



*keeping business personal*

**Enterprise Bank, Inc.**

2009 Annual Report



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## Mission

To be a strong regional bank within greater Mindanao that leads in the delivery of high quality financial products and services that promote, support and encourage entrepreneurship in the countryside.



## Vision

**P**rovide innovative financial products and services to small and medium sized enterprises, micro-entrepreneurs, especially women, and to members of low-income groups and to ensure that credit is utilized appropriately to improve their economic well-being.

**P**romote savings consciousness as a means of attaining self-sufficiency and self-reliance.

**S**trive to offer the highest quality service and customer value by investing in human resource development.

**P**romote a work environment that will stimulate the employees to be innovative and enable them to realize their professional objectives.

**M**ake certain that each employee will be given the opportunity for professional advancement as merited and have the right to economic security and stability.

**G**uarantee that shareholder's value is enhanced through prudent investment undertaking and efficient operations, and

**A**bide by the laws and regulations of the Philippines to which it is subject and adhere to international standards within core operations.

# The President's Report

# 2009

**“The year 2009 spelled good results for Enterprise Bank, Inc. Increased network coverage, launch of new products, stronger Micro and Small Enterprise lending and newly forged relationships with both local and foreign investors have improved the organization’s outlook for the future.”**

**Atty. Ronald E. Alvizo**



# WHAT we did and HOW we did it in 2009

## ORGANIZATIONAL Performance

### 1 • MICROFINANCE

EBI started quite sluggishly in the early part of 2009. For two quarters, the bank experienced a downturn in operating performance which was caused by a slump in the microfinance (MF) loan portfolio.

At the end of 2007, the MF loan portfolio accounted for a fourth of the bank's total loan portfolio and was the result of strategic moves that management had embarked on to improve the bank's financial performance and strength. It was, at that time, the highest ever recorded MF loan portfolio growth for a single year.

But the growth episode was not sustained during the next 12 months. In December 2008, MF loan portfolio had shrunk by about 20% , a turnabout from its 2007 performance. The reversal of fortunes

was primarily caused by the slowdown in business volume in the micro-agri loan sector, and for good reason. Management made a conscious decision to scale down lending activities in this sector in response to the rising tide of loan delinquency among MF clients that had its beginnings in early 2008. The nosedive in the first semester of 2009 can be traced back to the downsizing initiative of 2008 that had spilled over.

To arrest the slide, management had to put into action several initiatives that followed the oft-repeated mantra: LEND SHORT, LEND FAST and LEND SMALL. Management did a major personnel revamp, strengthened organizational capabilities, and had to de-stress the tense working environment that had started to escalate triggered by some confusion and doubt at the ground level. By the end of the year, operating results showed a sensational turnaround



Changes in credit features and its delivery mechanisms were installed not only to meet customer demands but also to mitigate risk factors associated with lending to this sector.



in organizational performance indicating that the bank was able to bounce back from its poor mid-year showing.

In 2009, MF loan portfolio growth surpassed that of pre-2008 growth levels. Client outreach improved as well as loan portfolio quality. Loan disbursement target was attained in a surprising catch-up fashion owed mostly to MF clients being retained. Lessons had been drawn and learned from this daunting experience and solid measures are being made to prevent the same thing from ever happening again.

## 2 • SMALL BUSINESS LOANS

Small Business Loans (SBL) showed loan portfolio growth of about 30%. New business spurred much of the growth while the number of repeat business kept the SME loan sector afloat. The result seems encouraging. It goes without saying that indeed, demand for SBL is present. During the year, capacity and capability-building initiatives were made to align the bank's products and services to the peculiar needs of small and medium enterprises.

Changes in credit features and its delivery mechanisms were installed to not only to meet customer demands but also to mitigate risk factors associated with lending to this sector. A new organization structure was put in place that saw the creation of the Enterprise and Consumer Banking Group as the business unit tasked to manage the SBL portfolio. The changes paid off as operations in the SBL sector were more focused and flexible.

The bank's SME finance has deepened its market penetration to include the agri-business sector in Mindanao.

### 3 • CONSUMER LOANS

Consumer loans had the highest growth rate of all the loan product offerings of the bank. Growth was mostly concentrated in the Caraga Region more particularly in the salary loans sector. This happened in the latter part of 2009 when the public school teachers were paid their compensation through their ATM accounts.

The increase in portfolio was for the most part the result of increased loan sizes per client that ensued. Branches in Caraga Region had to offer higher loan amounts to encourage clients to endorse their ATM cards with the bank. This was part of a general strategy to maintain a commanding share in the salary loans market in these areas and to improve collection efficiency. Since in these areas salary loans have been known to be most profitable, management decided not to pass upon the opportunity to get the lion's share.

Personal loans experienced significant growth as well. These are loans granted to officers and staff of top 5,000 Philippine corporations. Portfolio concentration is mostly in the Davao Region.

### 4 • FINANCE

#### A. Strategies and Goals

The main finance strategy for 2009 was to diversify the funding structure of the bank and to improve funding cost. The strategic intent: steady supply of low cost-funds to finance business growth. The twin goals of a diversified fund mix obtained from low-cost sources are established key success factors of the banking industry and the bank needs to bring itself to the standards so that it can keep up with the competition.

Low cost funds would improve the bank's cost structure and, thus, its net operating income while a diversified fund mix would ensure that fund use shall be properly matched with fund sources. Also, the move is intended to avoid the risk usually associated with overreliance on a few suppliers: vulnerability to changes in policies and organizational direction by the bank's suppliers.

## 2009 FINANCIAL HIGHLIGHTS

FOR THE YEAR (in millions)	2009	2008	2007
Interest Income	204.25	183.04	139
Other Income	147.84	94.49	65.5
Operating Expenses	322.4	253.05	187.5
Net Income before Taxes	29.68	24.48	17.04

AT THE YEAR END (In million Pesos)	2009	2008	2007
Total Resources*	1,333.7	933.99	791.595
Loan Portfolio (gross)	1,078.31	701.83	613.15
Loan Portfolio (net)	1,029.49	684.39	595.76
Total Deposits	402.49	265.37	275.716
Capital Funds	137.52	114.78	101.81

Earnings per Common Share	2009	2008	2007
In peso	50	40	45
Number of Shares Outstanding/ Subscribed	462,198	426,193	255,809

Financial Ratios	2009	2008	2007
Return on Average Assets	1.88%	1.90%	1.68%
Return on Average Equity	17.52%	15.16%	12.01%
Non-performing Loans Ratio	2.74%	3.04%	2.43%

net of UID and USC

## B. Results in 2009

To attain the twin goals, management had turned to deposit generation as the chief strategy. The issuance of unsecured subordinated debt (USD) to Land Bank of the Philippines shares equal importance as the deposit generation initiatives in a two-prong approach aimed at enhancing the bank's funding structure. USD has the built-in advantage of a tier 2 capital which means improved capital adequacy in favor of the bank. In the middle part of 2009, LBP bought USD from the bank and has ever since enjoyed its benefits.

## 5 • BRANCH BANKING

Branch banking at Enterprise Bank, Inc. assumes a central role in the retail operations of the bank. Crucial to this role is how capable a branch (and by extension, service outlets) is in managing the product and service expectations of the customer. The nature of the role calls for the improvement in the operations and marketing aspect of the business not only at the branch but also at the head office level.

Because the bank does its business in the branch and away from the head office, a business unit called Branch Banking Group was created to manage the operations and marketing functions of the bank but performed at the branch level. The bank's organizational structure was reengineered to beef up branch business functions.

To strengthen management capacity, the bank hired the services of an experienced banker to head the group. To complement the new organization structure, people with the right competencies were deployed at the branches. New marketing and operating approaches are now being practiced at the ground level and certain innovations are being looked at to test for acceptability. In 2009, the bank opened full-service branches in Mandaue City and Carcar City both located in the island of Cebu in the Visayas



*EBI Valencia Branch and Tagum Branch*

### A. Image Building Initiatives

Capacity and capability building pursuits of the bank extend as well to its image and reputation. This means that the bank must be perceived as a reliable, and strong financial institution as well as an able provider of financial services. This is part of management's long-term objectives to keep the bank relevant in the future.

### B. Customer Service Initiatives

To top off the service objectives of branch banking, systems and processes from the head office down to the branch level organizational development efforts will be pursued to align them with market demands. The customer service strategy: a comprehensive enterprise delivery system that converges at the branch level.



Above: Signing of MOA with IBM for the first purchase of Blade Server with EBI ICT Head Peter Maklin Aquino and Director Ignacito Alvizo with IBM representatives. Below: EBI ICT personnel checking the brand new business application software.

## C. Technology

The effectiveness of the deposit generation program will depend to a large extent on how efficient the enterprise delivery system will be. Management believes that automation and technology will be a key component.

Technological capacity shall then be defined by how well technology is able to have room for changes in utility and application that will allow bank business to stay aligned to the demands of the market. Right now, investments to purchase a tried-and-tested core banking software to replace the current business application; and a high-performance central server to run the wide area network from a data center have been made. The new technological infra of the bank is expected to be operational this year.

# 6 • HUMAN RESOURCES

## A. Strategic Management

**The right people for the right job at the right time for the right cost"**

## B. HR Management

Human resource management at Enterprise Bank, Inc is both strategic and operational in function. Strategic in the sense that decisions about people in the organization are aligned with the decisions pertaining to results that the bank is trying to obtain. This simply means that every HR action must be made in support of the bank's broad corporate goals.

**In 2009, the Human Resource Department took the lead in the following:**

- (a) building a strong relationship between HR and management, agencies
- (b) Improving HR competencies through conduct of trainings;
- (c) Installing HRD systems and processes;
- (d) enhancing the coordinating functions between and among business units;
- (e) creating coordinating mechanisms with KMFI as MF service provider;
- (f) initiating changes in organizational structure and its implementation;
- (g) initiating and developing capacity development programs
- (h) building its own capacity;

**The HR department is gearing and preparing itself for the next round of challenges. Investments are going to be made in HR programs that will motivate people to work, make them more productive, provide a safe and stress-free working environment and allow people to freely communicate through proper channels.**



the cornerstone  
of our strategy  
shall always be this:  
**Lifting customer  
value while keeping  
down costs of  
doing business lifts  
company value.**

## 7 • OTHER SIGNIFICANT EVENTS

- (a) **Entered into a service agreement** with ENCASH Philippines that allowed the branches in the remote areas of Surigao del Sur (Hinatuan, Lianga, Marihatag, Barobo) to offer ATM services to clients. The fees derived from the service contributed to the bank's operating income last year.
- (b) **Expanded its cash card operations** in partnership with two big universal banks (BDO and Chinatrust) which resulted in issued cards nearing the 100,000 mark.
- (c) **Participated in the credit guarantee program** of the Land Bank of the Philippines (LBP) and the Agricultural Credit and Policy Council (ACPC). The program offers credit guarantee to loans granted to farmers. These programs complement the thrust of the bank to expand its micro-agri portfolio employing the crop-specific financing scheme and increases management's confidence level in extending its reach to more poor farmers in the countryside.

Last year's introduction of new loan products were matched by improved delivery systems and technology innovations that delighted clients especially Women. EBI took pride on poor women's bliss over the use of Debit Cards. This has increased customer satisfaction and efficiency of operations. Additionally, branding and image building strategies slowly amplified the public's confidence of the bank's professionalism and organizational stability.



## Financial and Operating Results for 2009

The year's efforts translated into quantitative achievements are summarized as follows:

- Loan portfolio growth of 54%
- Accumulated loan disbursement increased by 36%
- Good quality of portfolio, Non performing Loans Ratio of 2.74%
- Deposit level improved by 52%
- Revenues increased by 26%

Moving forward, we are optimistic that EBI will continue to stay afloat despite the competition in 2010. We strive to give our clients greater value for their money, while keeping our operational costs at acceptable level. In this line, we are busy with the following major initiatives:

1. Implementing a robust and BSP compliant banking software.
2. Conversion of EBI into Thrift Bank which allows EBI to accept foreign investors. To date, five institutions already signified their intentions.
3. Improvement in governance structure in order to align it with BSP thrust towards risk management.
4. DEP ED accreditation.

In all of these, it is not difficult to see that management intends to pursue organizational development initiatives that will permit and enable Enterprise Bank, Inc. to effectively and efficiently execute strategic options, and bring it closer to the fulfillment of its vision and mission.

The cornerstone of our strategy shall always be this: Lifting customer value while keeping costs of doing business down lifts company value. Thus, it is reasonable to expect that the management's entrepreneurial pursuits in the days ahead will only happen if they result in a leap in customer value and company value.

  
**ATTY. RONALD E. ALVIZO**  
President/CEO

## BASIC BUSINESS INFORMATION

NAME: Enterprise Bank, Inc.  
(A Rural Bank)

Head Office: Lianga, Surigao del Sur

E mail ad: info@ebi.ph

Website: www.ebi.ph

Start of Operations:

May 10, 1976

Banking Units:

1 head office

15 branches

18 service outlets



# Products & SERVICES

## microfinance



The **Kalisod Mo Tabangan Ko (KMTK)** is a credit program which adopts the basic Grameen Bank model of **solidarity lending** to clients belonging to the **entrepreneurial** segment of the society.



Loan Products under MF:

- KMTK Livelihood/KMTK Regular
- KMTK Cash Advance Loan
- KMTK Back to Back loan
- KMTK Micro Transport
- KMTK Special Loan
- KMTK Micro fishing
- KMTK Micro Agri
- KMTK Pabahay

## LOANS PRODUCTS:

### MICROFINANCE LOANS

adopts the Grameen methodology of solidarity and group liability

### SMALL BUSINESS LOANS

provides working capital to micro, small and medium scale entrepreneurs whose business has been existing for two years

### CONSUMER LOANS

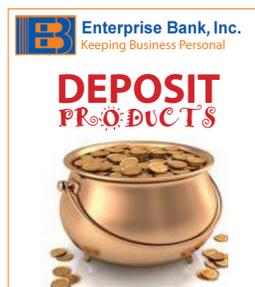
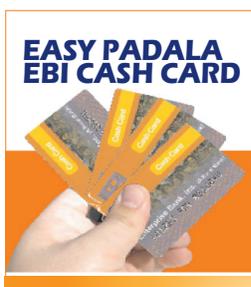
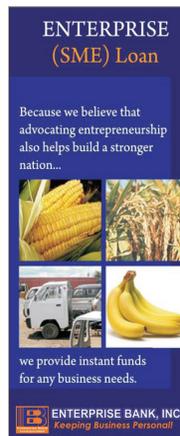
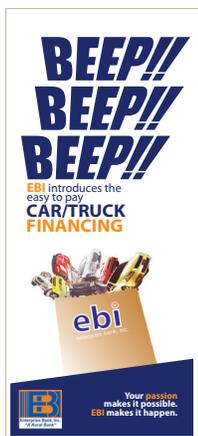
provides financing for professionals in public and private practice

### DEPOSIT PRODUCTS

- REGULAR SAVING ACCOUNT
- PREMIUM CHECKING ACCOUNT
- TIME DEPOSIT

### OTHER SERVICES

- SSS Premium Collection
- Philhealth Premium Collection
- Payroll Servicing
- Cash Cards
- Money Transfer Services (PetNet, Western Union, BDO Remit)



I believe that corporations should be membership communities because I believe corporations are not things, they are the people who run them.

Charles Handy  
Irish-born British management educator and writer.

# Kamayo Mindanao Foundation Inc.

the corporate social development  
arm of EBI



Where families are economically challenged, KMFI responds with passion to assist nanay and tatay towards financial self-reliance. Through our programs, we aspire to help communities prosper where people get involve in environmental protection and preservation and see children well-nourished. We respond to our client's needs by walking with them towards empowerment through micro-enterprise development

KMFI started as a response to the dire picture of malnourished children in Lianga, Surigao del Sur. From a feeding program to a pro-poor micro-enterprise development, KMFI transformed from being called Kalisod-Mo-Tabangan-Ko Micro-Enterprise Development for Community Foundation, Inc. to its current name, Kamayo Mindanao Foundation (KMFI), Inc. The word "Kamayo" is both the local dialect and a native tribe of Lianga which was chosen as name of the foundation in respect to its place of birth.

## Donee Institution Status

Recently been granted its Donee Institution Status by the Philippine Council for NGO Certification, KMFI renewed its zeal in pursuing its mission: (1) to assist poor families to become economically self-sufficient and self-reliant through micro-enterprise development programs, and (2) to provide opportunities for its personnel to grow their full potential. We envision to see communities thriving and prospering in a productive land where micro-enterprise flourish making families economically self-reliant. The KMFI family has been working relentlessly in finding ways to empower its clients through Project H.O.P.E.

## Project HOPE

Project HOPE exists by its acronym meaning giving hope to clients by providing them Holistic Opportunities towards People Empowerment. HOPE provides trainings where clients learn skills to augment their daily income. These trainings include Financial Literacy and Effective Business Management for enterprising clients, Community Health Care Programs, and Environmental Advocacies. Also, Programme HOPE provides opportunities for clients to strengthen/ build-up linkages with like-minded individuals that can help them improve their micro-enterprises.

## Supplementary programs

Supplementary programs implemented by KMFI are the Health Plus Project and K-Sustaining Membership Program. Health Plus provides effective and affordable medicine accessible to many. Clients may franchise Health Plus Outlet in their areas and provide their community with easy-access to effective and affordable medicines.

Meanwhile, K-Sustaining Membership Program (K-SMP) is a providential loan program. KMFI recognizes the reality that there are some aspects of family life where it can provide more support. Clients may avail loans only 1 percent interest to address emergency needs, hospitalizations, funerals, disasters, and even education. Anybody can easily become K-SMP member by paying 20 pesos for 6 months.

This is how KMFI values its clients.

*Those that work on empowering the clients need to be empowered themselves. This is the purpose of the Human Resource Capacity Development Programs. KMFI regularly conducts development programs for its Marketing/ Account Officers, Remedial Account Officers, and other staff to ensure that their knowledge and skills are up-to-date and effective. Moreover, the Foundation sends its staff to attend various trainings for professional development.*

# THE BOARD OF DIRECTORS



Atty. Ronald E. Alvizo

Ignacito U. Alvizo

Maximino A. Salang, Jr.

Dr. Carla Divina S. Virtudazo

Atty. Randy E. Alvizo

## BOARD OF DIRECTORS

Atty. Ronald E. Alvizo

Ignacito U. Alvizo

Maximino A. Salang, Jr.

Dr. Carla Divina S. Virtudazo

Atty. Randy E. Alvizo

- Chairman of the Board
- Chairman- Asset and Liability Committee
- Chairman- Audit and Risk Committee & Credit Committee
- Chairman- Human Resource Committee & Corporate Governance Committee
- Corporate Secretary

# THE SENIOR MANAGEMENT



**Annalisa T. Tuble**  
Asst. Vice President

**Dorefel A. Barit**  
Asst. Vice President

**Joel D. Lagura**  
Vice President

**Jennifer D. Suelto**  
Senior Vice President

**Nelson P. Casiano**  
Senior Manager

**Susan M. Tabanao**  
Vice President

## SENIOR MANAGEMENT

Finance Head  
Microfinance Head - Region 1  
Microfinance Head - Region 2  
Branch Banking Group Head  
Internal Audit and Compliance Head  
Human Resource Management and Development Head

Jennifer D. Suelto  
Annalisa T. Tuble  
Joel D. Lagura  
Susan M. Tabanao  
Dorefel A. Barit  
Nelson P. Casiano

# Jill Ann & Josalito Sevilla's gardena fresca



Gardena Fresca was a leap of faith for spouses Jill Ann Sevilla and Josalito Sevilla. Though both are graduates of non-business courses, they were able to manage Gardena Fresca well and has been catering to people's taste of good food for four years.

Mr. Sevilla himself cooks and tastes the food they serve. He sees to it that a new dish is developed and added to the menu regularly. "To be in food business, it is essential that the owner must have the knack and cooking skills to have a competitive edge.. Ms. Jill revealed. Josalito himself monitors the food preparation and quality. "Our food is more sumptuous because it has personal touch" Ms. Jill further enthused.

The restaurant is continuously evolving and improving to suit customers' needs. They recently added a floating restaurant which is an ideal venue to hold wedding ceremonies, special events or even simple dinners. It is from the **Enterprise Bank, Inc.** that the Sevilla couple availed a loan to help finance their expansion "We've tried to seek loans from other banks but we were disappointed because of so many requirements, Worse, the loan processing was very long . "We are very satisfied with the personal customer care the Enterprise Bank, Inc extended to us. Our loan application was approved without complications." Ms. Jill concluded.

*Gardena Fresca Garden Pond and Grill Restaurant is located at Morales Compound, Coca-Cola Village, Maa, Davao City.*



# OUR PARTNERS



**Oxfam Novib** is the Dutch affiliate of the international Oxfam organization. It is an association dedicated to establishing a fair world with no poverty in it. The organization is based in The Hague. EBI became a recipient of a working capital loan in October 2006.



**The Development Bank of the Philippines**, a government financial institution that granted EBI credit line specifically for housing projects for microfinance borrowers in January 2006



**Small Business Corporation (SBC)** a financial institution offering a wide range of financial services, specifically for small and medium enterprises accredited EBI in 2006 as conduit for MSME financing.



**The Land Bank of the Philippines**, a government financial institution that has assisted EBI in financing farmers SMEs and government employees since 1995.



**National Livelihood Development Corporation** is a government corporation mandated to provide a fund delivery system and an organizational machinery for socialized livelihood credit. In 2005, EBI was granted larger credit line for on-lending to small, marginal farmers who are agrarian reform beneficiaries.



**PCFC** is a government corporation created through Administrative Order 148 (September 8, 1994) as an alternative banking, financing and credit system that will provide affordable credit specifically microfinance, to the marginalized sector of the country. EBI became an accredited partner in 1997.



**UCPB Savings Bank** serves mainly middle-income professionals, entrepreneurs and medium-sized businesses in the urban areas and the bigger municipalities outside Metro Manila. It provides deposit services, and commercial and consumer credit facilities.

**UCPB-CIIF Foundation** is the corporate social responsibility arm of the United Coconut Planters Bank-CIIF Group of Companies. EBI had its first accreditation in July of 1996 as conduit in financing coconut farmers in Mindanao.



**Triodos Doen**, based in The Netherlands, invests in micro finance institutions in the form of loans and equity investments. EBI received its first loan for microfinance expansion in 2007.



**Planters Development Bank** - a privately-owned and managed bank made EBI as one of its wholesale lending conduit for financing microfinance clients in 2007.



The **Bank of Philippine Islands** brings its 155 years of banking experience in its partnership with EBI that started in 2009.

# Mindanao

## AS AGRI-BUSINESS HUB



Blessed with a whole year round storm free weather, Mindanao's endless promise of better opportunities is an inherent magnet that attracts migrants and investors. This resource-rich island is most ideal for different varieties of tropical vegetation and export crops. Its conducive climate for agriculture and vast fertile plains and large inland water courses make it most ideal for farming. Its lush plains and valleys are best suitable for the thriving livestock industry while its pristine sheltered bays are rich with aquatic life making fishing one of the island's flourishing industries,

Mindanao's potential to become an ideal agri-business hub is too glaring to be overlooked. Recently, Mindanao becomes the centerpiece of the government's campaign eradicate poverty to make it the food basket of Southeast Asia. This was cited by President Gloria herself during the 13th Mindanao Business Conference at the Davao Convention and Trade Center held in Davao City.

### Export crops thriving in Mindanao

- bananas
- pineapples
- mangoes
- coconuts
  - papaya
  - cassava

As early as the first quarter of 2008, Malacanang and the Congress lawmakers generously earmarked additional funding on top of the P121 billion budget allocated for the six regions of the island. Allocated budget will finance the farm to market roads, irrigation projects and to fund diverse practical livelihood programs to bolster the government's thrust in making Mindanao as the country's "food basket". The evident development progress noticeably increased the already growing numbers of agri- entrepreneurs in Mindanao.

**Wielding a corporate vision to be a strong regional bank within greater Mindanao that leads in the delivery of high quality financial products and services that promote, support and encourage entrepreneurship in the countryside, EBI participated in the credit guarantee program of the Land Bank of the Philippines (LBP) and the Agricultural Credit and Policy Council (ACPC) in offering credit guarantee to loans granted to farmers.**

**For Atty. Ronald Alviso, EBI president, these programs complement the thrust of Enterprise Bank, Inc to expand its micro-agri portfolio employing the crop-specific financing scheme to increase management's confidence level in extending its reach to more poor farmers in the countryside.**

**To date, thousands of satisfied clients have already availed of the micro-agri loan portfolio of the bank.**



## Jessie ABANACION

Jessie's life is a story of a strong partnership with Enterprise Bank, Inc.

Floods were not enough to wear away and drown out this farmer's dream of a better life for his family. A father of three children, Jessie and his equally hardworking wife Genny personally managed their farm planted with high valued crops. They later shifted to papaya farming upon the advice of a friend.

Seeing a more profitable prospect in papaya farming, he availed a P50,000.00 loan from **Enterprise Bank, Inc** to finance the planting of his 1.5 hectares papaya farm. He was able to pay his loan in less than a year. A year later, with their savings and new loan availed from EBI amounting to P150,000.00, the Abanacion family was able to expand their papaya farm into three hectares and was again, able to pay the loan in a year.

Having able to establish himself as a good paying client of the bank, EBI trusted and granted Jessie Abanacion P500,000 loan which he used to finance his six hectares papaya farms and to purchase a brand new ISUZU elf truck. However, massive flood struck later that ravaged his farm destroying almost all of his papaya crops. Upset but never beaten, his experience made Jessie stronger and more determined to start from what was left of his plants. He did not waste time sulking and instead, started to rehabilitate his farm with zest.

His unbending persistence produced profitable result that in two consecutive years, he has surpassed and doubled the tonnage of his papaya deliveries. Jessie is now one of the is considered one of the top papaya growers of Del Monte Philippines.

Jessie's life is a story of a partnership with EBI, a bank with a mission to deliver high quality financial products and services that promote, support and encourage entrepreneurship in the countryside.

# MILESTONES of ENTERPRISE BANK

May 10, 1976	Started Banking Operations in Lianga, Surigao Del Sur	April 2005	Accredited by the Social Security System(SSS) and Philhealth as collection partner
June 1994	New Management took over under Ignacito U. Alvizo. Major changes in operation occurred from mid 1994 to 1995	May 2005	Two micro finance-oriented branches were licensed by Bangko Sentral ng Pilipinas (BSP): Madrid and Bislig Cities
January 24, 1995	Rehabilitation plan approved by BSP bills payable converted to LBP preferred shares	November 2005	Accredited by National Livelihood Support Fund (NLSF) with a credit line of P 20 million for on-lending to small,marginal farmers
February 1996	1st accreditation received from LBP for a P500, 000 credit line. Current line is P 50 Million, accredited by BAI (P3 Million) and UCPB-CIIF (P3 Million in March and July same year)	December 2005	Launched micro fishing loan product
September 1996	Became a member of Rural Bankers Association of the Phils.	1st Quarter 2006	Accredited by Small Business Corporation (SBC) with a credit line of P 20 Million, Oxfam/Novib approved a credit line of Euro 300 Thousand for microfinance
1997	Accredited by PCFC with a credit line of P1 Million. Current line is P148 Million. Four Branch offices were opened.	June 2006	Launched micro housing repair loan
1998	Micro loan product launched. Three more branch offices opened. Corporate name was changed from New Rural Bank of Lianga to Enterprise Bank, Inc.	July 2006	Opened Davao City Branch
2000	First dividend declaration after 6 years of rehabilitation effort.	October 2006	Started its first international tie up (with Oxfam Novib)
2001-2003	Closed smaller branches and transferred to bigger market areas of Butuan and Tagum City	December 2006	BSP E-Rediscounting Pioneer
2004	Launched new micro agri loan product. UCPB-CIIF Credit line of P 20 Million was approved for micro finance.	2007	Atty. Ronald Alvizo became Chairman of the bank
2004	Atty. Ronald E. Alvizo became President	May 2007	Opened Cagayan de Oro Branch
		October 2007	Launched Cash Cards as media for cashless loan disbursements
		June 2008	Installed the first ATMs in Tagum and Davao
		November 2008	Launched Cash Pick up Remittance
		December 2008	Launched Payroll servicing
		2009	Opened branches in Panabo in Davao del Norte, Carcar and Mandaue in Cebu, General Santos City in SOCKSARGEN and Valencia in Bukidnon.
			Installed ATMs in Barobo, Cagwait, Hinatuan and Marihatag, all in Surigao del Sur.
			Installed Point-of-Sale terminals in 3 branches.



# ENTERPRISE BANK, INC.

(A Rural Bank)

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURNS

The management of Enterprise Bank, Inc. (A Rural Bank) is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2009. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited to, the valued added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, management affirms that the attached audited financial statements for the year ended December 31, 2009, and the accompanying Annual Income Tax Return are in accordance with the books and records of Enterprise Bank, Inc. (A Rural Bank), complete and correct in all material respects.

Management likewise affirms that:

- a) The Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- b) Any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules have been reported as reconciling items and maintained in the Bank's books and records in accordance with the requirements of Revenue Regulation No. 8-2007 and other relevant issuances;
- c) Enterprise Bank, Inc. (A Rural Bank) has filed all applicable returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except contested in good faith.

  
Atty. Ronald E. Alvizo  
Chairman/CEO

  
Jennifer D. Suelto  
Chief Finance Officer

## Report of Independent Auditors

The Board of Directors and Shareholders  
Enterprise Bank, Inc. (A Rural Bank)  
Poblacion, Lianga, Surigao del Sur

We have audited the accompanying financial statements of Enterprise Bank, Inc. (A Rural Bank), which comprise the statements of financial position as at December 31, 2009 and 2008, and the related statements of income, changes in equity and cash flows for the years then ended, and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: 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; selecting and applying appropriate accounting policies; and 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 audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Enterprise Bank, Inc. (A Rural Bank) as of December 31, 2009 and 2008, and of its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards.

In compliance with Revenue Regulation V-20m we are stating the following:

- 1) The taxes paid and accrued by the Bank of the year ended December 31, 2009, are shown in the Schedule of Taxes and Licenses, and
- 2) No partner of our Firm is related by consanguinity or affinity to the Chairman of the Board, President or principal shareholders of the Rural Bank.

QUILAB CABILIN & Co  
By:



Rico P. Quilab  
Partner  
CPA Cert. No. 46034  
SEC Accreditation No. 906-A  
TIN 129-040-841  
PTR No. 1874033 A  
January 4, 2010  
Cagayan de Oro City

April 13, 2010  
Cagayan de Oro City, Philippines

# STATEMENTS OF FINANCIAL POSITION

Enterprise Bank, Inc. (A Rural Bank)

<i>December 31</i>	<i>2009</i>	<i>2008</i>
<b>ASSETS</b>		
Cash and Cash Equivalents (Note 4)	P179,200,157	P190,230,792
Loans and Receivables (Note 5)	1,029,654,536	643,964,886
Held-to-Maturity Investments (Note 6)	21,549,331	21,315,687
Bank Premises, Furniture, Fixtures and Equipment (Note 7)	61,802,669	56,852,313
Investment Property (Note 8)	13,215,635	8,234,051
Other Assets (Note 9)	28,294,712	20,167,779
	<u>P1,333,717,040</u>	<u>P940,765,508</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities		
Deposit Liabilities (Note 11)	P402,488,473	P265,366,235
Bills Payable (Note 12)	684,846,262	504,322,367
Other Liabilities (Note 13)	58,859,413	49,521,607
Unsecured Subordinated Debt (Note 14)	50,000,000	-
Total Liabilities	<u>1,196,194,148</u>	<u>819,210,209</u>
Shareholders' Equity		
Share Capital (Note 15)	50,835,500	48,835,000
Reserves (Note 16)	86,687,392	72,720,299
	<u>37,522,892</u>	<u>121,555,299</u>
	<u>1,333,717,040</u>	<u>P940,765,508</u>

*See Notes for Financial Statements.*

# STATEMENTS OF INCOME

Enterprise Bank, Inc. (A Rural Bank)

<i>Years Ended December 31</i>	<i>2009</i>	<i>2008</i>
<b>INTEREST INCOME</b>		
Loans and discounts	P201,253,069	P180,000,275
Bank deposits and investment securities	2,999,887	3,045,617
	<u>204,252,956</u>	<u>183,045,892</u>
<b>INTEREST EXPENSE</b>		
Bills payable (Note 12)	56,599,220	41,778,274
Deposit liabilities (Note 11)	14,532,967	13,537,517
Subordinated debt (Note 14)	2,420,162	-
	<u>73,552,349</u>	<u>55,315,791</u>
<b>NET INTEREST INCOME</b>	130,700,607	127,730,101
<b>PROVISION FOR IMPAIRMENT LOSSES</b> (Note 10)	19,458,414	13,372,857
<b>PROFIT AFTER LOAN IMPAIRMENT LOSSES</b>	111,242,193	114,357,244
<b>SERVICE FEES AND OTHER CHARGES</b>	147,841,333	94,491,764
<b>PROFIT BEFORE OTHER EXPENSES</b>	259,083,526	208,849,008
<b>OTHER EXPENSES</b>		
Compensation and fringe benefits (Note 17)	93,917,734	82,370,050
Depreciation (Note 7)	14,672,604	11,015,118
Other operating expenses (Note 18)	120,810,108	90,983,227
	<u>229,400,446</u>	<u>184,368,395</u>
<b>PROFIT BEFORE INCOME TAX EXPENSE</b>	29,683,080	24,480,613
<b>INCOME TAX EXPENSE</b> (Note 19)		
Current	14,213,718	12,742,380
Deferred	(5,837,526)	(4,680,500)
	<u>8,376,192</u>	<u>8,061,880</u>
<b>PROFIT FOR THE YEAR</b>	P21,306,888	P16,418,733

See notes to financial statements.

# STATEMENTS OF CHANGES IN EQUITY

Enterprise Bank, Inc. (A Rural Bank)

<i>December 31</i>	<i>2009</i>	<i>2008</i>
SHARE CAPITAL (Note 15)		
Preferred Shares – P100 par value		
Opening balances	P6,215,700	P4,715,700
Additional preferred shares issued during the year	2,000,000	1,500,000
Closing balances	8,215,700	6,215,700
Common Shares – P100 par value		
Opening balances	42,619,300	41,784,400
Additional shares issued during the year	500	834,900
Closing balances	42,619,800	42,619,300
Total Share Capital	50,835,500	48,835,000
SURPLUS RESERVES		
Opening balances	10,290,973	7,634,973
Additions during the year	1,156,000	2,656,000
Closing balances	11,446,973	10,290,973
SURPLUS AND UNDIVIDED PROFITS		
Opening balances as originally stated	55,652,280	47,669,547
Adjustment to establish deferred assets in prior years (Note 16)	6,777,046	-
Opening balances, as restated	62,429,326	47,669,547
Dividends declared during the year (Note 15)	(5,000,000)	(5,000,000)
Direct credits (charges) during the year (Note 16)	(3,495,795)	3,341,046
Profit for the year	21,306,888	16,418,733
Closing balances	75,240,419	62,429,326
	86,687,392	72,720,299
	P137,522,892	P121,555,299

See notes to Financial Statements.

# STATEMENT OF CASH FLOWS

Enterprise Bank, Inc. (A Rural Bank)

<i>Years Ended December 31</i>	<i>2009</i>	<i>2008</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax expense	P29,683,080	P24,480,613
Add (deduct) adjustments for:		
Provision for impairment losses on loans and receivables	19,458,414	13,372,857
Depreciation	14,672,604	11,015,118
Interest income from bank deposits	(2,999,887)	(3,045,617)
Operating income before changes in working capital	60,814,211	45,822,971
Changes in working capital, excluding cash and cash equivalents:		
Increase in loans and receivables	(405,148,064)	(100,315,092)
Increase in other liabilities	6,991,120	7,386,310
Increase (decrease) in deposit liabilities	137,122,238	10,349,717)
Net cash used for operations	(200,220,495)	57,455,528)
Interest income	2,999,887	3,045,617
Income taxes paid	(6,029,506)	(11,225,419)
<b>Net Cash Used for Operating Activities</b>	<b>(203,250,114)</b>	<b>(65,635,330)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in bills payable	180,523,895	135,549,238
Proceeds from unsecured subordinated debt	50,000,000	-
Proceeds from issuance of additional preferred shares	2,000,000	1,500,000
Increase in surplus reserve	1,156,000	2,656,000
Proceeds from issuance of additional common shares	500	834,900
Direct (charges) credits to surplus and undivided profits	(3,495,795)	3,341,046
Dividends declared	(5,000,000)	(5,000,000)
<b>Net Cash from Financing Activities</b>	<b>225,184,600</b>	<b>138,881,184</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property and equipment	(19,622,960)	(17,905,936)
Increase in other resources	(8,126,933)	(10,345,627)
Decrease (increase) in investment property	(4,981,584)	789,716
Increase in held-to-maturity investments	(233,644)	(9,647,123)
<b>Net Cash Used for Investing Activities</b>	<b>(32,965,121)</b>	<b>(37,108,970)</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(11,030,635)</b>	<b>36,136,884</b>
<b>OPENING CASH AND CASH EQUIVALENTS</b>	<b>190,230,792</b>	<b>154,093,908</b>
<b>CLOSING CASH AND CASH EQUIVALENTS</b>	<b>P179,200,157</b>	<b>190,230,792</b>

*See Notes to Financial Statements.*

# Notes to Financial Statements

Enterprise Bank, Inc. (A Rural Bank)

## **Note 1** **Organization**

The Enterprise Bank, Inc. (A Rural Bank) was organized on May 10, 1976, and received its Certificate of Authority to Operate as a Rural Bank on May 7, 1976, from then Central Bank of the Philippines, now the Bangko Sentral ng Pilipinas (BSP). It started operations on May 10, 1976.

The Bank's principal office is located at Poblacino Lianga, Surigao del Sur. It maintains branch offices in the Municipalities of Tandag, Aras-asan, Barobo, Hinatuan and the City of Bislig, all in Surigao del Sur; in the Municipality of San Francisco, Agusan del Sur; in the Cities of Butuan, Tagum, Davao, Panabo, General Santos, Cagayan de Oro City, and Valencia (Bukidnon), and in Cebu City and Car-Car City, in the Visayas.

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

The significant accounting policies that have been used in the preparation of these financial statements are summarized below.

### **Statement of Compliance**

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards.

### **Basis of Preparation**

The financial statements have been prepared under historical costs conventions. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The financial statements are presented in Philippine peso, which is the Bank's functional and presentation currency and all values are recorded to the nearest peso except when otherwise indicated. The accounting policies used in the preparation of these financial statements have been consistently applied since the previous year.

The preparation of the financials statements made use of estimates, assumptions and judgments by management based on management's best knowledge of current and historical facts as at statement of financial condition date. These estimates and judgment affect the reported amounts of assets and liabilities and contingent liabilities as at statement of financial condition date, as well as affecting the reported income and expenses for the year. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

### **Changes in Accounting Policies and Disclosures**

The Bank adopted all relevant and applicable accounting standards, including interpretations to existing standards, which are mandatory for accounting periods beginning on or after January 1, 2009. Adoption of these changes in PFRS did not have any significant effect on the financial statements of the Bank.

Among others, the Bank adopted the amendments to PAS/IAS 1, Presentation of Financial Statements, effective January 1, 2009, such as the following:

- a) Introduction of a new statement of comprehensive income that combines all items of income and expenses recognized in the profit and loss together with "other comprehensive income". The revised Standard prohibits the presentation of items of income and expenses that are "non-owner changes in equity" in the statements of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity in a statement of comprehensive income. The Bank has no "non-owner changes in equity"; it is presenting only the statement of income.
- b) Introduction of terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. In addition, the revised Standard requires the presentation of a third statement of financial position when an entity applies new accounting policies that have retrospective effect.
- c) Introduction of improvements that have led to a number of changes in the terminology of accounting policies issued by the International Accounting Standards Board to primarily remove inconsistencies and clarify wordings in all PASs/IASs.

### **Cash and Cash Equivalents**

Cash and cash equivalents substantially consist of cash on hand and other cash items, amounts due from BSP and other banks that are known amounts of cash with maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value. Cash and cash equivalents are carried in the books at cost.

### **Financial Assets**

Financial assets include cash and other financial instruments. Financial assets are classified into categories: financial assets at fair value to profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are

## NOTES TO FINANCIAL STATEMENT

assigned to the different categories by management on initial recognition, depending on the purpose for which the investments are required. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provision of applicable accounting standards.

The following are the applicable financial assets of the Bank:

### **Loans and Receivables:**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is recognized in profit or loss. Impairment loss is provided when there is objective evidence that the Bank will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of impairment loss is determined based on the policy explained in the following section.

### **Held-to-Maturity Investments**

These are also non-derivative financial assets with fixed or determinable payments and fixed date of maturity. Then Bank has the positive intention and ability to hold the investment until maturity. These investments are initially recognized at fair value including direct and incremental transaction costs and measured subsequently at amortized cost, using the effective interest method. If there is objective evidence that the investment has been impaired, it is measured at present value of estimated cash flows. Any changes to the carrying amount of the investment are recognized in profit or loss. Interest on held-to-maturity investments is included in the statement of income. In case of an impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognized in the statement of income.

### **Allowance for Impairment Losses**

The Bank maintains its allowance for impairment losses for loans and receivable at a level considered adequate to provide potential losses on loans and other 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 economic conditions and evaluation of potential losses based on existing guidelines of the BSP.

The BSP requires banks to observe certain criteria and guidelines based largely on the classification of loans in establishing allowance for loan 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% on non-classified loans. Furthermore, existing guidelines of the BSP establish new policies on the classification of non-performing loans, prerequisites to the restructuring of loans, and maximum collateral valuation limits for the purpose of calculating the allowance for impairment losses.

### **Bank Premises, Furniture and Equipment**

Bank premises, furniture and equipment are carried at cost less accumulated depreciation. Such cost includes the cost of replacing part of such bank premises, furniture and equipment when that cost is incurred, if the recognition criteria are met. Interests incurred on borrowed funds used to finance the construction of properties during the construction period are capitalized. Other borrowing costs are expensed. An item of bank premises, furniture and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

Depreciation is computed on the straight-line method over the estimated useful lives of the assets as follows: (a) buildings, 25 years, (b) furniture, fixtures and equipment, 1 to 10 years, (c) Transportation equipment, 5 years, (d) leasehold rights and improvement, over the estimated useful lives of the improvements or the term of the lease whichever is shorter, and (e) land is not depreciated. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. An impairment loss is recognized for 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 assets when its is probable that future economic benefits arising from the renovations will flow to the organization.

The carrying values of bank premises, furniture and equipment are reviewed for impairment when changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of bank premises, furniture and equipment is the greater of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction.

### **Investment Properties**

Investment properties are initially measured at cost including certain transactions costs. Assets acquired in settlement of loans are initially recorded at the total outstanding 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.

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gain or loss on derecognition of an investment property is recognized in the statement of income in the year of derecognition. Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance, security maintenance and other holding costs are normally charged to income in the period in which the costs are incurred.

### **Financial Liabilities**

Financial liabilities include deposit liabilities, bills payable, trade and other payables, which are measured at amortized cost using effective interest rate method. Financial liabilities are recognized when the Bank becomes a party to the contractual agreement of the instrument. All interest and related charges are recognized as an expense in the income statement under the caption Interest Expense.

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

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

Financial liabilities are derecognized from the balance sheet only when the obligations are extinguished either through discharge, cancellation or expiration.

### **Derecognition of Financial Assets and Liabilities**

A financial assets is derecognized when (a) the rights to receive cash flows from the asset have expired; (b) the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or (c) the Bank has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risk and rewards of the asset, but has transferred control of the asset. A financial liability is derecognized when the obligation under the liability expires, is discharged or cancelled. Where an existing financial liability is replaced by another from the same lender on substantially different terms; or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

### **Impairment of Non-Financial Assets**

The carrying values of the Bank's premises, furniture and equipment and other resources are subject to impairment testing. All individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use, based on an internal evaluation of discounted cash flow. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

### **Revenue and Cost Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be measured reliably. The following are the specific recognition criteria in recognizing revenue:

- (a) Interest income is recorded at the effective interest rate. On discounted loans, interest income and service fees or charges are recognized based on the accrual method of accounting using the effective interest method, except in the case of loans classified as non-accruing in accordance with existing BSP guidelines. Interest income on non-accruing loans and past-due receivables is recognized only to the extent of cash collections received.
- (b) Loan commitment fees are recognized as earned over the term of the credit lines granted each borrower. Other non-finance charges on loans and penalties on delinquent accounts are recognized upon actual collection.
- (c) Cost and expenses are recognized in the statement of income upon utilization of the service or at the date they are incurred.

## NOTES TO FINANCIAL STATEMENT

### **Employee Benefits**

The Bank's employees are provided with the following benefits:

#### **Retirement Benefit Obligation**

Retirement benefits are provided to employees through a defined benefit plan. A defined benefit plan is a retirement plan that defines an amount of retirement benefit an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for the benefits of the retirement plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit retirement plan covers all regular. The Bank, however, has not yet provided for this obligation in view of the relatively young workforce that constitutes its human resource pool.

#### **Termination Benefits**

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the statement of financial condition date are discounted to present value.

#### **Compensated Absences**

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the statement of financial condition date. The amounts recognized are included in Trade and Other Payables account in the statement of financial condition at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

### **Leases**

The Bank determines whether an arrangement is, or contains a lease based on the substance of the arrangements. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys the right to use the asset.

The Bank accounts for its lease of the building where it holds a sub-office as an operating lease. The Bank's lease to the building does not transfer to the Bank all the risks and benefits of ownership of the assets. Operating lease payments are recognized as expense in the income statement on a straight-line basis over the lease term. For capitalized leasehold improvements, the Bank depreciates the assets over the shorter of the estimated useful lives of the asset or the lease term.

### **Earnings per Share, or EPS**

Basic EPS is calculated by dividing the net income or loss for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period, after giving retroactive effect to any share dividend declarations.

### **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. Provisions are recognized when present obligation will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the statement of financial condition date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of related provision. Provisions are reviewed at each statement of financial condition date and adjusted to reflect the current best estimate. In those cases where the possible outflow of the economic resources as a result of present obligation is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Probable inflows of economic benefits that do not yet meet the recognition criteria of the asset are considered contingent assets, hence, are not recognized in the financial statements.

### **Subsequent Events**

Post year-end events that provide additional information about the Bank's position at statement of financial position date (adjusting events), are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

**Note 3  
Significant Accounting Judgment and Estimates**

The preparation of the financial statements in accordance with PFRS requires the Bank to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following critical accounting estimates and judgments may be applicable, among many other possible areas not presented in the Bank's financial statements:

**Impairment Losses on Loans and Receivables**

The Bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgment as to whether there is any observable data indicating that there has been measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group or local economic condition that correlates with defaults on assets in the Bank.

Management uses estimates based on historical loan experience and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**Held-to-Maturity (HTM) Investments**

The classification to HTM investment requires significant judgment by management. In making this judgment, the Bank evaluates its intention and ability to hold on to such investments until maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances, for example, selling an insignificant amount close to maturity, it will be required to reclassify the entire portfolio as available-for-sale investments. The investments would therefore be measured at fair value and not at amortized cost.

**Estimating Useful Lives of Bank Premises, Furniture, Fixture and Equipment**

The Bank reviews annually the estimated useful lives of its bank premises, furniture, fixture and equipment based on expected asset utilization. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of these properties would increase recorded depreciation and amortization expense and decrease the related asset accounts.

**Impairment of Non-financial Assets**

The Bank assesses the impairment of its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific asset, the recoverable amount represents the net selling price. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Bank is required to make estimates and assumptions that can materially affect the Bank's financial statements.

**Retirement Benefits**

The determination of the Bank's obligation and cost for pension and other employee benefits is dependent on the selection of certain assumptions used by management in calculating such amounts. While the Bank believes that the assumptions used are reasonable and appropriate, significant differences in the actual experience or significant changes in assumptions may materially affect employee benefit obligations.

**Provisions and Contingencies**

Judgement is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and disclosure of contingencies are discussed in Note 2.

**Note 4  
Cash and Cash Equivalents**

This consists of the following:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Cash and other cash items	P 18,904,021	P34,331,841
Due from other banks	151,516,798	151,062,036
Due from Bangko Sentral ng Pilipinas	8,779,338	4,836,915
	P179,200,157	P190,230,792

## NOTES TO FINANCIAL STATEMENT

### Note 5 Loans and Receivable

The loans and receivables from the Bank's customers are categorized as follows:

<i>December 31</i>	<i>2009</i>	<i>%</i>	<i>2008</i>	<i>%</i>
Agricultural	P444,259,031	41	P285,022,015	41
Commercial	206,353,753	19	P310,440,198	44
Others	427,695,106	40	106,367,044	15
	1,078,307,890	100	701,829,257	100
Allowance for impairment losses (Note 10)	(25,294,841)	(2)	(17,434,323)	(2)
Loan discounts	(23,358,513)	(2)	(40,430,048)	(6)
	P1,029,654,536	96	P 643,964,886	92

As at December 31, 2009, about P637,398,429 of the loans and receivables were pledged as security as to the Banks bill payable. See Note 12.

The loans and receivables from the Bank's customers are categorized as follows:

#### *Breakdown by Age of Accounts in 2009*

<i>December 31, 2009</i>	<i>Current</i>	<i>Past Due</i>	<i>In Litigation</i>	<i>Total</i>
Agricultural	P434,621,741	P8,890,009	P747,281	P444,259,031
Commercial	202,258,890	4,094,862	-	206,353,752
Others	411,901,068	12,880,521	2,913,518	427,695,107
	P1,048,781,699	P25,865,392	P3,660,799	P1,078,307,890
	96%	3%	1%	100%

#### *Breakdown by Type of Security*

<i>December 31</i>	<i>2009</i>	<i>%</i>	<i>2008</i>	<i>%</i>
Secured by Real estate	P156,012,192	14	P106,710,634	15
Secured by DOSRI	5,853,508	1	7,101,558	1
	161,865,700	15	113,812,192	16
Unsecured loans	916,442,190	85	588,017,065	84
	P1,078,307,890	100	P701,829,257	100

The non-performing loans as defined under BSP Circular 202 amounted to P29,526,191 and P21,370,331 during 2009 and 2008, respectively.

#### *Breakdown by Concentration of Credit*

<i>December 31</i>	<i>2009</i>	<i>%</i>	<i>2008</i>	<i>%</i>
Agricultural	P444,259,031	41	P170,502,594	24
Wholesale and retail trade	206,353,753	19	220,886,465	32
Others	427,695,106	40	310,440,198	44
	P1,078,307,890	100	P701,829,257	100

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30% of total loan portfolio.

The maturity profile of the loans is as follows

<i>December 31</i>	<i>2009</i>	<i>%</i>	<i>2008</i>	<i>%</i>
Due more than 12 months	P513,418,400	48	P314,969,889	45
Due within 12 months	564,889,490	52	386,859,368	55
	P1,078,307,890	100	P701,829,257	100

**Note 6  
Held-to-Maturity Investments**

The held to maturity financial assets consist of the following equity investments:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Philippine National Bank (PNB)	P20,382,105	P20,148,461
Land Bank of the Philippines (LBP)	1,167,226	1,167,226
	<u>P21,549,331</u>	<u>P21,315,687</u>

The investments with PNB include investments in treasury bills with interest rate at 4.10% per annum and investments in certificate of time deposits with interest rate at 4.23% per annum. The investments with LBP represent 10-year bonds with interest rate based on the prevailing 91-day treasury bill rate. The Bank intends to hold on to these investments until maturity.

**Note 7  
Bank Premises, Furniture, Fixtures and Equipment**

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

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Land	P16,470,538	P16,470,538
Building	25,469,613	19,284,913
Furniture, fixtures and equipment	36,220,560	29,780,140
Transportation equipment	29,352,878	27,678,649
Leasehold improvements	18,238,415	12,914,804
	<u>125,752,004</u>	<u>106,129,044</u>
Less accumulated depreciation	63,949,335	49,276,731
	<u>P61,802,669</u>	<u>P56,852,313</u>

The reconciliation of the carrying amount of Bank premises, furniture, fixtures and equipment follows:

<i>December 31, 2006</i>	<i>Beg. Balance</i>	<i>Additions</i>	<i>Retirements</i>	<i>End Balance</i>
<b>Cost</b>				
Land	P16,470,538			<b>P16,470,538</b>
Building	19,284,913	P6,184,700		<b>25,469,613</b>
Furniture, fixtures and equipments	29,780,140	6,440,420		<b>36,220,560</b>
Transportation equipment	27,678,649	1,674,229		<b>29,352,878</b>
Leasehold improvements	12,914,804	5,323,611		<b>18,238,415</b>
	<u>106,129,044</u>	<u>19,622,960</u>		<b><u>125,752,004</u></b>

(Carried Forward.)

(Brought Forward.)

<i>December 31, 2009</i>	<i>Beg. Balance</i>	<i>Additions</i>	<i>Retirements</i>	<i>End Balance</i>
<b>Accumulated Depreciation</b>				
Building	4,876,804	1,069,897		<b>5,946,701</b>
Furniture, fixtures and equipments	21,882,287	5,153,121		<b>27,035,408</b>
Transportation equipment	16,711,738	2,861,136		<b>19,572,874</b>
Leasehold improvements	5,805,902	5,588,450		<b>11,394,352</b>
	<u>49,276,731</u>	<u>14,672,604</u>		<b><u>63,949,335</u></b>

<b>Net Book Value</b>	P56,852,313	P4,950,356		<b>P61,802,669</b>
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<i>December 31, 2008</i>	<i>Beg. Balance</i>	<i>Addition</i>	<i>Reclassifications</i>	<i>End Balance</i>
<b>Cost</b>				
Land	P5,784,538	P10,686,000		<b>P16,470,538</b>
Building	22,794,059	890,638	(P4,399,784)	<b>19,284,913</b>
Furniture, fixtures and equipments	25,862,254	3,917,886		<b>29,780,140</b>
Transportation equipment	26,764,325	914,324		<b>27,678,649</b>
Leasehold improvements	7,017,932	1,497,088	4,399,784	<b>12,914,804</b>
	<u>88,223,108</u>	<u>17,905,936</u>		<b><u>106,129,044</u></b>

## NOTES TO FINANCIAL STATEMENT

<b>Accumulated Depreciation</b>			
Building	(3,788,199)	(1,088,605)	<b>(4,876,804)</b>
Furniture, fixture and equipments	(16,885,086)	(4,997,201)	<b>(21,882,287)</b>
Transportation equipment	(14,038,139)	(2,673,599)	<b>(16,711,738)</b>
Leasehold improvements	(3,550,189)	(2,255,713)	<b>(5,805,902)</b>
	(38,261,613)	(11,015,118)	<b>(49,276,731)</b>
<b>Net Book Value</b>	<b>P49,961,495</b>	<b>(P6,890,818)</b>	<b>P56,852,313</b>

The Bank has lease contracts with various terms on twenty five (25) buildings which it holds as collection and disbursement offices, in the areas where it holds branch operations. The leases, taken up in the books as operating leases, would expire on various dates.

### Note 8 Investment Property

This consists of the following:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Real and other properties acquired (ROPA)	P15,135,476	P10,153,892
Less provision for impairment losses (Note 10)	1,919,841	1,919,841
	P13,215,635	P8,234,051

The real properties consist of several pieces of lots located within Provinces of Surigao del Sur, Agusan del Norte, Agusan del Sur, and Davao del Norte recorded in the books at the total loan outstanding at the time of acquisition. These properties have estimated market values of P18,715,000 determined by an independent firm of appraisers as of September 30, 2009.

The reconciliation of the carrying amount of investment properties follows:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Opening balances	P10,153,892	P10,914,413
Additions	6,048,780	2,446,640
Disposals	(1,067,196)	(3,207,161)
	P15,135,476	P10,153,892

### Note 9 Other Assets

This consists of the following assets which are stated at the lower of cost or net realizable value:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Deferred tax assets (Note 19)	P8,642,800	P6,777,047
Prepaid expenses	8,450,297	6,767,136
Computerized program development	4,956,931	-
Accounts receivable – others	3,922,054	3,025,998
Stationery and office supplies	841,501	2,548,391
Petty cash fund	204,821	155,050
Miscellaneous assets	1,535,110	902,982
Total	28,553,514	20,176,604
Less allowance for impairment losses (Note 10)	258,802	8,825
	P 28,294,712	P20,167,779

The Bank provided additional allowance for impairment losses during the year, amounting P297,355 for accounts receivable others; otherwise, the Bank considers its other assets as generally unimpaired at the end of the year.

**Note 10**  
**Allowance for Impairment Losses**

The accounting of the movement of the allowance for impairment losses consists of the following:

<i>December 31</i>	<i>Loans and Receivables (Note 5)</i>	<i>Investment Property (Note 8)</i>	<i>Other Resources (Note 9)</i>	<i>Total</i>
Closing balances, December 31, 2007	P 17,390,957	P 1,890,646	P50,088	P19,331,691
Add provision for impairment losses in 2008	13,105,217	93,288	174,352	13,372,857
Total	30,496,174	1,983,934	224,440	32,704,548
Less write-offs	13,061,851	64,093	215,615	13,341,559
Closing balances, December 31, 2008	17,434,323	1,919,841	8,825	19,362,989
Provision for impairment losses in 2009	19,161,063	-	297,351	19,458,414
Total	36,595,386	1,919,841	306,176	38,821,403
Less write-offs	11,300,545	-	47,374	11,347,919
Closing balances, December 31, 2009	P25,294,841	P1,919,841	P258,802	P27,473,484

**Note 11**  
**Deposit Liabilities**

This account is composed of the following:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Savings deposits	<b>P242,480,600</b>	P165,167,915
Time deposits	<b>160,007,873</b>	100,198,320
	<b>P402,488,473</b>	P265,366,235

The deposit liabilities earn annual fixed interest of 1% for savings and from 7.5% to 9% for time deposits.

The maturity analysis of time deposits follows:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Six months and below	<b>P56,489,496</b>	P40,327,030
Over six months to one year	<b>80,238,232</b>	39,825,600
More than one year	<b>23,280,145</b>	20,045,690
	<b>P160,007,873</b>	P100,198,320

**Note 12**  
**Bills Payable**

This consists of the following bills payable to:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Peoples Credit and Finance Corporation	<b>P 120,010,672</b>	P115,286,112
Small Business Guarantee and Finance Corporation	<b>105,870,567</b>	64,779,072
UCPB Savings Bank	<b>83,921,500</b>	-
Land Bank of the Philippines	<b>94,364,484</b>	57,900,716
Bank of the Philippine Island	<b>86,823,162</b>	60,000,000
Triodos Stichting	<b>50,000,000</b>	50,000,000
Oxfam Novib	<b>49,283,407</b>	49,283,407
National Livelihood and Development Corporation	<b>29,629,794</b>	35,206,698
Development Bank of the Philippines	<b>23,524,806</b>	7,315,400
UCPB-CLIF Finance and Development Corporation	<b>20,000,000</b>	5,000,000
Oiko Credit	<b>12,000,000</b>	16,000,000
Banko Sentral ng Pilipinas	<b>7,988,079</b>	6,935,606
Planters Development Bank	<b>1,429,791</b>	36,615,356
	<b>P 684,846,262</b>	P504,322,367

## NOTES TO FINANCIAL STATEMENT

The accounts with **People's Credit and Finance Corporation** represent clean loans bearing interest rates ranging from 10% to 12% annually, payable within four (4) to seven (7) years. The credit line agreement provides that any cash dividend declaration by the Rural Bank shall require prior approval from PCFC.

The accounts with **Small Business Guarantee and Finance Corporation** represent the balance of bills payable arising from rediscounting of loans that are either secured or unsecured with interest rates ranging from 6% to 9.5% annually payable from one (1) to five (5) years.

The accounts with **UCPB Savings Bank** represent the balance of bills payable arising from rediscounting of unsecured loans payable within one (1) year and term loans payable within two (2) years. These accounts bear an interest rate of 9.75% annually with semi-annual principal repayments.

The account with **Land Bank of the Philippines** represent the balance of the bills payable arising from rediscounting of loans, both secured unsecured, and clean loans under a credit line. These loans bear interest rates ranging form 4.89% to 11.5% annually and are payable within one (1) year.

The accounts with **Bank of the Philippine Islands** represent back to back loan and clean loans under a credit line, bearing interest rates of 5% to 7% annually and are payable within one (1) year.

The accounts with **Triodos Stichting** represents term loans with interest rates of 10% to 11% per annum and have terms of three (3) and two (2) years, payable on July 1, 2010 and September 1, 2010, respectively.

The accounts with **Oxfam Novib** represent two (2) term loans with interest rates of 10% and 10.5% per annum and have terms of three (3) and two (2) years, payable on and November 30, 2010 and October 31, 2011, respectively. The accounts with National Livelihood and Development Corporation (NLDC) represent clean loans under a credit line with interest rate of 9% annually and are payable within four (4) years.

The accounts with **Development Bank of the Philippines** represents the balance of the bills payable arising from rediscounting of unsecured loans. These loans bear interest rates of 8.5% to 9.33% annually and are payable within one (1) year.

The account with **UCPB-CIIF Finance and Development Corporation** represents clean loan under a credit line with interest rate of 9% annually and are payable within one (1) year.

The account with **Oiko Credit** represents a term loan with interest rate of 10.68% per annum and is payable every six (6) months within five (5) years until November 26, 2012. Interest repricing is done semi-annually.

The accounts with **Bangko Sentral ng Pilipinas** represent the balance of the bills payable arising from rediscounting of both secured and unsecured loans. These loans bear interest rate based on prevailing rediscounting rate and is payable within one (1) year.

The account with **Planters Development Bank** represents clean loan under a credit line with interest rate of 9.5% per annum and is payable within two (2) years.

As at December 31, 2009, about P637,398,429 of the loans and receivables are pledged as security as to the bills payable. (See Note 5.)

The maturity analysis of bills payable follows:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
One year and below	P304,672,852	P160,934,797
More than one year	370,173,410	343,387,570
	<u>P674,846,262</u>	<u>P504,322,367</u>

### Note 13 Other Liabilities

This consists of the following:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Accrued expenses	P19,064,642	P10,232,452
Accounts payable	13,266,372	22,917,049
Accrued interest	11,481,777	8,496,563
Accrued income tax and other taxes payable	10,092,478	1,689,151
Dividends payable	1,889,672	1,510,223
Other payables	3,064,472	4,676,169
	<u>P58,859,413</u>	<u>P49,521,607</u>

**Note 14**  
**Unsecured Subordinated Debt (USD)**

This represents obligation to Land Bank of the Philippines arising from the issuance of a 10-year unsecured subordinated debt (USD) denominated in local currency eligible as Tier 2 (supplementary) capital of the Bank, with the following terms and conditions, among others:

(a) The Bank pays Land Bank interest rate at 9.65% per annum payable semi-annually with fixed due dates reckoned from April 1, 2009, the release of USD proceeds.

(b) The note does not constitute a deposit by Land Bank of the Philippines and is not insured by the PDIC; it shall not have priority claim, in respect of principal and coupon payments, in the event of winding-up of the Bank.

(c) The note cannot be terminated by LBP before maturity date.

**Note 15**  
**Share Capital**

This account consists of the following:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
<b>Preferred Shares A, P100 par value</b>		
Government, non-voting and convertible, non-cumulative		
Authorized – 51,353 shares; issued and outstanding – 47,157 shares	P4,715,700	P4,715,700
<b>Preferred Shares B, P100 par value</b>		
Private – redeemable non-voting and convertible		
Authorized – 150,000 shares		
Issued and outstanding – 35,000 shares in 2009; 15,000 shares in 2008	3,500,000	1,500,000
<b>Total Preferred Shares</b>	8,215,700	6,215,700
<b>Common Shares</b> – P100 par value, authorized – 1,298,647 shares		
Issued and outstanding – 426,198 shares in 2009; 426,193 in 2008	42,619,800	42,619,300
	P 50,835,500	P48,835,000

The Bank's preferred share capital has the following characteristics:

Preferred Shares "A" is issued only against the government investment in the capital stock of the Bank. The shares are non-voting, convertible to common shares and shall share in dividend distributed from the date of issuance of the rate provided under Section 8 R.A. No. 7353 which dividend shall be cumulative. The shares have preference over common shares in the assets of the Bank in the event of liquidation.

Preferred Shares "B" shall be issued only, after the creation of sinking fund for its redemption to qualified private persons, natural or juridical, and shall have preference over common stocks in the assets of the Bank in the event of liquidation and which sinking fund shall be effected by the transfer of free surplus to restricted surplus account and shall not be available for dividends. The shares are redeemable anytime after five (5) years from date of issuance, non-voting and convertible and shall have preference as to dividends only as may be set by the Bank's Board of Directors, but which should not however be in the absence of sufficient undivided profits, free surplus and approval of the Bangko Sentral ng Pilipinas.

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from Philippine Financial Reporting Standards (PFRS) in some aspects. As at December 31, 2009 the Bank is in compliance with the minimum capital-to-risk ratio. Please see Note 23 for the significant ratios.

On December 29, 2009 the Bank obtained approval from the Securities and Exchange Commission (SEC) for the increase in the Bank's authorized share capital from P80 million consisting of 800,000 shares at P100 par value divided into 598,647 common shares and 51,353 shares preferred shares-government and 150,000 shares of preferred shares-private to P150 million consisting of 1,500,000 common shares at P100 par value divided into 1,298,647 common shares, 51,353 shares preferred share-government and 150,000 preferred shares-private without voting rights, all at the par value of One Hundred Pesos (P100) each. The increase in the Bank's authorized shares has been authorized by the Bangko Sentral ng Pilipinas (BSP) on February 20, 2008.

On December 22, 2008, the shareholders approved the recommendation of the Board of Directors declaring 11.73% dividends to all common shareholders, 2%, 12% and 9% dividends for Development Bank of the Philippines, Land Bank of the Philippines and private preferred shareholders, respectively, all shareholders on record as of October 31, 2008. The dividends declaration was approved by the Bangko Sentral ng Pilipinas on May 27, 2009.

## NOTES TO FINANCIAL STATEMENT

As at December 31, 2009 the Bank has a total of 43 stockholders with 39 stockholders owning 100 or more shares each of the Bank's share capital.

### Note 16 Reserves

The following are the Bank's reserves at the end of each year:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Surplus Reserves	P11,446,973	P10,290,973
Surplus and Undivided Profits	75,240,419	62,429,326
	<u>86,687,392</u>	<u>P72,720,299</u>

The direct charges to surplus and undivided profits represent the following:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Appropriation for the following:		
Dividends payable for preferred shares	(P1,995,775)	(P1,936,000)
Sinking fund for redemption of preferred shares	-	(1,500,000)
Direct credits (charges):		
Tax deficiencies payments for the taxable year 2008	(1,500,020)	-
Deferred tax assets on impairment losses as at December 31, 2008	-	6,777,046
	<u>(P3,495,795)</u>	<u>P3,341,046</u>

During 2009, the Bank computed the deferred taxes on the origination of temporary differences arising from the provision of impairment losses during the year. Correspondingly, the Bank also recomputed the deferred tax assets on the amount established in the allowance for impairment losses for loans and receivables, investments property and other assets, as at December 31, 2008, totaling P19,362,989. Accordingly, the financial statements of the Bank during 2008 have been restated to recognize the deferred tax assets of 2008 amounting P6,777,046.

### Note 17 Details of Compensation and Fringe Benefits

<i>Years Ended December 31</i>	<i>2009</i>	<i>2008</i>
Salaries and wages	P38,285,809	49,542,644
Employees' benefits	55,631,925	32,827,406
	<u>P93,917,734</u>	<u>P82,370,050</u>

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 employee has rendered five (5) years of continuing service to the Bank.

### Note 18 Details of Other Operating Expenses

<i>Years Ended December 31</i>	<i>2009</i>	<i>2008</i>
Travel and Transportation	P23,875,774	P18,622,496
Taxes and licenses	22,377,398	14,625,016
Security, messengerial and janitorial services	9,212,846	5,864,893
Fuel, oil and lubricants	8,673,408	8,532,401
Rental	8,308,040	5,086,746
Stationery and supplies used	6,590,970	5,482,755
Management and other professional fees	6,045,765	3,862,620
Repairs and maintenance	4,986,704	5,428,690
Power, light and water	3,896,757	2,781,785
Documentary stamp	3,659,169	1,099,562
Representation and entertainment	3,412,642	1,284,674
Insurance	3,281,709	1,953,835
Postage, telephone & telegram	3,140,822	2,165,059
<i>(Carried Forward.)</i>		

(Brought Forward.)

<i>Years Ended December 31</i>	<i>2009</i>	<i>2008</i>
Donations and charitable contribution	1,544,372	2,221,493
Litigation of assets acquired	1,352,565	3,124,569
Advertising and publicity	1,352,454	805,000
Information Technology Expenses	851,534	358,903
Fines, penalties and other charges	481,583	384,305
Membership fees and dues	235,026	106,198
Miscellaneous	7,530,570	7,192,227
	P120,810,108	P90,983,227

## **Note 19** **Income Tax Expense**

In accordance with Republic Act. No. 9337, otherwise known as the Expanded Value-Added Tax Act of 2005, the Bank's provision for income tax for the years ended 2009 and 2008 had been computed based on the current rates of 30% and 35%, respectively. The reconciliation of provision for income tax computed as follows:

<i>Years Ended December 31</i>	<i>2009</i>	<i>2008</i>
Profit before income tax expense	P29,683,080	P24,480,613
Add (deduct) reconciling items:		
Interest income on bank deposits already subject to final tax	(2,999,887)	(3,045,617)
Non-allowable interest expense (33% in 2009 and 42% in 2008)	1,237,453	1,598,949
Provision for impairment losses	19,458,414	13,372,857
Taxable income	47,379,060	36,406,802
Tax rate	30%	35%
Tax due	14,213,718	12,742,381
Application of deferred tax assets (P11,347,919 x 35% in 2009; P13,341,559 x 35% in 2008)	(3,971,773)	(4,669,546)
Net Income Tax Payable	P10,241,945	P8,072,835

The movements of the deferred tax assets are as follows:

<i>Years Ended December 31</i>	<i>2009</i>	<i>2008</i>
Opening balances	P6,777,047	P6,766,090
Origination of temporary differences arising from:		
Provision for impairment losses on loans and receivables	5,748,320	4,586,826
Provision for impairment losses on other assets	89,206	61,026
Provision for impairment losses on investment properties	-	32,651
Reversal of temporary differences arising from write-off of receivables	(3,971,773)	(4,669,546)
Closing balances	P8,642,800	P6,777,047

## **Note 20** **Earnings Per Common Share**

The earning per common share is computed as follows:

<i>Years Ended December 31</i>	<i>2009</i>	<i>2008</i>
Basic		
Net profit	P21,306,888	P16,418,733
Weighted Average Number of Common Shares	426,198	419,986
Earnings per Share	P49.99	P39.09
Diluted		
Net profit	P21,306,888	P16,418,733
Weighted average number of common and potential common shares	444,527	423,736
Diluted Earnings per Common Share	P47.93	P38.75

## NOTES TO FINANCIAL STATEMENT

### Note 21 Related Party Transactions

In the ordinary course of trade and business, the Bank has loan transactions with its related parties which include its directors, officers, related interest and employees. These loan transactions were made substantially on the same terms and conditions as with other members of comparable risks. None of the transactions incorporate special terms and conditions and no guarantee is given or received. Outstanding balances are usually settled in cash.

During 2009, the Bank has loan transactions with DOSRI amounting to P15,807,145, consisting of the following:

Years Ended December 31	2009	2008
Shareholders (secured, 0.5%)	P5,853,508	P7,101,558
Employees and their relatives (unsecured, 0.9%)	9,953,637	5,366,235
	P15,807,145	P12,467,793

Under the General Banking Act and BSP regulations, the aggregate amount of loans to directors, officers, shareholders 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.

The key management salaries and wages consist of the following:

Years Ended December 31	2009	2008
Salaries and wages	P12,407,658	P6,762,150
Employees' benefits	12,553,657	4,252,040
	P24,961,315	P11,014,190

### Note 22 Risk Management Objectives and Policies

The Bank is exposed to a variety of financial risks in performing its activities. Its risk management is coordinated by its Board of Directors and focuses principally on securing short to medium term cash flows by minimizing exposures to financial markets. The Bank does not actively engage in the trading of financial assets nor does it write options. It has no significant exposure to foreign currency risks as most transactions are denominated in Philippine peso, its functional currency. It likewise has little exposure to interest rate risk as its loans and receivables and deposit liabilities have fixed interest rates.

The Bank is mostly exposed to credit risk. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet. Credit risk therefore is only disclosed in circumstances where the maximum potential loss differs significantly from the carrying amount of the financial assets. The Bank manages the level of credit risk by actively monitoring its portfolio to avoid significant concentrations of credit.

As at December 31, 2009, the Bank's financial assets are composed of the following:

December 31, 2009	Neither Past Due Nor Impaired	Past Due But Not Impaired	Total
Cash and cash equivalents	P179,200,157		P179,200,157
Loans and receivables	1,048,781,698	P25,865,392	1,074,647,090
Held-to-maturity investments	21,549,331		21,549,331
	P1,249,531,186	P25,865,392	P1,275,396,578
	97.97%	2.03%	100.00%

The Bank is likewise exposed to liquidity risk, the risk that it will encounter difficulty in meeting its obligations as they become due without incurring unacceptable losses or costs. The Bank's objectives to manage its liquidity profile are: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs, and c) to be able to access funding when needed at the least possible cost. The Bank manages its liquidity by carefully monitoring its scheduled debt servicing payments for long-term financial liabilities as well as its cash flows due on its day-to-day business.

The maturity profile of the Bank's financial liabilities is as follows:

December 31, 2009	Due in One Year	Due Over One Year	Total
Deposit Liabilities	P379,208,329	P23,280,145	P402,488,474
Bills payables	304,672,852	370,173,410	674,846,262
Trade and other payables	58,859,413	-	58,859,413
Unsecured subordinated debt (USD)	-	50,000,000	50,000,000
	P742,740,594	P443,453,555	P1,186,194,149
	63%	37%	100%

**Note 23**  
**Capital Management Objectives, Policies and Procedures**

The Bank manages its capital to ensure that it has the ability to continue as a going concern while maximizing the return to shareholders. The Bank's Board of Directors reviews regularly its capital structure to ensure that it is complying with the capital requirements and limitations imposed by the Monetary Board of the Bangko Sentral ng Pilipinas and to align its operational strategy to its corporate goals. It makes adjustments to consider changes in economic conditions and the risk characteristics of its underlying assets. The Bank's overall strategy remains unchanged for several years.

The Bank monitors capital on the basis of the carrying amount of equity as presented on the face of the statement of financial position. Capital for the reporting periods under review is summarized as follows:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Total Liabilities	P1,196,194,148	P819,210,209
Total Equity	137,522,892	121,555,299
Overall financing	P1,333,717,040	P940,765,508
Debt-to-Equity Ratio	8.70:1	6.74:1

Under existing BSP regulations, the combined capital accounts of each rural bank should not be less than an amount equal to 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 asset, (b) accumulated equity in net earnings 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 letter of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board.

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 2009 and 2008 have been computed as additional disclosure requirements in the notes to the audited financial statements, as follows:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Return on Average Equity	17.52%	14.70%
Return on Average Assets	1.88%	1.90%
Net Interest Margin	27.41%	29.21%
Capital-to-risk Assets	12.84%	18.08%
Risk-Based Capital Adequacy	15.05%	13.77%

**Note 24**  
**Commitments and Contingencies**

In the normal course of its operations, the Bank makes various commitments and incurs certain contingent liabilities which are not reflected in the accompanying financial statements. Management anticipates no material losses, if any, that may arise from these commitments and contingencies.

**Note 25**  
**Events After Reporting Date**

On June 29, 2009, the Board of Directors of the Rural Bank approved the conversion of the Rural Bank to Thrift Bank. The application for authority to operate as a thrift bank was already forwarded to Bangko Sentral ng Pilipinas for approval on February 22, 2010.

**Note 26**  
**Reclassification of the 2008 Financial Statements**

Some accounts in the 2008 financial statements have been reclassified to conform to the presentation of the accounts in 2009.

**Note 27**  
**Approval of financial Statements**

The Rural Bank's financial statements as of and for the year ended December 31, 2009, were authorized for issue by the Executive Committee of the Board of Directors on April 26, 2010.

**BRANCHES and  
SERVICE OUTLETS  
DIRECTORY**



**Lianga (Head Office)**  
Surigao del Sur

**Davao Branch**

G/F Bajada Plaza Bldg.,  
JP Laurel Ave., Bajada,  
Davao City  
(082) 2258892/ 2286986/  
3053978

**Digos**

Lao Bldg., Rizal Ave.,  
Digos City  
(082) 5532812

**Kidapawan**

KHAS Bldg., Datu Ingal St.,  
Kidapawan City  
(064)288-5740

**Tagum Branch**

Dalisay Grande Rd.,  
Magugpo West, Tagum City  
(084) 4004378/2184991

**Nabunturan**

Osita Bagaipo Bldg., Sta. Teresita St.,  
Nabunturan, Compostela Valley  
(084) 3760172

**Mati**

MJI Bldg., Rizal Ext., Pob. Mati,  
Davao Oriental  
(087) 8112054/ 09224604439

**Panabo Branch**

Unit 1 Centino Realty Bldg.,  
Quezon St., Brgy. Sto. Niño,  
Panabo City  
(084) 8223420/ 09223040346

**Sto. Tomas**

Taylor Bldg., Feeder Road 3,  
Sto. Tomas, Davao Del Norte  
(084) 8291331

**General Santos Branch**

GF CAP Bldg., Pendatun Ave., Cor.  
Anonas St., General Santos City  
(083) 3018986 / 09238149184

**Koronadal**

Ground Floor, Ledesma Bldg  
Abad Santos St.  
Koronadal City  
(083) 520-1334

**Mandaue Branch**

D-3 Cotiaoking Bldg.,  
North Road Basak,  
Mandaue City  
(032) 421-1120/421-1121

**Carcar Branch**

Door 6, Dr. Rizal St.  
Lower Cambutan  
Poblacion, Carcar City  
(032) 4878337/

**Cagayan de Oro Branch**

G/F Centro Mariano Bldg.,  
Osmeña St., Cogon  
Cagayan de Oro City  
(08822) 723-869

**Iligan**

D-2 Philamlife Bldg., Mariano  
Badilles St., Iligan City  
(063) 2210183

**Ozamis**

2nd Floor Ramero Bldg.  
Rizal St. Cor. Juan Luna St.  
Ozamis City  
(088) 521-4628

**Dipolog**

EJ Bldg  
Arellano Cor. Echavez St  
Dipolog City  
(065) 212-4160

**Butuan Branch**

G/F RC Intino Bldg.,  
JC Aquino Ave., Butuan City  
(085) 3414138/ 3414173

**Surigao City**

00515 Burgos St.,  
Surigao City  
(086) 8264219

**Cabadbaran**

Melmar Bldg., Curato St.,  
Cabadbaran, Agusan del Norte  
09223049377

**Gingoog**

D-3 Panandigan Apartment,  
CV Lugod St., Gingoog City  
09227799248

**Aras-asan Branch**

Aras-asan,  
Cagwait, Surigao del Sur

**Marihatag**

Poblacion, Marihatag,  
Surigao del Sur

**Hinatuan Branch**

Magallanes St., cor Bandola St.,  
Poblacion, Hinatuan,  
Surigao del Sur  
09185781015

**San Francisco Branch**

Quezon St., San Francisco,  
Agusan del Sur  
(085) 3439377/ 343-8624  
/ 2423870

**Bayugan**

Yakal St.P-3, Nat'l. Highway,  
Bayugan, Agusan del Sur  
(085) 8304420

**Trento**

Blk. Tienda, P-7 Poblacion  
Trento, Agusan del Sur  
(085) 2552417

**Barobo Branch**

Poblacion, Barobo,  
Surigao del Sur  
(085)839-3833 loc. 2142

**Tagbina**

P-4 Poblacion Tagbina,  
Surigao del Sur

**Bislig Branch**

Espiritu St., Mangagoy,  
Bislig City  
(086) 8532263

**Cateel**

Castro Ave., Cateel,  
Davao Oriental

**Tandag Branch**

Osmena St. Nat'l. Highway  
Tandag, Surigao del Sur  
(086) 2115010/ 2113474

**Madrid**

Guillen St., Poblacion,  
Madrid, Surigao del Sur  
(086) 2134034

**Valencia Branch**

G/F Redberry Court.,  
G. Laviña Ave.  
Guinoyoran Rd.,  
Poblacion, Valencia  
City Bukidnon  
(088) 8282086



**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 investors as a community based Rural Bank Serving the needs of the localities. The bank embarked on the establishment of branches in 1994 when the BSP deregulated the banking industry.

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.

This year's annual report theme recognizes Mindanao's potential to become an ideal agri-business hub. Recently, Mindanao becomes the centerpiece of the government's campaign to eradicate poverty to make it the food basket of Southeast Asia.

This complements the thrust of Enterprise Bank, Inc. to expand its portfolio extending its reach to more agri-entrepreneurs in the countryside.

ENTERPRISE BANK, INC.  
Head Office: Lianga, Surigao del Sur  
[www.ebi.ph](http://www.ebi.ph)