



# ENTERPRISE BANK, INC.

*The Entrepreneurs' Bank*

2006 ANNUAL REPORT

**ENTERPRISE BANK, INC** (formerly known as the New Rural Bank of Lianga) was founded on May 10, 1976 in Lianga, Surigao del Sur by Mr. Ignacito U. Alvizo and other local investors as a community based Rural Bank serving the needs of the locality. The bank embarked on the establishment of branches in 1994 when the BSP deregulated the banking industry. Ten branches were established in several parts of Caraga Region, Davao Provinces & Misamis Oriental.

In 1997, EBI was accredited by the People's Credit and Finance Corp. (PCFC) as one of its program partners in Mindanao. EBI then launched its microfinance program "Kalisud Mo, Tabangan Ko" or KMTK, a credit program which adopts the basic Grameen Bank model of solidarity lending. KMTK became the flagship loan product of EBI and was instrumental in improving the bank's financial performance.

## TABLE OF CONTENTS

- VISION AND MISSION STATEMENTS	4-5
- CHAIRMAN'S MESSAGE	6-7
- PRESIDENT'S REPORT	8-12
- EBI OPENS DAVAO CITY BRANCH	13
- CSR: MICROFINANCE FOR COUNTRYSIDE DEVELOPMENT	14-15
- SOCIAL RESPONSIBILITY: REACHING OUT TO THE POOR AND THE NEEDY	16-17
- BOARD OF DIRECTORS	18
- EXECUTIVES	19
- MANAGERS	20
- PRODUCTS & SERVICES	21-23
- FINANCIAL STATEMENTS	24-30
- BRANCH DIRECTORY	31

**EBI's pioneering efforts in micro enterprise development and in the delivery of financial as well as non-financial services to benefit the rural poor in Eastern Mindanao had been recognized by a number of institutions involved in microfinance industry.**



**To become the leader in the delivery of microfinancial services in Mindanao.**





**To provide** financial services to enterprising individuals, especially women, and shall ensure that credit is utilized to improve their economic well-being.

**To promote** savings consciousness to attain self-sufficiency and self-reliance.

**To strive** to offer quality service through investment in human resource development in order to achieve high standards of performance to meet the challenges of a competitive market and to satisfy clients' needs.

**To make certain** that each employee will be given the opportunity for professional advancement and be guaranteed with economic security and stability.

**To increase** shareholders value through prudent investment and efficient operation.

# A MESSAGE FROM THE CHAIRMAN



**W**e take pleasure in reporting the great strides of Enterprise Bank, Inc. which led to the attainment of noteworthy and exceptional accomplishments in 2006. Despite the cutthroat competition due to the mushrooming lending institutions providing the same service EBI gave, we undauntedly attained our goals and exceeded our target.

As reported by the EBI President, the active traditional non-micro loans increased by 12 percent which catapulted the microfinance output to a record high. There were noticeable increases in our loan portfolios and disbursements. These effected in more than satisfactory financial returns which meant good news to our partners, depositors and clients. The consistent pattern of growth and achievement of the bank paid off attractive returns in forms of dividends to the investors and the clients it serves.

2006 was a year of growth and expansion. Special mention is due to the successful opening of a branch in Davao City, the central hub for microfinance urban entrepreneurs. The opening was one vital step in realizing our mission to broaden the scope of our services while addressing the unique needs of the growth centers in Mindanao.

**microfinance - the core of  
our institutional strength -  
is also our invaluable tool  
and meaningful participation  
in helping eradicate poverty.**

It was also a year of new partnerships, alliances and opportunities that promised extensive expansion. The recently concluded partnership with OXFAM (Novib), a financial institution based in Netherlands, clearly indicated that the operational performance of the bank in terms of micro-finance had long been

noticed by institutions involved in microfinancing here and abroad. Moreover, brighter prospects of future partnership with other development-oriented financial institutions awaits the bank.

But despite the sustained institutional and financial strengths, we neither forget nor neglect our larger role as a major force in helping realize countryside development through entrepreneurship especially in Mindanao.

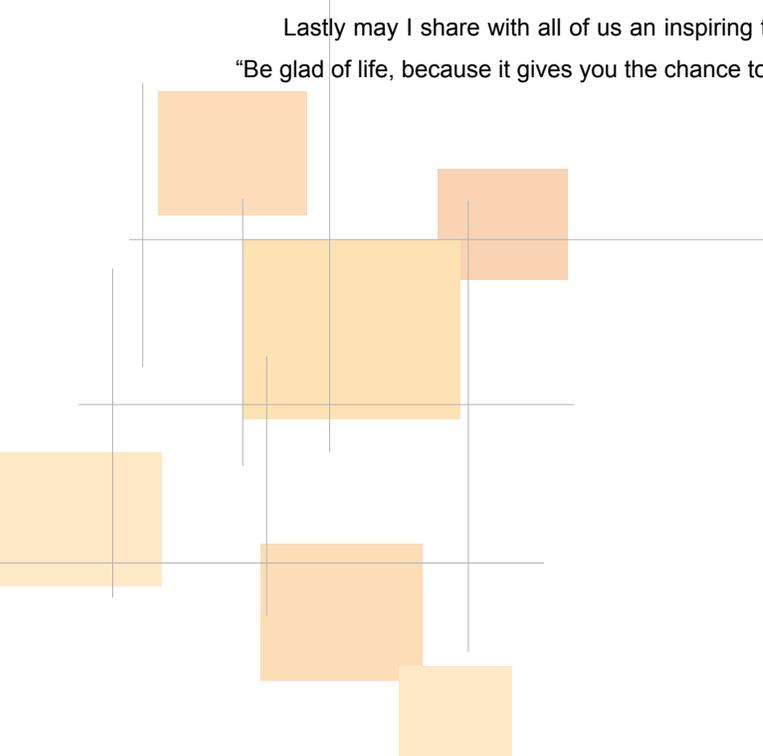
This is where Microfinance – the core of our institutional strength – becomes our invaluable tool and meaningful participation in helping eradicate poverty in the countryside. Empowering poorer sectors to self-sufficiency through entrepreneurship is one major objective of the company.

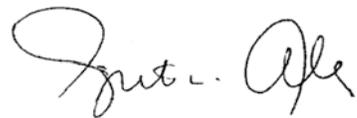
On the side, EBI practices its corporate social responsibility by contributing to rural development where the marginalized sectors abound. For this reason, it works closely with its sister organization, the KMFI or Kalisod Mo Tabangan Ko Micro-Enterprise Development for Community Foundation, Inc. which is consistently spearheading and pushing its social development agenda.

Looking forward, the forthcoming fiscal period will usher in fresh challenges. Just the same, we anticipate a highly competitive playing field. But we have learned hard lessons from the past, and have positioned ourselves better now. With the targets defined, with better and sound strategies crafted for growth and productivity, strong commitment of our staff, and by God's grace, I am certain that EBI can beat its corporate goals.

Recognizing that one of the key drivers to success is Human Resources, the bank will institute finer human resource development and management programs to improve staff competencies and increase organizational capabilities. May I commend our staff which held themselves steadfast by refusing to be overwhelmed by a very hectic and demanding year.

Lastly may I share with all of us an inspiring thought from renowned educator Henry Van Dyke: "Be glad of life, because it gives you the chance to love, work, play, and look up at the stars".



  
**IGNACITO U. ALVIZO**  
CHAIRMAN



“The idea is still to lend short, lend small, lend more and lend fast. And the stratagem is to be efficient in doing it. Total loan disbursement for this year is expected to exceed the 1 billion-peso mark and is projected to increase by at least 10 percent.”

*Atty. Ronald E. Alvizo*

**Year 2006, in many respects, proved to be a good year for Enterprise Bank, Inc. as we moved to improve earnings and continued to grow our loan portfolio. Both individual and group loan portfolios continued to increase and reached new heights.**

**M**icrofinance group loans grew by 35 million pesos and totaled 120 million pesos as of October this year or 41 percent more than it was for the same period in 2005, while NMTK (Negosyo Mo, Tabangan Ko) loan portfolio gently crept up to register an increase of about 20 million pesos or an upsurge of about 200 percent from what it was in 2005.

This is mainly due to the renewed focus on the product's credit delivery mechanism which was reengineered to go well with the demands of the small and medium enterprise (SME) market.

Our traditional loan products or the non-micro loans, in the aggregate, fell short in posting significant growth and almost got wedged in a sand trap. But it was a deliberate strategy of management to keep the loan portfolio within manageable levels; within a point where it is not unwieldy.

The reduction in loan sizes of these products was deemed to be the most prudent option to neutralize the effects of cutthroat competition put up by other credit providers which, as a result, have polluted the market with an oversupply of credit.

It is a risky environment to be in and if we compete with them on even terms, we could end up with more than enough bad loans in our bag than we can handle.

In spite of this, active clients of these traditional non-micro loans increased by 12 percent not to mention an increase in the number of disbursements of these loans as compared to the previous year. These indicate that we have maintained a strong market presence while being able to protect our share of the market pie.

The idea is still to lend short, lend

small, lend more and lend fast. And the stratagem is to be efficient in doing it. Total loan disbursement for this year is expected to exceed the 1 billion-peso mark and is projected to increase by at least 10 percent.

The consistent increase in portfolios of these important, interest-sensitive assets - 56 percent to be exact - represents positive growth in what was and continues to be a highly competitive and difficult market environment.

Although the bank continues to bear the high cost of funds due to the high cost of commercial borrowings, net income as of October 2006 was 22 million pesos and already there has been an increase of almost 5 million pesos over net income gained the entire year last year.

That means we are profitable by 29 percent more in October this year than we were the entire year last year.

Indeed our profitability ratios for the current year never looked more inspiring. During the last two quarters of this year we set out to restructure our fund mix by concentrating on lowering our cost of funds and increasing fee/interest income.

From the financial standpoint, all major ratios such as return on assets, return on equity and equity to assets all continued to improve. Both capital and asset growth have increased in balanced proportions allowing the bank to continue leveraging its financial position in a sound and stable manner.

And so, what progress have we made with our strategic objectives? How are we advancing our framework for excellence vis-a-vis our corporate goals?

---

Let me tell you more where we are at.

## Client Outreach in Microfinance Program



As of October 31, 2006, we have a client outreach of 27,507 or 25 percent more clients than last year. This also means that client retention has to a great extent improved compared to the previous years. This fact taken alone demonstrates our underlying intent to provide a broader range of microfinance services to varied low-income groups to help them help themselves.

Micro-agri loan portfolio has now reached the 50- million peso mark, about 40 percent of which had been lent out to small farmers in the agrarian reform communities or ARCs.

Microfishing has benefited about five hundred marginal fisherfolk in the coastal areas of Surigao del Sur and will be determinedly promoted in other coastal areas as part of the bank's outreach strategy in the days ahead.

Microhousing, as an interdependent program of the other group loan products, has already lent out 2 million pesos to qualified beneficiaries, which has provided them with low-priced funds to pay for the cost of house repairs to improve their living conditions.

Solar lending program for qualified clients living in areas with no electricity will soon be implemented based

on a business plan jointly prepared by the bank and Shell Philippines. This is a project of the Department of Energy (DOE) implemented in cooperation with World Bank and Enterprise Bank, Inc. serving as one of the conduits. The business plan is awaiting approval of the DOE.

## Portfolio Quality

Generally, loan portfolio quality of the bank's microfinance programs has stayed below the Central Bank requirement of 5 percent. The Portfolio at Risk ratio has gone down from 4 percent last year to 3.5 percent this year. But in terms of absolute amount, it went up by almost a million pesos.

Overall, the loan portfolio has shown resiliency, being able to recover and quickly spring back from setbacks. Despite the increase in total loan portfolio, the total amount of "bitay" and past due accounts, including ITL (Items in Litigation), have gone down.

The corresponding rates have improved compared to previous years which mean that we have remained uncompromising in our efforts to collect.



Microfishing has benefited about five hundred marginal fisherfolk in the coastal areas of Surigao del Sur and will be determinedly promoted in other coastal areas as part of the bank's outreach strategy in the days ahead.

## Strengthened Organizational Structure

**W**e made both minor and major reconfigurations of our organizational structure in the latter part of this year. They were primarily meant to rationalize roles and simplify functions in the existing departments.

The office of Finance was created and has been tasked to set-up the financial management system of the bank. We engaged the services of an experienced professional whom we count on to drum up results in ensuring that reliable financial information can be accessed and obtained on demand to aid sound decision-making.

These changes delivered improvements in the management of the corporate functions, enhanced our safeguards and improved the independence of the various departments. The objectives of restructuring is to improve work effectiveness and efficiency which is a strategic objective. Restructuring, however, is by no means complete. We continue to finalize the process and infuse additional changes.

The Human Resource Department (HRD) now fortifies itself as a step to enhance the performance of major

human resources functions such as human resource planning, recruitment and selection, human resource development, compensation and benefits, safety and health, employee and labor relations and human resource research.

Part of the capacity building effort included the hiring of a capable human resource manager whose previous extensive experience with other companies brought to the

**micro-agri loan portfolio has now reached the 50-million peso mark, about 40% of which had been lent out to small farmers...**

bank new and broader perspectives on the focal role that human resource development and management play in a growing organization.

We beefed up the executive support group by hiring young, able and dynamic people. Now we see a growing number of trained professionals in the organization: certified public accountants (CPAs), a lawyer, marketing-oriented field officers and the like. We engaged their talents and expertise to professionalize our service delivery system thus reinforcing more the existing capability of our organization.

**We made both minor and major reconfigurations of our organizational structure in the latter part of this year.**



**The bank recently concluded a loan agreement with OXFAM (Novib) whereby OXFAM agreed to lend to Enterprise Bank, Inc. the peso equivalent of 300,000.00 euros for a term of three years.**



### **Accreditation of Enterprise Bank, Inc. by a foreign financial institution as Microfinance Conduit**

The bank recently concluded a loan agreement with OXFAM (Novib) whereby OXFAM agreed to lend Enterprise Bank, Inc. the peso equivalent of 300,000.00 euros for a term of three years.

Under the agreement, the loan shall be used to expand the bank's microfinance portfolio. OXFAM (Novib) is a financial institution based in the Netherlands.

Another foreign financial institution, TRIODOS Bank, also based in the same country, expressed its desire to partner with Enterprise Bank, Inc. for the same purpose of development lending. One of its representatives visited the bank to do due diligence assessment and she expressed her approval of the strategic direction and operational performance of the bank. Of late, foreign institutions have taken notice of the bank's performance in microfinance.

### **Expansion**

On July 3, the Davao City Branch was opened for business. The establishment of this branch was in consonance with the plan of management to expand its services in the growth areas of Mindanao with the end in view that output in these areas would considerably contribute in achieving the corporate goals of the bank.

A new office in Tandag, Surigao del Sur is being constructed to accommodate the growing volume of business while a new office building was also opened early this year to establish presence in the northern part of the province of Surigao del Sur.

We have opened new service centers in high growth areas like Kidapawan, Bukidnon, Iligan City and our next stop will be General Santos City farther south. The increase in outreach as well as the rise in loan disbursement and loan portfolio is attributed to these factors. Taking cue on this success, we plan to replicate and further improve this next year.



## Information and Knowledge Management

Our computer-based information system, specifically the software component, has been upgraded to run under the Windows Operating System. The upgrade has already been installed in four branches and will be completed before the year ends. We recognize that a sustainable organization must manage the knowledge it has.

Effective information and knowledge management, including consultation and communication, is crucial in meeting strategic objectives. Hence, have we made progress in the past year to become a better institution? I believe so.

That is not to say our task is finished. Still we need to put more effort and the bank has been groomed for more improvements in the future.

It is our main concern to continue to look for new and more ways to improve the way we do business – improve governance, increase effectiveness and efficiency and to

be more open and transparent.

However, it is important to note that the effectiveness of what we do – providing financial services that benefit low income groups – will always be our first priority and will, whatsoever, not be compromised.

2007 will expectedly prove to be an extraordinarily competitive year due to the policy on the liberalization of the establishment of branches. New banks are anticipated to come to the marketplace.

In response, our plan will be to continue developing and executing strategies that are designed to increase our market share, improve earnings and to meaningfully play the role of an exemplary corporate citizen.

## The Indelible Handprints of our Staff

In substance, 2006 will be marked as a year during which the Bank made unprecedented reach to the communities it serves. This was made possible because each of our staff contributed in big ways

to lend support, give encouragement and, above all, make a difference.

These contributions were done in a variety but meaningful ways: from joining the branch's collection crusade to simply lending a helping hand to a fellow employee who is stuck in a difficult task.

This showed that much can be accomplished by pooling efforts together. What we don't usually read in between the balance sheet figures are actually victories – both large and small – embedded there by our staff and which shall always serve as their lasting and indelible handprints.

**We all have dreamed! That is why we do what we are doing. Together we can accomplish much.**

**As always, thank you for your support.**

**ATTY. RONALD E. ALVIZO**  
President

# EBI opens Davao City Branch



**Since it opened in July 3, 2006, the bank has been seeing more opportunities and has contributed in enhancing systematic bank operations in the whole clusters of EBI branches in Mindanao.**

**D**avao City, being the growth center in Southern Philippines, is the vital commercial hub for urban microfinance entrepreneurs. Optimistic of its positive impact in the micro finance services, EBI has recently opened a new branch in this city to cater to the financial needs of the growing population of entrepreneurs.

The opening of the Davao City branch proves once again that the expansion strategy is working with great success. Since it opened in July 3, 2006, the bank has been seeing more opportunities and has contributed in enhancing systematic bank operations in the whole clusters of EBI branches in Mindanao.

It has significantly increased the growth of loan portfolio for both micro and small business financing which, in return, brings positive news to its clients and beneficiaries.

In terms of operations, the said

branch becomes the center of the executive operations even if its main and head office remains in Lianga, Surigao del Sur. The move is strategically important considering that the city is also a commercial and information hub.

Since its establishment, communication and accessibility of information among EBI's network of branches became technology-based and easy, thus, yielding expeditious, orderly, and efficient services clients

The branch fit the needs of the company to meet the demands of the clients and beneficiaries. It has become instrumental in the recently concluded partnership between international finance institutions based in Netherlands.

True to its commitment and mission to become the leader in the delivery of micro finance services in Mindanao, the bank is strengthening its

organizational structure by providing relevant trainings and seminars to its staff.

Presently, the Davao Branch has an arsenal of intelligent, dedicated, young, and dynamic personnel capable of delivering professionalized service to its fast growing number of clients and investors.

#### CONTACT DETAILS:

### ENTERPRISE BANK, INC. Davao City Branch

Unit 1-3 GGO Summit Bldg.  
J.P. Laurel Avenue  
Davao City

Telephone Numbers:  
(082) 225-8892  
228-6986 or 305-3978



“EBI started its mission to help eradicate poverty not elsewhere but right at its own backyard in Lianga, Surigao del Sur.”

# MICRO FINANCE FOR COUNTRYSIDE DEVELOPMENT

THE CORPORATE SOCIAL RESPONSIBILITY...

The practice of Corporate Social Responsibility (CSR) has been entwined in the corporate objectives of Enterprise Bank, Inc. It is one of the cornerstones of the bank’s operations. Historically, CSR is the core philosophy from which the bank was founded way back in Lianga, Surigao del Sur in 1976 when EBI founder Ignacito E. Alvizo formed the bank to provide social and economic services for the rural poor.

EBI has gone a long way since it started off as the New Rural Bank of Lianga. Today EBI has 10 branches and 16 service outlets establishing its presence in major cities and most provinces in Mindanao. It has also remained steadfast and consistent in its founding mandate to provide social services with microfinance as its core competence and flagship program.

Alongside with its vision to become the leader in the delivery of microfinance services in Mindanao, the bank has discretely accomplished and extended to the community, various social services.

EBI started its mission to help eradicate poverty not elsewhere but right at its own backyard in Lianga, Surigao del Sur. Its main thrust was to improve the quality of life of marginalized sectors by encouraging entrepreneurship. It has provided both financial and non-financial services to support micro-enterprise initiatives. With this commitment,



## The practice of Corporate Social Responsibility (CSR) is entwined in the corporate objectives of Enterprise Bank, Inc.

EBI has touched the lives of hundreds poor families and communities in many other provinces in Mindanao.

This corporate social philosophy that the bank practices provides the answer to the query why EBI supports a child care center for malnourished children of indigent rural families. EBI's wide range of social involvement also includes construction of school buildings for poor pre-school children and repair / maintenance of church building structures.

EBI has grown both in corporate financial terms and in its social investments. Its sister organization – KMFI or Kalisud Mo Tabangan Ko Micro-Enterprise Development for Community Foundation, Inc. is consistently spearheading and pushing the social development agenda of EBI. KMFI has been around since the bank began in Lianga. It has also dramatically grown alongside EBI. It has proportionately expanded the scope of its services and reached more poor sectors.

KMFI currently anchors five major programs: social services, environmental advocacy, research and training, micro finance development services, income generating

activities and the KMFI health plus. The programs can be summed up through in two major activities — livelihood support through micro-enterprise projects and social services.

Lianga used to be hounded by rampant dynamite fishing. Conscious that such practice threatened the aquatic environment, KMFI launched seaweed farming and trading projects as a noble alternative to destructive dynamite fishing. A clothes shop center in the same town likewise turned the inherent creative talents of the poor housewives into a full-blown enterprise.

The idea to provide poor families affordable and direct access to pharmaceutical drugs led the bank to embark on the Health Plus Center project. Presently, 22 Pharma drug center offers cheaper and affordable medicines.

KMFI has recently commenced a bold project providing social credit to indigenous peoples in Surigao del Sur.

With its new project, EBI has again translated in its unique and varied ways that indeed, the real business of its banking business is development.



# REACHING OUT

to the poor and the needy

For Enterprise Bank, Inc. CORPORATE SOCIAL RESPONSIBILITY IS NOT AN ADD ON: the value created by the business and the social and environmental commitment are mutually reinforcing. Neither will be sustainable without the other.



**A**s a company dedicated to helping the poor, the Enterprise Bank, Inc. runs a microfinance program benefiting not only its poor clients (women, marginalized farmers and fisherfolk) but also the broader agricultural and fishing communities.

Agriculture, including fisheries, is at the heart of a poor man's existence in the rural areas. It is where economic, social and environmental considerations intersect, encompassing the demands of development and poverty reduction.

Microfinance has an impact on all of these areas, and we are fundamentally convinced that in helping the poor by giving them access to financial and non-financial services that promote self-reliance and financial independence, our company makes a vital contribution to society.

This is how the bank will further its business: Uniting socioeconomic issues with business value by providing broad economic and social benefits to all its stakeholders through its role as financial intermediary. The imperatives of a better quality of life for the poor render poverty reduction and countryside development key challenges for the Bank in the coming decades.

## FEEDING PROGRAM: An outreach activity

As part of its extension services to help poor rural communities, the bank is fully funding a feeding program, which is managed and administered by the Dominican Sisters of the Holy Rosary of Pompei. The program began in 1997 in response to malnutrition cases prevalent among the children of poor families in the towns served by the bank.

Starting with meager resources at hand, and employing practical approaches for want of experience and expertise, the bank introduced the program in remote towns and encouraged parents and guardians of identified undernourished children to join the program.

On December 8, 2003, the children were transferred from a rented feeding center to a new home inside a newly constructed building complex that also served as the bank's training center. It was also during that year that the Dominican Sisters arrived to take care of the business of feeding and attending to the other needs of these children.

Enterprise Bank, Inc., has been implementing its feeding program for malnourished children as part of its social mission. Today there are more than 20 children being nursed back to health by Dominican nuns.



## to restore

their health, the bank allocates part of its revenues to purchase food supplies and food supplements recommended by nutritionists and dietitians.

The children's ages range from 1 to 5 years old and who are nutritionally deficient and ill-fed. Most of them are affected by ailments that have seriously impeded their growth and development. Their physical attributes display the ugly effects of hunger, like bulging stomachs, reed-thin body structures, dwarfism, skin infections, bow-legs, pale skin and the like. A number to them show patterns that suggest late development of mental faculties.

To restore their health, the bank allocates part of its revenues to purchase food supplies and food supplements recommended by nutritionists and dietitians. The cost of feeding runs at about US\$50 per child per month. They are housed in a building, complete with basic facilities that are being maintained at the Bank's expense.

Majority of these children are left behind by mothers who have to leave them in the care of relatives so they could seek employment opportunities somewhere else. Others are members of ultra-poor households whose livelihood cannot sufficiently provide for the basic needs of large families. Some are offsprings of irresponsible and uneducated parents. In all cases, these families are on the

verge of starvation, and food security is a serious and constant struggle. Hunger to them has become a way of life.

The micro finance programs of the bank especially the program that targets poor women help promote and create employment opportunities that will eventually lead to self-reliance and self-sufficiency.

## VALUES FORMATION

The bank also maintains a preschool education program that allows children of poor families to enjoy the benefits of a Christian education. These children are taught Christian values along with basic reading and writing skills. Then bank believes that values formation during the tender years will prepare children to be responsible and productive members of society as will as build their self-esteem and raise awareness of their worth as individuals. The preschool program is being run by the Dominican Sisters.

**for inquiries** about the outreach program of Enterprise Bank, Inc. you may contact KMFI, Lianga, Surigao del Sur at Tel. No.: (085) 839-2050 or (082) 300-4469 (Davao Office)

### KMFI Board of Trustees

Chairman - Mr. Ignacio U. Alvizo  
 President - Atty. Ronald E. Alvizo  
 Secretary - Atty. Romelia O. Patawaran  
 Treasurer - Ms. Emma A. Requilme  
 Trustees - Ms. Dorefel A. Barit  
 Ms. Josephine M. Bala-an

Members - Msgr. Nerio Odchimar  
 Ms. Ma. Bernadette O. Mojica  
 Dra. Editha C. Mosquera  
 Ms. Evelyn A. Balason  
 Ex Officio - Atty. Daisy Ronquillo

# BOARD OF DIRECTORS

## CORPORATE PROFILE

As of October, 2006

## BASIC BUSINESS INFORMATION

Name: **Enterprise Bank, Inc.**  
*The Entrepreneurs' Bank*

**Head Office Address:**  
Liang, Surigao del Sur

**Telephone numbers:**  
(085) 839-2050,  
839-2112  
(085) 343-8624,  
343-8017 local no.101

FAX: (085) 343-9377

**E-mail address:**  
[ebi\\_headoffice@yahoo.com](mailto:ebi_headoffice@yahoo.com)

**Davao Executive Office:**  
GGO Summit Building  
J.P Laurel Avenue,  
Davao City

**Telephone:**  
(082) 225-8892  
300-4042

**Start of Operation:**  
May 10, 1976

**Banking Units:**  
1 Head Office  
10 Branches  
16 Service Outlets

**RONALD E. ALVIZO**  
President/CEO

## MANAGEMENT AND EMPLOYEES

Board of Directors	6
Bank Executives	13
Employees	340



Ignacito U. Alvizo



Atty. Ronald E. Alvizo

Emma E. Requilme



Atty. Randy E. Alvizo



Dr. Carla Divina S. Virtudazo



Maximino A. Salang, Jr.

## BOARD OF DIRECTORS

**IGNACITO U. ALVIZO**  
Founder

**ATTY. RONALD E. ALVIZO**  
President and Chairman

**EMMA A. REQUILME**  
Vice President for Cash

**ATTY. RANDY E. ALVIZO**  
Corporate Secretary

**MAXIMINO A. SALANG, JR.**  
Owner of Maxsam Trucking in Lanang,  
Davao City

**DR. CARLA DIVINA S. VIRTUDAZO**  
Executive Director, Mind Measures Asia

# EXECUTIVES



Atty. Ronald E. Alvizo



Josephine M. Bala-an Jennifer D. Suelto Emma E. Requilme



Joel D. Lagura



Rogelio C. Moreno

John Jambo C. Regencia



Dennis A. Moreno

Cecilia T. Briones



Dorefel A. Barit



Angelito C. Curimo



Atty. Romelia O. Patawaran

# EXECUTIVES

**ATTY. RONALD E. ALVIZO**  
President/Chief Executive Officer

**MS. JENNIFER D. SUELTO**  
Senior Vice President

**MS. EMMA A. REQUILME**  
**MR. JOEL D. LAGURA**  
**MS. JOSEPHINE M. BALAN**  
**MS. DOREFEL A. BARIT**  
**ATTY. ROMELIA O. PATAWARAN**

**MR. JOHN JAMBO C. REGENCIA**  
**MR. ANGELITO C. CURIMO**

**MS. CECILIA T. BRIONES**

**MR. ROGELIO C. MORENO**  
**MR. DENNIS A. MORENO**

- Vice President
- Vice President
- Asst. Vice President
- Cash
- Micro Finance
- Accounting
- Compliance
- Collection, Legal and Asset Management
- Small Business Loans
- Management Information System
- Human Resources and Administration
- Southern Mindanao
- Surigao del Sur



1



2



3



4



5

# Managers



9

10

11

12

13



6



7



8



14

15

16

17

18



19

20

21

22

23

- 1. **Russell William B. Salamanca**  
Area Manager - Tagum
- 2. **Nover Jim A. Resonar**  
GL Area Supervisor - Davao Branch
- 3. **Julius G. Tejero**  
GL Area Manager - CDO
- 4. **Jorge A. Franconas**  
GL Area Manager - Santreba
- 5. **Jerome Cesar O. Aranas**  
SBL Area Manager - CDO
- 6. **Harold G. Valderrama**  
SBL Agri Loans Manager - Davao Branch
- 7. **Clyde S. Magno**  
Branch Manager / IL Manager - San Francisco Branch

- 8. **Anabelle M. Amora**  
Head of Credit Review & Rediscounting Dept.  
Head Office
- 9. **Julieta L. Miranda**  
Area Manager / Branch Manager - Tandag
- 10. **Analisa T. Tuble**  
Product Manager
- 11. **Mitchel S. Viola**  
Branch Manager - Hinatuan Branch
- 12. **Robina P. Cabayao**  
Admin. Manager
- 13. **Mitzi Gay F. Savellano**  
Personnel Manager
- 14. **Anastacio P. Balason**  
OIC Branch Manager - Aras-asan Branch

- 15. **Noel E. Cabrera**  
GL Supervisor - Butuan
- 16. **Orlindo R. Cervantes**  
IL Manager - Tagum Branch
- 17. **Conrad E. Viola**  
Area Manager - Butuan
- 18. **Nelson I. Javellana**  
SBL Commercial Loans Manager - Davao Branch
- 19. **Mohammad M. Samarah**  
MIS Manager
- 20. **Nelson Joy B. Calotes**  
IL Manager - Tandag Branch
- 21. **Alberto D. Sayawan**  
Area Manager / Branch Manager - Bislig Branch
- 22. **Nelson Casiano** - Training Manager
- 23. **Ian Caangay** - Head, Internal Audit

# PRODUCTS AND SERVICES

## CREDIT

### A. Micro Group Livelihood

Target Clients	: poor enterprising women
No. of active clients	: 38,973
Program Methodology	: a microfinance delivery mechanism patterned after the Grameen Bank model of group solidarity
Purpose	: working capital for various livelihood projects
Maximum loan amount	: Php50,000
Loan term	: 3-4 months
Other value added-services	: built-in community-based health insurance and mutual benefits scheme funded by premium contributions from member-clients

Type	Micro Group Livelihood
Fund source	People's Credit and Finance Corporation (PCFC)
Amount of credit line	Php150 M
No. of active clients	38,973
Interest rate %	30% per annum
Loan portfolio	Php92.5 M
Average repayment term	3 months
Collateral support	Co-makers/solidarity liability

### B. Micro Group Housing

Target Clients	: active clients (women) of Micro Group microfinance program
No. of active clients	: 1,226
Program Methodology	: follows and adopts the Micro Group delivery mechanism but features a demand-driven loan product that had been designed to complement the Micro Group program by providing its members with flexible financial services that squarely meet clients' need for access to credit to fund home improvements
Purposes	: The program aims to provide Micro Group

clients the opportunity to access credit that is flexible in its terms (loan term of up to 1 year) so that they may be able to effectively utilize the proceeds to spend for house repairs and other improvements (such as devices or equipment that provide connection or access to adequate water supply; toilet facilities; connection to electricity source, etc.) that will make their homes, including their surroundings, more habitable and fit to live in.

The goals and objectives of the program support as well as advance the idea that a client's investment in home improvement (i.e. fixing a leaky roof) is equally important and relevant to development in the sense that it directly promotes the socioeconomic well-being of the client and the family which, in turn, not only improves the chances of a more steady profit stream but also boosts the household's earning capabilities that ultimately result in the increase of a client's capacity to repay loans obtained for working capital.

Maximum loan amount	: Php50,000
Loan term	: maximum of 12 months
Value added services	: trainings, seminars on environmental protection, sanitation and proper hygiene, health, etc.

Type	Micro Group Housing
Fund source	Development Bank of the Philippines (DBP)
Amount of credit line	Php20 M
No. of active clients	1,226
Interest rate	24% per annum
Loan portfolio	8.4
Average repayment term	12 months
Collateral support	Co-makers/solidarity liability

### C. Micro Group Fishing

- Target clients : marginalized fisherfolk, seaweed farmers, seafarers and other individual engaged in fishery projects
- Active no. of clients : 300
- Program methodology : the program follows the credit and savings delivery mechanism of the Micro Group loan product but is more flexible in terms of loan terms and repayment schemes
- Purposes : to finance the purchase of marine engines, fishing vessels, fish nets and other fishing supplies, including provisions or rations for use while at sea
- Maximum loan amount : Php50,000.00
- Loan term : 3-6 months
- Value-added services : community-based health insurance and mutual benefits scheme funded by premium contributions from member-clients

Type	Micro Agri
Fund source	National Livelihood Support Fund (NLSF) United Coconut Planters Bank (UCPB)
Amount of credit line	NLSF: Php20 M UCPB: P23 M
No. of active clients	16,500
Interest rate	30% per annum
Loan portfolio	P101
Average repayment term	5 months
Collateral support	Co-makers/solidarity liability

Type	Micro Group Fishing
Fund source	NOVIB/OXFAM of Holland
Amount of credit line	Php19 M (Eu300,000.00)
No. of active clients	300
Interest rate	30% per annum
Loan portfolio	Php300,000.00
Average repayment term	3-6 months
Collateral support	Co-makers/solidarity liability

### D. Micro Agri

- Target clients : small agricultural lot owners and/or leasehold tenants or immediate members of their household, actually tilling and working the land
- No. of active clients : 16,500
- Program methodology : follows and adopts the Micro Group credit and saving scheme
- Purposes : to finance the purchase of farm inputs and farm labor
- Maximum loan amount : Php50,000
- Loan term : 5-10 months
- Value added-services : community-based health insurance and mutual benefits scheme funded by premium contributions from member-clients. Trainings, seminars on agri-business and agricultural techniques

### E. Livestock Loans

- Target clients : agricultural farmers and livestock raisers
- No. of active clients : + -50
- Program Methodology : individual term loan secured by chattel mortgage
- Purposes : to finance the purchase of livestock fattening and breeding or for use as farm animals
- Maximum loan amount : P25,000.00
- Loan term : 5 years
- Value added services : trainings, seminars on the proper care of livestock

Type	Livestock Loan
Fund source	Bureau of Animal Industry (Department of Agriculture)
Amount of credit line	Php 3.0 M
No. of active clients	+ -50
Interest rate	10% per annum
Loan portfolio	Php1.5 M
Average repayment term	5 years
Collateral support	Chattel mortgage

### F. Agricultural Loans

- Target clients : farmers owning more than 5 hectares of land devoted to agriculture
- No. of active clients : + -500
- Program methodology : individual term loans secured by real estate mortgage

Purposes : to finance purchase of farm equipment, farm inputs and other supplies, and the wages of farm hands  
 Maximum loan amount : Php400,000.00  
 Loan term : 1 year

Purpose : consumption loan  
 Maximum loan amount : Php50,000  
 Loan term : 1 year

Type	Agricultural Loan
Fund source	Bangko Sentral ng Pilipinas (BSP) Land Bank of the Philippines (LBP)
Amount of credit line	BSP: 100% of bank equity LPB: Php12 M
No. of active clients	+500
Interest rate	18%-24% per annum
Loan portfolio	P31M
Average repayment term	1 year
Collateral support	real estate mortgage

Type	Other Loans (Salary, pension loans)
Fund source	Land Bank of the Philippines (LBP) Own Funds
Amount of credit line	Php 25 M
No. of active clients	23,466
Interest rate	20-24% per annum
Loan portfolio	Php 288 mln
Average repayment term	6 months - 1 year
Collateral support	Real estate mortgage, chattel mortgage, co-makers

### G. Small Business Loans

Target clients : Individual engaged in micro and small-scale industry  
 No. of active clients : 205  
 Program Methodology : individual lending scheme that allows loans to clients based on their current cash flow  
 Purposes : working capital  
 Maximum loan amount : Php5 M  
 Loan term : 6 months to 3 years

Type	Small Business Lending
Fund source	Small Business Guarantee Fund Corporation (SBGFC)
Amount of credit line	Php 50 M
No. of active clients	205
Interest rate	18- 21% per annum
Loan portfolio	Php 89 M
Average repayment term	6 months – 1 year
Collateral support	real estate or chattel mortgage

### Other loans (salary, pension loans)

Target clients : salaried permanent employees and pensioners  
 No. of active clients : 23,446  
 Program Methodology : individual loan term

## DEPOSITS AND SAVINGS RELATED SERVICES

### Regular Savings Deposit

Interest-bearing deposit account with rate of 2% p.a.

### Regular Time Deposit

Interest bearing account for money placements with a fixed period.

Amount	0-90 days	91-180 days	181 – 365 days
Php 500 – Php 10,000	8.50%	8.75%	9.25%
Php 10,001 – Php 20,000	8.75%	9.00%	9.50%
Php 20,001 – Php 50,000	9.00%	9.25%	9.75%
Php 50,001 - over	9.25%	9.50%	10.0%

### Golden Time Deposit (Time Deposit)

Double-your-money in 6 years. Tax free with a minimum of P50,000.00 deposit.

### Premium Checking Account

Earns 1% interest per annum.

### Maintaining Balance

: P3,000 (Individual/Personal)  
 : P10,000 (Corporate/Institutional)

# QCB & Co.

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors  
Enterprise Bank, Inc.  
(A Rural Bank)

### Introduction

We have audited the accompanying financial statements of Enterprise Bank, Inc (A Rural Bank) as of December 31, 2006 and 2005, comprising of balance sheets, statements of income, statements of changes in capital funds and cash flows and summaries of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

The management of the Rural Bank is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies and (3) making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

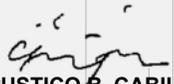
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Philippine Standards on Auditing. Those standards require that we comply with ethical requirements of plan and perform the audit to obtain reasonable assurance whether financial statements are free from material misstatement. An audit involves performing procedure to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend in the auditor's judgment, including the assessment of the risks material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Enterprise Bank, Inc (A Rural Bank), as of December 31, 2006 and 2005, and its operating performance and cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

QUILAB CABILIN BATO & Co.

by:

  
RUSTICO B. CABILIN  
Partner

CPA Cert. No. 77426  
SEC Accreditation No. 0308-A  
TIN 102-082-445  
PTR NO. 9545450 A  
January 9, 2007  
Cagayan de Oro City

March 26, 2007  
Cagayan de Oro City, Philippines

## BALANCE SHEETS

		December 31	
		2006	2005
<b>RESOURCES</b>			
Cash and Other Cash items	P	104,142,235	54,323,257
Held-to-Maturity Investments		17,127,960	22,872,811
Loans and Discounts		316,808,420	274,367,062
Bank Premises, Furniture, Fixtures and Equipment		44,107,883	30,189,310
Real and other properties acquired		7,781,451	5,237,760
Other Resources		4,890,705	2,994,243
	P	494,858,654	389,984,443
<b>LIABILITIES AND CAPITAL FUNDS</b>			
Deposit Liabilities:			
Savings	P	148,760,990	120,140,226
Demand		8,068,885	6,693,180
Time		23,577,488	28,165,155
		180,407,363	154,998,601
Bills Payable		236,465,688	164,811,301
Accounts Payable and Accrued Expenses		29,331,887	21,993,329
		446,204,938	341,803,231
Capital Funds		48,653,716	48,181,212
		494,858,654	389,984,443

## STATEMENTS OF INCOME

		Year Ended December 31	
		2006	2005
<b>INTEREST INCOME</b>			
On loans and discounts	P	103,050,023	94,749,649
On bank deposits and investment in securities		1,340,402	579,963
		104,390,425	95,329,612
<b>LESS INTEREST EXPENSE</b>		27,815,804	27,158,535
<b>NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES</b>		76,574,621	68,171,077
<b>PROVISION FOR IMPAIRMENT LOSSES</b>		240,000	
<b>INCOME BEFORE SERVICE FEES AND OTHER CHARGES</b>		76,334,621	68,171,077
<b>SERVICE FEES AND OTHER CHARGES</b>		50,249,589	51,675,426
<b>INCOME BEFORE OTHER EXPENSES</b>		126,584,210	119,846,503
<b>OTHER EXPENSES (Note 13)</b>		117,261,895	112,193,415
<b>INCOME BEFORE TAX</b>		9,322,315	7,653,088
<b>PROVISION FOR INCOME TAX (Note 17)</b>		3,100,511	2,388,298
<b>NET INCOME</b>	P	6,211,804	5,264,790
<b>Earnings per Common Share</b>	P	26	22

## STATEMENTS OF CASH FLOWS

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	P 6,221,80	5,264,790
Add back an item not requiring cash:		
Depreciation and amortization	8,274,102	6,829,439
Provision for impairment losses	240,000	
Changes in operating resources and liabilities:		
Increase in real and other properties acquired	(2,543,691)	(527,839)
Increase in other resources	(3,342,840)	(3,271,653)
Increase (decrease) in accounts payable and accrued expenses	7,338,558	(3,729,673)
<b>Net Cash Provided From Operating Activities</b>	<b>16,187,933</b>	<b>4,565,064</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in deposit liabilities	25,408,762	21,789,282
Increase in bills payables	71,654,387	8,166,196
Additional issuance of capital stock	30,700	
Stocks distributable		(1,800)
Direct charges to surplus and undivided profits	(5,780,000)	
<b>Net Cash Provided From Financing Activities</b>	<b>91,313,849</b>	<b>29,953,678</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) decrease in loans and discounts	(42,681,358)	3,463,917
Decrease (increase) in held to maturity investments	5,744,851	16,008,025
Additions to bank premises, furniture, fixture, and equipment	(20,970,160)	(10,601,223)
Disposal of bank premises, furniture, fixture and equipment	223,863	
Net Cash Used in Investing Activities	(57,682,804)	(23,145,331)
<b>NET INCREASE IN CASH AND CASH EQUIVALENT</b>	<b>49,818,978</b>	<b>11,373,411</b>
<b>OPENING CASH AND OTHER EQUIPMENT</b>	<b>54,323,257</b>	<b>42,949,846</b>
<b>CLOSING CASH AND OTHER CASH ITEMS</b>	<b>104,142,235</b>	<b>54,323,257</b>

## STATEMENTS OF CHANGES IN CAPITAL FUNDS

December 31	2006	2005
<b>CAPITAL STOCK – P100 par value</b>		
<b>Common Shares</b>		
Authorized - 598,647 shares		
Issued and outstanding - 241,246 shares in 2006 and 240,939 shares in 2005	P 24,124,600	P 24,093,900
<b>Preferred Shares - non-voting and convertible</b>		
Authorized - 51,353 shares		
Issued and outstanding - 47,157 shares	4,715,700	4,715,700
Private - Redeemable non-voting and convertible		
Authorized - 150,000 shares		
Issued and Outstanding	28,840,300	28,809,600
<b>SURPLUS RESERVES</b>	<b>7,973</b>	<b>6,767,973</b>
<b>SURPLUS AND UNDIVIDED PROFITS</b>		
Balance at beginning of year	12,603,639	7,338,894
Net Income	6,221,804	5,264,790
Direct charges to surplus and undivided profits	5,780,000	
Balance at end year	13,045,443	12,603,639
	<b>P 48,653,716</b>	<b>P 48,181,212</b>

# Enterprise Bank, Inc

(A Rural Bank)

**Note 1**  
**Organization**

The Enterprise Bank, Inc. was organized on May 10, 1976. The Rural Bank's principal office is located at Lianga, Surigao del Sur and maintains branch offices at Tandag, Madrid, Aras-asan, Barobo, Hinatuan, Bislig (all in Surigao del Sur); San Francisco, Agusan del Sur, Butuan City and Tagum City.

**Note 2**  
**Summary of Significant Accounting Policies**

**Basis of Preparation.** The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the Philippines using the historical cost basis of accounting. The more significant accounting policies are detailed in the following sections.

**Cash and Cash Equivalents.** Cash and cash equivalents substantially consist of cash in vaults and tellers' funds, due from BSP and other banks. Where actual cash flows are not determinable, the reported cash flows are determined based on samples and other estimating procedures.

**Loans and Discounts.** Loans are stated at the outstanding balance, reduced by unearned interest income and allowance for impairment losses. Interest on non-discount loans is recognized based on actual collections. No interest income is accrued on past due loans as required by the existing regulations of the Bangko Sentral ng Pilipinas (BSP). Interest income on these past due accounts is recognized upon collection.

**Allowance for Impairment Losses.** Allowance for impairment losses maintained at a level considered adequate to provide potential losses on receivable from borrowers. The allowance is increased by provisions charged to expense and reduced by net write offs and reversals. The level of allowance is based on higher management evaluation of potential losses and after consideration of prevailing and anticipated economics conditions and evaluation of potential losses based on existing guidelines of BSP. The BSP requires banks to observe certain criteria and guidelines based largely on the classification of loans in establishing allowance for impairment losses. Additionally, a blanket reserve is required for non-classified loans. Under BSP guidelines, this blanket reserve should, at the minimum be equivalent to 2% of non-classified loans. Furthermore, existing guidelines of the BSP establish new policies on the classification of nonperforming loans, prerequisites to the restructuring of loans, and maximum collateral valuation limits for the purpose of calculating the allowance for probable losses.

**Property and Equipment.** Bank premises, furniture and equipment are carried at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets as follows: (a) building - thirty (30) years, (b) transportation equipment - five (5) years; (c) furniture, fixtures and equipment - one (1) to ten (10) years. Land is not depreciated.

Where the carrying of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. An impairment loss is recognized by the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to income. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits arising from the renovations will flow to the organization.

**Leases.** The bank leases the building on which it holds office. The nature of the lease transferred to the Bank all risks and benefit incidental to the ownership of the building, hence the lease is classified as finance lease and is recognized as asset in the balance sheet at amount equal to the fair value of the lease property. Capitalized leased

assets are depreciated over the shorter of the estimated useful lives of the leased asset or the lease term.

**Real and Other Properties Acquired.** Assets acquired in settlement of loans are initially recorded at the total outstanding exposure of the loan at the time of acquisition or bid price, whichever is lower. Non-refundable capital gains tax and documentary stamp tax incurred in connection with foreclosure are capitalized as part of the carrying values of the assets, which should not exceed appraised values. Security maintenance and other holding costs are charged to operations as incurred. Allowance for impairment losses is set up for any anticipated losses based on appraisal reports, current negotiations and programs to dispose these properties.

**Revenue Recognition.** Revenue to the extent that it is probable that the economic benefits will flow to the bank and the revenue can be reliably measured. On discounted loans, interest income is recognized based on the accrual method of accounting, except in the case of loans classified as non-accruing in accordance with existing BSP regulations. Interest income on non-accruing loans and past-due receivables is recognized only to the extent of cash collections received. Service fees are recognized when loans are released to borrowers. Other non-finance charges on loans and penalties on delinquent accounts are recognized upon actual collection.

**Provisions and contingent liabilities.** Provisions, if any, are recognized when the Bank has legal or constructive obligations as a result of a past event: it is probable that an outflow of resources will be required to settle the obligation and estimate can be made of the amount obligation. During the year, the bank has no contingencies and commitments arising from any off-balance sheet items.

**Earnings per common share.** Earnings per common share is determined by dividing net income by the weighted average number of shares outstanding during the year.

**Adoption of new/revised accounting standards.** During the year, the Bank adopted for the first time the following Philippine Accounting standards: (1) PAS/IAS No. 24, "Related Party Disclosures", and (2) PAS/IAS No. 33, "Earnings Per Share". The adoption of the new financial accounting standards focused on the required disclosures in the financial statements of the bank and has no material effect on the financial position, results of operations and cash flows of the Bank.

**Retirement cost.** The bank provided for the estimated retirement benefits required to be paid under R.A. No. 7641 to all qualifying employees based on actuarial computations. Pension costs are determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporate assumptions concerning employees' projected salaries.

**Note 3**  
**Cash and other cash items**

This consist of the following:

December 31	2006	2005
Due from other banks	P 86, 045,344	P 40, 723,513
Cash and other cash items	16,713,559	12,521,637
Due from Bangko Sentral ng Pilipinas	1,383,331	1,078,107
	P104, 142,234	P 54, 323,257

#### Note 4 Held-to-maturity investments

This consist of the following:

December 31	2006	2005
Land Bank of the Philippines	P1, 989,826	P12, 734,667
Philippine National Bank	15,138,134	10,138,134
	P17, 127,960	P22, 827,811

Land Bank of the Philippines. This represents 10-year bonds to cover the retirement preferred shares. The bonds are payable in equal annual installments and earn interest based on the prevailing 91-day treasury bill rate.

Philippine National Bank. This represents an eighty-six (86) day certificate of time deposit, which will earn interest rate at 4% per annum. This investment is roll-over regularly.

#### Note 5 Loans and Discounts

This account consists of the following:

December 31	2006	2005
Current loans	P349,379,898	P303,971,697
Past due accounts	11,389,928	16,214,628
Items in litigation	2,369,200	3,611,503
Total loans and discounts	363,139,026	323,797,828
Less allowable for impairment	14,523,931	18,216,735
Unearned interest income and discounts	31,806,675	31,214,031
Net	P316,808,420	P274,367,062

The following table show the breakdown of loans as to secured and unsecured loans:

December 31	2006	%	2005	%
Secured loans:				
Real estate	P 62, 419,289	17	P 54, 252,158	17
DOSRI	308,907	1	563,396	1
	62,728,196	18	54,815,554	18
Unsecured loans	300,410,830	82	268,982,274	82
	P 363,139,026	100	P 323,797,828	100

Nonperforming loans as defined under BSP circular 202, amounted to P13,759,127 in 2006 and P19, 826,131 in 2005. As a general rule, under BSP circular 202, nonperforming loans refer to loans whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have been past due in accordance with existing rules and regulations.

As of December 31, 2006 and 2005, information on the concentration of credit as to industry follows:

#### Note 6 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment, which are stated at cost, consist of the following:

	Dec. 31, 2005	Additions	Disposal/ Reclassifica- tion	Dec. 31, 2006
<b>Cost</b>				
Land	P7, 329,538	-	-	7,329,538
Building	12,021,911	9,635,749	(3,140,870)	18,516,790
Furniture, Fixtures and Equipment	15,144,700	5,269,638	-	20,414,338
Transportation equipment	15,807,386	4,585,513	(422,289)	19,970,610
Leasehold improvements	2,385,402	1,479,260	3,140,870	7,005,532
	52,688,937	20,970,160	(422,289)	73,236,808
<b>Accumulated Depreciation</b>				
Building	(2,278,688)	(489,910)	153,746	(2,614,852)
Furniture, Fixtures and Equipment	(9,863,015)	(3,159,828)	-	(13,022,843)
Transportation Equipment	(7,972,522)	(2,173,373)	198,425	(9,947,470)
Leasehold improvements	(2,385,402)	(1,004,612)	(153,746)	(3,543,760)
	P22,499,627	6,827,723	198,425	29,128,925
<b>Net Book Value</b>				
Land	7,329,538	-	-	7,329,538
Building	9,743,223	9,145,839	(2,987,124)	15,901,938
Furniture, fixtures and equipment	5,281,685	2,109,810	-	7,391,495
Transportation Equipment	7,834,664	2,412,140	(223,864)	10,023,140
Leasehold improvements	-	474,648	2,987,124	3,461,772
	P22,499,627	14,142,437	(223,864)	P44,107,883

#### Note 7 Real and other Properties Owned or Acquired

This consists of the following:

December 31	2006	2005
Real estates	P8, 572,704	P5, 669,013
Chattel	82, 898	82,898
Sales contact receivable	878,638	1, 118,638
Others	27,857	27,857
Total	9, 562,097	6, 898,406
Less allowance for impairment losses	1, 780,646	1, 660,646
Net	P7, 781,451	P5, 237,760

**Note 8  
Other Resources**

This consists of the following:

December 31	2006	2005
Accounts receivable	P3, 678,018	2281,821
Stationery and office supplies	711,363	877,061
Prepaid expenses	871,205	552,913
Miscellaneous assets	17,624	90,338
	5,278,211	3,802,133
Less: allowance for impairment losses	387,506	807,890
	P4,890,725	P2,994,243

**Note 9  
Allowance for Impairment Losses**

The changes in the allowance for impairment losses during the year are as follows:

December 31, 2006	Beg. Balance	Additions	Reversal	End Balance
Loans and discounts	P18, 216,735	P3, 929,714	P7, 622,518	P14, 523,931
Real and other properties acquired	1,660,646	120,000		1,780,646
Other resources	807,890	120,000	540,384	387,506
	P20, 685,271	P4, 169,714	P8, 162,902	P16, 692,083

**Note 10  
Bills Payable**

This consists of the following:

December 31	2006	2005
Peoples Credit and Finance Corporation	P136, 895,324	P118, 781,489
Land Bank of the Philippines	24,510,275	21,574,225
Oxfam Novib	18,413,406	
National Livelihood Support Fund	16,753,736	10,000,000
Small Business Guarantee and Finance Corporation	16,744,997	
United Coconut Planters Bank	14,125,000	12,943,818
Development Bank of the Philippines	8,933,750	
Bangko Sentral ng Pilipinas	89,200	1,511,769
	P236, 465,688	P164, 811,301

**Peoples Credit and Finance Corporation.** This represents the balance of the bills payable arising from rediscounting of loans. These loans bear interest rate at 12% annually and are payable within (7) years. The loan agreement also provides that any cash dividend declaration by the Rural Bank shall require prior approval from PCFC.

**Land Bank of the Philippines.** This account represents the balance of the bills payable arising from rediscounting of loans. These loans bear interest rates ranges from 7% to 12% annually and are payable within (1) year.

**Oxfam Novib.** This represents clean loan with an interest rate of 9.5% per annum and is payable within (3) years until October 18, 2009.

**Small Business Guarantee and Finance Corporation.** This represents clean loans with an interest rates ranges from 7.90% to 10% annually and are payable within (2) years.

**Development Bank of the Philippines.** This account represents

the balance of the bills payable arising from rediscounting of loans. These loans bear interest rate of 10% annually and are payable within (1) year.

**UCPB-CIIF Finance and Development Corporation.** This represents clean loans with an interest rates ranges from 9.75% to 10.5% annually and are payable within (2) years.

**National Livelihood Support Fund (NLSF).** This represents clean loan with an interest rate of 9% per annum and is payable within (4) years until November 10, 2009.

**Bangko Sentral ng Pilipinas.** This account represents the balance of the bills payables arising from rediscounting of loans. These loans bear interest rates ranges from 8% to 13% annually and is payable within (1) year.

**Note 11  
Accounts Payable and Accrued Expenses**

This consists of the following:

December 31	2006	2005
Accounts payable	P15,775,631	P11,062,087
Accrued other expenses	8,758,219	5,784,201
Accrued interest on deposit liabilities	4,333,692	3,634,358
Accrued interest on borrowed funds	464,345	1,512,683
	P29,331,887	P21,993,329

**Note 12  
Capital Funds**

This consists of the following:

December 31	2006	2005
<b>Capital stock-P100 par value</b>		
<b>Common Shares</b>		
Authorized - 598,647 shares		
Issued and outstanding - 241,246 shares in 2006 and 240,939 shares in 2005	P24,124,600	P24,093,900
Preferred Shares - non - voting and convertible		
Government - non - voting and convertible		
Authorized - 51, 353 shares		
Issued and outstanding - 47,157 shares	4,715,700	4,715,700
Private - redeemable non-voting and convertible		
Authorized-150, 000 shares		
Issued and outstanding	-	-
Surplus reserves	6,767,973	6,767,973
Surplus and undivided profits	13,045,443	12,603,639
	P48,639,716	P48,181,212

Under Section 22 of the general Banking Act, the combined capital accounts of each rural bank should not be less than an amount equal to the ten percent (10%) of its risk assets. The unimpaired capital of the Bank for purposes of determining the capital-to-risk assets ratio is capital fund excluding (a) deferred tax assets, (b) accumulated equity in net earning of investees where percentage of ownership is less than 50% but where the equity method of accounting has been applied, and (c) appraisal increment on property and equipment other than those allowed to be recognized in connection with a merger or acquisition. Risk

assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out or assignment of deposits, loans or acceptance under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board.

On May 24, 2006, the stockholders approved the recommendation of the Board of Directors on the declaration of a 20.75% cash dividends to all common stock holders, 2% and 12% for the Development Bank of the Philippines and Land Bank of the Philippines as preferred stockholders, respectively on records as of April 30, 2006. The dividends declaration was approved by Central Bank of the Philippines on July 25, 2006.

### Note 13 Details of Other Expenses

For the Years Ended December 31	2006	2005
Compensation/fringe benefits	P48,418,338	P47,410,360
Taxes and licenses	12,161,187	9,409,938
Depreciation and amortization	8,274,102	6,618,301
Repairs and maintenance	6,946,984	6,829,439
Travelling expenses	6,421,912	6,285,209
Fuel, oil and lubricants	5,096,512	4,038,511
Accounts receivable written off	3,929,714	6,039,213
Security, messengerial and janitorial services	3,423,170	3,100,553
Stationery and supplies used	3,305,371	2,837,295
Postage, telephone & telegram	3,196,175	2,767,499
Insurance	2,364,507	2,672,869
Litigation of assets acquired	2,245,417	2,050,989
Management and other professional fees	2,159,222	2,550,561
Power, light and water	2,128,930	1,789,592
Rental	1,280,939	1,321,758
Documentary stamp	840,473	908,227
Advertising and publicity	731,703	563,716
Membership and dues	593,551	1,023,500
Donations and charitable contribution	512,545	703,752
Representation and entertainment	475,755	455,799
Periodicals and Magazines	54,394	35,895
Miscellaneous	2,700,994	2,780,440
	P117,261,895	P 112,193,416

### Note 14 Direct Charges to Surplus and Undivided Profits

This represents various adjustments to reflect corrections on recorded transactions pertaining to previous years.

### Note 15 Related Party Transactions

Under the General Banking Act and BSP regulations, the aggregate amount of loans to directors, officers, stockholders and related interest (DOSRI) should not exceed the total capital funds or 15% of the total loan portfolio of the Bank, whichever is lower. In addition, the amount of direct credit accommodation to DOSRI, of which 70% must be secured, should not exceed the amount of their respective regular and/or quasi-deposits and book value of their respective investments in the Bank.

During the year 2006, the Bank has loan transactions with DOSRI amounting to P308, 907, secured loans, which is equivalent to 1% of the total loan portfolio. As of December 31, 2006, these loans are current. The bank has no unsecured DOSRI loans during the year.

### Note 16 Retirement Plan

The Bank has a contributory retirement plan covering all its permanent employees. The plan provides benefits for employees upon attaining age sixty (60); provided the employees has rendered five (5) years continuing service to the Bank. The Bank's contributions to the retirement plan is an amount equivalent to the employee's fifteen (15) days pay plus one-twelfth (1/12) of 13<sup>th</sup> month pay and the cash equivalent of not more than five (5) days of service incentives leaves, or twenty two and a half (22.5) days multiplied by the employee's length of service.

### Note 17 Provision for Income Tax

The provision for income tax during 2005 was based on the regular rate at 32% (from January 2005 to October 2005) and 35% (From November 2005 to December 2005), an amount higher than the computations using the Minimum Corporate Income Tax (MCIT). The disproportionate relationships between the income before income tax and the provision for income tax is due mainly to the interest income from bank deposits which was deducted from the net income before tax since this was already subjected to the final tax.

### Note 18 Financial Ratios

In compliance with BSP Circular No.212 series of 1999, and pursuant to Monetary Board Resolution No.1381, financial ratios of the bank for the years 2006 and 2005 have been computed as additional disclosure requirements in the notes to the audited financial statements, as follows:

December 31	2006	2005
Return on Average Equity	13%	7%
Return on Average Assets	1%	1%
Net Interest Margin	33%	32%
Capital-to-Risk Assets	14%	15%

### Note 19 Earnings Per Common Share

The earning per common share is computed based on the provisions of PSA/IAS No.33 as follows:

Years Ended December 31	2006	2005
Net Income	P6,221,804	P5,264,790
Earnings allotted for preferred shares	-	-
Earnings allotted for common shares	P6,221,804	P5,264,790
Outstanding common shares at beginning of period	240,939	240,939
Effect of issuance of common shares during the period	154	-
Weighted Average Number of Common Shares	241,093	240,939
Earnings per Common Shares	P26	P22

### Note 20 Approval of Financial Statements

The Rural Bank's financial statements as of and for the year ended December 31, 2006, were authorized for issue by its Board of Director on March 26, 2007, during their meeting.

# BRANCH DIRECTORY

<p><b>Aras-asan</b> Aras-asan, Cagwait, Surigao del Sur 0928-627 9102</p>	<p><b>Tandag</b> Osmena St. National Highway, Surigao del Sur (086)211 3474</p>	
<p><b>Barobo</b> Barobo, Surigao del Sur (085)839-3533 local 2042</p>	<p style="text-align: center; font-size: 2em;"><b>SERVICE OUTLETS</b></p>	
<p><b>Bislig</b> Espiritu St. Mangagoy, Bislig City (086) 853-2263</p>	<p><b>Bayugan</b> Yakal St. P-3 Brgy. Taglatawan, Bayugan, Agusan del Sur (085) 8304-420</p>	<p><b>Mati</b> MJO Bldg. Rizal St. Mati City, Davao Oriental (087) 811-2054</p>
<p><b>Butuan City</b> Ground Floor, R.C. Building J.C. Aquino Ave. Butuan City (085)815-4408 • 341-4173 or 341-4138</p>	<p><b>Cateel</b> Lapu-lapu St. Poblacion Cateel, Davao Oriental</p>	<p><b>Nabunturan</b> Purok 1 Evangelio St. Nabunturan Compostela Valley (084)376-0172</p>
<p><b>Cagayan de Oro City</b> Ground Floor, Centro Mariano Bldg. Osmena St. Cogon, Cagayan de Oro City (08822) 732-869</p>	<p><b>Digos City</b> Rizal St. Digos City (0922) 599-2531</p>	<p><b>Panabo City</b> Mabini St., New Pandan Panabo City (084) 822-6468</p>
<p><b>Davao City</b> Unit 1-3 Ggo Summit Bldg. J.P Laurel Ave. Davao City (082) 225-8892 • 228-6986 • 305-3978</p>	<p><b>General Santos City</b> Second Floor(2B-12A) RD Plaza,Lukban St. General Santos City (063) 301-8986</p>	<p><b>Sto. Tomas</b> TUS Bldg.Feeder Road 3 Sto. Tomas Davao del Norte (084) 839-1331</p>
<p><b>Hinatuan</b> Hinatuan, Surigao del Sur (086) 853-6113 local 116</p>	<p><b>Iligan City</b> 3/F Dreamstar Bldg. Zamora Cor. Badelles Sts. (063) 221-0183 Iligan City</p>	<p><b>Surigao City</b> Dumadag Residence Brgy. Luna Surigao City</p>
<p><b>San Francisco</b> Quezon St. San Francisco Agusan del Sur (085) 343-9377or 343-8624</p>	<p><b>Kidapawan City</b> Datu Ingkal St. Kidapawan City</p>	<p><b>Tagbina</b> Poblacion Tagbina Surigao del Sur</p>
<p><b>Tagum City</b> Peyreras Bldg. Magugpo West, Tagum City (084) 218-4991</p>	<p><b>Madrid</b> Guillen St. Brgy. Quirino Madrid, Surigao del Sur (086) 213-4043</p>	<p><b>Trento</b> P-7 Block Tienda, Poblacion Trento Agusan del Sur (085) 225-2417</p>
	<p><b>Marihatag</b> Publacion Marihatag, Surigao del Sur (0921)322-4422</p>	<p><b>Valencia</b> Pilar Baynos, Purok 19, Poblacion Valencia, Bukidnon (088) 828-2086</p>

