

**IMPLEMENTING RULES AND REGULATIONS
OF RELEVANT PROVISIONS OF REPUBLIC ACT NO. 11494
("BAYANIHAN TO RECOVER AS ONE ACT")
CONCERNING THE SMALL BUSINESS CORPORATION¹**

To effectively carry out relevant provisions of Republic Act No. 11494, or the "Bayanihan to Recover as One Act" concerning the Small Business Corporation (SB Corporation), the Corporation, pursuant to the powers vested in it under said Act, hereby issues, adopts, and promulgates the following rules and regulations. SB Corporation may revise and supplement these rules and regulations and issue related guidelines and other subsidiary issuances as it deems necessary for the effective implementation of the various provisions of the "Bayanihan to Recover as One Act".

**RULE I
PRELIMINARY PROVISIONS**

SECTION 1. Title

These rules ("Rules") shall be known and cited as the Implementing Rules and Regulations (IRR) of relevant provisions of Republic Act No. 11494 otherwise known as the "Bayanihan to Recover as One Act" concerning the SB Corporation.

SECTION 2. Purpose

These Rules are issued to prescribe the guidelines and procedures for the implementation of relevant provisions of the said Act concerning SB Corporation.

SECTION 3. Interpretation Clause



These Rules shall be interpreted to harmonize with Section 4(x) of the said Act which authorizes the President of the Republic to exercise powers that are necessary and proper to ensure the "availability of credit to the productive sectors of the economy especially in the countryside through measures such as, but not limited to, lowering the effective lending rates of interest and reserve requirements of lending institutions".

Furthermore, these Rules shall be liberally construed to ensure the fulfillment of the policy objectives under the following subsections of the said Act:

Section 4(z) directing SB Corporation "to expand its existing loan programs for MSMEs, cooperatives, hospitals, tourism and OFWs affected by the Covid-19 pandemic and by other socioeconomic reversals, through a combination of increasing available loanable funds, reducing documentary requirements, increasing maximum loan amounts per borrower, reducing interest rates, extending loan terms, utilization of financial technologies to expand reach and

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¹ Approved by the Board of Directors under Board Resolution No. 2020-10-2090, Series of 2020
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increase access and set fast turn-around loan processing time; and allow the use of the loan proceeds for payroll cost, materials and suppliers, mortgage payments, rent, utilities, including fuel and storage, creation of new supportive businesses, re-purposing of existing business capital, any other business debt obligations that were incurred before the covered period or acquisition of new technologies and systems to adjust business processes for resiliency"; and,

Section 4(hh)(1) further directing SBCorporation under its Covid-19 Assistance to Restart Enterprises (CARES) Program "to administer the loans for DOT, but subject to the guidelines from the DOT that shall be prepared for these purposes".

SECTION 4. Declaration of Policy

It is hereby declared the policy of the State to promote a just and dynamic social order that will ensure the prosperity and independence of the nation and free the people from poverty, particularly in the aftermath of natural and man-made disasters, through policies that provide adequate social services, and promote full employment, a rising standard of living, and an improved quality of life for all.

To this end, and in cognizance of the adverse impact of the Covid-19 pandemic to the Philippine economy and society, the State shall likewise establish mechanisms to achieve the following objectives, among other things:

- (a) Reduce the adverse impact of Covid-19 on the socio-economic well-being of all Filipinos through the provision of assistance, subsidies and other forms of socioeconomic relief;
- (b) Mitigate the economic cost and losses stemming from the Covid-19 pandemic;
- (c) Accelerate the recovery and bolster the resilience of the Philippine economy through measures grounded on economic inclusivity, and collective growth through fiscal sustainability; and,
- (d) Promote and protect the collective interests of all Filipinos in these challenging times.

RULE II DEFINITION OF TERMS

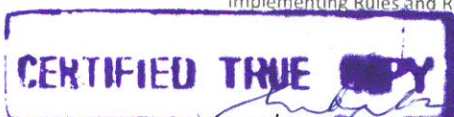
The following definition of terms shall apply for purposes of these Rules:

- (a) "**Accounts considered non-performing**" refers, as a general rule, to loans, investments, receivables, or any financial asset, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any.
- (b) "**Accounts considered past due**" refers, as a general rule, to loans, investments, receivables, or any financial asset, including restructured loans, with any principal and/or interest or installment due, or portions thereof,



remaining unpaid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due.

- (c) **“Additional Paid-In Capital”** refers to any contribution of stockholders over the par value of shares.
- (d) **“CARES Lending Guidelines”** refers collectively to the different lending guidelines which details, among other things, the pre-qualifications, documentary requirements, and loan origination process (i.e. borrower on-boarding, credit underwriting and decision, loan disbursement, account management, etc.) under the CARES Program.
- (e) **“Concessional Loans”** refers to loans that are extended on terms substantially more generous than what is prevailing in the market. The concessionality is achieved either through low interest rates, through extended grace periods, through longer repayment terms or a combination of these.
- (f) **“Covid-19”** refers to the Coronavirus Disease 2019.
- (g) **“Covid-19 Assistance to Restart Enterprises (CARES) Program”** refers to SB Corporation’s enterprise rehabilitation financing program for qualified MSMEs adversely affected by the declaration of a State of Calamity throughout the Philippines and the imposition of community quarantine and strict physical distancing measures due to the Covid-19 pandemic.
- (h) **“Credit Risk”** refers to the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms.
- (i) **“Equity”** refers to the amount received by government-owned or controlled corporations as payment of capital subscriptions and general capital investment of the national government in said corporations and which form part of their capitalization.
- (j) **“Financial Technology”** refers to the digitalization and integration of finance and technology revolutionizing both the banking and the global financial service industries. Digital innovations by financial technology (fintech) companies drive increasing demand for new and better financial products and services.
- (k) **“InstaPay”** refers to real-time low-value electronic fund transfer (EFT) credit push payment scheme for transaction amounts up to fifty thousand pesos (PhP50,000.00). It allows for safe and affordable retail electronic payments in real time.
- (l) **“Interest Subsidy”** refers to the loan facility wherein SB Corporation will subsidize a certain portion of the prevailing interest rates to support additional lending by financial institutions, i.e., banks, cooperatives, micro financing institutions (MFIs) and other duly licensed financial institutions, to MSMEs.
- (m) **“Micro, Small and Medium Enterprises (MSME)”** refers to any business activity or enterprise engaged in industry, agribusiness and/or services, whether single proprietorship, cooperative, partnership or corporation whose total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity’s office, plant and equipment are situated, must have value falling under the following categories:



Enterprise Category	Asset Size
Micro	Not more than PhP3,000,000
Small	PhP3,000,001 to PhP15,000,000
Medium	PhP15,000,001 to PhP100,000,000

- (n) **“Multifactor Authentication”** refers to a security system that requires more than one (1) method of authentication from independent categories of credentials to verify the user's identity for a login or other transactions. Multifactor authentication combines two (2) or more independent credentials: what the user knows (i.e., password, e-signature, etc.), what the user has (one-time PIN) and what the user is (biometric verification).

In this way, SB Corporation can confidently establish that the person applying under the CARES Program is actually the one making the transaction before the Corporation will allow the loan application to be finalized.

- (o) **“Philippine EFT System and Operations Network or PESONet”** refers to the batch electronic fund transfer (EFT) credit payment scheme, which can be considered an electronic alternative to the paper-based check system. In the rules of Automated Clearing Houses under the National Retail Payment System, the EFT and/or payment instructions will be processed in bulk and cleared at batch intervals. Each payee will then receive the full value in the account within the same banking day, provided the payment instruction was sent within the cut-off time
- (p) **“Provision for Credit Losses on Loans and Receivables and Other Financial Assets”** refers to the impairment loss on loans and receivables and other financial assets, wherein an allowance for losses shall be set up against the said financial assets.
- (q) **“Subsidy”** refers to the amounts granted to government-owned or controlled corporations from the General Fund, to cover operational expenses that are not supported by corporate revenues or to cover corporate deficits and losses.
- (r) **“Tourism as Beneficiary”** refers to accredited tourism enterprises by Department of Tourism (DOT), which shall include small-scale tourism-oriented enterprises accredited by LGUs under RA No. 9178 or the “Barangay Micro Business Enterprises Act of 2020”.
- (s) **“Transaction Account”** refers to an account (i.e., deposit account, e-money, electronic wallet, etc.) held with a BSP-regulated financial service provider which could be a bank or a non-bank financial institution that can be used to store, send and receive funds.

RULE III
COVID-19 RESPONSE AND RECOVERY INTERVENTIONS

Pursuant to Article VI, Section 23(2) of the Constitution, the President of the Republic s hereby authorized to exercise powers that are necessary and proper to undertake and implement the following Covid-19 response and recovery interventions:

- (a) Access to livelihood assistance, skills and training programs, loan assistance, and employment opportunities for repatriated and returning Overseas Filipino Workers (OFWs) to ensure proper reintegration and the full utilization of their skills for national development[Section 4(g)].
- (b) Ensuring the availability of credit to the productive sectors of the economy especially in the countryside through measures such as, but not limited to, lowering the effective lending rates of interest and the reserve requirements of lending institutions provided that credit accommodation to MSMEs and cooperatives, as well as those who are self-employed, shall be imposed a low interest, payable within three (3) years and shall not require any collateral if the loan does not exceed three million pesos (PhP3,000,000.00)[Section 4(x)].
- (c) Directing SB Corporation to expand its existing loan programs for MSMEs, cooperatives, hospitals, tourism and OFWs affected by the Covid-19 pandemic and by other socio-economic reversals, through a combination of increasing available loanable funds, reducing documentary requirements, increasing maximum loan amounts per borrower, reducing interest rates, extending loan terms, utilization of financial technologies to expand reach and increase access and set fast turn-around loan processing time; and allow the use of the loan proceeds for payroll cost, materials and suppliers, mortgage payments, rent, utilities, including fuel and storage, creation of new supportive businesses, re-purposing of existing business capital, any other business debt obligations that were incurred before the covered period or acquisition of new technologies and systems to adjust business processes for resiliency[Section 4(z)].

For the above purpose, Section 10(e)(4) prescribes an additional funding of Ten Billion Pesos (PhP10,000,000,000.00) for the CARES Program of SB Corporation and for its other lending programs, as well as interest subsidy, to be extended to MSMEs, cooperatives, hospitals, tourism industry and OFWs affected by the Covid-19 pandemic and by other socioeconomic reversals.

- (d) Directing DOT to assist critically-impacted businesses that are tourism enterprises, including tourism-oriented barangay micro business enterprises, cooperatives engaged in tourism-related activities or other members of the informal sector in the tourism economy through, among other things, the provision of loan interest rate subsidies.

For purposes of the provision of loan interest rate subsidies, SB Corporation under its CARES Program shall administer the loans for DOT but subject to guidelines from DOT that shall be prepared for such purposes provided that the loan interventions for tourism enterprises implemented under the CARES Program shall be exclusively for accredited tourism enterprises, including such small-scale tourism-oriented enterprises accredited by local government units

(LGUs), under RA No. 9178 or the "Barangay Micro Business Enterprises Act of 2002" [Section 4(hh)(1)].

Availments of grants, loans or loan guarantees through other provisions of the "Bayanihan to Recover as One Act" is not a disqualification for any tourism enterprise to avail of any economic relief measures.

- (e) Encouraging the Bangko Sentral ng Pilipinas (BSP) to adopt measures, including the relaxation of regulatory and statutory restrictions and requirements for a period of not more than one (1) year from their date of effectivity to encourage the banking industry and other financial institutions to extend loans and other forms of financial accommodation to help businesses recover from the adverse economic effects of the Covid-19 pandemic and to enable the banking industry to appropriately manage its risk and potential losses.

The BSP is likewise hereby authorized to grant reporting relief to its supervised entities by allowing staggered booking of allowance for credit losses for all types of credit accommodations extended to individuals and business entities affected by Covid-19 [Section 4(ddd)].

- (f) Notwithstanding the provision of existing laws to the contrary, the net operating loss of the business or enterprise for taxable years 2020 and 2021 shall be carried over as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss provided that this subsection [Section 4(bbbb)] shall remain in effect even after the expiration of the "Bayanihan to Recover as One Act" until the next adjournment of the Eighteenth Congress on 19 December 2020.

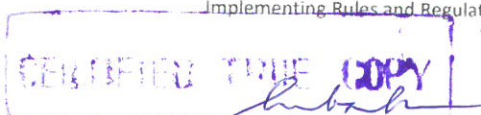
RULE IV INFUSION OF CAPITAL TO SB CORPORATION AS ADDITIONAL FUNDING FOR THE CARES PROGRAM AND FOR ITS OTHER LENDING PROGRAMS

SECTION 1. Existing Capitalization of SB Corporation

SB Corporation has an authorized capital stock of Ten Billion Pesos (PhP10,000,000,000.00), composed of 80 million common shares and 20 million preferred shares, with both shares having a par value of one hundred pesos (PhP100.00). As of 31 December 2019 based on its audited financial statements, SB Corporation has a paid-up capital amounting to PhP1,882,408,400.00.

SECTION 2. Additional Capital Infusion of Ten Billion Pesos (PhP10,000,000,000.00) under the CARES Program and other Lending Programs of SB Corporation

The amounts that will be raised under Section 4, paragraphs (pp), (qq), (rr), (ss), (sss) and (tt) of the "Bayanihan to Recover as One Act" shall be used for the response and recovery interventions for the Covid-19 pandemic which includes, among others, Ten Billion Pesos (PhP10,000,000,000.00) for the infusion of capital to SB Corporation as additional funding for the CARES Program and for its other lending programs, as well as interest subsidy, to be extended to MSMEs, cooperatives, hospitals, tourism industry, and OFWs affected by the Covid-19 pandemic and by other socio-economic reversals.



**RULE V
FUND DISTRIBUTION**

SB Corporation therefore and in compliance with the directive of the National Government as embodied in Section 4 paragraphs (z) and (hh)(1) shall provide for the equitable distribution of the Ten Billion Pesos (PhP10,000,000,000.00) capital infusion as additional funding for the CARES Program and for its other lending programs, as well as interest subsidy, to be extended to MSMEs, cooperatives, hospitals, tourism industry, and OFWs affected by the Covid-19 pandemic and by other socio-economic reversals.

Further, in consideration of the intent of the law as provided for in the minutes of the Bicameral Conference Committee held on 20 August 2020, SB Corporation shall allocate Six Billion Pesos (PhP6,000,000,000.00) from the capital infusion of Ten Billion Pesos (PhP10,000,000,000.00) to DOT-accredited tourism enterprises, as well as BMBE-registered tourism-oriented enterprises.

**RULE VI
EFFECT OF THE INFUSION OF CAPITAL TO SB CORPORATION
AS ADDITIONAL FUNDING FOR THE
CARES PROGRAM AND ITS OTHER LENDING PROGRAMS**

SECTION 1. Capitalization of SB Corporation

With the capital infusion of Ten Billion Pesos (PhP10,000,000,000.00) by the National Government to SB Corporation for the CARES Program and its other lending programs as prescribed under Section 10(e)(4), SB Corporation shall issue the corresponding certificate of stock equivalent to the total number of unsubscribed shares.

Any excess at par value shall be treated as a share premium resulting to an additional paid in capital (APIC) of SB Corporation². This initial APIC can later act as a safety net against expected future losses in net income arising from the mandated objectives, purposes, and features of the CARES Program as laid down under the "Bayanihan to Recover as One Act". This is in consonance with the purpose of APIC, which is to provide a layer of defense against potential losses.

SECTION 2. Provision of "Pandemic Subsidy"

In the absence of direct government credit risk subsidies to support the mandated direct lending of SB Corporation to high-risk industries and sectors negatively-impacted by the Covid-19 pandemic consistent with Sections 4(hh)(1) and 10(e)(4) of the said Act, the Board of Directors of SB Corporation shall allocate a portion of the capital infusion as "Pandemic Subsidy". The pandemic subsidy may come in form of, among others, credit risk and funding support. It shall be used specifically to address the impact of the expected future credit losses on SB Corporation's profit and loss statement.

²SEC Opinion No. 14-13 dated 11 June 2014 – Additional Paid in Capital (APIC) is any contribution of stockholders over the par value of shares. Incidentally, share premium is also defined as the amount received by a firm over the par value of its share. APIC can be infused purposely to eliminate deficit and to support the company's operations.

SEC-OGC Opinion No. 19-14 dated 28 March 2019 – APIC is considered "a premium paid over and above the price of shares," wherein the amount paid for the shares (as recorded on the balance sheet) is increased but there is no further issuance of shares. APIC will increase owner's equity (net worth).

Said pandemic subsidy is necessary to cushion the impact of lending to pandemic-affected MSMEs and other highly vulnerable sectors as well as to enhance SB Corporation's capability to effectively and efficiently implement its loan programs under the said Act. In addition, utilization of the funding support may include, among others, the full automation of systems and processes and continuing operating expenses in the account management of loan portfolios amidst continuing heightened domestic and global uncertainties over the economy, employment, and public health due to the Covid-19 pandemic.

It is likewise understood that the capital preserved after the: 1) full utilization of the additional Ten Billion Pesos (PhP10,000,000,000.00) under the CARES Program and other lending programs of SB Corporation; and 2) temporary capital impairment in the short-to-medium-term shall remain part of SB Corporation's capital structure. Consequently, the Corporation shall then have full discretion in using the funds for its other programs.

RULE VII CARES PROGRAM

SECTION 1. COVID-19 to Restart Enterprises (CARES) Program

The CARES Program is SB Corporation's enterprise rehabilitation financing facility for qualified MSMEs adversely affected by the Covid-19 pandemic. The following are the primary objectives of the program:

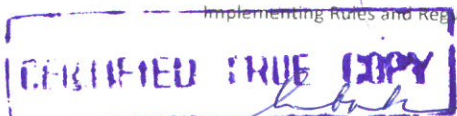
- (a) To protect Filipino workers by saving jobs;
- (b) To capitalize on business opportunities arising from the Covid-19 pandemic by encouraging innovation and effective strategic decision making; and
- (c) To bolster economic recovery by providing the immediate financial relief needed to support and restart MSME businesses.

SECTION 2. Objectives, Purposes, and Features of the CARES Program

The "Bayanihan to Recover as One Act" has directed SB Corporation to expand its existing loan programs for MSMEs, cooperatives, hospitals, tourism and OFWs affected by the COVID-19 pandemic and by other socio-economic reversals, through a combination of increasing available loanable funds, reducing documentary requirements, increasing maximum loan amounts per borrower, reducing interest rates and providing interest subsidy, extending loan terms, utilization of financial technologies to expand reach and increase access and set fast turn-around loan processing time; and allow the use of the loan proceeds for payroll cost, materials and suppliers, mortgage payments, rent, utilities, including fuel and storage, creation of new supportive businesses, re-purposing of existing business capital, any other business debt obligations that were incurred before the covered period or acquisition of new technologies and systems to adjust business processes for resiliency.

SECTION 3. Use of Financial Technologies

Section 4(z) has directed SB Corporation to utilize financial technologies to expand reach and increase access and set fast turn-around loan processing time. Further, in order to ensure timely, efficient, and effective management of the CARES Program amidst concerns



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about continuity of processes which have direct customer touchpoints, SB Corporation has undertaken the following systems and business process enhancements:

- (a) Streamlining and digitalization of the entire loan origination process from borrower on-boarding to loan disbursement, with manual loan processing kept at a minimum;
- (b) Direct loan disbursement through transaction accounts via banks (i.e., InstaPay- and PESONet-participating banks) and non-bank financial institutions or other electronic payment channels (i.e., GCash, PayMaya, Cebuana Lhuillier, etc.);
- (c) Use of multifactor authentication (MFA) system via email, electronic signature and one-time PIN (OTP) to facilitate and hasten the customer on-boarding and loan disbursement processes; and,
- (d) Full automation of the account monitoring and collections management systems to increase cash flow and improve profitability, operational efficiency and collections productivity.

As digital interactions become the primary options for customers, SB Corporation shall be sensitive to this opportunity and shall create mechanisms to collect, analyze and identify improvement opportunities arising from the increased use of financial technologies.

RULE VIII
CREDIT POLICIES AND GUIDELINES OF SB CORPORATION
UNDER THE CARES PROGRAM AND ITS OTHER LENDING PROGRAMS

SECTION 1. Credit Policies and Guidelines

Consistent with prudential standards, SB Corporation shall ensure clear and comprehensive guidelines for portfolio and delinquency management under the CARES Program and its other lending programs funded under the "Bayanihan to Recover as One Act".

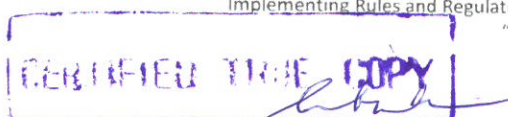
In formulating the credit policies and guidelines, SB Corporation shall consider and balance its dual objectives of:

- (a) Ensuring swift disbursements of the stimulus financing to pandemic-affected enterprises and sectors; and
- (b) Performing due diligence procedures to minimize risks and maintain effective compliance standards in the loan origination process.

For loans to DOT-accredited tourism enterprises, as well as BMBE-registered tourism-oriented enterprises, the credit guidelines shall be formulated in coordination with DOT as provided for under Section 4(hh)(1).

Further, the credit policies and guidelines under the CARES Program shall likewise adhere to the directives laid down under Section 4(z), specifically to:

- (a) Expand its existing loan programs for MSMEs, cooperatives, hospitals, tourism and OFWs affected by the Covid-19 pandemic and by other socio-economic reversals;



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- (b) Increase the loanable funds to support the needed financial assistance of the distressed MSMEs and enable them to restart their businesses;
- (c) Reduce the documentary requirements;
- (d) Reduce the interest rates and extend the loan terms as well as provide for a loan moratorium and additional grace period for all loans;
- (e) Utilize financial technologies to expand its reach and increase access of all distressed MSMEs; and
- (f) Set fast turn-around loan processing time to immediately address the financial assistance needed by the MSMEs, cooperatives, hospitals, tourism and OFWs affected by the Covid-19 pandemic and by other socio-economic reversals.

SECTION 2. Loan Purpose

In order to address the eligible borrowers' financing needs during the Covid-19 pandemic, SB Corporation shall allow the use of the proceeds of the loan for the following purposes:

- (a) To retain workers and maintain payroll or to pay for remaining workers or payroll cost;
- (b) To pay for cost of materials and suppliers;
- (c) To make mortgage and lease payments;
- (d) To pay cost of rent, utilities, including fuel and storage;
- (e) To re-purpose existing business capital;
- (f) To settle any other business debt obligations that were incurred immediately prior to the Covid-19 pandemic; and,
- (g) To create new supportive businesses or to acquire new technologies and systems to adjust its business processes in order to cope with the new normal.

Section 3. Concessional Loan Terms

Consistent with the directives under Section 4(z), the CARES Program shall provide loans at zero interest, subsidized operating costs in the form of service fees, and extended loan terms of up to four (4) years. In addition, loan terms are inclusive of extended grace periods of up to six (6) months or up to one (1) year for certain identified sectors.

Loan Term	One-Time Service Fee	Equivalent Service Fee Per Year
Up to 1 year	4.0 %	4.0 %
Up to 2 years	6.0 %	3.0 %
Up to 3 years	7.5 %	2.5 %
Up to 4 years	8.0 %	2.0 %

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Further, aside from not fully accounting for operating costs in delivering and managing the loan portfolio under the CARES Program, the service fees do not cover for the cost of credit risk. Credit risk is the probability rate that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Such occurrence will result to SB Corporation losing the principal and/or interest values of the loan account as well as to its incurring higher account management and collection costs. In this regard, SB Corporation may adjust the above stated service fees subject to approval of its Board of Directors.

RULE IX EXPECTED EFFECT OF THE COVID-19 RESPONSE AND RECOVERY INTERVENTIONS

The combination of the Covid-19 pandemic and strict community quarantine and physical distancing policy measures introduced in response has had a drastic effect on the cash flows and solvency of business establishments in the country, particularly for MSMEs. As the economy slowly reopens, the fact remains that the current pandemic continues and the path to full economic recovery is remains highly uncertain. As a result, the high-risk asset of loan portfolios granted to pandemic-impacted enterprises under the CARES Program will remain highly vulnerable to shifts in market economy.

Given the foregoing, SB Corporation – through the additional capitalization for the CARES Program and its other lending programs – plays a counter cyclical role as systemic stabilizer for the MSME finance market, delivering financing products to pandemic-impacted MSMEs and other priority sectors as part of its mandate. Evidently, this would require conscientious thinking and trade-offs among various short-and-medium-term options on the part of SB Corporation, in light of the provisions and directives set forth under the “Bayanihan to Recover as One Act”, coupled with the lack of direct government credit risk subsidies.

SECTION 1. Mandated Credit Risk Strategy

Section 4, paragraphs (g), (x), (z), and (hh) of the “Bayanihan to Recover as One Act” essentially mandates the credit risk strategy for the additional capital infusion of Ten Billion Pesos (PhP10,000,000,000.00) to SB Corporation under the CARES Program and for its other lending programs. This is due to the fact that the abovementioned subsections provide for the following conditions:

- (a) **Desired market segments:** MSMEs, cooperatives, hospitals, duly accredited tourism enterprises, and OFWs affected by the Covid-19 pandemic and by other socio-economic reversals;
- (b) **Specific characteristics of clients:** Covid-19 impacted enterprises and sectors; and
- (c) **Price and non-price loan terms:** zero interest/interest subsidy, extended grace period, and non-collateralized loans.

SB Corporation’s mandated exposure to high-risk assets under the “Bayanihan to Recover as One Act” coupled with the mandated concessional interest rate granted to the target MSMEs will result to an impairment of portion of the additional capital infusion of Ten Billion Pesos (PhP10,000,000,000.00). As such, the additional capital infusion will have to ultimately absorb the credit losses when the high-risk assets under the CARES Program eventually lose part of their value.



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Nevertheless, SB Corporation shall deliver on its mandate under the Act through a corporate governance lens, by engaging in an equitable and efficient allocation of the resources provided while at the same time exacting accountability for the stewardship of said resources.

SECTION 2. Impairment of Additional Capital Infusion due to Mandated Capital Allocation to High-Risk Assets

SB Corporation's mandated exposure to highly vulnerable sectors impacted by the Covid-19 pandemic will leave it significantly exposed to future credit losses. As such, SB Corporation – for the first time since its inception – is expected to, in the short-to-medium-term, record capital impairment, i.e., against the additional capital infusion under the said Act due to the following:

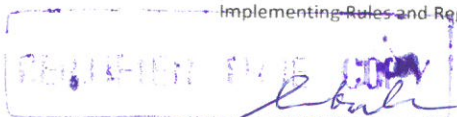
- (a) The mandated credit risk strategy will result to higher cost of credit risk;
- (b) The mandated concessional lending rate on interest will result to a deflated revenue stream that will not be adequate to cover the cost of credit risk and portion of overhead cost;
- (c) The mandated concessional loan terms including extended grace period and repayment terms will require an increase in account management costs;
- (d) The duration of the Covid-19 pandemic and of its economic impact inclusive of low consumer confidence remains uncertain at this point. Any severe economic shocks might translate into a sharp increase in SB Corporation's non-performing loans; and,
- (e) Lack of direct government credit risk.

Given the foregoing, SB Corporation's loan loss provisioning requirements are expected to increase significantly. The combination of increase in provisioning and deflated revenues would drive the Corporation's net income into negative territory, thereby reducing capital. It is important to note that, despite the interaction with net income, APIC shall appear only on SB Corporation's balance sheet, not on its profit and loss statement. Given the foregoing, absent a credit risk subsidy, SB Corporation is expected to record significant negative operating losses in the short-to-medium-term. Credit risk under the CARES Program depending on the state of the Covid-19 pandemic may reach the vicinity of thirty percent (30.0%).

SECTION 3. Availment of Regulatory Relief Measures

Section 4(ddd) encourages BSP to adopt measures, including the relaxation of regulatory and statutory restrictions and requirements for a period of not more than one (1) year from their date of effectivity to encourage the banking industry and other financial institutions to extend loans and other forms of financial accommodation to help businesses recover from the adverse economic effects of the Covid-19 pandemic and to enable the banking industry to appropriately manage its risk and potential losses.

The BSP is likewise hereby authorized to grant reporting relief to its supervised entities such as excluding eligible accounts from past due and non-performing classifications and allowing staggered booking of allowance for credit losses for all types of credit accommodations extended to individuals and business entities affected by Covid-19. This is



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to incentivize BSP-supervised financial institutions, including SB Corporation, to provide equivalent financial relief to their borrowers and to provide financing to households and businesses.

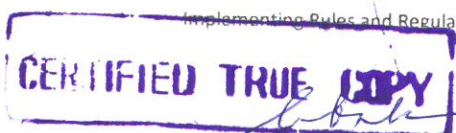
In this regard, SB Corporation shall be guided by existing and future supervisory expectations on the treatment of regulatory relief measures granted and the measurement of expected credit losses (ECL) under the Philippine Financial Reporting Standards (PFRS) 9 amid the uncertainties brought about by the COVID-19 pandemic.

- (a) **Exclusion from Past Due and Non-Performing Classifications.** SB Corporation shall continue to determine the corresponding allowance for credit losses of CARES Program accounts eligible for possible exclusion from past due or non-performing classifications. SB Corporation may immediately recognize the total amount of allowance for credit losses computed or apply for BSP approval for staggered booking of allowance for credit losses.
- (b) **Staggered Booking of Allowance for Credit Losses.** SB Corporation shall comply with prudential guidelines on the assessment of the quality of its loan portfolio under the CARES Program prior to applying for the relief to book the allowance for credit losses on a staggered basis. Consistent with the provisions of BSP Circular No. 855, series of 2014 prescribing for the guidelines on credit risk management, the propriety and adequacy of allowance for credit losses shall be independently reviewed by the concerned oversight body within the Corporation.
- (c) **Write-off Problem Credits.** SB Corporation shall write off problem credits under the CARES Program and its other lending programs, regardless of loan amount, against its allowance for credit losses within a reasonable amount of time as such problem credits are determined to be worthless as defined under its policies. There shall be no undue delay in implementing write-offs under the CARES Program as it will reflect negatively on SB Corporation's financial statements.
- (d) **Net Operating Loss Carry-Over.** Notwithstanding the provision of existing laws to the contrary, the net operating loss of SB Corporation for taxable years 2020 and 2021 shall be carried over as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

SECTION 4. Sustainability of the Additional Capital Infusion of Ten Billion Pesos (PhP10,000,000,000.00) to SB Corporation for the CARES Program

The mandated exposure to high-risk assets under the said Act coupled with the absence of direct government credit risk subsidy and of guaranteed further capital infusion – conditions which often comes with fiscal stimulus plans– shall have significant sustainability implications on the additional capital infusion to SB Corporation. In times of economic stress and with uncertainty creeping into economic activities, exposure to credit risk continues to be the biggest source of problem for financial institutions, including SB Corporation.

Nevertheless, SB Corporation should be able to draw some useful lessons and crucial information from its past experience in 2014 when it implemented a similar enterprise rehabilitation financing program for MSMEs devastated by Typhoon Yolanda. SB Corporation allocated Six Hundred Million Pesos (PhP600,000,000.00) of its corporate funds for the said program. In response, the National Government provided Two Hundred Million Pesos (PhP200,000,000.00) in counterpart funding – or thirty three percent (33.0%) – in the



form of a credit risk subsidy to cushion the impact of the allowance for credit losses for the high-risk assets. As of 31 December 2019, potential losses under the said program is well within the credit risk support provided by the National Government, thereby avoiding any capital impairment against SB Corporation.

The economic devastation of Typhoon Yolanda significantly pales in comparison to the size and scope of the impact of the Covid-19 pandemic. Given that full economic recovery remains highly uncertain, markets continue to be wary of the longer-term prospects in the financial services sector, especially in its riskiest segments. As such, the strong possibility of the combined effect of low economic activities, of high non-performing loans (NPLs) and resulting impairment, and possible operational and fair value losses due to the Covid-19 pandemic shall result in reduced profitability and capital impairment for SB Corporation.

PART X MONITORING, REPORTING AND EVALUATION

SB Corporation shall submit a monthly report to the Department of Trade and Industry (DTI) on the implementation of measures under this Implementing Rules and Regulations (IRR).

PART XI SEPARABILITY AND REPEALING CLAUSE

If any clause, sentence, or provision of this IRR shall be declared invalid or unconstitutional, the other provisions not affected shall remain valid and subsisting.

All other issuances/guidelines issued by SB Corporation, which are inconsistent with the provisions contained herewith shall be deemed repealed or amended accordingly.

PART XII EFFECTIVITY CLAUSE

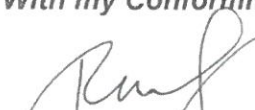
These Rules shall take effect immediately after its publication in one (1) newspaper of general circulation and upon filing with the Office of the National Administrative Register (ONAR), University of the Philippines Law Center, Quezon City.

Signed on the _____ day of _____ 2020 in Makati City, Philippines.


MA. LUNA E. CACANANDO
President/CEO
Small Business Corporation


BLESILA A. LANTAYONA
Acting Chairman of the Governing Board
Small Business Corporation

With my Conformity:


RAMON M. LOPEZ
Secretary
Department of Trade and Industry