Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines
CORPORATE GOVERNMENT AUDIT SECTOR
CLUSTER 2 – SOCIAL SECURITY

June 27, 2023

S B G F C
OFFICE OF THE CORPORATE SEC.
RECEIVED
BY : MPombo
DATE : 6/27/2023
TIME : 3:09 PM

THE BOARD OF DIRECTORS
Small Business Guarantee and Finance Corporation
17th to 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, 2022 and 2021.

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

The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements of the SB Corporation for the years ended December 31, 2022 and 2021 because of the following identified material misstatements of several accounts that have pervasive effect to the financial statements:

- The reported carrying amounts of SB Corporation's financial assets subject to impairment, namely, Cash in Banks, Cash Equivalents, Investment Securities at Amortized Cost, Notes Receivable, Accounts Receivable and Other Receivables totaling P15.437 billion and P14.529 billion as at December 31, 2022 and 2021, respectively, are overstated by undetermined amounts. The impairment model being adopted by SB Corporation for financial assets is generally reflective of the incurred loss model, which results in credit losses being recognized only when there is an incurred loss event. Such policy is inconsistent with the expected credit loss model prescribed by Philippine Financial Reporting Standards (PFRS) 9 – Financial Instruments, which requires the recognition of impairment losses on a forward-looking basis and before the occurrence of any credit event;

- The Intra-agency Receivables and Payables accounts were not eliminated in the financial statements. Intra-agency accounts are reciprocal accounts that only serve as clearing accounts to monitor recording of intra-fund transactions which shall have zero balances at the end of the reporting period. Consequently, the reported total assets of SB Corporation as at December 31, 2022 and 2021 are overstated by P97.488 million and P83.470 million, respectively, while the reported total liabilities as at even dates are also overstated by P143.619 million and P91.590 million, respectively;

- Several relevant and material quantitative disclosures required under PFRS 7 – Financial Instruments: Disclosures, including a summary of quantitative data as at December 31, 2022 and 2021 about SB Corporation's exposure to each type of risk arising from financial instruments, are not presented in the notes to the financial statements for CYs 2022 and 2021. Philippine Accounting Standards (PAS) 1 requires that the notes to financial statements (NTFS) must disclose information required by PFRSs that is not presented elsewhere in the financial statements; and

The Auditor likewise included as basis in modifying the opinion the recognition of Deferred Tax Assets (DTA) that is not duly supported by convincing evidence that would show sufficiency of future taxable profits against which the related deductible temporary differences can be utilized as required by pertinent provisions of PAS 12 – Income Taxes, resulting in the doubtful realizability of the reported DTA of P776.248 million and P353.027 million as at December 31, 2022 and 2021, respectively. Due to unavailability of relevant records, we were unable to determine whether any adjustments might have been found necessary in respect of the recorded DTA and Retained Earnings. For the foregoing observations that caused us to modify the opinion, we recommended that Management:

For the inadequacies of the current impairment model adopted by SB Corporation for its financial assets:

a. Formulate a revised impairment model that is aligned with PFRS 9 which shall serve as basis by the SB Corporation in the estimation of Expected Credit Losses (ECL) on its financial assets. Such model should address the several deficiencies noted in the existing Policy on Loan Loss Estimation Methodology;

b. Based on the revised impairment model, determine and record the reasonable amount of ECL to fairly state the affected account balances;

c. Ensure that the following measures are in place to ensure the effective and efficient implementation of the revised impairment model:

   i. Relevant procedures and steps as to the governance of the whole ECL process to control the management of data assets;

   ii. Detailed accountabilities of each personnel involved in the ECL process, including timelines for completion of required activities as well as process flow of ECL computation; and

   iii. Subsequent audit, independent model validation, back-testing and recalibration of the revised impairment model; and

d. Strongly demand from the third-party validator the immediate completion and submission of the latter's deliverables under the engagement. Other remedies as allowed under the engagement and law on contracts should be exhausted for the same purpose.

For the non-elimination of the intra-agency receivable and payable accounts in the financial statements:

a. Prioritize/Fast track the analysis and reconciliation of the noted variances in the intra-agency accounts to pave the way for the elimination thereof in the financial statements;

b. Based on the results of such analysis and reconciliation, effect the necessary adjustments in the books to adjust and eliminate the intra-agency accounts;

c. Set reasonable timeline, milestones and accountabilities for the recommended analysis and reconciliation to properly evaluate and monitor progress and accomplishments;

d. Formulate a policy regarding the proper recording of intra-agency transactions, to include, among others, relevant procedures, accountabilities, and timelines;

e. Disclose in the NTFS the accounting policy on the consolidation and elimination of the reciprocal intra-agency accounts, as appropriate; and

f. Install appropriate control mechanisms, e.g., inclusion in year-end closure instructions, records reconciliation, and regular review and monitoring, among others, to ensure that intra-agency transactions are properly recorded and variances in the intra-agency accounts are minimized, if not eliminated.

For the non-disclosure of relevant and material quantitative information required under PFRS 7:

a Disclose all the necessary information in the NTFS as required or encouraged by relevant PFRSs; and

b. Require the concerned Operating Groups to assist and promptly provide the required information to the Controllership Group to enable the latter to timely prepare the NTFS sufficient in form and substance and to submit the same to the Audit Team within the set deadline.

For the insufficient convincing evidence to support the recognition of Deferred Tax Assets as required under PAS 12:

a. Recognize DTA only to the extent of its total taxable differences as at December 31, 2022, and disclose the excess DTA in the NTFS; and

b. Reassess at the end of each year the derecognized/unrecognized DTA and recognize the same only to the extent that it has become probable based on the result of such reassessment that future taxable profit will allow the DTA to be recovered; or

c. Submit justification for the continued recognition of its DTA of P776.248 million which must be objective and well-documented, including a breakdown and timing of projected taxable profits, as well as a determination of the level of probability thereof; and

d. Disclose in the NTFS the nature of the evidence supporting the recognition of its DTA as required by PAS 12.

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

1. SB Corporation was not able to formally conduct the required assessment of its ability to continue as a going concern. As a result, information on its recurring negative cash flows and operating losses, which collectively indicate the existence of material uncertainty related to going concern, was not disclosed in the NTFS, contrary to Paragraph 25 of PAS 1 – *Presentation of Financial Statements*. Further, such material uncertainty when left unmitigated may cause substantial disruption in the effective delivery of the Corporation's mandate.

   We recommended that Management, through the CG and other concerned Groups:

   a. Make the appropriate disclosures in the NTFS as regards the noted material uncertainties, i.e., negative cash flows and recurring operating losses (subsidy income excluded), relating to the SB Corporation's ability to continue as a going concern;

   b. Develop plans for future actions in relation to the material uncertainties noted and likewise disclose the same in the NTFS. Such plans shall be feasible under the circumstances and their outcomes must likely improve the situation;

   c. Thereafter, regularly conduct at each reporting date a formal and documented assessment of the SB Corporation's ability to continue as a going concern as required by PAS 1; and

   d. Consider creating a Permanent Committee, which must include the Head of the CG, to spearhead the conduct of the going concern assessment and the development of pertinent plans relative to the results thereof.

2. No reasonable efforts were exerted to exact and/or determine accountability over the tax penalties paid relative to deficiency tax assessments in taxable years 2016 and 2019 amounting to P3.665 million and P1.627 million, respectively, contrary to Section 247 of the National Internal Revenue Code, as amended, Sections 38 and 39 of Chapter 9, Book I of EO No. 292, and Section 103 of Presidential Decree No. 1445. As a result, the Corporation is deprived of significant amount of funds for use in its operations to carry out its mandate.

   We recommended that Management, through the concerned Groups:

   a. Collect from the employee/s responsible for the non-withholding and/or non-remittance of the deficiency expanded withholding taxes the tax penalties paid relative thereto totaling P500,461;

   b. For deficiency taxes other than withholding taxes, investigate if there was bad faith, malice or gross negligence on the part of the concerned employee/s which resulted in the deficiency tax assessments. An ad hoc committee may be established for this purpose;

c. Based on the results of such investigation, hold the concerned employee/s liable for the tax penalties paid relative to the non-payment thereof totaling P4.792 million;

d. Follow-up with the tax consultant the result of his analysis and determination of the causes that resulted in the deficiency taxes, including the significant weaknesses in existing tax-related processes and controls. In the meantime, perform a similar analysis and determination as a temporary measure;

e. Based on the results of the analysis, develop and implement the necessary measures to address the identified causes, including the significant weaknesses in existing tax-related processes and controls; and

f. Set reasonable timeline, milestones and accountabilities for the recommended investigation and analysis to properly evaluate and monitor progress and accomplishments.

The other audit observations together with the recommended courses of action, which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on May 5, 2023, are discussed in detail in Part II of the report.

In a letter of even date, we requested the President and Chief Executive Officer of SB Corporation 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:

DIGNA CRESCENCIA G. FILLER
Officer-in-Charge

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned and Controlled Corporations
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COMMISSION ON AUDIT
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CORPORATE GOVERNMENT AUDIT SECTOR
CLUSTER 2 – SOCIAL SECURITY

June 27, 2023

MR. ROBERT C. BASTILLO
President and Chief Executive Officer
Small Business Guarantee and Finance Corporation
17th to 18th Floors, 139 Corporate Center Building
139 Valero St., Salcedo Village
Makati City

SMALL BUSINESS CORPORATION
RECEIVED
BY:
DATE: 6/27/23
TIME: 3:05 P.M.
OFFICE OF THE PRESIDENT/CEO

Dear President Bastillo:

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f. Set reasonable timeline, milestones and accountabilities for the recommended investigation and analysis to properly evaluate and monitor progress and accomplishments.

The other audit observations together with the recommended courses of action, which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on May 5, 2023, 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 the date of receipt hereof.

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

Very truly yours,

COMMISSION ON AUDIT

By:

DIGNA CRESCENCIA G. FILLER
Officer-in-Charge

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned 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 2022 and Prior Years
As of ________________

Ref.	Audit Observations	Audit Recommendations	Agency Action Plan				Status of Implementation	Reason for 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) Implemented (FI); (b) Not Implemented (NI)

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

ANNUAL AUDIT REPORT

on the

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION

(Small Business Corporation)

For the Years Ended December 31, 2022 and 2021

EXECUTIVE SUMMARY

INTRODUCTION

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 Republic Act (RA) No. 6977, as amended on May 6, 1997 and May 23, 2008 by RA Nos. 8289 and 9501, respectively, otherwise known as the "Magna Carta for Micro, Small and Medium Enterprises (MSMEs)." Section 11 of RA No. 6977, as amended, provides:

> "*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 mission of SB Corporation is to grow the 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. SB Corporation presently has several programs for the MSME sector, namely, wholesale lending to smaller financial institutions, cooperatives, and foundations; retail or direct lending to MSMEs, as well as programs to entrepreneurs in vulnerable areas affected by natural and man-made calamities, and venture capital programs.

Previously, SB Corporation provided guarantee programs to larger banks to cover MSME loans without or with insufficient collateral as allowed under Section 11-B of RA No. 6977, as amended. However, pursuant to Executive Order (EO) No. 58 dated July 23, 2018 which mandated the creation of a single entity handling the government guarantee system, all guarantee-related assets, liabilities, funds and functions of SB Corporation were transferred to the Philippine Guarantee Corporation on August 31, 2019.

The SB Corporation is under the policy program and administrative supervision of the MSME 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. Taking into consideration its development objectives, SB Corporation is also subject to the supervision and examination of the Bangko Sentral ng Pilipinas (BSP).

The policy-making body of SB Corporation is the Board of Directors (BOD) composed of 11 members, as follows: (a) Secretary of the DTI; (b) Secretary of the Department of Finance; (c) a private sector representative; (d) seven representatives of SB Corporation's common stock shareholders, with one seat presently vacant; and (e) President and Chief Executive Officer (PCEO) of SB Corporation. The BOD is headed by a Chairperson who is appointed by the President of the Philippines from among the members with the PCEO serving as Vice Chairman.

The policies are implemented into action by the PCEO appointed by the President of the Philippines for a term of one year. He is assisted by the Executive Vice President, three Senior Vice Presidents and 14 Vice Presidents, including OIC designates. As at December 31, 2022, SB Corporation personnel complement totaled 353, consisting of 167 regular employees of which two are co-terminus, 150 contractual and 36 agency-hired personnel.

The principal office of SB Corporation is at 17th and 18th Floors, 139 Corporate Center, 139 Valero St., Salcedo Village, Makati City. It has four regional lending offices and 75 field offices throughout the Philippines.

The proposed CY 2022 Corporate Operating Budget (COB) of SB Corporation submitted to the Department of Budget and Management (DBM) amounted to P8.126 billion, of which only P8.112 billion was subsequently approved. The actual utilization of the said budget amounted to P6.273 billion resulting in variance of P1.839 billion. Details follow:

	Per DBM-approved COB	Actual Utilization	Variance
Personnel services	307,032,000	248,999,007	58,032,993
Maintenance and other operating expenses (MOOE)	273,570,000	164,841,392	108,728,608
Capital outlay	7,531,544,000	5,859,012,366	1,672,531,634
	8,112,146,000	**6,272,852,765**	**1,839,293,235**

The variances for personnel services and MOOE were primarily caused by adoption of Memorandum Circular No. 3 dated July 28, 2022 of the President of the Philippines which prohibited SB Corporation from entering into new contracts or projects or disburse extraordinary funds until such time that new sets of appointive directors have been appointed and chief executive officer elected in accordance with its Charter. Meanwhile, the significant variance in capital outlay is mainly attributed to the very low uptake under the RISE UP Turismo Program driven by the slow recovery of the Philippine tourism industry.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

	2022	2021 (As Restated)	Increase
Assets	16,481,194,139	15,117,546,002	1,363,648,137
Liabilities	442,752,776	442,407,649	345,127
Equity	16,038,441,363	14,675,138,353	1,363,303,010

II. Comparative Results of Operations

	2022	2021 (As Restated)	Increase (Decrease)
Revenue	510,497,849	343,224,517	167,273,332
Expenses	1,546,088,693	1,201,784,257	344,304,436
Loss before tax	1,035,590,844	858,559,740	177,031,104

	2022	2021 (As Restated)	Increase (Decrease)
Income tax benefit	398,686,009	53,110,473	345,575,536
Loss after tax	636,904,835	805,449,267	(168,544,432)
Subsidy from National Government	2,000,000,000	1,000,000,000	1,000,000,000
Total comprehensive income	1,363,095,165	194,550,733	1,168,544,432

OPERATIONAL HIGHLIGHTS

	2022		
Performance Indicators	**Actual**	**Target**	**Variance**
Year-end gross amount of financing portfolio (in billion pesos)	12.343	16.909	(4.566)
Number of active MSME borrowers (with loan releases during the year relative to the prior year)	81,406	68,754	12,652
Number of provinces provided with access to financing	85	85	0

The actual year-end gross amount of financing portfolio was lower than the target by P4.566 billion due to the very low uptake under the RISE UP Turismo Program. This is despite the efforts of Management to encourage MSMEs in the tourism sector to avail of financing that may help them to recover and stimulate growth in their business. Notably, aside from relaxing the features of the program, SB Corporation has continuously engaged in various marketing activities both on its own and in partnership with the DTI to target borrowers belonging in the tourism sector.

SCOPE OF AUDIT

Our audit covered the examination, on a test basis, of the accounts and transactions of SB Corporation for the period January 1 to December 31, 2022 in accordance with International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2022 and 2021. We also conducted our audit to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

AUDITOR’S OPINION

We rendered an adverse opinion on the fairness of presentation of the financial statements of the SB Corporation for the years ended December 31, 2022 and 2021 because of the following identified material misstatements of several accounts that have pervasive effects to the financial statements:

1. The reported carrying amounts of SB Corporation’s financial assets subject to impairment, namely, Cash in Banks, Cash Equivalents, Investment Securities at Amortized Cost, Notes Receivable, Accounts Receivable and Other Receivables totaling P15.437 billion and P14.529 billion as at December 31, 2022 and 2021, respectively, are overstated by undetermined amounts. The impairment model

being adopted by SB Corporation for financial assets is generally reflective of the incurred loss model, which results in credit losses being recognized only when there is an incurred loss event. Such policy is inconsistent with the expected credit loss (ECL) model prescribed by Philippine Financial Reporting Standards (PFRS) 9 – *Financial Instruments*, which requires the recognition of impairment losses on a forward-looking basis and before the occurrence of any credit event;

2. The Intra-agency Receivables and Payables accounts were not eliminated in the financial statements. Intra-agency accounts are reciprocal accounts that only serve as clearing accounts to monitor recording of intra-fund transactions which shall have zero balances at the end of the reporting period. Consequently, the reported total assets of SB Corporation as at December 31, 2022 and 2021 are overstated by P97.488 million and P83.470 million, respectively, while the reported total liabilities as at even dates are also overstated by P143.619 million and P91.590 million, respectively;

3. Several relevant and material quantitative disclosures required under PFRS 7 – Financial Instruments: Disclosures, including a summary of quantitative data as at December 31, 2022 and 2021 about SB Corporation's exposure to each type of risk arising from financial instruments, are not presented in the notes to the financial statements (NTFS) for CYs 2022 and 2021. Philippine Accounting Standards (PAS) 1 – *Presentation of Financial Statements* requires that the NTFS must disclose information required by PFRSs that is not presented elsewhere in the financial statements; and

We likewise included as basis in modifying the opinion the recognition of Deferred Tax Assets (DTA) that is not duly supported by convincing evidence that would show sufficiency of future taxable profits against which the related deductible temporary differences can be utilized as required by pertinent provisions of PAS 12 – *Income Taxes*, resulting in the doubtful realizability of the reported DTA of P776.248 million and P353.027 million as at December 31, 2022 and 2021, respectively. Due to unavailability of relevant records, we were unable to determine whether any adjustments might have been found necessary in respect of the recorded DTA and Retained Earnings.

For the foregoing observations that caused us to modify the opinion, we recommended that Management:

1. For the inadequacies of the current impairment model adopted by SB Corporation for its financial assets:

   a. Formulate a revised impairment model that is aligned with PFRS 9 which shall serve as basis by the SB Corporation in the estimation of ECL on its financial assets. Such model should address the several deficiencies noted in the existing Policy on Loan Loss Estimation Methodology;

   b. Based on the revised impairment model, determine and record the reasonable amount of ECL to fairly state the affected account balances;

   c. Ensure that the following measures are in place to ensure the effective and efficient implementation of the revised impairment model:

i. Relevant procedures and steps as to the governance of the whole ECL process to control the management of data assets;

ii. Detailed accountabilities of each personnel involved in the ECL process, including timelines for completion of required activities as well as process flow of ECL computation;

iii. Subsequent audit, independent model validation, back-testing and recalibration of the revised impairment model; and

d. Strongly demand from the third-party validator the immediate completion and submission of the latter's deliverables under the engagement. Other remedies as allowed under the engagement and law on contracts should be exhausted for the same purpose.

2. For the non-elimination of the intra-agency receivable and payable accounts in the financial statements:

   a. Prioritize/Fast track the analysis and reconciliation of the noted variances in the intra-agency accounts to pave the way for the elimination thereof in the financial statements;

   b. Based on the results of such analysis and reconciliation, effect the necessary adjustments in the books to adjust and eliminate the intra-agency accounts;

   c. Set reasonable timeline, milestones and accountabilities for the recommended analysis and reconciliation to properly evaluate and monitor progress and accomplishments;

   d. Formulate a policy regarding the proper recording of intra-agency transactions, to include, among others, relevant procedures, accountabilities, and timelines;

   e. Disclose in the NTFS the accounting policy on the consolidation and elimination of the reciprocal intra-agency accounts, as appropriate; and

   f. Install appropriate control mechanisms, e.g., inclusion in year-end closure instructions, records reconciliation, and regular review and monitoring, among others, to ensure that intra-agency transactions are properly recorded and variances in the intra-agency accounts are minimized, if not eliminated.

3. For the non-disclosure of relevant and material quantitative information required under PFRS 7:

   a. Disclose all the necessary information in the NTFS as required or encouraged by relevant PFRSs; and

b. Require the concerned Operating Groups to assist and promptly provide the required information to the Controllership Group (CG) to enable the latter to timely prepare the NTFS sufficient in form and substance and to submit the same to the Audit Team within the set deadline.

4. For the insufficient convincing evidence to support the recognition of DTA as required under PAS 12:

   a. Recognize DTA only to the extent of its total taxable differences as at December 31, 2022, and disclose the excess DTA in the NTFS; and

   b. Reassess at the end of each year the derecognized/unrecognized DTA and recognize the same only to the extent that it has become probable based on the result of such reassessment that future taxable profit will allow the DTA to be recovered; or

   c. Submit justification for the continued recognition of its DTA of P776.248 million which must be objective and well-documented, including a breakdown and timing of projected taxable profits, as well as a determination of the level of probability thereof; and

   d. Disclose in the NTFS the nature of the evidence supporting the recognition of its DTA as required by PAS 12.

OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

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

1. SB Corporation was not able to formally conduct the required assessment of its ability to continue as a going concern. As a result, information on its recurring negative cash flows and operating losses, which collectively indicate the existence of material uncertainty related to going concern, was not disclosed in the NTFS, contrary to Paragraph 25 of PAS 1. Further, such material uncertainty when left unmitigated may cause substantial disruption in the effective delivery of the Corporation's mandate.

   We recommended that Management, through the CG and other concerned Groups:

   a. Make the appropriate disclosures in the NTFS as regards the noted material uncertainties, i.e., negative cash flows and recurring operating losses (subsidy income excluded), relating to the SB Corporation's ability to continue as a going concern;

   b. Develop plans for future actions in relation to the material uncertainties noted and likewise disclose the same in the NTFS. Such plans shall be feasible under the circumstances and their outcomes must likely improve the situation;

c. Thereafter, regularly conduct at each reporting date a formal and documented assessment of the SB Corporation's ability to continue as a going concern as required by PAS 1; and

d. Consider creating a Permanent Committee, which must include the Head of the CG, to spearhead the conduct of the going concern assessment and the development of pertinent plans relative to the results thereof.

2. No reasonable efforts were exerted to exact and/or determine accountability over the tax penalties paid relative to deficiency tax assessments in taxable years 2016 and 2019 amounting to P3.665 million and P1.627 million, respectively, contrary to Section 247 of the National Internal Revenue Code, as amended, Sections 38 and 39, Chapter 9, Book I of EO No. 292, and Section 103 of Presidential Decree No. 1445. As a result, the Corporation is deprived of significant amount of funds for use in its operations to carry out its mandate.

   We recommended that Management, through the concerned Groups:

   a. Collect from the employee/s responsible for the non-withholding and/or non-remittance of the deficiency expanded withholding taxes the tax penalties paid relative thereto totaling P500,461;

   b. For deficiency taxes other than withholding taxes, investigate if there was bad faith, malice or gross negligence on the part of the concerned employee/s which resulted in the deficiency tax assessments. An ad hoc committee may be established for this purpose;

   c. Based on the results of such investigation, hold the concerned employee/s liable for the tax penalties paid relative to the non-payment thereof totaling P4.792 million;

   d. Follow-up with the tax consultant the result of his analysis and determination of the causes that resulted in the deficiency taxes, including the significant weaknesses in existing tax-related processes and controls. In the meantime, perform a similar analysis and determination as a temporary measure;

   e. Based on the results of the analysis, develop and implement the necessary measures to address the identified causes, including the significant weaknesses in existing tax-related processes and controls; and

   f. Set reasonable timeline, milestones and accountabilities for the recommended investigation and analysis to properly evaluate and monitor progress and accomplishments.

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

STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

As at December 31, 2022, the balance of audit disallowances amounted to P276.941 million. Out of the said balance, P4.667 million are already final and executory. The remaining disallowances are under appeal before the Office of the Director, Cluster 2 – Social Security, Corporate Government Audit Sector, or under a Petition for Review before the Commission Proper, this Commission. Moreover, there are no audit suspensions and charges outstanding as at even date.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 76 audit recommendations embodied in the CY 2021 Annual Audit Report, 37 were implemented, two were reconsidered and 37 were not implemented. Of the 37 audit recommendations that were not implemented, 14 are reiterated in Part II of this Report, and one was issued with Notice of Disallowance. The results of validation by the Audit Team on the suggested actions on prior years' recommendations are presented in Part III of this Report.

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LIST OF ACRONYMS USED

AAR	Annual Audit Report
AAMU	Acquired Assets Management Unit
ACPC	Agricultural Credit Policy Council
ADB	Asian Development Bank
AGDB	Authorized Government Depository Bank
AMD	Account Management Department
AO	Accountable Officer
APS	Application of Payment System
ARCCO	Asset Recovery and Collection Committee
ASCENT	Allies of Sustainability for COVID-affected Enterprises
BAC	Bids and Awards Committee
BCP	Business Continuity Plan
BIR	Bureau of Internal Revenue
BOA	Board of Accountancy
BOD	Board of Directors
BR	Board Resolution
BRS	Bank Reconciliation Statement
BSP	Bangko Sentral ng Pilipinas
BTr	Bureau of the Treasury
CALF	Comprehensive Agricultural Loan Fund
CARES	COVID-19 Assistance to Restart Enterprises Program
CEO	Chief Executive Officer
CG	Controllership Group
CMP	Cash Management Partner
COA	Commission on Audit
COB	Corporate Operating Budget
COE	COA Order of Execution
COS	Contract of Service
CPSE	Commercial Public Sector Entity
CSARG	Credit Support and Asset Recovery Group
CY	Calendar Year
DA	Department of Agriculture
DBM	Department of Budget and Management
DBP	Development Bank of the Philippines
DOA	Deed of Assignment
DOF	Department of Finance
DOSRI	Directors, Officers, Stockholders and their Related Interests
DTA	Deferred Tax Asset
DTI	Department of Trade and Industry
DTL	Deferred Tax Liability
DV	Disbursement Voucher
e-Collection	Electronic Collection
e-Payment	Electronic Payment
EAD	Exposure-at-Default
ECL	Expected Credit Loss
EIR	Effective Interest Rate
EME	Extraordinary and Miscellaneous Expenses

EO	Executive Order
EPE	Entertainment and Promotion Expenses
EPGPs	Electronic Payment Gateway Providers
ERF	Enterprise Rehabilitation Facility
ERMG	Enterprise Risk Management Group
FMCG	Fast-moving Consumer Goods
FRSC	Financial Reporting Standards Council
FS	Financial Statement
FTP	File Transfer Protocol
FSRSC	Financial and Sustainability Reporting Standards Council
FVLCD	Fair Value Less Costs of Disposal
FVOCI	Fair Value through Other Comprehensive Income
FVPL	Fair Value through Profit or Loss
FXRC	Foreign Exchange Risk Cover
GAA	General Appropriations Act
GAD	Gender and Development
GADSF	Gender and Development Strategic Framework
GADSP	Gender and Development Strategic Plan
GAR	GAD Accomplishment Report
GAS	Government Accountancy Sector
GCG	Governance Commission for GOCCs
GEWE	Gender Equality and Women Empowerment
GFPS	GAD Focal Point System
GFSME	Guarantee Fund for Small and Medium Enterprises
GIF	General Insurance Fund
GL	General Ledger
GMMS	Gender Mainstreaming Monitoring System
GOCC	Government-owned and Controlled Corporation
GPB	GAD Plan and Budget
GRT	Gross Receipts Tax
GSIS	Government Service Insurance System
HGDG	Harmonized Gender and Development Guidelines
HoPE	Head of Procuring Entity
HRMDG	Human Resource Management and Development Group
IAG	Internal Audit Group
IASB	International Accounting Standards Board
IFAD	International Fund for Agricultural Development
IFRIC	International Financial Reporting Interpretations Committee
IIRNFA	Inventory and Inspection Report of NFAs
IP	Investment Property
ISSAI	International Standards of Supreme Audit Institutions
ITR	Income Tax Return
JC	Joint Circular
JV	Journal Voucher
KfW	Kreditanstalt fur Wiederaufbau
LBP	Land Bank of the Philippines
LGD	Loss-given Default
LSG	Legal Services Group
LSS	Legal Services Sector
ManCom	Management Committee
MC	Memorandum Circular

MCIT	Minimum Corporate Income Tax
MG	Mindanao Group
MIS	Management Information System
MOA	Memorandum of Agreement
MOOE	Maintenance and Other Operating Expenses
MORNBFI	Manual of Regulations for Non-Bank Financial Institution
MOV	Means of Verification
MPI	Merchant Payment Inquiry
MRL	Management Representation Letter
MSME	Micro, Small, and Medium-sized Enterprises
MSMED	Micro, Small and Medium Enterprise Development
MVLPP	Motor Vehicle Lease-Purchase Plan
NCAHS	Non-current Asset Held for Sale
ND	Notice of Disallowance
NEDA	National Economic and Development Authority
NFA	Non-financial Assets
NFD	Notice of Finality of Decision
NG	National Government
NGA	National Government Agency
NIRC	National Internal Revenue Code
NLG	North Luzon Group
NOLCO	Net Operating Loss Carry-over
NP-SVP	Negotiated Procurement – Small Value Procurement
NSSDC	Notice of Settlement of Suspensions, Disallowances, and Charges
NTFS	Notes to Financial Statement
OBSCCO	Office Board Secretary and Chief Compliance Officer
OCI	Other Comprehensive Income
ODA	Official Development Assistance
OGCC	Office of the Government Corporate Counsel
ORM	Operational Risk Management
P3	Pondo sa Pagbabago at Pag-asenso
PAPs	Programs, Activities and Projects
PAS	Philippine Accounting Standards
PCF	Petty Cash Fund
PCW	Philippine Commission on Women
PD	Presidential Decree
PDIC	Philippine Deposit Insurance Corporation
PFRS	Philippine Financial Reporting Standards
PhilHealth	Philippine Health Insurance Corporation
PhilGEPS	Philippine Government Electronic Procurement System
PHILGUARANTEE	Philippine Guarantee Corporation
PIS	Payment Instruction Slip
PLO	Prosecution and Litigation Office
PN	Promissory Notes
PO	Purchase Order
POD	Probability of Default
PPE	Property, Plant and Equipment
QUEDANCOR	Quedan and Rural Credit Guarantee Corporation
RA	Republic Act
RAPID Growth	Rural Agro-industrial Partnership for Inclusive Development and Growth
RCA	Revised Chart of Accounts

RCIT	Regular Corporate Income Tax
RCO	Responsible Corporate Officer
RCSA	Risk Control Self-Assessments
RD	Registry of Deeds
REM	Real Estate Mortgage
RIRR	Revised Implementing Rules and Regulations
ROPA	Real and Other Properties Acquired
ROU	Right-of-Use
RR	Revenue Regulations
RRSA	Rules and Regulations on Settlement of Accounts
RSA	Risk Self-Assessments
RuMEPP	Rural Micro-Enterprise Promotion Programme
SB Corporation	Small Business Guarantee and Finance Corporation
SCE	Statement of Changes in Equity
SCI	Statement of Comprehensive Income
SDR	Special Drawing Rights
SFP	Statement of Financial Position
SICR	Significant Increase in Credit Risk
SIP	Subscriber Investment Plan
SL	Subsidiary Ledger
SLG	South Luzon Group
SME	Small and Medium Enterprises
SPU	Special Program Unit
SSS	Social Security System
STAPLES	Sustainable Trade Access to Primary Food and Link Enterprises
SPPI	Solely Payments of Principal and Interest
TG	Treasury Group
TWG	Technical Working Group
UC	Undistributed Collections
VAT	Value-added Tax
VC	Venture Capital
VCF	Venture Capital Financing
VCMC	Venture Capital Management Committee
VG	Visayas Group
VIU	Value in Use
YoS	Years of Service

Part I

AUDITED FINANCIAL STATEMENTS

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 the Financial Statements

Adverse Opinion

We have audited the financial statements of the Small Business Guarantee and Finance Corporation (SB Corporation), which comprise the statements of financial position as at December 31, 2022 and 2021, 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, because of the significance of the matters discussed in the *Bases for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly, the financial position of SB Corporation as at December 31, 2022 and 2021, and its financial performance and cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Bases for Adverse Opinion

The following identified material misstatements of several accounts have pervasive effects to the accompanying financial statements of SB Corporation:

- The reported carrying amounts of SB Corporation's financial assets subject to impairment, namely, Cash in Banks, Cash Equivalents, Investment Securities at Amortized Cost, Notes Receivable, Accounts Receivable and Other Receivables totaling P15.437 billion and P14.529 billion as at December 31, 2022 and 2021, respectively, are overstated by undetermined amounts. The impairment model being adopted by SB Corporation for financial assets is generally reflective of the incurred loss model, which results in credit losses being recognized only when there is an incurred loss event. Such policy is inconsistent with the expected credit loss model prescribed by PFRS 9 – *Financial Instruments*, which requires the recognition of impairment losses on a forward-looking basis and before the occurrence of any credit event.

- The Intra-agency Receivables and Payables accounts were not eliminated in the financial statements. Intra-agency accounts are reciprocal accounts that only serve as clearing accounts to monitor recording of intra-fund transactions which shall have zero balances at the end of the reporting period. Consequently, the reported total assets of SB Corporation as at December 31, 2022 and 2021 are overstated by P97.488 million and P83.470 million, respectively, while the reported total liabilities as at even dates are also overstated by P143.619 million and P91.590 million, respectively.

- Several relevant and material quantitative disclosures required under PFRS 7 – *Financial Instruments: Disclosures,* including a summary of quantitative data as at December 31, 2022 and 2021 about SB Corporation's exposure to each type of risk arising from financial instruments, are not presented in the notes to financial statements for CYs 2022 and 2021. PAS 1 requires that the notes to financial statements must disclose information required by PFRSs that is not presented elsewhere in the financial statements.

On the other hand, the recognition of Deferred Tax Assets (DTA) is not duly supported by convincing evidence that would show sufficiency of future taxable profits against which the related deductible temporary differences can be utilized as required by pertinent provisions of PAS 12 – *Income Taxes*, resulting in the doubtful realizability of the reported DTA of P776.248 million and P353.027 million as at December 31, 2022 and 2021, respectively. Due to unavailability of relevant records, we were unable to determine whether any adjustments might have been found necessary in respect of the recorded DTA and Retained Earnings.

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 audits 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 adverse opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report for the year ended December 31, 2022, but does not include the financial statements and our auditor's report thereon. The Annual Report for the year ended December 31, 2022 is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

In preparing the financial statements, Management is responsible for assessing 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 the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 SB Corporation to cease to continue as a going concern.

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

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 30 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. Because of the significance of the matters described in the *Bases for Adverse Opinion* section of our report, it is inappropriate to, and we do not express an opinion on the supplementary information referred to above.

COMMISSION ON AUDIT

MOHAMMAD MUARIFF S. BALANG
OIC Supervising Auditor

May 5, 2023

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, 2022 and 2021 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

ROBERT C. BASTILLO
President/CEO

CORAZON A. DIMAYUGA
Head, Controllership Group

Signed this 5th day of May 2023.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
(Small Business Corporation)
STATEMENTS OF FINANCIAL POSITION
December 31, 2022 and 2021
(In Philippine Peso)

	Note	2022	2021 (As Restated)
ASSETS			
Current Assets			
Cash and cash equivalents	5	**1,959,409,177**	1,649,847,951
Investment securities at amortized cost	6	**2,227,632,423**	1,802,284,054
Receivables, net	7	**2,084,389,113**	4,288,973,173
Inventories	8	**271,056**	391,964
Non-current assets held for sale	9	**0**	10,791,773
Other current assets	12	**9,767,907**	10,365,075
		6,281,469,676	7,762,653,990
Non-current Assets			
Financial assets at fair value through OCI	6	**18,212,500**	18,212,500
Investment securities at amortized cost	6	**1,796,981,853**	1,596,181,997
Other non-current investments	6	**146,500**	146,500
Receivables, net	7	**7,486,913,197**	5,275,078,600
Investment property, net	10	**54,214,727**	41,483,230
Property and equipment, net	11	**57,177,719**	55,609,573
Right-of-use assets, net	28.1	**4,922,757**	9,250,981
Deferred tax assets	25.7	**776,248,084**	353,027,194
Other non-current assets	12	**4,907,126**	5,901,437
		10,199,724,463	7,354,892,012
TOTAL ASSETS		**16,481,194,139**	15,117,546,002
LIABILITIES			
Current Liabilities			
Financial liabilities	13	**23,851,807**	62,730,850
Lease liability	28.2	**2,972,376**	4,156,338
Inter-agency payables	14	**29,963,549**	11,415,168
Intra-agency payables	15	**143,618,781**	91,590,083
Trust liabilities	16	**1,608,474**	1,371,166
Deferred credits/unearned income	17	**24,163,109**	24,334,085
Provisions	18	**65,998,250**	67,705,952
Other payables	19	**93,392,455**	116,696,734
		385,568,801	380,000,376
Non-current Liabilities			
Financial liabilities	13	**16,012,493**	17,896,316
Lease liability	28.2	**1,334,502**	4,306,878
Inter-agency payables	14	**39,683,010**	40,000,000
Deferred tax liabilities	25.7	**153,970**	204,079
		57,183,975	62,407,273
TOTAL LIABILITIES		**442,752,776**	442,407,649
EQUITY			
Share capital	20.1	**9,962,506,400**	9,962,506,400
Treasury shares	20.2	**(40,000,000)**	(40,000,000)
Share premium	20.3	**79,510,460**	79,510,460
Retained earnings	20.4	**6,036,424,503**	4,673,121,493
TOTAL EQUITY		**16,038,441,363**	14,675,138,353
TOTAL EQUITY and LIABILITIES		**16,481,194,139**	15,117,546,002

The Notes on pages 10 to 77 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, 2022 and 2021
(In Philippine Peso)

	Note	2022	2021 (As Restated)
REVENUE			
Service and business income	23.1	**504,615,995**	331,189,318
Gains	23.2	**5,014,477**	10,585,589
Other non-operating income	23.3	**867,377**	1,449,610
		510,497,849	343,224,517
EXPENSES			
Personnel services	24.1	**248,999,007**	261,524,707
Maintenance and other operating expenses	24.2	**164,841,392**	184,009,649
Financial expenses	24.3	**4,308,719**	11,758,661
Non-cash expenses	24.4	**1,127,939,575**	744,491,240
		1,546,088,693	1,201,784,257
LOSS BEFORE TAX		**(1,035,590,844)**	(858,559,740)
Income tax benefit	25	**398,686,009**	53,110,473
LOSS AFTER TAX		**(636,904,835)**	(805,449,267)
Subsidy from National Government	26	**2,000,000,000**	1,000,000,000
TOTAL COMPREHENSIVE INCOME		**1,363,095,165**	194,550,733

The Notes on pages 10 to 77 form part of these financial statements.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
(Small Business Corporation)
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2022 and 2021
(In Philippine Peso)

	Share Capital (Note 20.1)	**Treasury Shares** (Note 20.2)	**Share Premium** (Note 20.3)	**Retained Earnings** (Note 20.4)	**Total Equity**
BALANCE AT JANUARY 1, 2022	**9,962,506,400**	**(40,000,000)**	**79,510,460**	**4,673,121,493**	**14,675,138,353**
ADJUSTMENTS:					
Prior period adjustments	0	0	0	207,845	207,845
BALANCE AT JANUARY 1, 2022, AS RESTATED	9,962,506,400	(40,000,000)	79,510,460	4,673,329,338	14,675,346,198
CHANGES IN EQUITY FOR 2022					
Comprehensive income for the year	0	0	0	1,363,095,165	1,363,095,165
BALANCE AT DECEMBER 31, 2022	**9,962,506,400**	**(40,000,000)**	**79,510,460**	**6,036,424,503**	**16,038,441,363**
BALANCE AT JANUARY 1, 2021	9,962,506,400	(40,000,000)	79,510,460	4,487,626,646	14,489,643,506
ADJUSTMENTS:					
Prior period adjustments	0	0	0	58,851,140	58,851,140
BALANCE AT JANUARY 1, 2021, AS RESTATED	9,962,506,400	(40,000,000)	79,510,460	4,546,477,786	14,548,494,646
CHANGES IN EQUITY FOR 2021					
Comprehensive income for the year	0	0	0	194,550,733	194,550,733
Dividends due to the National Government	0	0	0	(67,907,026)	(67,907,026)
BALANCE AT DECEMBER 31, 2021	9,962,506,400	(40,000,000)	79,510,460	4,673,121,493	14,675,138,353

The Notes on pages 10 to 77 form part of these financial statements.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
(Small Business Corporation)
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021
(In Philippine Peso)

	Note	2022	2021 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Inflows			
Collection of receivables		**4,978,632,404**	3,965,262,204
Receipt of assistance/subsidy		**2,000,000,000**	1,000,000,000
Collection of income/revenue		**370,570,786**	560,520,765
Other receipts		**61,977,316**	17,296,872
Total cash inflows		**7,411,180,506**	5,543,079,841
Cash Outflows			
Release of loans to borrowers		**5,859,012,366**	7,913,392,500
Payment of expenses		**303,768,361**	370,030,431
Remittance of personnel benefit contributions and mandatory deductions		**82,283,914**	17,530,522
Payments of accounts payable		**82,122,581**	0
Prepayments		**25,740,835**	5,844,892
Grant of cash advances		**2,479,393**	0
Purchase of inventories		**554,740**	270,730
Payment of guaranty deposits		**104,225**	0
Other disbursements		**109,942,700**	6,028,540
Total cash outflows		**6,466,009,115**	8,313,097,615
Net cash provided by (used in) operating activities		**945,171,391**	(2,770,017,774)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Inflows			
Proceeds from matured Investments/redemption of long-term investments		**7,743,452,004**	20,279,243,985
Receipt of interest earned		**74,663,298**	0
Proceeds from sale/disposal of investment property		**1,586,822**	9,137,692
Sale of investments		**1,561,667**	0
Proceeds from sale/disposal of property, plant and equipment		**239,085**	235,950
Total cash inflows		**7,821,502,876**	20,288,617,627
Cash Outflows			
Purchase/acquisition of investments		**8,368,093,761**	22,606,273,241
Purchase/cnstruction of property, plant and equipment		**8,154,736**	5,310,849
Purchase/construction of investment property		**2,099,493**	0
Total cash outflows		**8,378,347,990**	22,611,584,090
Net cash used in investing activities		**(556,845,114)**	(2,322,966,463)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Outflows			
Payment of long-term liabilities		**19,083,823**	760,185,629
Payment of interest on loans and other financial charges		**1,135,528**	20,210,030
Payment of cash dividends		**58,557,544**	32,008,205
Payment of deposits from trust liability		**-**	396,054
Total cash outflows		**78,776,895**	812,799,918
Net cash used in financing activities		**(78,776,895)**	(812,799,918)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**309,549,382**	(5,905,784,155)
Effects of Foreign Exchange Rate Changes on Cash and Cash Equivalents		**11,844**	51,341
CASH AND CASH EQUIVALENTS, JANUARY 1		**1,649,847,951**	7,555,580,765
CASH AND CASH EQUIVALENTS, DECEMBER 31	**5**	**1,959,409,177**	1,649,847,951

The Notes on pages 10 to 77 form part of these financial statements.

1. GENERAL INFORMATION

1.1. Incorporation and Operations

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 Republic Act (RA) No. 6977, as amended on May 6, 1997 and May 23, 2008 by RA Nos. 8289 and 9501, respectively, otherwise known as the "Magna Carta for Micro, Small and Medium Enterprises (MSMEs)." Section 11 of RA No. 6977, as amended, provides:

> "*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, namely, wholesale lending to smaller financial institutions, cooperatives and foundations; retail or direct lending to MSMEs, as well as programs to entrepreneurs in vulnerable areas affected by natural and man-made calamities, and venture capital (VC) programs. Details follow:

a. *Wholesale Lending* – are available to qualified microfinance conduits which have the organizational capability or strength in downloading lending funds to eligible micro sub-borrowers with regulated pass-on rate. The facility aims to provide microenterprises with an alternative source of financing that is easy to access and at a reasonable cost.

b. *Retail Lending* – various loan facilities which aim to provide direct lending to registered MSMEs that are currently "unserved" by the banking system. It aims to bridge the financing gap for pre-bankable but viable MSMEs by financing their business needs, providing training, and helping them build credit track records and business size for future bank financing.

c. *VC Program* – the facility aims to promote business opportunities for MSMEs mainly for venture capital financing especially in technology-oriented industries. It is in the form of risk capital to be invested as equity to eligible MSME corporations that may be used for product development; for the establishment, improvement or expansion of plant and facilities; for market development; for working capital; and for environmental projects.

In addition, supplemental funds under the following initiatives of the National Government (NG) are managed by SB Corporation:

a. *Pondo sa Pagbabago at Pag-asenso (P3) Program* – a financing initiative to assist microentrepreneurs throughout the country by providing affordable and cost-efficient micro loans. An alternative source of financing that is easy and quick to access, it is seen to give a boost to the microenterprise sector, which comprise the bulk of the MSME sector in the country. The program also aims to stabilize informal lending, locally known as "five-six" lending, and prevent microentrepreneurs from falling victims from these usurious lenders.

b. *Rural Agro-enterprise Partnership for Inclusive Development and Growth (RAPID Growth) Project* – conceptualized by the Department of Trade and Industry (DTI) and funded by the International Fund for Agricultural Development (IFAD), aims to sustainably increase the income of small farmers and microentrepreneurs engaged in selected agriculture-based value chains. It has five components, of which SB Corporation handles the fourth component, the Innovation Fund.

   Innovation Fund is a cooperative undertaking between the DTI and SB Corporation in various aspects of agri-based finance program in the priority value chains; cacao, coffee, coconut oil and coir, and processed fruits and nuts in selected provinces in Regions VIII, IX, X, XI and XII. It is a five-year program, in force since July 2019 and expected to be in force until September 2025.

Previously, SB Corporation provided guarantee programs to larger banks to cover MSME loans without or with insufficient collateral as allowed under Section 11-B of RA No. 6977, as amended. However, pursuant to Executive Order (EO) No. 58 dated July 23, 2018 which mandated the creation of a single entity handling the government guarantee system, all guarantee-related assets, liabilities, funds and functions of SB Corporation were transferred to the Philippine Guarantee Corporation (PHILGUARANTEE) on August 31, 2019.

The SB Corporation is under the policy program and administrative supervision of the MSME Development (MSMED) Council of the DTI, the primary agency responsible for the promotion and development of MSMEs in the country. Taking into consideration its development objectives, SB Corporation is also subject to the supervision and examination of the Bangko Sentral ng Pilipinas (BSP).

The principal office of the SB Corporation is at 17th and 18th Floors, 139 Corporate Center, 139 Valero St., Salcedo Village, Makati City. It has four regional lending offices and 75 field offices throughout the Philippines.

1.2. Coping Up with the Operational Effects of the COVID-19 Pandemic

The pandemic required that the SB Corporation responds in ways which may even be considered inconceivable pre-pandemic, given its developmental mandate and crucial countercyclical role in times of crisis. More importantly, the SB Corporation's pandemic response is fully aligned and adapted to address the unique challenges presented by restricted mobility and following strict health and safety protocols.

The foregoing demanded a dramatic acceleration towards operating norms that allow for enhanced alignment, pace and performance. Outcomes that would have normally taken years to achieve took place within months, sometimes even within weeks. Traditional constructs were dismantled in favor of agility to tackle the unprecedented and unforeseen marketplace disruptions. Towards this end, the SB Corporation implemented the following initiatives and early policy actions:

a. Developed and implemented a Pandemic Business Continuity Plan (BCP) to protect its employees and keep its core and mission-essential business operations functioning during the pandemic;

b. Ensured that its workplace policies during the pandemic are responsive, equitable, adaptable, and compliant to national and local public health recommendations;

c. Implemented alternative work arrangements (e.g., work from home, skeleton workforce, among others) and provided adequate support mechanisms to SB Corporation personnel;

d. Identified key business processes and resources required for it to adequately perform its mandate during the pandemic, particularly the immediate processing and disbursement of stimulus financing to pandemic-stricken MSMEs under the COVID-19 Assistance to Restart Enterprises (CARES) Program;

e. Created functional *Ad Hoc* Teams (e.g., Document Verification Team, Business Verification Team, Loan Releasing Team, and Credit Review Team) specifically designed to allow for remote work and adapted to respond to the recovery and rehabilitation needs of the MSME sector; and

f. Leveraged on the momentum of the new operating environment to accelerate the organization’s platformification plan, including the launch of a fully online loan application system and deliberate shift to digital loan disbursements.

To date, the SB Corporation is continually working on its platformification plan through the strengthening of its Information Technology Group to efficiently manage the increasing number of demands of MSME clients, as well as the relative support services systems of the SB Corporation.

1.3. Approval of Financial Statements

The financial statements of the SB Corporation as of and for the year ended December 31, 2022 (including the comparative financial statements as of and for the year ended December 31, 2021) were approved and authorized for issue by the BOD on May 5, 2023, under Board Resolution (BR) No. 2023-06-3435.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of Preparation of Financial Statements

a. *Statement of Compliance with Philippine Financial Reporting Standards*

The financial statements of SB Corporation have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS). PFRSs are issued by the Financial and Sustainability Reporting Standards Council (FSRSC), previously the Financial Reporting Standards Council (FRSC) until September 2022, and approved by the Philippine Board of Accountancy (BOA) based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

As a government-owned or-controlled corporation (GOCC) classified as a Commercial Public Sector Entity (CPSE), SB Corporation is required to adopt the PFRS as its applicable financial reporting framework pursuant to Commission on Audit (COA) Circular No. 2015-003 dated April 16, 2015, as modified under COA Circular No. 2022-003 dated January 24, 2022. Likewise, BSP Circular No. 494 dated September 20, 2005, as reiterated in BSP Circular No. 1011 dated August 14, 2018, mandates BSP-supervised financial institutions to adopt in all respects the PFRS in the preparation of its audited financial statements for financial reporting.

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 and other comprehensive income (OCI) in a single Statement of Comprehensive Income (SCI).

For this purpose, the Corporation adopts 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 PFRS by government corporations classified as CPSEs, unless Management believes that a different classification and presentation of the accounts provide information that is reliable and more relevant to users of the financial statements.

c. *Functional and Presentation Currency*

The financial statements are presented in Philippine Peso, SB Corporation's 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 SB 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 realize its assets and discharge its liabilities and commitments in the normal course of business.

Management believes that SB Corporation has sufficient funds to continually carry out its mandate due to the additional equity infusion of P8.080 billion received in CY 2020 from the NG as mandated under RA No. 11494, otherwise known as the Bayanihan to Recover as One Act, or the Bayanihan Act 2. Further, representation with Congress is on-going for the amendment of RA No. 6977, as amended, to increase SB Corporation's authorized capitalization to P50.000 billion.

2.2. Adoption of New and Amended PFRSs

Except with respect to the following new and amended PFRS, the accounting policies adopted in the preparation and presentation of the financial statements are consistent with those of prior years. Unless otherwise indicated, these new and amended standards were adopted as at January 1, 2022 and their adoption did not have a significant impact on the financial statements.

a. *Effective in 2022 that are Relevant to SB Corporation*

(i) *Amendments to PFRS 3, Business Combinations – Reference to the Conceptual Framework.* The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued on March 29, 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential "Day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* or Philippine Interpretation IFRIC 21, *Levies*, if incurred separately. At the same time, the amendments added a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

(ii) *Amendments to PAS 16, Property, Plant and Equipment – Proceeds Before Intended Use.* The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendments must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

(iii) *Amendments to PAS 37, Provisions, Contingent Liabilities and Contingent Assets – Onerous Contract, Costs of Fulfilling a Contract.* The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach." The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded, unless they are explicitly chargeable to the counterparty under the contract.

(iv) *Annual Improvements to PFRS (2018 – 2020 Cycle)*

- *Amendments to PFRS 9, Financial Instruments – Fees in the "10 per cent" Test for Derecognition of Financial Liabilities.* The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting year in which the entity first applies the amendment.

b. *Effective in 2022 that are Not Relevant to SB Corporation*

(i) *Annual Improvements to PFRS (2018 – 2020 Cycle)*

- *Amendments to PFRS 1, First-time Adoption of Philippine Financial Reporting Standards – Subsidiary as a First-time Adopter.* The amendment permits a subsidiary that elects to apply Paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply Paragraph D16(a) of PFRS 1.

- *Amendments to PAS 41, Agriculture – Taxation in Fair Value Measurements.* The amendment removes the requirement in Paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41. This will ensure consistency with the requirements in PFRS 13.

2.3. PFRS Issued but not yet Effective

The following pronouncements were issued and adopted by the FSRSC before the year ending December 31, 2022 and are mandatorily effective for annual periods beginning on or after January 1, 2023. SB Corporation intends to adopt these standards when they become effective. Except as otherwise indicated, SB Corporation does not expect that future adoption of these pronouncements will have a significant impact on its financial statements.

a. *Effective Beginning on or After January 1, 2023*

(i) *Amendments to PAS 1, Presentation of Financial Statements, and PFRS Practice Statement 2, Disclosure of Accounting Policies.* The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their “significant” accounting policies with a requirement to disclose their “material” accounting policies; and
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

(ii) *Amendments to PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Accounting Estimates.* The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments also clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

(iii) *Amendments to PAS 12, Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction.* The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). The amendments are applicable to transactions that occur on or after the beginning of the earliest comparative period presented.

b. *Effective Beginning on or After January 1, 2024*

(i) *Amendments to PAS 1, Presentation of Financial Statements – Classification of Liabilities as Current or Non-current.* The amendments clarify Paragraphs 69 to 76 of PAS 1, to specify the requirements for classifying liabilities as current or non-current. The amendments:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the statement of financial position (SFP) date;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are originally effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. However, in November 2021, the IASB tentatively decided to defer the effective date to no earlier than January 1, 2024.

(ii) *Amendments to PFRS 16, Lease Liability in a Sale and Leaseback.* The amendments specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right of use retained.

c. *Effective Beginning on or After January 1, 2025*

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

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements of PFRS 4, which are largely based on grandfathering of previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts covering all relevant accounting aspects.

The core of PFRS 17 is the general model, supplemented by a specific adaptation for contracts with direct participation features, or the so-called variable fee approach, or a simplified approach mainly for short-duration contracts, or the so-called premium allocation approach.

On December 15, 2021, then FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission, which deferred the implementation of PFRS 17 by two years after its effective date as decided by the IASB.

d. *Deferred Effectivity:*

(i) *Amendments to PFRS 10, Consolidated Financial Statements, and to PAS 28, Investments in Associates and Joint Ventures – Sales or Contribution of Assets between an Investor and its Associates or Joint Venture.* The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, then FRSC deferred the original effective date of January 1, 2016 of the said amendments until the IASB completes 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.

2.4. Current and Non-Current Classification

SB Corporation presents assets and liabilities in the SFP based on current and non-current classification.

An asset is current when it is: (i) expected to be realized or intended to be sold or consumed in normal operating cycle; (ii) held primarily for the purpose of trading; (iii) expected to be realized within twelve months after reporting date; or (iv) cash or cash equivalents, unless restricted from being exchanged or used to settle a liability for at least 12 months after reporting date. All other assets are classified as non-current.

A liability is current when: (i) it is expected to be settled in the normal operating cycle; (ii) it is held primarily for the purpose of trading; (iii) it is due to be settled within 12 months after reporting date; or (iv) there is no unconditional right to defer the settlement of the liability for at least 12 months after reporting date. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities, respectively.

2.5. Cash and Cash Equivalents

Cash comprises of cash on hand and in banks. Cash equivalents are 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.

2.6. Financial Instruments

Financial instruments are recognized in the SFP when, and only when, SB Corporation becomes a party to the contractual provisions of the instrument. For purposes of classifying financial instruments, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria under PAS 32, *Financial Instruments: Presentation.* All other non-derivative financial instruments are treated as debt instruments.

a. Financial Assets

(i) Classification and Initial Measurement

At initial recognition, financial assets are classified and measured at amortized cost, at fair value through OCI (FVOCI), or at fair value through profit or loss (FVPL). The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and SB Corporation's business model for managing them. SB Corporation initially measures a financial asset at its fair value, and in the case of a financial asset not at FVPL, plus transaction costs.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are "solely payments of principal and interest" (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

SB Corporation's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that SB Corporation commits to purchase or sell the asset.

(ii) Subsequent Measurement

Financial assets are measured at amortized cost if both of the following conditions are met: (i) the asset is held within SB Corporation's business model, the objective of which is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the instrument give rise on specified dates to cash flows that are SPPI 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's financial assets at amortized cost as at December 31, 2022 and 2021 are presented in the SFP as cash and cash equivalents, receivables and investment securities at amortized cost.

Financial assets at FVOCI are subsequently measured at fair value. Interest income calculated using the EIR method, foreign exchange revaluation and impairment losses or reversals are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

(iii) Impairment of Financial Assets

SB Corporation recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at FVPL. SB Corporation considers past events, current conditions, and forecasts of future economic conditions in assessing impairment.

SB Corporation calculates ECLs based on probability-weighted estimates to measure cash shortfalls. A cash shortfall is 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 the original effective interest rate. 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.

ECLs are recognized in three stages based on whether there has been a significant increase in credit risk (SICR) of a financial asset as follows:

Stage	Characteristics	ECL Assessment
Stage 1	Credit exposures that are considered "performing" and with no SICR since initial recognition or with low credit risk	12-month ECL
Stage 2	Credit exposures that are considered "under-performing" or not yet non-performing but with SICR since initial recognition	Lifetime ECL
Stage 3	Credit exposures with objective evidence of impairment, thus, considered as "non-performing"	Lifetime ECL

Lifetime ECL are the ECL that result from all possible default events over the expected life of the credit exposure, irrespective of the timing of the default while the 12-month ECL pertains to the portion of lifetime ECL that result from default events on credit exposure that are possible within the 12 months after the reporting date.

In measuring the ECL, SB Corporation takes into consideration an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

In assessing whether there is a SICR of a credit exposure, SB Corporation compares the risk of a default occurring on the credit exposure as at the reporting date with the risk of default occurring as at the date of initial recognition, and considers reasonable and supportable information that is available without undue cost or effort, that is indicative of SICR since initial recognition. The date of initial recognition is the date that SB Corporation becomes a party to the contractual provisions of the financial instruments.

At a minimum, there is a SICR when contractual payments of borrowers have been past due for at least 30 days. SB Corporation adopts the definition of “default” as defined by the BSP. Thus, SB Corporation considers a credit exposure in past due (Stage 2 – Underperforming) and in default (Stage 3 – Non-performing) when the borrower is past due on its contractual payments for more than 30 days and 90 days, respectively.

As a part of a qualitative assessment of whether a customer is in default, SB Corporation also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, SB Corporation carefully considers whether the event should result in treating the customer as defaulted.

Calculation of ECL is a function of the probability of default (POD), exposure-at-default (EAD), and loss-given default (LGD) with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information, where available without undue cost or effort, and through the use of experienced credit judgment.

- POD is an estimate of the likelihood that a credit exposure will not be repaid. POD will be based on historical data and estimated based on current market conditions, and reasonable and supportable information about future economic conditions.

- LGD is an estimate of the percentage of loss that SB Corporation will incur in the event that the borrower defaults on its obligations after considering all recoveries and costs.

- EAD is the expected value of the credit exposure at the time of default with consideration on the expected changes in the credit exposure after the reporting date, including repayments of principal and interest.

PFRS 9 notes that entities, in the estimation of allowance for ECL, should use reasonable and supportable forward-looking information where available without undue cost or effort. However, when information that is more forward-looking than past due status is not available without undue cost or effort, an entity may use past due information to determine whether there have been SICR since initial recognition. PFRS 9 likewise notes that information on individual asset level may not be available and a collective assessment for groups of financial assets may be necessary to ensure that SICR is recognized in a timely manner and not only after the instrument becomes past due.

Under these contexts, SB Corporation uses historical loss patterns in the estimation of allowances for ECLs. Historical averages are calculated and adjusted, if necessary, to take into account the reasonable and supportable information that is available, without undue cost or effort, at the reporting date about current conditions and forecasts of future economic conditions using experienced credit judgments.

(iv) Reclassification

SB Corporation can only reclassify financial assets if the objective of its business model for managing those financial assets changes. A change in the objective of SB Corporation's business model will be implemented only at the beginning of the next reporting period following the change in the business model.

(v) 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) SB 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 SB Corporation 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 or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, SB Corporation continues to recognize the transferred asset to the extent of its continuing involvement.

Financial assets are written off either partially or in their entirety only when there is no realistic prospect of future recovery and the related collateral, if any, has been realized or is without recoverable value. If a write-off is later recovered, any amounts formerly charged are credited to “Miscellaneous Income” in the SCI.

Approval of the BOD is sufficient to effect the write-off of credit-related receivables and advances. However, further authority from COA is required to write-off non-credit-related receivables and advances pursuant to COA Circular No. 2016-005 dated December 19, 2016.

(vi) Modification of Financial Assets

SB Corporation likewise derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that substantially, it becomes a new asset, with the difference between its’ carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

SB Corporation considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, SB Corporation considers the following factors, among others: (i) change in currency; (ii) introduction of an equity feature; (iii) change in counterparty; and (iv) if the modification results in the asset no longer considered SPPI.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a “new” financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, SB Corporation records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

b. Financial Liabilities

(i) Classification and Measurement

Financial liabilities are classified, at initial recognition as financial liabilities at FVPL, loans and borrowings, payables. 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.

SB Corporation’s financial liabilities as at December 31, 2022 and 2021 include accounts payable, notes payable, loans payable, lease liability, and interest payable.

(ii) 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 SCI.

As at December 31, 2022 and 2021, this category generally applies to loans payable and lease liability.

(iii) Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or canceled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

SB Corporation considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of or greater than 10 percent.

Similar with financial assets, when the modification of a financial liability is not considered substantial, SB Corporation records a modification gain or loss based on the change in cash flows discounted at the original EIR.

c. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the SFP, if and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the asset and settle the liability simultaneously.

As at December 31, 2022 and 2021, there are no financial assets and liabilities that were offset.

2.7. 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.

2.8. Inventories

Inventories are tangible items with costs below the capitalization threshold for Property and Equipment and initially recorded at cost. Costs of inventories include all costs of purchase and other costs incurred to bring the inventories to their present location and condition and are accounted for using the moving average cost method.

Subsequently, inventories are valued at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Unissued inventories are regularly presented in the Monthly Inventory Report for monitoring purposes.

2.9. Prepayments and Other Assets

Prepayments and other assets pertain to other resources controlled by the Corporation as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Corporation and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Corporation beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

2.10. Non-current Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond SB Corporation's control and there is sufficient evidence that SB Corporation remains committed to its plan to sell the asset.

Non-current assets held for sale (NCAHS) are measured at the lower of their carrying amounts and fair values less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding finance costs and income tax expense. Assets classified as held for sale are not subject to depreciation or amortization. Gains or losses arising from the sale or remeasurement of assets held for sale are recognized in profit or loss.

An asset that ceases to be classified as held for sale is measured at the lower of: (i) its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held-for-sale; and, (ii) its recoverable amount at the date of the subsequent decision not to sell. Any adjustment to the carrying amount of an asset that ceases to be classified as held for sale resulting in either a gain or loss, is recognized in profit or loss. An impairment loss is also recognized for any initial or subsequent write-down of the assets held for sale to fair value less cost to sell, to the extent that it has not been previously recognized in profit or loss.

On the other hand, any gain from any subsequent increase in fair value less costs to sell of an asset up to the extent of the cumulative impairment loss that has been previously recognized is recognized in profit or loss.

2.11. Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are initially recorded at cost, which includes directly attributable costs incurred. Subsequent to initial recognition, investment properties, except land, are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The depreciable amount is allocated using a straight-line method over the remaining useful life. Land is subsequently measured at cost less accumulated impairment, if any.

Investment properties include real and other properties acquired (ROPA) in settlement of loans and receivables through foreclosure or dacion in payment. Foreclosed properties are classified under investment properties upon: (i) entry of judgment in case of judicial foreclosure; (ii) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or (iii) notarization of the Deed of Dacion in case of dacion in payment.

ROPA are initially booked at the carrying amount of the loan, i.e., outstanding loan balance less allowance for credit losses computed based on PFRS 9 provisioning requirement which takes into account the fair market value of the collateral, plus booked accrued interest less allowance for credit losses, plus transaction costs incurred upon acquisition. Maintenance and other carrying costs subsequent to the foreclosure or acquisition of such property are taken up as expenses. Realized gain on sale thereof is credited to income.

Consistent with BSP Circular No. 520 dated March 20, 2006, SB Corporation adopts the following policies in accounting for ROPA:

a. Land and buildings are accounted for using the cost model under PAS 40, *Investment Property;*

b. Other non-financial assets shall be accounted for using the cost model under PAS 16, *Property, Plant and Equipment;*

c. Buildings and other non-financial assets are depreciated over the remaining useful life of the assets, which shall not exceed ten years and three years from the date of acquisition, respectively; and

d. Land, buildings and other non-financial assets shall be subject to the impairment provisions of PAS 36, *Impairment of Assets.*

The appraisal of all investment property is made at least every other year to determine whether impairment exists. Immediate re-appraisal is conducted on investment property that materially declined in value. If the recoverable amount or appraised value of investment property is less than its carrying amount, the difference is recognized in the SCI as impairment loss.

An investment property, including the related accumulated depreciation and any impairment losses, is derecognized upon disposal or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses on the retirement or disposal of an investment are recognized in profit or loss in the period of the retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to the owner's occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If the owner's occupied property becomes an investment property, SB Corporation accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

2.12. Property and Equipment

SB Corporation's property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. 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.

Pursuant to COA Circular Nos. 2016-006, 2017-004 and 2022-004, dated December 29, 2016, December 13, 2017 and May 31, 2022 respectively, a capitalization threshold of P50,000 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.

Subsequent expenditures for additions, major improvements and renewals are capitalized when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. All other repairs and maintenance are charged to expense in the year they are incurred.

Depreciation is computed using the straight-line method to allocate the cost of the assets, net of residual value, over their estimated useful lives as listed below. Meanwhile, leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

Type of Property and Equipment	Estimated Useful Life
Building and structures, and leasehold improvements	10 to 30 years
Office furniture and fixtures	10 years
Machinery 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 that 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.

When property and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and impairment losses, if any, are derecognized, and any resulting gain or loss (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included as income or loss in the SCI.

2.13. Impairment of Non-financial Assets

SB Corporation assesses at each reporting date whether there is an indication that a non-financial asset. If any such indication exists or when annual impairment testing for a non-financial asset is required, SB Corporation makes an estimate of the non-financial asset's recoverable amount. Recoverable amount is the higher of a non-financial asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the non-financial asset does not generate cash inflows that are largely independent of those from other or groups of non-financial assets.

When the carrying amount of a non-financial asset exceeds its recoverable amount, the non-financial asset is considered impaired and is written down to its recoverable amount. An impairment loss is charged against operations in the year in which it arises.

An impairment assessment is also made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only 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.

For property and equipment, after such reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

2.14. 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.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

When time value of money is material, long-term provisions are discounted to their present values using a pre-tax rate that reflects market assessments and the risks specific to the obligation. The increase in provision due to passage of time is recognized as interest expense.

Where SB Corporation expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain and at an amount not exceeding the related provision. The expense relating to any provision is presented in profit or loss, net of any reimbursement.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized but are disclosed in the financial statements 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.

2.15. Equity

Share capital represents the nominal value of shares of stock that have been issued. When the shares are issued at a premium, the difference between the proceeds and par value is credited to “Share Premium,” net of direct costs incurred related to the equity issuance.

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity until the shares are cancelled, reissued or disposed of.

The total paid-in capital of SB Corporation represents the aggregate amount of the equity contributions of the NG and its instrumentalities, whether in cash or in kind, as mandated under RA No. 6977, as amended.

Retained earnings (Deficit) represent all current and prior period results of operations as disclosed in profit and loss, reduced by the amount of dividends required to be declared and remitted to the NG pursuant to the RA No. 7656, or the “Dividends Law.”

2.16. Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to SB Corporation and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

PFRS 15, *Revenue from Contracts with Customers* establishes a five-step model to account for revenue arising from contracts with customers. The five-step model follows: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; (v) recognize revenue when (or as) the entity satisfies a performance obligation.

Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires SB Corporation to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with customers. The standard also specifies the accounting for incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The following specific recognition criteria, which did not materially change from PAS 18, *Revenue*, must also be met before revenue is recognized:

a. *Revenue Within the Scope of PFRS 15*

   (i) Fees and Commissions

   Fees earned for the provision of services over a period of time, such as service fees, related processing fees and evaluation fees, are accrued over that period as the customer simultaneously receives and consumes the benefits provided by SB Corporation.

   Fees arising from negotiating or participating in the negotiation of a transaction, such as restructuring fees, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

   (ii) Fines and Penalties

   Fines and penalties are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

   (iii) Other Income

   Income from sale of properties is recognized upon completion of the earnings process and the collectability of the sales price is reasonably assured under “Gains” in the SCI.

b. *Revenue Outside the Scope of PFRS 15*

   (i) Interest Income

   Interest income on financial instruments measured at amortized cost and FVOCI are recognized based on the EIR method of accounting. The EIR method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period.

   The EIR is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

   Once a financial asset has been written down as a result of an impairment loss, interest income is recognized thereafter using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Recovery on Written-off Assets

Income arising from collections on accounts or recoveries from impairment of items previously written-off are recognized in the year of recovery.

(iii) Dividend Income

Dividend income is recognized when SB Corporation's right to receive the payment is established.

Collections from accounts which did not qualify for revenue recognition are treated as customer's deposit included as part of "Deferred Credits/Unearned Income" *(Note 17)* in the SFP.

2.17. Cost and Expense Recognition

Expenses are decreases in economic benefits during the year in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the entity.

Costs and expenses are recognized in profit or loss upon utilization of the assets or services, or at the date those are incurred, unless identifiable with a particular fund under SB Corporation's administration. In such case, the expense is allocated to and charged against said fund.

Interest expenses are recognized in profit or loss using the EIR method of accounting.

2.18. Leases

SB Corporation assesses at inception of a contract whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

As a practical expedient and as prescribed under COA Circular No. 2021-009 dated October 1, 2021, SB Corporation does not separate non-lease components from lease components. Instead, the Corporation accounts for each lease component and any associated non-lease component as a single lease component.

As lessee, SB Corporation applies a single recognition and measurement approach for all leases, except for leases of low value assets and short-term leases, i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. At commencement date of the lease, SB Corporation recognizes a right-of-use (ROU) asset and a corresponding lease liability on the SFP.

Lease liabilities are measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, SB Corporation uses the incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liabilities is increased to reflect the interest accretion and reduced for the lease payments made. The carrying amount of lease liabilities is accordingly remeasured if there is a modification, a change in the lease term or a change in the lease payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the ROU asset, or profit and loss if the ROU asset is already reduced to zero.

ROU assets are measured at cost, less any accumulated depreciation and impairment losses, if any, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities initially recognized, initial direct costs incurred, an estimate of any costs to dismantle and remove the asset at the end of the lease, and lease payments made at or before the commencement date less any lease incentives received.

SB Corporation depreciates the ROU assets based on the straight-line method over the shorter of the lease term and the estimated useful lives of the asset. The ROU assets are also assessed for impairment when any such indicators exist.

For leases of low-value assets and short-term leases, SB Corporation recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.19. Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

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 reporting 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 the end of each reporting period 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 by the end of the reporting period.

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.

2.20. Employee Benefits

Considerations given by SB Corporation in exchange for services rendered by employees or for the termination of employment are recognized and measured as follows:

a. *Post-employment Defined Contribution Plan*

   A defined contribution plan is a post-employment benefit plan under which SB Corporation pays fixed contributions to an independent entity. SB Corporation will have no legal or constructive obligation to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred.

   SB Corporation maintains a defined contributory Provident Fund covering all regular employees. Contributions to the fund consist of the employees' share at 5 per cent of basic salary rate and withheld from the monthly payroll, and the employer's share at 10 per cent which is charged under "Personnel Benefit Contributions" *(Note 24.1).*

b. *Short-term Benefits*

   Short-term employee benefits include wages, salaries, bonuses, and nonmonetary benefits provided to current employees, which are expected to be settled before 12 months after the end of the reporting period during which employee services are rendered. The undiscounted amount of the benefits expected to be paid in respect of services rendered by employees in an accounting period is recognized in profit or loss during that period and any unsettled amount at the end of the reporting period is included as part of "Accounts Payable" *(Note 13)* in the SFP.

c. *Termination Benefits*

   Termination benefits are payable when employment is terminated by SB Corporation before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits, and the payment of the benefit by SB Corporation is authorized by law. SB Corporation recognizes termination benefits at the earlier of: (i) when it can no longer withdraw the offer of such benefits; and (ii) when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits.

d. *Compensated Absences*

Compensated absences are recognized for the number of paid leave days remaining at the end of the reporting period. They are included as “Leave Benefits Payable” *(Note 18)* in the SFP at the undiscounted amount that SB Corporation expects to pay as a result of the unused entitlement.

2.21. Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between SB Corporation and its related parties, regardless of whether a price is charged.

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making the financial and operating decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

Related parties include key management personnel who are persons having authority and responsibility for planning, directing and controlling the activities of SB Corporation, directly or indirectly, including any director, whether executive or otherwise, of that entity.

2.22. Foreign Currency Transactions and Translations

SB Corporation’s accounting records are maintained in Philippine Peso. Foreign currency transactions during the year, if any, are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates. Assets and liabilities denominated in foreign currencies are translated to Philippine pesos at the prevailing closing rates at the SFP date.

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 the Reporting Period

Subsequent events that provide additional information about SB Corporation’s financial position at the end of the reporting date (adjusting events) are reflected in the financial statements. Subsequent events that are non-adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in accordance with PFRS requires Management 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: (a) the extent to which SB Corporation can maximize the sale and recoveries from the assets it acquires as foreclosed from borrowers; and (b) the probability of recovery through successful lawsuits as appropriate against relevant parties.

3.1. Critical Management Judgments in Applying Accounting Policies

In the process of applying the Corporation's accounting policies, Management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

a. *Classification of Financial Assets*

SB Corporation classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as financial assets at amortized cost. Contractual cash flows are solely payment of principals and interest and held under a hold to collect model. 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 SB 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.

b. *Recognition of Provisions and Contingencies*

Judgment is exercised by Management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.14 and relevant disclosures are presented in Notes 18 and 22. In dealing with the Corporation's various legal proceedings, the Corporation's estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Corporation's internal and outside counsels acting in defense of the Corporation's legal cases and are based upon the analysis of probable results.

c. *Determination of Lease Term of Contracts with Renewal and Termination Options*

Lease term is the noncancelable period in which the lessee has the right to use an underlying asset together with optional periods for which it is reasonably certain that the lessee will exercise the renewal option or not exercise the termination option or in which the exercise of those options is controlled by SB Corporation. To determine the lease term, SB Corporation first determines the length of the non-cancellable period of a lease and the period for which the contract is enforceable.

3.2. Use of Estimates

a. *Estimation of ECL on Financial Assets*

The principles of recognizing ECL in identifying impairment was adopted in order to promote prudence and transparency consistent with the provisions under the Enhanced Standards on Credit Risk Management in implementing sound and robust credit risk measurement methodologies. In this respect, SB Corporation recognized credit impairment even before objective evidence of impairment becomes apparent. Past events, current conditions, and forecasts of future economic conditions in assessing impairment shall all be considered.

In estimating ECL, SB Corporation adopts the general approach for all loans and other credit accommodations. The general approach involves the use of a three-stage approach, where the ECL estimation is based on quality of credit. SB Corporation estimates ECL at an amount equal to either a 12-month ECL (Stage 1) or lifetime ECL (Stages 2 and 3).

Stage	Particulars
Stage 1	• *Performing* – loans and credit accommodations that do not have a greater-than-normal credit risk. The borrower has the apparent ability and willingness to satisfy his obligations in full and therefore no loss in ultimate collection is anticipated.
Stage 2	• *Sub-standard underperforming* – loans and other credit accommodations that have potential weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may affect the repayment of the loan. Some degree of structural weakness may be found in virtually any aspect of the loan arrangement or type of loan, and the presence of one (or more) need not be indicative of an overall credit weakness deserving criticism. Instead, the relative importance of such factors in the context of the borrower's overall financial strength, the condition of the borrower's industry or market, and the borrower's total relationship with the SB Corporation must be evaluated.
Stage 3	• *Substandard non-performing* – loans and other credit accommodations that have well-defined weakness/es, that may jeopardize repayment/liquidation in full, either in respect of the

Stage	Particulars
	business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower. • *Doubtful* – loans and other credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors which may strengthen the assets. • *Loss* – loans and other credit accommodations which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. This shall be viewed as a transitional category for loans and other credit accommodations which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future.

The gross carrying amounts of financial assets as at December 31, 2022 and 2021 and the related allowances for credit losses are disclosed in Notes 5, 6 and 7.

b. *Recognition of Deferred Tax Assets*

SB Corporation reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Significant judgment is applied by Management to determine the amount of deferred tax assets that can be recognized based on the likely timing and level of SB Corporation's future taxable income.

The carrying amount of deferred tax assets as at December 31, 2022 and 2021 is disclosed in Note 25.

c. *Estimation of Useful Lives of Non-Financial Assets*

SB Corporation estimates the useful lives of property and equipment, ROU assets, investment properties and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of investment properties, property and equipment, and ROU assets as at December 31, 2022 and 2021 are disclosed in Notes 10, 11 and 28.1, respectively.

d. *Estimation of Impairment Losses of Non-financial Assets*

SB Corporation assesses impairment on its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that SB Corporation considers important which could trigger an impairment review include (i) significant underperformance relative to expected historical or projected future operating results; (ii) significant changes in the manner of use of the acquired assets or the strategy for overall business; and (iii) significant negative industry or economic trends.

Impairment losses are recognized whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for cash-generating unit to which the asset belongs.

The carrying amounts of non-financial assets subject to impairment as at December 31, 2022 and 2021 are disclosed in Notes 10, 11, 12 and 28.1.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

Risks are inherent in the business activities of SB Corporation as well as in the business environment in which it operates. Among its identified risks are credit risk, liquidity risk, market risk, operational risk and regulatory risk. These risks are managed through a risk management framework and governance structure that provides comprehensive controls and management of major risks on an on-going basis.

Risk management is the process by which SB Corporation identifies its key risks, obtains consistent and understandable risk measures, decides which risks to take on or reduce and how this will be done, and establishes procedures for monitoring the resultant risk positions. The objective of risk management is to protect SB Corporation from events that hinder the sustainable achievement of SB Corporation’s performance objectives including failing to exploit opportunities.

SB Corporation recognizes the importance of risk management in ensuring its continuing overall viability. Management, with the oversight of the BOD, shall see to it that the risk management functions are implemented in all business units of the organization. Moreover, each individual within SB Corporation is expected to proactively manage and is accountable for the risk exposures inherent to their respective area.

4.1. Risk Management Structure

a. *Board Level*

(i) *Board of Directors.* The BOD provides governance, guidance, and oversight to Senior Management, and sets and approves risk management policies, strategies, and framework.

(ii) *Finance Risk Oversight Committee (formerly Risk Oversight Committee).* This Committee is responsible for the identification and evaluation of exposures, development of risk management strategies, and implementation of the Risk Management Plan, including review and revision thereof as needed. The Committee shall meet with request/gather (or compel submission, in proper cases), receive and evaluate information from Management and appropriate sources, and act or approve proposals on items relating to credit, operational, compliance, market, liquidity and solvency risks.

(iii) *Corporate Governance Committee.* This Committee is responsible for the following:

- Formulate and institutionalize SB Corporation's Code of Corporate Governance and Code of Ethics, and ensure adherence to the Codes;
- Review from time to time the Codes and recommend any changes to the Board;
- Oversee the periodic performance evaluation of the Board and its Committees;
- Review regularly the organization plan and structure, compensation package and manpower plan to ensure adequacy in meeting the growth need of the Corporation; and
- Review and evaluate the qualifications of all persons nominated to positions requiring appointment by the Board.

(iv) *Audit and Compliance Committee*. This Committee is responsible for the following:

- Review of the quarterly, half-year and annual financial statements focusing particularly on the change/s in accounting policies and practices, major judgment areas, significant adjustment resulting to audit, going concern assumption, compliance with PFRS, and compliance with tax, legal and regulatory requirements;
- Receive and review reports of internal auditor and regulatory agencies and ensure that Management is taking appropriate corrective actions in timely manner in addressing control and compliance functions with regulatory agencies;
- Review interim financial reports with Management before filing with regulators and consider whether they are complete and consistent with the information known to committee members;

- Understand how Management develops interim financial information and the nature and extent of internal and external auditor involvement;

- Consider the effectiveness of the company's internal control system;

- Understand the scope of internal and external auditor's review of internal control over financial reporting and obtain reports on significant findings and recommendations, together with Management's responses;

- Review with Management and the Chief Audit Officer the charter, plans, activities, staffing and organizational structure of the internal audit function;

- Regularly report to the Board about committee activities, issues and related recommendations; and

- Review and evaluate findings and recommendations from completed compliance activities and audit, including Management responses and action plans.

(v) *IT and Platformification Committee*. This Committee is responsible for the following:

- Evaluate the effectiveness of IT governance structure to ensure adequate Board control over the decisions, directions and performance of technology and information management:

- Set the strategic directions for technology and information management and ensure that these are aligned with and will sustain the corporate vision and mission;

- Review and monitor the implementation of Information Security Program to ensure the confidentiality, integrity, and availability of SB Corporation's information resources;

- Evaluate information Management and IT organizational structure, investment, use and allocation practices and commitment of resources in terms of time, personnel and equipment to ensure that they support the organization's strategies and objectives;

- Evaluate risk management practices to ensure that the organization's IT- related risks are properly managed;

- Evaluate management practices to ensure compliance with the organization's IT strategy, policies, standards and procedures;

- Review the Technology and Information Management policies, standards, procedures and processes for their development, approval, implementation, and maintenance to ensure that they support the IT strategy and comply with regulatory and legal requirements.

(vi) *Board Committee on VC Review.* This Committee is responsible for the following:

- Review and endorse to the BOD for approval policies and procedures relating to the implementation of the VC Program; and

- Review and endorse to the BOD for approval accounts and projects for enrollment under the VC Program.

b. *Management Level*

(i) *Senior Management.* The Senior Management Team oversees the implementation and consistent adherence by all personnel to the Operational Risk Management (ORM) Framework approved by the BOD. In this respect, senior management shall:

- Translate the BOD-approved framework into specific policies and processes covering all business functions of SB Corporation, including outsourced services and services provided to external parties. Policies shall include the following, among others:

  – Definition of operational risk and operational risk loss;
  – Appropriate governance and oversight structures, reporting lines and accountabilities for managing operational risks;
  – Clear description of risk limits and thresholds that correspond to the approved operation risk appetite and tolerance;
  – Risk mitigation strategies and tools for maintaining risks within the thresholds and limits set; and
  – Responsibilities for identifying, managing operational risk, and reporting operational risk events and losses within their respective operational/functional business or operating units.

- Establish system to report, track, escalate and resolve issues and set the frequency of operational risk management reporting considering the level and type of risk involved; and

- Establish policies, standards, and processes for an effective business continuity management.

(ii) *Enterprise Risk Management Group.* The ERMG, headed by the Chief Risk Officer and which directly reports to the Board-level Finance and Risk Oversight Committee, shall primarily assist Management in meeting its responsibility to understand and manage operational risk exposures, and to ensure the development and consistent implementation of operational risk policies, processes, and procedures throughout SB Corporation. In this regard, the ERMG shall:

- Recommend to the Board and Senior Management appropriate policies and procedures relating to operational risk management and controls;

- Design and implement the operational risk assessment methodology tools and risk reporting system of the agency;

- Coordinate risk management activities across the institution;

- Consolidate all relevant operational risk information/reports to be elevated/presented to the board and senior management;

- Provide operational risk management training and advice to business units on operational risk management issues; and

- Coordinate with compliance function, internal audit, and external audit on operational risk matters.

(iii) *Business Units and Group Heads.* The Regional Lending Groups, Credit Investigation and Appraisal Unit, Legal Services Group, HRMDG, Administrative Services Department, Information Technology Group, Controllership Group, among others, have a dual responsibility to manage both the operational risks within their own functions as well as provide support to other departments for operational risk management. In this regard, business line management shall ensure that:

- Internal controls and practices are consistent with the enterprise-wide policies and procedures;

- Specific policies, processes, and procedures are adequate and effectively implemented, and personnel are adequate and competent;

- Risk mitigation strategies and processes are established, executed, and periodically reviewed; and

- Operational risk-related information such as loss events and incidents are adequately and timely communicated or coordinated to the ERMG for risk monitoring and reporting, in addition to the usual reporting to Senior Management and/or BOD.

(iv) *Compliance Group.* The compliance function, headed by the Chief Compliance Officer, is responsible for the following:

- Conduct an independent assessment of SB Corporation's compliance with relevant laws, rules and regulations, as well as internal policies of the institution, and determine areas that may potentially result in risk of loss due to inadequate or failed internal processes, systems, and people. The latter includes inappropriate conduct/behavior of personnel, officers, and the board, that may lead to fraud or any form of business disruption; and

- Assess whether the identified operational risk exposure by the business units or by the function itself shall affect the franchise value of the institution. In this regard, it shall advise and assist management in establishing guidance on the appropriate implementation of relevant laws, rules and regulations, and internal policies.

(v) *Internal Audit Group (IAG).* The IAG shall conduct an independent assessment of the operational risk management framework, including the implementation of operational risk management policies and procedures. The IAG is an essential part of the risk management system that takes the lead in the on-going monitoring of the internal control process and providing an independent assessment of system integrity. Specifically, the IAG has the responsibility to:

- Review outputs from risk assessments and assess if business units are appropriately following up and addressing those risk identified during the risk assessment process;

- Conduct independent examinations and evaluations of risk management processes (policies, procedures, systems) to assess whether operational risks are within acceptable tolerance limits, including assessing the appropriateness of the operational risk identification, measurement, response, and monitoring methodology;

- Review and assess adherence of risk management, risk control, and compliance function in relation to SB Corporation's Risk Management Framework;

- Any operational risk issue identified and reported in the audit process should be addressed by senior management in a timely and effective manner, or raised to the attention of the BOD, as appropriate;

- Monitor and immediately report to the Audit Committee for identified deficiencies that remain uncorrected; and

- Review and assess that existing policies and procedures remain relevant and adequate for SB Corporation's activities.

4.2. Risk Identification and Assessment

Risk identification and assessment is the fundamental element of an effective operational risk management system. It allows SB Corporation to better understand its risk profile and allocate risk management resources and strategies more effectively. Since the business units are expected to have the best knowledge of their risk exposures and processes, these units play a major role in the identification and assessment of operational risk.

SB Corporation uses various loss event-type categories as part of its risk identification and assessment processes as follows:

a. Internal fraud – losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, which involves at least one internal party.

b. External fraud – losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party.

c. Employee practices and workplace safety – losses arising from acts inconsistent with employment, health or safety laws agreements from payment or personal injury claims, or from diversity/discrimination events.

d. Clients, products, and business practices – losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product.

e. Damage to physical assets – losses arising from loss or damage to physical assets due to natural disaster or other events.

f. Business disruption and system failures – losses arising from disruption of business or system failures.

g. Execution, delivery and process management – losses from failed transaction processing or process management, from relations with trade counterparties and vendors.

SB Corporation also identified the following tools and mechanisms to properly identify and assess its operational risks:

a. Internal and external audits, and supervisory issues raised in the BSP Report of Examination.

b. Internal loss data collection and analysis – operational loss data provides meaningful information for assessing exposure to operational risk and the effectiveness of internal controls. Analysis of loss events can provide insights into the causes of large losses and information on whether control failures are isolated or pervasive.

c. Risk self-assessments (RSA) and risk control self-assessments (RCSA) – RSA is a tool to assess processes underlying SB Corporation's operations against a library of potential threats and vulnerabilities including their potential impacts. A similar approach, RCSA, typically evaluates inherent risk (the risk before controls is considered), the effectiveness of the control environment, and residual risk (the risk exposure after controls is considered).

d. Business process mappings – helps identify the key steps in business processes, activities, and organizational functions as well as the key risk points in SB Corporation's overall business process. It can reveal individual risks, risk inter-dependencies, and areas of control or risk management weaknesses, thus, help prioritize subsequent management actions.

e. Risk and performance indicators – provide an insight into emerging risk exposure and are often used with escalation triggers to warn when risk levels approach or exceed acceptable ranges and prompt mitigation plans. Key risk indicators are used to monitor the main drivers of exposure associated with key risks that contribute to early detection of heightened risk, ongoing monitoring of their movements, and preemptive reactions as necessary. Key performance indicators, on the other hand, provide insight into the status of operational processes, which may in turn provide insights into operational weaknesses, failures, and potential loss.

Additionally, database of at least a five-year history of accumulated operational risk losses is developed which is fed back into the operational risk management process. Apart from capturing events that resulted to actual loss, SB Corporation also gather potential loss or near-misses. Said database of loss events provides basis for analysis which can help direct corrective action to improve the control environment, as well as determine risk mitigating actions. The depth of data collection must be assessed which is vital in understanding the risk environment.

The loss event database shall at a minimum disclose the following: (a) risk profile and complexity; (b) short description of the event; (c) loss event type category; (d) department/unit/branch sustaining the loss; (e) business line classification; (f) date of occurrence; (g) date of discovery; (h) date of booking of actual losses; (i) actual loss amount or potential loss amount, if a near-miss event; (j) amount recovered and date of recovery; (k) causes of the event (e.g. control weaknesses identified); (l) consequence of the loss event (e.g., market loss, fees paid to counterparty, a lawsuit or damage to reputation); and (m) action(s) taken.

4.3. Risk Control and Mitigation

a. Credit Risk

Credit risk is the risk of financial loss to SB Corporation if a counterparty to a financial instrument fails to meet its contractual obligations.

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. SB Corporation 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 SB Corporation to incur financial losses.

SB Corporation therefore exercises prudence in the grant of loans over its exposures to credit risk, taking into consideration the developmental objectives of the Corporation 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. *Liquidity Risk*

Liquidity risk is the risk that SB Corporation will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

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 short- and long-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. Fund raising activities may include bank loans and capital market issues.

c. *Market Risk*

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products, and transactions in the institution’s overall investment portfolio. The market risk of SB Corporation as at December 31, 2022 is primarily interest rate risk.

SB Corporation anticipates, measures, and manages its interest rate sensitivity position to ensure its long-run earning power, buildup 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.

d. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events – whether deliberate, accidental or natural.

Cognizant that operational risk is inherent in all activities, products and services, and is closely tied to other types of risks, SB Corporation monitors operational risks. Toward this end, SB Corporation conducts an RCSA to assess inherent operational risks, the design and effectiveness of mitigating controls, and the residual risk.

ERMG validates the RCSA exercise to determine, among others, the completeness and appropriateness of the identified risk events and its potential impact to operations as well as to identify and understand risk triggers.

An internal loss database which can be fed back into the operation risk management process to accumulate history of operational risk losses is also being operationalized. This allows a quantified view of incurred risks turning them into valuable source of information for assessing exposure to operational risk and the effectiveness of internal controls.

5. CASH AND CASH EQUIVALENTS

The account consists of the following:

	2022	2021
Cash on hand	**20,871,436**	62,205
Cash in bank – local currency	**514,539,254**	649,176,887
Cash in bank – foreign currency	**0**	608,859
Cash equivalents	**1,423,998,487**	1,000,000,000
	1,959,409,177	1,649,847,951

Cash on hand represents collections by the collecting officers on the last working day of the year that are for deposit on the first working day of the succeeding year. It also includes petty cash fund which are working funds wherein small amounts of expenses are being disbursed.

Cash in bank pertains to deposits with government banks for payroll and corporate operating fund which earn interest at rates based on average monthly deposit balances. Cash in bank are unrestricted and immediately available for use in current operation. Interest income from bank deposits amounted to P519,085 and P517,967 in CYs 2022 and 2021, respectively.

Cash equivalents include short-term time deposits, treasury bills and special savings deposits maturing within 90 days from the time of purchase with interest of 4.05 to 6.00 per cent per annum in CY 2022, and 1.45 to 1.50 per cent per annum in CY 2021.

6. INVESTMENTS

This account consists of the following:

	2022	2021 (As Restated)
Investment securities at amortized cost	**4,024,614,276**	3,398,466,051
Financial assets at FVOCI	**18,212,500**	18,212,500
Other investments	**146,500**	146,500
	4,042,973,276	3,416,825,051
Current	**2,227,632,423**	1,802,284,054
Non-current	**1,815,340,853**	1,614,540,997

Investment securities at amortized cost consist of held to collect temporary investments in government securities, i.e., short-term treasury bills and high-yield savings account, fixed rate treasury notes and retail treasury bonds, and 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, which were sourced from funds not yet earmarked for loan releases as well as operating and other administrative expenses. These investments have maturity dates over three months from placement date, and earn interest ranging from 1.56 to 3.50 per cent per annum in CY 2022 and 1.315 to 6.25 per cent per annum in CY 2021. Details follow:

	2022	2021
Investments in treasury bills	**1,897,000,000**	1,797,283,966
Investments in treasury bonds	**2,127,614,276**	1,601,182,085
	4,024,614,276	3,398,466,051
Current	**2,227,632,423**	1,802,284,054
Non-current	**1,796,981,853**	1,596,181,997

Financial assets at FVOCI refer to unquoted and non-marketable equity investments under SB Corporation's VC 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 allowance for impairment amounting to P500,000 both as at December 31, 2022 and 2021.

SB Corporation, in cooperation with various SME corporations invested in preferred shares and common shares holding 11.25 to 43.75 per cent ownership with no controlling interests and returns to investments through dividends. As at December 31, 2022 and 2021, SB Corporation has investments with carrying amounts in the following:

	2022	2021
Walls in Motion, Inc.	**3,712,500**	3,712,500
Epifanie Ventures, Inc.	**4,500,000**	4,500,000
Elbitech, Inc.	**5,000,000**	5,000,000
Binhi, Inc.	**5,000,000**	5,000,000
	18,212,500	18,212,500

Other investments pertain to PLDT, Inc. stocks previously received upon application of telephone lines amounting to P146,500 both as at December 31, 2022 and 2021. The investments are subject of redemption as at even dates.

7. RECEIVABLES

This account consists of the following:

	2022	2021 (As Restated)
Current		
Gross amount		
Accounts receivable	**28,908,543**	29,887,071
Notes receivable	**3,636,775,390**	4,112,957,356
Interest receivable	**55,665,972**	63,513,313
Intra-agency receivable	**97,488,236**	83,469,904
Other receivable	**3,845,610**	1,010,056
	3,822,683,751	4,290,837,700
Allowance for impairment		
Accounts receivable	**(1,864,510)**	(1,864,527)
Notes receivable	**(1,736,430,128)**	0
	(1,738,294,638)	(1,864,527)
	2,084,389,113	4,288,973,173
Non-current		
Gross amount		
Accounts receivable	**11,686,436**	14,298,467
Notes receivable	**8,658,171,391**	7,149,381,345
Dividends receivable	**850,000**	850,000
Sales contract receivable	**11,289,022**	17,504,556
	8,681,996,849	7,182,034,368
Allowance for impairment		
Notes receivable	**(816,301,802)**	(1,485,643,245)
Discount on notes receivable	**(378,781,850)**	(421,312,523)
	(1,195,083,652)	(1,906,955,768)
	7,486,913,197	5,275,078,600

Accounts receivable, net of allowance for impairment, consists of the following:

	2022	2021 (As Restated)
Receivables from lease purchases under the Car Plan Program	**15,919,413**	18,545,630
Agricultural Credit Policy Council (ACPC) re: Comprehensive Agricultural Loan Fund (CALF)	**8,930,000**	8,930,000

	2022	2021 (As Restated)
Foreign exchange claims and refund of guarantee and foreign exchange fees from the BTr/DOF	**5,581,045**	5,581,045
Share of participating financial institutions in expenses relative to the foreclosure and management of acquired assets	**5,360,241**	6,304,940
Foreclosure-related expenses	**1,374,024**	1,323,712
Travel Fund as required by DBM-PhilGEPS	**1,300,000**	1,300,000
Calamity loans granted to employees	**149,155**	189,527
Others	**116,591**	146,157
	38,730,469	42,321,011
Current	**27,044,033**	28,022,544
Non-current	**11,686,436**	14,298,467

SB Corporation has a Car Plan Program for its officers under a lease purchase arrangement. The amortizations are periodically deducted from the payroll based on the preferred amortization period 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 amount due, the balance may be amortized for a maximum period of five years under the prevailing market interest rate. Outstanding receivables from lease purchases under the Car Plan Program at year-end follows:

	2022	2021 (As Restated)
Incumbent officers	**14,611,629**	18,545,630
Resigned officers	**1,307,784**	0
	15,919,413	18,545,630

ACPC re: CALF represents the 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 the CALF carries an obligation for QUEDANCOR to answer for the liability of such fund, including the payment of administrative fees, in accordance with Memorandum of Agreement (MOA) dated March 1, 1999 between the DA-ACPC and the Guarantee Fund for Small and Medium Enterprises (GFSME and now SB Corporation). However, when QUEDANCOR was closed, its assets were put under the receivership of the Philippine Deposit Insurance Corporation (PDIC). To date, SB Corporation is still awaiting PDIC's resolution on the payment of QUEDANCOR's creditors.

For the *foreign exchange claims*, two Official Development Assistance (ODA) loans from the Asian Development Bank (ADB) and Kreditanstalt fur Wiederaufbau (KfW), were paid in September 2021 by SB Corporation ahead of their maturities. Payment of the related foreign exchange risk cover (FXRC) and guarantee fees to the NG were paid six months upfront, thus, the claim for refund for the unutilized portion amounting to P5.581 million.

Notes receivable refers to loans extended by SB Corporation to banks, other financing institutions and MSME direct borrowers at an interest rate ranging from zero to 30 per cent per annum for relending under its special lending programs for MSMEs. It consists of the following loans, net of allowance for impairment:

	2022	2021 (As Restated)
Corporate Fund		
Wholesale		
Regular wholesale	**1,268,357,782**	801,392,534
Retail		
Regular retail and others	**54,988,413**	221,774,525
ERF	**2,018,333**	5,970,669
Bayanihan CARES	**3,244,987,638**	4,623,329,400
RISE UP	**307,252,103**	0
13^{th} month	**2,480,086**	0
STAPLES	**96,375**	0
Odette ERF	**132,503,460**	0
	5,012,684,190	5,652,467,128
P3 Fund		
Wholesale		
P3 wholesale	**3,775,280,183**	3,301,244,306
Retail		
P3 CARES	**47,759,260**	346,352,896
P3 RISE UP	**383,363,211**	0
P3 13^{th} month	**2,916,272**	37,262,280
P3 STAPLES	**7,852**	473,005
P3 Odette ERF	**141,422,032**	0
P3 Others	**0**	17,583,318
	4,350,748,810	3,702,915,805
	9,363,433,000	9,355,382,933
Current	**1,900,345,262**	4,112,957,356
Non-current	**7,463,087,738**	5,242,425,577

Details of the various loan programs extended by the SB Corporation from which the above notes receivable originated follow:

a. *Regular and P3 Wholesale* – are available to qualified microfinance conduits which have the organizational capability or strength in downloading lending funds to eligible micro sub-borrowers with regulated pass-on rate. The programs aim to provide microenterprises an alternative source of financing that is easy to access and at a reasonable cost.

b. *Regular Retail* – aims to provide direct lending to registered MSMEs that are currently "unserved" by the banking system. It aims to bridge the financing gap for pre-bankable but viable MSMEs by financing their business needs, providing training, and helping them build credit track records and business size for future bank financing.

c. *P3 Retail* – loan facility for any self-employed or micro entrepreneurs engaged in a legitimate livelihood or business activity for at least a year. The loan amount ranges from P5,000 to P200,000 depending on the size of the business and the ability to pay, with an interest rate not exceeding 2.50 per month.

d. *Enterprise Rehabilitation Facility (ERF)* – supports microbusinesses in vulnerable areas affected by natural or man-made calamities. It offers quick loan funds for immediate recovery and rehabilitation of microenterprises in response to such disasters.

e. *Bayanihan and P3 CARES* – the facility is in response to the Bayanihan Act 2 and is available to MSMEs, cooperatives, hospitals, tourism, and OFWs impacted by the COVID-19 pandemic and other socio-economic challenges. The loanable amount ranges from 10,000 to 5,000,000 with a grace period of up to 12 months and a loan term of up to 48 months.

f. *RISE UP Program* – a loan program that aims to sustain the gains of MSMEs that have survived the past two years of crisis, by providing multi-purpose loans (MPLs) that have soft terms and can be easily accessed. The RISE UP MPLs caters multi-sectoral MSMEs including existing SB Corporation borrowers.

g. *13th Month Pay Loan Program* - aims to provide financing to enterprises that are included in the MSME data file provided by the Social Security System (SSS) to SB Corporation. This program is also available for existing CARES and non-CARES borrowers in good standing status. The loanable amount will be determined based on the number of employees with paid contributions, as validated by the SSS, calculated at P15,000 per employee, with a maximum of 40 employees or a loanable amount limit of P600,000.

h. *Allies of Sustainability for Covid-affected Enterprises (ASCENT) Program* – loan facility for wholesale lending conduits in support of their lending operations during the National Health Emergency. All accredited participating financial institutions with existing credit line with SB Corporation are eligible to apply provided that their past due rate prior to March 2020 was within SB Corporation standard.

i. *Sustainable Trade Access to Primary Food and Link to Enterprises (STAPLES) Program* – covers all MSMEs involved in the supply, production, distribution, and retail chain of SB Corporation-accredited fast-moving consumer goods (FMCG) companies. The program aims to aid in the recovery and growth of businesses by providing assistance to distributors, dealers, and sari-sari stores, while also preserving jobs by keeping the gears of supply chains moving. Eligible loan applicants must have been participating in the supply chain with an SB Corporation-accredited FMCG company for a minimum of one year.

The periodic impairment complies with the general provisioning requirement of the BSP and PFRS 9. 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 outstanding notes receivable and investments in government securities that are still to be collected at the end of the year.

	2022	2021 (As Restated)
Notes receivable	**43,397,058**	43,578,890
Financial assets at amortized cost	**8,536,403**	8,913,603
Short-term investments	**3,732,511**	11,020,820
	55,665,972	63,513,313

Intra-agency receivable pertains to intra-fund receivables between P3 and corporate funds representing advances regularly monitored on a periodic basis. Details follow:

	2022	2021
Due from P3	**32,407,088**	24,120,663
Due from SB Corporation	**65,081,148**	59,349,241
	97,488,236	83,469,904

Dividends receivable refer to the cash dividends due from the equity investments on Epifanie Ventures, Inc. under the VC Program *(Note 6)* amounting to P850,000 both as at December 31, 2022 and 2021.

Sales contract receivable represents the outstanding receivable on ROPA sold on installment basis to third parties amounting to P11.289 million and P17.505 million, as at December 31, 2022 and 2021, respectively.

Other receivables include receivables totaling P3.464 million and P595,204 as at December 31, 2022 and 2021, respectively, relating to final and executory COA disallowances, net of settlements made by persons found liable thereon.

8. INVENTORIES

This account pertains to office supplies inventory held for consumption awaiting issuance to end-users as at year-end amounting to P271,056 and P391,964 as at December 31, 2022 and 2021, respectively. No item of inventory was measured at net realizable value both as at December 31, 2022 and 2021 nor written-off for the years then ended.

9. NON-CURRENT ASSETS HELD FOR SALE

The composition of and movements in NCAHS and related accumulated impairment account are as follows:

	Land	Building and Improvements	Total
Cost			
Balance, January 1, 2022	**10,631,349**	**466,571**	**11,097,920**
Reclassification	**(10,631,349)**	**(466,571)**	**(11,097,920)**
Disposals/Others	**0**	**0**	**0**
Balance, December 31, 2022	**0**	**0**	**0**

	Land	Building and Improvements	Total
Accumulated impairment			
Balance, January 1, 2022	**149,759**	**156,388**	**306,147**
Reclassification	**(149,759)**	**(156,388)**	**(306,147)**
Disposals/Others	**0**	**0**	**0**
Balance, December 31, 2022	**0**	**0**	**0**
Carrying amount, December 31, 2022	**0**	**0**	**0**

	Land	Building and Improvements	Total
Cost			
Balance, January 1, 2021, as reported	39,671,231	6,590,208	46,261,439
Adjustments	(1,500,464)	(273,929)	(1,774,393)
Reclassification	(25,916,855)	(3,043,459)	(28,960,314)
Disposals/Others	(1,622,563)	(2,806,249)	(4,428,812)
Balance, December 31, 2021	10,631,349	466,571	11,097,920
Accumulated impairment			
Balance, January 1, 2021, as reported	4,152,536	4,903,943	9,056,479
Restatement	0	(1,116,309)	(1,116,309)
Reclassification	(4,002,777)	(2,527,859)	(6,530,636)
Disposals/Others	0	(1,103,387)	(1,103,387)
Balance, December 31, 2021	149,759	156,388	306,147
Carrying amount, December 31, 2021	10,481,590	310,183	10,791,773

NCAHS consists of ROPA through foreclosure of mortgaged properties, dacion en pago arrangements, or rescissions of sales contract receivable, where the foremost objective is immediate disposal generally under cash or term sale transactions.

For internally appraised properties classified as NCAHS, the value of land was established using the Market Data Approach. The initial value of the land is based on the sales and listings of comparable properties. Adjustments were then applied to the gathered value of land by comparing the physical and occasional characteristics of the subject properly and the comparable properties.

On the other hand, the value of the improvements was arrived at using the Cost Approach. The current reproduction cost of the improvement or structure is first established in accordance with the prevailing market prices of construction materials, labor, contractors' overhead, profits and fees. Adjustments are then made to reflect depreciation resulting from physical deterioration and obsolescence.

10. INVESTMENT PROPERTY

The composition of and movements in investment properties and related accumulated depreciation and impairment account are as follows:

	Land	Building and Improvements	Total
Cost			
Balance, January 1, 2022	**46,744,070**	**10,894,235**	**57,638,305**
Additions	**4,318,566**	**584,950**	**4,903,516**
Adjustments	**1,639,368**	**420,983**	**2,060,351**
Reclassifications	**9,665,184**	**466,571**	**10,131,755**
Disposals/Others	**(3,034,155)**	**(251,044)**	**(3,285,199)**
Balance, December 31, 2022	**59,333,033**	**12,115,695**	**71,448,728**

	Land	Building and Improvements	Total
Accumulated depreciation			
Balance, January 1, 2022	**0**	**10,489,823**	**10,489,823**
Additions	**0**	**100,233**	**100,233**
Adjustments	**0**	**(700,578)**	**(700,578)**
Reclassifications	**0**	**0**	**0**
Disposals/Others	**0**	**(67,782)**	**(67,782)**
Balance, December 31, 2022	**0**	**9,821,696**	**9,821,696**
Accumulated impairment			
Balance, January 1, 2022	**5,665,252**	**0**	**5,665,252**
Additions	**4,048,603**	**0**	**4,048,603**
Adjustments	**(2,815,500)**	**0**	**(2,815,500)**
Reclassifications	**551,510**	**0**	**551,510**
Disposals/Others	**(37,560)**	**0**	**(37,560)**
Balance, December 31, 2022	**7,412,305**	**0**	**7,412,305**
Carrying amount, December 31, 2022	**51,920,728**	**2,293,999**	**54,214,727**

	Land	Building and Improvements	Total
Cost			
Balance, January 1, 2021	18,240,723	4,481,722	22,722,445
Additions	3,862,281	0	3,862,281
Adjustments	156,255	273,929	430,184
Reclassifications	24,484,811	6,138,584	30,623,395
Disposals/Others	0	0	0
Balance, December 31, 2021	46,744,070	10,894,235	57,638,305
Accumulated depreciation			
Balance, January 1, 2021	0	3,191,459	3,191,459
Additions	0	388,345	388,345
Adjustments	0	2,411,117	2,411,117
Reclassifications	0	4,515,735	4,515,735
Disposals/Others	0	(16,833)	(16,833)
Balance, December 31, 2021	0	10,489,823	10,489,823
Accumulated impairment			
Balance, January 1, 2021	941,019	0	941,019
Additions	3,067,459	0	3,067,459
Adjustments	(1,949,535)	0	(1,949,535)
Reclassifications	3,606,309	0	3,606,309
Disposals/Others	0	0	0
Balance, December 31, 2021	5,665,252	0	5,665,252
Carrying amount, December 31, 2021	41,078,818	404,412	41,483,230

SB Corporation's investment properties arise from acquired assets from defaulted loan accounts. These are assets that are not available for immediate sale as the same include assets under litigation making its sale highly improbable.

The fair value of investment properties is determined based on the Cost and Market Approach methods performed by independent appraisers and in-house appraisers. Market values were based on the evidence of reliable transactions like recent land sales and sales offering of comparable properties within the vicinity and the application of land capitalization rate. Data gathered from the property market were also used as bases. Adjustment factors were likewise considered such as the date of appraisal, size, location, corner/road influence, and conditions of sale.

11. PROPERTY AND EQUIPMENT

The composition of and movements in property and equipment and related accumulated depreciation and impairment accounts are as follows:

	Buildings and Structures, and Leased Asset Improvements	Machinery and Equipment, Furniture and Fixtures, and Other Equipment	Transportation Equipment	Total
Cost				
Balance, January 1, 2022	**156,734,292**	**45,897,537**	**18,589,301**	**221,221,130**
Additions	**0**	**8,633,136**	**0**	**8,633,136**
Adjustments	**0**	**0**	**0**	**0**
Reclassifications	**(1,231,794)**	**(26,923,944)**	**0**	**(28,155,738)**
Disposals/Others	**0**	**(360,988)**	**(1,652,670)**	**(2,013,658)**
Balance, December 31, 2022	**155,502,498**	**27,245,741**	**16,936,631**	**199,684,870**
Accumulated depreciation				
Balance, January 1, 2022	**111,194,056**	**42,437,372**	**11,980,129**	**165,611,557**
Additions	**7,892,776**	**1,512,502**	**1,237,994**	**10,643,272**
Adjustments	**(2,814,211)**	**(17,362,779)**	**0**	**(20,176,990)**
Reclassifications	**(507,324)**	**(11,433,393)**	**0**	**(11,940,717)**
Disposals/Others	**0**	**(287,170)**	**(1,487,402)**	**(1,774,572)**
Balance, December 31, 2022	**115,765,297**	**14,866,532**	**11,730,721**	**142,362,550**
Accumulated impairment				
Balance, January 1, 2022	**0**	**0**	**0**	**0**
Additions	**0**	**0**	**144,601**	**144,601**
Adjustments	**0**	**0**	**0**	**0**
Reclassifications	**0**	**0**	**0**	**0**
Disposals/Others	**0**	**0**	**0**	**0**
Balance, December 31, 2022	**0**	**0**	**144,601**	**144,601**
Carrying amount, December 31, 2022	**39,737,201**	**12,379,209**	**5,061,309**	**57,177,719**

	Buildings and Structures, and Leased Asset Improvements	Machinery and Equipment, Furniture and Fixtures, and Other Equipment	Transportation Equipment	Total
Cost				
Balance, January 1, 2021	156,643,997	34,157,201	15,108,741	205,909,939
Additions	4,933,831	22,057,149	4,349,030	31,340,010
Reclassifications	(3,391,282)	(9,964,263)	0	(13,355,545)
Disposals/Others	(1,452,254)	(352,550)	(868,470)	(2,673,274)
Balance, December 31, 2021	156,734,292	45,897,537	18,589,301	221,221,130
Accumulated depreciation				
Balance, January 1, 2021	106,393,286	24,755,720	11,540,897	142,689,903
Additions	10,734,779	19,287,573	1,220,855	31,243,207
Reclassifications	(4,715,319)	(1,288,626)	0	(6,003,945)
Disposals/Others	(1,218,690)	(317,295)	(781,623)	(2,317,608)
Balance, December 31, 2021	111,194,056	42,437,372	11,980,129	165,611,557
Carrying amount, December 31, 2021	45,540,236	3,460,165	6,609,172	55,609,573

Reclassifications in CY 2021 include the effects of the adoption of COA Circular No. 2022-004 relative to the increase in the capitalization threshold for Property and Equipment from P15,000 to P50,000.

12. OTHER ASSETS

This account consists of the following:

	2022	2021 (As Restated)
Prepayments	**9,767,907**	10,365,075
Deposits	**1,848,800**	2,305,080
Others, net	**3,058,326**	3,596,357
	14,675,033	16,266,512
Current	**9,767,907**	10,365,075
Non-current	**4,907,126**	5,901,437

Prepayments pertain to advance payments for rent, condominium dues, insurance, subscriptions, and repairs and maintenance of IT equipment and software. It also includes prepaid income tax of P6.565 million and P9.182 million as at December 31, 2022 and 2021, respectively.

Deposits pertain to non-interest bearing security and guarantee deposits for rental and other contractual obligations which are refundable upon the expiration or termination of the related contracts.

Others primarily consist of unserviceable properties covered by on-going implementation of disposal plan costing of P14.021 million and provided with allowance for impairment of P11.183 million and P10.644 million as at December 31, 2022 and 2021, respectively.

13. FINANCIAL LIABILITIES

This account consists of the following:

	2022	2021
Current		
Accounts payable	**21,668,370**	43,222,436
Loans payable	**1,883,823**	1,883,823
Interest payable	**299,614**	424,591
Notes payable	**0**	17,200,000
	23,851,807	62,730,850
Non-current		
Loans payable	**16,012,493**	17,896,316

Accounts payable refers to acquired goods and/or services in the normal course of trade and business operation that remains unpaid as at year-end. Analyzed based on fund source, the account is broken down as follows:

	2022	2021
Corporate Fund	**18,985,161**	39,765,239
P3 Fund	**2,683,209**	3,457,197
	21,668,370	43,222,436

Loans payable consists solely of the loan from the IFAD which is a subsidiary loan from the Republic of the Philippines 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 has a 25-year term inclusive of an eight-year grace period on principal repayment, and carries an interest rate of 4.75 per cent per annum payable on a semi-annual basis. The RuMEPP was completed in December 31, 2014.

Notes payable pertains to the obligations of SB Corporation as at December 31, 2021 to one remaining financial institution arising from its issuance of MSME Notes in the nature of promissory notes deemed as alternative compliance to the mandatory allocation provision under Section 15 of RA No. 6977, as amended. Said provision expired in CY 2018 while the remaining promissory note matured in August 2022.

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

	2022	2021
IFAD	**299,614**	331,152
Notes payable	**0**	93,439
	299,614	424,591

14. INTER-AGENCY PAYABLES

This account, which comprises of obligations or liabilities due to other government agencies and instrumentalities, including NG agencies (NGAs), relating to current or prior period that are unpaid as at year-end, consists of the following:

	2022	2021
Due to NGAs	**39,683,010**	40,000,000
Due to BIR	**27,678,545**	9,600,101
Due to GSIS	**1,966,951**	1,656,452
Due to PhilHealth	**278,421**	122,514
Due to Pag-IBIG	**39,632**	36,101
	69,646,559	51,415,168
Current	**29,963,549**	11,415,168
Non-current	**39,683,010**	40,000,000

Due to NGAs represents the balance of the Innovation Fund, a component of the IFAD-funded Rural Agro-industrial Partnership for Inclusive Development and Growth (RAPID Growth) Project transferred by the DTI, the Executing Agency. RAPID Growth is a five-year project which aims to provide strategic enabling conditions for the sustained growth of agriculture-based MSMEs in agricultural commodity value chains with backward linkages to small farmers and job creation effects. The transferred fund to SB Corporation represents the first-year allocation for the project to be implemented for equity financing in qualified investee SMEs operating in Mindanao.

Due to Bureau of Internal Revenue (BIR) refers to the various taxes withheld from the employees' compensation and on certain income payments as mandated by law due for remittance to the BIR as at year-end.

Due to Government Service Insurance System (GSIS), Home Development Mutual Fund (Pag-IBIG) and PhilHealth (Philippine Health Insurance Corporation) pertain to SB Corporation's share in contributions, as well as the amounts withheld from employees' compensation as mandated by law representing contributions and loan amortization payments, due for remittance to said agencies as at year-end.

15. INTRA-AGENCY PAYABLES

This account refers to intra-fund payables between P3 and corporate funds representing advances regularly monitored on a periodic basis. Details follow:

	2022	2021
Due to P3	**74,035,219**	38,246,627
Due to SB Corporation	**69,583,562**	53,343,456
	143,618,781	91,590,083

16. TRUST LIABILITIES

This account pertains to security deposits in the form of performance bonds or cash for guaranty totaling P1.608 million and P1.371 million as at December 31, 2022 and 2021, respectively, issued by or received from the winning bidders and contractors to guarantee that they will enter into contract with SB Corporation and/or faithfully perform the terms of their contracts.

17. DEFERRED CREDITS/UNEARNED INCOME

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

	2022	2021
Regular loan agreements	**21,070,905**	21,706,292
Compromise agreements	**3,092,204**	2,627,793
	24,163,109	24,334,085

18. PROVISIONS

This account consists solely of accrued leave benefits aggregating P65.998 million and P67.706 million as at December 31, 2022 and 2021, respectively. The amounts represent the accrued money value of earned vacation and sick leave credits of SB Corporation's officers and employees that remained unused at the end of the reporting period.

19. OTHER PAYABLES

This account consists of the following:

	2022	2021 (As Restated)
Undistributed collections	**16,575,005**	10,807,259
Dividends payable	**0**	58,557,544
Other payables	**76,817,450**	47,331,931
	93,392,455	116,696,734

Undistributed collections represent the accumulated inter-branch deposits made to the SB Corporation bank accounts which remain unidentified as at year-end. Proper applications of deposits are subsequently taken up in the books when identification and verification processes are duly satisfied.

Dividends payable is the indicative amount of dividends required to be declared and paid to existing shareholders of SB Corporation, including the NG, pursuant to RA No. 7656.

Other payables include the amounts payable to originating financial institutions for their share in the proceeds from the sale or disposal of foreclosed or acquired properties of SB Corporation where the former has equity. It also includes amount payable for terminated cases wherein the judgments rendered were against SB Corporation.

20. EQUITY

20.1. Share Capital

The authorized capital stock of SB Corporation as provided under Section 16 of RA No. 9501 is P10.000 billion divided into 80.000 million common shares and 20.000 million preferred shares with a par value of P100.00 per share, Prior to the amendment, the authorized capital stock of SB Corporation under RA No. 6977 was P5.000 billion.

Section 16 of RA No. 9501 provides further that the initial capital of P1.000 billion shall be established from a pool of funds to be contributed in the form of equity investment in common stock by the LBP and the DBP in the amount of P200.000 million each. The SSS and the GSIS shall also set aside P200.000 million each for the SB Corporation. Moreover, the holders of preferred shares issued under RA No. 6977, as amended, have the option to convert the same into common shares. Additional equity funding shall come from trust placements of excess and unused funds of existing government agencies, bilateral and multilateral ODA funds, subscriptions from GOCCs, and investments of private financial institutions and corporations. Any investment from the private sector shall only be in the form of preferred shares.

As at December 31, 2022 and 2021, SB Corporation's share capital consists of the following:

	2022		2021	
	No. of Shares	**Amount**	No. of Shares	Amount
Common shares				
NG	**72,543,692**	**7,254,369,200**	72,543,692	7,254,369,200
LBP	**3,936,115**	**393,611,500**	3,936,115	393,611,500
DBP	**2,186,731**	**218,673,100**	2,186,731	218,673,100
GSIS	**466,731**	**46,673,100**	466,731	46,673,100
SSS	**160,000**	**16,000,000**	160,000	16,000,000
Acquired (Treasury shares)	**400,000**	**40,000,000**	400,000	40,000,000
	79,693,269	**7,969,326,900**	79,693,269	7,969,326,900
Preferred shares				
NG	**15,931,795**	**1,593,179,500**	15,931,795	1,593,179,500
GSIS	**2,000,000**	**200,000,000**	2,000,000	200,000,000
SSS	**2,000,000**	**200,000,000**	2,000,000	200,000,000
	19,931,795	**1,993,179,500**	19,931,795	1,993,179,500
Total share capital	**99,625,064**	**9,962,506,400**	99,625,064	9,962,506,400
Treasury shares	**(400,000)**	**(40,000,000)**	(400,000)	(40,000,000)
Total outstanding share capital	**99,225,064**	**9,922,506,400**	99,225,064	9,922,506,400

On December 13, 1993, the BOD passed BR No. 102, series of 1993, 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 10 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, series of 2003, which superseded BR No. 102, 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 pre-emptive right to increase shareholdings through the equivalent unissued common shares;

e. Entitled to a Board seat in accordance with Section 11(d)(3) of RA No. 6977, as amended by RA No. 8289.

On August 5, 2019, the BOD approved under BR No. 2019-08-2803 the transfer of all guarantee-related functions, programs, funds, assets and liabilities of SB Corporation to PHILGUARANTEE pursuant to EO No. 58. Total assets transferred to PHILGUARANTEE amounted to P37.490 million which was deducted from the equity contribution of the NG.

On November 10, 2020, the NG, in compliance with the provisions of the Bayanihan Act 2, infused additional capital to SB Corporation amounting to P8.080 billion aimed as additional funding for its CARES Program and other lending facilities, as well as interest subsidy to be extended to MSMEs, cooperatives, hospitals, tourism industry and OFWs affected by the COVID-19 pandemic and by other socioeconomic reversals.

20.2. Treasury Shares

Treasury shares were acquired from the redemption of the 400,000 common shares of the Philippine National Bank paid at its par value of P100 per share, excluding penalty for unpaid subscriptions. Payment was made on December 29, 2020.

20.3. Share Premium

The share premium relates to the additional paid in capital of P79.510 million both as at December 31, 2022 and 2021 representing 10 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 the GFSME and Small Business Guarantee Finance Corporation with the latter as the surviving entity.

20.4. Retained Earnings

	2022	2021 (As Restated)
Beginning balance	**4,673,121,493**	4,487,626,646
Comprehensive income for the year	**1,363,095,165**	194,550,733
Dividends	**0**	(67,907,026)
Other adjustments	**207,845**	58,851,140
	6,036,424,503	4,673,121,493

The ending balance of retained earnings is categorized as either appropriated or unappropriated. Appropriated retained earnings balance as at December 31, 2022 is P5.133 billion. This amount relates to the continuing lending fund balance of the P3 Fund and an appropriation for stock dividends declared in CY 2005 still for issuance to SSS. On the other hand, unappropriated retained earnings consist of the accumulated net operating income (losses) in prior years. Details follow:

	2022	2021 (As Restated)
Appropriation for P3 fund balance	**6,967,630,818**	5,102,367,342
Appropriated for stock dividends	**30,673,100**	30,673,100
Total appropriated retained earnings	**6,998,303,918**	5,133,040,442
Unappropriated retained earnings	**(961,879,415)**	(459,918,949)
	6,036,424,503	4,673,121,493

As a GOCC, the Corporation is mandated under Section 3 of RA No. 7656 to declare and remit at least 50 per cent of its annual net earnings as cash, stock or property dividends to the NG. For this purpose, net earnings is defined as income derived from whatever source, whether exempt or subject to tax, net of deductions allowed under Section 29 of the National Internal Revenue Code, as amended, and income tax and other taxes paid thereon. However, under Section 12 of RA No. 6977, as amended, SB Corporation may only declare as dividend not more than 30 per cent of its net income and the rest withheld as retained earnings.

21. RESTATEMENTS AND PRIOR PERIOD ERRORS

Below are the relevant analyses of the effects of the restatements on assets, liabilities and equity components of the Corporation’s financial statements. Significant restatements include changes in accounting policies on or correction of errors in accounting for leases, capitalization threshold for property and equipment, short-term compensated absences and charges qualifying as direct origination costs.

	As Previously Reported, 12/31/2021	**Effects of Restatement**	**As Restated, 12/31/2021**
Changes in Assets			
Other current assets	11,169,796	(804,721)	10,365,075
Receivables, net	9,989,340,993	(425,289,220)	9,564,051,773
Property and equipment, net	73,834,276	(18,224,703)	55,609,573

	As Previously Reported, 12/31/2021	Effects of Restatement	As Restated, 12/31/2021
ROU asset, net	0	9,250,981	9,250,981
Investment property	44,014,872	(2,531,642)	41,483,230
Deferred tax assets	287,853,207	65,173,987	353,027,194
Other non-current assets	5,673,337	228,100	5,901,437
Net Change in Assets	**10,411,886,481**	**(372,197,218)**	**10,039,689,263**
Changes in Liabilities and Equity			
Lease liability	0	8,463,216	8,463,216
Provisions	0	67,705,952	67,705,952
Other payables	58,076,190	58,620,544	116,696,734
Deferred tax liabilities	7,138	196,941	204,079
Retained earnings	5,180,305,364	(507,183,871)	4,673,121,493
Net Change in Liabilities and Equity	**5,238,388,692**	**(372,197,218)**	**4,866,191,474**
Changes in revenues	666,780,927	(323,556,410)	343,224,517
Changes in expenses	(1,144,741,647)	(57,042,610)	(1,201,784,257)
Changes in income tax benefit	78,801,733	(25,691,260)	53,110,473
Changes in subsidy from NG	1,000,000,000	0	1,000,000,000
Net Change in Comprehensive Income	**600,841,013**	**(406,290,280)**	**194,550,733**

22. COMMITMENTS AND CONTINGENCIES

In the normal course of operations of SB Corporation, there are various outstanding commitments and contingent liabilities such as tax assessments, claims from customers and third parties, among others, with amounts not reflected in the financial statements. Management does not anticipate losses from these transactions that will adversely affect SB Corporation's operations.

In the opinion of Management, the suits and claims arising from the normal course of operations of SB Corporation that remain unsettled, if decided adversely, will not involve sums that would have material effect on SB Corporation's financial position or operating results.

Notably, there is a pending criminal complaint for violation of Batas Pambansa Bilang 22 against one borrower which if resolved positively in favor of SB Corporation will result to a possible recovery of P19.600 million.

23. REVENUE

23.1. Service and Business Income

As a GOCC 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. Details follow:

	2022	2021 (As Restated)
Service income		
Processing fees	**18,663,439**	1,755,924
Business income		
Dividend income	**210,608**	211,765
Interest income	**439,539,159**	318,919,283
Fines and penalties	**44,052,226**	8,033,204
Other business income	**2,150,563**	2,269,142
	504,615,995	331,189,318

Significant increase in interest income is attributable to substantially higher level of investments as well as loan releases in CY 2022 as compared to the immediately preceding year.

23.2. Gains

	2022	2021 (As Restated)
Realized gains on foreign exchange	**67,268**	2,052,229
Gain on sale of investment property	**4,799,094**	7,300,085
Gain on sale of property and equipment	**148,115**	113,848
Realized gains from changes in fair value of financial instruments	**0**	1,119,426
	5,014,477	10,585,589

23.3. Other Non-Operating Income

This account includes miscellaneous income and income from acquired assets amounting to P867,377 and P1.450 million in CYs 2022 and 2021, respectively.

24. EXPENSES

24.1. Personnel Services

	2022	2021 (As Restated)
Salaries and wages	**155,940,792**	142,307,588
Other compensation	**45,843,258**	44,609,230
Personnel benefit contributions	**36,934,248**	32,509,176
Other personnel benefits	**10,280,709**	42,098,713
	248,999,007	261,524,707

Significant decrease in personnel services is attributable to the adoption of Memorandum Circular No. 3 dated July 28, 2022 of the President of the Philippines which prohibited SB Corporation from entering into new contracts or projects or disburse extraordinary funds until such time that new sets of appointive directors have been appointed and chief executive officer elected in accordance with its Charter.

24.2. Maintenance and Other Operating Expenses (MOOE)

	2022	2021 (As Restated)
Professional services	**68,592,896**	74,012,261
Taxes, insurance premiums and other fees	**20,994,457**	46,678,433
Repairs and maintenance	**9,908,584**	4,306,380
Communication expenses	**7,048,014**	8,536,114
Supplies and materials expenses	**5,377,524**	4,220,814
Utility expenses	**3,803,910**	3,295,011
Confidential, intelligence and extraordinary expenses	**3,179,198**	5,420,816
General services	**2,980,206**	3,216,546
Traveling expenses	**1,971,390**	1,214,760
Training and scholarship expenses	**1,866,450**	506,510
Other MOOE	**39,118,763**	32,602,004
	164,841,392	184,009,649

Other MOOE consist of the following:

	2022	2021 (As Restated)
Documentary stamps expenses	**23,260,225**	9,615,389
Rent/Lease expenses	**6,505,695**	9,900,288
Representation expenses	**3,512,309**	1,564,668
Litigation/Acquired asset expenses	**1,182,122**	1,503,391
Advertising, promotional and marketing expenses	**727,383**	2,078,066
Printing and publication expenses	**446,209**	467,350
Subscription expenses	**80,906**	151,372
Membership dues and contributions to organizations	**56,943**	99,131
Donations	**0**	239,564
Others	**3,346,971**	6,982,785
	39,118,763	**32,602,004**

Significant decrease in MOOE is likewise attributable to the adoption of Memorandum Circular No. 3 dated July 28, 2022 of the President of the Philippines which limited actual utilization of relevant budgets.

24.3. Financial Expenses

	2022	2021 (As Restated)
Interest expense	**1,168,942**	4,493,063
Guarantee fees	**0**	4,734,729
Bank charges	**37,640**	2,317,846
Trusteeship fees	**253,540**	213,023
Other financial charges	**2,848,597**	0
	4,308,719	11,758,661

Significant decreases in interest expense and guarantee fees is the result of the full payment in September 2021 of the ODA loans from ADB and KfW ahead of their maturities. On the other hand, other financial charges include payments for the services of collection agencies commissioned to recover from fully provisioned loan accounts.

24.4. Non-cash Expenses

	2022	2021 (As Restated)
Depreciation		
Investment property	**100,233**	388,345
Buildings and other structures	**7,450,421**	10,346,011
Machinery and equipment	**1,340,341**	16,013,575
Transportation equipment	**1,237,994**	1,220,855
Furniture, fixtures and books	**14,025**	33,268
Leased assets improvements	**442,355**	388,768
Other property and equipment	**158,136**	3,240,730
ROU asset	**4,514,785**	398,467
	15,258,290	32,030,019
Impairment loss		
Loans and receivables	**1,112,536,684**	700,977,092
Property and equipment	**144,601**	0
	1,112,681,285	700,977,092
Losses		
Loss on foreign exchange	**0**	9,817,214
Loss from changes in fair values of financial instruments	**0**	1,666,915
	0	11,484,129
	1,127,939,575	744,491,240

SB Corporation strives to promptly recognize, identify deteriorating credit exposures and determine appropriate ECL at all times. The loan classification and provisioning aim to adopt both quantitative and qualitative factors in the determination of SB Corp's credit exposure, risk quality and consequently, the level of ECL to be allocated to individual accounts. Considering however the ongoing system enhancements, the ECL derived is based generally on quantitative factors, specifically the aging of the accounts.

Significant increase in impairment losses on loans and receivables is primarily driven by past due amounts. Past due amounts increased by 73 per cent to P3.800 billion in CY 2022 from P2.190 billion in CY 2021. Past due amounts are primarily driven by corporate-funded portfolio under the CARES Program. Undistributed collections and unapplied payments due to on-going enhancement of the application payment system likewise contributed significantly to the increased ECL requirement since the affected accounts are still tagged as past due in status. Further, restructured, manually reconciled and other adjustments made at the Regional Lending Group level have yet to be captured by the on-going system enhancement.

No unrealized losses due to foreign exchange translation and valuation of derivatives were incurred in CY 2022 due to the prepayment of SB Corporation's two ODA loans during the year.

25. INCOME TAXES

25.1. Income Tax Expense (Benefit)

The components of income tax expense (benefit) as reported in profit or loss in the SCI are as follows:

	2022	2021 (As Restated)
Current income tax expense		
Higher of MCIT or RCIT	**3,595,230**	57,499,501
Final tax	**21,024,464**	0
Deferred income tax benefit	**(423,305,703)**	(110,609,974)
	(398,686,009)	(53,110,473)

25.2. Regular Corporate Income Tax (RCIT) Computation

	2022	2021 (As Restated)
Profit before income tax	**964,409,156**	141,440,260
Permanent differences		
Interest income already subjected to final tax	**(105,122,371)**	(94,909,870)
Dividend income from domestic corporation	**(210,608)**	0
Subsidy from NG – P3	**(2,000,000,000)**	(1,000,000,000)
MOOE – P3	**0**	79,959,207
Disallowed interest expense	**1,168,942**	4,484,597
Disallowed compromise penalties	**145,000**	0
	(2,104,019,037)	(1,010,466,066)
Temporary differences		
Provision for impairment losses	**1,112,681,285**	705,414,826
Accounts written-off	**(19,403,118)**	(80,028,802)
Amortized portion of CY 2020 service income	**(56,651,820)**	0
Amortized portion of CY 2021 service income	**(136,209,406)**	0
Unamortized portion of CY 2022 service income	**150,330,553**	0
Unrealized gain on foreign exchange translation	**0**	(28,552)
Realized gain on foreign exchange translation	**28,552**	0
Accrued salaries	**(875,267)**	0
Provision on leave credits	**7,900,490**	0
Actual payment on leave credits	**(9,608,192)**	0
Net operating loss carryover (NOLCO) applied	**0**	(3,606,314)
Excess of cost over rental payment	**181,928**	0
	1,048,375,005	621,751,158
Taxable income	**(91,234,876)**	(247,274,648)
Income tax rate	**25%**	25%
Income tax due – RCIT	**(22,808,719)**	(61,818,662)

25.3. Minimum Corporate Income Tax (MCIT) Computation

	2022	2021 (As Restated)
Gross income		
Revenue	**2,510,497,849**	1,343,224,518
Cost of revenue	**(4,308,718)**	(11,758,661)
	2,506,189,131	1,331,465,857
Permanent differences		
Interest income already subjected to final tax	**(105,122,371)**	(93,965,857)
Dividend income from domestic corporation	**(210,608)**	(211,765)
Subsidy from NG – P3	**(2,000,000,000)**	(1,000,000,000)
Disallowed interest expense	**1,168,942**	0
	(2,104,164,037)	(1,094,177,622)
Temporary differences		
Realized gain on foreign exchange translation	**28,552**	0
Amortized portion of CY 2020 service income	**(56,651,820)**	0
Amortized portion of CY 2021 service income	**(136,209,406)**	0
Unamortized portion of CY 2022 service income	**150,330,553**	0
	(42,502,121)	0
Total gross income subject to MCIT	**359,522,973**	237,288,235
MCIT rate	**1%**	1%
Income tax due – MCIT	**3,595,230**	2,372,882

25.4. Deferred Income Tax Benefit

The deferred income tax benefit recognized in the SCI for the year ended December 31, 2022 relate to the following:

Particulars	2022
Payment over provision on leave credits	**(426,926)**
Excess of cost over rental payment	**45,483**
NOLCO	**22,808,719**
MCIT over RCIT	**3,595,230**
Accrued salaries	**218,817**
Payment of CY 2021 accrued salaries in CY 2022	**(218,817)**
Impairment on loans and receivables	**350,795,903**
Realized gain on foreign exchange translation	**7,138**
Service income	**46,480,156**
Deferred income tax benefit	**423,305,703**

25.5. Net Operating Loss Carry-over

Details of the NOLCO, which can be claimed as a deduction from future taxable income within five years from the year the taxable loss was incurred are as follows:

Net Operating Loss Carry Over

Year Occurred	Available Until	NOLCO of Prior Years	NOLCO of Current Year	Applied	Expired	Balance
2022	2027	0	91,234,876	0	0	91,234,876
2021	2026	0	0	3,606,314	0	0
2020	2025	3,606,314	0	0	0	3,606,314
		3,606,314	**91,234,876**	**3,606,314**	**0**	**91,234,876**

25.6. Minimum Corporate Income Tax (MCIT)

Breakdown of the excess MCIT over RCIT with the corresponding validity periods follows:

Minimum Corporate Income Tax						
Year Occurred	Available Until	Excess MCIT of Prior Years	Excess MCIT of Current Year	Excess MCIT over RCIT	Expired/Used Portion of Excess MCIT	Balance
2022	2025	0	3,595,230	0	0	3,595,230
2021	-	0	0	0	(10,262,956)	0
2020	2023	5,357,637	0	0	0	5,357,637
2019	2022	101,588	0	0	0	101,588
2018	2021	4,803,731	0	0	0	4,803,731
		10,262,956	**3,595,230**	**0**	**(10,262,956)**	**3,595,230**

25.7. Deferred Tax Assets and Liabilities

The deferred tax assets and deferred tax liabilities recognized in the SFP as at December 31, 2022 and 2021 relate to the following:

	2022	2021 (As Restated)
Deferred tax assets		
MCIT	**3,595,230**	0
NOLCO	**22,808,719**	0
Allowance for impairment losses	**638,649,110**	287,853,207
Leave payable	**16,499,562**	16,958,681
Service income	**94,695,463**	48,215,306
	776,248,084	353,027,194
Deferred tax liabilities		
Lease liability	**153,970**	196,941
Financial asset at FVPL	**0**	7,138
	153,970	204,079

26. SUBSIDY FROM NATIONAL GOVERNMENT

Subsidy from the NG solely pertains to the funds received for the P3 Program, the Duterte Administration’s flagship program aimed at 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 2022 is P3 Program’s sixth year of operation. P3 funding for CY 2022 is included as a Tier 1 funding of P2.000 billion. The mobilization fund for the year was at P100.0 million. From CYs 2017 to 2022, total subsidy received for the P3 Program totaled P8.000 billion.

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

	2022	2021 (As Restated)
Subsidy from the NG	**2,000,000,000**	1,000,000,000
Expenses		
MOOE		
Professional services	**47,391,880**	46,810,301
Communication expense	**4,326,307**	5,045,682
Supplies and materials expense	**2,760,699**	2,140,471
Utility expense	**2,062,038**	1,793,365
General services	**1,595,496**	1,529,793
Repairs and maintenance	**925,136**	2,073,233
Training expenses	**807,432**	263,267
Traveling expenses	**718,181**	393,180
Taxes, insurance premiums and other fees	**0**	4,605,300
Other maintenance and operating expenses	**5,765,817**	15,304,615
	66,352,986	79,959,207
Provision for probable losses	**34,736,524**	431,597,529
	101,089,510	511,556,736
Fund balance	**1,898,910,490**	488,443,264

The fund balance at year-end forms part of the appropriated retained earnings to ensure continuous delivery of activities under the P3 Program.

27. EMPLOYEE BENEFITS

27.1. Provident Fund

a. *Legal Basis*

The creation of the Provident Fund was authorized by the BOD under BR No. 396, series of 1997, as amended by the DBM in its Letter dated March 13, 2003. This is consistent with Section 11-A(f) of RA No. 6977, as amended.

b. *Eligibility*

All full-time employees of the SB Corporation occupying plantilla positions who have rendered at least six months of continuous services with SB Corporation as plantilla personnel shall automatically be eligible for membership in the fund.

c. *Fund Implementation*

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 own Board of Trustees.

Each member shall authorize SB Corporation to deduct and withhold at the end of each month 5 per cent of his basic monthly salary as his contribution to the Fund. SB Corporation, on the other hand, shall pay to the Fund a counterpart monthly contribution equivalent to 10 per cent of each member's basic monthly salary.

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.

27.2. 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 for the first 20 YoS, 1.50month basic salary in excess of 20 up to 30 YoS, and 2.00 months basic salary in excess of 30 YoS	SB Corporation
RA No. 8291	At least 15 years of service, if below age 60 upon retirement, benefit is payable at age 60	Monthly pension or cash payment	GSIS

27.3. 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.

28. LEASES

SB Corporation leases the premises, which serve as its extension offices, including parking spaces, in the cities of Cebu, Davao, Baguio and other desk offices in the different regions of the country and has the option to renew such leases under certain terms and conditions. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the SFP as ROU asset and a lease liability.

Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Lease term ranges from 2 to 3 years, which generally contains an option to extend the lease for a further term subject to mutual agreement with an escalation rate of 5 to 10 per cent per annum.

28.1. ROU Asset

The movements in the ROU asset, including the related accumulated depreciation and impairment accounts, are as follows:

	2022	2021 (As Restated)
Cost		
Balance, January 1	**11,288,565**	0
Additions	**0**	11,288,565
Balance, December 31	**11,288,565**	11,288,565
Accumulated depreciation		
Balance, January 1	**2,037,584**	1,639,117
Depreciation during the year	**4,328,224**	398,467
Balance, December 31	**6,365,808**	2,037,584
	4,922,757	9,250,981

The ROU asset was recognized at an average discount rate of 1.9712 to 2.5327 per cent, and is depreciated over the lease term.

28.2. Lease Liability

The movements in lease liability are as follows:

	2022	2021 (As Restated)
Balance, January 1	**8,463,216**	0
Accretion of interest	**158,392**	84,174
Payments	**(4,491,249)**	(2,733,004)
Others	**176,519**	11,112,046
Balance, December 31	**4,306,878**	8,463,216
Current	**2,972,376**	4,156,338
Non-current	**1,334,502**	4,306,878

The weighted average incremental borrowing rate applied by SB Corporation to the lease liability is 2.2595 per cent. Lease payments are made on a monthly basis.

28.3. Lease Payments Not Recognized as Liabilities

Payments made under short-term leases and leases on low-value underlying assets are expensed on a straight-line basis. The expenses relating to short-term leases amounted to P3.471 million and P4.963 million for CYs 2022 and 2021, respectively.

29. RELATED PARTY TRANSACTIONS

29.1. Key Management Personnel and Compensation

The key management personnel of SB Corporation are the President and CEO, the Executive Vice President, the Sector Managers, various Group Managers, and the Managers/Corporate Executive Officers of the operating and support groups. Compensation of the key management personnel totaled P41.729 million in CY 2022.

29.2. BOD Composition and Compensation

As at December 31, 2022, the composition of the BOD of SB Corporation is as follows:

Name	Board Position	Position in Other Agencies
Alfredo E. Pascual	Chairperson	Secretary, DTI
Blesila A. Lantayona	*Alternate/Acting Chairperson*	*Undersecretary, DTI*
Robert C. Bastillo	Vice Chairperson	President and CEO, SB Corporation
Benjamin E. Diokno	Member	Secretary, DOF
Rosalia V. De Leon	*Alternate Member*	*Treasurer, BTr*
Annie F. Candelaria	*2nd Alternate Member*	*Chief Treasury Operations Officer II, BTr*
Manuel B. Bendigo	Member	NG Representative
Jacob S. Vasquez	Member	NG Representative
Joe Jay T. Doctora	Member	NG Representative
Voltaire B. Magpayo	Member	NG Representative
Avelino L. Andal	Member	NG Representative
Arnulfo V. Galdo	Member	DBP Representative
Elvira L. Go	Member	Private Sector Representative

The total remuneration received by the appointive members of the BOD amounted to P3.200 million and P2.103 million for CYs 2022 and CY 2021, respectively.

30. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented in the succeeding pages is the supplementary information required by the BIR under Revenue Regulation (RR) No. 15-2010 dated November 25, 2010 to be disclosed as part of the notes to the financial statements. This supplementary information on taxes, duties and license fees paid or accrued during the taxable year is not a required disclosure under PFRSs.

30.1. Withholding Taxes

	2022	2021
Taxes on compensation and benefits	**29,422,260**	26,935,578
Value added taxes (VAT)	**3,950,842**	4,320,016
Expanded withholding taxes	**2,606,219**	2,450,347
Gross receipt taxes (GRT)	**17,815,634**	28,046,733
	53,794,955	61,752,674

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.

30.2. Other Taxes

	2022	2021
Local		
Real estate taxes	**568,324**	639,770
Corporate community tax	**10,500**	10,500
	578,824	650,270
National		
Documentary stamp taxes	**44,057,959**	61,122,591
BIR annual registration	**500**	1,000
	44,058,459	61,123,591
	44,637,283	61,773,861

Documentary stamp taxes is composed of the following:

	2022	2021
Documentary stamps expense	**23,260,225**	9,615,389
Due to BIR	**20,797,734**	51,507,202
	44,057,959	61,122,591

30.3. Tax Cases and Assessments

BIR issued a Termination Letter dated June 30, 2022 for CY 2016 Letter of Authority No. 050-2018-00000202 dated September 13, 2018. The Final Assessment Notice of the BIR related to the said assessment amounted to P124.000 million.

After BIR granted the request for reinvestigation, the reconciliation resulted to the payment of the following tax deficiencies for CY 2016 to close said case:

Tax Type	Payment Date	Amount
Income tax	April 21, 2022	3,075,071
Percentage tax	April 21, 2022	1,038,007
Percentage tax	May 26, 2022	1,852,178
Other percentage tax	May 26, 2022	1,707,729
Expanded withholding tax	April 21, 2022	1,057,458
		8,730,443

SB Corporation has also made payment of tax deficiencies for CY 2019 Letter of Authority No. 050-2021-00000047 dated February 3, 2021, to wit:

Tax Type	Payment Date	Amount
Percentage tax	April 29, 2022	7,401,768
Expanded withholding tax	April 29, 2022	216,396
		7,618,164

Part II

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. The current impairment model adopted by the SB Corporation for financial assets is not aligned with the requirements of the Philippine Financial Reporting Standards (PFRS) 9 – *Financial Instruments*. Thus, the reported total carrying amounts of financial assets subject to impairment of P15.437 billion is overstated, while the total cumulative expected credit loss (ECL) thereon of P2.555 billion is understated as at December 31, 2022, both by undetermined amounts, contrary to the fair presentation mandated by Paragraph 15 of Philippine Accounting Standards (PAS) 1 – *Presentation of Financial Statements.*

1.1. Paragraph 15 of PAS 1 provides that financial statements (FS) shall 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 Conceptual Framework for Financial Reporting (Conceptual Framework). The application of PFRSs, with additional disclosure, when necessary, is presumed to result in FS that achieve a fair presentation.

1.2. Relatedly, under Paragraph 2.12 and 2.13 of the Conceptual Framework, to be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent. To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error.

1.3. PFRS 9, which establishes the principles for the reporting of financial assets and financial liabilities, requires the recognition of impairment losses on a forward-looking basis. Impairment losses, referred to as ECL, are recognized before the occurrence of any credit event.

1.4. Previously, under PAS 39 – *Financial Instruments: Recognition and Measurement*, provisions for credit losses are measured in accordance with an incurred loss model. This results in credit losses being recognized only once there has been an incurred loss event, e.g., default in payment and financial difficulty of borrower, among others. Entities are prohibited from taking into account expectations of future credit losses.

1.5. The new impairment model under PFRS 9, also known as the ECL model, is required to be applied to the following, among others: (a) financial assets measured at amortized cost; (b) financial assets mandatorily measured at fair value through other comprehensive income (OCI); (c) financial guarantee contracts to which PFRS 9 is applied, except those measured at fair value through profit or loss; and (d) lease receivables within the scope of PFRS 16 – *Leases*. Provisions of PFRS 9 pertinent to the application of the ECL model follow:

a. Generally, at each reporting date, an entity shall measure loss allowance at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition. If at the reporting date, the credit risk has not increased significantly since initial recognition, an entity shall measure the loss allowance at an amount equal to 12-month ECL.[1]

b. Consequently, at each reporting date, an entity shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. To make that assessment, an entity shall compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk (SICR) since initial recognition.

c. Regardless of the way in which an entity assesses SICR, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. An entity can rebut this presumption if the entity has reasonable and supportable information that is available without undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due.

d. To measure ECL of a financial instrument, an entity needs to take into account: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

e. When measuring expected credit losses, an entity need not necessarily identify every possible scenario. However, it shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

f. A simplified approach where entities do not have to track changes in credit risk of and where lifetime ECL are recognized from date of initial recognition of the financial assets may be adopted. The simplified approach is: (i) required for trade receivables that result from transactions that are within the scope of PFRS 15 – *Revenue from Contracts with Customers* and do not contain a significant financing

[1] Lifetime ECL refers to the ECL that result from all possible default events over the expected life of a financial instrument while 12-month ECL pertains to the portion of lifetime ECL that represent the ECL that result from default events on financial instrument that are possible within the 12 months after the reporting date *(Appendix A – Defined terms, PFRS 9).*

component, or when the entity applies the practical expedient in accordance with PFRS 15; and (ii) optional for those that contain a significant financing component.

1.6. Thus, under PFRS 9, ECL is a function of the probability of default (POD), loss given default (LGD) and exposure at default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment, where:

a. POD is an estimate of the likelihood of default over a 12-month horizon or lifetime horizon, as applicable. It is modelled based on historical data and is estimated based on current market conditions, and reasonable and supportable information about future economic conditions.

b. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral.

c. EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

1.7. Verification disclosed that the SB Corporation reported financial assets subject to impairment of P15.437 billion, net of accumulated impairment losses of P2.555 billion, which comprise 93.66 per cent of its total assets as at December 31, 2022. Details follow:

Particulars	Carrying Amount without Impairment	Allowance for Impairment Loss	Carrying Amount
Cash in Banks	P514,539,254	0	P514,539,254
Cash Equivalents	1,423,998,487	0	1,423,998,487
Investment in Treasury Bills	1,897,000,000	0	1,897,000,000
Investment in Treasury Bonds	2,127,614,276	0	2,127,614,276
Notes Receivable	11,916,164,930	(P2,552,731,930)	9,363,433,000
Accounts Receivable	40,594,979	(1,864,510)	38,730,469
Other Receivables	71,650,606	0	71,650,606
Total Financial Assets	**P17,991,562,532**	**(P2,554,596,440)**	**P15,436,966,092**

1.8. Audit of the above accounts, particularly our assessment of the sufficiency of the recorded cumulative allowance for ECL and adequacy of the adopted ECL methodology, disclosed the following deficiencies:

a. First, the adopted ECL methodology under Board Resolution (BR) No. 2017-02-2360A dated February 2, 2017, as amended, essentially adopts the incurred loss model under the previous standard on financial instruments and not the forward-looking ECL model under PFRS 9. Under Item III.B of the Policy on Loan Loss Estimation Methodology, classification shall, as far as practicable, be made immediately upon notice of adverse developments in the business of the borrower, or in its payment performance, and the classification officer has ascertained that such development will negatively impact on the ability of the borrower to pay his obligation, provided that all efforts to collect has been exhausted.

To reiterate, under PAS 39, credit losses are recognized only once there has been an incurred loss event. Entities are prohibited from taking into account expectations of future credit losses. However, under PFRS 9, entities are now required to consider historical, current and forward-looking information. It is no longer appropriate for entities to wait for an incurred loss event to have occurred before credit losses are recognized. Thus, loss allowance would ordinarily be higher if PFRS 9 requirements are strictly followed.

b. Second, the SB Corporation impliedly adopts a simplified approach in measuring loss allowance considering that it does not consider changes in credit risk to determine whether to recognize lifetime or 12-month ECL. Under PFRS 9, the simplified approach is applicable only on trade receivable and contract assets which do not contain a significant financing component. In addition, said approach is inconsistent with the defined 3 stages of classifying credit exposures which is a key feature of the ECL methodology prescribed by PFRS 9.

c. Third, the provision matrices prescribed under the policy appear not to be compliant with the requirements of PFRS 9 as regards the use of practical expedients in measuring ECL for the following reasons:

   i. While determining SICR and recognizing a loss allowance on a collective basis is allowed under the standard, the segmentation of the Corporation’s credit exposures into secured and unsecured loans and credit accommodations, restructured or special loans is too broad. PFRS 9 requires a more granular and dynamic approach to portfolio segmentation.

   ii. Thus, entities must group financial instruments based on shared credit characteristics that typically react in a similar way to the current environment and macroeconomic factors such as instrument type, credit risk ratings, industry, geographical location, date of initial recognition, remaining term to maturity, and underlying collateral.

   iii. Moreover, the rates under the provision matrices are pre-determined and appear to have been largely based from Appendix 15 of the Manual of Regulations for Banks. A documented model development should have been conducted by Management in coming up with such provision matrices.

   iv. Further, under PFRS 9, an entity may use practical expedients such as a provision matrix when measuring ECL only if they are consistent with the principles mentioned under Paragraph 1.5(d). Thus, an entity is allowed to use its historical credit loss experience but should adjust the same to consider the time value of money by discounting the future cash flows and to incorporate forward-looking macro-economic factors or estimates in the final ECL.

d. Fourth, the existing policy excludes from its coverage investments measured at amortized cost, including cash and cash equivalents. Thus, there are no existing procedures and guidelines for the determination and provision of allowance for ECL on said financial assets which comprise a significant portion of its total assets. Again, the ECL model under PFRS 9 is required to be applied to all financial assets measured at amortized cost, even if the possibility of a credit loss occurring is very low.

1.9. Management informed that there is an on-going impact assessment and transition services covering PFRS 9 by a third-party professional. Part of its deliverables is the provision of assistance in the new classification and measurement of financial assets, including the development of an impairment model that would measure the appropriate allowance for ECL in accordance with PFRS 9.

1.10. However, considering that the new ECL model is not yet in place, the reported total carrying amounts of the financial assets is overstated, while the total cumulative provision thereon is understated as at December 31, 2022, both by undetermined amounts, contrary to the fair presentation mandated by Paragraph 15 of PAS 1.

1.11. We reiterated with modifications our prior year's recommendations that Management, through the Controllership Group (CG) and the Enterprise Risk Management Group (ERMG):

a. Formulate a revised impairment model that is aligned with PFRS 9 which shall serve as basis by the SB Corporation in the estimation of ECL on its financial assets. Such model should address the several deficiencies noted in the existing Policy on Loan Loss Estimation Methodology;

b. Based on the revised impairment model, determine and record the reasonable amount of ECL to fairly state the affected account balances; and

c. Ensure that the following measures are in place to ensure the effective and efficient implementation of the revised impairment model:

i. Relevant procedures and steps as to the governance of the whole ECL process to control the management of data assets;

ii. Detailed accountabilities of each personnel involved in the ECL process, including timelines for completion of required activities as well as process flow of ECL computation; and

iii. Subsequent audit, independent model validation, back-testing and recalibration of the revised impairment model.

1.12. Management commented that the SB Corporation strives to promptly identify deteriorating credit exposures and determine the appropriate ECL at all times. The existing policy on loan classification and provisioning adopts both quantitative and qualitative factors. The principles of the ECL model in determining impairment were also considered in order to promote prudence and transparency.

1.13. Moreover, the SB Corporation is presently geared towards full adoption by June 2023 of the ECL model covering all financial assets in accordance with PFRS 9. The formulation of the recommended policy will follow upon the decision to adopt the appropriate ECL methodology for the SB Corporation based on the report of the third-party validator. Thereafter, the CG will coordinate with ERMG for the proper and reasonable amount to be recorded as ECL.

1.14. As an audit rejoinder, the courses of action taken and to be undertaken by Management to comply with the recommendations will be monitored and evaluated accordingly. We stress, however, that the affected accounts remain misstated pending full compliance with our audit recommendations.

1.15. Considering that there appears to be delays on the part of the third-party validator, we further recommend that Management strongly demand from the third-party validator the immediate completion and submission of the latter's deliverables under the engagement. Other remedies as allowed under the engagement and law on contracts should be exhausted for the same purpose.

2. Non-elimination of the Intra-agency Receivables and Payables accounts as at December 31, 2022 and 2021 in the final FS overstated, as at even dates, the total assets by P97.488 million and P83.470 million, respectively, as well as the total liabilities by P143.619 million and P91.590 million, respectively, contrary to the fair presentation mandated by Paragraph 15 of PAS 1 – *Presentation of Financial Statements.*

2.1. Paragraph 4.10 of the Conceptual Framework provides that an entity cannot have a right to obtain economic benefits from itself. Hence, if a reporting entity comprises more than one legal entity, debt or equity instruments issued by one of those legal entities and held by another of those legal entities are not economic resources nor obligations of the reporting entity.

2.2. As at December 31, 2022 and 2021, the SB Corporation reported material intra-agency accounts in the FS as follows:

Particulars	2022	2021
Intra-agency Receivable		
Due from P3	P32,407,088	P24,120,663
Due from SB Corporation	65,081,148	59,349,241
	P97,488,236	**P83,469,904**

Particulars	2022	2021
Intra-agency Payable		
Due to P3	P74,035,219	P38,246,627
Due to SB Corporation	69,583,562	53,343,456
	P143,618,781	**P91,590,083**

2.3. As disclosed in the CYs 2022 and 2021 NTFS, the intra-agency accounts pertain to receivables and payables between the SB Corporation's regular funds and Pondo sa Pagbabago at Pag-asenso (P3) funds representing advances that are regularly monitored on a periodic basis. Management added that the intra-agency accounts exist due to collections and expenses interchangeably booked from the other funds.

2.4. The SB Corporation, as an attached agency of the Department of Trade and Industry (DTI), administers the P3 Program, which is a financing initiative of the government to assist micro entrepreneurs throughout the country by providing affordable and cost-efficient micro loans. The funds received under the Program are accounted for as subsidy from the NG. Nonetheless, considering that the SB Corporation has reportorial obligations, separate books of accounts are maintained for the P3 funds.

2.5. Verification disclosed that the intra-agency accounts were not eliminated in the final FS. Thus, in essence, the SB Corporation claims to have a right to obtain economic benefits from itself as well as an obligation to transfer economic benefits to itself, which is contrary to Paragraph 4.10 of the Conceptual Framework for Financial Reporting. To stress, the P3 funds are subsidy from the NG, thus, accounted for as income and part of the SB Corporation's Retained Earnings.

2.6. Aside from the non-elimination of the intra-agency accounts, we noted that there are variances between the reported intra-agency receivable of the SB Corporation against its intra-agency payable to P3 funds, and vice versa. Details follow:

Fund	Intra-agency Receivable	Intra-agency Payable	Variance
As at December 31, 2022			
Regular	P32,407,088	P69,583,562	P37,176,474
P3	65,081,148	74,035,219	8,954,071
			P46,130,545
As at December 31, 2021			
Regular	P24,120,663	P53,343,456	P29,222,793
P3	59,349,241	38,246,627	21,102,614
			P50,325,407

2.7. In the current context, the intra-agency accounts are mere mechanisms that assist the SB Corporation in complying with its reportorial obligations. The intra-agency accounts are reciprocal accounts that only serve as clearing accounts to monitor the recording of intra-fund transactions, and for convenience in eliminating said transactions. At year-end, the accounts should have zero balances.

2.8. Inquiry with the concerned personnel of the CG disclosed that the elimination of the reciprocal accounts upon consolidation cannot be done because the reconciliation of the transactions as at December 31, 2022 are still on-going. Management claimed that the major setback encountered is the voluminous transactions of the previous years' unreconciled amounts which accumulated during the height of the pandemic.

2.9. Relatedly, the Audit Team cannot ascertain the details and causes of the variance because the pertinent schedules and aging of the reconciling items or reconciliation report as at December 31, 2022 were not yet submitted for our reference and validation. Nonetheless, Management informed that the noted variances occurred due to the non-recording and/or double recording of transactions in the fund accounts.

2.10. As a result, the total assets as at December 31, 2022 and 2021 are overstated by P97.488 million and P83.470 million, respectively, while the total liabilities as at even dates are overstated by P143.619 million and P91.590 million, respectively, contrary to the fair presentation mandated by Paragraph 15 of PAS 1.

2.11. Notably, without considering the effect of the other misstatements and deficiencies observed, the total liabilities as at December 31, 2022 is already materially misstated by 48.01 per cent, determined as follows:

Particulars	Amount
Total Assets, As Reported	P16,481,194,139
Intra-agency Receivables (a)	97,488,236
Should be Total Assets (b)	**P16,383,705,903**
Percentage of Overstatement (a) ÷ (b)	**0.60%**
Total Liabilities, As Reported	P442,752,776
Intra-agency Payables (c)	143,618,781
Should be Total Liabilities (d)	**P299,133,995**
Percentage of Overstatement (c) ÷ (d)	**48.01%**

2.12. We reiterated with modifications our prior years' recommendations that Management, through the CG:

a. Prioritize/Fast track the analysis and reconciliation of the noted variances in the intra-agency accounts to pave the way for the elimination thereof in the final FS;

b. Based on the results of such analysis and reconciliation, effect the necessary adjustments in the books to adjust and eliminate the intra-agency accounts;

c. **Set reasonable timeline, milestones and accountabilities for the recommended analysis and reconciliation to properly evaluate and monitor progress and accomplishments;**

d. **Formulate a policy regarding the proper recording of intra-agency transactions, to include, among others, relevant procedures, accountabilities, and timelines;**

e. **Disclose in the NTFS the accounting policy on the consolidation and elimination of the reciprocal intra-agency accounts, as appropriate; and**

f. **Install appropriate control mechanisms, e.g., inclusion in year-end closure instructions, records reconciliation, and regular review and monitoring, among others, to ensure that intra-agency transactions are properly recorded and variances in the intra-agency accounts are minimized, if not eliminated.**

2.13. Management commented that the intra-agency accounts are fully reconciled as at December 31, 2022, except for the transactions pertaining to the Head Office and the Northern Luzon Group. What constrains Management from completing the necessary reconciliation of all noted variances is the inadequate manpower complement of the CG.

2.14. Likewise, Management committed to formulate the recommended policy or guideline on intra-agency accounts, including the appropriate control mechanisms, to ensure that intra-agency transactions are properly recorded.

2.15. As an audit rejoinder, the courses of action taken and to be undertaken by Management to comply with the recommendations will be monitored and evaluated accordingly. We stress, however, that the reported balances of the subject accounts remain misstated pending full compliance with the recommendations.

3. Several information required to be disclosed by PFRSs in the notes to the FS (NTFS) were not presented therein, thus, the fair presentation of the FS of SB Corporation for the years ended December 31, 2022 and 2021, is materially affected.

3.1. PAS 1 prescribes the basis for presentation of general-purpose FS to ensure comparability both with the entity's FS of previous periods and with the FS of other entities. It sets out the overall requirements for the presentation of FS, guidelines for their structure and minimum requirements for their content.

3.2. Paragraph 10 of the standard provides that a complete set of FS shall include, as an integral part thereof, notes comprising significant accounting policies and other explanatory information. Specifically, the notes contain information in addition to that presented in the statement of financial position (SFP), statement of comprehensive income (SCI), statement of changes in equity (SCE) and statement of cash flows. Notes provide narrative descriptions or disaggregation of items presented in those statements and information about items that do not qualify for recognition in those statements.

3.3. Corollary, Paragraph 15 of PAS 1 provides that the application of PFRS, with additional disclosure, when necessary, is presumed to result in FS that achieve a fair presentation. Under Paragraph 17 thereof, fair presentation also requires an entity to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information. Accordingly, Paragraph 112 mandates that the notes shall, among others, disclose the information required by PFRS that is not presented elsewhere in the FS.

3.4. Review of the notes accompanying the FS of the SB Corporation for the years ended December 31, 2022 and 2021 showed that, in addition to that noted in other observations discussed herein, several relevant and material information required to be disclosed by applicable PFRSs in the NTFS were not presented therein, to wit:

Relevant PFRS	Required Disclosures
Paragraph 125, PAS 1	An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of: (a) their nature, and (b) their carrying amount as at the end of the reporting period.
Paragraphs 134 and 135, PAS 1	An entity shall disclose information that enables users of its FS to evaluate the entity's objectives, policies and processes for managing capital, including: • Qualitative information about its objectives, policies and processes for managing capital, including: (i) a description of what it manages as capital; (ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and (iii) how it is meeting its objectives for managing capital; • Summary quantitative data about what it manages as capital; • Any changes in the foregoing data from the previous period; • Whether during the period it complied with any externally imposed capital requirements to which it is subject; and • When the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

Relevant PFRS	Required Disclosures
Paragraphs 44A and 44B, PAS 7	An entity shall provide disclosures that enable users of FS to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. To the extent necessary to satisfy such requirement, an entity shall disclose the following changes in liabilities arising from financing activities: (a) changes from financing cash flows; (b) changes arising from obtaining or losing control of subsidiaries or other businesses; (c) the effect of changes in foreign exchange rates; (d) changes in fair values; and (e) other changes.
Paragraph 79, PAS 16	• The gross carrying amount of any fully depreciated property, plant and equipment that is still in use; and • The carrying amount of property, plant and equipment retired from active use and not classified as held for sale.
Paragraph 130, PAS 36	An entity shall disclose the following for an individual asset for which an impairment loss has been recognized or reversed during the period: • The events and circumstances that led to the recognition or reversal of the impairment loss. • The amount of the impairment loss recognized or reversed. • For an individual asset, the nature of the asset. • The recoverable amount of the asset and whether the recoverable amount of the asset is its fair value less costs of disposal or its value in use. • If the recoverable amount is fair value less costs of disposal, the entity shall disclose the following information: i. The level of the fair value hierarchy within which the fair value measurement of the asset is categorized in its entirety; ii. For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) used to measure fair value less costs of disposal. If there has been a change in valuation technique, the entity shall disclose that change and the reason(s) for making it; iii. For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, each key assumption on which management has based its determination of fair value less costs of disposal; and the discount rate(s) used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique. • If recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.

Relevant PFRS	Required Disclosures
Paragraphs 75 and 79, PAS 40	• The extent to which the fair value of investment property (as measured or disclosed in the FS) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed; • The amounts recognized in profit or loss for: (i) rental income from investment property; (ii) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period; and (iii) direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period; • The existence and amounts of restrictions on the realizability of investment property or the remittance of income and proceeds of disposal; • The useful lives or the depreciation rates used; and • The fair value of investment property. In exceptional cases when an entity cannot measure the fair value of the investment property reliably: (i) a description of the investment property; (ii) an explanation of why fair value cannot be measured reliably; and (iii) if possible, the range of estimates within which fair value is highly likely to lie.
Paragraph 41, PFRS 5	An entity shall disclose the following information in the notes in the period in which a non-current asset has been either classified as held for sale or sold: • A description of the non-current asset; • A description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal; and • The pertinent gains or losses recognized and, if not separately presented in the SCI, the caption in the SCI that includes that gain or loss.
Paragraphs 31, 33, 34 and 35A to 42, PFRS 7	Generally: • Quantitative disclosures for each type of risk arising from financial instruments, including: i. Summary quantitative data about its exposure to that risk at the end of the reporting period which shall be based on the information provided internally to key management personnel of the entity as defined in PAS 24; ii. The disclosures required by Paragraphs 35A to 42, to the extent not provided in accordance with (i); and iii. Concentrations of risk if not apparent from the disclosures made in accordance with (i) and (ii).

Relevant PFRS	Required Disclosures
	Specifically: • Explanation of credit risk management practices and how they relate to the recognition and measurement of ECL, including: i. An entity's definitions of default, including the reasons for selecting those definitions; ii. How the instruments were grouped if ECL were measured on a collective basis; iii. How an entity determined that financial assets are credit-impaired financial assets; and iv. How the requirements of PFRS 9 for the modification of contractual cash flows of financial assets have been applied. • Explanation as to the inputs, assumptions and estimation techniques used to apply the requirements in Section 5.5 of PFRS 9, including: i. How forward-looking information has been incorporated in the determination of ECL, including the use of macroeconomic information; and ii. Changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes. • To explain the changes in the loss allowance and the reasons for those changes, an entity shall provide a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period for: i. Loss allowance measured at an amount equal to 12-month ECL; ii. Loss allowance measured at an amount equal to lifetime ECL; iii. Financial assets that are purchased or originated credit-impaired. • Explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in the loss allowance. • To enable users of FS to understand the nature and effect of modifications of contractual cash flows on financial assets that have not resulted in derecognition and the effect of such modifications on the measurement of ECL: i. The amortized cost before the modification and the net modification gain or loss recognized for financial assets for which the contractual cash flows have been modified during the reporting period while they had a loss allowance measured at an amount equal to lifetime ECL; and ii. The gross carrying amount at the end of the reporting period of financial assets that have been modified since initial recognition at a time when the loss allowance was measured at an amount equal to lifetime ECL and for which the loss allowance has changed during the reporting period to an amount equal to 12-month ECL.

Relevant PFRS	Required Disclosures
	• To enable users of FS to understand the effect of collateral and other credit enhancements on the amounts arising from ECL, an entity shall disclose by class of financial instrument: i. The amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements; ii. Quantitative information about the collateral held as security and other credit enhancements for financial assets that are credit-impaired at the reporting date. • The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity. • The gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts by credit risk rating grades. • When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements and such assets meet the recognition criteria in other PFRSs, an entity shall disclose for such assets held at the reporting date: (a) the nature and carrying amount of the assets; and (b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations. • Maturity analysis for non-derivative financial liabilities, including issued financial guarantee contracts that shows the remaining contractual maturities. • Sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing: i. How profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date; ii. The methods and assumptions used in preparing the sensitivity analysis; and iii. Changes from the previous period in the methods and assumptions used, and the reasons for such changes. Or the sensitivity analysis that it prepares which reflects interdependencies between risk variables and uses it to manage financial risks.
Paragraphs 93 and 97, PFRS 13 in relation to PAS 40	• The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety; • A description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique, the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant

Relevant PFRS	Required Disclosures
	unobservable inputs used in the fair value measurement; and • If the highest and best use of a non-financial asset differs from its current use, an entity shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use.
Paragraphs 58 and 59, PFRS 16	• Maturity analysis of lease liabilities separately from the maturity analyses of other financial liabilities. • Additional qualitative and quantitative information about its leasing activities necessary to gives a basis for users of FS to assess the effect that leases have on the financial position, financial performance and cash flows, including: i. The nature of the lessee's leasing activities; ii. Future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities; and iii. Restrictions or covenants imposed by leases.

3.5. Consequently, the fair presentation of the FS of the SB Corporation for the years ended December 31, 2022 and 2021, is adversely and materially affected. Users of the FS are deprived of relevant information about the SB Corporation's financial position, financial performance and cash flows that is useful to them in making economic decisions.

3.6. Likewise, we noted that the following information, which though not required to be disclosed by relevant PFRSs but may be found by users relevant to their needs, are not disclosed in the FS:

Relevant PFRS	Encouraged Disclosures
Paragraph 79, PAS 16	• Gross carrying amount of any fully depreciated property, plant and equipment (PPE) that is still in use; • Carrying amount of: (i) temporarily idle PPE; and (ii) PPE retired from active use and not classified as held for sale in accordance with PFRS 5; • Fair value of PPE accounted for using the cost model when this is materially different from the carrying amount.

3.7. We recommended that Management:

a. Disclose all the foregoing information in the NTFS as required or encouraged by relevant PFRSs; and

b. Require the concerned Operating Groups to assist and promptly provide the required information to the CG to enable the latter to timely prepare the NTFS sufficient in form and substance and to submit the same to the Audit Team within the set deadline.

3.8. Management committed to submit to the Audit Team a substantially revised NTFS for the years ended December 31, 2022 and 2021 together with the final FS that incorporates all the updated reports as a result of the adjustments considered.

3.9. As an audit rejoinder, our validation of the final NTFS showed that nearly all of the lacking disclosures noted are still not presented therein. Thus, the fair presentation of the FS of the SB Corporation for the years ended December 31, 2022 and 2021, remain materially affected.

4. The realizability of the reported Deferred Tax Asset (DTA) as at December 31, 2022 of P776.248 million is not duly supported by convincing evidence that would show sufficiency of future taxable profits against which the related deductible temporary differences can be utilized as required by pertinent provisions of PAS 12 – *Income Taxes*. Thus, the accuracy and reliability of the reported DTA as at even date are doubtful, contrary to the fair presentation mandated by Paragraph 15 of PAS 1 – *Presentation of Financial Statements.*

4.1. Relative to income taxes, PAS 12 implements a so-called “comprehensive balance sheet method” of accounting which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Pertinent provisions thereof follow:

a. Paragraph 24 requires that a DTA be recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Paragraph 28 explains that such probability exists when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse: (i) in the same period as the expected reversal of the deductible temporary difference; or (ii) in periods into which a tax loss arising from the DTA can be carried back or forward.

b. Conversely, when there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, Paragraph 29 provides that the DTA is recognized to the extent that: (i) it is probable that the entity will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary difference; or (ii) tax planning opportunities are available to the entity that will create taxable profit in appropriate periods.

c. Paragraph 29 further provides that in evaluating whether it will have sufficient taxable profit in future periods, an entity: (i) compares the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences; and (ii) ignores taxable amounts arising from deductible temporary differences that are expected to originate in future periods, because the DTA arising from these deductible temporary differences will itself require future taxable profit in order to be utilized.

d. Paragraph 31, in relation to Paragraphs 35 and 36, states that when an entity has a history of recent losses, the entity recognizes a DTA only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilized by the entity. In such circumstances, disclosure of the amount of the DTA and the nature of the evidence supporting its recognition is required.

e. Further, to the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilized, the DTA is not recognized. At the end of each reporting period, an entity reassesses unrecognized DTA. The entity recognizes a previously unrecognized DTA to the extent that it has become probable that future taxable profit will allow the DTA to be recovered.

4.2. As at December 31, 2022, SB Corporation reported DTA and Deferred Tax Liability (DTL) of P776.248 million and P153,970, respectively, relative to its future deductible and taxable temporary differences. Details follow:

Particulars	Amount
Deferred Tax Asset	
Allowance for impairment	P638,649,110
Excess Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT)	3,595,230
Net Operating Loss Carry-Over (NOLCO)	22,808,719
Leave benefits payable	16,499,562
Service income	94,695,463
	P776,248,084
Deferred Tax Liability	
Lease liability	**P153,970**

4.3. Audit of the accounts disclosed that there is lack of documented substantial evidence to show that there are sufficient taxable profits in future periods against which the above deductible temporary differences can be utilized rendering the realizability of the recorded DTA doubtful. Considering that the SB Corporation has insufficient taxable temporary differences, the DTA should be recognized to the extent that it is probable that the entity will have sufficient taxable profits in the same period as the reversal of the deductible temporary differences.

4.4. On this score, PAS 12 requires the SB Corporation to compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. However, Management has no readily available documentation as to the conduct of such comparison or analysis. Neither has Management demonstrated tax planning opportunities available to the SB Corporation that will create taxable profits in appropriate periods nor disclosed in its notes to the FS the estimation procedures on the realizability of DTA.

4.5. The above is significant considering that there are circumstances suggesting the improbability that taxable profits will be available against which the SB Corporation's deductible temporary differences can be utilized. We noted that the SB Corporation has a history of recent taxable losses and/or MCIT position casting doubt on the availability of future taxable profits. Details follow:

Year	Taxable Income (Loss) before NOLCO	Excess of MCIT over RCIT
2022	(P91,234,876)	P3,595,230
2021	(247,274,648)	0
2020	(3,606,314)	5,357,637
2019	21,206,571	101,589
2018	629,478	4,992,574
2017	42,203,048	0
2016	38,751,933	4,882,376
2015	59,133,123	4,872,463
2014	2,264,586	3,632,353
2013	(131,200,395)	3,447,314
2012	28,977,142	4,570,968
2011	(106,387,658)	4,963,417

4.6. In view of the above, the SB Corporation does not have sufficient taxable temporary differences to cover its deductible temporary differences. To stress, its reported DTL as at December 31, 2022 amounted to P153,970 only. Likewise, no other convincing evidence was presented by Management to demonstrate and justify the availability of future taxable profits.

4.7. Thus, the accuracy and reliability of the reported DTA as at December 31, 2022 of P776.248 million is doubtful, contrary to the fair presentation mandated by Paragraph 15 of PAS 1.

4.8. It bears stressing that significant judgment is required to determine the amount of DTA that can be recognized based upon the likely timing and level of future taxable income together with future planning strategies. It is based on assumptions such as availability of future taxable income and the timing of the reversal of the temporary differences that are affected by expected future market or economic conditions and the expected performance of the SB Corporation.

4.9. Therefore, at the minimum, the SB Corporation must have a well-documented analysis and decision making at the appropriate management level for the valuation of its DTA, including therein a breakdown and timing of projected taxable profits, as well as a determination of the level of probability thereof.

4.10. We recommended that Management, through the CG in coordination with the Operating Groups:

a.1. Recognize DTA only to the extent of its total taxable differences as at December 31, 2022, and disclose the excess DTA in the NTFS; and

a.2. Reassess at the end of each year the derecognized/unrecognized DTA and recognize the same only to the extent that it has become probable based on the result of such reassessment that future taxable profit will allow the DTA to be recovered; or

b.1. Submit justification for the continued recognition of its DTA of P776.248 million which must be objective and well-documented, including a breakdown and timing of projected taxable profits, as well as a determination of the level of probability thereof; and

b.2. Disclose in the NTFS the nature of the evidence supporting the recognition of its DTA as required by PAS 12.

4.11. Management commented that it will review the present level of reported DTA and assess the appropriateness of their continued recognition in the books. Reassessment will likewise be done annually to determine the need to report previously unrecognized DTA. Further, the projection of realizable taxable income in the financial forecast will be included as part of the CY 2023 planning session.

4.12. As an audit rejoinder, the courses of action taken and to be undertaken by Management to comply with the recommendations will be monitored and evaluated accordingly. We stress, however, that the reported balance of the DTA remains doubtful pending full compliance with the recommendations.

5. Charges qualifying as loan origination costs and service fees charged to borrowers were amortized as interest income over the terms of the related loans instead of the effective interest method, contrary to pertinent provisions of PFRS 9 – *Financial Instruments*, thus, the reported Notes Receivable and Retained Earnings are both overstated, while the reported Service and Business Income are misstated, all by undetermined amounts, as at or for the years ended December 31, 2022 and 2021*.*

5.1. Relative to financial assets, PFRS 9 requires those classified as at amortized cost such as notes receivables to be initially measured at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset, and subsequently, at amortized cost, or the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, adjusted for any loss allowance.

5.2. Specifically, PFRS 9 provides the following guidelines on the use of the effective interest method:

a. Interest revenue shall be calculated by using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset.

b. When calculating the effective interest rate, an entity shall estimate the expected cash flows by considering all the contractual terms of the financial instrument but shall not consider the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate transaction costs, and all other premiums or discounts.

c. Fees that are an integral part of the effective interest rate of a financial instrument include:

i. Origination fees received by the entity relating to the creation or acquisition of a financial asset including compensation for activities such as evaluating the borrower's financial condition, evaluating, and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction.

ii. In general, commitment fees received by the entity to originate a loan, and it is probable that the entity will enter into a specific lending arrangement. If the commitment expires without the entity making the loan, the fee is recognized as revenue on expiry.

d. Fees that are not an integral part of the effective interest rate of a financial instrument and are accounted for in accordance with PFRS 15 include: (i) fees charged for servicing a loan; and (ii) loan syndication fees received by an entity that arranges a loan and retains no part of the loan package for itself.

5.3. Records show that the SB Corporation reported Notes Receivable with carrying amounts of P9.363 billion and P9.355 billion as at December 31, 2022 and 2021, respectively. Details follow:

Loan Facility	**2022**	**2021**
Retail	P4,319,795,035	P5,252,746,093
Wholesale	5,043,637,965	4,102,636,840
Total	**P9,363,433,000**	**P9,355,382,933**

5.4. On the other hand, SB Corporation reported Service and Business Income of P504.616 million and P331.189 million for the years then ended, respectively, broken down as follows:

Type of Income	**2022**	**2021**
Service Income		
Processing Fee	P18,663,439	P1,755,924
Business Income		
Dividend Income	210,608	211,765
Interest Income	439,539,159	318,919,283
Fines and Penalties	44,052,226	8,033,204
Other Business Income	2,150,563	2,269,142
	P504,615,995	**P331,189,318**

5.5. Processing Fee represents the amounts charged for processing the loans under the regular retail, wholesale, and micro-financing programs whereas Other Business Income primarily consists of charges for loan evaluation, restructuring, extension and commitment fees. Meanwhile, Fees and Commission Income pertains to the service fees charged under the Bayanihan CARES and RISE UP programs.

5.6. Management claimed that the foregoing balances already reflect the necessary adjustments made to address our initial observations relative to the recognition and measurement of Notes Receivable and related accounts, as follows:

Non-amortization as interest income of charges qualifying as loan origination costs

a. We reviewed five samples of loan releases with carrying amounts totaling P233.203 million as at December 31, 2022 under the regular interest-bearing loan facilities covering different years to understand the manner by which loans and related fees and charges are recorded by the SB Corporation. Relevant details follow:

				Loan Deductions		Recognized Income	
DV No.	Release Date	Loan Program	Carrying Amount, 12/31/2022	Processing Fees	Evaluation and Other Fees	2022	2021
2022-12-123	12/29/2022	Wholesale	P148,500,000	P750,000	P300,000	P1,050,000	0
2022-12-002	12/01/2022	Micro-finance	23,760,000	24,000	20,000	44,000	0
2021-12-082	12/21/2021	Retail	740,324	240,000	0	0	P240,000
2021-12-067	12/15/2021	Micro-finance	55,282,592	442,500	0	0	442,500
2020-10-011	10/01/2020	Retail	4,920,417	400,000	0	0	0
Total			**P233,203,333**	**P1,856,500**	**P320,000**	**P1,094,000**	**P682,500**

b. As can be gleaned from the above, the one-time payments of processing, evaluation and similar fees totaling P2.176 million were deducted from the loan proceeds and recorded as income in full upon release of the related loans. Thus, the P1.094 million and P682,500 were recognized as Service and Business Income relative to the subject loans in CYs 2022 and 2021, respectively.

c. Inquiry with Management disclosed that the computation of these fees is in accordance with the SB Corporation's loan policies and guidelines, and are recognized as revenue in full upon release of the related loans (under "Processing Fees" and "Other Business Income"), which are consistent for all similar loans.

d. However, processing and evaluation fees qualify as loan origination costs are integral part of the effective interest rate of the related loans and must be treated as an adjustment to the effective interest rate in accordance with PFRS 9. To stress, when applying the effective interest method, an entity would amortize any fees, points paid or received, transaction costs and other premiums or discounts that are included in the calculation of the effective interest rate over the expected life of the financial instrument.

e. Thus, the subject fees which totaled P10.759 million and P20.917 million in CYs 2022 and 2021, respectively, per preliminary SCI should not have been recognized immediately as income and instead, amortized over the life of the related loans. Further, the unamortized amounts as at year-end should have been presented as a deduction from the carrying amount of the loans.

Non-recognition and non-amortization of "service fees" as interest income

f. We likewise reviewed five samples of loan releases with carrying amounts totaling P20.582 million as at December 31, 2022 under SB Corporation's COVID-19-related loan programs, namely, Bayanihan CARES and RISE UP to understand the manner by which loans and related fees and charges are recorded by the SB Corporation. Relevant details follow:

DV No.	Release Date	Loan Program	Carrying Amount, 12/31/2022	Loan Deduction	Recognized Income	
				Service Fee	2022	2021
2022-12-085	12/23/2022	Bayanihan CARES	P4,455,000	P180,000	P180,000	0
2022-12-232	12/27/2022	Bayanihan CARES	3,356,100	152,550	152,550	0
2022-12-0242-LUZ	12/27/2022	RISE UP	4,850,543	293,972	293,972	0
2021-12-160	12/31/2021	RISE UP	3,960,000	320,000	0	P320,000
2021-12-1024-LUZ	12/31/2021	RISE UP	3,960,000	320,000	0	320,000
Total			**P20,581,643**	**P1,266,522**	**P626,522**	**P640,000**

g. As can be gleaned from the above, the one-time payments of service fees totaling P1.267 million were also deducted from the loan proceeds and recorded as income in full upon release of the related loans. Thus, the P626,522 and P640,000 were recognized as Service and Business Income relative to the subject loans in CYs 2022 and 2021, respectively.

h. Inquiry with Management disclosed that the computation of these fees is in accordance with the SB Corporation's loan policies and guidelines, are recognized as revenue in full upon release of the related loans (under "Fees and Commission Income"), and are consistent for all similar loans.

i. The Bayanihan CARES Program is an interest-free and collateral-free financing program that aims to assist micro, small and medium enterprises (MSMEs) recover from the adverse effects of the pandemic. The borrower MSMEs will only need to pay a one-time service fee, which is set at a maximum of 8 per cent.

j. Meanwhile, RISE UP is a loan program that aims to sustain the gains of MSMEs that have survived the past two years of crisis, by providing multi-purpose loans that have soft terms and can be easily accessed. Under the program, interest rate ranges from 8 to 12 per cent depending upon the good repayment track record of the borrower, and a one-time service fee of zero to 10 per cent is also charged based on the grace period availed of and/or interest rate.

k. Our assessment showed that the service fees charged under both programs amounting to P169.503 million and P391.362 million in CYs 2022 and 2021, respectively, per preliminary SCI are, in substance, charges for interest, or at the very least an integral part of the effective interest, thus, should be amortized over the life of the related loans using the effective interest method. Reasons for such conclusion follow:

Loan Program	Reasons
Bayanihan CARES	• The loan is nominally non-interest bearing. However, under PFRS 9, this is a misnomer because the holder of a non-interest-bearing note should still recognize imputed interest income on the instrument using the market rate. • As revealed in the discussions under the 2020 Corporate Operating Budget of SB Corporation under Board Resolution No. 2020-05-2921 dated June 2, 2020, *"a **change in revenue structure was adapted wherein service fee-based approach is adopted as against an interest fee-based approach.** Compared to an interest-bearing facility, such approach overtime is more beneficial to the borrowers while at the same time, provides the Corporation the opportunity to cushion the negative effect of the economic downturn to its operation."* Thus, the service fee was intended to replace charges for interest. • There are no longer charges for loan origination costs, e.g., processing and evaluation fees, which can be presumed to be covered by the service fee. As mentioned, loan origination costs are an integral part of the effective interest rate of the related loans. • The service fees are not commensurate to the loan servicing costs. There is no apparent change in the manner by which the loan collections are serviced warranting charging of service fees. In fact, in the same discussion, it was estimated that there will be consequential reduction in expenses.
RISE UP	• There are no longer charges for loan origination costs, e.g., processing and evaluation fees, which can be presumed to be covered by the service fee. As mentioned, loan origination costs are an integral part of the effective interest rate of the related loans. • The service fees are not commensurate to the loan servicing costs. There is no apparent change in the manner by which the loan collections are serviced warranting charging of service fees. • The amount of service fee charged is dependent on the grace period availed of which ranges from 3 to 12 months. We note that during said period, no principal payment is required, and no interest is charged. Thus, the service fee is substantively imposed to cover the interest income lost and not increase in loan servicing costs.

l. Assuming *arguendo* that the service fees are not interest income, it is still improper that the said fees are immediately recognized as income in full upon release of the related loans. Under PFRS 15, the fees will be recognized as revenue only when SB Corporation satisfies the performance obligation – in this case, when the SB Corporation service the loan over its life.

5.7. As mentioned, Management claimed to have addressed the foregoing initial observations. A system-generated data analysis was undertaken by the CG in coordination with the Management Information System (MIS) Department. The effective interest rate for each loan was determined wherein service and similar fees are amortized within the term of the related loan (or within the grace period in the case of the RISE UP Program). Thus, all related accounts as a result of the amortized fees are adjusted as at December 31, 2022 and 2021, including the beginning balances of CY 2021.

5.8. However, our validation showed that in amortizing the charges and service fees, the straight-line method was used by Management rather than the effective interest method mandated by PFRS 9. We noted that the use of straight-line method results in higher discount amortizations in earlier years than the effective interest method. Thus, the reported Notes Receivable and Interest Income would have been lower had the effective interest method been used.

5.9. Moreover, the adjustment made by Management to correct the reported Processing Fee for CY 2022 is inaccurate. The balance initially reported for the account of P8.603 million increased to P18.663 million, or by P10.060 million, in the final FS. The same should have drastically decreased since nearly the entire amount will be reclassified as "Discount on Notes Receivable" and amortized as interest income over the life of the related loans.

5.10. Thus, despite the adjustments made by Management, the reported Notes Receivable and Retained Earnings as at December 31, 2022 and 2021 both remain overstated, while the reported Service and Business Income for the years then ended are misstated, both by undetermined amounts, contrary to the fair presentation mandated by Paragraph 15 of PAS 1.

5.11. We recommended that Management:

a. Analyze in detail the loans outstanding as at December 31, 2022 and 2021 as well as loans released for the years then ended with the primary objective of determining the appropriate effective interest rate for each loan;

b. Review the initial adjusting entries made and the underlying analysis done in order to determine the causes and the actual amounts of the remaining misstatements;

c. **Based on the results of the analyses, adjust the recorded Notes Receivable, Retained Earnings and Service and Business Income as at December 31, 2022 and 2021, or for the years then ended to fairly state the accounts;**

d. **Revise its accounting policy on the treatment of evaluation, processing, service and similar fees which must be consistent with pertinent provisions of PFRS 9 and to include, among others, relevant procedures, accountabilities, and timelines;**

e. **Conduct the necessary training and/or orientation of concerned personnel on PFRS 9 requirements, particularly on the proper treatment of evaluation, processing, service and similar fees;**

f. **Where necessary, update the current Loan Management Module to ensure that evaluation, processing, service and similar fees are recognized as integral part of the effective interest and are amortized over the life of the related loans; and**

g. **Install appropriate control mechanisms, e.g., IT application controls, inclusion in the year-end closure instructions, regular review and monitoring, to ensure that evaluation, processing, service and similar fees are recognized in accordance with pertinent provisions of PFRS 9.**

5.12. Management commented that it will revisit the initial adjusting entries made and the underlying analysis done as recommended. It likewise committed that a revision of the pertinent accounting policy will be made in CY 2023. Coordination between the CG and MIS Department will be made to update the current Loan Management Modules to consider the revised manner of accounting for the subject fees.

5.13. As an audit rejoinder, the courses of action taken and to be undertaken by Management to comply with the recommendations will be monitored and evaluated accordingly. We stress, however, that the reported balances of the affected accounts remain misstated pending full compliance with the recommendations.

6. **The various deficiencies previously noted in the reported Prepaid Income Tax, DTA, Current Income Tax Expense, and Deferred Income Tax Benefit as at or for the year ended December 31, 2021 were not adjusted and the necessary restatement of the CY 2021 balances as presented in the CY 2022 FS were not made, contrary to the fair presentation mandated by Paragraph 15 of PAS 1 – *Presentation of Financial Statements.***

6.1. In the CY 2021 audit of the current and deferred tax expenses and related accounts of the SB Corporation, various deficiencies in the reported Prepaid Income Tax, DTA, Current Income Tax Expense, and Deferred Income Tax Benefit as at or for the year ended December 31, 2021 were noted affecting the fair presentation of said accounts in the FS, to wit:

a. Maintenance and other operating expenses amounting to P79.959 million was considered as permanent difference in the computation of taxable income, resulting in the overstatement of the income tax expense for CY 2021 and understatement of Prepaid Income Tax by P19.990 million as at December 31, 2021.

b. Permanent differences on accounting and taxable income were not considered in the computation of taxable income resulting in the overstatement and understatement of Prepaid Income Tax and Income Tax Expense, respectively, for the year, both by P36.110 million.

c. The amount of Provision for Impairment Loss considered as temporary difference in the computation of taxable income in CY 2021 is overstated by P13.196 million, thus overstating both the DTA and Deferred Income Tax Benefit accounts by P3.299 million as at December 31, 2021.

d. DTA amounting to P440,946 on accrued salaries and wages was not recognized in the books, thereby understating the DTA and overstating the Deferred Income Tax Benefit both by the same amount as at December 31, 2021.

e. The deferred tax on NOLCO was erroneously measured, thereby overstating the DTA and Deferred Income Tax Benefit both by P2.704 million as at December 31, 2021.

f. Deferred Income Tax Benefit was not recognized upon the derecognition of DTL on disposed financial instrument at Fair Value through Profit or Loss resulting in the understatement of the Deferred Income Tax Benefit by P4.102 million as at December 31, 2021.

g. Effect on change of RCIT rate to be used due to miscalculation of taxable income resulted in the understatement of DTA by P41.534 million, overstatement of Prepaid Income Tax by the same amount and the understatement of the Current Tax Expense and Deferred Income Tax Benefit both by P31.271 million.

6.2. It was then recommended, among others, that Management analyze its income tax computation thoroughly and review all the permanent and temporary differences to come up with the correct taxable income, and prepare the necessary journal entries to adjust/correct the affected accounts in the FS as at December 31, 2021.

6.3. Review of the CY 2022 final FS disclosed that the above deficiencies were not adjusted as at December 31, 2021 and the necessary restatement of the CY 2021 balances was not made. Management adjusted the balances and the accounting treatment of the underlying items and transactions as at December 31, 2022 only, thus, prospectively and not retrospectively.

6.4. Thus, the reported CY 2021 balances as presented in the CY 2022 FS remain materially misstated, contrary to the fair presentation mandated by Paragraph 15 of PAS 1.

6.5. We recommended that Management, through the CG, retroactively restate the reported CY 2021 balances of the Prepaid Income Tax, DTA, Current Income Tax Expense, and Deferred Income Tax Benefit in the CY 2022 FS to fairly present the said accounts.

6.6. Management commented that restatement of the accounts is not feasible since the Bureau of Internal Revenue (BIR) has issued a Letter of Authority dated January 11, 2023 for the taxable year 2021. Thus, any restatement in the books cannot be used for the amendment of tax return pursuant to Section 6(A) of the National Internal Revenue Code (NIRC), as amended. Further, adjustments made without the corresponding amendment of the Annual Income Tax Return (ITR) will result in more discrepancies in the books.

6.7. As an audit rejoinder, we stress that Management had enough time from the receipt of the CY 2021 AAR on the SB Corporation on June 30, 2022 until January 10, 2023 to make the necessary adjustments and/or amendments. Moreover, most of the discrepancies noted do not require amendment of the Annual ITR. Regardless, the affected accounts remain misstated as at December 31, 2021 pending full compliance with the recommendations.

7. SB Corporation was not able to formally conduct the required assessment of its ability to continue as a going concern. As a result, information on its recurring negative cash flows and operating losses, which collectively indicate the existence of material uncertainty related to going concern, was not disclosed in the NTFS, contrary to Paragraph 25 of PAS 1 – *Presentation of Financial Statements*. Further, such material uncertainty when left unmitigated may cause substantial disruption in the effective delivery of the Corporation's mandate.

7.1. Paragraph 3.9 of the Conceptual Framework states that FS are normally prepared on the assumption that the reporting entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to enter liquidation or to cease trading. If such an intention or need exists, the FS may have to be prepared on a different basis.

7.2. Accordingly, Paragraph 25 of PAS 1 requires that when preparing FS, Management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare FS on a going concern basis unless Management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare FS on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the FS and the reason why the entity is not regarded as a going concern.

7.3. In addition to the above-required disclosures for going concern, disclosures for significant judgments and sources of estimation and uncertainty are also relevant to wit:

Related PAS Provisions	Relevant Disclosure
Paragraph 122, PAS 1	When significant judgment has been involved in concluding whether or not there are material uncertainties that cast significant doubt upon an entity's ability to continue as a going concern, these judgments should be disclosed. This includes judgments where entities conclude: • That there are significant uncertainties that cast doubt over the entities ability to continue as a going concern, but the entity has ultimately determined that FS should be prepared on a going concern basis; and • There are no material uncertainties related to events or conditions that cast significant doubt over the entity's ability to continue as a going concern.
Paragraph 125, PAS 1	Sources of estimation uncertainties must also be disclosed. Those amounts that could potentially result in a material adjustment to the carrying values of assets and liabilities within the next financial period are required to be disclosed. Entities should disclose, in relation to those assets and liabilities, details of their nature and their carrying amount at the end of the reporting period.

7.4. Inquiries with Management disclosed that it has not conducted a formal assessment of the SB Corporation's ability to continue as a going concern, contrary to the requirements of PAS 1. Resultantly, no information on material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern were disclosed in the NTFS.

7.5. However, our assessment has identified two adverse conditions which collectively cast significant doubt upon the entity's ability to continue as a going concern in the absence of definite plans from Management to address the same. Thus, Management should have disclosed pertinent information on these conditions, as follows:

a. First, the SB Corporation had negative operating cash flows yearly totaling P3.033 billion from CYs 2018 to 2021. Details follow:

Year	Amount of Cash Outflow
2021	P2,770,017,774
2020	51,193,037
2019	197,791,439
2018	13,597,328

	P3,032,599,578

b. The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity have generated sufficient cash flows to repay loans, maintain the operating capability of the entity, pay dividends and make new investments without recourse to external sources of financing.

c. Second, SB Corporation had recurring operating losses when subsidy income from the National Government (NG) is excluded totaling P2.796 billion from CYs 2011 to 2022. Details follow:

Year	Net Income (Loss)	Subsidy from NG	Net Income (Loss) after Subsidy from NG
2022	(P636,904,835)	P2,000,000,000	P1,363,095,165
2021	(805,449,267)	1,000,000,000	194,550,733
2020	(115,985,030)	1,500,000,000	1,384,014,970
2019	(199,160,377)	1,500,000,000	1,300,839,623
2018	(78,057,912)	1,066,995,964	988,938,052
2017	(174,395,859)	950,072,307	775,676,448
2016	(10,560,118)	9,351,910	(1,208,208)
2015	(109,981,208)	90,105,877	(19,875,331)
2014	(297,338,492)	96,767,781	(200,570,711)
2013	(58,629,010)	0	(58,629,010)
2012	(20,973,323)	0	(20,973,323)
2011	(23,614,153)	0	(23,614,153)
	(P2,531,049,584)	**P8,213,293,839**	**P5,682,244,255**

d. Undeniably, without support from the NG, SB Corporation appears unable to efficiently use its resources to generate revenues in excess of its expenses. Subsidy income from NG is excluded from the analysis because the same does not arise from the operational efforts of the Corporation.[2] Its realization entirely rests upon the discretion and wisdom of the Congress to which the power of the purse of the State resides.

7.6. Upon discussion with the Heads of the CG and the Office of the Board Secretary and Chief Compliance Officer (OBSCCO), the SB Corporation's 2022 to 2025 Loan Portfolio Plan was presented to alleviate the significant doubt raised by the above noted conditions. However, said plan does not fully satisfy the requirements of PAS 1.

7.7. We noted that under PAS 1, Management has to consider: (a) all available information about the SB Corporation's future; and (b) considering that the Corporation had no profitable operations in recent years (subsidy income excluded), a wide range of factors relating to current and expected profitability, debt repayment schedules, potential sources of replacement

[2] In fact, Subsidy Income from NG is not presented as part of the Profit (Loss) from Operations in the SCI.

financing the ability to continue providing services, before it can satisfy itself that the going concern basis is appropriate.

7.8. Moreover, the submitted Loan Portfolio Plan is not detailed enough to allow us to test and evaluate the reasonableness of Management's assumptions, forecasts and judgments. Under International Standards of Supreme Audit Institutions (ISSAI) 2570 – *Going Concern*, we need to evaluate the reliability of the underlying data generated to prepare the said plan as well as the adequacy of the support for the assumptions underlying the plan.

7.9. It bears stressing that the noted material uncertainties, if left unmitigated, may cause substantial disruption in the effective delivery of the Corporation's mandate. Management has to formally conduct the required assessment and develop feasible plans for future actions to deal with such uncertainties and improve its financial situation.

7.10. We recommended that Management, through the CG and other concerned Groups:

a. **Make the appropriate disclosures in the NTFS as regards the noted material uncertainties, i.e., negative cash flows and recurring operating losses (subsidy income excluded), relating to the SB Corporation's ability to continue as a going concern;**

b. **Develop plans for future actions in relation to the material uncertainties noted and likewise disclose the same in the NTFS. Such plans shall be feasible under the circumstances and their outcomes must likely improve the situation;**

c. **Thereafter, regularly conduct at each reporting date a formal and documented assessment of the SB Corporation's ability to continue as a going concern as required by PAS 1; and**

d. **Consider creating a Permanent Committee, which must include the Head of the CG, to spearhead the conduct of the going concern assessment and the development of pertinent plans relative to the results thereof.**

7.11. Management commented that the significant recurring operating losses prior to CY 2021 were caused by unrealized losses from foreign exchange translation and derivative valuation. Relative to the Official Development Assistance loans, the SB Corporation is paying 3 percent foreign exchange risk cover to address the foreign exchange fluctuations in the derivative valuation. Thus, the unrealized losses are actually shouldered by the risk cover and should not be considered as part of the operating losses.

7.12. Meanwhile, the significant losses in CY 2021 was the result of the increased loan loss provisioning attributable to the CARES program during the pandemic. The Bayanihan Fund, although downloaded to the SB Corporation as an equity contribution, is a mandated fund for the financing needs of MSMEs during the pandemic to augment their recovery process. For CY

2022, the material uncertainties, particularly the significant increase in the loan loss provisioning for the year, are disclosed in the NTFS.

7.13. Management added that, moving forward, the periodic assessment of the SB Corporation's ability to continue as a going concern will be conducted by the suggested Permanent Committee which will be presented to the Management Committee for its approval.

7.14. As an audit rejoinder, validation of the disclosures alluded to by Management disclosed that the same are incomplete and fell short of the requirements of PAS 1. Moreover, the inclusion of the unrealized losses on foreign exchange translation and derivative valuation, and loan loss provisioning is proper since both relate to the operations of the SB Corporation.

7.15. Thus, the courses of action taken and to be undertaken by Management to comply with the recommendations will be monitored and evaluated accordingly. We stress, however, that the going concern disclosures remain incomplete pending full compliance with the recommendations.

8. The retrospective application or restatement of changes in accounting policy and errors prescribed under PAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* were not observed in presenting the net effects of prior period adjustments for the year ended December 31, 2022 of P207,845. Moreover, the nature and other relevant information on the prior period adjustments for the years ended December 31, 2022 and 2021 aggregating P101.395 million are not adequately disclosed in the NTFS. Thus, the reported changes in equity for the years then ended are inaccurate, contrary to the fair presentation mandated by Paragraph 15 of PAS 1 – *Presentation of Financial Statements.*

8.1. PAS 8 prescribes the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. Pertinent provisions thereof follow:

a. Paragraph 19(b) provides that when an entity changes an accounting policy upon initial application of a PFRS that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively. Thus, under Paragraphs 22 and 23, the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

b. In such cases, Paragraph 24 instructs that the entity shall: (i) apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period; or (ii) adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.

c. Paragraph 42 states that an entity shall correct material prior period errors retrospectively in the first set of FS authorized for issue after their discovery by: (i) restating the comparative amounts for the prior period/s presented in which the error occurred; or (ii) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

d. Paragraph 43 provides that a prior period error shall be corrected by retrospective restatement, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error. In such cases, Paragraphs 44 and 45 directs that the entity shall: (i) restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable (which may be the current period); or (ii) restate the comparative information to correct the error prospectively from the earliest date practicable.

8.2. Based on the final SCE for the years ended December 31, 2022 and 2021, the changes in the equity of the SB Corporation for the said periods pertain to Retained Earnings only and is presented in condensed form below:

Particulars	Others	Retained Earnings
Balance at January 1, 2022	P10,002,016,860	P4,673,121,493
Prior period adjustments	0	207,845
Restated balance as at January 1, 2022	P10,002,016,860	P4,673,329,338
Net income for the year	0	1,363,095,165
Dividends	0	0
Balance at December 31, 2022	**P10,002,016,860**	**P6,036,424,503**
Balance at January 1, 2021	P10,002,016,860	P4,487,626,646
Prior period adjustments	0	58,851,140
Restated balance as at January 1, 2021	P10,002,016,860	P4,546,477,786
Net income for the year	0	194,550,733
Dividends	0	(67,907,026)
Balance at December 31, 2021	**P10,002,016,860**	**P4,673,121,493**

8.3. Review of the SCE disclosed that the above presentation is not consistent with the requirements of PAS 8. First, the prior period adjustments for both years ended were not separately classified as either pertaining to corrections of errors or changes in accounting policy. Such is necessary because of their differing nature and treatment. Relative thereto, we note that under COA Circular No. 2022-004 dated May 31, 2022, the capitalization threshold for property, plant and equipment was increased from P15,000 to P50,000, and such increase shall be considered as a change in accounting policy and must be applied retrospectively.

8.4. Second, the net effects of the prior period adjustments (presumably as at December 31, 2021) of P207,845 were simply presented as an adjustment of the January 1, 2022 balance of the Retained Earnings. This straightforward presentation is contrary to the mandated retrospective application of changes in accounting policy and/or retrospective restatement of errors under PAS 8.

8.5. For the effects of changes in accounting policy, there should have been an adjustment of the opening balance of each affected component of equity, i.e., Retained Earnings, for the earliest prior period presented, i.e., January 1, 2021, and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

8.6. For the correction of errors, there should have been: (i) restatement of the comparative amounts for the prior period presented in which the error occurred, i.e., CY 2021; or (ii) restatement of the opening balances of assets, liabilities and equity for the earliest prior period presented, i.e., January 1, 2021, if the error occurred before the earliest prior period presented, i.e., CYs 2020 and prior.

8.7. Moreover, we noted that the nature and other relevant information on the prior period adjustments for both years ended aggregating P101.395 million as computed below are not adequately disclosed in the FS.

Particulars	Amount
Retained Earnings as at 01/01/2021 as reported	P4,588,813,833
Retained Earnings as at 01/01/2021 as restated	4,487,626,646
Should be prior period adjustments as at 01/01/2021	P101,187,187
Prior period adjustments for the year ended 01/01/2022	207,845
Total	**P101,395,032**

8.8. Under PAS 8, the following are required to be disclosed regarding voluntary changes in accounting policies and errors:

a. When a voluntary change in accounting policy has an effect on the current period or any prior period: (i) the nature of the change in accounting policy; (ii) the reasons why applying the new accounting policy provides reliable and more relevant information; (iii) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each FS line item affected; and (iv) the amount of the adjustment relating to periods before those presented, to the extent practicable.

b. If retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

c. In correcting material prior period errors retrospectively in the first set of FS authorized for issue after their discovery: (i) the nature of the prior period error; (ii) for each prior period presented, to the extent practicable, the amount of the correction for each FS line item affected; and (iii) the amount of the correction at the beginning of the earliest prior period presented.

d. If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

8.9. As a result of the foregoing deficiencies, the reported changes in equity for the years ended December 31, 2022 and 2021 are unreliable, contrary to the fair presentation mandated by Paragraph 15 of PAS 1.

8.10. We recommended that Management, through the CG:

a. Analyze in detail the items consisting the prior period adjustments, including their nature and the period to which they relate, and classify them as either correction of errors or effects of changes in accounting policy;

b. Based on the results of the analyses, adjust the presentation of the prior period adjustments in the SCE and other affected statements consistent with the retrospective application and/or retrospective restatement prescribed by PAS 8;

c. Submit to the Audit Team the results of its analyses as well as the adjustments made, including supporting schedules and documents, for verification and audit;

d. Disclose in the NTFS the relevant information as regards the prior period adjustments pursuant with the requirements of PAS 8 and with due regard to their nature as either change in accounting policy or correction of errors; and

e. Install appropriate control mechanisms, e.g., inclusion in the year-end closing instructions, and regular review and monitoring, among others, to ensure that subsequent adjustments affecting prior periods are accounted for and presented in the FS strictly in accordance with PAS 8.

8.11. Management commented that the analysis of the prior period adjustments is still in process due to the volume of affected transactions. In general, the adjustments pertain to correction of errors relative to additional payment applications of undistributed collections (UC). Nonetheless, the presentation of some prior period adjustments has been revised in the final FS.

8.12. Management also shared that once the CY 2022 FS is completed, the CG will undertake a review of needed operational adjustments in light of the volume of recent resignations of personnel. As an initial action, the budget for the training of CG personnel were included in the CY 2023 Corporate Operating Budget.

8.13. Management also shared that the CG team shall undertake review of operational adjustments to be done as a result of the volume of resignations experienced. As an initial action, budget for training for CG personnel were provided in the 2023 COB.

8.14. As an audit rejoinder, there still remains P207,845 for analysis and eventual adjustment. Thus, the courses of action taken and to be undertaken by Management to comply with the recommendations will be monitored and evaluated accordingly. We stress, however, that the reported changes in equity for the years ended December 31, 2022 and 2021 remain inaccurate pending full compliance with the recommendations.

9. Capitalized interest on restructured loans totaling P24.163 million and P24.334 million as at December 31, 2022 and 2021, respectively, were recognized as Deferred Credits/Unearned Income rather than including the same in the computation of the present value of the restructured cash flows as required by Paragraph 5.4.3 of PFRS 9 – *Financial Instruments*. As a result, the Deferred Credits/Unearned Income as at December 31, 2022 and 2021 are overstated by the said amounts, respectively, while the Loans Receivable, net, Retained Earnings, Interest Income and Modification Gain or Loss as at even dates or for the years then ended are understated all by undetermined amounts.

9.1. Relative to modification of debts, Paragraph 5.4.3 of PFRS 9 provides that when the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, an entity shall recalculate the gross carrying amount of the financial asset and shall recognize a modification gain or loss in profit or loss. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate or, when applicable, the revised effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

9.2. As at December 31, 2022 and 2021, SB Corporation reported Deferred Credits/Unearned Income of P24.163 million and P24.334 million, respectively. The amounts, as disclosed in the CY 2022 NTFS, pertain to unearned income from the capitalized interests and charges of restructured loans.

9.3. Under SB Corporation's Accounting Policy and Procedures Manual, the following are the pro-forma entries in recording capitalized interests and charges:

Pro-forma Entries			Remarks
Upon approval of the restructuring:			
Notes Receivable – Restructured	xxx		The Deferred Interest Income account shall carry the same subsidiary ledger (SL) as the Capitalized Interest Receivable.
Capitalized Interest Receivable	xxx		
Notes Receivable – Old		xxx	
Deferred Interest Income		xxx	

Pro-forma Entries			Remarks
Upon payment of amortization:			
Cash	xxx		Capitalized interest receivable shall not form part of the loan portfolio but rather to be treated as within the interest receivable grouping of accounts.
Notes Receivable – Restructured		xxx	
Interest Income – Restructured		xxx	
Capitalized Interest Receivable		xxx	
Deferred Interest Income	xxx		
Interest Income – Capitalized		xxx	

9.4. Audit disclosed that the manner by which the SB Corporation accounted for its restructured loans is not consistent with pertinent provisions of PFRS 9. Foremost, the restructured loans are immediately derecognized in the books coupled with recognition of new financial assets. This is only proper if the derecognition criteria under the said standard are met. No such determination is made under the current guidelines.

9.5. More importantly, the capitalized interests and charges of the restructured notes are erroneously recorded by the SB Corporation as Deferred Credits/Unearned Interest Income. Per inquiry, the capitalized interests and charges have separate payment schedule and are amortized on a straight-line basis with no added interests or transaction costs. The restructured principals, on the other hand, have their own interests.

9.6. Under PFRS 9, if there is modification, SB Corporation must recalculate the gross carrying amount of the restructured notes and recognize a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated contractual cash flows that are discounted at the financial asset's original effective interest rate. Alternatively, if derecognition is proper, a derecognition gain or loss must be recognized which is computed as the difference between the carrying amount of the original loan and the amount by which the new loan is initially recognized.

9.7. As a result, the reported Deferred Credits/Unearned Income as at December 31, 2022 and 2021 are overstated by P24.163 million and P24.334 million, respectively, while the Loans Receivable, net, Retained Earnings, Interest Income and Modification Gain or Loss as at even date or for the years then ended are understated all by undetermined amounts, contrary to the fair presentation mandated by Paragraph 15 of PAS 1.

9.8. The exact amounts of misstatements on the other accounts caused by the noted deficiency cannot be determined as it is impracticable to do so, largely due to the delayed and/or non-submission by Management of the requested schedules and related documents.

9.9. We recommended that Management, through the CG:

a. Revise its policy as regards the accounting for loan restructurings which must be consistent with the requirements of PFRS 9, and re-orient the concerned personnel on the same;

b. **Analyze the items consisting the Deferred Credits/Unearned Income as at December 31, 2022 and 2021, including the related restructured loans in order to determine the necessary adjustments to be made;**

c. **Based on the results of the analyses, adjust the recorded Deferred Credits/Unearned Income, Loans Receivable, net, Retained Earnings, Interest Income and Modification Gain or Loss as at or for the years ended December 31, 2022 and 2021, to fairly state the accounts; and**

d. **Install appropriate control mechanisms, e.g., use of pro-forma documents, update seminar on PFRSs, and regular review and monitoring, to ensure that subsequent loan restructurings are appropriately accounted for in accordance with PFRS 9.**

9.10. Management commented that the accounting policy for loan restructurings will be revisited and updated to conform with the requirements of PFRS 9 in the fourth quarter of CY 2023. Once there is full grasp of the requirements of PFRS 9, all related matters will be analyzed and necessary adjustments will be undertaken.

9.11. As an audit rejoinder, the courses of action taken and to be undertaken by Management to comply with the recommendations will be monitored and evaluated accordingly. We stress, however, that the reported balances of the subject accounts remain misstated pending full compliance with the recommendations.

10. **UC reported under Other Payables as at December 31, 2022 totaling P16.575 million are not yet credited to the appropriate accounts, thereby overstating Other Payables by the same amount while misstating the Notes Receivable, Interest Receivable, Retained Earnings, Interest Income and other related accounts all by undetermined amounts, as at even date or for the year then ended, contrary to the fair presentation mandated by Paragraph 15 of PAS 1 – *Presentation of Financial Statements.***

10.1. As disclosed in the CY 2022 NTFS, the UC account refers to the accumulated inter-branch deposits made to SB Corporation's bank accounts, which remains unidentified. Proper applications of the deposits are subsequently taken up in the books when identification and verification processes are duly satisfied.

10.2. Specifically, under Annex A of BR No. 2022-04-3242 dated May 4, 2022, UC is defined as a temporary liability account used by SB Corporation in booking any amount credited or deposited to its bank accounts with no application of payment to borrower's amortization due to various reasons, such as but not limited to the following: (a) wrong promissory note (PN) number; (b) depositor is not the borrower; and (c) payment has no details such as borrower's name and/or PN number.

10.3. Verification showed that collections totaling P16.575 million as at December 31, 2022 are recorded as UC under Other Payables, and the said amount remains unadjusted or unapplied as at even date to the appropriate accounts, i.e., Notes Receivable, Interest Receivable, Retained Earnings, Interest Income and other related accounts.

10.4. While the temporary recording of UC under Other Payables is not *per se* objectionable, failure, however, to timely adjust the said account as at year-end affects the fair presentation of the SB Corporation's FS. The total liabilities will be overstated and the receivable and/or income accounts to which the collections appropriately pertain will be overstated and understated, respectively.

10.5. To address the accumulation of UC, Annex A of BR No. 2020-12-3024 dated January 5, 2021 prescribes the following measures:

a. The Account Officer must include in their orientation/negotiation with borrower-client on where to pay their amortization upon due date of the loan.

b. Upon approval and signing of the borrower-client loan application, the Loan Releasing Officer must provide a Payment Instruction Slip (PIS) which must be duly received by the borrower, stating where to pay or deposit their amortization upon due date.

c. To ensure that a certain borrower has been fully informed of the process, the PIS shall form part of the requirement of Treasury Group (TG) in the processing of loan release/credits.

d. The Collection Officer shall provide the List of UC manually generated based on data from the Official Receipt oracle-system. It shall be emailed to the concerned units and other officers to help in the identification of depositor/borrower’s name. To have enough time, the Collection Officer will send said list weekly.

e. The Collection Officer shall, on a semestral basis, send confirmation letters to all borrowers indicating their outstanding loan balance/s with the SB Corporation as of a given cut-off date. The confirmation letter will likewise include information on where to deposit or pay their loan amortization due.

f. The TG shall request LBP’s endorsement allowing the Business Delivery Unit Heads, Cashier, Collections Officers, Account Officers, Disbursing Officers, Coordinators, RCO to receive duplicate copy/ies of deposit slip, if the need arises. The authorization of concerned personnel shall be signed by authorized signatories in accordance with the Codified Approving and Signing Authorities.

10.6. However, we noted that the balance of UC significantly increased by P5.768 million, or 53.37 per cent, from the amount reported as at December 31, 2021, indicating gaps in the design and/or implementation of the adopted measures to mitigate the accumulation of UC. Details follow:

Particulars	Amount of Cash Outflow
UC balance as at December 31, 2022	P16,575,005
UC balance as at December 31, 2021	10,807,259
Increase in amount	**P5,767,746**
Increase in percentage	**53.37%**

10.7. Ultimately, the reported Other Payables is overstated by P16.575 million while the Notes Receivable, Interest Receivable, Retained Earnings, Interest Income and other related accounts are misstated all by undetermined amounts, as at or for the year ended December 31, 2022, contrary to the fair presentation mandated by Paragraph 15 of PAS 1.

10.8. We reiterated with modifications our prior years' recommendations that Management, through the concerned Groups:

a. Prioritize/Fast track the analysis and identification of the loan accounts to which the UCs apply. For this purpose, the responsible Groups should be reminded of their responsibilities in the endeavor as well as to continually coordinate with each other;

b. Based on the results of the analysis, adjust the UC to the appropriate receivable and/or income accounts, and immediately post the payments in the SL of the concerned borrowers to come up with the correct individual loan account balances;

c. Ensure the strict implementation of the established policies, guidelines, and measures to eliminate UC through regular review and monitoring, among others;

d. Complete the creation of unique borrowers' account code for each borrower to be indicated in the PIS, and the briefing of the concerned borrower as to the importance of and strict usage in making payments of said unique code; and

e. Inform/Remind/Require the Collecting Officers and Payment Partners to exhaust all available means to get complete details from the borrowers before accepting payments.

10.9. We further recommended that Management set reasonable timeline, milestones and accountabilities for the recommended analysis and identification of loan accounts to properly evaluate and monitor progress and accomplishments.

10.10. Management commented that the identification of loan accounts under UC has been a continuing priority of SB Corporation. It being a critical matter, Management has reactivated in the last quarter of CY 2022 the *Ad Hoc* Team on UC pursuant to ManCom Resolution No. 2022-1201-008. To further address the issue, Management has approved the following under ManCom Resolution No. 2023-0309-005:

a. Proposed setting up of the Billing and Collection Unit under the Account Management Department (AMD) which will handle billing and collection matters in order to monitor all payment-related concerns especially the UCs; and

b. Constitution of a Project Team for the Application of Payment System (APS) which shall be composed of representatives from all stakeholders and resource persons from other groups.

10.11. In the meantime that the APS is not yet fully operational, manual adjustments are simultaneously being done by the Credit Support and Asset Recovery Group (CSARG) and the Collection Officers under the AMD. Once proper identification and payment application is undertaken, advise by the concerned Groups are forwarded to the CG for adjustments and booking. Further, a collection staff identifies the loan accounts under UC on a monthly basis based on the list generated by the CG for the month.

10.12. For P3 SLs, the CG effects the necessary adjustments for the identified UC based on the various memoranda from CSARG requesting for the application of payments. For Corporate SLs, the CG and the Branch Accountants effect the necessary adjustments in the books based on the identified UC payments submitted by the Collection Officers of the Regional Lending Groups.

10.13. As for the setting of reasonable timeline and milestones for the evaluation and reconciliation of UC to properly evaluate progress and accomplishments, Management informed that: (i) the identification of collections received is done on a daily basis; (ii) the supervisors regularly monitor the work outputs of the collection staff to ensure the timely recording of collections; and (iii) the AMD staff conducts regular validation of outstanding obligations.

10.14. Likewise, payment partners are duly informed that the PN number or the customer account number is a mandatory information for loan payments. As to briefing the borrowers of the importance of the unique code, among the loan releasing documents is the PIS which addresses the recommendation. The PIS contains the PN number, the monthly amortization, due date, borrower’s name and address together with the available payment options.

10.15. As an audit rejoinder, the Audit Team acknowledges the efforts exerted by Management to address the long unresolved issues on UC. However, we stress that despite such efforts, the balance of the UC consistently increased for the past three years. This indicates possible gaps in the design as well as implementation of its adopted control measures.

10.16. In view of the foregoing, we further recommend that Management revisit the continued relevance, effectiveness and efficiency of its adopted measures to minimize, if not eliminate, the UC and prevent its accumulation, and make the necessary enhancements thereof, where warranted.

11. There is an unreconciled variance of P3.697 million noted between the recorded balances and the adjusted balances per bank reconciliation statements (BRS) for seven deposit accounts. Moreover, the monthly BRS to support the recorded balances of 11 deposit accounts were either belatedly or not prepared and/or submitted to the Audit Team, contrary to Section 2.0 of COA Circular No. 92-125A dated March 4, 1992 in relation to Section 74 of PD No. 1445. As a result, the accuracy and reliability of the reported Cash in Bank balance as at December 31, 2022 of P514.539 million is doubtful, contrary to the fair presentation mandated by Paragraph 15 of PAS 1 – *Presentation of Financial Statements.*

11.1. Aside from Paragraph 15 of PAS 1 which requires that the FS shall present fairly the financial position, financial performance and cash flows of an entity, Section 74 of Presidential Decree (PD) No. 1445 provides that at the close of each month, depositories shall report to the agency head, in such form as he may direct, the condition of the agency account standing on their books. The head of the agency shall see to it that a reconciliation is made between the balance shown in the reports and the balance found in the books of the agency.

11.2. In connection therewith, Section 2.0 of COA Circular No. 92-125A requires the Chief Accountant to prepare monthly BRS based on the bank statements submitted by the bank, including correcting and adjusting entries for discrepancies, errors or other reconciling items requiring corrections by the agency immediately after those items were properly analyzed and verified. Such BRS shall be submitted to the COA Resident Auditor within 15 days after the end of the month.

11.3. As at December 31, 2022, the SB Corporation reported Cash in Bank of P514.539 million, which consists of 11 deposit accounts as follows:

Bank and Account No.	Account Balance
LBP CA No. 1	P80,041,645
LBP CA No. 2	224,664,622
LBP CA No. 3	39,830,952
LBP CA No. 4	13,677,804
LBP CA No. 5	56,684,772
LBP CA No. 6	1,155,180
LBP CA No. 7	14,136,529
LBP CA No. 8	32,965,139
LBP CA No. 9	5,825,691
LBP CA No. 10	23,351,205
DBP CA No. 11	22,205,715
	P514,539,254

11.4. Review of the submitted BRS as at December 31, 2022 revealed that there is an unreconciled variance totaling P3.697 million noted between the preliminarily reported balances and the adjusted balance per BRS for seven deposit accounts. Details follow:

Bank and Account No.	As Reported	Adjusted Balance per BRS	Variance
LBP CA No. 1[3]	P77,753,297	P77,389,724	P363,573
LBP CA No. 2[3]	224,584,884	223,942,079	642,805
LBP CA No. 6	1,155,180	0	1,155,180
LBP CA No. 7	14,136,529	15,273,969	1,137,440
LBP CA No. 8	32,965,139	33,137,291	172,152
LBP CA No. 9	5,825,691	5,885,065	59,374
LBP CA No. 10	23,351,205	23,517,420	166,215
			P3,696,739

11.5. The variances are presented in the BRS as an adjustment of the balance per books and described as "Transactions as of December 2021, pending confirmation from Treasury," "Adjustment after cut-off," "Various unadjusted book reconciling items and unidentified reconciling item" and "Other reconciling items pending verification from cashier," among others.

11.6. Relatedly, we observed that the monthly BRS to support the recorded balances of 11 deposit accounts were either belatedly or not prepared and/or submitted to the Audit Team, contrary to Section 2.0 of COA Circular No. 92-125A in relation to Section 74 of PD No. 1445. Status of submissions by Management follows:

Bank and Account No.	Latest BRS Submitted	Date Submitted
LBP CA No. 1[3]	January 2022	January 18, 2023
LBP CA No. 2[3]	December 2020	October 27, 2021
LBP CA No. 3	December 2022	April 26,2023
LBP CA No. 4	October 2022	April 26, 2023
LBP CA No. 5	September 2022	January 18, 2023
LBP CA No. 6	December 2022	April 26, 2023
LBP CA No. 7	December 2022	April 26, 2023
LBP CA No. 8	December 2022	April 26, 2023
LBP CA No. 9	December 2022	April 26, 2023
LBP CA No. 10	December 2022	April 26, 2023
DBP CA No. 11	December 2022	April 26, 2023

11.7. While the BRS of most deposit accounts appears updated as of December 31, 2022, it must be stressed that, as at January 18, 2023, the latest BRS submitted to the Audit Team were: (a) as of October 2022 for LBP CA Nos. 6, 7 and 8 and DBP CA No. 11; (b) as of November 2022 for LBP CA Nos. 9 and 10; and (c) none for LBP CA No. 3. It was only on April 26, 2023 that most of the BRS were submitted to the Audit Team. This indicates that the preparation of the monthly BRS is not timely and regularly done.

11.8. We stress that the preparation of monthly BRS is one sound internal control measure over cash. The reconciliation process brings into agreement the SB

[3] Only the unsigned soft copies of the BRS as at December 31, 2022 based on the preliminary FS were submitted. The updated amount of the variances cannot be determined as Management has not submitted the revised BRS based on the adjusted cash balances per final FS.

Corporation's accounting records and the bank statements issued by the depositary banks. It proves the accuracy of both records, and reveals any errors made by either party. It also assists in detecting attempts of misappropriation of cash and manipulation of records.

11.9. As a result of the above deficiencies, the accuracy and reliability of the reported Cash in Bank balance as at December 31, 2022 is doubtful, contrary to the fair presentation mandated by Paragraph 15 of PAS 1.

11.10. We recommended that Management, through the CG:

a. Promptly analyze and reconcile the noted variances between the reported balances and the adjusted balance per BRS for seven deposit accounts, and where necessary, effect appropriate adjustments in the books;

b. For the BRS of the other deposit accounts which were not submitted to the Audit Team, ensure that these are likewise analyzed and reconciled, and where necessary, appropriate adjustments in the books are effected of any variance noted;

c. Set reasonable timeline, milestones and accountabilities for the evaluation, reconciliation and adjustment of the accounts to properly evaluate progress and accomplishments;

d. Submit to the Audit Team results of its analysis and reconciliation, including copies of supporting documents, for verification and reference in audit;

e. Moving forward, promptly and regularly prepare and/or submit to the Audit Team the monthly BRS of all the deposit accounts as required by COA Circular No. 92-125A and Section 74 of PD No. 1445; and

f. Install appropriate control mechanisms, e.g., inclusion in the year-end closing instructions, records reconciliation, and regular review and monitoring, to ensure that subsequent Cash in Bank transactions are appropriately recorded in the books, and pertinent reports are timely prepared.

11.11. Management commented that the preparation of the monthly BRS has been a perennial problem due to the volume of transactions involved, which must be attended to by dedicated accounting personnel to ensure compliance. Moving forward and taking into consideration the planned hirings for the year, this issue will be among those that will be prioritized.

11.12. The CG will also conduct a re-assessment of the functions of its existing manpower complement to assess deficiencies brought about by the recent significant resignations. Such assessment will include relevant timelines in complying with reportorial requirements from regulators.

11.13. As an audit rejoinder, the courses of action taken and to be undertaken by Management to comply with the recommendations will be monitored and evaluated accordingly. We stress, however, that the reported balance of the Cash in Bank account remains doubtful pending full compliance with the recommendations.

12. SB Corporation has neither assessed at the end of each reporting period whether there is any indication that its Property and Equipment may be impaired, nor considered the estimation of their recoverable amounts despite indications that they may be impaired from CYs 2020 to 2022, contrary to pertinent provisions of PAS 36 – *Impairment of Assets.* As a result, the reported carrying amount of Property and Equipment and Impairment Losses as at or for the years ended December 31, 2022 and 2021, are not reliable, contrary to the fair presentation mandated by Paragraph 15 of PAS 1 – *Presentation of Financial Statements.*

12.1. PAS 36 prescribes the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. Pertinent provisions of said standard follow:

a. Paragraph 9 provides that an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, such entity shall estimate the recoverable amount of the asset, which is the higher of its fair value less costs of disposal (FVLCD) and value in use (VIU).

b. Paragraph 6 defines VIU as the present value of the future cash flows expected to be derived from an asset, and the FVLCD as 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 less incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

c. Paragraph 12 states that in assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

i. There are observable indications that the asset’s value has declined during the period significantly more than would be expected as a result of the passage of time or normal use;

ii. Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;

iii. Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used such as the asset becoming idle; and

iv. Evidence is available that indicates that the economic performance of an asset is, or will be, worse than expected.

d. Paragraphs 59 and 60 require that if the recoverable amount of an asset is less than its carrying amount, an entity shall reduce the carrying amount of the asset to its recoverable amount. Such reduction is an impairment loss, which must be recognized immediately in profit or loss, unless the asset is carried at revalued amount.

12.2. Records show that the SB Corporation has not recognized any impairment losses on its Property and Equipment from CYs 2020 to 2022 despite the existence of several indicators of impairment like those enumerated above brought about by the on-going COVID-19 pandemic.

12.3. Verification disclosed that during said years, Management has neither assessed at the end of each reporting period whether there is any indication that its Property and Equipment may be impaired, nor considered the estimation of their recoverable amounts despite indications that they may be impaired.

12.4. Further, there is lack of substantial evidence that would show that Management has adequately performed the impairment testing required under PAS 36. No documentation is available, or submitted for our evaluation, as to the process by which Management has determined the recoverable amounts of the subject assets.

12.5. Relatedly, we noted that there is no existing policy and/or procedures manual, or its equivalent, regarding the impairment of non-financial assets. Such policy would have established the relevant procedures, determined accountabilities, and set timelines in the conduct of the impairment testing.

12.6. As a result, the reported carrying amount of the Property and Equipment as at December 31, 2022 and 2021, and the Impairment Losses for the years then ended are not reliable, contrary to the fair presentation mandated by Paragraph 15 of PAS 1.

12.7. We recommended that Management, through the concerned Groups:

a. Formulate a policy as regards the conduct of impairment testing, to include, among others, relevant procedures, accountabilities, and timelines;

b. Perform completely the required impairment testing as at December 31, 2022 and 2021 under PAS 36, and based on the results thereof, recognize impairment loss for the years, if any, as appropriate;

c. **Where practicable, retroactively restate the CY 2021 FS to recognize the impairment losses on the Property and Equipment as of December 31, 2021;**

d. **Submit adequate documentation of its conduct of impairment testing, to include, as a minimum, detailed listing of each item under Property and Equipment together with their corresponding FVLCD and where necessary, the VIU information, as well as significant assumptions used; and**

e. **Install appropriate control mechanisms, e.g., inclusion in year-end closure instructions, and regular review and monitoring, among others, to ensure that the required impairment testing is regularly performed.**

12.8. Management commented that the Administrative Services Unit performed the required impairment testing in May 2023 of the big-ticket corporate assets representing 72 per cent of the total Property and Equipment as at December 31, 2022. Such testing included the following:

a. Updating of the appraisal by the CSARG. Due to time constraints and the volume of Property and Equipment, appraisal was conducted on big-ticket properties only, which include, among others, the 139 Corporate Center units, properties located in Muntinlupa and Pampanga, and all transportation equipment.

b. Tabulation of the results of the appraisal and comparison thereof against the carrying amount of the relevant property items.

c. Submission of the schedule and result of the impairment testing to the CG for proper booking. For the year ended December 31, 2022, impairment loss amounting to P144,601 was recognized on the transportation equipment.

12.9. On the other hand, the impairment testing of the other property items, e.g., IT equipment and furniture and fixtures, comprising the other 28 per cent of the total Property and Equipment, will be performed in the fourth quarter of CY 2023. Moreover, to improve the conduct of future impairment testing, the Administrative Services Unit, in coordination with the CG, will formulate the recommended policy and install the appropriate control mechanisms, both of which will be presented to the Management Committee within the same quarter.

12.10. As an audit rejoinder, while we acknowledge the efforts exerted by Management, the impairment testing performed was incomplete as it only covered 72 per cent of the total Property and Equipment. Thus, the reported balances of the subject accounts remain not reliable pending full compliance with the recommendations.

13. **The reported carrying amount of depreciable Investment Property as at December 31, 2022 of P1.827 million is unreliable due to the non-assessment for impairment of some Real and Other Properties Acquired (ROPA) with carrying amounts totaling P208,383, contrary to pertinent provisions of PAS 36 – *Impairment of Assets* and the fair presentation mandated by Paragraph 15 of PAS 1 – *Presentation of Financial Statements.***

13.1. Records show that as at December 31, 2022, the SB Corporation owns depreciable ROPAs recorded under Investment Property, consisting of 22 buildings and improvements, with total cost and carrying amount of P11.649 million and P1.827 million, respectively. Initially, based on the preliminary FS, no impairment losses were recognized on the assets as at even date, but appraisal reports are available for most.

13.2. Verification of pertinent documents, including analysis of the appraisal reports, disclosed that no formal assessment is conducted to determine any impairment of the depreciable Investment Property, except the conduct of appraisal thereof as appropriate. Moreover, we noted that, out of the total depreciable ROPAs, no appraisal reports were prepared or are available for seven buildings with cost and carrying amount of P1.507 million and P208,383, respectively.

13.3. Management informed that some ROPAs were appraised without physical inspection of the property and were based only on the zonal value of the property, tax declarations and other pertinent documents. This table appraisal unfortunately does not consider buildings and improvements on the lands being appraised.

13.4. Given the foregoing, it is clear that there was no formal determination by Management as to whether the subject ROPAs are impaired, contrary to the requirements of PAS 36.

13.5. As a result, the reported carrying amount of depreciable Investment Property as at December 31, 2022 of P1.827 million is unreliable, contrary to the fair presentation mandated by Paragraph 15 of PAS 1.

13.6. It bears emphasis that while the amount involved in the subject observation is not individually material, this indicates that there is a gap in the current policies of the SB Corporation which if left unmitigated may cause material misstatements and/or significant issues in the future.

13.7. We recommended that Management through the CG:

a. **Formulate or update its policy as regards the conduct of impairment testing of ROPAs, to include, among others, establishing relevant procedures, determining accountabilities, and setting timelines;**

b. **Perform completely the required impairment testing under PAS 36 on the ROPAs without appraisal reports, and based on the results thereof, recognize impairment loss for the year, if any, as appropriate;**

c. **Regularly submit to the Audit Team adequate documentation of its conduct of impairment testing, to include, as a minimum, detailed listing of each item under Investment Property together with their corresponding FVLCD and where necessary, the VIU information, as well as significant assumptions used; and**

d. **Install appropriate control mechanisms, e.g., inclusion in year-end closure instructions, and regular review and monitoring, among others, to ensure that the required impairment testing is conducted as required by PAS 36.**

13.8. Management commented that it has complied with the required impairment testing and accordingly additional impairment losses of P1.157 million was recognized. Further, the CSARG will submit the proposed policy on impairment testing of ROPA, including the necessary control and monitoring mechanisms to ensure compliance thereto, to the Management Committee for approval in the third quarter of CY 2023.

13.9. As an audit rejoinder, our validation of the schedule submitted to support the recorded additional impairment losses showed that the four buildings subject of the observation are not included therein. Thus, the reported balance of the subject account remains doubtful pending full compliance with the recommendations.

14. The reported Prepaid Income Tax as at December 31, 2022 and 2021 varies by P213,630 and P402,476, respectively, from the outstanding excess of quarterly income tax payments over the current tax due reflected in the Annual ITR for said taxable years as filed with the BIR. Thus, the reported Prepaid Income Tax as at even dates are inaccurate, contrary to the fair presentation mandated by Paragraph 15 of PAS 1 – ***Presentation of Financial Statements.***

14.1. As at December 31, 2022 and 2021, SB Corporation reported Prepaid Income Tax of P6.565 million and P9.182 million, respectively. The amounts represent the excess of quarterly income tax payments over the current tax due during said years elected to be carried forward to the next taxable period as allowed under Section 76 of the NIRC, as amended.

14.2. Verification of pertinent documents revealed that the recorded Prepaid Income Tax does not tally with the corresponding amounts reflected in the Annual ITRs for taxable years 2022 and 2021 as filed with the BIR. Variances of P213,630 and P402,476, respectively, exists between said records, determined as follows:

	2022	**2021**
As reported and per GL	P6,565,086	P9,182,353
Per filed Annual ITRs	6,351,454	8,779,877
Variance	**P213,630**	**P402,476**

14.3. Management informed that the variance noted for the CY 2021 balance is primarily due to the unrecorded adjustment necessitated by the amendment of the Annual ITR for said taxable year. However, it is yet to determine the cause of the discrepancy in the CY 2022 balance, notwithstanding the unrecorded adjustment for CY 2021.

14.4. Thus, the reported Prepaid Income Tax as at December 31, 2022 and 2021 are inaccurate, contrary to the fair presentation mandated by Paragraph 15 of PAS 1.

14.5. We recommended that Management, through the CG:

a. Promptly reconcile and analyze the variances noted between the reported Prepaid Income Tax and the corresponding amounts thereof reflected in the Annual ITRs as filed with the BIR;

b. Based on the results of the recommended reconciliation and analyses, adjust the recorded Prepaid Income Tax as at December 31, 2022 and 2021 to fairly state the accounts and/or file an amended Annual ITR, where appropriate; and

c. Install appropriate control mechanisms, e.g., inclusion in year-end closure instructions, records reconciliation, and regular review and monitoring, among others, to ensure that the reported Prepaid Income Tax is accurate and agrees with the relevant amounts in the Annual ITRs.

14.6. Management commented that there is an on-going reconciliation of the noted variances and once the same is completed, adjustments shall be made, where warranted. Moreover, appropriate control mechanisms shall be devised by the third quarter of CY 2023.

14.7. As an audit rejoinder, the courses of action taken and to be undertaken by Management to fully comply with the recommendations will be monitored and evaluated accordingly. We stress, however, that the reported Prepaid Income Tax as at December 31, 2022 and 2021 remain doubtful pending full compliance with the recommendations.

B. OTHERS

15. No reasonable efforts were exerted to exact and/or determine accountability over the tax penalties paid relative to deficiency tax assessments in taxable years 2016 and 2019 amounting to P3.665 million and P1.627 million, respectively, contrary to Section 247 of the NIRC, as amended, Sections 38 and 39 of Chapter 9, Book I of Executive Order (EO) No. 292, and Section 103 of PD No. 1445. As a result, the Corporation is deprived of significant amount of funds for use in its operations to carry out its mandate.

15.1. Chapter 9, Book I of EO No. 292, otherwise known as the Administrative Code of 1987, outlines the general principles governing public officers. Pertinent provisions thereof relative to the liability of public officers follow:

a. Section 38 provides that a public officer shall not be civilly liable for acts done in the performance of his official duties, unless there is a clear showing of bad faith, malice or gross negligence. A head of a department or a superior officer shall not be civilly liable for the wrongful acts, omissions of duty, negligence, or misfeasance of his subordinates, unless he has actually authorized by written order the specific act or misconduct complained of.

b. Section 39 states that no subordinate officer or employee shall be civilly liable for acts done by him in good faith in the performance of his duties. However, he shall be liable for willful or negligent acts done by him which are contrary to law, morals, public policy and good customs even if he acted under orders or instructions of his superiors.

15.2. Pertinently, Section 103 of PD No. 1445 provides that expenditures of government funds or uses of government property in violation of law or regulations shall be a personal liability of the official or employee found to be directly responsible therefor.

15.3. Specifically for withholding taxes, Section 247 of the NIRC, as amended, mandates that if the withholding agent is the Government or any of its agencies, political subdivisions or instrumentalities, or a government-owned or controlled corporation, the employee thereof responsible for the withholding and remittance of the tax shall be personally liable for the additions to the tax prescribed therein, i.e., surcharge, interest and compromise penalties.

15.4. Records show that SB Corporation settled in CY 2022 deficiency taxes of P8.730 million and P7.618 million pertaining to taxable years 2016 and 2019, respectively. The amounts are inclusive of tax penalties of P3.665 million and P1.627 million for said taxable years. Details follow:

Particulars	DV No.	Deficiency Tax	Deficiency Tax Penalties	Total
CY 2016				
Income tax	1062614	P1,836,241	P1,238,830	P3,075,071
Percentage tax	1062613	594,182	443,825	1,038,007
Percentage tax	1062904	1,056,418	795,760	1,852,178
Expanded withholding tax	1062609	603,651	453,807	1,057,458
Other percentage tax	1062905	974,927	732,802	1,707,729
Total		**P5,065,419**	**P3,665,024**	**P8,730,443**
CY 2019				
Percentage tax	1062658	P5,821,006	P1,580,762	P7,401,768
Expanded withholding tax	1062657	169,742	46,654	216,396
Total		**P5,990,748**	**P1,627,416**	**P7,618,164**

15.5. Verification showed that the above amounts were all charged against the corporate funds. No reasonable efforts were exerted to exact and/or determine accountability from the responsible official/s or employee/s as provided under Section 247 of the NIRC, as amended, Sections 38 and 39 of Chapter 9, Book I of EO No. 292, and Section 103 of PD No. 1445.

15.6. We noted that under Section 247 of the NIRC, as amended, the employee responsible for the withholding and remittance of the tax shall be personally liable for the penalties incurred. Thus, the penalties for the deficiency expanded withholding taxes amounting to P453,807 and P46,654 for taxable years 2016 and 2019, respectively, or a total of P500,461, should be collected from the responsible employee/s.

15.7. Meanwhile, pursuant to Section 103 of PD No. 1445, in relation to Sections 38 and 39 of Chapter 9, Book I of EO No. 292, the penalties for deficiency taxes other than expanded withholding taxes of P3.211 million and P1.581 million for taxable years 2016 and 2019, respectively, or a total of P4.792 million, should be borne by the official or employee found to be directly responsible therefor, if there is clear showing of bad faith, malice or gross negligence.

15.8. Considering that the tax penalties do not contribute to the achievement of SB corporate objectives, they qualify as "unnecessary expenditures" under COA Circular No. 2012-003 dated October 29, 2012. Unnecessary expenditures pertain to those which could not pass the test of prudence, thereby denoting non-responsiveness to the exigencies of the service. Unnecessary expenditures are those not supportive of the implementation of the objectives and mission of the agency relative to the nature of its operation. This would also include incurrence of expenditure not dictated by the demands of good government, and those the utility of which cannot be ascertained at a specific time.

15.9. Moreover, inquiry disclosed that the agreement entered into in CY 2019 with a tax consultant to analyze and determine the causes that resulted in the deficiency taxes, including identification of weaknesses in existing tax-related processes and controls was not completed. Thus, to date, corrective actions were not fully employed to prevent repetition of the same. We are unable to evaluate the causes and recommend possible preventive and corrective measures as the pertinent deficiency tax assessments and reconciliation of balances per books and per tax returns were not provided to the Audit Team.

15.10. As a result, the Corporation is deprived of significant amount of funds for use in its operations to carry out its mandate. Further, the risk that there will be deficiency tax assessments in the future is not reduced and effectively managed.

15.11. We recommended that Management, through the concerned Groups:

a. Collect from the employee/s responsible for the non-withholding and/or non-remittance of the deficiency expanded withholding taxes the tax penalties paid relative thereto totaling P500,461;

b. **For deficiency taxes other than withholding taxes, investigate if there was bad faith, malice or gross negligence on the part of the concerned employee/s which resulted in the deficiency tax assessments. An *ad hoc* committee may be established for this purpose;**

c. **Based on the results of such investigation, hold the concerned employee/s liable for the tax penalties paid relative to the non-payment thereof totaling P4.792 million;**

d. **Follow-up with the tax consultant the result of his analysis and determination of the causes that resulted in the deficiency taxes, including the significant weaknesses in existing tax-related processes and controls. In the meantime, perform a similar analysis and determination as a temporary measure;**

e. **Based on the results of the analysis, develop and implement the necessary measures to address the identified causes, including the significant weaknesses in existing tax-related processes and controls; and**

f. **Set reasonable timeline, milestones and accountabilities for the recommended investigation and analysis to properly evaluate and monitor progress and accomplishments.**

15.12. Management commented that considering that it is the BOD, under BR No. 2019-07-2780, that authorized the settlement of the subject tax assessments, the employees responsible for the withholding and remittance of the expanded withholding taxes for taxable years 2016 and 2019 were no longer accorded the opportunity to defend/prove that they did not commit any mistake/error in the withholding of the appropriate taxes. Thus, Section 247 of the NIRC, as amended, should not be arbitrarily applied to them.

15.13. Further, COA has a shared responsibility to ascertain that the SB Corporation has paid the correct taxes with the BIR. In fact, COA has the primary objective to develop and implement a comprehensive audit program that shall encompass an examination of financial transactions, accounts, and reports, including evaluation of compliance with applicable laws and regulations.

15.14. With the tax assessments issued against the SB Corporation, the same only shows that COA was remiss in its duty to guide the SB Corporation in its compliance with BIR regulations. This is especially true considering that disbursements are being audited by COA and no adverse findings had been issued concerning the same.

15.15. As such, and pursuant to fairness and equity, the employee/s responsible for withholding and remittance of the expanded withholding taxes for taxable years 2016 and 2019 should not solely be blamed for said tax penalties. Moreover, it would be a complete disregard of due process if Section 247 of the NIRC, as amended, will be applied to said employees.

15.16. Nevertheless, Management committed that it would conduct the necessary investigation and analysis to determine if there was bad faith, malice or gross negligence on the part of the concerned employee/s which resulted in the deficiency tax assessments.

15.17. As an audit rejoinder, we remind Management that the duty to comply with pertinent tax law, rules and regulations rests with the head of the agency, and the employees to whom relevant tasks are delegated. This is clear under the various provisions of the NIRC, as amended. Section 2 of PD No. 1445 is likewise explicit. The responsibility to take care that that the State policy that all resources of the government are managed, expended, or utilized in accordance with law and regulations is faithfully adhered to rests directly with the chief or head of the government agency concerned.

15.18. Moreover, COA cannot be said to have been remiss in its duty simply because it did not issue prior adverse findings on SB Corporation's tax compliance. Under ISSAI 2200 – *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, our audits aim to obtain reasonable assurance about whether the FS as a whole are free from material misstatement, whether due to fraud or error. 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.

15.19. Thus, the courses of action taken and to be undertaken by Management to comply with the recommendations will be monitored and evaluated accordingly. We expect that, at the very least, preliminary steps, e.g., creation of the *ad hoc* committee and setting of reasonable timelines and milestones, will be initiated in CY 2023.

16. The authenticity and reliability of the electronic collection (e-Collection) and electronic payment (e-Payment) reports provided by the various electronic payment gateway providers (EPGPs) of the SB Corporation are not assured due to non-compliance with pertinent provisions of COA Circular No. 2021-014 dated December 21, 2021.

16.1. Relevant provisions of COA Circular No. 2021-014 which prescribes the guidelines on the use of e-Collection and e-Payment for government transactions follow:

a. Government entities that employ the services of intermediaries for the performance of their collection or disbursement function shall execute a contract with the latter. The scope of the collection or disbursement function between the government entity and the intermediary shall be made clear in the terms and conditions of the contract.

b. The contract shall contain, at the minimum, the responsibilities of the parties on reporting facility and security standards to be served. It shall also contain, among others, the auditability clause as required under COA Circular No. 2020-010 dated December 2, 2020.

c. Government entities shall submit to their respective COA Audit Teams, within 60 days from the effectivity of the COA Circular and every March 31 thereafter, a Management Representation Letter (MRL) attesting compliance with the requirement to design, implement and continuously review appropriate internal controls and procedures over the use of e-Collection and e-Payment systems to safeguard the interest of the government. The non-submission of the MRL shall be considered as high-risk indicator for the purpose of conducting information system audit.

d. Government entities shall provide for or require intermediaries to allow COA access to view, generate, download, and print any data/reports necessary to attain the audit objectives. This provision on access and the audit of government funds shall be expressly stated in the contract between the government entity and such intermediary, pursuant to Section 4.3 of COA Circular No. 2020-010.

e. The intermediaries shall remit or deposit intact the full amount of collections due to the government to the appropriate account in the authorized government depository bank (AGDB) within the next banking day from the collection date or within the time period as may be prescribed by the DOF. They shall submit to the government entity a Certification of Deposit, and proof (e.g., electronic fund transfer receipt, validated deposit slip, bank confirmation) that the total amount collected from the previous day is actually deposited to the appropriate AGDB account.

f. The intermediary shall be required to post intermediary's bond in favor of the government as the beneficiary, a copy of which shall be provided to the Audit Team concerned.

g. Government entities with an existing contract with intermediaries prior to the effectivity of the Circular are given one year therefrom to make amendments, remedies, and other activities to comply.

16.2. As at December 31, 2022, SB Corporation has outstanding agreements with five EPGPs. These are bank or non-bank entities which operate or maintain e-Collection or e-Payment systems.

16.3. Review of the pertinent contracts with said EPGPs revealed the following deficiencies which are contrary to the abovementioned provisions of COA Circular No. 2021-014:

a. The agreements between SB Corporation and its EPGPs lack provisions requiring the latter to submit to former Certificate/s of Deposit, together with the proof that the amount collected from the previous day is actually deposited to the appropriate AGDB account.

b. The EPGPs are only required to submit Daily Collection Reports or Transaction Reports but the submission of proof that the total amount collected from the previous day is actually deposited was not stated. The reports to be issued and/or submitted by the intermediaries under the contracts are as follows:

Intermediaries	Evidence of Payment	Reports
EPGP No. 1	1.1.1.3. The [EPGP No. 1 Portal] shall issue a Payment Confirmation Slip as proof of debit to account or an Electronic Receipt (eOR) as proof of payment, if available from SB Corporation.	1.1.2.1 The [EPGP No. 1 Portal] shall provide information on the number and total amount of transactions/ collections per day in accordance with the Report Format provided in the Merchant Payment Inquiry (MPI) Module. xxx 1.6. Reports and/or documentation as may be agreed upon by the parties.
EPGP No. 2	III. Methods of Acceptance xxx 3.3. The Transaction Slip provided by [EPGP No. 2] shall serve as evidence of payment and shall be duly signed by authorized Palawan personnel.	IV. Reportorial Requirements The Daily Collection Report shall be submitted to the SB Corp via e-mail not later than 5:00 PM of the day immediately following the collections day, except Sundays, and Holidays.
EPGP No. 3	4. Payment Acceptance Policies xxx 4.3. A Statement of Account or a Bayad Center Transaction Form validated by a Payment Collection Site shall constitute proof of payment by a Customer. 4.4. [EPGP No. 3] shall for every payment received through [EPGP No. 3] Payment Platforms other than Over-the-Counter, issue immediately a receipt in acknowledgement thereof.	6. Reporting Requirements 6.1. [EPGP No. 3] will cause the payment transactions to be posted at the PCS, and that the Daily Collection Reports are uploaded to the SBC workstation not later than 9:00 am of the day following the Collection Date. xxx 6.2. [EPGP No. 3] will transmit via File Transfer Protocol (FTP) on a "Push Mode", the Daily Collection Reports on or before 9:00 am of the day following the Collection Date. SBC shall provide the FTP connection information to [EPGP No. 3]. In the absence of an FTP connection, [EPGP No. 3] shall transmit the Daily Collection Reports via email.

Intermediaries	Evidence of Payment	Reports
EPGP No. 4	Section 2. Description of the Product MERCHANT can open Pay1st account with [EPGP No. 4] wherein payments from their customers/ clients can be accumulated. Additional features include xxx SMS confirmation of payment (Vendor and Merchant); xxx. The value loaded into the Pay1st Account is stored in [EPGP No. 4]'s system and any payment shall be credited to the Pay1st Account of the Merchant.	Section 2. Description of Product MERCHANT can open Pay1st account with [EPGP No. 4] wherein payments from their customers/ clients can be accumulated. Additional features include a real time collection report via web-based monitoring; xxx. The value loaded into the Pay1st Account is stored in [EPGP No. 4]'s system and any payment shall be credited to the Pay1st Account of the Merchant.
EPGP No. 5	2.5 Transaction Notifications and Transaction Reports Merchant shall receive two kinds of reports with regard to payments received via the Scan to Pay Service: (a) Transaction notifications in the form of SMS (text) messages or email messages (upon Merchant's request), which are sent real time per transaction, per Scan to Pay Site.	2.5 Transaction Notifications and Transaction Reports Merchant shall receive two kinds of reports with regard to payments received via the Scan to Pay Service: xxx (b) Transaction Reports, which are spreadsheets prepared by [EPGP No. 5] on a daily basis and transmitted to Merchant on a daily, weekly, or monthly basis, depending on the Merchant's preference (by default, Transaction Reports are generated and sent to Merchant daily).

c. The requirement to post an intermediary's bond in favor of the government is not among the provisions of the contracts. Moreover, copies of the bonds posted by the intermediaries, if any, were not submitted to the Audit Team.

d. The agreements, except that with EPGP No. 4, do not have auditability clauses as well as provisions allowing the COA to view, generate, download and print and data/reports necessary to attain audit objectives.

e. Lastly, SB Corporation has not submitted the required MRLs on the use of e-Collection and e-Payments. Consistent with COA Circular No. 2021-014, the same should have been submitted in February 2022 and on March 31, 2023.

16.4. As a result, the authenticity and reliability of the e-Collection and e-Payment reports provided by the various EPGPs of the SB Corporation in CY 2022 are not assured.

16.5. We recommended that Management, through the Treasury Group and in coordination with the LSG and OBSCCO:

a. Promptly make the necessary amendments, remedies and other required activities to ensure that its contracts with EPGPs comply with COA Circular No. 2021-014;

b. Submit the amended or newly executed contracts, as appropriate, within five working days from execution thereof together with its supporting documents;

c. Ensure the submission by the EPGPs of the certifications, reports and documents required by COA Circular No. 2021-014 through appropriate control mechanisms such as regular review and monitoring, among others; and

d. Regularly submit to the Audit Team the MRL attesting compliance with the requirement to design, implement and continuously review appropriate internal controls and procedures over the use of e-Collection and e-Payment systems.

16.6. Management commented that it already reviewed the existing contracts with the EPGPs and has likewise notified them of the necessity to amend and/or execute new contracts in compliance with COA Circular No. 2021-014. The draft of the amended or new contracts will also be submitted to the Office of the Government Corporate Counsel (OGCC) for their review pursuant to OGCC Memorandum Circular (MC) No. 2023-1 dated January 10, 2023. In fact, the draft of the contract with EPGP No. 2 is already with the OGCC.

16.7. Further, the SB Corporation is still in the process of improving its internal controls and procedures in so far as the use of e-Collection and e-Payment systems is concerned. Likewise, it is continuously coordinating with the EPGPs as regards the security controls and other collection features that will improve the user experiences of the SB Corporation's clients. Anent this, Management will submit the MRL as soon as the EPGPs have complied with the relevant provisions of COA Circular No. 2021-014 and the enhancement of internal control and procedures is completed.

16.8. Finally, Management will submit the amended or newly executed contracts within five working days from execution together with the supporting documents. It should be noted, however, that the execution of said contracts will depend on the timely action and review thereof by the OGCC.

16.9. As an audit rejoinder, the courses of action taken and to be undertaken by Management to fully comply with the recommendations will be monitored and evaluated accordingly. We stress, however, that the authenticity and reliability of the e-Collection and e-Payment reports submitted by the EPGPs remain doubtful pending full compliance with our audit recommendations.

17. Non-submission to the Bangko Sentral ng Pilipinas (BSP) of the required notice and certifications relative to the write-off of 168 Notes Receivable accounts amounting to P80.029 million within 30 business days after the write-off is contrary to Section 143-Q of the Manual of Regulations for Non-Bank Financial Institution (MORNBFI), and SB Corporation's Write-off Policies, and defeats the purpose for which the said notice and certifications are required by the BSP.

17.1. Section 143-Q of the MORNBFI provides, *inter alia*, that the policies for writing off problem credits must be approved by the BOD in accordance with defined policies, and shall incorporate, at a minimum, well-defined criteria (i.e., circumstances, conditions and historical write-off experience) under which credit exposures may be written off. Policies shall further define and establish the reasonable period of time within which to write-off loans already classified as "Loss."

17.2. Further, there shall be no undue delay in implementing write-offs. Notice of write-off of problem credits shall be submitted in the prescribed form to the appropriate supervising department of the BSP within 30 business days after every write-off with a sworn statement signed by the president of the financial institution or officer of equivalent rank that the write-off did not include transactions with directors, officers, stockholders and their related interests (DOSRI), and was undertaken in accordance with board approved internal credit policy.

17.3. Consistent with the above, the SB Corporation's Write-off Policies approved under BR No. 2018-11-2648 dated December 3, 2018 requires that the write-off of loans and other credit accommodations be approved by the BOD and notice thereof submitted to the BSP within 30 days from the approval of the former.

17.4. Audit disclosed that on March 10, 2022, the SB Corporation journalized the write-off of 168 Notes Receivable accounts amounting to P80.029 million as approved under BR No. 2021-12-3191 dated December 21, 2021. Thus, the write-off of the accounts was reflected already in the SB Corporation's CY 2021 FS.

17.5. However, as at December 31, 2022, or nearly a year after the write-off of the accounts, the required notice and certifications remain unsubmitted to the BSP, contrary to Section 143-Q of the MORNBFI and the SB Corporation's duly approved Write-off Policies. Under said provision and policy, the notices and certifications should have been submitted within 30 business days from the date of the write-off.

17.6. We stress that the non-submission of the required notices and certifications to the BSP within the prescribed period is not only contrary to Section 143-Q of the MORNBFI but more importantly, defeats the purpose for which said notice and certifications are required by the BSP.

17.7. We recommended that Management, through the CSARG and the OBSCCO:

a. Fast track and/or prioritize the preparation of the required notices and certifications relative to the subject written-off Notes Receivable accounts and promptly submit the same to BSP upon completion thereof, copy furnished the Audit Team for verification; and

b. Install appropriate control mechanisms, e.g., use of pro-forma documents, and appropriate review and monitoring, among others, to ensure that required notices and certifications for subsequent write-offs of problem credits are submitted to the BSP within the prescribed period.

17.8. Management commented that it was in the best interest of the SB Corporation to have the BOD-approved written-off accounts for CY 2021 be revalidated due to the variance noted between the Board-approved amount of P80.141 million and the actual amount written-off of P80.029 million, and the delisting of one account which was found to have fully paid its outstanding balance. The result of such revalidation was reported to the BOD on May 12, 2023, and consequently, the required notice was submitted to the BSP on May 15, 2023.

17.9. Further, the appropriate control mechanisms are being implemented by SB Corporation through the following: (a) the use of pro-forma document for the Notice of Write-off of Loans as provided by the BSP; and (b) the regular monitoring by the OBSCCO of the necessary actions to ensure that the required notice will be submitted to the BSP within the prescribed period.

17.10. As an audit rejoinder, the courses of action taken and to be undertaken by Management to comply with the recommendations will be monitored and evaluated accordingly. We expect that, moving forward, the required notices and certifications will be submitted to the BSP within 30 business days from the write-off, and that deviations therefrom will be dealt with appropriately.

18. Recent equity investments totaling P10.000 million under the VCF Program were inadequately monitored by the Special Program Unit (SPU) and the Southern Luzon Group (SLG), contrary to the *SB Corporation Venture Capital Program Operating Policy Manual* approved under Board Resolution No. 2019-03-2704 dated March 7, 2019, as partly modified under VCMC Resolution No. 0713-01 dated July 13, 2022. Thus, the risks attendant to the said investments are not effectively monitored and managed, which may result in future investment losses.

18.1. Section 2 of PD No. 1445 declares the policy of the State that all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguard against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government.

18.2. Pertinently, the Venture Capital Program Operating Policy Manual sets out the general policy, guidelines and procedures that contributes to SB Corporation's strategic goals of primarily performing its mandate of providing alternative modes of financial assistance and support programs for MSMEs.

18.3. Under the said Manual, the SPU shall perform the necessary monitoring activities during the entire implementation of the investment as follows: (a) conduct of regular project visits to monitor the business which must be documented through preparation of a Project Visit Report which shall be submitted to the Sub-Committee for Venture Capital accounts under the Asset and Liability Committee; (b) monthly submission of FS by the investee-corporation; and (c) Quarterly Performance Report must also be submitted to Management and the Board Committee on Venture Capital Review. Such reports will gauge the performance of the VCF Program.

18.4. Subsequently, VCMC Resolution No. 0713-01 dated July 13, 2022 was issued which modified in part the Operating Policy Manual and provided that the Venture Capital accounts are to be handled by the concerned regional offices. Thus, the concerned account officers shall be the ones to conduct ocular inspections and monitoring visits on the investee projects under the guidance of the Regional Group Heads and/or next-in-line supervisors.

18.5. Subsequent to the issuance of the Manual, two Investment Agreements were contracted with two corporations under the VCF Program amounting to P5.000 million each, or a total of P10.000 million. Both corporations are located in Southern Luzon.

18.6. Under the Investment Agreements: (a) investee must submit copy of minutes of meeting to the SPU of the investor; (b) investor shall conduct a monthly project inspection, the results of which shall be reported to the sub-committee for Venture Capital accounts of the Asset and Liability Committee; and (c) investee shall submit monthly financial reports to the investor.

18.7. Verification disclosed that, as at December 31, 2022, no Project Visit Reports, monthly financial reports, copies of minutes of meetings and quarterly financial performance reports are on file or kept in the pertinent folders of the Venture Capital accounts. This evinces that the required monitoring activities were not performed, or at the very least, not adequately performed.

18.8. We stress that conduct of the prescribed monitoring activities is essential to ensure attainment of investee-corporation's business plan and realization of various development milestones. Moreover, results of the monitoring activities alert SB Corporation whether corrective actions are needed and in a timely manner. On this score, we draw attention to the previous Venture Capital accounts which failed and where significant losses were incurred.

18.9. As a result of the foregoing deficiencies, the risks involved in its equity investments under the VCF Program are not effectively managed and the achievement of the program objectives is not assured.

18.10. We recommended that Management, through the concerned Groups:

a. Promptly obtain the required documents, e.g., financial reports, quarterly performance reports, and copies of minutes of meetings, which should have been regularly submitted by the investee-corporations or prepared by the SPU or SLG;

b. Immediately conduct the project inspection to assess the physical situation of the investee-corporation, among others, and prepare the pertinent report on the results thereof;

c. Analyze said documents and the project visit report to determine whether corrective actions are necessary to immediately address any pressing issues or deficiencies pertaining to the investee-corporation; and

d. Install appropriate control mechanisms, e.g., re-orientation of concerned personnel, utilization of checklists, appropriate review and monitoring, and internal audits, to ensure that the prescribed monitoring activities are regularly performed and are well-documented.

18.11. Management committed to comply with the recommendations. As an update, the representatives of the SB Corporation attended the Joint Board Meeting of the two corporations via Zoom last March 24, 2023. Moreover, a project visit of one of the corporations was already conducted by the SLG on April 20, 2023, while a project visit of the other is planned for June 2023.

18.12. Moreover, the SLG will provide a report on the status of the projects financed by the SB Corporation and the results of the assessment of the financial conditions of the two investee corporations to the VCMC within the second quarter of CY 2023.

18.13. As an audit rejoinder, the courses of action taken and to be undertaken by Management to fully comply with the recommendations will be monitored and evaluated accordingly. We expect that, moving forward, the required monitoring activities will be performed regularly and adequately, and appropriate corrective actions will be employed, where warranted.

19. Investments in convertible PLDT preferred stocks amounting to P146,500 remained unredeemed as at December 31, 2022, or 11 years after the issuance of the pertinent Notice of Redemption thereof, thus, the invested funds were tied in non-earning securities for a significant period of time, contrary to the declared policy of the State on efficient use of government resources under Section 2 of PD No. 1445.

19.1. Records show that as at December 31, 2022, the SB Corporation holds 10 per cent cumulative convertible PLDT preferred stocks with P10.00 par value numbering 14,650 shares. Details follow:

Series	No. of Shares	Par Value	Amount
Series M	5,000	P10.00	P50,000
Series Q	350	10.00	3,500
Series T	3,550	10.00	35,500
Series X	5,000	10.00	50,000
Series W	400	10.00	4,000
Series AA	350	10.00	3,500
Total	**14,650**		**P146,500**

19.2. Verification disclosed that these shares were already the subject of a Notice of Redemption by PLDT on October 21, 2011. The BOD of PLDT then authorized the redemption of all outstanding shares of 10 per cent cumulative convertible preferred stock of Series A to FF issued under the Subscriber Investment Plan (SIP) effective January 19, 2012 (redemption date) and to holders on record as of October 10, 2011 (record date).

19.3. In accordance with the terms and conditions of the SIP shares, PLDT will, on the redemption date, pay each holder of SIP shares on the record date, an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to the redemption date. Notwithstanding that any stock certificate representing the SIP shares is not surrendered for cancellation on the redemption date, the SIP shares shall no longer be deemed outstanding and, from and after the redemption date, the right of the holders of such shares to receive dividends thereon shall cease to accrue and all rights with respect to such SIP shares shall forthwith cease and terminate, except only the right to receive the redemption price but without interest thereon.

19.4. However, as at December 31, 2022, or more than 11 years after the declared redemption date, the shares remain unredeemed by PLDT. As a result, the invested funds of the Corporation had been tied for a significant period of time in non-earning securities, contrary to the declared policy of the State on the efficient use of government resources.

19.5. We recommended and Management agreed to immediately cause the redemption by the PLDT of the subject convertible preferred stocks in order to recover the invested funds thereon.

20. Sixteen ROPAs costing P6.643 million are not insured with the General Insurance Fund (GIF) of the Government Service Insurance System (GSIS) as at December 31, 2022, contrary to Republic Act (RA) No. 656 and COA Circular No. 2018-002 dated May 31, 2018. Accordingly, the SB Corporation is denied of adequate and reliable protection for a significant amount of assets against damage to or loss of its properties or assets due to fire, earthquake, storm or other fortuitous events.

20.1. RA No. 656, otherwise known as the Property Insurance Law, as amended by PD No. 245, requires all government agencies to insure against any insurable risk their properties, assets, and interests with the GIF, as administered by the GSIS.

20.2. Relatedly, Section 5.1 of COA Circular No. 2018-002 mandates the heads of government agencies to direct pertinent officials to, among others: (a) secure directly from the GIF of the GSIS, all insurances or bonds covering properties, contracts, rights of action, and other insurable risks of their respective offices; and (b) include in the agency annual budget the amount of premiums for the general insurance covering all insurable properties and other assets, and ensure its payment to GSIS.

20.3. Verification disclosed that, as at December 31, 2022, 16 out of 24 insurable ROPAs costing P6.643 million are not insured with the GIF, contrary to RA No. 656, as amended, and COA Circular No. 2018-002. Details follow:

	ROPA		Insured		Not Insured	
Account	**Count**	**Amount**	**Count**	**Amount**	**Count**	**Amount**
Investment Property	22	P11,649,124	7	P5,354,019	15	P6,295,105
NCAHS	2	466,571	1	119,041	1	347,530
Total	**24**	**P12,115,695**	**8**	**P5,473,060**	**16**	**P6,642,635**

20.4. As a result, the SB Corporation is denied adequate and reliable protection for a significant amount of assets against damage to or loss of its properties or assets due to fire, earthquake, storm or other fortuitous events.

20.5. Per inquiry, the CSARG is currently responsible for the insurance enrollment of ROPAs, including the monitoring thereof. Delays in the insurance enrollment of the subject properties are partly attributable to the transfer of said function from the Regional Lending Groups. CSARG assured the submission of the pertinent insurance forms to the Audit Team once they are completed.

20.6. It bears emphasis that under Section 5.3 of COA Circular No. 2018-002, the officials responsible for the payment of the premiums prescribed, who refuses or habitually neglects to comply within the time prescribed, shall be held liable for the payment of said premiums and shall pay to GSIS a fine of two per cent per month of said premiums from their due dates until received by the GIF.

20.7. We recommended that Management, through the CSARG:

a. Facilitate the immediate enrollment of the subject ROPAs with the GIF of the GSIS as required by RA No. 656, as amended, and COA Circular No. 2018-002;

b. Hold the officials/employees responsible for the insurance of the subject ROPAs for any penalty and other charges that the SB Corporation may be required to pay due to the belated insurance enrollment; and

c. **Install appropriate control mechanisms, e.g., regular review and monitoring, among others, to ensure compliance with RA No. 656, as amended, and COA Circular No. 2018-002.**

20.8. Management commented that three of the ROPAs are now enrolled with the GIF while the enrollment of seven others were already acknowledged by the GSIS, thus, it merely awaits the issuance of the pertinent policies. The status of the six others follows: (a) the enrollment of two ROPAs is on hold pending the result of the relocation survey or re-appraisal; (b) three ROPAs are not subject to insurance cover since there are no existing structures therein with significant value; and (c) one ROPA is for enrollment in June 2023.

20.9. Further, the CSARG will devise the necessary and appropriate control and monitoring mechanisms, for approval by the Management Committee and/or the BOD in the third quarter of CY 2023 to ensure compliance with RA No. 656, as amended, and COA Circular No. 2018-002.

20.10. As an audit rejoinder, RA No. 656, as amended, does not prescribe a minimum value in order for a property, asset or interest to be insurable, unless the same is impaired and for disposal which appears not applicable in the instant case. Thus, the courses of action taken and to be undertaken by Management to comply with the recommendation will be monitored and evaluated accordingly.

21. The amounts of the Petty Cash Fund (PCF) of four Accountable Officers (AOs) are significantly above the average monthly petty operating expenses disbursed therefrom, thus, excessive, contrary to Section 4.3.1 of COA Circular No. 97-002 dated February 10, 1997, as amended. As a result, a significant amount of corporate funds is unnecessarily exposed to risk of loss resulting from unlawful deposit, use or application thereof, or from negligence in the keeping thereof.

21.1. Section 4.3.1 of COA Circular No. 97-002, as amended, provides that the cash advance for petty operating expenses shall be sufficient for the recurring expenses of the agency for one month. Hence, one of the documentary requirements for the grant of cash advances for PCF under COA Circular No. 2012-001 dated June 14, 2012 is the approved estimates of petty expenses for one month.

21.2. Likewise, Section 9.1 of the same COA Circular directs the Auditor to "periodically evaluate the accountability of the AO and recommend reduction of the cash advance if found excessive."

21.3. Cash examinations conducted in CY 2022 disclosed that the monthly petty operating expenses disbursed by four AOs from their PCFs during the period covered by the examination averaged P29,781 only. Details follow:

AO	Total Petty Expenses (a)	Number of Months (b)	Average Petty Expenses (a) ÷ (b)	Amount of the PCF
AO No. 1	P7,165	5	P1,433	P15,000
AO No. 2	120,816	12	10,068	25,000
AO No. 3	116,593	8	14,574	40,000
AO No. 4	25,940	7	3,706	50,000
Total	**P270,514**		**P29,781**	**P130,000**

21.4. The foregoing indicates that the amounts of the PCFs totaling P130,000 are excessive in relation to the actual petty operating expenses disbursed therefrom, contrary to the pertinent provision of COA Circular No. 97-002, as amended. As a result, a significant amount of corporate funds is unnecessarily exposed to risk of loss resulting from unlawful deposit, use or application thereof, or from negligence in the keeping thereof.

21.5. We recommended that Management reduce the amounts of the PCFs of the four AOs to balances that approximate their actual monthly petty operating expenses, pursuant to COA Circular No. 97-002, as amended.

21.6. Management commented that it had already reduced the amount of the PCF of AO No. 3 from P40,000 to P20,000 under Special Order No. 001 dated January 10, 2023. For the other AOs, the amount of their PCFs vis-à-vis their historical disbursements will be assessed, and the necessary reduction of balances, if warranted, will be effected.

21.7. As an audit rejoinder, the courses of action taken and to be undertaken by Management to comply with the recommendation will be monitored and evaluated accordingly. We stress, however, that prolonged non-compliance with the recommendation unduly exposes a significant amount of corporate funds to avoidable and unnecessary risk.

22. Several misstatements were noted in the preliminary FS submitted to the Audit Team which, even though fully adjusted in the final FS, indicates lack of and/or inadequate policies and internal control measures that would ensure consistent compliance with relevant PFRSs and the fair presentation mandated by Paragraph 15 of PAS 1 – *Presentation of Financial Statements.*

22.1. Audit of the transactions and accounts of the SB Corporation, including its complete set of FS, revealed several misstatements aside from those previously discussed, which Management was able to adjust in the final FS, as follows:

a. Payments under some lease contracts, whereby the SB Corporation is the lessee, were initially recorded as Rental Expenses. Thus, no right-of-use (ROU) assets and corresponding lease liabilities were recognized thereon at the inception of the pertinent leases, contrary to PFRS 16.

b. ROU assets as at December 31, 2022 were initially not presented and disclosed in the FS separately from Property and Equipment, contrary to COA Circular No. 2021-009 dated October 1, 2021 and PFRS 16.

c. Dividends due and payable by the SB Corporation pursuant to RA No. 7656 and its 2016 Revised Implementing Rules and Regulations were initially not recognized and accrued as liabilities as at the reporting dates, contrary to Paragraph 4.26 of the Conceptual Framework for Financial Reporting.

d. Investment securities with maturities of three months or less from the date of acquisition were initially recorded as Cash in Bank rather than as Cash Equivalents, contrary to PAS 7.

e. Short-term investment in treasury bill was initially and inappropriately recorded under Cash in Bank rather than as a Cash Equivalent, contrary to PAS 1 and 7.

f. Unused PCF and originally post-dated checks but current as at December 31, 2022 were initially not recorded as Cash on Hand as at even date, contrary to PAS 1 and 7.

g. Undelivered or unreleased checks in the custody of the Disbursing Officer as at December 31, 2022 were initially not reverted to the Cash in Bank account with credit to the appropriate liability accounts, contrary to PAS 1 and 7.

h. Interest income from bank deposits and investments were initially recorded in the books as net of final tax instead of recognizing the same at their gross amounts and recording the final tax separately as an expense, contrary to PAS 1 and PFRS 15.

i. Acquired properties were initially recorded and classified as Non-current Assets Held for Sale (NCAHS) as at December 31, 2022 despite not having met the reporting requirements of PFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*.

j. Two buildings have carrying amounts below their appraised values as at December 31, 2022. However, the evident impairment losses on these assets were not initially recognized as at even date, contrary to PAS 36.

k. The expected cost of short-term employee benefits in the form of compensated absences were initially not recognized as at December 31, 2022, contrary to PAS 19 – *Employee Benefits (Revised).*

22.2. Our evaluation showed that the foregoing misstatements occurred due to lack of and/or inadequate policies and internal control measures that would ensure consistent compliance with the fair presentation mandated by Paragraph 15 of PAS 1.

22.3. As a result, there is reduced assurance about the achievement of the SB Corporation's objectives specifically with regard to the reliability of its financial reporting.

22.4. We recommended and Management agreed to:

a. Formulate/update its policies as regards the accounting, reporting and handling of leases, dividends, cash equivalents, post-dated and undelivered or unreleased checks, interest income vis-à-vis final taxes thereon, NCAHS, impairment testing on ROPAs and short-term compensated absences, which must be aligned with applicable PFRSs and should include relevant procedures, accountabilities, and timelines to avoid recurrence of the aforementioned deficiencies; and

b. Install appropriate control mechanisms, e.g., update seminars on PFRSs, inclusion in the year-end closing instructions, use of checklists, records reconciliation, and regular review and monitoring, to ensure that the transactions of SB Corporation are properly recognized and reported consistent with relevant PFRSs.

23. SB Corporation has not formulated and adopted a six-year Gender and Development (GAD) Agenda to serve as basis for its annual GAD Plans and Budgets (GPBs) and merely relied on the GAD Agenda of its mother agency, DTI, contrary to the pertinent provisions of PCW-NEDA-DBM Joint Circular (JC) No. 2012-01 and PCW MC No. 2018-04 dated September 19, 2018. Thus, the ability of its GAD programs, activities, and projects (PAPs) to effectively address identified gender issues in the medium or long-term, and to strengthen gender mainstreaming in the Corporation is adversely affected.

23.1. JC No. 2012-01 jointly issued by the Philippine Commission on Women (PCW), National Economic and Development Authority (NEDA) and Department of Budget and Management (DBM) prescribes the guidelines for the preparation of the annual GPBs by the government agencies and their instrumentalities to implement RA No. 9710, otherwise known as The Magna Carta of Women.

23.2. Section 2.3 of said JC requires all government departments and their attached agencies and other government instrumentalities to formulate their annual GPB within the context of their mandates to mainstream gender perspectives in their policies, programs and projects. The GAD Agenda shall be the basis for the annual formulation of PAPs to be included in the GPB.

23.3. Relevantly, PCW MC No. 2018-04 provides the guidelines and procedures in the formulation, implementation, monitoring, and evaluation of the multi-year GAD Agenda as basis for the annual GPBs of agencies. Pertinent provisions thereof follow:

a. The GAD Agenda is the agency's strategic framework and plan on gender mainstreaming and achieving gender equality and women's empowerment (GEWE). It is a two-part document consisting of the GAD Strategic Framework (GADSF) and the GAD Strategic Plan (GADSP). The GADSF outlines the agency's GAD Vision, Mission and Goals anchored on the mandate of the agency, while GADSP defines the strategic interventions, indicators, and targets to be pursued to achieve GAD goals over a period of time.

b. The head of agency shall approve the GAD Agenda with a timeframe of six years and issue a policy ensuring its implementation by the agency's sub-units. In the formulation of the agency's annual GPB, the entries in the GAD agenda such as the gender issue, GAD outcome, indicator, target, activities, and budget for the specified year shall be reflected in the annual GPB.

c. A review after three years and an end-term evaluation of the GADSF and GADSP shall be conducted by the GFPS, and reports shall be prepared and submitted to PCW. The three-year progress report shall reflect the status of accomplishments based on the analysis of the desired results and outcomes, as well as variances, while the end-term report shall reflect the overall assessment of the implementation of the GAD agenda based on the goals and desired results/outcomes.

d. The GAD Agenda, progress and end-term reports shall be submitted by agencies to PCW for the purpose of monitoring, evaluation, reporting of GEWE results, and as necessary, provision of technical assistance on its implementation.

23.4. Verification disclosed that the SB Corporation, through the GAD Focal Point System (GFPS), did not formulate and adopt a six-year GAD Agenda to serve as basis in the formulation of PAPs to be included in its annual GPB. Per inquiry, it merely relied on the GAD Agenda developed by the DTI, its mother agency, contrary to the abovementioned guidelines.

23.5. Concerned personnel explained that the SB Corporation uses the GAD Agenda of DTI since its mother agency already considered the Corporation in formulating the same. For example, under the said GAD Agenda, DTI will implement for CY 2022 programs on revival and rejuvenation of MSME operations by increasing women's access to credit and financing such as the P3 Program as well as Microfinance Facilities Programs through the SB Corporation.

23.6. However, upon inquiry, the PCW informed that even if the SB Corporation is an attached agency of the DTI, it must still develop its own GAD Agenda to address differential gender issues or GAD mandates of the organization for reflection in the annual GPBs. Nevertheless, the SB Corporation may strategically align or reflect on the GAD Agenda of DTI as there might be departmental plans and programs which require the attached agency's appropriate actions and/or participation.

23.7. It bears stressing that the GAD Agenda provides the monitoring and evaluation framework for assessing GAD results and outcomes that shall be the basis for strengthening the mainstreaming of a GAD perspective in the agency's operations and programs. Thus, the GAD Agenda provides the agency with direction in setting and monitoring their GAD initiatives to achieve the twin goals of GEWE.

23.8. While Management was able to annually prepare GPBs and GAD Accomplishment Reports (GARs), the lack of a GAD Agenda puts into question the ability of its PAPs and other initiatives to effectively address identified gender issues in the medium or long-term, and to strengthen gender mainstreaming in the Corporation.

23.9. We recommended that Management, through the GFPS:

a. Formulate and adopt a separate six-year GAD Agenda for the SB Corporation which shall serve as basis in the preparation of annual GPBs, and submit the same to PCW for its monitoring and evaluation; and

b. Conduct update seminar/s on GAD for employees to keep them abreast of new and updated issuances, and ultimately, enhance compliance with GAD requirements.

23.10. Management recognized the importance of crafting SB Corporation's own GAD Agenda to address differential gender issues or GAD mandates. However, although the CYs 2022 and 2023 GPBs were anchored on the DTI GAD Agenda of DTI, the SB Corporation complied with the requirement to specifically implement programs on the revival and rejuvenation of MSME operations by increasing women's access to credit and financing. Notably, the P3 and RISE UP programs of the SB Corporation are part of the attributed programs.

23.11. Nevertheless, Management committed to prepare and submit to the PCW its own GAD Agenda that is strategically aligned with that of the DTI by the end of third quarter of CY 2023. Further, at least two GFPS – TWG members will be sent in CY 2023 to GAD related trainings so that they will be apprised of new and updated guidelines in the implementation of GAD PAPs and GPBs.

23.12. As an audit rejoinder, the courses of action taken and to be undertaken by Management to fully comply with the recommendations will be monitored and evaluated accordingly. We expect that there will be a separate six-year GAD Agenda for the SB Corporation by the end of CY 2023.

24. The attributed programs in the CY 2022 GPB are not supported by justifications and corresponding means of verification (MOVs) causing the non-endorsement thereof by the PCW, contrary to Sections 2.3 and 7 of PCW-NEDA-DBM JC No. 2012-001.

24.1. Sections 2.3 and 7 of JC No. 2012-001 directs all agencies, bureaus and government instrumentalities to formulate their annual GPB within the context of their mandates, and to submit the same to the PCW one year before the budget year, for review and endorsement.

24.2. Under Section 1.2.5.1 of PCW MC No. 2021-04 dated August 24, 2021, PCW shall endorse the CY 2022 GPB only if: (a) the minimum five per cent GAD Budget requirement has been met; and (b) the entries in the GPB are compliant with the provisions of the Magna Carta of Women and relevant guidelines on GAD Planning and Budgeting.

24.3. Verification disclosed that PCW did not endorse SB Corporation's revised GPB for CY 2022 due to non-compliance with Section 1.2.5.1 of PCW MC No. 2021-04. Specifically, the attributed programs of SB Corporation were not supported by justifications and corresponding MOVs. The submitted Harmonized GAD Guidelines (HGDG) checklists also do not have the final computation which prevented PCW from validating the overall scores and the attributed amount.

24.4. The PCW advised that for future attribution, the duly accomplished HGDG checklist should be attached to the SB Corporation's GPB submission. Moreover, justifications and specific documents should be cited for each entry or question in the checklist to support the score given.

24.5. As a result, it is doubtful whether the implemented GAD activities for CY 2022 respond to identified gender issues, or cause of the issues in the context of SB Corporation's mandate, contrary to the objectives of JC No. 2012-001.

24.6. We recommended that Management, through the GFPS, install appropriate control mechanisms, e.g., regular review and monitoring, among others, to ensure that its GPB submissions to the PCW are accurate and complete, including the required justifications, MOVs, and duly accomplished HGDG checklist.

24.7. Management assured that, for the CY 2023 GPB, the SB Corporation has uploaded the corresponding MOVs and HGDG scores in the GMMS portal for review and eventual endorsement by the PCW. Likewise, for the CY 2022 GAD Accomplishment Report (GAR), the SB Corporation has uploaded all supporting documents and corresponding MOVs upon submission thereof last March 16, 2023.

24.8. As an audit rejoinder, the courses of action taken and to be undertaken by Management to comply with the recommendations will be monitored and evaluated accordingly. We expect that, moving forward, the GPBs of the SB Corporation will be endorsed by the PCW, or in cases of non-endorsement thereof, it will not be for reasons similar to the subject observation.

25. One GAD activity amounting to P346,250 was incorrectly reported as an actual accomplishment in CY 2022 even though the same was procured in CY 2023 and its implementation is currently in progress. As a result, the actual expenditures reported in the CY 2022 GAR is misstated, contrary to Section 10.1 of PCW-NEDA-DBM JC No. 2012-01.

25.1. Section 10.1 of PCW-NEDA-DBM JC No. 2012-01 provides that attached agencies, bureaus, regional offices, constituent units and all others concerned shall submit their GAR to their central offices. The agency GFPS shall prepare the annual GAR based on the PCW-endorsed GPB. Activities completed until the end of the year may be included in the final GAR of the agency submitted to PCW in January.

25.2. Verification of the CY 2022 GAR of SB Corporation revealed that one of the activities reported therein as accomplished under client-focused activities was not completed during said year. Thus, the same should not be included as an accomplishment for CY 2022. Details follow:

Planning		Accomplishment		
Activity	Budget	Outcome	Actual	Variance
Include in the annual satisfaction survey of the Corporation items to determine the needs of women entrepreneurs.	385,000	• Procurement of a third-party provider for SB Corporation's CY 2022 Customer Satisfaction Survey; and • Conduct of CY 2022 Customer Satisfaction Survey	346,250	38,750

25.3. Inquiry with the GFPS disclosed that the said activity was reported as an accomplishment in CY 2022 because the data to be obtained in the satisfaction survey pertains to customers served during said year.

25.4. However, the conduct of the satisfaction survey was not completed in CY 2022. Records show that the procurement of the third-party provider was done in January 2023 only, while the 15 per cent down payment was made in March 2023. Moreover, the conduct of the satisfaction survey is currently on-going.

25.5. We recommended that Management, through the GFPS:

a. Report only the activities completed until the end of the year as accomplishments in the final GAR of the agency consistent with Section 10.1 of JC No. 2012-01; and

b. Install appropriate control mechanisms, e.g., cut-off procedures, inclusion in year-end closure instructions, and regular review and monitoring, among others, to ensure that GAD activities and expenditures relative thereto are reported in the correct period.

25.6. Management commented that to comply with the recommendation, the SB Corporation will report as accomplishment in CY 2022 the conduct of the CY 2021 Client Satisfaction Survey which was procured and paid during said year at a total cost of P399,000. Conversely, the conduct of the CY 2022 Client Satisfaction Survey shall be reported as an accomplishment in CY 2023.

25.7. Further, the GFPS and the CG shall incorporate the appropriate control mechanisms in the guidelines to be formulated in June 2023 as regards reporting of GAD activities and expenses.

25.8. As an audit rejoinder, the courses of action taken and to be undertaken by Management to comply with the recommendations will be monitored and evaluated, accordingly. We expect that discrepancies of similar nature will no longer occur and be observed in the future.

26. Long outstanding disallowances of SB Corporation totaling P235,183 remained unsettled as at December 31, 2022 despite the issued Notice of Finality of Decisions (NFDs) and COA Orders of Execution (COEs), contrary to the pertinent provisions of the Revised Rules on Settlement of Accounts (RRSA) as prescribed under COA Circular No. 2009-006, dated September 15, 2009, as amended.

26.1. Pertinent provisions of the RRSA, as amended, as regards the finality and enforcement of COA decisions, follow:

a. Section 7.1 enumerates the responsibilities of the Agency Head as regards the settlement of accounts which include among others:

i. The Agency Head, who is primarily responsible for all government funds and property pertaining to his agency, shall ensure, among others, that the settlement of disallowance and charges is made within the prescribed period;

ii. He shall initiate the necessary administrative and/or criminal action in case of unjustified failure/refusal to effect compliance with the foregoing requirements by subordinate officials;

iii. He shall enforce the COE by requiring the withholding of salaries or other compensation due to person liable in satisfaction of the disallowance or change; and

iv. He shall ensure that all employees who are retiring or transferring to other agencies shall first settle the disallowance and charges for which they are liable.

b. Section 22 provides that an NFD shall be issued by the authorized COA official to the Agency Head to notify that a decision of the Auditor, Director or Commission Proper has become final and executory, there being no appeal or motion for reconsideration filled within the reglementary period.

c. Section 23 states that a COE shall be issued to enforce the settlement of an audit disallowance/charge, whenever the persons liable thereof refuse or fail to settle them after the decision becomes final and executory. Under Section 4.12, a COE is defined as written instruction addressed to the Agency Head, Attention: Treasurer/Cashier, to withhold payment of salary and other money due to persons liable, for settlement of their liability.

26.2. Audit disclosed that long outstanding disallowances of SB Corporation totaling P235,183 remained unsettled as at December 31, 2022, despite the issued NFDs and COEs, contrary to the above provisions of the RRSA. Details follow:

ND No.	Date of COE	Amount of ND	Settlements as at December 31, 2022[4]	Outstanding Balance
SBGFC 2007-001	07/14/2014	P680,729	P623,103	P57,626
14-001-401000 (13)	06/21/2018	759,042	581,485	177,557
		P1,439,771	**P1,204,588**	**P235,183**

26.3. Verification revealed that the salary and other money due to persons liable who are certifying/approving officers and are still in service are not withheld. Instead, they settle on installments but without a prior authority to do so from the Commission Proper, through the Prosecution and Litigation Office (PLO), Legal Services Sector (LSS), as provided under COA Resolution No. 2015-031 dated August 20, 2015, as amended by COA Circular No. 2017-021 dated November 3, 2017.

26.4. In consonance with COA Circular No. 2009-006, as amended, the issued NFDs and COEs uniformly and clearly provide that the persons liable are bound to pay the disallowed amount immediately to the Agency Cashier. Further, failure to pay the disallowance shall authorize the Agency Cashier to withhold payment of salary and other money due to persons liable in accordance with the NFD and COE.

26.5. Clearly, Management fell short in fulfilling its responsibility to enforce the issued COE and collect the final and executory disallowances from the persons liable, especially those who are certifying/approving officers and are still in the service.

26.6. We recommended that Management, through the concerned Groups:

a. Strictly comply with the provisions of the RRSA, as amended, and the issued NFDs and COEs particularly:

i. The settlement of disallowances and charges within the prescribed period; and

ii. The withholding of salaries or other compensation due the person liable in satisfaction of the disallowance or charge;

[4] Includes all collections pertaining to the ND whether or not Notices of Settlement of Suspension/Disallowance/Charge (NSSDCs) have been issued therefor. Thus, these balances will not necessarily tally with the figures under Paragraphs 29.2 and 29.3, which only consider settlements covered by NSSDCs.

b. **Exhaust reasonable efforts to collect the overdue final and executory disallowances from the persons liable pursuant to the RRSA, as amended, and the issued NFDs and COEs, to include, among others:**

   i. **Regular monitoring of the status of settlement of the final and executory disallowances;**

   ii. **Sending of demand/collection letters to persons liable who are separated from the service and/or no longer connected with the agency; and**

   iii. **Initiation of the necessary administrative and/or criminal action in case of unjustified failure/refusal to effect compliance by subordinate officials; and**

c. **Where appropriate, require the persons liable to submit a request to the Commission Proper, through the PLO, LSS, for the installment payments of the disallowances they are liable for as allowed under COA Resolution No. 2015-031, as amended; and**

26.7. Management assured that the SB Corporation is exerting continuous efforts to collect the balances of the NDs despite the fact that all payees and most of the signatories are no longer with the Corporation. For CY 2022, substantial amounts were collected. Notably, the balances under ND No. 2007-001 are covered by post-dated checks which matured in March 2023, while majority of the balance of ND No. 14-001-401000(13) pertain to the tax withheld for the disallowed payments which were already remitted to the BIR, thus, should not be subject to refund.

26.8. Moreover, Management believes that pursuant to Section 4, Rule XIII of the 2009 Revised Rules of Procedure of COA, it is not the SB Corporation which must initiate the filing of administrative and/or criminal action. In fact, it is the Auditor who must report the matter to the COA Director concerned, as well as to the COA General Counsel, who in turn shall refer the same either to the Solicitor-General or the Ombudsman for the filing of the corresponding civil, administrative or criminal action.

26.9. As an audit rejoinder, we clarify that the tax portion of the disallowances are subject to refund, thus, should still be collected by Management from the persons liable. Consistent with the doctrine of immutability of judgment, final and executory decisions of judicial and quasi-judicial bodies may not be disturbed even if erroneous.

26.10. Moreover, we reiterate that the initiation of the necessary administrative and/or criminal action in case of unjustified failure/refusal to effect compliance by subordinate officials is consistent with Section 7.1(ii) of the RRSA, which complements Section 4, Rule XIII of the Revised Rules of Procedures of COA.

26.11. Thus, the courses of action taken and to be undertaken by Management to comply with the recommendations will be monitored and evaluated accordingly.

27. Compliance with Tax Laws, Rules and Regulations

27.1. The taxes withheld on compensation and benefits, certain income payments and government money payments for CY 2022 were remitted to the BIR during the year, except the amounts withheld for December 2022 which were remitted in the succeeding month. Details follow:

Month	Compensation and Benefits	Expanded Withholding Taxes	Government Money Payments	Total
January	P1,567,894	P96,127	P89,629	P1,753,650
February	1,611,949	197,792	134,955	1,944,696
March	3,586,265	199,520	276,879	4,062,664
April	2,110,137	154,730	261,984	2,526,851
May	3,915,275	233,953	358,732	4,507,960
June	2,012,341	175,900	231,303	2,419,544
July	2,008,277	278,633	296,858	2,583,768
August	1,885,043	161,178	205,585	2,251,806
September	2,062,963	220,973	239,306	2,523,242
October	1,880,357	280,527	686,090	2,846,974
November	3,664,742	167,388	181,380	4,013,510
December	3,117,017	439,498	988,141	4,544,656
Total	**P29,422,260**	**P2,606,219**	**P3,950,842**	**P35,979,321**

28. Compliance with Rules on Government Mandatory Deductions

28.1. Premiums and loan amortizations due to the GSIS, Pag-IBIG and PhilHealth for CY 2022, which were deducted from the salaries of SB Corporation personnel, were remitted within the prescribed periods as follows:

		Remittance			
		CY 2022		January 2023	
Agency	Deductions for CY 2022	Withheld	Employer Share	Withheld	Employer Share
GSIS	P22,036,734	P20,079,597	P17,384,381	P1,957,137	P1,532,537
Pag-IBIG	421,266	381,634	152,800	39,632	16,800
PhilHealth	2,566,447	2,349,357	2,349,568	217,090	217,090
Total	**P25,024,447**	**P22,810,588**	**P19,886,749**	**P2,213,859**	**P1,766,427**

29. Status of Audit Suspensions, Disallowances and Charges

29.1. The balances of audit suspensions, disallowances and charges as at December 31, 2022 for the SB Corporation, totaled P276.941 million, broken down as follows:

Audit Decision	Balance as at 01/01/2022	Issued (NS/ND/NC)	Settlement (NSSDC)	Balance as at 12/31/2022
NS	0	0	0	0
ND	P277,008,349	0	P67,543	P276,940,806
NC	0	0	0	0
Total	**P277,008,349**	**0**	**P67,543**	**P276,940,806**

29.2. Out of the outstanding disallowances of P276.941 million, P4.667 million are already final and executory and for which the corresponding NFDs and/or COEs have been issued as detailed below. The remaining disallowances are under appeal before the Office of the Director, Cluster 2 – Social Security, Corporate Government Audit Sector, or under a Petition for Review before the Commission Proper, this Commission.

ND			COE		Outstanding
No.	Date	Particulars	No.	Date	Balance
14-001-401000(13)	08/26/2014	Merit increase to five officers for the period of September 1, 2012 to August 31, 2014	2018-050	06/21/2018	P177,557
14-002-401000(12)	10/09/2014	Merit increase and adjustment of other benefits due to increase in salary rates of 43 personnel from September 1, 2012 to September 30, 2014	For issuance		2,483,863
14-003-401000(12)	10/09/2014	Salary differential due to step increment and adjustment of other benefits due to increase in salary rates of 4 personnel from September 1, 2012 to September 30, 2014	For issuance		180,660
14-004-401000(13)	10/10/2014	Salary differential due to step increment and other benefits due to the increase in salary rates of 3 officials from March 15, 2013 to September 30, 2014	For issuance		450,167
14-005-401000(13)	10/10/2014	Salary differential due to step increment and adjustment of other benefits due to the increase in salary rates of 26 personnel from March 15, 2013 to September 30, 2014	For issuance		723,337
14-006-401000(13)	10/13/2014	Salary differential due to step increment and adjustment of other benefits due to the increase in salary rates of 7 senior officers from March 15, 2013 to September 30, 2014	For issuance		562,055

ND		Particulars	COE		Outstanding Balance
No.	Date		No.	Date	
14-007-401000(13)	10/14/2014	Salary differential due to step increment and adjustment of other benefits due to the increase in salary rates of 3 regional office personnel from March 15, 2013 to September 30, 2014	For issuance		88,920
Total					**P4,666,559**

29.3. On the other hand, disallowances totaling P2.016 million issued prior to the effectivity of the Rules and Regulations on Settlements of Accounts are excluded from the above balances but shall continue to be enforced in accordance with Section 28 of said Rules. Out of the P2.016 million, P417,646 are already final and executory, to wit:

ND		Particulars	COE		Outstanding Balance
No.	Date		No.	Date	
2005-001 (2004)	07/28/2005	Loyalty award granted to 25 SBGFC Officers and employees	None	08/02/2013	4,720
2007-001	01/10/2007	Reimbursement of expenses incurred by the Members of the Board	None	07/14/2014	412,926
Total					**417,646**

Part III

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 76 audit recommendations embodied in the CY 2021 Annual Audit Report (AAR), 37 were implemented, two were reconsidered and 37 were not implemented. Of the 37 audit recommendations that were not implemented, 14 are reiterated in Part II of this report and one was issued with Notice of Disallowance. Details follow:

Reference	Audit Observations	Audit Recommendations	Status/Actions Taken
CY 2021 AAR			
Observation No. 1, Page 51	1. The absence of accounting policy which is Philippine Financial Reporting Standards (PFRS) 9 compliant as basis for the estimation of the Allowances for Expected Credit Loss (ECL) on various financial assets measured at amortized cost totaling P14.871 billion as at December 31, 2021 constitutes a departure from Paragraph 5.5 of PFRS 9 – *Financial Instruments*, thus resulting in the overstatement of various asset accounts and understatement of related expense account all by undetermined amounts.	a. Formulate an accounting policy to be used and applied by the SB Corporation as basis in the estimation of ECL for its financial assets in accordance with PFRS 9; and	Not implemented In CY 2020, SB Corporation has engaged the services of P&A Grant Thornton to conduct an impact assessment and provide transition services as regards PFRS 9. Said services include the preparation of an ECL model covering the financial assets of SB Corporation, which shall serve as basis in recording the Allowance for ECL. As at December 31, 2022, P&A Grant Thornton is yet to present and discuss its reports to SB Corporation, largely due to change in the personnel of the former handling the engagement.
		b. Strictly comply with the pertinent provisions and requirements of PFRS 9 in setting up Allowance for ECL.	Not implemented Same status as in (a) above. Both recommendations are reiterated with

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
			modification under Observation No. 1, Part II of this report.
Observation No. 2, Page 53	2. The non-elimination of the Intra-agency Receivables – *Due from Other Funds* and Intra-agency Payables – *Due to Other Funds* accounts in the financial statements as at year-end overstated the total assets and total liabilities by P83.470 million and P91.590 million, respectively, as at December 31, 2021.	a. Prioritize the reconciliation of intra-agency accounts and set reasonable timelines for the reconciliation thereof. Subsequently, make the necessary adjustments to pave the way for the elimination of reciprocal accounts of the Corporate and P3 fund;	Not implemented The reconciliation of the intra-agency accounts for both SB and P3 books for CYs 2019 to 2021 is still on-going. It is expected to be completed by the end of the 3rd quarter of CY 2023.
		b. Closely monitor and periodically review transactions made between the Corporate and P3 funds;	Not implemented Pursuant to ManCom Resolution No. 2022-0816-002, the Application of Payment System (APS) was launched softly on August 25, 2022. The APS will positively affect the implementation of the Account Monitoring Module, which is used in the monitoring of all loan transactions. In the meantime, the Controllership Group (CG) performs manual reconciliation as part of its monitoring and periodical review of transactions. However, the balances of the Intra-agency Receivable and Payable accounts as at December 31, 2022, increased to

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
			P97.488 million and P143.619 million, respectively.
		c. Formulate policies and guidelines on the recording of intra-agency transactions including measures in eliminating the variances of the reciprocal accounts and the accumulation of the same; and	Not implemented The formulation of pertinent policies and guidelines shall follow upon full implementation of the APS.
		d. Disclose the accounting policy on the combination and elimination of the reciprocal accounts in the Notes to the Financial Statements (NTFS), as appropriate.	Not implemented Same status as in (c) above. All recommendations are reiterated with modification under Observation No. 2, Part II of this report.
Observation No. 3, Page 56	3. The Undistributed Collections (UC) totaling P10.807 million as at December 31, 2021, posted a significant increase of P7.203 million or 199.88 per cent from that of the previous year's UC, thus, misstating the balances of the Notes Receivable, Interest Income and other related income accounts all by undetermined amounts as at and for the year ended December 31, 2021, and Other Payables accounts by P10.807 million as at even date.	a. Prioritize the identification of loan accounts recorded under UC and immediately record payments and update the subsidiary ledger (SL) of identified borrowers to come up with the correct individual loan account balances;	Implemented
		b. Ensure the strict implementation of the established policies, guidelines and measures to eliminate UC provided under Annex A of Board Resolution (BR) No. 2020-12-3024;	Not implemented Management posits that the policies, guidelines, and measures under BR No. 2020-12-3024, are strictly observed in the continuing

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
			identification of UC. However, the balance of the account as at December 31, 2022, increased to P16.575 million.
		c. Create a unique borrower's account code for each MSME borrower to be indicated in the Payment Instruction Slip (PIS), and brief the concerned borrower/representative on the importance of the borrower's account code and strict usage of the PIS in making payment, to effectively implement the measures provided under Item III, Annex A of BR No. 2020-12-3024;	Not implemented SB Corporation fully implemented in the 3rd quarter of CY 2022 the use of a Customer Account Number for GCash payments. However, the same is still to be implemented for other intermediaries.
		d. Inform the Collecting Officers/ Partner Agents not to accept payment without the unique borrower's account code in the PIS; and	Reconsidered Upon re-evaluation, the decision to refuse payments due to incomplete data is a decision best left to the discretion of the Management.
		e. Effect the necessary adjustments from UC to Notes Receivable, Interest Income and other related accounts to reflect the correct SL balances and ultimately the account balances in the financial statements.	Not implemented The Credit Support and Asset Recovery Group (CSARG) continually requests from the CG the application of the identified payments. Out of the P10.807 million subject of the observation, P3.235

Reference	Audit Observations	Audit Recommendations	Status/Actions Taken
			million were already adjusted in CY 2022. All recommendations except (a) and (d) are reiterated with modification under Observation No. 10, Part II of this report. This observation was first raised in CY 2018 and reiterated in CYs 2019 to 2021 AARs.
Observation No. 4-A, Page 62	4. Non-appraisal of Real and Other Properties Acquired (ROPAs) under Investment Property and Non-current Assets Held for Sale (NCAHS) accounts for more than a year with aggregate carrying value of P26.489 million as at December 31, 2021 affects the valuation of ROPAs.	Conduct the in-house appraisal of the properties at the frequency required by Philippine Accounting Standards (PAS) 36 – *Impairment of Assets* and Bangko Sentral ng Pilipinas (BSP) Circular No. 520, s. 2006.	Implemented
Observation No. 4-B, Page 63	5. Acquired properties totaling P8.624 million are recorded under NCAHS despite not having met the reporting requirements of PFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations* thus, overstating the NCAHS account and understating the Investment Property account both by the same amount as at December 31, 2021.	Provide, through the CSARG, the updates on the disposition of NCAHS in order for the CG to make the necessary adjustment on the NCAHS and Investment Property accounts in consonance with the provisions of PFRS 5, PAS 1 – *Presentation of Financial Statements* and the Conceptual Framework.	Implemented

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
Observation No. 4-C, Page 66	6. The balance of Accumulated Impairment Losses for Investment Property – Land and NCAHS amounting to P5.665 million and P306,148 as at December 31, 2021, respectively, were not fully adjusted for ROPAs with appraised values less than their carrying amounts and non-reversal of the same for properties that increased in value.	Recognize impairment loss for all properties with appraised values less than their carrying amounts and/or reverse impairment losses for all properties that increased in value, if warranted.	Implemented
Observation No. 4-D, Page 69	7. Other deficiencies were noted in the comparison between the Schedule of ROPA vis-à-vis the corresponding general ledgers (GLs) and SLs.	a. Recognize the improvements made on land properties as Investment Property – Buildings or NCAHS – Buildings, whichever is appropriate, with the corresponding depreciation. Also, reclassify Investment Property – Buildings and NCAHS – Buildings accounts to Investment Property – Land and NCAHS – Land, respectively, for properties without improvements;	Implemented
		b. Reconcile the Schedule of ROPA with the GL and SL balances of Investment Property and NCAHS accounts; and	Implemented
		c. Submit to the Audit Team the detailed schedules of Investment Property and NCAHS for further verification.	Implemented

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
Observation No. 5, Page 71	8. Various rental payments on the lease of office space for the period March to December 2021 totaling P1.700 million were inappropriately recorded under Rental Expense in the books of SB Corporation and P3 Fund, while the Right-of-use (ROU) Asset, Lease Liability, Depreciation and Interest Expenses of undetermined amounts are not recognized in the books, contrary to PFRS 16 – *Leases*, Paragraph 15 of PAS 1 and Paragraphs 2.12 and 2.13 of the Conceptual Framework.	a. SB Corporation's North Luzon, Visayas and Mindanao Groups coordinate with the Head Office for the computation and the corresponding recognition of the ROU Asset, Lease Liability, Depreciation and Interest Expense accounts in the books in accordance with applicable provisions of PFRS 16, PAS 1 and the Conceptual Framework; and	Implemented
		b. Effect the necessary adjustment to the Rental Expense account to correct the errors in the books.	Implemented
Observation No. 6, Page 73	9. Various deficiencies were noted on the reported balances of Prepaid Income Tax, Current Income Tax Expense, Deferred Tax Asset and Deferred Income Tax Benefit accounts as at December 31, 2021, contrary to Paragraph 15 of PAS 1, thereby affecting the fair presentation of said accounts in the financial statements.	a. Analyze the computation of income tax thoroughly and review all the permanent and temporary differences to come up with the correct taxable income;	Implemented
		b. Ensure that the Deferred Tax Assets, especially the Net Operating Loss Carry-over, are measured in accordance with PAS 12 – *Income Taxes*;	Implemented
		c. Check all reconciling items in temporary difference that has a corresponding set-up of Deferred Tax Asset/ Liability that has been	Implemented

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
		recorded in the books along with the Deferred Tax Benefit/Expense;	
		d. Make sure that there is an acceptable basis for the difference in accounting and taxable income to avoid errors in tax computations; and	Implemented
		e. Prepare the necessary journal entries to adjust/correct the affected accounts in the financial statements as at December 31, 2021.	Not implemented All deficiencies noted were already adjusted as at December 31, 2022 but the balances as at December 31, 2021, were not restated as required under PAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*. Reiterated with modification under Observation No. 6, Part II of this report.
Observation No. 7, Page 78	10. Non-submission of complete documentary requirements to support the writing-off of 168 receivable accounts totaling P80.029 million as at December 31, 2021, is contrary to Section 28 of Presidential Decree (PD) No. 1445, Section 7.1.1 of COA Circular No. 2009-006, and applicable provisions of BSP Circular No. 855, BSP's Manual of	a. Strictly comply with the provisions of SB Corporation's Write-off Policies on the write-off of receivable accounts; and	Not implemented Only the documents pertaining to 19 out of 168 receivable accounts, or P8.461 million of the P80.029 million, were submitted and validated by the CSARG and Audit Team, respectively. For CY 2020, only the documents pertaining to 23 out of 104

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
	Regulations for Non-Bank Financial Institutions (MORNBFI), and SB Corporation's Write-off Policies, thus, casting doubt on the accuracy, validity and reliability of the written-off receivable accounts.	b. Submit to the Audit Team the complete documentary requirements to support the write-off of receivable accounts, for review and validation.	receivable accounts, or P11.166 million of the P65.247 million, were found in order. Not implemented Same status as in (a) above. This observation was first raised in CY 2020 and reiterated in CY 2021 AAR.
Observation No. 8, Page 81	11. The non-financial assets (NFA) – chattels portion of acquired assets through *dacion en pago*, were not disposed immediately after the expiration of their redemption periods, contrary to BR No. 2019-08-2796 dated August 5, 2019, thus, resulted in the non-recovery of SB Corporation's receivables from loan borrowers which further increased losses.	a. Periodically conduct physical inventory of the acquired NFA – chattels stating the physical condition of the assets, and immediately dispose those that will not be converted and used for SB Corporation's operations pursuant to the policies adopted under BR No. 2019-08-2796;	Not implemented SB Corporation has tagged as disposed one chattel previously listed under "to be located." The other chattels that have been located will be included in the upcoming disposal activity of the CSARG.
		b. Furnish the Audit Team with the complete appraisal reports and Inventory and Inspection Reports of NFAs (IIRNFA) together with the current photographs of the acquired NFA – chattels and other relevant documents for audit;	Not implemented Only the appraisal report for the chattels from LSO Food Services was provided to the Audit Team as at December 31, 2022.
		c. Strictly comply with the pertinent provisions, adopted policies and guidelines	Not implemented SB Corporation is continually adopting

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
		on the administration of ROPA and other foreclosed properties;	the policies and guidelines in the administration of ROPA.
		d. Revisit the policy and guidelines of the SB Corporation to include the accounting treatment of NFA – chattels acquired through *dacion en pago*;	Not implemented SB Corporation is in the process of updating the policy and guidelines on *dacion en pago* and its proper recording in the books.
		e. Prospectively, record foreclosed NFAs, such as motor vehicles, machinery, equipment, and furniture and fixtures to the appropriate accounts, and provide depreciation and impairment, if applicable; and	Not implemented The recording of the NFA – chattels to the appropriate account shall be made once the updating of policy and guidelines on dacion en pago has been completed.
		f. In the absence of appropriate accounts for NFAs, request from COA – Government Accountancy Sector (GAS) the inclusion in the Revised Chart of Accounts (RCA) of the new account.	Not implemented SB Corporation currently reviews the updated RCA (2019) to determine the appropriate account, and will coordinate with COA – GAS, if necessary.
Observation No. 9, Page 84	12. The Real Estate Mortgages (REMs) and Deeds of Assignment (DOAs) executed by the borrowers/mortgagors in favor of the SB Corporation with total loan balance of P385,258 and P5.702 million, respectively, were neither annotated	a. Strictly enforce the right of SB Corporation to demand the annotation of the REMs or DOAs in the titles or the registration with the RDs to protect the Corporation from losses and/or undue claims from third parties;	Not implemented The title of Anden Gail Sariwanok is currently under reconstitution. SB Corporation awaits the court's decision which is a requirement for the issuance by the BIR

Reference	Audit		Status/Actions Taken
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	in the titles nor registered with the Registry of Deeds (RD), contrary to Sections 51, 54 and 113 of PD No. 1529 or the Property Registration Decree, the terms and conditions of the REM and Article 2125 of the Civil Code of the Philippines, thus, the rights and interests of the Corporation over the properties cannot be protected against third parties.		of a Certificate Authorizing the Registration. On the other hand, one ROPA with DOA is for negotiated sale while three are under compromise redemption of the mortgage property. Annotation in the titles for the other 23 accounts is on-going.
		b. Consolidate the REMs or DOAs in the name of SB Corporation, if ownership warrants;	Not implemented Same status as in (a) above.
		c. Dispose the ROPA with DOA; and	Not implemented The ROPA with DOA is included in the ROPA Disposal Plan.
		d. CSARG consult the Legal Services Group (LSG) on the legality of holding the 29 titles without the corresponding DOAs from the Davao Cooperative Bank, Inc. or Philippine Deposit Insurance Corporation.	Not implemented LSG found that three of the 29 titles are with annotated DOAs in favor of SB Corporation. As for the other titles, record tracing and verification of documents are still being conducted in order to determine the legality of the holding thereof.
Observation No. 10, Page 88	13. One ROPA, with an appraised value of P951,840 is being occupied by its previous owner without the benefit of a lease	a. Execute lease contracts with the occupants or demand that they vacate the property if they refuse to enter into a lease	Implemented

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	contract. Moreover, 10 ROPAs, with a total appraised value of P4.696 million, have no perimeter fences and signages indicating SB Corporation's ownership of the property, contrary to Section 2 of PD No. 1445, and SB Corporation Memorandum dated June 23, 2009, thus, proper management, preservation, and utilization of the acquired ROPAs could not be achieved.	agreement with SB Corporation – Mindanao Group (MG) or unreasonably ignore demands for payment of rentals; and b. Adequately secure and preserve the properties against unauthorized occupants by constructing perimeter fences and posting signages or markers indicating that the property is owned by SB Corporation and is available for sale/ lease.	 Not implemented The Asset Recovery and Collection Committee (ARCCO) disapproved of the recommendation to construct perimeter fences given that the cost of doing so may be worth more than the properties. However, the posting of signages or markers is still reasonable. This observation was first raised in CY 2020 and reiterated in CY 2021 AAR.
Observation No. 11, Page 90	14. Two acquired assets with a total appraised value of P801,840 are not covered by insurance, contrary to Republic Act (RA) No. 656 and COA Circular No. 2018-002 dated May 31, 2018, thus, denies the government of an adequate and reliable protection against any damage to or loss of its properties or assets due to fire, earthquake, storm, or other fortuitous	a. Revisit and be cognizant with the Corporation's policies and guidelines defining functions and responsibilities of different sectors or groups in the administration of acquired assets; b. Make representation with the CSARG in SB Corporation Head Office to clarify the department, region or group responsible for	Implemented Implemented

Reference	Audit		Status/Actions Taken
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	events/casualty.	the insurance enrollment of their respective acquired properties;	
		c. Facilitate the immediate enrollment of the two identified acquired assets for insurance with Government Service Insurance System (GSIS); and	Implemented
		d. Henceforth, ensure compliance with RA No. 656 and COA Circular No. 2018-002 on the requirement for general insurance coverage with the General Insurance Fund of the GSIS of all the insurable assets of the Corporation.	Not implemented Reiterated with modification under Observation No. 20, Part II of this report.
Observation No. 12, Page 92	15. The Extraordinary and Miscellaneous Expenses (EME) – Entertainment and Promotional Expenses (EPE) paid to SB Corporation's senior officers exceeded the allowable amount by P10.150 million for the period from July 2018 to December 2021, contrary to the provisions of COA Circular Nos. 2006-001, 2012-001, 2012-003, the general provisions of General Appropriations Act (GAA) of even years as well as the approved Corporate Operating Budgets of SB	a. Strictly comply with the applicable provisions and requirements of the GAA and COA Circular Nos. 2006-001, 2012-001 and 2012-003 in the grant of EME-EPE or its equivalent; and	Reconsidered SB Corporation now adopts CPCS Circular No. 2021-013 dated January 12, 2021, of the Governance Commission for GOCCs (GCG) in the grant of EME.
		b. Collect from the senior officers the excess EME – EPE paid to them totaling P10.150 million.	Not implemented The excess EME – EPE subject of the observation was disallowed in audit under ND No. 2023-001 (2018-2021) dated January 23, 2023.

Reference	Audit		Status/Actions Taken
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	Corporation, thus, disallowable in audit.		
Observation No. 13, Page 96	16. The Motor Vehicle Lease Purchase Plan (MVLPP) granted by SB Corporation to one of the Board of Directors (BOD) amounting to P1.595 million is contrary to Section 8 of Executive Order (EO) No. 24, s. 2011, Paragraph 7 of GCG Memorandum Circular (MC) No. 2016-01 and Section 3.1 of COA Circular No. 2012-003.	a. Require the concerned member of the BOD to immediately refund the MVLPP benefit granted by SB Corporation, contrary to EO No. 24, s. 2011, Paragraph 7 of GCG MC No. 2016-01 and Section 3.1 of COA Circular No. 2012-003; and	Not implemented SB Corporation argues that the questioned benefit is within the ambit of Section 8(d) of EO No. 24, s. 2011. The subject director will continually pay his remaining obligation totaling P386,729.98.
		b. Discontinue the granting of said benefit which is not in accordance with existing laws, rules and regulations.	Implemented SB Corporation has stopped accepting applications for availment under the MVLPP.
Observation No. 14, Page 99	17. Hiring of individual Contract of Service (COS) personnel to perform the regular functions of SB Corporation Visayas Group (VG) is contrary to COA – Department of Budget and Management (DBM) Joint Circular (JC) No. 2 dated October 20, 2020.	a. Review the functions, systems, procedures, and organizational structure and staffing pattern of the Corporation to assess the needs and gaps, and determine the appropriate human resource complement for their programs, activities, and projects (PAPs); and propose the creation of permanent positions for regular functions to the Head Office in accordance with Section 11.4 of COA-DBM JC No. 2, s. 2020; and	Not implemented As instructed by the BOD’s Corporate Governance Committee in March 2023, Management will review the 2021 Plantilla Structure of SB Corporation. Likewise, the preparation of a Reorganization Plan is already being discussed by the Management Committee.

Reference	Audit		Status/Actions Taken
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		b. Consider for appointment to the unfilled regular and/or newly created positions as determined under recommendation (a) above, the existing qualified COS employees, subject to existing civil service laws, rules and regulations as well as the CSC-approved Merit Selection Plan of the Corporation as per Section 11.3 of the same Circular.	Not implemented An increase in the number of plantilla personnel from 165 to 256 by the end of CY 2023 is projected by the SB Corporation. With this, all qualified COS personnel will be given the opportunity to apply for regular positions.
Observation No. 15, Page 101	18. Various deficiencies were noted on the SB Corporation's procurement activities and its documentation, contrary to the applicable provisions of RA No. 9184 and its 2016 Revised Implementing Rules and Regulations (RIRR), Section 4(6) of PD No. 1445 and Paragraph B.1 of COA Circular Nos. 96-010 and 92-389: A. Although alternative method of procurement may be delegated to the unit or any other appropriate bureau, committee, or support unit, the procurement activities done through Negotiated Procurement (NP) – Small Value Procurement (SVP) totaling P3.227 million were not supported with	a. Strictly adhere to Paragraph D(8) and Appendix A of Annex "H" of the 2016 RIRR of RA No. 9184, Section 4(6) of PD No. 1445 and COA Circular Nos. 96-010 and 92-389;	Implemented
		b. Strictly fill-out the significant information and details of the prescribed documents for procurement activities to determine the urgency of the request, the faithful delivery of the obligation of the winning bidders, the obligation of SB Corporation, and to substantiate every act of the BAC and HoPE;	Implemented
		c. Submit the lacking documents to the Audit Team to	Implemented

Reference	Audit		Status/Actions Taken
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	the Resolution of the Bids and Awards Committee (BAC) recommending to the Head of the Procuring Entity (HoPE) the award of the contract or purchase order (PO), contrary to the provisions of the 2016 RIRR of RA No. 9184. B. Significant dates, terms and conditions, conforme, and other information and details were not provided in the procurement documents, contrary to COA Circular No. 96-010 dated August 15, 1996. C. Incomplete documentation of the procurement transactions under NP-SVP alternative method of procurement totaling P2.457 million is contrary to Paragraph D (8) and Appendix A of Annex "H" of the 2016 RIRR of RA No. 9184 and Section 4(6) of PD No. 1445. D. Lastly, the paid Disbursement Vouchers (DVs) and their supporting documents totaling P2.010 million were not stamped "PAID" upon payment, contrary to COA Circular No. 92-389, which opens the possibility of re-using the supporting documents for another	support the validity, accuracy and reliability of the transactions, to wit: • Request for Quotation posted at the DBM – Procurement Service PhilGEPS signed by the Chairperson of the BAC; • Proof of posting to SB Corporation's website and to any conspicuous place at the SB Corporation; • Clearance from the Department of Information and Communication Technology on the five-year Information Systems Strategic Plan of the SB Corporation per Memorandum Order No. 237 dated March 23, 1989; • PhilGEPS Certificate of Registration and List of Documents; • Other bidding documents pertinent to the documentary, technical and financial eligibility of the bidders supporting the abstract of quotations/proposals.	
		d. Submit the original documents with disclosure as to what office is keeping the originals as support to the DVs;	Implemented

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
	claim. E. Occurrence of delays on the delivery of goods and services that disregards the urgent need of the end-users on their day-to-day activities and non-collection of liquidated damages with an estimated total amount of P80,822, are contrary to Section 68, Rule XXII of RA No. 9184 and its 2016 RIRR and Section 3.1 of Annex D of its 2016 RIRR.	e. Ensure that the supporting documents are completely signed by the authorized signatories to confirm the validity of the transaction;	Implemented
		f. Conduct the training on RA No. 9184 and its 2016 RIRR for its proper implementation;	Implemented
		g. Require the concerned personnel to stamp "PAID" all the DVs and all its supporting documents as an internal control measure to safeguard the disbursement of public funds;	Implemented
		h. Update the issuance of authority delegating to the Administrative Services Unit, North Luzon Group (NLG) VG and MG to conduct the alternative method of procurement as authorized by the SB Corporation's approving officer;	Implemented
		i. Enforce the collection of the liquidated damages, if warranted; and	Implemented
		j. In case of failure of the winning bidder to pay the liquidated damages, identify the person/s responsible for the transactions.	Implemented

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
Observation No. 16, Page 111	19. The GAD Plan and Budget (GPB) and GAD Accomplishment Report (GAR) were not endorsed and reviewed by the Philippine Commission on Women (PCW), contrary to Sections 7, 8 and 10 of PCW-NEDA-DBM JC No. 2012-001, as reiterated under PCW MC No. 2021-06, thus, preventing the appropriate government bodies from conducting the review of the same.	Strictly comply with the applicable provisions of PCW-NEDA-DBM JC No. 2012-01 and PCW MC No. 2021-06 on the preparation and submission of GPB and GAR within the set deadlines.	Not implemented SB Corporation submitted its CY 2023 GPB and CY 2022 GAR on November 21, 2022, and March 16, 2023, respectively. Reiterated with modification under Observation No. 24, Part II of this report.
Observation No. 17, Page 112	20. GAD PAPs as approved by the DBM with budget totaling P3.380 billion have not been fully implemented by the SB Corporation with utilization of P1.392 billion or 41.18 per cent only for CY 2021, contrary to the applicable provisions of PCW-NEDA-DBM JC No. 2012-01 and PCW MC No. 2021-06, thus, SB Corporation did not fully carry out its mandate to benefit the women of micro, small, and medium enterprises.	Maximize the utilization of the budget allocated for GAD PAPs of SB Corporation to a gender responsive PAPs following the guidelines of PCW-NEDA-DBM JC No. 2012-01 and PCW MC No. 2021-06.	Implemented
<u>CY 2020 AAR</u>			
Observation No. 1, Page 51	21. ROPAs with net carrying value of P37.205 million as at December 31, 2020 were classified as NCAHS even though most of the properties are not immediately	Develop accounting and reporting policies for ROPAs that are consistent with the financial reporting standards and acceptable industry practice.	Not implemented Reiterated with modification under Observation No. 22, Part II of this report.

Reference	Audit		Status/Actions Taken
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	disposable within one year from the date of classification, contrary to the provisions of PFRS 5, resulting in the overstatement of NCAHS and understatement of Investment Property both by P37.205 million and their corresponding depreciation/impairment loss for the year as well as the accumulated depreciation/impairment are all understated while they are classified as NCAHS. Moreover, 61 of these ROPAs classified under NCAHS and one under Investment Property totaling P31.070 million have not been reappraised/tested for any impairment, thus, these assets are not measured at the lower of their carrying amounts and fair values less costs to sell, and hampers the disposal of the acquired properties leading to deterioration which is disadvantageous to SB Corporation.		This observation was first raised in CY 2020 and reiterated in CY 2021 AAR.
Observation No. 2-A, Page 54	22. The nine receivable accounts per CSARG's Summary of Accounts Written-Off amounting to P2.853 million differs by P110,000 from what was recorded in the books in the amount of P2.963 million.	a. Revisit the Write-off Policies under BR No. 2018-11-2648 to include the necessary procedures in the writing-off of accounts, as well as the monitoring of accounts written-off;	Implemented

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
		b. Reconcile the variance noted, also, evaluate the remaining problem credits account which were not recorded as written-off by the CG if zero probability of collectability, and seek the approval of BOD to write-off the remaining balances of the accounts;	Implemented
		c. Create an effective monitoring system to monitor debts written-off and future recoveries and periodically review the individual loan obligor's information;	Not implemented In the meantime that the automated monitoring system for written-off accounts has not been developed, a dedicated staff is in charge for the manual monitoring of written-off loans.
		d. Periodically report to the BOD and Senior Management the progress of recovery of accounts written-off; and	Implemented
		e. Prospectively, for accounts to be written off, ensure that the process of reconciliation is properly undertaken by CSARG against the book balances reported by CG before submission to BOD for approval.	Implemented

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
Observation No. 2-C, Page 58	23. Non-submission to the BSP of the required notice of write-off in the prescribed form on 110 receivable accounts totaling P98.881 million is contrary to the applicable provisions of BSP Circular No. 855, BSP's MORNBFI, and SB Corporation's Write-off Policies.	Strictly comply with the provisions and requirements of BSP Circular No. 855, MORNBFI, and SB Corporation's Board approved internal write-off policy and memoranda by preparing and submitting to BSP the required notice of write-off of receivable accounts in prescribed form.	Not implemented Reiterated with modification under Observation No. 17, Part II of this report. This observation was first raised in CY 2020 AAR.
Observation No. 3, Page 60	24. The SB Corporation has incurred delays in the submission of various required reports, schedules and supporting documents for CY 2020 annual reporting, contrary to the pertinent provisions of Sections 41 and 122 of PD No. 1445 and Sections 7 and 3 of COA Circular Nos. 2009-006 and 2015-004, respectively, precluding the timely audit of the accounts and transactions, thus, transparency and accountability of information and data is not fully attained.	a. Prioritize and expedite the submission of the required financial reports and schedules, DVs and JVs and its underlying documents in compliance with the pertinent provisions of PD No. 1445 and COA issuances; b. Where warranted by the circumstances, cause the suspension of the payment of salary and other emoluments of the officials and employees responsible for the non-submission of the required reports or data on time.	Not implemented Delays were still noted in the submission of many of the required financial reports and schedules, DVs, JVs, and its underlying documents in CY 2022. Not implemented This observation was first raised in CY 2020 AAR.
Observation No. 4, Page 63	25. Four foreclosed properties valued at P3.894 million under the account of one borrower are still recorded in the books despite having a court's finality of decision dated October 24, 2016 which indicates	a. Consult the LSG on how to recover the lost amount brought about by the unfortunate event of foreclosing the borrower's account, and identify the liable personnel who	Not implemented LSG was consulted, and it recommended the following: (a) to write-off the account; and (b) to file necessary legal action against the borrower.

Reference	Audit Observations	Audit Recommendations	Status/Actions Taken
	loss on the part of the SB Corporation.	examined and accepted the assigned mortgaged documents presented by the assigning bank in behalf of SB Corporation; and	Moreover, it has requested the South Luzon Group to conduct another skip tracing of the borrower.
		b. Exercise due diligence in engaging into transactions involving real properties to avoid wastage of government funds.	Implemented
Observation No. 5, Page 64	26. The pre-qualification done by the Partner Institutions and issuance of Certificate of Compliance without the accompanying documentary requirements on loans released totaling P13.700 million is contrary to Section 4 of PD No. 1445. Further, the Memorandum of Agreement (MOA) lacks provision on the liability of the Partner Institutions in the event that the borrower fails to pay his obligation caused by inadequate conduct of due diligence. Furthermore, the pre-qualification for the loans conducted by the Partner Institutions is not tantamount to the due diligence by SB Corporation itself.	Strictly comply with Section 4(6) of PD No. 1445 by requiring the Partner Institutions to submit the documentary requirements of the borrowers with approved loans to support the disbursements made.	Implemented
Observation No. 6, Page 69	27. The acquired property of SB Corporation – NLG with a lot area of 260 square	a. Execute lease contracts, if applicable, or demand that the illegal occupants	Not implemented CSARG already provided NLG with a

Reference	Audit Observations	Audit Recommendations	Status/Actions Taken
	meter is being occupied or utilized by a private individual without the benefit of a lease contract due to the failure of the SB Corporation – NLG to strictly implement the acquired assets management activities required under the SB Corporation Memorandum dated June 23, 2009, depriving the SB Corporation of the opportunity to earn rental income.	vacate the property if they refuse to enter a lease contract or unreasonably ignore demands for payment of rentals; and	copy of the appraisal report on the subject property. NLG is now reviewing the account and the documents provided by CSARG to determine the appropriate legal action to be taken, including those required to dispose of and preserve the property.
		b. Coordinate with the Acquired Assets Management Unit of the Head Office to adequately secure and preserve the property against unauthorized occupants by constructing a perimeter fence and posting signage/ markers indicating that the property is owned by SB Corporation and is available for sale/ lease.	Not implemented Same status as in (a) above. This observation was first raised in CY 2020 and reiterated in CY 2021 AAR.
CY 2019 AAR			
Observation No. 3, Page 65	28. Absence of a MOA defining the responsibilities of the selected Cash Management Partner (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	a. Collect all outstanding remittances from CMP – A as reflected in their submitted report sent via e-mail last December 6, 2019, and correspondingly record the payments and update the SLs of all affected P3 borrowers; and	Implemented
		b. Require the Head, Treasury Office to	Implemented

Reference	Audit		Status/Actions Taken
	Observations	**Recommendations**	
	by 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 Paragraph 15 of PAS 1.	cause the conduct of reconciliation for the collections received by CMP – A per record of the SB Corporation's Regional/Head Office Coordinators as against the Report of Collections submitted by CMP – A as of December 6, 2019, and immediately address any noted discrepancies.	