, the GOCC shall send to the DOF: (i) schedule showing the computation of Dividends due (copy furnish BTr); (ii) copy of the Annual Income Tax return; (iii) Financial Statements for the relevant Dividend Year duly received by the BIR or authorized agent bank; and (iv) schedules on program subsidies and subsidies granted settle tax obligations for prior year/s treated as revenues, and actual disbursement programs of program subsidies treated as expenses. The schedules should be signed by the GOCC's chief executive officer.

1.8 Attention is also invited to Sections 9 and 10 of the 2016 Revised IRR of the same Act, to quote:

Section 9. Responsibility, Sanctions and Penalty

a. The governing board of the GOCC shall be responsible for approving the declaration of the proper amount of Dividends in accordance with these Rules. The chief executive and finance officers of the GOCC shall be responsible for the remittance of said Dividends. In case of failure of a GOCC to declare and remit the proper amount of dividends in accordance with these Rules: (i) The DOF shall recommend to the GCG or DBM the *deferral or disapproval of the performance incentive of the GOCC's Appointive Directors (including the chief executive) without prejudice to other sanctions as may be imposed by the GCG or DBM; and (ii) The BTR, in coordination with DOF, shall assess the GOCC a penalty charge for late payment equivalent to the prevailing 364-day regular Treasury bill rate plus five percent (5%) on the Dividend due.*

Section 10. Criminal Liabilities of Directors and Officers

In addition to the penalties which may be imposed on the GOCC pursuant to Section 9 of these Rules, any member of the governing board, the chief executive officer and the chief financial officer of GOCC who violates any provision of these Rules, in addition to other sanctions provided by law, upon conviction thereof, shall suffer the penalty of a fine of not less than Ten thousand pesos (10,000.00) but not more than Fifty thousand pesos (50,000.00) or imprisonment of not less than one (1) year but not more than three (years), or both at the discretion of the court, without prejudice to other appropriate sanctions provided by law.

<u>*Non-taking up of the correct amount of dividends due:*</u>

1.9 Furthermore, the under recording of the dividends due to the NG for CYs 2014 and 2015 in the total amount of P16.361 million resulted in the misstatement of the balances of dividends payable and retained earnings at year end, since under recording of Dividends Payable (Due to NG) for CYs 2014 and 2015 has a domino effect on the balances of the same accounts at year end. This is contrary to the requirements of Paragraph (Par.) 15 of PAS 1, to quote:

> *The financial statements must present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.*

1.10 We recommended and Management agreed to:

a. Comply strictly with the prescribed method of computation of dividends provided under Annex C of the 1998 Revised IRR of RA 7656 and Section 5.a (i) of the 2016 Revised IRR of the same Act, where applicable, with consideration of Section 16 of RA 9501, to provide the much needed revenue of the NG to finance various projects for its citizenry;

b. **Remit promptly to the BTr the annual dividend due the NG to avoid incurrence of penalty that may be charged by the BTr/DOF pursuant to Section 9(a) of the 2016 Revised IRR of RA 7656;**

c. **Be mindful of the above cited provision of Section 9 of the 2016 Revised IRR of RA 7656 relative to the responsibility of officers of the Corporation tasked to declare/remit the proper amount of dividends to the NG, to refrain from being charged of any penalty/sanctions for non-compliance to any of the Rules cited in the subject Act; and**

d. **Set up the Dividends Payable (Due to NG) corresponding to the amount of under remittances of dividend to reflect the correct balance of retained earnings pursuant to the requirement of PAS 1.**

2. **The selection of a Cash Management Partner (CMP) to assist the Corporation to perform the disbursement (loan releases) and collection requirements of the Pondo sa Pagbabago at Pag-asenso (P3) funds was undertaken through direct contracting method instead of the required competitive bidding, in violation of Sections 4 and 10 of the 2016 Revised IRR of RA 9184, thus, pre-procurement planning was not given due emphasis, resulting in piece meal addresses of procurement and accounting issues that cropped up one after another, after direct contracting has been perfected with a selected CMP.**

2.1 Sections 4 and 48.2 of the Revised IRR of RA 9184 provides the following:

> ***Section 4.Scope and Application***.*- This act shall apply to the Procurement of Infrastructure Projects, Goods and Consulting Services,* ***regardless of source of funds****, whether local or foreign, by all branches and instrumentalities of government, its departments, offices and agencies,* ***including government-owned and/or-controlled corporations*** *and local government units, subject to the provisions of Commonwealth Act No. 138. Xxx*(emphasis and underscore ours)
>
> *48.2. In accordance with Section 10 of this IRR, as a general rule the Procuring Entities shall adopt competitive bidding as the general method of procurement and shall see to it that the procurement program allows sufficient lead time for such competitive bidding.* ***Alternative methods of procurement shall be resorted to only in highly exceptional cases provided for in this rule.***(emphasis ours)

2.2 While Management claimed that they had entered into negotiated contract with CMP – A to handle the disbursement (loan releases) and collection requirements of the P3, in actuality, they had merely entered into direct contracting with the CMP – A as the conditions cited under Section 53 of the Revised IRR of RA 9184 to warrant for a negotiated procurement were not present at the instant case. Said Section 53 provides the following:

> *Negotiated Procurement is a method of procurement of Goods, Infrastructure Projects and Consulting Services whereby the procuring entity directly negotiates with a technically, legally and financially capable supplier, contractor or consultant in any of the following cases:*
>
> *53.1* ***Two Failed Biddings.*** *Where there has been failure of competitive bidding or Limited Source Bidding for the second time as provided in Section 35 of the Act and this IRR.*
>
> *53.2* ***Emergency Cases.*** *In case of imminent danger to life and property during a state of calamity, or when time is of the essence arising from natural or man- made calamities or other causes where immediate action is necessary to prevent damage or loss to life and property, or to restore vital public services, infrastructure facilities and other public utilities. Xxx*

2.3 On the other hand, Section 50 of RA 9184 states that Direct Contracting is *a single source procurement and maybe accepted immediately or after some negotiations*. Furthermore, the following are the conditions that must be present before the alternative method of "Direct Contracting" may be used by the Procuring Entity, as follows:

> *a. Procurement of Goods of proprietary nature which can be obtained only from proprietary source, i.e. when patents, trade secrets, and copyrights prohibit others from manufacturing the same;*
>
> *b. When the procurement of critical components from a specific supplier is a condition precedent to hold a contractor to guarantee its project performance, in accordance with the provision of the contract; or*
>
> *c. Those sold by an exclusive dealer or manufacturer which does not have sub-dealers selling at a lower price and for which no suitable substitute can be obtained at more advantageous price.*

2.4 Considering the foregoing, it may be deduced that both the alternative method of Direct Contracting and Negotiated Procurement are not applicable in the procurement of the subject remittance and collection services, as there are many available companies in the country that could provide such type of services. The Corporation's Bids and Awards Committee (BAC) should have undertaken the prescribed procurement procedures for the conduct of competitive public bidding in the procurement of the said remittance and collection services.

2.5 It has been noted that the conduct of the bidding was dispensed with as Management is of the opinion that the subject procurement of Corporate payout and Bills Payment Acceptance Services are no longer covered by the Procurement Law inasmuch as the payment of the said services will be shouldered by the P3 borrowers.

2.6 The said view of Management runs counter to the provision of Section 4 of the subject Revised IRR as the same explicitly states that all procurement of goods, infrastructures and consultancy services undertaken by a procuring entity **regardless of source of funds** are covered by the said Procurement Law. Furthermore, the instant case is not one of those cited under Sections 4.4 and 4.5[1] of the same Act which cites activities/procurements that are not covered by RA 9184.

2.7 Furthermore, the subject funds to be provided with the said disbursement and collection services are the P3 funds itself which is entirely a subsidy fund from the NG, thus, making it more compelling to follow the procurement procedures of RA 9184.

2.8 A review of the documents/events prior to the contracting of the Corporation with the CMP – A disclosed the following:

2.8.1 Board Resolution (BR) No. 2017-11-2467 dated November 21, 2017 spelled out the Terms of Reference (TOR) to be used in the selection of private banks or remittance companies that would take care in the disbursements and collection requirements of P3. It specified that the capabilities of the service provider which should include but not limited to the following:

a. With Corporate Payout (Disbursement) and Bills Payment Acceptance Service (Collection) System;

b. Can provide cash disbursements and accept payments to/from P3 MSME clients or SB Corporation through branch network;

c. Will allow SB Corporation to set pay out/ payroll instructions using secured facility that can be accessible at anytime; and

d. With pertinent report for reconciliation and settlement of transactions.

[1]4.5 The following are not procurement activities under RA 9184 and this IRR: a)Direct financial or material assistance given to beneficiaries in accordance with the existing laws, rules and regulations, and subject to the guidelines of the concerned agency; b)Participation in local or foreign scholarships, trainings, continuing education, conferences, seminars or similar activities that shall be governed by applicable COA, CSC, and DBM rules; c)Lease of government-owned property as lessor for private use; x xx

2.8.2 Per Memorandum dated December 15, 2017, the then OIC Head of the Fund Sourcing Management Group (FSMG) disclosed that there were at least three major companies available nationwide that they can enter into contract with as CMP but initially they are recommending to tap the services of CMP - A. They stated that they based their recommendation on the Board approved TOR.

2.8.3 Further, the same OIC-Head of FSMG noted that the Legal Services Group has rendered an opinion that no bidding is required as all charges for the Corporate Payout (Disbursement) and Bills Payment Acceptance Service (Collection) System shall be for the account of the borrower.

2.8.4 Per Management Committee (ManCom) Resolution No. 2017-12-18-158 dated December 18, 2017, the Committee approved the tapping of CMP - A as one of SB Corporation's CMP and was later concurred/approved by the Board of Directors (BOD) through the issuance of BR No. 2018-01-2493 dated January 11, 2018.

2.8.5 The BOD by virtue of BR No. 2018-01-2493 authorized SB Corporation to enter into a Merchant Agreement with CMP - A to be one of the CMP to perform/serve as Payment Center for the products and/or services provided by the Corporation to its P3 borrowers.

2.8.6 The Corporate Pay-Out Agreement was executed by and between the Vice President of CMP – A and the President/CEO of SB Corporation on January 31, 2018. It may be noted that the Agreement dealt only on the pay out or the release of the loan to P3 borrowers without mention of the collection function of the CMP in violation of the TOR laid down under BR No. 2017-11-2467 dated November 21, 2017, particularly on the inclusion of Bills Payment Acceptance Service (Collection) System.

2.8.7 The Memorandum dated October 30, 2018 of the OIC-Head, Treasury Group (TG) included the proposed instructions on where to pay the loan amortizations of P3 micro-retail borrowers. The said Memo also sought the clearance/approval of the ManCom on the following options within which said P3 borrowers may opt to pay their loans, to quote:

a. Payment through Land Bank of the Philippines (LBP) using SB Corporation's P3 Accounts with LBP Makati Business Centers

b. Pay through CMP – A Express Pera Padala

In using CMP - A, we seek ManCom's approval to the P3 Cashier, Head Office, SB Corporation as the authorized Payee to receive payments in behalf of SB Corporation. A certification will then be issued to *borrowers on the said authority of the P3 Cashier. The temporary authority of the said P3 Cashier will cease once a resolution on the issue for the turnaround time of the remittance of collections by CMP - A following the DOF Circular No. 01-2017.*

c. *Payment through LBP using Area Offices' P3 bank account*

   In tapping for this payment option, we seek ManCom's approval on the implementation of BR No. 2017-07-2415 re: Opening of P3 Account with LBP for Area offices. This account will be the depositary bank account for all P3 related collections in the area.

Further, it was also disclosed in the said Memorandum that they were also exploring the possibility of getting two additional partners to have choices for the disbursement/collection of P3 funds, namely: the CMP - B and CMP - C and CMP - C Express Padala.

The ManCom approved the foregoing recommendation per ManCom (MC) Resolution No. 2018-10-30-166.

2.8.8 Moreover, the TG, in its Memorandum to ManCom dated November 21, 2018 has requested for the dropping of its partnership with the Bills Payment Facility of CMP - A, which was granted through MC Resolution No. 2018-11-21-184. The reason for the dropping of the implementation of Bills Payment Facility was due to the requirement under Section 5.3.1 of the DOF Circular No. 01-2017 requiring that *all collections shall be transferred to government depositary the next banking day counted from the collection date*, which was not acceptable with the CMP - A.

The TG Head further added that they directly collect from CMP – A for remittances/payments of borrowers with the objective of collecting payments within the prescribed timeline of the DOF. Apparently, the TG P3 Cashier is having a hard time complying with the requirements as it took more than 15 to 31 days within which to collect due to heavy workload of the assigned collector.

Nonetheless, despite the above cited deficiencies, the TG still wanted to seek Management's clearance on the following:

- TG to revive the CMP - A Bills Payment Facility including its implementation meantime that the CMP - D and/or any CMP for collection is not yet operational;

- Temporary granting to the CMP - A an option to remit collections received from borrowers to be credited to SB Corporation LBP bank accounts twice a month; and

- Cancel the authority of the P3 Cashier to claim payment from CMP - A in behalf of SB Corporation upon availability of the Bills Payment Facility with CMP – C/CMP - D.

2.8.9 ManCom Resolution No. 2019-0502-003 dated May 2, 2019 provided clearance to engage the services of CMP - A to do the P3 retail bills payment/remittance facility. The engagement with CMP - A, however, shall be on a temporary basis since CMP - A's ability to remit to SB Corporation collections received is limited to every 15th day and 30th of the month. The same has been considered by the ManCom in the meantime, pending full implementation of the collection of P3 retail payments thru the CMP - D.

2.8.10 The foregoing sequence of events clearly shows that the implementation of the P3 loan releases and collection of payments from P3 borrowers was not comprehensively planned as procurement and accounting issues crop up one after the other. Had the Corporation followed the correct procurement procedures from Pre-Procurement Conference to Award of Contract as prescribed under Sections 20-37 of RA 9184, then, such weaknesses may have been avoided.

2.8.11 For instance, in the Pre-procurement conference, the Corporation's BAC, BAC Secretariat, BAC Technical Working Group (TWG) together with the end user units could have met and discussed all aspects of the procurement activity. The specification of the needed CMP shall have been based on relevant characteristics, functionality and/or performance.

2.9 We recommended and Management agreed to comply strictly with Sections 4 and 10 of the Revised IRR of RA 9184 with considerations to Sections 4.4, 4.5 and 48.2 in all procurement activities of the Corporation to be assured of transparency, competitiveness, system of accountability and public monitoring in all their procurement transactions.

3. Absence of a Memorandum of Agreement defining the responsibilities of the selected CMP in the collection of P3 loans, caused the improper accounting of cash collections, which ultimately resulted in delay in the recording of P3 collections in the amount of P22.330 million and non - recording of the same for at least P4.088 million, thus, misstating the balances of cash, loans receivable and interest income at any point in time; contrary to the requirements of Par. 15 of PAS 1.

3.1 Management in allowing their selected CMP by way of Direct Contracting to perform the collection functions, even without the benefit of a

Memorandum of Agreement to clearly define the obligations of both parties, has placed SB Corporation at a disadvantage. As a result, they could not compel CMP – A to transfer the collections to their depositary bank (LBP) on the next banking day counted from the collection date in violation of the requirements of Section 2 of DOF Circular No. 1-2017 dated May 11, 2017.

3.2 Also, Management allowed the payment of P3 loans through CMP - A even without the approved collection process flow that will serve as basis/guide of all personnel involved in the recording of disbursements/collections and reconciliation of the said P3 fund.

3.3 The grant of authority to SB Corporation personnel to serve as payee and to receive payments made through CMP - A in behalf of the Corporation results in security risk on the part of the personnel and collection risk on the part of the Corporation.

3.4 Inasmuch as CMP - A did not provide the Report of Daily Collection, cash accountability of the authorized collector of SB Corporation could not be established at any given period.

3.5 Loan payments sent through CMP – A Express Pera Padala were then not withdrawn on time by the SB Corporation's authorized collector of remittances, thus, cash payments were not recorded in the books as paid by the borrowers nor deposited in LBP. Per record the approximate days of delay ranges from 8 to 360 days.

3.6 Reports of Remittances Form Summary Report from Visayas P3 coordinator were not submitted to the P3 Cashier on a daily basis, thus, adds up to the reason why delays are encountered in claiming the actual payments made by the borrowers.

3.7 Issuance of Official Receipts (ORs) were based on the actual date the remittances were claimed by the authorized personnel and not on the actual dates when payments were made by the borrowers, thus, creating a time difference in the recording of transactions. It has also been noted that only one OR was issued for remittances collected per day from January 2019 to April 2019.

3.8 Establishing the status of a particular loan is difficult as SB Corporation was not claiming the remittances the following day the payments were made through CMP - A, consequently, issuing of Certificate of Full Payment is also delayed to the disadvantage of the P3 borrowers.

The delay in the recording in the books of the Corporation resulted in the:

a. Understatement of the accounts Cash and Interest income in the FS;

b. Overstatement of Loans Receivable;

c. Inaccuracy of the reported loan balance in the subsidiary ledger;

d. Loan borrower cannot re-apply with the said credit program as payments made by the borrowers are still unclaimed at CMP - A by the authorized personnel of SB Corporation;

e. Classification of loans tends to be inaccurate as payments were not received by SB Corporation, thus, affecting the status of the affected accounts; and

f. Reputational risk on the part of SB Corporation as borrowers may complain on the confusion brought about by the non-issuance of Certificate of Full Payment despite having paid the loans in full.

3.9 Total amount of remittances claimed by SB Corporation's authorized personnel cannot be reconciled against the amount actually paid by the P3 borrowers to CMP - A for the reason that no reports/schedule of remittances received by the said CMP were provided to SB Corporation on a daily basis.

3.1 It may be noted that the payments made by P3 borrowers to CMP - A will only be known to SB Corporation's authorized personnel upon submission by borrowers of the proof of payment (validated by CMP - A Pera Padala Form) together with their text messages.

3.11 After several prodding with CMP - A to provide SB Corporation with the Report of Collection on a daily basis, it was only last December 06, 2019 when the Company was able to send via e-mail Schedules of Remittances that has already been claimed by SB Corporation's authorized collector totaling P22.330 million as well as all the collections that have not yet been claimed by the said authorized collector totaling P4.088 million aged as follows:

Age	Amount
Less than 15 days	4,500
15 days but not exceeding 30 days	57,199
31 days but not exceeding 120 days	805,457
121 days but not exceeding 180 days	1,288,016
181 days but not exceeding 360 days	1,909,732
Above 360 days	23,360
Total	**4,088,264**

3.12 The above table clearly shows that the subsidiary ledgers of a significant number of P3 borrowers are not updated. This may deprive them of the prompt renewal of their loans. Moreover, cash remains idle in the custody of the CMP - A, depriving SB Corporation of the opportunity to earn interest income had the funds been re-loaned or deposited in a bank by the Corporation.

3.13 The foregoing accounting issues contributed to the misstatement of the balances of cash, loans receivable and interest income at any given point in time, contrary to the requirements of Par. 15 of PAS 1 as discussed in Paragraph 1.9 hereof.

3.14 Also, the foregoing narratives also proves that concerned officials of SB Corporation did not comply with the requirements of BR No. 2017-11-2467 dated November 22, 2017 when they allowed the CMP - A to do collection function despite not having met the requirements of the said BR which spells out the provisions to be incorporated in the TOR to be used in the selection of private banks **or remittance companies** that would take care of the disbursement and collection requirements of the P3 program. To reiterate among others, the TOR requires the following:

a. Will allow SB Corporation to set pay out/payroll instructions using secured facility that can be accessible at anytime; and

b. <u>With pertinent report for reconciliation and settlement of transactions.</u>

3.15 We recommended and Management agreed to:

a. Collect all outstanding remittances from CMP - A as reflected in their submitted report sent via e-mail last December 06, 2019; and correspondingly record the payments/update the subsidiary ledgers of all affected P3 borrowers;

b. Require the Head, Treasury Office to cause the conduct of reconciliation for the collections received by CMP - A per record of SB Corporation's Regional/Head Office Coordinators as against the Report of Collections submitted by CMP - A as of December 06, 2019 and address immediately any noted discrepancies; and

c. Direct all Regional Coordinators to forward within the day to SB Corporation Head Office all payments made by P3 borrowers for prompt collection of remittances from CMP - A. Likewise, efforts should be exerted by Management to compel CMP - A to submit at least a weekly Report of Collection for prompt reconciliation of collections/remittances; and

d. Henceforth, the SB Corporation to consider the provision of DOF Circular No.1-2017 in the TOR for the CMP to deposit daily receipts/collections the next banking day to its government depositary bank in compliance to Section 2 of said DOF Circular dated May 11, 2017.

4. **Undistributed Collection (UC) amounting to P4.020 million as at December 31, 2019 showed an increase of P1.670 million or 71.07 per cent from that of the previous year's UC, thus, affecting the fair presentation of Notes receivable, Interest income and other related account balances in the financial statements, contrary to Par. 15 of PAS 1 as well as increasing the Past due rate and consequently affecting the collection efficiency ratio of the Corporation.**

4.1 Par. 15 of PAS 1 as discussed in Par. 1.9 hereof is a criteria for this observation.

4.2 SB Corporation's Accounting Policies and Procedures Manual defines UC as an account that *represents direct deposit to the company's bank accounts without proper identification and therefore cannot be properly identified.*

4.3 For CY 2019, SB Corporation reported P4.020 million UC in its financial statements, an increase of P1.670 million or 71.07 per cent from that of the previous year, as shown in the table below. The significant increase can be attributed to the payments made by various unidentified P3 borrowers which registered an increase of P1.511 million UC or 288.58 per cent compared to the CY 2018 reported balance.

	CY 2019	**CY 2018**	**Increase (decrease)**	**Percent**
Regular Accounts	1,984,972	1,826,156	158,816	8.70
P3 Accounts	2,034,953	523,686	1,511,267	288.58
Total	4,019,925	2,349,842	1,670,083	71.07

4.4 The increasing amount of UC greatly affects the accuracy and fair presentation of the Notes receivable, Interest income and other affected accounts in the financial statements as payments received from unidentified borrowers by SB Corporation were not posted in the concerned borrowers' subsidiary ledgers, thus, overstating the receivable account and understating the income and other related accounts. It also has a negative effect on the computation of past due rate as the outstanding loan balances of the unidentified depositors will not be updated, thus, will add to the list of outstanding past due accounts.

4.5 The table below shows the aging of the reported P4.020 million UC as at December 31, 2019.

Accounts Involved	**1 day to 30 days**	**31 to 360 days**	**Beyond 1 year**	**Total**
Regular Accounts	52,500	326,037	1,606,435	1,984,972
P3 Collections	275,981	1,310,515	448,457	2,034,953
Total	328,481	1,636,552	2,054,892	4,019,925

Out of the total reported UC, P1.965 million or 48.88 per cent of the unidentified borrower's payments were from CY 2019. The significant increase came from P3 loan accounts which reported an unidentified payment for CY 2019 in the amount of P1.586 million or 96.94 per cent of the total UC. P3 borrowers made their payments directly by making deposits to the bank account of SB Corporation and failed to submit the validated deposit slips to SB Corporation, thus, the borrowers' subsidiary ledgers cannot be updated.

4.6 **We recommended and Management agreed to**:

a. **Prioritize the identification of loan accounts recorded under UC by creating a team that will conduct the confirmation of payments made and immediately record payments/update the subsidiary ledgers of identified borrowers who made the payments recorded under the UC account;**

b. **Formulate policy and guidelines to improve the collection process and control the accumulation of UC and to establish the acceptable length of time/number of days an item may remain unadjusted/unidentified in the UC; and**

c. **Submit breakdown of target output to reclassify the UC account balance to its proper account for CY 2020.**

5. **The SB Corporation, through its Gender and Development (GAD) programs, activities and projects (PAPs), has commendably implemented the major activities that were gender responsive and were focused to assist the marginalized sector of un-served and underserved micro women entrepreneurs through access to SB Corporation's Microfinance Financing and P3 Programs funds totaling P4.139 billion.**

5.1 Verification disclosed that SB Corporation has allocated some P3.697 billion or 89.66 percent of its Corporate Operating Budget of P4.123 billion to implement its GAD PAPs pursuant to Item 6.1 of Joint Circular (JC) No. 2012-02 issued by the Philippine Commission on Women (PCW), National Economic and Development Authority (NEDA) and DBM.

5.2 The P3, Medium Small Micro Enterprise (MSME) Wholesale Lending Program and the MSME Retail got the biggest chunk of the GAD budget with total expenditures amounting to P3.19 billion, P762.91 million and P181.74 million, respectively. In line with SB Corporation's mandate to assist the MSMEs, the Corporation had provided financing facility for micro-enterprises belonging to the informal business sector using the people's organizations and even partnered with micro finance institutions.

5.3 The actual utilization amounted to P4.139 billion or 111.97 per cent of the GAD budget. The variance between the DBM-approved GAD budget and the Actual GAD cost could be attributed to the nature of the P3 funds which is a continuing appropriation, and self-liquidating in nature. The collections from the P3 loans in the previous years and the balances of the previous and current year's subsidies for P3 Funds from the NG accounts for the increase in expenses for P3 loans against the 2019 DBM approved budget.

5.4 The increase in the budget allocation for the implementation of GAD activities is beneficial to the client-focused activity that empower the women entrepreneurs to become contributors to socio-economic endeavor of the country, in general, in conformity with the Corporation's mandate.

5.5 Presented in the following matrix are the GAD accomplishments for CY 2019:

Gender Issue/GAD Mandate	GAD Activity	Output Targets	Actual Result	DBM Approved GAD Budget	Actual Cost/ Expenditure
Client Related Sex Disaggregation of borrowers under the P3	Ensure that the P3 Dashboard provide sex disaggregation data	Availability of SDD report showing % distribution of borrowers by gender	A P3 dashboard was set up showing the % of distribution of borrowers by gender	50,000	47,600
	Submit to DTI quarterly sex disaggregated data (SDD) submitted to DTI report	Quarterly SDD Report	Submitted quarterly SDD report to DTI	15,307	15,307
Sex disaggregation of women clients capacitated on the following: - Corporate governance and Credit Risk Management - Risk Based Lending	Ensure that information for filling up in the attendance sheet includes identification of beneficiaries by gender		Submitted the pertinent SDD reports to DTI	1,469,700	3,592,437
Empower more women by providing them capacity building programs	Marketing activity focusing on women entrepreneurs	Percentage distribution of training beneficiaries by gender Target: 30% of capacity building program	Capacity building for micro finance institutions under P3 Program- 55.46% Capacity building for rural banks- 60.37%		

Gender Issue/GAD Mandate	GAD Activity	Output Targets	Actual Result	DBM Approved GAD Budget	Actual Cost/ Expenditure
Level of participation of employees in GAD activity/ program initiated by DTI/ PCW/CSC such as women's month celebration	Participate in GAD related activity/program to be initiated by DTI/PCW/CSC	Corporate wide participation to women's month	Participated in the ff. GAD activities: Purple Fridays initiative in March 2019 for the Woman Month's celebration; Campaign to end violence for women in December 2019	51,964	57,335
Need for decentralized GFPS-TWG	Appoint representative from the Area Offices to GFPS-TWG	Representatives from the Area Offices are part of the GFPS TWG who are tasked to take the lead in monitoring the effective implementation of GAD-related policies/programs	SB Corp. issued SO No. 025 s. of 2019 on 28 February, 2019 expanding the membership of GFPS-TWG to include representatives from Area Offices	35,498	35,498
Harmonized Gender and Development Guidelines Attributed					
A. MSME Wholesale Lending Program			Total Loan Releases	1,300,000,000	762,091,343
B. MSME Retail Lending Program			Total of 47.44% women borrowers	700,000,000	181,739,729
C. Pondo ng Pagbabago at Pag-asenso (P3 Program)			Total of 72% women borrowers nationwide	1,695,000,000	3,191,599,500
TOTAL GAD RELATED EXPENDITURES				**3,696,622,469**	**4,139,178,749**

It could be gleaned from the above table that SB Corporation has commendably accomplished their GAD targets for CY 2019.

6. Status of Audit Suspensions, Disallowances and Charges

6.1 As at December 31, 2019, details of suspensions, disallowances and charges are as follows:

	Beginning Balance as of Dec. 31, 2018	This Period January 1 to December 31, 2019		Ending Balance as of Dec. 31, 2019
		NS/ND/NC	NSSDC	
Notice of Suspension	0	0	0	0
Notice of Disallowance	168,417,178	1,291,055	460,754	169,247,479
Notice of Charge	0	0	0	0
TOTAL	**168,417,178**	**1,291,055**	**460,754**	**169,247,479**

6.2 The balance of disallowances as at December 31, 2019 amounted to P169.247 million. This consists of disallowances issued for the CNA incentives, reimbursement of expenses not granted per SSL, loyalty award, salary differential, economic and financial assistance, various allowances, and salary increases for the period April 2010 to December 2016.

6.3 Notices of Disallowance (ND) issued during the year totaling P1.291 million, consist of ND Nos. 19-001-893000-(17-18) re: Group Life Insurance and 19-002-884000-(17-18) re: Birthday Allowance, amounting to P0.371 million and 0.920 million, respectively.

6.4 Notices of Settlement of Suspensions, Disallowances, and Charges (NSSDCs) totaling P0.461 million were also issued, representing settlement on ND No. 18-001-884000-(17) re: ND on Filing fee of Appeal; and partial settlement on ND No. 14-001-401000-(13) re: ND on merit increase of SB Corporation officers, amounting to P0.044 million and P0.417 million, respectively.

6.5 Notices of Finality of Decision (NFDs) dated March 26, 2013, May 8, 2013, and April 28, 2015 were issued for the CNA incentive, loyalty awards and reimbursement of expenses not granted per SSL. The Legal Services Sector, COA issued an amended COA Order of Execution (COE) dated July 8, 2015 for reimbursement of expenses not granted per SSL. Moreover, COA Decision No. 2017-010 dated February 16, 2017 has already been issued by the Commission Proper **affirming the disallowance on** the payment of merit increase to five SB Corporation officers for the period September 1, 2012 to August 31, 2014 in the total amount of P759,042.41. Further, the said COA Decision was likewise affirmed by the Supreme Court (SC) per SC *En Banc* Notice of Judgment and Decision dated October 3, 2017, in the case *"Small Business Corporation (SB Corporation) vs. Commission on Audit (COA)"* G.R. No.230628.

6.6 Meanwhile, COA Decision No. 2017-4941 dated December 29, 2017 affirmed CGS Cluster 2 Decision No. 2015-007 dated May 20, 2015 for the disallowance of payment of salary differential and increase in other benefits from CYs 2012 to 2014, in the aggregate amount of P4.489 million.

6.7 The appeals of SB Corporation to the Office of the Cluster Director (OCD) pertaining to the disallowed increase in salaries amounting to P46.448 million per ND No. 2017-009-701000-(14-16) dated July 7, 2017 and P48.885 million per ND No.18-002-50101010-(10-13) dated October 2, 2018, were both denied by the OCD per CGS Cluster Decision Nos. 2018-003 and 2019-002 dated March 13, 2018 and March 04, 2019, respectively.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 21 audit recommendations embodied in the CY 2018 Annual Audit Report, 16 were fully implemented, two were partially implemented, and three were not implemented. Out of the five partially and not implemented audit recommendations, two were reiterated in Part II of this Report and two were with issued Notices of Disallowance. Details are presented below:

Reference	Audit Observations	Audit Recommendations	Status/ Actions Taken
CY 2018 AAR			
Observation No. 1, page 50	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.	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 RCA all its financial transactions to comply with the requirements of COA Circular No. 2015-010 dated December 1, 2015; and	Fully implemented
		b. Submit immediately to COA-SB Corporation and COA-GAS 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.	Fully implemented
Observation No. 2, page 51	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	a. Effect immediately the payments made by the identified depositors to their corresponding accounts;	Fully implemented
		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	Partially implemented Reiterated under Observation No. 4, Part II of this

Reference	Audit		Status/ Actions Taken
	Observations	**Recommendations**	
	rate, and consequently, affecting the collection efficiency ratio of the Corporation.	immediately the application of payment to the identified borrower's account; and	Report.
		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.	Not implemented Reiterated under Observation No. 4, Part II of this Report.
Observation No. 3, page 52	3. Loans Receivable reported in the financial statements as at December 31, 2018 included unadjusted negative loan balances of 17 accounts amounting to P199,297 and two unadjusted reconciling items totalling P2.426 million, thus, contrary to the requirements of Paragraphs 15 and 32 of PAS 1.	a. Review the accuracy of the recorded transactions per borrower's Loan Receivable to promptly correct the negative Loans Receivable balance, and accordingly prepare the necessary adjusting journal entries to reflect the proper Loans Receivable balance to be reported in the financial statements;	Fully implemented
		b. Ensure prompt submission to the Controllership Group of the needed documents to set up Loans Receivable account for the renewed and restructured loans; and	Fully implemented
		c. Ensure continuous monitoring of application of loan payments to its corresponding accounts to timely detect any errors and discrepancies and to immediately effect necessary adjusting journal entries.	Fully implemented

Reference	Audit		Status/ Actions Taken
	Observations	**Recommendations**	
Observation No. 4, page 54	4. 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.	a. Formally inform the GCG that in SB Corporation's application for the adoption of the MSS per E.O. No. 36, the job levels submitted for conversion to equivalent salary grades were based on the Board-approved CSSP that does not have the approval of the President of the Philippines, and accordingly, wait for further instructions of the GCG; and	Not implemented Issued Notice of Disallowance (ND) No. 20-001-50101010 (17-18) dated June 30, 2020.
		b. Present a more convincing/valid justification 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.	Not implemented Issued Notice of Disallowance (ND) No. 20-001-50101010 (17-18) dated June 30, 2020.
Observation No. 5, page 59	5. The Corporation's procurement of consultancy services for the implementation of Enterprise Enhancement Program (EEPro) does not fall under the purview of Consultancy Services as defined under Section 5 of Republic Act (R.A.) No. 9184, thus, the rate of the professional fee of the selected Resource Person could be simply based on the guidelines	a. Secure the services of the Corporation's in-house personnel preferably from the Controllership, Internal Audit and Capacity Building Groups, to act as lecturer/resource person in the conduct of EEPro training to save time and money;	Fully implemented
		b. Make use of the EEPro training materials submitted by the previous trainers to	Fully implemented

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	prescribed under Section 4 of DBM Budget Circular No. 2007-1 dated April 23, 2007, and not based on the quoted price of the Lowest Calculated Responsive Bidder/Highest Rated Responsive Bidder pursuant to Section 34.4 of the Revised Implementing Rules and Regulations (IRR) of R.A. No. 9184.	serve as reference/guide to the would be in-house trainers;	
		c. Refer to Sections 4.2 and 4.3 of DBM Budget Circular No. 2007-01 dated April 23, 2007 as basis for the payment of honorarium of trainer/s coming from the private sector;	Fully implemented
		d. As Section 4.5 of the said Budget Circular does not allow granting of honoraria to in-house resource personnel of sponsoring government agencies, they should only be provided with corresponding travelling expenses when conducting out-of-town training/seminars, pursuant to Section 4 of the same DBM Circular; and	Fully implemented
		e. Be mindful that procurement for consultancy services may only be undertaken if intended services to be procured falls under the purview of Section 5 of R.A. No. 9184.	Fully implemented
Observation No. 6, page 61	6. 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 P3 Program, were not strictly in accordance with the pertinent provisions of R.A. No. 9184, thus, the governing principles	Management follows strictly the prescribed procurement procedures under R.A. No. 9184 and its IRR to refrain from incurring irregular expenditures.	Partially implemented SB Corporation sought further clarification with the Government Procurement Policy Board regarding the

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	on government procurement of transparency, competitiveness and public monitoring of procurement process were not observed/achieved.		issue.
Observation No. 7, page 66	7. The procedural guidelines in the handling of past due accounts in default as provided under Section A of SB Corporation's 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.	a. Revisit the procedural guidelines in the handling of past due accounts as embodied under SB Corporation's 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.	Fully implemented Fully implemented
Observation No. 8, page 70	8. The SB Corporation, through its GAD programs and projects (PAPs), although highly centralized at the Head Office, has commendably implemented the major activities that were gender responsive and were focused to assist the marginalized sector of un-served and/or underserved micro, women entrepreneurs through access to SB Corporation's Microfinance Wholesale Financing and Pondo sa Pagbabago at Pag-asenso (P3) Programs totaling P1.570 billion.	a. Strengthen its GFPS as required by the Magna Carta for Women (MCW) and follow PCW MC No. 2011-01. GFPS structure and composition must include a separate GFPS for its regional agencies/area offices to effectively lead in mainstreaming gender perspective at sub-national levels; and b. Thereafter, systematically coordinate with regional GFPS as to the latter's roles and	Fully implemented Fully implemented

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	However, for the SB Corporation-Mindanao Group, the highly centralized GAD Focal Point System (GFPS) and GAD Planning and Budgeting had prevented the identification and conduct of PAPs at the Regional level.	responsibilities in the formulation of proposed PAPs for consolidation in the overall GPB in order to incorporate PAPs that would also address GAD issues at the regional level and to ensure alignment of regional GPB with the overall GAD agenda of the Corporation.	
<u>CY 2017 AAR</u>			
Observation No. 2, page 49	9. Delayed preparation of monthly bank reconciliation report resulted in the delayed detection of erroneous recordings of cash transactions, thus, affecting the reliability and accuracy of the cash balance as reported in its monthly statement of financial position, which is contrary to the requirements of Philippine Accounting Standard (PAS) 1.	Management agreed to prepare the monthly bank reconciliation report on time to promptly detect errors in recording cash transactions between the bank and the book.	Fully implemented