

## **RISK MANAGEMENT**

### **I. Risk Management Policy**

The Small Business Corporation (SB Corp) pursues adequate and effective risk management systems commensurate with its risk-taking activities. Towards this end, SB Corp aims to implement best practices in Enterprise Risk Management (ERM) across its systems and processes.

### **II. Enterprise Risk Management Framework**

The ERM Framework of SB Corp was formally established with the approval by the Governing Board of the ERM Manual through Board Resolution No. 2282, s. 2016 dated 10 March 2016. The ERM framework is updated through continuing issuances of relevant guidelines and tools prescribed by the BSP, such as, Information Technology Risk Management Framework per BR No. 2019-04-2734, s. 2019 dated 11 April 2019, Operational Risk Management Framework per BR No. 2023- 3401, s. 2023 dated 24 March 2023, and Information Security Strategic Plan per BR No. 2023-08-3490, s. 2023 dated 4 September 2023, Policy on Threshold for Reportable Loss Events per BR No. 2025-09-3768 date 17 October 2025, Policy on Identifying, Reviewing, Managing and Reporting Large Exposures per BR No. 2025-09-3767 dated 17 October 2025, and Integration of Disaster Risk Reduction and Management Plan into Public Sector Continuity Plan of SB Corp. per BR No. 2025-12-3810 dated 17 December 2025.

Financial institutions are in the business of taking risks. SB Corp – as the organization charged primarily with the responsibility of implementing comprehensive policies and programs to assist micro, small and medium enterprises (MSMEs) by way of providing access to finance, among others – has risk taking as an integral part of its business. Its ability to manage risks thus allows the institution to live up to its mandate as provided for under Republic Act No. 9501, otherwise known as the Magna Carta for Micro, Small and Medium Enterprises.

As a government-owned and controlled corporation (GOCC) administratively attached to the Department of Trade and Industry (DTI), SB Corp aligns itself to national goals and objectives for MSME development as outlined in the MSME Development Plan 2023-2028. This provides the context by which the Corporation's ERM Framework operates.

SB Corp's Governing Board and Senior Management effectively drives its ERM, with the former being charged with approving and overseeing the implementation of the institution's strategic objectives, risk strategies and corporate governance while the latter manages day-to-day affairs. Together, they set the tone for managing risks across its systems and processes which is shared at all levels of the institution.

The engine driving SB Corp's ERM vehicle is the linkage between its Strategic Planning, Risk Management and Capital Management Processes. This is anchored on four (4)

key components, namely: 1) Risk Organization and Governance; 2) Processes and Policies; 3) Data and System Infrastructure; and 4) Risk Measurements.

These components undergo a continuous cycle of improvement where design translates to implementation and is regularly monitored for enhancement. Thus, ERM is subject of an iterative process and takes on a dynamic form that adjusts to the dynamic risk environment and responds to both internal and external factors and changes in its business model.

### **III. Risk Management Objectives**

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

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

SB Corp recognizes the importance of risk management in ensuring its continuing overall viability. SB Corp BOD and Senior Management effectively drive its Enterprise Risk Management (ERM) as they set the tone for managing risks across its systems and processes which is shared at all levels of the institution. Moreover, everyone within SB Corp is expected to proactively manage and is accountable for the risk exposures inherent to their respective area.

### **IV. Enterprise Risk Management Roles and Responsibilities**

The following key principles guide SB Corp's approach to ERM:

#### **a. Board Level**

##### **i. Board of Directors**

The Board of Directors has overall responsibility for the oversight of the Corporation's risk management framework - provides governance, guidance, and oversight to Senior Management, and sets and approves risk management policies, strategies, and framework. The Board exercises this responsibility primarily through the Finance and Risk Oversight Committee (FROC) and Audit and Compliance Committee.

##### **ii. Finance and Risk Oversight Committee (FROC)**

The role of is to set the direction and overall risk strategies. It provides oversight to the Management of SB Corp ensuring that risks are effectively managed across the Corporation in a timely and appropriate manner. It is also responsible for the identification and evaluation of exposures,

development of risk management strategies, and implementation of the Risk Management Plan. The Committee shall meet with request/gather (or compel submission, in proper cases), receive and evaluate information from Management and appropriate sources, and act or approve proposals on items relating to credit, operational, compliance, market, liquidity and solvency risks.

- iii. Audit and Compliance Committee. This Committee is responsible for the following:
- Review of the quarterly, half-year and annual financial statements focusing particularly on the changes in accounting policies and practices, major judgment areas, significant adjustment resulting to audit, going concern assumption, compliance with PFRS, and compliance with tax, legal and regulatory requirements.
  - Receive and review reports of internal auditors and regulatory agencies and ensure that Management is taking appropriate corrective actions in timely manner in addressing control and compliance functions with regulatory agencies.
  - Review interim financial reports with Management before filing with regulators and consider whether they are complete and consistent with the information known to committee members.
  - Understand how Management develops interim financial information and the nature and extent of internal and external auditor involvement.
  - Consider the effectiveness of the Corporation's internal control system.
  - Understand the scope of internal and external auditor's review of internal control over financial reporting and obtain reports on significant findings and recommendations, together with Management's responses.
  - Review with Management and the Chief Audit Officer the charter, plans, activities, staffing and organizational structure of the internal audit function.
  - Regularly report to the Board about committee activities, issues, and related recommendations; and
  - Review and evaluate findings and recommendations from completed compliance activities and audit, including Management responses and action plans.

b. Management Level

- i. President and Chief Executive Officer (P/CEO) –

The President and CEO maintains ultimate accountability for the management of the institution's risks, including issuing directives for their

management. The P/CEO likewise authorizes and owns the ERM Policy and issues final approval of the ERM risk appetite statements.

ii. Management Committee (Mancom)

The Management Committee is a senior management-level committee chaired by the P/CEO. It shall be responsible for ensuring that the risk-taking activities of SB Corp are aligned with the strategy approved by the Board of Directors. It shall also be responsible for developing and implementing policies and procedures that lay down the conditions and guidelines for an effective risk management process, as well as proper channels of communication to ensure that these policies are clearly communicated and adhered to by all levels of the organization.

The risks include the typical risks faced by a financial institution (e.g., credit, market, operational and information security risks), along with emerging risks that could impede SB Corp's ability to achieve its strategic objectives. The MC is broadly responsible for ensuring that risks are managed to create value and, in a manner, consistent with established risk appetite and risk tolerance levels.

In this regard, the ManCom shall:

- Develop and implement policies and procedures that lay down the conditions and guidelines for an effective risk management process as well as proper channels of communication to ensure that these policies are clearly communicated and adhered to by all levels of organization.
- Approve and authorize all corresponding implementing guidelines related to Board-approved policy statements.
- Responsible for the Public Service Continuity Plan (PSCP) of the Corporation. Public service continuity is doing business continuity in the public sector context; and
- Ensure that clear and meaningful strategic direction is adopted and maintained for the development and strengthening of the organization's human resources and reporting lines.

iii. Credit Committee. The Committee as headed by the P/CEO shall:

- Review and make recommendations to ManCom on policies and implementing guidelines that impact on credit granting to MSMEs and credit to SB Corp conduit financial institutions up to the point of loan release; and
- Act on loan decisions or on endorsements to the BOD that are beyond the scope of the delegated approving authorities, whereas these credit approving authorities shall decide within the boundaries of the SB Corp Policy, inclusive of pricing, among others.

iv. Asset-Liability Committee (ALCO). The Committee, headed by the P/CEO, is a policy-recommending committee to the ManCom. It reviews the Corporation's revenue streams inclusive of pricing policy, cost

management efficiency, manning, and other transaction expenditures. The Committee also reviews all major decisions touching on sources of funds and uses of funds.

v. Business Units and Group Heads

They are collectively called Middle Management, serves as the ultimate risk owners. Groups will adopt and follow the ERM Framework and the ERM Policy and participate in enterprise-wide risk management efforts and perform risk management activities within their respective offices. GHs are responsible for implementing consistent risk management practices in alignment with this policy.

It is the responsibility of the GHs to disaggregate the enterprise-level risk appetite statements into unit-specific risk limits, where applicable. They will also assist the ERM Group in creating ad hoc risk analysis teams to serve as subject matter experts during the risk identification and analysis process.

The Regional Lending Groups, Credit Investigation and Appraisal Unit, Legal Services Group, Human Resources and Administrative Services Group, IT Group, Controllershship Group, among others, have a dual responsibility to manage both the operational risks within their own functions as well as provide support to other departments for operational risk management. In this regard, business line management shall ensure that:

- Internal controls and practices are consistent with enterprise-wide policies and procedures.
- Specific policies, processes, and procedures are adequate and effectively implemented, and personnel are adequate and competent.
- Risk mitigation strategies and processes are established, executed, and periodically reviewed; and
- Operational risk-related information such as loss events and incidents is adequately and timely communicated to the Management and coordinated with the ERMG for risk monitoring and reporting, in addition to the usual reporting to Senior Management and/or BOD.

vi. Enterprise Risk Management Group

This refers to the existing Enterprise Risk Management Group. The Unit leads ERM activities under the supervision of the Chief Risk Officer (CRO). Such activities include developing and maintaining ERM policies, processes, procedures, tools, and information systems; leading efforts to perform enterprise risk identification, assessment, prioritization, reporting, and monitoring; and, establishing ERM communication at all levels and for gathering data and developing risk reports.

To further strengthen enterprise risk management and internal controls and inform risk management approach by enhancing the Corporation's ability to timely identify and assess all material risks, including new and emerging risks, as well as hard to quantify risks, the CRO or his next in line were

included as a permanent resource person to the various Management- Level committees of SB Corp.

#### Chief Risk Officer (CRO)

The Chief Risk Officer serves as the principal advisor to the P/CEO on all risk matters that could impact the institution's ability to perform its mission. The CRO is responsible for the design, development, and implementation of the ERM program of SB Corp. The CRO, in conjunction with the ERM Unit, will lead the institution in conducting regular enterprise risk assessments of business processes or programs at least annually and will oversee the identification, assessment, response, and monitoring of enterprise risks. The CRO will take an active role in strategic planning and integration of risk management principles across the enterprise.

The CRO shall:

- Recommend to the BOD and Senior Management appropriate policies, procedures, and information systems related to overall risk management and controls.
- Design and implement the risk assessment methodology tools and risk reporting system of the agency.
- Coordinate risk management activities across the institution.
- Consolidate all relevant operational risk information/reports to be elevated/presented to the board and senior management.
- Provide operational risk management training and advice to business units on operational risk management issues.
- Coordinate with compliance function, internal audit, and external audit on operational risk matters.
- Oversee the identification, assessment, prioritization, response, and monitoring of enterprise risks.
- Lead efforts to perform enterprise risk identification, assessment, prioritization, and monitoring of enterprise risks; and
- Establish ERM communication at all levels and for gathering data and developing risk reports.

vii. Office of the Chief Compliance Officer (OCCO). The OCCO, headed by the Chief Compliance Officer is responsible for the following:

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

- Assess whether the identified operational risk exposure by the business units or by the function itself will affect the franchise value of the institution. In this regard, it shall advise and assist management in establishing guidance on the appropriate implementation of relevant laws, rules and regulations, and internal policies.
- viii. Internal Audit Group (IAG). The IAG shall conduct an independent assessment of the risk management framework, including the implementation of the risk management policies and procedures. The IAG is an essential part of the risk management system that takes the lead in the on-going monitoring of the internal control process and providing an independent assessment of system integrity. Specifically, the IAG has the responsibility to:
- Review outputs from risk assessments and assess if business units are appropriately following up and addressing those risks identified during the risk assessment process.
  - Conduct independent examinations and evaluations of risk management processes (policies, procedures, systems) to assess whether operational risks are within acceptable tolerance limits, including assessing the appropriateness of the operational risk identification, measurement, response, and monitoring methodology.
  - Review and assess adherence of risk management, risk control, and compliance function in relation to SB Corp's Risk Management Framework.
  - Any operational risk issue identified and reported in the audit process should be addressed by senior management in a timely and effective manner, or raised to the attention of the BOD, as appropriate.
  - Monitor and immediately report to the Audit Committee for identified deficiencies that remain uncorrected; and
  - Review and assess that existing policies and procedures remain relevant and adequate for SB Corp's activities.

## **V. Management of Material Financial Risks**

Risk identification and assessment is the fundamental element of an effective risk management system. It allows SB Corp to better understand its risk profile and allocate risk management resources and strategies more effectively.

SB Corp is exposed to a variety of financial risks such as market risk (including interest rate risk and price risk), credit risk, and liquidity risk. The financial risks are identified, measured, and monitored through various control mechanisms. This is to adequately assess market circumstances, thereby helping avoid adverse financial consequences for the institution.

This is to likewise ensure that SB Corp performs its developmental mandate as a Non-Bank Financial Institution (NBF1) and not merely duplicates what the mainstream players in MSME finance (e.g., private banks and financial institutions, government financial

institutions, etc.) are already doing. SB Corp develops and operates its financing programs along these lines, to optimize the utilization of National Government investments by not contributing to the cycle of poverty and debt for small business owners.

Over the years, SB Corp's understanding of the nature of our unique role in MSME finance has deepened, which can be seen in its innovative and countercyclical product offerings as well as in how it evaluates risks and allocates limited resources.

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

a. Financial Risk

SB Corp is exposed to a variety of financial risks such as market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The financial risks are identified, measured, and monitored through various control mechanisms to assess adequately the market circumstances to avoid adverse financial consequences. This is to ensure that SB Corp performs its mandate as a government-owned and controlled corporation (GOCC) and not merely duplicates what the private sector and other GOCCs are already doing. This is to likewise optimize the utilization of NG investments by not contributing to the cycle of poverty and debt for small business owners.

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

i. Market Risk

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products, and transactions in the Corporation's overall investment portfolio. The market risk of SB Corp as at December 31, 2025, and 2024 is primarily interest rate risk.

SB Corp anticipates, measures, and manages its interest rate sensitivity position to ensure its long-term earning power, build-up of its investment portfolio and avoid economic losses. Special emphasis is placed on the change in net interest income/expense that will result from possible fluctuations in interest rates, changes in portfolio mix and tenor. The Corporation's exposure to market risk for changes in interest rates relates primarily to its loans to various financial institutions and investment in treasury bonds.

ii. Liquidity Risk

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

SB Corp's management of liquidity risk forms part of its overall risk management framework. SB Corp must be able to identify, measure, monitor and control its exposure to liquidity risk in a timely and comprehensive manner and maintain a structurally sound funding and liquidity profile.

The ALCO is responsible for the effective execution of its liquidity strategy and overseeing the monthly and long-term management of liquidity risk. Meanwhile, the Treasury Department (TD) manages SB Corp's intra-day liquidity. As such, the Corporation adopts a centralized approach to cash and fund management. The TD is responsible for effectively executing the liquidity strategy consistent with the Board's intention daily. As such, it periodically presents to the ALCO, ManCom, FROC and the BOD reports pertaining to the Corporation's liquidity.

As part of its liquidity risk management, the Corporation regularly evaluates its projected and actual cash flows and institutes liquidity risk controls. The Corporation adopts a dynamic approach to liquidity risk management by calculating the projected cash flows as of a particular date based on projected cash receipts and planned disbursements. The Corporation adopts the following liquidity risk measurement tools to determine any future liquidity funding requirements, how to address the same and the formulation of strategies to mitigate this risk:

- a. Liquidity Gap Report which calculates liquidity mismatch for specific maturity buckets. This breaks down the liquidity risk-sensitive assets, the liquidity risk-sensitive liabilities and the projected cash disbursements;
- b. Liquidity Coverage Ratio to maintain an adequate stock of unencumbered high-quality liquid assets to meet liquidity needs for the next 30 calendar days; and
- c. Minimum Liquidity Ratio to maintain a stock of liquid assets proportionate to the Corporation's liabilities.

SB Corp aims to manage its liquidity profile to be able to finance operating and capital expenditures and service maturing debts. To meet its financing requirements, it intends to utilize corporate and P3 funds. SB Corp continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities in case any requirements may arise. Fundraising activities may include stand-by credit lines from government banks.

SB Corp's Contingency Liquidity Plan (CLP) serves as an outline for the procedures that shall be followed when adverse market conditions arise that could disrupt the corporation's ability to fund some or all its needs. This contingency plan also serves to identify and monitor events or indicators that shall trigger the implementation of the CLP. The CLP shall guide SB Corp Management on the actions that should be taken in identifying and managing the resolution of stressed liquidity.

The CLP shall automatically be activated when trigger points occur or exist. Trigger points shall be monitored by both TD and ERMG regularly to serve as early warning indicators for potential stressed liquidity. Stressed liquidity, classified into minor and major, is a condition that arises from a sudden deterioration of the Corporation's capacity to generate cash to meet maturing obligations and to fund financing requirements.

SB Corp is presently evaluating its Liquidity Risk Limits to consider the complexity and risks of SB Corp's current business model.

### iii. Credit Risk

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

In view of its mandate to safeguard the interest of the public and contribute to the promotion of stability in the economy, SB Corp manages credit risk at all relevant levels of the organization. It defines credit risk as the risk that the loans granted to borrowers and/or other financial institutions will not be paid when due, that causes incurrence and financial losses. Credit risk is found in all activities where success depends on counterparty, issuer, or borrower performance. It arises at any time when SB Corp's funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the statements of financial position.

Credit Risk Management aims to adequately manage the risk of financial loss arising from the failure of borrowers or counterparties to settle their obligations in accordance with the terms and conditions of the duly approved contractual agreement.

This involves the identification, measurement, and monitoring of actual or potential losses and the implementation of appropriate measures, including the setting up of applicable limits to keep credit risk exposures within the Corporation's risk appetite or the acceptable level of credit risk that is willing to accept in pursuit of its lending plans and programs.

Credit risk is not limited to the loan portfolio. SB Corp therefore exercises prudence in the grant of loans over its exposures to credit risk, taking into consideration the developmental objectives of the Corporation as mandated by the Magna Carta for MSMEs. This is managed through the implementation of the borrower risk rating and monitoring of loan covenants in the loan agreements. The borrower risk rating is being used, among others, as a basis for determining credit worthiness of loan applicants. The Corporation uses credit evaluation criteria dependent on the lending programs when initially considering a prospect. When the prospect passes and meets these criteria, the Corporation performs qualitative and quantitative analyses to determine creditworthiness of the prospect. The qualitative analysis includes evaluation of the borrower's ownership, business operations, collateral, and others. The quantitative analysis includes review of past and present financial condition and future expectations based on assumptions and projections. Accordingly, approval of loan application goes through prescribed loan approving levels depending on the transaction or amount of loan applied and based in SBC CASA. Further, the Corporation mitigates such credit risks through the acceptance of eligible collateral as a secondary form of payment.

SB Corp performs its mandate of implementing comprehensive policies and programs to assist MSMEs in all areas, including but not limited to finance and information services, training and marketing and collateral is not the primary factor in granting credit. The required amount and type of collateral and other credit enhancements to mitigate credit exposures depend primarily on the results of the holistic and prudent credit assessment based on the lending program's requirements. When needed, the Corporation

evaluates the enforceability, realizable value, and marketability of offered collaterals and other credit enhancement.

### Credit Risk Assessment

The Corporation's credit risk assessment is performed based on the different segments of the financial asset portfolio. Loans, regardless of if the accounts have been fully paid, extended or renewed in a subsequent year or period, are subjected to evaluation for possible losses. SB Corp's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in loan characteristics, payment behavior and credit risk. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios and of default correlations between counterparties; accordingly, such credit risk is measured using PD, LGD and EAD for the purposes of measuring ECL.

SB Corp adopted an ECL model that considers the estimated timing of loss and the three major factors in calculation of ECL as probability of default (PD), exposure at default (EAD) and loss given default (LGD). The model is on a per borrower basis whereas each borrower is assigned its own PD and EAD which are calculated through a Machine-Learning (ML) regression and classification model.

The PD predicts the likelihood of default given the borrower's profile and payment behavior over a specified time horizon (12-month or lifetime). It was predicted through a machine learning modeling of historical loan data. Through model selection and validation, two (2) separate regressor models were developed for the calculation of 12-month PD and lifetime PD. Both models employed a Random Forest Classification Algorithm. The regressor model allows the prediction of the probability of default of the current portfolio of the borrower within 12 months and within its entire loan term.

The EAD predicts the amount that may not be recovered at the predicted time of default. It is a function of the current outstanding balance (OB) and the proportion of the unrecoverable amount relative to the current OB. It is predicted based on a machine learning-aided analysis of historical data.

The LGD is a function that describes the monetary loss when a borrower defaults, considering the value of collaterals and other securities submitted to SB Corp. It is the inverse of the recovery rate  $(1-R)$ , where  $R$  is the percent recovery from the total exposure at a point in time. Most of SB Corp's current portfolio are unsecured loans and a value of 1 was assigned to the LGD. This conservative assumption means the recovery rate is 0 and that no collaterals are factored in the ECL Model.

SB Corp has adapted a time series analysis that is able to capture trends and seasonality to predict future default rates. This was used to adjust 12-month and lifetime PD generated by the classification model. SB Corp adapted this approach in recognition of the reliability and availability of SB Corp's data on the default rate of MSMEs. A similar time series analysis of GDP and other macroeconomic factors entails errors that could be carried over into the prediction of default rates. A time series analysis of default rates is a straightforward incorporation of forward-looking data, which factors in trends and seasonality in borrower behaviors.

In performing its mandate, SB Corp does not consider collateral as a primary factor in granting credit. The required amount and type of collateral and other credit enhancements to mitigate credit exposures depend primarily on the results of the holistic and prudent credit assessment based on the lending program's requirements. When needed, the Corporation evaluates the enforceability, realizable value, and marketability of offered collaterals and other credit enhancement.

SB Corp holds collateral against applicable loans in the form of mortgage interests over property. Collateral, unless repossessed, is not recognized in the Corporation's statement of financial position. However, the fair value of collateral affects the calculation of ECL.

#### Concentration of Credit Risk

Concentration risk arises when a significant portion of the entity's exposures or assets are concentrated in a single counterparty, sector, geographical region, or asset class. This concentration can increase the potential for financial loss or operational disruption in the event of adverse developments affecting the concentrated area.

SB Corp has already implemented an enhanced Loan Application Form in compliance with BSP Circular No. 1156 dated September 30, 2022 which prescribed a Standard Business Loan Application Form (SBLAF). All new and additional loan applications under the Corporation's retail loan programs shall be documented using the prescribed SBLAF templates. In line with the adoption and use of the SBLAF, the Philippine Standard Industrial Classification shall also be adopted in classifying the nature of business of the borrower. With this, the concentration risk study will be further enhanced with a more granular sub-classification of industry exposure. The SB Corp's policy on identifying, reviewing, managing, and reporting large exposures was established to safeguard the institution from solvency risks arising from excessive lending exposure to a single borrower or group of connected counterparties. In line with this policy, SB Corp shall regularly report and monitor its large exposures specifically the top 20 loan accounts, to ensure proactive oversight of significant credit risks to timely escalation of deterioration trends, particularly those involving high-impact borrowers.

**Assessment of Wholesale Loan Portfolio.** The outstanding balance (OB) amounting to **P7.8B** comprises the availment of various wholesale program partners of SB Corp. The program accounts for approximately **44%** of SB Corp's total loan portfolio as of September 30, 2025, underscoring its significant share in the corporation's overall credit exposure. As of the same period, the total past due as validated by RLGs amounts to **P613.39M**, resulting to a Past Due Rate (PDR) of **7.84%** as shown in Table 1. These figures highlight the importance of closely monitoring the performance and risk profile of wholesale program accounts, given their significant impact on the Corporation's consolidated credit standing.

**Table 1: Wholesale Program Loan Portfolio as of September 30, 2025**

Outstanding Balance	Current	Past Due	Past Due Rate
7,823.98	7,210.59	613.39	7.84%
<i>*amount in millions php</i>			
<i>*validated by RLGs</i>			

**Table 2. Classification of PFIs under the Wholesale Program as of September 30, 2025**

As of the latest assessment, cooperative organizations or multi-purpose cooperatives (MPCs) comprise **73.46%** of SB Corp’s partner conduits, reflecting a significant concentration within the wholesale lending portfolio. In terms of exposure, **cooperatives account for approximately 58% of SB Corp’s total OB**, underscoring their material impact on the Corporation’s overall credit risk profile. Notably, cooperatives continue to dominate the majority share of top 20 loan exposures of SB Corp’s accredited conduits. While cooperatives serve as effective channels for reaching micro and small borrowers, this level of exposure presents a notable credit and regulatory risks that must be carefully managed. From a credit risk perspective, lending to MPCs creates an indirect exposure to the financial capacity and repayment behavior of their individual members, whose creditworthiness may vary significantly.

Classification of PFIs	Number of Conduit Partners	% Share on the Total PFIs	Outstanding Balance (amount in millions)	Past Due (amount in millions)
Cooperative	263	73.46%	4,566.73	365.66
Cooperative Bank	4	1.12%	346.64	0.00
Corporation (Stock & Non-Stock)	13	3.63%	658.72	5.22
Financing Corporation	22	6.15%	318.37	9.21
Non-Bank Financial Institution	2	0.56%	9.96	
NGO	20	5.59%	1,486.92	136.20
Rural Bank	30	8.38%	357.57	94.39
Thrift Bank, Development Bank, Commercial Bank	4	1.12%	79.06	2.71
<b>Total</b>	<b>358</b>	<b>100%</b>	<b>7,823.98</b>	<b>613.39</b>

b. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, whether deliberate, accidental or natural. Operational risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within an entity.

Operational risk management (ORM) is at the core of every financing operation integrating risk management practices into processes, systems, and culture. As a proactive partner to Senior Management, ORM’s value lies in supporting and challenging them to align the business control environment with the corporation’s strategy by measuring and mitigating risk exposure, contributing to optimal return for stakeholders.

SB Corp’s ORM Framework was approved on March 24, 2023, under BR No. 2023-3401, s. 2023. The ORM system adheres to guidelines and circulars issued by BSP and other operational risk related regulations and standards. SB Corp’s ORM is further strengthened with the conduct of risk awareness training on risk event reporting, and information security management using various channels and platforms available. Intensive workshops and per group discussions reinforce the awareness and learning avenues conducted to all employees for them to effectively perform their duties in managing operational risks.

The following ORM tools are being implemented and continuously enhanced to conform to industry’s best practices:

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

- ii. Risk Control Self-Assessment

Cognizant that operational risk is inherent in all activities, products, and services, and is closely tied in with other types of risks, SB Corp monitors risks arising from inadequate or failed internal processes, people, and systems or from external events such as natural and man-made disasters. Towards this end, the Corporation conducts a Risk Control Self-Assessment (RCSA) to assess inherent operational risks and the design and effectiveness of mitigating controls, and residual risk.

ERMG validates the RCSA exercise to determine, among others, the completeness and appropriateness of the identified risk events and its potential impact to operations as well as to identify and understand risk triggers. ERMG conducts an Annual RCSA awareness, which is a critical exercise for SB Corp to evaluate its operational health. Process owners validate whether established controls are being performed. Emerging threats such as digital transformation are distinguished to build a proactive and empowered risk culture

- ii. Risk Event Reporting

Likewise, in recognition of the importance of timely and accurate reporting of risk events to immediately address issues especially losses that may be incurred by SB Corp and assign authority, responsibility, and reporting relationships in identifying, reporting, and addressing risk incidents and events, the Risk Event Reporting (RER) guidelines were established and currently being operationalized.

The RER guidelines is currently being amended to integrate the Policy for Threshold for Reportable Losses, as approved by Board Resolution No. 2025-09-3768. This amendment recognizes that both financial and non-financial events function as critical leading indicators by their severity that can manage the underlying costs and prevent large-scale financial impact.

- iii. Internal Loss Data Collection and Analysis

The risk event/incidents shall be collected into an Internal loss database which can be fed back into the operational risk management process to accumulate history of operational risk losses. This allows a quantified view of risks incurred, turning them into valuable sources of information for assessing exposure to operational risk and the effectiveness of internal controls.

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

The loss event database shall at a minimum disclose the following: (i) risk profile and complexity; (ii) short description of the event; (iii) loss event type category; (iv) department/unit/branch sustaining the loss; (v) business line classification; (vi) date of occurrence; (vii) date of discovery; (viii) date of booking of actual losses; (ix) actual loss amount or potential loss amount, if a near-miss event; (x) amount recovered and date of recovery; (xi) causes of the event (e.g. control weaknesses identified); (xii) consequence of the loss event (e.g., market loss, fees paid to counterparty, a lawsuit or damage to reputation); and (xiii) action(s) taken.

ERMG provides regular updates to FROC regarding the SB Corp's loss profile. These reports detail total loss amounts both gross and net of recoveries that are categorized by specific risk types. Additionally, ERMG presents status updates on remediation efforts and strategic recommendations addressing the most significant loss events.

#### iv. Information Security Risk Management

SBCorp recognizes that information is a critical asset and that how information is managed, controlled, and protected has a significant impact on the delivery of services. Information assets must be protected from unauthorized use, disclosure, and loss. Information must be available when needed, particularly during emergencies and crises.

The Information Security Strategic Plan (ISSP), aligned with its business plan, has been established to clearly articulate the Management's direction on Information Security. The ISSP shall provide a roadmap that would guide SBCorp in transforming the current state of security to the desired state considering business goals and strategies. The ISSP is being operationalized through the implementation of an Information Security Program (ISP). The ISP is presented as a set of goals for program implementation and oversight across all business units.

The ISP Implementation Cycle involves establishing Information Security requirements, educating people about their responsibilities, building governance structures to ensure program compliance, and monitoring and reporting of progress for an informed decision-making process. These initiatives will allow data owners, data users and administrators to be more aware of the security risks that their information assets are vulnerable to. It can identify controls to reduce those risks, and understand what risks remain after any identified controls have been implemented.

In accordance with Board Resolution No. 2026-02-3834, the Information Security Policy Manual (ISPM 2.0) has transitioned from a homogeneous structure to a modular, functional governance framework. This redesign encompasses core domains such as Access Control, Incident Response, and Vendor Risk Management, while introducing critical sub-policies for Generative AI Usage, Machine Learning, Data Analytics, and Cloud Security. To ensure the continuous maturation of SB Corp's security posture, both the policy and its implementation plan are subject to a mandatory annual review for its efficiency and effectiveness.

Information Security Tools are primary mechanism to identify vulnerabilities and protect SB Corp's digital assets. Tools such as External Vulnerability

and Penetration Test (VAPT) are conducted via DICT-CERT-PH for on-site network assessments and external web and mobile applications. It is the defense against ransomware and data breaches. Engaging with DICT-CERT-PH for external VAPT ensures SB Corp meet national cybersecurity standards and maintain public trust. The Internal Vulnerability Assessment Scanning Tool (IVAST) focuses on looks at Structural Integrity by identifying weaknesses on people, processes and systems that could cause a self-inflicted disruption. It validates and checks if the results of external VAPT captures the same vulnerabilities. It provides proof of due diligence to know what the security gaps are early on. Both scanning creates SB Corp's dual-layered defense for external disasters and improves the Operational Risk Profile for internal failures.

Awareness Training Programs are structured for general awareness that focus on phishing, social engineering and security hygiene. Onsite and online communication channels are utilized regularly for security updates, reminders and best practices. Acceptable Use Policy (AUP) Sign-off is critical "human-layer" tool to ensure employee accountability. This is done annually wherein SB Corp has maintained 100% compliant for all users (ex. Plantilla, Contract of Service, Agency Hired, On-the-Job Trainees, and Third Parties) who use SB Corp information assets.

Security Programs and activities aim to increase the Security Maturity Level which are regularly reported to ManCom and the Board. With the rollout of the ISPM, creation and updating other sub policies that are in alignment with other core functions such as IT Security, Business Continuity, Asset Inventory, Human Resources, Compliance and Audit, and others, SB Corp is now on Transitioning Maturity Level (Level 3 – Defined).

v. Business Continuity Risk Management

Given SB Corp's developmental mandate and crucial role in the Philippine financial system particularly during a crisis, it is important to ensure that its operations can withstand the effects of major disruptions. The Corporation therefore delivers its message of commitment, service and integrity towards its mandate as defined under the Magna Carta for MSME.

Guided by its vision, mission, service philosophy and core values, SB Corp acknowledges the need to establish, implement and maintain appropriate procedures for managing the immediate consequences of disruptive incidents with due regard to the welfare of employees, clients, and guests, operational options for responding to incidents, prevention of further loss or unavailability of prioritized activities, and recovery and resumption of business critical and mission essential functions.

At the onset of the COVID-19 pandemic, SB Corp immediately puts in motion its business continuity plans which revolves around its countercyclical role during a crisis, when private financial institutions become risk-averse and private financing contracts. Nevertheless, the Corporation commits to the attainment of the following business continuity objectives as it delivers its mandate:

- a. To safeguard human life;

- b. To enable effective decision-making and communication during incidents;
- c. To implement a plan to adjust and adapt even if resources are constrained;
- d. To ensure that workplace policies are responsive, equitable, compliant, and adaptable;
- e. To reduce dependency on a specific business critical or mission essential function-holder;
- f. To develop a clear, measurable, fair, and practicable Performance Management System specifically designed for remote work to align with the crisis or pandemic situations and ensure that individual and team performance dovetails into organizational goals; and
- g. To ensure continuous improvement of the organization through public service continuity management.

SB Corp's business continuity plan now evolves into a Public Service Continuity Plan (PSCP). The PSCP is an all-hazard plan that aims to ensure continuous delivery of services to micro, small and medium enterprises amidst any disruption. The PSCP highlights the internal capacities, recovery requirements strategies to minimize damage and loss to essential processes, ensure succession of leadership and improve continuity capabilities of SB Corp (BR No. 2021-3186). Components of the PSCP are reviewed and tested annually to ensure validity and effectiveness of the plan.

SB Corp is committed to continuously strengthen its institutional resilience, continuity planning and disaster preparedness mechanisms. The issuance of Governance Commission for GOCCs (GCG) Memorandum Circular No. 2024-01 has mandated the integration of Disaster Risk Reduction and Management (DRRM) planning into the performance governance scorecard, underscoring the need for SB Corp to ensure that disaster preparedness and risk mitigation are embedded into its institutional processes. While SB Corp's existing Public Service Continuity Plan (PSCP) provides a foundational structure for maintaining mission-critical services during disruptions, recent assessments have shown the need to broaden its scope to incorporate risk-based, hazard-informed, and resilience-focused measures.

The integration provides a consolidated overview of the key elements of the Corporation's enhanced PSCP, DRRM Plan, and the ongoing development of Operational Resilience Framework. Collectively, these interrelated frameworks reinforce SB Corp's commitment to maintaining operational readiness, safeguarding personnel and assets, and ensuring uninterrupted service delivery, particularly during natural or human-induced disruptions. Their integration forms a unified resilience posture that supports SB Corp's mandate and strengthens institutional agility in the face of emerging risks.

Taken together, these frameworks form a comprehensive, mutually reinforcing structure that strengthens SB Corp's ability to sustain operations, protect its workforce, and support MSMEs during crises. By integrating disaster preparedness, continuity planning, and eventually the principles and key elements of operational resilience on proactive identification of critical operations, understanding of internal and external inter-dependencies, establishing impact tolerances, and continuously monitoring and improving the institution's ability to withstand disruptive events, the

Corporation is better positioned to manage risks beyond continuity response and crisis recovery and fulfill its mandate to assist MSMEs especially in times of disaster. These frameworks ensure that resilience is not merely reactive but embedded into SB Corp's everyday operations and long-term strategic direction. The integration of SB Corp's Disaster Risk Reduction and Management Plan (DRRM) into the PSCP was approved by the Governing Board under BR No. 2025-262

The Bangko Sentral ng Pilipinas (BSP) issued BSP Circular No. 1203 s.2024 prescribing the implementation of an Operational Resilience Framework (ORF) for BSFIs to ensure continued delivery of critical operations amidst severe disruptions and evolving risks and threat landscapes. Operational resilience goes beyond continuity response and crisis recovery, and it requires the proactive identification of critical operations, understanding of internal and external interdependencies, establishing impact tolerances, integrating resilience capabilities across the enterprise, and continuously monitoring and improving the institution's ability to withstand disruptive events. As such, the requirement is both enterprise-wide and risk-based, impacting continuity management, risk governance, IT resiliency, third-party management, incident response, and reporting mechanisms. In compliance with the above Circular, the initial draft responses to the Self-Assessment Questionnaire (SAQ) on the Operational Resilience Framework have been submitted which reflect SB Corp's current mechanisms, ongoing enhancements, and planned activities including the phased transition plan and roadmap to institutionalize the Operational Resilience Framework no later than 4<sup>th</sup> Quarter of 2026.

#### vi. Consumer Protection

Protection of the rights of its borrowers is of major importance to SB Corp. The Corporation adheres to disclosure requirements and makes the true and effective cost of borrowing an integral part of every loan contract and transaction per RA No. 3765, otherwise known as the "Truth in Lending Act."

Further enhancement of the existing Consumer Protection Manual is ongoing to include all applicable standards and guidelines for the identification, measurement, and monitoring of financial consumer protection-related risks in accordance with BSP Circular No. 1160 dated November 28, 2022, on the Financial Consumer Protection Framework. SB Corp ensures to assist ready to assist customers' needs and concerns across all channels and to guarantee consumer protection practices.

As part of its oversight functions on Consumer Protection Risk Management, ERMG ensures that enhanced policies and procedures are in place, escalation and complaints management systems are strictly implemented, which shall form part of SB Corp's overall governance and risk management system.

#### iv. Data Privacy Risk

Data privacy being a fundamental human right is protected by the Data Privacy Act of 2012 (RA 10173) in the Philippines. SB Corp, classified as a Personal Information Controller / Personal Information Processor as defined in the DPA, adheres to the mandates of the law and recognizes the threat of unauthorized access, disclosure and destruction of personal data. Such

unscrupulous events can pose physical danger, identity theft and fraud, as well as other harmful impacts to data subjects.

Data privacy may use these tools and focuses on the lawful usage, storage, and sharing of personal data according to legal requirements and consent.

Data privacy risk is the risk of unauthorized access, disclosure and destruction of personal data. To properly mitigate data privacy risks, SB Corp has designated a Data Protection Officer and Privacy Compliance Officers to ensure compliance with the requirements of the law in protecting personal data and the rights of data subjects. The Corporation is also duly registered and has continually renewed its registration with the National Privacy Commission as part of its compliance with the DPA and showcases its commitment to data privacy.

The Corporation is in the process of developing its Data Privacy Manual, which will formalize processes related to data privacy, including but not limited to collecting, processing, and deleting of personal data, data security measures, data breach management, and handling of data privacy inquiries and complaints, among others.

Moreover, SB Corp ensures that business and risk management activities, including the ORM function, are carried out by adequate and qualified staff with the necessary experience, technical capability and competence. The Corporation supports the continuing education of its officers and staff through training and certification programs.