

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

ANNUAL AUDIT REPORT

on the

SMALL BUSINESS CORPORATION
(Small Business Guarantee and Finance Corporation)

For the Years Ended December 31, 2016 and 2015



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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

Small Business Corporation
(Small Business Guarantee and Finance Corporation)
Makati City

Report on the Financial Statements

We have audited the accompanying financial statements of Small Business Corporation (SBC), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SBC as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Notes 6 and 7 to the financial statements wherein the Corporation's classification of current and non-current loans receivable account in the amount of P1.89 billion and P654 million, respectively, were based on the status of account (whether current or past due accounts) without considering the actual period of collectability of the subject loans contrary to Paragraph 66 of Philippine Accounting Standard 1, Presentation of Financial Statements, resulting in the over/understatement of the subject Current and Non-current Loans Receivable account by the same amount.

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 20 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 SBC. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT


GLORIA O. LACSON
State Auditor IV
OIC-Supervising Auditor

May 09, 2017



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Small Business Guarantee and Finance Corporation is responsible for all information and representations contained in the statements of financial position, statements of comprehensive income, statement of changes in equity and statements of cash flow as of December 31, 2016 and 2015. These financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, Management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

The Commission on Audit (COA), has audited the financial statements of the Company in accordance with auditing standards generally accepted in the Philippines and has expressed their opinion on the fairness of presentation upon completion of such audit, in their report to the stockholders and Board of Directors.


BARTHOLOMEW BRILLO L. REYNES
President / CEO

Date: MARCH 22, 2017

SMALL BUSINESS CORPORATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015
(In Philippine Peso)

	Note	2016	2015 (As Restated)
ASSETS			
Current assets			
Cash and cash equivalents	4	251,939,161	155,908,905
Short-term held-to-maturity investments	5	410,959,414	330,486,856
Due from banks and other financing institutions - net, current portion	6	1,000,371,068	1,154,351,448
Loans and receivables - net, current portion	7	990,928,937	1,020,667,588
Other assets	12	1,923,206	1,696,483
		2,656,121,786	2,663,111,280
Non-current assets			
Financial assets at fair value through profit or loss	15	23,042,477	-
Long-term held-to-maturity investments	5	1,285,432,816	1,231,810,309
Due from banks and other financing institutions - net of current portion	6	223,449,058	245,824,370
Loans and receivables - net of current portion	7	450,379,535	310,862,207
Investment in equity instrument - net	8	14,472,500	14,472,500
Investment property - net	9	61,415,734	106,139,868
Property and equipment - net	10	74,506,980	74,716,305
Deferred tax assets	11, 20	78,154,011	110,019,541
Other assets	12	22,181,875	20,347,860
		2,233,034,986	2,114,192,960
TOTAL ASSETS		4,889,156,772	4,777,304,240
LIABILITIES AND EQUITY			
Current liabilities			
Notes payable - current portion	13	1,402,207,083	1,135,026,412
Long-term liabilities - current portion	14	119,400,769	91,606,906
Other current liabilities	16	91,885,308	79,041,068
		1,613,493,160	1,305,674,386
Non-current liabilities			
Notes payable - net of current portion	13	57,056,948	53,003,230
Long-term liabilities - net of current portion	14	1,050,775,509	1,146,043,996
Financial liabilities at fair value through profit or loss	15	29,005,176	100,425,449
		1,136,837,633	1,299,472,675
TOTAL LIABILITIES		2,750,330,793	2,605,147,061
Equity	17		
Share capital		1,919,902,000	1,919,902,000
Share premium		79,510,460	79,510,460
Retained earnings		139,413,519	172,744,719
TOTAL EQUITY		2,138,825,979	2,172,157,179
TOTAL LIABILITIES AND EQUITY		4,889,156,772	4,777,304,240

The Notes on pages 8 to 42 form part of these financial statements.

SMALL BUSINESS CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2016 and 2015
(In Philippine Peso)

	Note	2016	2015 (As Restated)
INCOME			
Interest income from loans and receivables	6, 7	215,434,047	208,424,569
Investment income	4, 5	65,078,279	80,990,167
Guarantee fees	2.13 (c)	1,042,873	1,351,957
Other operating income		24,871,524	26,874,072
		306,426,723	317,640,765
FINANCE COST			
Interest expense on notes payable and other long-term borrowings	13, 14	37,995,976	38,664,086
		37,995,976	38,664,086
INCOME BEFORE PROVISION FOR IMPAIRMENT OF LOANS			
Provision for impairment of loans	3.3	268,430,747	278,976,679
		61,862,866	174,070,778
		206,567,881	104,905,901
OTHER INCOME (LOSS)			
Subsidy income from National Government	18	9,351,910	90,105,877
Other income		9,569,910	22,035,754
Realized foreign exchange gain (loss)		7,902,074	(2,163,402)
		26,823,894	109,978,229
EXPENSES			
Administrative expenses	19	208,656,512	198,614,502
Other expenses			
Impairment loss on real and other properties acquired		-	702,663
Litigation expenses		331,473	291,563
Foreclosure and acquired assets expenses		1,664,275	1,855,062
		210,652,260	201,463,790
INCOME BEFORE UNREALIZED GAINS (LOSSES)		22,739,515	13,420,340
UNREALIZED GAIN (LOSS)			
Unrealized gain (loss) on foreign exchange translation		(54,292,350)	(4,015,770)
Unrealized gain (loss) on derivative valuation		53,719,091	(44,044,430)
		(573,259)	(48,060,200)
INCOME (LOSS) BEFORE INCOME TAX		22,166,256	(34,639,860)
INCOME TAX EXPENSE			
Deferred	20	(23,374,464)	14,764,529
		(23,374,464)	14,764,529
NET INCOME (LOSS)		(1,208,208)	(19,875,331)

The Notes on pages 8 to 42 form part of these financial statements.

SMALL BUSINESS CORPORATION
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2016 and 2015
(In Philippine Peso)

	Capital stock		Additional paid-in capital	Retained Earnings			Total
	Common Shares	Preferred Shares		Valuation Reserve (FVTPL)	Appropriated	Unappropriated	
Note	17.1	17.1	17.2	15	17.1	17.1	
BALANCE AT DECEMBER 31, 2014							
AS RESTATED	1,519,902,000	400,000,000	79,510,460	(93,032,678)	280,673,100	15,008,962	2,202,061,844
Declaration of cash dividend	-	-	-	-	-	(5,458,366)	(5,458,366)
Net change in derivative valuation for the year	-	-	-	(7,392,771)	-	7,392,771	-
Expired MCIT during the year	-	-	-	-	-	(4,570,968)	(4,570,968)
Net income (loss)	-	-	-	-	-	(19,875,331)	(19,875,331)
BALANCE AT DECEMBER 31, 2015	1,519,902,000	400,000,000	79,510,460	(100,425,449)	280,673,100	(7,502,932)	2,172,157,179
Reappropriation from Guaranteed Reserved Funds to unappropriated retained earnings	-	-	-	-	(50,000,000)	50,000,000	-
Correction of prior period adjustments (Stale check reversal)	-	-	-	-	-	5,000	5,000
Recovery from Guaranteed Paid Accounts	-	-	-	-	-	816,054	816,054
Declaration of cash dividend	-	-	-	-	-	(19,570,603)	(19,570,603)
Net change in derivative valuation for the year	-	-	-	94,462,750	-	(94,462,750)	-
Expired MCIT	-	-	-	-	-	(3,477,314)	(3,477,314)
Expired NOLCO	-	-	-	-	-	(9,896,129)	(9,896,129)
Net income (loss)	-	-	-	-	-	(1,208,208)	(1,208,208)
BALANCE AT DECEMBER 31, 2015	1,519,902,000	400,000,000	79,510,460	(5,962,699)	230,673,100	(85,296,882)	2,138,825,979

The Notes on pages 8 to 42 form part of these financial statements.

SMALL BUSINESS CORPORATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015
(In Philippine Peso)

	Notes	2016	2015 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash inflows:			
Interest on loans		197,123,377	187,762,396
Interest on investments		68,058,014	85,772,107
Guarantee fees	2.13 (c)	973,791	1,333,430
Other income		16,190,369	16,964,260
Collections of employees loan		8,474,769	5,921,443
Advances/Refund from suppliers and creditors		36,439,701	89,029,399
Collection of loans		1,809,927,921	1,795,709,712
Payment received lodged under "Undistributed Collections"	16	1,115,840	1,806,903
Gain on foreign exchange		127,641	3,063
		2,138,431,423	2,184,302,713
Cash outflows:			
Payment of operating expenses	19	196,729,304	94,608,175
Advances to suppliers and creditors		35,866,615	89,635,553
Loans granted to employees		9,432,157	5,736,238
Loans granted to borrowers	6, 7	1,752,633,764	2,029,450,805
Loss on foreign exchange		3,148,477	2,166,464
		1,997,810,317	2,221,597,235
Net cash provided by (used in) operating activities		140,621,106	(37,294,522)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash inflows:			
Proceeds from held-to maturity-investment	5	754,849,432	327,505,451
Proceeds from disposal of investment property (ROPA)	9	5,070,839	4,553,204
Proceeds from sale of disposed assets (PE)	10	-	67,696
		759,920,271	332,126,351
Cash outflows:			
Placement of held-to maturity-investment	5	891,927,401	130,516,861
Purchase of property and equipment (PE)	10	3,780,172	3,167,647
Investment in equity instruments	8	-	1,880,000
Foreclosed property	9	2,500,669	2,197,282
		898,208,242	137,761,790
Net cash provided by (used in) investing activities		(138,287,971)	194,364,561
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash inflows:			
Issuance of MSME Notes to banks and other financial institutions	13	1,010,868,550	769,250,000
		1,010,868,550	769,250,000
Cash outflows:			
Payment of foreign loans	14	121,766,974	86,415,689
Payment of interest on loans and other finance costs	13, 14	54,455,254	73,354,602
Payment of matured MSME Notes	13	740,949,201	757,728,650
		917,171,429	917,498,941
Net cash provided by (used in) financing activities		93,697,121	(148,248,941)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		96,030,256	8,821,098
Cash and cash equivalents, beginning		155,908,905	147,087,807
CASH AND CASH EQUIVALENTS, ENDING		251,939,161	155,908,905

The Notes on pages 8 to 42 form part of these financial statements.

**SMALL BUSINESS CORPORATION
NOTES TO FINANCIAL STATEMENTS**

December 31, 2016 and 2015

(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL INFORMATION

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

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

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

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

The principal office of the SBC is at 139 Corporate Center, 139 Valero St., Salcedo Village, Makati City. It has four area offices, one unit office and 19 desk offices within the Philippines and has 136 and 134 regular employees for the calendar years 2016 and 2015, respectively.

The financial statements of the SBC as of and for the year ended December 31, 2016 (including the comparative financial statements as of and for the year ended December 31, 2015) were authorized for issue by the Corporation’s Board of Directors (BOD) on March 17, 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of financial statements preparation

(a) Statement of compliance with Philippine Financial Reporting Standards

The accompanying financial statements of SBC for the years ended December 31, 2016 and 2015 have been prepared by applying accounting policies in accordance with the Philippine Financial Reporting Standards (PFRS). PFRS are issued by the Financial Reporting Standards Council (FRSC) and approved by the Philippine Board of Accountancy (BOA) based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

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

(b) Presentation of financial statements

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

(c) Functional and presentation currency

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

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

2.2. Adoption of new and amended PFRS

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

(a) Effective in 2016 that are relevant to the Corporation

- (i) Amendments to PAS 1, Presentation of Financial Statements-Disclosure Initiatives (effective from January 1, 2016) – The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements.*

Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

The amendment also introduced that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented in aggregate as single line items based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss.

It further illustrates ways that in determining the order of presentation of the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

(b) *Effective in 2016 that are not relevant to the Corporation*

- (i) *Amendments to PFRS 11, Accounting for Acquisitions of Interests in Joint Operations.* The amendment requires that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting.

Specifically, an investor will need to: (a) measure identifiable assets and liabilities at fair value; (b) expense acquisition-related costs; (c) recognize deferred tax; and (d) recognize the residual as goodwill. All other principles of business combination accounting apply unless they run contrary or in conflict with PFRS 11.

- (ii) *PFRS 14, Regulatory Deferral Accounts* – An entity that already presents financial statements in accordance with PFRS is not eligible to apply PFRS 14. The Standard permits an entity that is a first-time adopter of PFRS to continue to use its previous GAAP accounting policies for its rate-regulated activities. Application of the Standard is not mandatory, but if a first-time adopter of PFRS is eligible to apply the Standard, it must elect to do so in its first PFRS financial statements. If it does not, the entity will not be eligible to apply the Standard in subsequent periods.
- (iii) *Amendments to PAS 16 and PAS 38, Clarification of Acceptable Methods of Depreciation and Amortization* – The amendment in PAS16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment.

In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances

where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendment also provides guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.

- (iv) *Amendments to PAS 16 and PAS 41, Agriculture Bearer Plants*– The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, Accounting for Government Grants and Disclosure of Government Assistance, will apply. This amendment is not expected to have an impact as the Corporation has no bearer plants.
- (v) *Amendments to PAS 27, Equity Method in Separate Financial Statements* – The amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendment will not have any impact on the Corporation’s financial statements.
- (vi) *Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception* – The amendments address issues that has arisen in applying the investment entities exception under PFRS 10. The amendments to PFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to PFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to PAS 28 allow the investor, when applying the

equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

(vii) *Annual Improvements to PFRS (2012 – 2014 Cycle)*. The Annual Improvements to PFRSs 2012 – 2014 cycle have no significant impact to the financial statements of the Corporation.

- *Amendment to PFRS 5, Changes in Methods of Disposal* – The amendment clarifies that changing from a disposal through sale to a disposal through distribution should not be considered to be a new disposal, rather it is a continuation of the original disposal. The amendment also clarifies that changing the disposal method does not change the date of classification.
- *Amendment to PFRS 7, Servicing Contracts*—In PFRS 7, the entity is required to present a disclosure for any continuing involvement in a transferred asset that is already derecognized. The amendment clarifies that a servicing contract that entails a fee can comprise a continuing involvement in the derecognized asset. As such, the entity must evaluate the nature of the fee and arrangement against the regulation for continuing involvement with PFRS 7 in order to assess whether disclosures are needed.
- *Amendment to PFRS 7, Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*— This amendment is applied retrospectively and explained that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial statements unless they provide a significant update to the information presented in the most recent annual financial statements.
- *Amendment to PAS 19, Discount Rate: Regional Market Issue*— This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- *Amendment to PAS 34, Disclosure of Information “elsewhere in the interim financial report”*—The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

(c) *Effective subsequent to 2015 but not adopted early*

The following pronouncements listed below are issued but not yet effective. Unless otherwise indicated, the Corporation does not expect that the future adoption of these pronouncements will have a significant impact on its financial statements.

- (i) *Amendments to PAS 7, Disclosure Initiative* (effective from January 1, 2017) – The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.
- (ii) *Amendments to PAS 12, Recognition of Deferred Tax Assets for Unrealized Losses* (effective from January 1, 2017) – The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that information. Early application of the amendments is permitted.

- (iii) *PFRS 9, Financial Instruments* (effective from January 1, 2018) – PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Early application is permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.
- (iv) *Amendments PFRS 2, Classification and Measurement of Share-based Payment Transactions* (effective from January 1, 2018) – The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based

payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

- (v) *Amendments to PFRS 4, Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts* (effective from January 1, 2018 but still subject to BOA approval) – The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. Option between the overlay approach and the temporary exemption approach is allowed to deal with the transitional challenges.

The overlay approach permits all issuers of insurance contracts to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued.

On the other hand, the temporary exemption approach permits entities whose predominant activities are connected with insurance to defer the application of PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or until 2021.

- (vi) *PFRS 15, Revenue from Contracts with Customers* (effective from January 1, 2018 but still subject to BOA approval) – The standard specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. 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 and services to a customer. The principles in PFRS 15 provide a more structured approach in measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

- (vii) *Amendment to PAS 28 – Measuring an associate or joint venture at fair value (Part of Annual Improvements to PFRSs 2014-2016 Cycle)* (effective from January 1, 2018 but still subject to BOA approval) – The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit and loss. It likewise clarifies that an entity that is not itself an investment entity has

an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

- (viii) *Amendments to PAS 40, Transfer of Investment Property* (effective from January 1, 2018 but still subject to BOA approval) – The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.
- (ix) *Philippine Interpretation IFRIC22, Foreign Currency Transactions and Advance Consideration* (effective from January 1, 2018 but still subject to BOA approval) – The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.
- (x) *PFRS 16, Leases* (effective from January 1, 2019) – Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees will apply the single-asset model. Under this model, lessees will

recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

- (xi) *Amendments to PFRS 10 and PAS 28, Sale or Contribution of Assets between an Investor and its Associate 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 amendment 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, Business Combinations. 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, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

2.3. Cash and cash equivalents

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

2.4. Financial assets

The Corporation classifies its financial assets in the following categories: (a) financial assets at fair value through profit or loss; (b) held-to-maturity investments; and (c) loans and receivable. Management determines the classification of its investments at initial recognition and where appropriate, re-evaluates such classification at every reporting

date. When financial assets are recognized initially, they are measured at fair value, plus directly attributable transaction costs in the case of investments not measured at fair value through profit or loss.

(a) *Held-to-maturity (HTM) investments*

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

(b) *Loans and receivables*

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

(c) *Financial assets at fair value through profit or loss (FVTPL)*

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

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

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

2.5. Financial liability

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

Financial liabilities are recognized when the Corporation becomes a party to the contractual agreements of the instrument. All interest and related charges are recognized as an expense in the SCI under the caption "Finance Cost" while the foreign

exchange risk cover fee is capitalized under “Financial Assets at Fair Value through Profit or Loss.”

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

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

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

Dividend distributions to the stockholders are recognized as financial liabilities.

2.6. Impairment of assets

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

(a) Impairment of financial assets

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

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

(b) Impairment of non-financial assets

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

2.7. Derecognition of financial instruments

(a) Financial assets

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

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

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

(b) Financial liabilities

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

2.8. Investment in equity instruments

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

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

2.9. Investment property

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

credit losses (computed based on PAS 39 provisioning requirements) plus transaction costs incurred upon acquisition. Subsequently, the carrying amount of the acquired assets is subject to depreciation and impairment testing (computed based on PAS 36, *Impairment of Assets*) reckoning from the time of acquisition. Transaction costs including taxes such as capital gains tax and documentary stamp tax paid by the Corporation are capitalized as part of cost. Buildings and other non-financial assets are depreciated over the remaining useful life of the assets, which shall not exceed ten years and three years from the date of acquisition, respectively.

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

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

2.10. Property and equipment

The Corporation's depreciable properties are stated at cost less accumulated depreciation and any impairment in value.

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

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

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

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

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

2.11. Intangible assets

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

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

2.12. Borrowing costs

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

2.13. Revenue and cost recognition

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

(a) Interest on loans

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

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

(b) Investment income

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

(c) *Guarantee fees*

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

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

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

2.14. Employee benefit plan

The Corporation has a Provident Fund consisting of contributions made both by its officers and employees and the Corporation. Corporate contribution is vested to the employee after completing five years of service in the Corporation. Details of the employee benefits are discussed in Note 24.

2.15. Leases

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

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

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

2.16. Income taxes

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid

at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the SCI.

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

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

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

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

2.17. Foreign currency transactions

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

2.18. Events after balance sheet date

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. While the estimates are based on the most reliable data available, actual results, in the near term, could differ significantly from those estimates depending upon certain events and uncertainties including:

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

3.1. Contingencies

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

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

3.2. HTM financial assets

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

3.3. Allowance for loan impairment/doubtful accounts

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

3.4. Impairment loss on property and equipment and investment property

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

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

The Corporation uses the prescribed estimated useful lives of Property and Equipment as prescribed in COA Circular No. 2003-007 dated December 11, 2003 and ROPA/Investment Property as prescribed in BSP Circular No. 520 dated March 20, 2006.

4. CASH AND CASH EQUIVALENTS

The account consists of the following:

	2016	2015 (As restated)
Cash in bank	62,799,319	20,908,905
Short-term investments	189,139,842	135,000,000
	251,939,161	155,908,905

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

Short-term investments refer to investments maturing within three months from transaction date with interest ranging from 1.375 to 2.3 per cent per annum for 2016 and 1.4 to 1.5 per cent per annum for 2015 (See Note 2.3).

5. HELD-TO-MATURITY (HTM) INVESTMENTS

Funds which are not yet earmarked for loan releases, operating and other administrative expenses are temporarily invested in government securities consisting of treasury bills, fixed and retail treasury bonds, and dollar time deposits with the Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP) and the Bureau of the Treasury (BTr). These investments have various maturity dates over three months from transaction date at rates ranging from 3.125 per cent per annum to 8.875 per cent per annum for 2016.

Investment in treasury bills is broken down below:

	2016	2015 (As restated)
Investments in treasury bills	1,527,436,084	1,263,690,571
Investments in treasury bills – guarantee reserve fund (GRF)	153,577,384	280,220,502
Investments in bonds	242,775	383,805
Interest receivable on investments	15,135,987	18,002,287
	1,696,392,230	1,562,297,165
Short-term	410,959,414	330,486,856
Long-term	1,285,432,816	1,231,810,309

6. DUE FROM BANKS AND OTHER FINANCING INSTITUTIONS – NET

The Corporation extends loans to banks and other financing institutions at an interest rate ranging from 3.5 per cent to 10 per cent per annum for relending under SBC special lending programs for micro, small and medium enterprises.

Details of the loan portfolio are as follows:

	2016	2015 (As restated)
Wholesale financing	1,459,294,812	1,644,416,761
Allowance for doubtful accounts	(235,474,686)	(244,240,943)
	1,223,820,126	1,400,175,818
Current	1,000,371,068	1,154,351,448
Long-term	223,449,058	245,824,370

Due from banks and other financial institutions reported in CY 2015 was adjusted to include loans arising from the transfer of loans receivable from the FORGE facility which was previously reported as part of the retail loan receivables in the amount of P1,479,616.

7. LOANS AND RECEIVABLES – NET

The account consists of the following:

	2016	2015 (As restated)
Loans receivable – retail	1,198,832,687	976,021,057
Allowance for doubtful accounts	(217,690,801)	(162,373,105)
	981,141,886	813,647,952
Loans receivable – ERF	504,566,561	525,005,534
Allowance for doubtful accounts	(165,035,380)	(158,611,222)
	339,531,181	366,394,312
Loans receivable – others	53,834,349	81,291,773
Interest receivable – loans	49,216,284	52,070,885
	103,050,633	133,362,658
Allowance for doubtful accounts	(5,272,245)	(5,486,588)
	97,778,388	127,876,070
Guarantee paid accounts	78,477,449	79,268,080
Allowance for doubtful accounts	(77,783,139)	(78,599,193)
	694,310	668,887
Accounts receivable – others	23,057,971	23,522,574
Allowance for doubtful accounts	(895,264)	(580,000)
	22,162,707	22,942,574
	1,441,308,472	1,331,529,795

The current and non-current portion of the account is broken down below:

	2016	2015 (As restated)
Current		
Loans receivable – retail	633,624,515	549,966,678
Loans receivable – ERF	256,581,021	339,662,654
Loans receivable and interest receivable– others	97,778,388	127,876,070
Accounts receivable – others	2,945,013	3,162,186
	990,928,937	1,020,667,588
Non-current		
Loans receivable – retail	347,517,371	263,681,274
Loans receivable – ERF	82,950,160	26,731,658
Guarantee paid accounts	694,310	668,887
Accounts receivable – others	19,217,694	19,780,388
	450,379,535	310,862,207

The reflected breakdown of current and non-current for CY 2015 was reclassified to present adjustments made on the following; FORGE accounts transferred to Wholesale Micro, guarantee, and accounts receivable-others in the total amount of P18,969,659.

Classification as to current account is based on the accounts loan classification as to current and past due. Classification as to period of collectivity shall be presented by CY 2017.

Loans receivable – retail carry interest rates ranging from 7.50 per cent to 15 per cent per annum as at December 31, 2016.

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

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

Accounts receivable – others consist of the following:

	2016	2015
Agricultural Credit Policy Council (ACPC) re: Administrative fee for the Comprehensive Agricultural Loan Fund (CALF)	10,700,000	11,600,000
Participating financial institution's share in expenses relative to foreclosure in the management of acquired assets	12,357,971	11,922,574
	23,057,971	23,522,574

ACPC re: CALF represents unclaimed administrative fees as at June 1, 2001 from ACPC for the CALF which was transferred to Quedan and Rural Credit Guarantee Corporation (QUEDANCOR) on June 18, 2001. Pursuant to Section 5 of Department of Agriculture

(DA) Administrative Order No. 10, series of 2001, the transfer of said CALF carries an obligation of QUEDANCOR, attached as a colatilla, to answer for the liability of such fund in accordance with the Memorandum of Agreement (MOA) between DA-ACPC and the GFSME (now SBC), that is the payment of administrative fees.

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

	Balance, January 1, 2016	Additional provision	Recovery/ Reversal	Balance, December 31, 2016
Loans receivable – retail	162,373,105	61,139,392	(5,821,696)	217,690,801
Loans receivable – ERF	158,611,222	6,563,057	(138,899)	165,035,380
Loans receivable and interest receivable – others	5,486,588	-	(214,343)	5,272,245
Guarantee paid accounts	78,599,193	-	(816,054)	77,783,139
Accounts receivable – others	580,000	315,264	-	895,264
	405,650,108	68,017,713	(6,990,992)	466,676,829

8. INVESTMENT IN EQUITY INSTRUMENTS – NET

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

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

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

9. INVESTMENT PROPERTY – NET

The account consists of real and other properties acquired in settlement of receivables and guarantee paid accounts from borrowers. Details are as follows:

	2016	2015 (As restated)
Real and other properties acquired	86,980,347	153,451,274
Equity of originating financial institutions on acquired assets	(2,574,139)	(2,906,546)
Allowance for probable losses	(22,990,474)	(44,404,860)

	2016	2015 (As restated)
	61,415,734	106,139,868

10. PROPERTY AND EQUIPMENT – NET

The account consists of the following:

	Land	Buildings/ Structures	Furniture and Other Equipment	Transport Equipment	Total
Cost					
January 1, 2016	901,623	142,421,363	26,996,878	12,904,422	183,224,286
Additions	-	530,780	3,673,242	5,160,000	9,364,022
Reclassification	-	(183,674)	(3,962,230)	(38,100)	(4,184,004)
Disposals	(901,623)	-	(20,248)	-	(921,871)
December 31, 2016	-	142,768,469	26,687,642	18,026,322	187,482,433
Accumulated depreciation					
January 1, 2016	-	81,301,460	18,254,417	8,952,104	108,507,981
Additions	-	4,103,102	2,163,436	723,346	6,989,884
Reclassification	-	(106,486)	(2,371,228)	(34,290)	(2,512,004)
Disposals	-	-	(10,408)	-	(10,408)
December 31, 2016	-	85,298,076	18,036,217	9,641,160	112,975,453
Net book value, December 31, 2016	-	57,470,393	8,651,425	8,385,162	74,506,980
Net book value, December 31, 2015	901,623	61,119,903	8,742,461	3,952,318	74,716,305

11. DEFERRED TAX ASSET

This account consists of the following:

	2016	2015 (As restated)
Minimum corporate income tax	13,387,192	11,982,130
Net operating loss carry over	-	21,521,709
Provision for impairment losses	62,978,009	46,388,067
Financial liability at FVTPL	1,788,810	30,127,635
	78,154,011	110,019,541

12. OTHER ASSETS

The account consists of the following:

	2016	2015 (As restated)
Motor vehicle lease purchase plan	13,381,650	12,294,131
Prepayments	5,236,769	3,103,732
Receivables – officers and employees	1,209,093	1,220,470
Guarantee deposit	941,723	918,619
Office supplies	347,981	306,358
Due from BMBE	366,132	169,655
Other assets	2,621,733	4,031,378
	24,105,081	22,044,343
Current	1,923,206	1,696,483
Non-current	22,181,875	20,347,860

Other Assets reflected in CY 2015 were incorrectly reported as all non-current. For this reporting, however, respective amounts that were current were reclassified particularly for Account Receivables – Officers and Employee, Office Supplies, and Due from BMBE with a total amount of P 1,696,493.

13. NOTES PAYABLE

Notes payable represents the obligations of SBC to various financial institutions arising from its issuance of MSME Notes in the nature of promissory notes deemed as alternative compliance to the mandatory allocation provision under Section 13 of RA No. 6977 as amended by RA Nos. 8289 and 9501. The promissory notes carry interest rates that range from 0.87 per cent to 2.60 per cent per annum for 2016. Details of the account follow:

	2016	2015 (As restated)
Current portion	1,402,207,083	1,135,026,412
Non-current portion	57,056,948	53,003,230
	1,459,264,031	1,188,029,642

14. LONG-TERM LIABILITIES

The account consists of the following:

	2016	2015 (As restated)
Foreign currency denominated loans		
Asian Development Bank (ADB)	554,662,102	601,196,957
Kreditanstalt fur Weiderafbau (KfW)	586,314,924	605,370,870
Peso denominated loans		
International Fund for Agricultural Development (IFAD)	29,199,252	31,083,075

	1,170,176,278	1,237,650,902
Current	119,400,769	91,606,906
Non-current	1,050,775,509	1,146,043,996

The loan from ADB is a US\$25 million (JPY2.746 billion) denominated loan for SME Development Support Project guaranteed by the Republic of the Philippines (ROP). The loan is on a 15 year term payable with a grace period of 36 months and carries an interest rate of JPY LIBOR plus 0.60 per cent per annum and a commitment fee of 0.75 per cent per annum on the unutilized portion of the loan. The conversion rate of JPY to Peso as at December 31, 2016 was at P0.4251. The loan was fully availed of in 2009.

The loan from the KfW is an€11.7 million denominated loan for the purpose of financing loan for micro, small and medium sized private enterprises located mainly in Mindanao and Visayas. The loan is guaranteed by the ROP and bears an interest rate of 0.75 per cent per annum plus a commitment fee of 0.25 per cent per annum based on the undisbursed loan amount. The loan shall be amortized on a semi-annual basis for 40 years with a principal grace period of 10 years. The conversion rate of Euro to Peso as at December 31, 2016 was at P51.8404. The loan was fully availed of in 2010.

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

As at December 31, 2016, the outstanding balance of ADB and KfW loans amounted to JPY1.305 billion and €11.310 million, respectively.

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

15. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial liabilities at fair value through profit or loss represents the fair value of the foreign exchange risk cover (FXRC) of the Corporation's borrowings from multilateral agencies amounting to P1.141 billion in 2016 and P1.207 billion in 2015 which is treated as derivative financial instrument.

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

The fair value changes on the FXRC are reported in the SCI. As at December 31, 2016, the outstanding notional amount of FXRC amounted to JPY1.305 billion and €11.310 million.

In 2015, SBC engaged the services of SGV and Company to perform validation on the appropriateness of the Black Scholes Option Model being adopted by the Corporation for its FXRC option valuation model. Said validation is in compliance with BSP's directive to subject the FXRC option valuation model to an independent external party validation. It resulted to the change of valuation model from Black Scholes to the Garman Kohlagen model which was recommended as the more appropriate valuation model under existing conditions. The conversion resulted to a financial liability at fair value through profit and loss of P 100.4 million effective year-end 2015. Correspondingly, SBC restated its 2014 audited financial statement to reflect a comparative valuation amount and its effect on certain accounts affected by the change in the valuation procedure.

16. OTHER CURRENT LIABILITIES

The account consists of the following:

	2016	2015 (As restated)
Accounts payable and accrued expenses	73,365,624	60,452,759
Deferred interest income	17,403,844	16,781,406
Undistributed collection	1,115,840	1,806,903
	91,885,308	79,041,068

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

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

17. EQUITY

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

17.1. Capital structure

	2016	2015 (As restated)
Capital stock		
<i>Common shares</i>		
National Government	804,944,300	804,944,300
LBP	393,611,500	393,611,500
DBP	218,673,100	218,673,100
Philippine National Bank	40,000,000	40,000,000
GSIS	16,000,000	46,673,100
Social Security System (SSS)	46,673,100	16,000,000
	1,519,902,000	1,519,902,000
<i>Preferred shares</i>		
SSS	200,000,000	200,000,000
GSIS	200,000,000	200,000,000
	400,000,000	400,000,000
	1,919,902,000	1,919,902,000
Additional paid-in capital	79,510,460	79,510,460
Retained earnings		
<i>Appropriated retained earnings</i>		
Guarantee Reserve Fund	200,000,000	250,000,000
Appropriated for dividend	30,673,100	30,673,100
	230,673,100	280,673,100
<i>Unappropriated retained earnings (deficit)</i>	(85,296,882)	(7,502,932)
<i>Fair value through profit or loss reserve</i>	(5,962,699)	(100,425,449)
	139,413,519	172,744,719
	2,138,825,979	2,172,157,179

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

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

- a. Preference in the payment of dividends in accordance with the principle of equity with common stockholders in the declaration and distribution of corporate dividends;
- b. Preference in the claim against corporate asset in the event of dissolution or bankruptcy;

- c. Each share of its outstanding preferred stocks is entitled to a vote during stockholders meeting;
- d. Entitled to exercise its preemptive right to increase shareholdings through the equivalent unissued common shares;
- e. Entitled to a Board seat in accordance with Section 11 and 3 of RA No. 6977 as amended by RA No. 8289; and
- f. The appropriated portion of the retained earnings in the amount of P61,346,200 represents unissued shares corresponding to the cumulative dividends of the preferred shareholders (GSIS and SSS) representing its cumulative dividends from January 2002 to December 31, 2007. In 2013, the amount P30,673,100 in previously appropriated retained earnings was released to GSIS upon presentation of its certificate of acceptance.

17.2. Additional paid-in capital

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

18. SUBSIDY INCOME – ENTERPRISE REHABILITATION PROGRAM (ERP)

The account represents the P200 million fund allocated by the National Government to SBC to support the Corporation's ERP, a special credit facility for the rehabilitation of micro and small enterprises located in hardly hit calamity areas like those devastated by typhoon Yolanda. This financial assistance is aimed to leverage the said fund by four times to be funded by the Corporation's internally generated funds. As at December 31, 2016 amount released to ERF borrowers amounted to P630 million.

	2016	2015
Receipts		
Beginning balance –support from NG	2,288,059	3,232,219
2016 Release (OR# 145006-A dated 8/30/16)	7,063,851	-
2015 Release (OR# 122867-A dated 09/08/15)	-	50,000,000
2015 Release (OR# 126129-A dated 12/23/15)	-	39,161,717
	9,351,910	92,393,936
Expenses		
Maintenance and other operating expenses		
Contractual and other administrative services	1,264,581	1,389,238
Travelling expenses	315,996	455,623
Rental	142,339	363,544
Repairs and maintenance	124,178	221,957
Gasoline	127,298	138,663

	2016	2015
Communication expense	46,200	129,810
Power, light and water	33,311	56,440
Supplies and materials	19,539	42,415
Printing and binding	-	39,200
Business development cost	12,123	32,693
Business promotion	199,511	13,019
Advertising and publicity	-	2,800
Miscellaneous expenses	2,983	89,773
	2,288,059	2,975,175
Provision for probable losses	6,563,058	66,405,927
Interest expense subsidy	500,793	20,724,775
	9,351,910	90,105,877
Excess of receipts over expenses	-	2,288,059

19. ADMINISTRATIVE EXPENSES

This account consists of the following:

	2016	2015
Personal services		
Salaries and wages – basic	58,275,357	56,853,890
Bonus and other incentives	30,891,459	29,905,125
Provident fund employer contribution	8,043,899	8,020,032
GSIS employer contribution	6,560,868	6,600,825
Other employee benefits	6,353,850	5,958,147
Representation and transportation allowance	5,017,099	5,302,330
Employee benefits – PERA/ACA	3,301,245	3,316,890
Board fees	680,000	904,000
HDMF employer contribution	165,100	165,900
PhilHealth employer contribution	547,200	550,113
Salaries and wages – overtime pay	128,408	28,356
	119,964,485	117,605,608
Maintenance and other operating expenses		
Taxes and licenses	12,385,435	11,511,074
Security, janitorial and other contracted services	10,884,760	9,221,138
Depreciation	6,989,884	7,137,341
Extraordinary/miscellaneous expense	4,249,935	4,673,876
Communication services	3,636,564	3,737,750
Auditing services	3,218,138	3,354,835
ERF expense	2,788,852	2,975,175
Power, light and water	2,633,045	2,750,283
Development cost	5,784,197	6,116,156
Repairs and maintenance	2,628,769	2,496,786
Rental	3,336,013	2,472,930
Condominium dues	2,213,398	2,090,262

	2016	2015
Travelling expenses	3,147,536	2,642,961
Supplies, materials and printing	3,411,403	2,039,415
Insurance premiums	1,542,591	1,508,399
Training and seminars	1,767,651	1,144,053
Fuel, oil and lubricants	779,576	999,985
Business development expenses	818,194	683,990
Management and other professional fees	6,642,636	1,349,315
Board and committee expenses	520,408	570,070
Advertising and business promotion	798,688	1,036,049
Subscription and periodicals	48,359	66,956
Others	8,465,995	10,430,095
	88,692,027	81,008,894
	208,656,512	198,614,502

20. INCOME TAX

20.1. Regular corporate income tax

Particulars	Amount
Net income(loss) before income tax	22,166,256
<i>Permanent differences</i>	
Non-deductible expenses	
Provision for probable losses– ERF	6,563,058
Maintenance and other operating expense– ERF	2,288,060
Interest expense subsidy– ERF	500,793
Interest arbitrage limitation	25,930,983
Non-taxable income	
Support from National Government	(9,351,911)
Interest income on investment/bank deposits	(65,218,373)
Accounting income subject to tax	(17,121,134)
<i>Temporary differences</i>	
Provision for impairment of loans/acquired properties	55,299,808
Bad debts written off	-
Unrealized loss	573,259
Taxable income before NOLCO	38,751,933
NOLCO	(38,751,933)
Taxable income after NOLCO	-

20.2. Minimum corporate income tax (MCIT)

Particulars	Amounts
Income before provision for impairment loss	268,430,748
Other income	26,323,101
Gross income	294,753,849
<i>Reconciling items</i>	

Particulars	Amounts
Investment in government securities	(65,078,279)
Interest on bank deposits and government bond	(140,094)
Support from National Government – ERF	(9,351,911)
Litigation expense	(331,473)
Foreclosure and acquired asset expense	(1,664,275)
Interest arbitrage limitations	25,930,983
Taxable gross income	244,118,800
MCIT rate	2%
MCIT due	4,882,376
Prior year's excess credits other than MCIT	
Creditable withholding tax	
1 st quarter	(299,615)
2 nd quarter	(165,830)
3 rd quarter	(2,155,050)
4 th quarter	(2,631,495)
Tax payments	
1 st quarter	(880,396)
2 nd quarter	(1,001,887)
3 rd quarter	-
	(5,251,990)
	(1,882,283)
Tax still due	(2,251,897)

20.3. Income tax benefit computation

Particulars	Amount
Deferred tax asset – allowance for doubtful accounts (ADA)	
2016 provision for probable loss	55,299,808
Tax rate	30%
Income tax benefit– ADA for 2016	16,589,942
Deferred tax asset – ADA, January 1, 2016	46,388,067
Deferred tax asset – ADA, December 31, 2016	62,978,009
Deferred tax asset – financial liability (FL) at FVTPL	
Financial liability at FVTPL, December 31, 2015	5,962,699
Tax rate	30%
Deferred tax asset – FL at FVTPL, December 31, 2016	1,788,810
Deferred tax asset, January 1, 2016	30,127,635
Decrease in income tax benefit–FL at FVTPL for 2016	28,338,825

20.4. MCIT and NOLCO schedules

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

2013	2016	3,477,314	-	3,477,314	-
Total		11,982,130	4,882,376	3,477,314	13,387,192

Net operating loss carry over					
Year Occurred	Available until	NOLCO	Applied Current Year (2016)	Expired	Balance
2013	2016	71,739,031	38,751,933	32,987,098	-
Tax rate		30%	30%	30%	-
DTA		21,521,709	11,625,580	9,896,129	-

20.5. Deferred tax asset schedule

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

	Statement of financial position		Profit or loss	
	2016	2015	2016	2015
Deferred tax assets				
MCIT	13,387,192	11,982,130		
NOLCO	-	21,521,709	(11,625,580)	(17,739,937)
Provision for impairment losses	62,978,009	46,388,067	16,589,942	30,286,634
Financial liability at FVTPL	1,788,810	30,127,635	(28,338,825)	2,217,832
Total	78,154,011	110,019,541		
Net income tax benefit			23,374,464	14,764,529

21. COMPLIANCE WITH REVENUE REGULATIONS

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

21.1. Withholding taxes

	2016	2015
Taxes on compensation and benefits	12,008,164	13,654,151
Value added taxes (VAT)	2,741,371	2,239,225
Expanded withholding taxes (EWT)	1,754,563	1,501,703
Gross receipt taxes (GRT)	12,022,446	11,190,385
	28,526,544	28,585,464

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

21.2. Other taxes

	2016	2015
Local		
Real estate taxes	896,579	819,262
Corporate community tax	10,500	10,500
National		
Capital gains taxes	730,230	212,897
Documentary stamp taxes	16,832,161	16,827,512
Transfer taxes	48,159	9,035
BIR annual registration	500	500
	18,518,129	17,879,706

22. CONTINGENT LIABILITY

Under the guarantee agreement executed by and between SBC and its accredited financial institutions (AFIs), the former guarantees to the latter the payment to the extent of 85 per cent of the loan balance outstanding, including unpaid interest for one repayment period, of loans extended to SMEs in case of non-repayment by the AFIs' borrower in consideration for a two per cent guarantee fee of the outstanding guarantee of the loan. As at December 31, 2016 and 2015, the Corporation's outstanding guarantees amounted to P186,357,804 and P230,419,822, respectively.

On May 26, 2006, the BOD passed and approved BR No. 1319, series of 2006 for the setting aside of the amount of P250 million as GRF to back up the Corporation's guarantee commitments on a 3 to 1 leverage ratio. The said fund was formally established in December 2007 consisting of treasury bills with various maturity dates and interest rates. The fund will be used solely to back-up calls on SBC guarantee issued to AFIs.

23. RELATED PARTY TRANSACTIONS

23.1. Barangay Micro Business Enterprises

Section 10 of RA No. 9178, otherwise known as the "*Barangay Micro Business Enterprises (BMBE) Act of 2002*" had set up an endowment fund of P300.5 million from the Philippine Amusement and Gaming Corporation (PAGCOR) and to be administered by the Small and Medium Enterprise Development (SMED) Council and now MSMED Council, an inter-agency body attached to the DTI. The MSMED Council designated SBC, as the Fund Manager of the BMBE Development Fund per MOA dated December

28, 2004. Total remittance of P300.5 million to SBC was invested in government securities and earned interest income of P152,426,260 as at December 31, 2016. A total of P10,477,465 was disbursed to the different beneficiaries identified by the MSMED Council covering the period 2004 to 2011.

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

As at December 31, 2016, the BMBE Development Fund showed a balance of P442,448,795.

23.2. Project Fund for Enterprise Enhancement Program

During the 3rd MSMED Council meeting held on July 29, 2015, the Council approved SBC's proposal to assist and train MSMEs through the Enterprise Enhancement Program (EEPro). EEPro is a capacity building initiative by SBC for MSME borrowers specifically on business planning and financial literacy through a series of trainings, coaching and consultancy.

On September 26, 2016, the MSMED Council transferred P1.5 million to SBC for the EEPro. The project funds were sourced from the MSME Council Fund pooled from the penalties paid by lending institutions for non-compliance with the mandatory allocation of credit resources for MSMEs under RA No. 6977 as amended by RA Nos. 8289 and 9501.

24. EMPLOYEE BENEFITS

24.1. Provident fund

The fund is a defined contribution plan made by both the SBC and its officers and employees. The affairs and business of the fund are directed, managed and administered by its Board of Trustees. Upon retirement, death or resignation, the employee or his heirs will receive from the fund payments equivalent to his contributions, his proportionate share of the corporate contributions and investment earnings thereon.

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

24.2. Retirement benefits

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

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

24.3. 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.

25. LEASES

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

26. FINANCIAL RISK MANAGEMENT

The Corporation is exposed to a variety of financial risks such as market risk (including currency risk, interest rate risk and price risk), credit risk, and liquidity risk.

The financial risks are identified, measured and monitored through various control mechanisms to assess adequately the market circumstances to avoid disastrous financial consequences to the Corporation.

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

26.1. Market risk – interest rate risk and currency risk

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

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

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

26.2. Credit risk

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

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

26.3. Liquidity risk

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

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

