




New Rural Bank of San Leonardo

2007 Annual Report

A Farther Look at Microfinance



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Cover design and Layout by Neil Doloricon
Edited by Alex T. Magno



Welcome to the Barefoot Banker's Annual Report for 2007. In this edition, we take a farther look at microfinance practice at a time of lofty financial performance of NRBSL. The Bank revisits its promising micro and small enterprise clients and keenly studies emerging ones. NRBSL leadership and management are unrelenting in the effort to reshape its microfinance products and services and help foster a body of enterprises closely linked to community and local economy building. A farther look at microfinance is opportune in these trying times for micro and small enterprises and emerging businesses. It is also opportune for the Barefoot Banker as its expands, builds and flexes its brand of banking to more competitive horizons ahead.



Message from the Chairman of the Board

Congratulations to the New Rural Bank of San Leonardo for another remarkable performance in favor of the enterprising poor and their impoverished communities.

NRBSL continues to change microfinance and the rural banking landscape in 2007. The objective is to shift the long-standing role of banks: From one serving the power holders of government and the rich, to one that serves the victims of mass impoverishment. The benefits and profits from the economy are not shared equitably with them as citizens of this nation. NRBSL aims to reverse this inequity in its own small way, from starting small at its inception in 1994 to a serious microfinance practitioner for enterprises to help build local economies in 2007 and beyond.

At its start, to effect their participation in the program and gain access to microfinance, the poor were organized into small formations to avail of micro credit of NRBSL to make them self-reliant in their own right. To ensure payment of their loans, we organized them into cells of five. These cells have the duty of ensuring the loan payment of its members. The slogan is: “Lima Para Sa Lahat”. This orientation has effected good payment of the loans of the members. Because of the satisfactory results of the program we have founded and established several branches in areas where the enterprising poor abound.

Now at this stage of its development, NRBSL looks farther at microfinance: Finding ways to reshape micro credit to respond to the ever-changing needs of the enterprising poor, their young enterprises and how all these can help them escape the vicious cycle of poverty. By doing so, the erstwhile deprived enterprising poor, now become builders of their local economies.

We hope that this shift of the service-role of the New Rural Bank of San Leonardo will help transform our people into participating agents for promoting the common good of our impoverished population.

Salamat at mabuhay ang Bangko para sa mahihirap!


Bishop Julio Xavier Labayen, OCD
Chairman Emeritus



Message from the President

Greetings!


We are pleased to share with you the NRBSL's 2007 Performance Report.

This annual report includes our views on how to bring our microfinance products and services genuinely significant and integral to local economy development. It is indeed, a farther look.

We believe that we must focus on micro-entrepreneurs by assisting them in their investment plans and growth strategies. Through these, we will be able to bring about a flourishing economy that benefits the Filipino people. And the bank has long been ready to claim this mission at this stage of its development!

I would like to congratulate the officers and staff of the Bank, under the firm leadership of Mr. Abundio D. Quililan, Jr. for their loyalty, brilliance and hard-work. The year 2007 is a year of all time highs and a significant one that introduce new challenges and growth opportunities. The entire board salutes all of you and we remain supportive as ever.

Finally, we thank our depositors, borrowers and financial supporters for helping the New Rural Bank of San Leonardo truly yours, truly ours, truly the Bangko ng Bayan!


ANDRES G. PANGANIBAN
President



Message from the CEO

The New Rural Bank of San Leonardo has added another year in its enduring advocacy of providing banking services towards local economy development. The management team and the rest of the staff join our bank President and the members of our Board as we take pride in bringing out the results of 2007 operations through this Annual Report.

Our financial performance in 2007 is a record of sorts. The Bank's core deposits grew dramatically compared to previous years. Matched with progressing credit demand, we attained unprecedented growth in our loans generations too. The expanded portfolio improved our earning capabilities making 2007 the most profitable year ever. These advancements raised the level of our total resources posting a rate of increase never before achieved in the history of the bank.

We enjoyed another good year of rural banking but not without difficulties. We can only thank our President Andres Panganiban and the solid support of the Board of Directors behind him for the wisdom that led us here and set our sights afar. Now, the bank looks farther at the social returns its microfinance services contribute in transforming entrepreneurs from micro-level to higher stages of production and various business directions.

We offer to all our stakeholders our continued commitment to demonstrate that solutions like these exist in making banking with the poor both developmental and sustainable.


ABUNDIO D. QUILILAN, JR.
Vice President & Chief Executive Officer

Bangko Sentral ng Pilipinas



MANILA

OFFICE OF THE GOVERNOR

Message

Warm greetings to the New Rural Bank of San Leonardo and to your clients. I would like to congratulate you for another year of worthy accomplishments.

The theme of your Annual Report 2007, "A Farther Look at Microfinance", is a testament to your dynamism and commitment to innovation as a means to better serve your clients. This outlook comes at a very opportune time when the microfinance industry itself is rapidly moving forward. We stand witness to many exciting developments in the industry, from advancements in the use of information and communication technology to deliver efficient and cost-effective services, to the expansion in the variety of microfinance related products to appropriately and adequately deliver the wide range of services needed by your clients. Indeed, it is incumbent upon the New Rural Bank of San Leonardo to embrace these developments and seize the opportunities these changes present. At the same time, it is important to remain deeply rooted to the foundation that has made your bank successful—transparency, good governance and most importantly your mission to provide financial services to the country's entrepreneurial poor.

Rest assured that the Bangko Sentral will remain responsive in our work of creating the policy and regulatory environment that will support the growth and development of microfinance and the rural banking sector. We will continue to push for reforms toward a more robust and globally competitive financial system.

Let us work together to build inclusive financial sectors that will benefit the majority.


AMANDO M. TETANGCO, JR.
Governor



**MANAGEMENT AND ORGANIZATIONAL
DEVELOPMENT FOR EMPOWERMENT INC.**

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MESSAGE FROM THE CIVIL SOCIETY


MODE welcomes the publication of the New Rural Bank of San Leonardo's Annual Report for 2007. Once again this report embodies the year's highlights in the never-ending quest of the Barefoot Banker to continue, sustain and find better ways of banking for the enterprising poor, developing community entrepreneurs and help build local economies. We at MODE celebrate with you in another banner year of banking with a social mission.

MODE finds "A Farther Look at Microfinance" a fitting theme in these trying times. Being a non-government organization involved in helping peoples organizations in poor communities help themselves, we bear witness to the need to find new ways to make microfinance more responsive to the needs of the enterprising poor and emerging enterprises. MODE will take the cue from NRBSL's ever-incisive take on the future and emerging shape of microfinance.

It is indeed laudable that NRBSL continues to deliver professional rural banking services while continuously enabling the enterprising poor and promising enterprises nurture their businesses into significant builders of the community and local economy. The year 2007 is no exception to this; the bank's performance indicators have even reached peak levels in many respects. MODE exhorts NRBSL leadership and management to continue, consolidate and expand its brand of rural banking and development practice.

MODE believes that NRBSL and its brand of banking among the enterprising poor and community entrepreneurs will continue to grow. MODE is one with you in making this so.

MABUHAY ANG BAREFOOT BANKER!


JUVENAL MORALEDA
Chairperson

A Year of All-Time Financial Highs

“All-time high” describes the Bank’s performance in 2007. Going by the catchphrase “small-scale work, large-scale vision,” which characterized NRBSL’s 2005 Annual Report, the Barefoot Bank can confidently say that it has scaled a new and higher height as far as financial performance and ratios are concerned. The spike in the annual financial growth and performance indicators for the year has surpassed most of its 12-year averages. This performance may be the result of refocusing the bank’s pro-poor development program thrusts and stepping up specific banking and branching opera-

tions – purposive moves adopted a couple of years ago. The same moves have helped define the current and future perspectives of the “Barefoot Bank.”

Continuous Banking for the Poor

NRBSL continued to provide financial programs and varied services that support the emergence of full-time community entrepreneurs in strategic, employment-generating, and local economy-stimulating businesses. Its microfinance loan portfolio remains robust. Although the shift from the client-rich Lima Para sa Lahat (LPSL) to Microsolo has reduced the bank’s pool of borrowers compared to past years, this

PRODUCT TYPES	LOANS RELEASED 2007	LOANS OUTSTANDING (END OF 2007)	BENEFICIARY OUTREACH FOR 2007	APPROXIMATE POPULATION OUTREACH OF BENEFICIARIES IN 2007	CUMULATIVE BENEFICIARY AND RADIATION INFLUENCED POPULATION (SINCE IMPLEMENTATION OF PRODUCT TYPES)
NnB 1	49,302,162.50	51,483,298.56	1794	8,272	57,922
NnB 2	126,216,598.08	108,861,590.87	3,628	17,755	32,340
Business Labor Triple Benefit Program	65,765,512.81	74,554,018.45	893	4,434	13,479
Tulong Bayan	7,928,602.97	10, 671,862.40	347	1,664	28,964
Microsolo	104,175,974.00	25,606,732.05	8,238	40,006	143,636
Land Redemption	415,000.00	415,000.00	6	30	12,900
Total	353,803,850.36	271,592,502.33	14,906	72,161	289,241

refocusing is expected to improve the quality of the assisted micro and small enterprises and to deepen the “pool” of mature ones so that they become influential models in their respective communities and areas of influence.

Refocusing the development perspective of microfinance as a development approach entails reviewing the characteristics of successful micro and small entrepreneurs. The Bank’s Board and executive leadership have continued to refine and refocus its financial products, services and approaches to the enterprising poor: looking at the varied characteristics of enterprises and entrepreneurs – whose businesses engender not only a sustainable leap out of poverty, but more importantly those that result in prosperous and employment-generating investments in the long haul, as well. A richer discussion is tackled in the feature article of this 2007 Annual Report (see “*A Farther Look at Microfinance*”).

NRBSL Branches Performance Banking

A significant feature of the financial performance of NRBSL in 2007 is the increasing prominence and contribution of the Barefoot Bank’s branches in this growth. NRBSL has seven bank offices or branches located in the provinces of Nueva Ecija, Tarlac, and Bulacan. The main branch in San Leonardo, by being

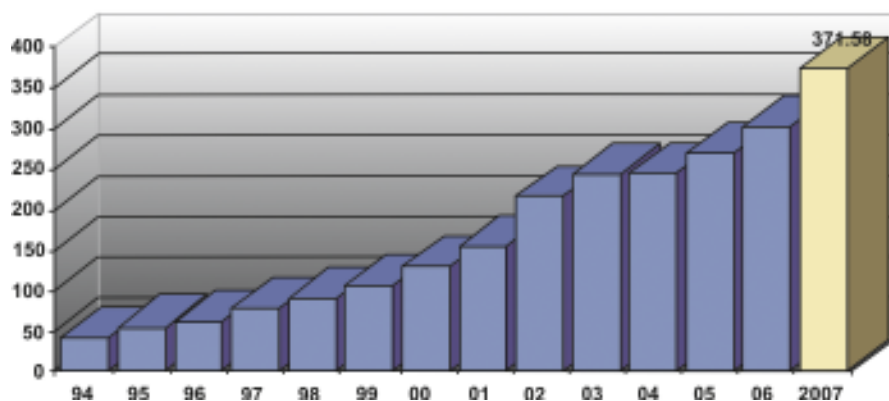
NRBSL’s founding banking unit, together with the Corporate Office, has been traditionally the dominant generator of NRBSL major financial indices in the first decade of its banking existence. The dominance has been significantly reduced with the stepping up of the other branches performance which is indicative that they have taken-root in their relatively small communities. For instance, the profit performance of three relatively small NRBSL branches indicates that they have combined for 65.4 percent, or almost two-thirds, of the NRBSL-wide net income.

This development trend is significant. It signals the increasing deconcentration of the bank’s financial key performance indicators (measured according to: Deposits, Outstanding Loan, Past Due, Income and Resources or simply, DOLPIR) originating from the main branch and corporate center to the areas where the other branches operate. It validates the bank leadership’s branching decision particularly the viability of locating in these small, sometimes remote and obscure communities.

The trend also indicates that the professional, progressive, and developmental banking advocacy promulgated and preached by the bank’s leadership has been imbibed and practiced by the NRBSL branches.

The BSP has officially approved NRBSL’s application to set up its eighth regular branch in Cabanatuan City last 17

RESOURCES

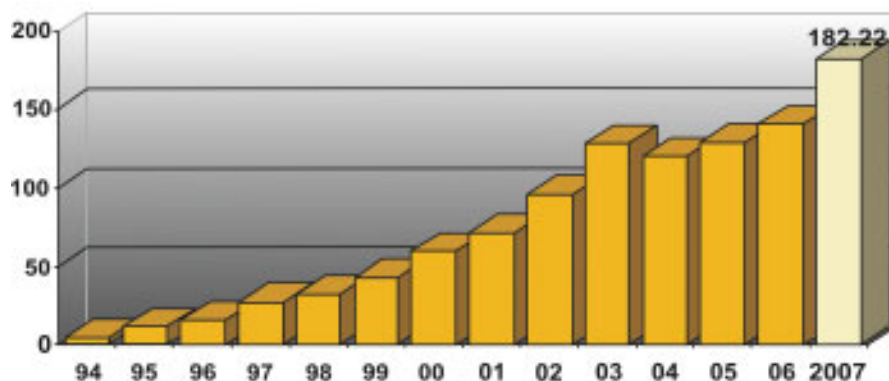


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NRBSL continues to
change microfinance and
the rural banking
landscape in 2007:
from one that
traditionally serves the
rich to one that serves
the victims of mass
impoverishment.
”

Bishop Julio Xavier Labayen
Chairman Emeritus



DEPOSITS



May 2007. With this milestone, branch operations will even be more competitive and challenging. It marks the second time that a NRBSL branch locates in a highly-urbanized city after branching in Tarlac City in 2005.

With the way NRBSL branches have been performing, it's a near certainty that the new branch in Cabanatuan will hit the ground running – a development and profit generator when it opens shop in the new NRBSL building in 2008. (See separate sidebar story on NRBSL's building its biggest home, future office of Cabanatuan Branch and Corporate Office Resources).

RESOURCES

NRBSL resources or assets grew by P71.6 million in 2007, or a 24 percent increase from the previous year's figure of P299.98 million. The 24 percent increase is the highest annual growth rate in the last five years. It also exceeds the 12-year average annual growth rate of 19 percent. Deposits accounts for the highest rate of

increase in resources (P41.7 million) while the rest came from profits and other accounts. The year's performance in resources is comparable to the steep increase in 2001 to 2002 period.

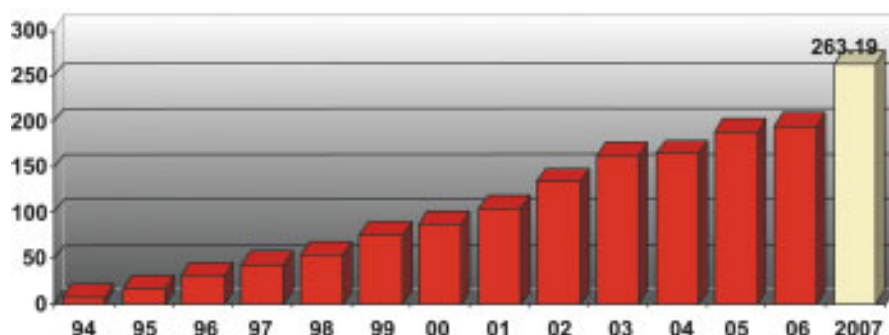
DEPOSITS

Deposits grew by 30 percent from the previous year's P140.52 million total, or an increment of P41.7 million. This annual percentage increase is the highest since 2003, effectively reversing the negative deposit growth in 2003-2004 and the single-digit deposit growth rate two years thereafter. The deposit mobilization campaign started as early as three years ago have obviously bear fruit in 2007. The 30 percent increase in deposits in 2007 exceeded the 11- year average annual deposit increase of 27 percent.

LOANS

Loan performance was impressive in 2007. The P263.19 million loan mark represents a 35 percent increase from the previous year's loan performance and is

LOANS



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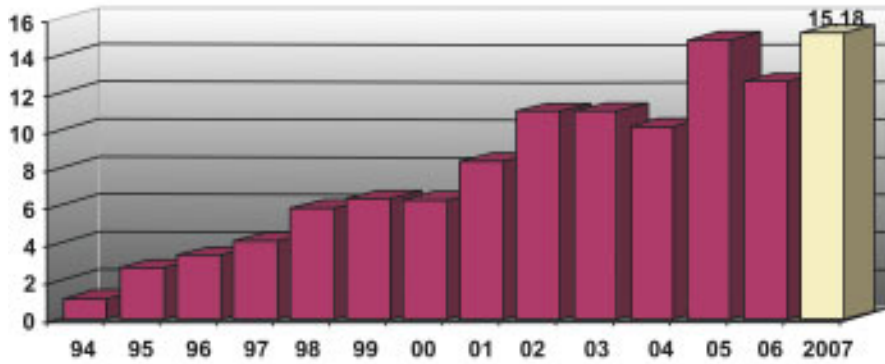
Your bank looks at ways how to bring microfinance products and services genuinely significant and integral to local economy development. Indeed, a further look.

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Andres G. Panganiban
NRBSL President



PROFITABILITY



the highest annual percent increase since 1999. The year's 35 percent increase also beat the 11- year average annual rate of 27 percent (removing the statistical outlier of 154 percent increase in loan growth from 1994 to 1995, marking the first year of NRBSL operations). This performance can be attributed to the new marketing strategies and various incentive programs calling for aggressive loan solicitations among the officers and staff, relatives, friends, and agents starting first quarter of 2007.

PROFITABILITY

In 2007, the bank's net income after tax increased by 20 percent from the previous year's level of P12.64 million. This development effectively reversed the decline in income growth in 2003-2004 and 2005-2006. The P15.18 million-mark is also the highest level achieved by the bank since its existence, and the 20 percent annual increase surpassed the 11-year annual average growth rate of 19.8 percent (removing the statistical outlier of 149 percent profit increase from 1994-1995). Also, between 2006 and 2007, there was actually a gross income increase of P8 million; however, expense items like salary increases, adjustments and interest payments also increased.

NET WORTH

The bank's net worth has reached P104.18 million by end of 2007. This represents a growth rate of 11 percent from

the previous year's P93.4 million and a 30 percent growth rate compared to the net worth of P79.85 million in the 2005 Annual Report.

The increase in net worth of P10.69 million in 2007 marks the fourth consecutive year since 2004 that bank has reached double-digit (more than P10 million) incremental increase in net worth. The 13-year annual average percent increase in net worth is about 26 percent since the bank started in 1994 with a net worth of about P5.67 million. The Barefoot Bank will start 2008 with a net worth that is 18.35 times its original value.

NRBSL FINANCIAL RATIOS

In 2007, NRBSL financial ratios continued to hit above average and even superior performance compared to the rural banking system average. NRBSL will endeavor to maintain and even better its ratios in the future. The consolidation thrust in internal banking operations addresses the need to retool and make more efficient NRBSL's banking operations for the future challenges.

This is opportune in the sense that the global and national prognosis on the economic system is not entirely rosy: There's an on-going financial crisis hitting the US sub-prime housing sector, increasing prices in the petroleum products and a global food crisis in significant parts of the world. These are macroeconomic variables that may impact on the local economy and the clients of the rural banking community.

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More than adding to the bank's figures and bottom lines, education and Christian and/or community nurture of children is about building another pillar for the local economy...

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Jocey F. Cajiuat
NRBSL Corporate Treasurer
and Board Member



REPAYMENT RECORD

The NRBSL management has always been able to keep its loan repayment record in good form. It diligently monitors its payment collections and its overall past due rates. In the rural banking industry, NRBSL is known to maintain its own repayment standards (more stringent than the average) and has meticulously carried this out in its credit and loan operations.

While NRBSL Management endeavors to maintain its superior repayment record and thus keep its past due rate at bare minimum, it also recognizes that the overall economic, financial situation and social circumstances of clients are significant factors that affect loan repayments. In its 13-year experience, NRBSL observes that when these factors are pronounced and deeply felt by its borrowers and their communities, default in timely loan payment follows.

In 2007, past due rate was still superior by standards at about 2 percent, slightly above its historical average, but much lower than the industry average of 16 percent. A closer examination among borrowers confirms that the year was economically harsh than previous years.

For instance, poultry and vegetable farming businesses suffered setbacks because of trade liberalization. Cheap imported chicken and garlic, for example, brought market prices down to the detriment of local poultry raisers and vegetable producers.

Other reasons for defaults by some clients are family breakups (overseas migration has increased and has reshaped family relations, putting a strain to spousal relations), accidental death in the family, non-collateralized lending, etc.

The bank has taken cognizance of the external factors in the community and the clients' family that affect their repayment behaviors. At the same time, NRBSL will continuously address collection efforts with the re-activation of rigid disciplining of the bank's relationship officer-individual or ROIs of their collection system and habits.

The bank management also directed the branches to pursue court cases against their respective top ten delinquent Microsolo accounts, strictly enforce the weekly monitoring visits of collateralized loans, filing of foreclosure cases against real estate mortgage loans with 120 days or more past due and re-activation of ROPA accounts to current loans. With these interventions, the bank estimates that past due rate will be halved by end of year 2008.

HUMAN RESOURCE DEVELOPMENT AND PHASE-IN OF MANAGEMENT SUCCESSORS

The record-breaking financial performance in 2007 is the result of the continuous investment of the bank in its human resources. The following table lists some of the major training and seminars attended by Bank leadership, management and rank and file: (see *Training & Seminars*).

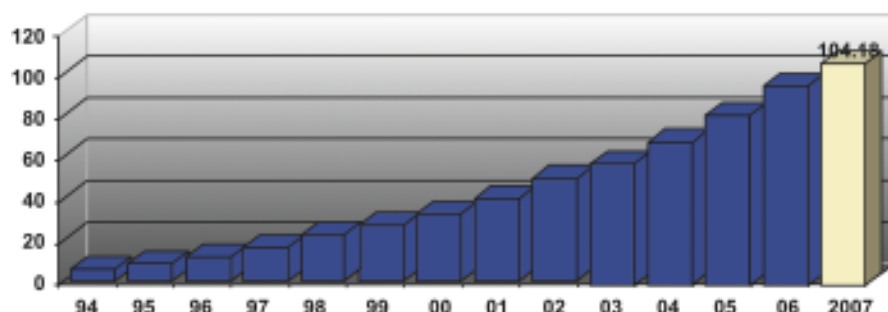
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Being with the clients
once in a while is a
regular fare at NRBSL,
it is not only
inspirational but a way
of getting in touch with
reality and keeping the
Board of Director's
feet on the ground.

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Nena Fernandez
NRBSL Board Secretary



NET WORTH



INDICATOR	NRBSL IN 2007	RB SYSTEM AVERAGE	ADJECTIVAL RATING
Resources	P371.58 million	P101 million	Superior, way above standard
Risk based Capital ratio	32.23 %	16%	Above system standard
Past due Loan ratio	2 %	16%	Superior by industry standard
Loans to Deposit ratio	149.11 %	90%	Above standard
Loans to Deposits and Borrowings	106.05 %	80%	Above standard
Deposit to Capital ratio	175.22 %	4.27%	Excellent by industry standards
Liquid Assets to Deposit	27.17 %	28%	At par with standard
Net income to average Capital	15.37 %	10%	Above standard
Net income to average Assets	4.35 %	2%	Above standard
Net Interest Margin	21.61 %	8%	Above standard

The deliberate honing in 2005 of the Bank's management team and future leadership has begun to reap positive results in 2007. In 1 July 2007, Deputy CEO and Vice President Abundio D. Quililan Jr. assumed the full-pledged position of Chief Executive Officer (CEO), taking over the helm held by the Barefoot Banker and NRBSL President Andres G. Panganiban.

Following Mr. Quililan's assumption of the CEO post is AVP Jose Relly M. Adrinada's promotion to Vice President for the Bank's Branches Department effective 1 July 2007. The Barefoot Bank's board and leadership eyes beefing up its management team as soon as it establishes the bank's organizational set-up. The changes are seen to address the Bank's strategic and future corporate direction.

With the NRBSL branches stepping-up their performances in 2007, the future is bright for outstanding branch managers to assume corporate postings in the inevitable growth and expansion of NRBSL operations.

CONTINUING ITS LEADERSHIP IN THE RURAL BANKING COMMUNITY

Barely warming his seat as NRBSL CEO, Vice President Abundio Quililan Jr. was Vice President of the Nueva Ecija Federation of Rural Banks (NEFRB) last August 2007. CEO Quililan's election is indicative of the rural banking community's continuing high regard for NRBSL and its management. This continues the legacy started by Barefoot Banker and NRBSL President Andres G. Panganiban among the rural banking community.

NRBSL leadership and its representation in the community of rural bankers have always adhered to the principles of integrity and unity as vital elements of a harmonious and fruitful relationship among rural banks. Mr. Panganiban himself has been elected and entrusted to various key positions in the rural banking community – Rural Bankers Association of the Philippines (RBAP, Corporate Treasurer and Secretary), Confederation of Central Luzon Rural Bankers



VP Abundio Quililan (above) took over as CEO August 2007. Mr. Jose Relly Adrinada (below) assumed the Vice Presidency for Branches Department



(CCLRB, President 2002 and 2003), Convenor for three years of the Luzon Rural Bankers Conference on Standards, Microfinance, and Local Economies (Luzon SMILES), and Nueva Ecija Federation of Rural Banks (NEFRB, President 1996 to 2001).

Continuing with the legacy of contributing quality inputs to the rural bankers, CEO and VP Quililan wasted no time in leading the issuance of a statement supporting the call for unity among the contending parties in the RBAP leadership tussle.

CONSOLIDATING THE GAINS FOR 2008 AND 2009

After opening two branches in 2005 (San Miguel and Tarlac City), getting the BSP's go-ahead for another branch in Cabanatuan City and achieving all-time financial highs in 2007, the Barefoot Banker calls for a "corporate pit stop" for 2008 and 2009. Corporate consolidation is planned for years 2008 and 2009. This constitutes retooling, training, and capability building of all officers and staff, enhancing systems and procedures and fine-tuning banking practices to establish sound financial conditions of all branches in all areas of operations.

The wealth of practical and case experience in the administration of NRBSL banking products and services has also accumulated through the years. It is high time that these be organized into learn-

ing modules and courses, packaged into seminars and offered as special courses to the staff (old and new blood), fellow rural bankers and other financial institutions, non-government organizations, entrepreneurs and businessmen, investing overseas Filipino workers and development workers.

The reestablishment of the San Leonardo Credit Training Center (SLCTC) in 2008 is one of the major components of the corporate pit stop. Other key performance targets for the consolidation phase include the organization of the human resource unit, personnel recruitment, training, performance appraisal and incentives system and the establishment of a responsive information technology and communication system.

THE NEXT LAP: TAP 'D BUL

Corporate consolidation should be quick. Extending them too long may cost one to pass up some opportunities. Come 2010 to 2012, the Barefoot Bank will move on to the next lap of its journey: Expansion in Tarlac (one branch), Pampanga (two branches), and Bulacan (two branches). The next lap is aptly named TaP 'd Bul. If one were to plot the presence of the fast-growing Barefoot Bank in relation to the whole Central Luzon Region (Region III), its areas of influence is basically concentrated in the central-eastern portion of the region, converging mainly in south to central

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*An enterprise-friendly
bank, extending
timely financing is
one obstacle less in
the complicated
task of local economy
building*
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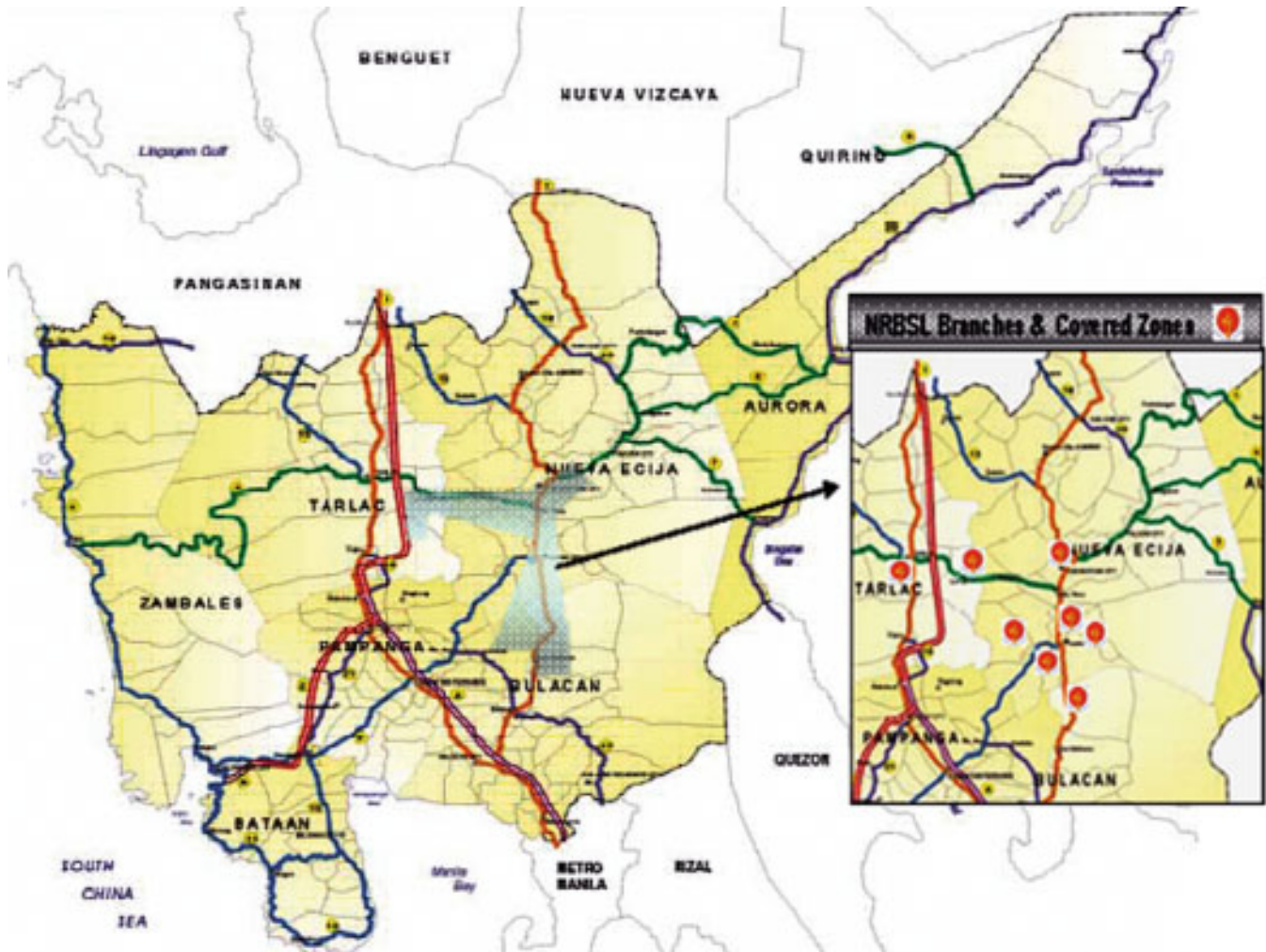
Jay Lacsamana
NRBSL Board Member



TRAINING AND SEMINARS

9/8/2007	Community-based MF	Coady Institute, Canada
3/6/2007	Internal Processes and Controls	Global Best Practices
8/17/2007	Workshops on Credit –Baguio City	NRBSL
10/23/2007	Credit Analysis – Baguio City	NRBSL
10/12/2007	Basic Rural Banking Course	Bangko Sentral ng Pilipinas

Map of Central Luzon: Aurora, Bataan, Bulacan, Pampanga, Nueva Ecija, Tarlac and Zambales



Nueva Ecija, its home province. It's high time that it makes its presence felt and test its mettle nearer the regional center across the more populous and industrial western Central Luzon area.

The population concentration in the center and central western portion of the region is evident. Settlement and commercial-industrial built-up areas follow the lines of the North Luzon Expressway and the old Manila North Road, leading to the Clark Industrial Area in Angeles City.

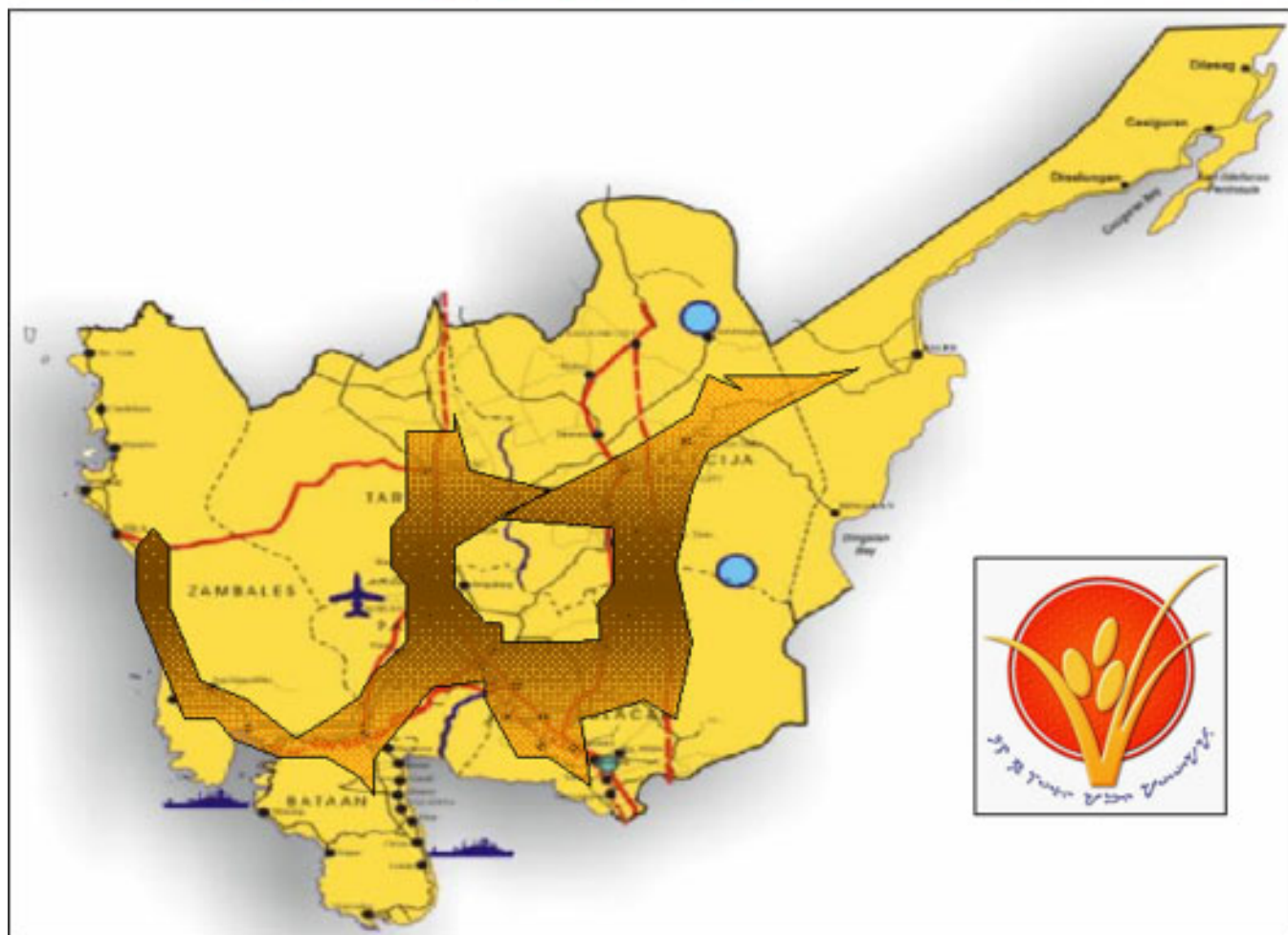
Industrial and commercial development also follows the major seaports in Subic Bay in Zambales and in the Bataan Export Processing Zone. The TaP 'd Bul and the succeeding Hello ZamBat bank expansion strategy marks the Barefoot Bank's entry into the population and

settlement driven, commercial and industrial economies of Central Luzon. It signals moving on from its beginnings in micro financing along agriculture-based rural economies and its comfort zone of small, remote and obscure communities. Clearly, TaP 'd Bul is an expression of the Bank's resolve to tread the untrodden.

THE FARTHER LAP: HELLO, ZAMBAT

By 2013, it is envisioned that the bank will be looking farther west, towards South China Sea and saying hello to the coastal folks and villages of Bataan and Zambales. Seven years after 2007, the areas of influence of NRBSL will expand to a more varied and richer landscape of the Central Luzon Region.

It will remain to foster its brand of banking as it has defined and practiced in the last 14 years. It will cater to the development and financing needs of entrepreneurial poor, finding them in the small, obscure rural communities, in underserved urban zones, competing with various players in the field. NRBSL will come out with the same tried and tested battle cry: "Banking for the poor, need not be poor banking."



A Farther Look at Microfinance



SOcially responsible and development-oriented practice of microfinance necessitates looking at closely the characteristics and nature of microenterprises and the entrepreneurs running them. Microfinance products and services are packaged according to the needs and capacities of the enterprises and the clientele. Financing is made available to worthy enterprises at every stage of business development and maturity.

A business growth path – that is, expansion or diversification – is laid out. And when this is observed to be on course, microfinance packages are restructured, redesigned, and offered to appropriately cater to the enterprise and its proprietor. The critical moment in the relationship is when both the enterprise and the financing institution meet and agree to start and develop a relationship.

This is how NRBSL has been conducting its business for the past 13 years. It has sought the enterprising poor through its battle cry: “Banking for the poor need not be poor banking.” Through its “ladderized” products and services, guided by its development path and growth tree, the Barefoot Banker has helped finance and progressively develop worthy enterprises – micro, cottage, small, and medium. By the end of 2007, the Bank’s outreach beneficiaries have reached 72,161, with an influenced population and radiation reach of about 289,241 persons.

The Bank’s development financing philosophy and its delivery of

microfinance products and services to the enterprising poor have demonstrated that this can help alleviate and reduce poverty, create modest household savings and wealth for diligent clients, and enable their businesses to go beyond the realm of the household to the more competitive market in the community.

It’s high time for the relationship between NRBSL and the microenterprises to go up a notch higher by helping build sustainable local economies. To do so, it’s important to seek, help finance, develop, and muster a critical mass of a new breed of sustainable community microenterprises. It’s in this context that a farther look at microfinance is being examined.

It’s inevitable that we go back and examine the nature of successful and promising community entrepreneurs whom the bank has assisted and continue to nurture towards a more “local economy engendering” relationship.

At the same time, this examination will have to consider the state of Philippine enterprises – micro, small, medium enterprises (mSMEs) – and see how they compare with enterprises elsewhere. This examination will help one to look farther into the future shape of microenterprises and microfinance.

NRBSL’S MICROFINANCE AND ITS BREAKTHROUGHS AGAINST POVERTY

There’s little doubt on the positive effect of microfinance in helping alleviate and reduce poverty worldwide.

Microfinance literature is replete with success stories of Grameen Bank and ASA models in micro credit that have successfully reduced poverty in the communities where they were implemented and has since been replicated in poverty-stricken areas all over the world. The same is true for NRBSL's microfinance practice among the enterprising poor in the areas it operates.

An evaluation of NRBSL microfinance programs and its clients undertaken several years ago in 2004 and continues to be validated thereafter established several findings on microfinance and poverty alleviation. These are:

1. NRBSL microfinance programs have helped the enterprising poor save and keep them above the poverty threshold. NRBSL's credit program and extension services helped the clients realize savings and imbibe the culture of saving. This was done through designing and implementing microfinance that establishes the rules of engagement between the bank and the enterprising poor client at the outset. The study established that NRBSL microfinance clients become less vulnerable to falling back below the poverty threshold since the savings rate among them, after several lending cycles, have averaged 74 percent. Previous to this, only about 45 percent of them said they have savings prior to becoming bank clients.

2. NRBSL has helped the enterprising poor in developing their skills in running small businesses. The "ladderized" microfinance programs of the bank have helped the poor endeavor to sustain their involvement in the microfinance programs. The average amount of loan increases as the cycle progresses, from P 5,000 in the first cycle (first ladder) to P 20,000 in the fourth cycle (last ladder). This suggests that clients are able to improve or expand their sources of income or businesses and are able to borrow bigger amounts of

money as they progress through the cycles.

However, the dropout rates tend to increase as the cycle for lending progresses. From a total of 80 clients in the 1st cycle, only 20 are left in the fourth cycle, a 75 percent drop.

This suggests that even though clients are able to improve their borrowing capacity as the cycle advances, the number of clientele decreases over time. This is expected in microfinance. However, the retention of 25 percent of original entrants is modest enough. The amount of loan ranges from a minimum of P2,000 to a maximum of P40,000.

3. NRBSL-assisted enterprises have generated local employment but its increase overtime is not significant. The average number of workers employed "before the start of the NRBSL loan" is two workers per entrepreneur and remained unchanged "at the start of the loan period." The mean average number of employed on "current" loan increased to about 4.7 workers. However, the increase is not statistically significant, suggesting that a longer time span of evaluation to ascertain impact of NRBSL loan on increased employment be undertaken.

4. The rate of upgrade from lower-tiered to higher-capital credit programs suggests a modest and sustained development path for serious NRBSL client-entrepreneurs. Out of the 150 respondents, four clients (3 percent) graduated or advanced from the entry-level Lima Para Sa Lahat (LPSL) stage to the higher-level of Negosyante ng Bayan (NNB). On the average, these four respondents became NNB clients after about 1 and one-half years with LPSL. In its 13 years of existence, NRBSL has generated a considerable number of NNBs. In 2007, it's estimated that the bank has assisted 5,422 NNBs and 893 Business-Labor Triple Benefit (BLTP) program beneficiaries.

“

NRBSL may be likened to pan de sal, the people's bread, in which a large amount of dough is leavened by mixing thoroughly a small amount of yeast. The dough is the bank's resources while the yeast is the bank's spirit of social responsibility. As such, NRBSL speaks not of CSR as an added objective; CSR is an essence of its existence.

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Dr. Angelina Briones
NRBSL Board Member



Indeed, NRBSL's brand of microfinance continues to help alleviate and reduce poverty among the enterprising poor, helping them save and accumulate modest wealth to keep them from falling back into subsistence living and helping them learn the rigors of small business operation.

Microfinance and Local Economy Building

Raising the level of contribution of microfinance in enterprise development and local economy building demands financing and development strategies that cater to community enterprises exhibiting certain characteristics that stimulate local economies. These are financial products and services that support:

(1) enterprises that exhibit innovative, competitive, or high potential in asset growth and has a discernible growth path (expansion or diversification potential).

(2) enterprises that create jobs and sustainable employment and those with social development orientation or "social enterprises."

(3) enterprises that help spur and stimulate other enterprises, encourage cooperation-complementation and help expand the value and supply chain.

Such is the aim of NRBSL in looking farther into the practice of microfinance, and its future prospects. Microfinance is a development intervention. It's a tool or means to achieve final output indicators for the enterprise and the entrepreneur (that is, business growth and expansion, asset levels, employment and new businesses generated, value-added contribution to the economy, etc.). As such, it has to reckon with the state of the mSMEs (micro, small and medium enterprises) sector in the country.

At every step of the way, NRBSL endeavors to make its microfinance products and services cater to the needs of strategic micro and small enterprises

that shall constitute the critical mass of enterprises that shall in turn prime and stimulate the local economy.

The State of Enterprises in the Philippines

Most enterprises in the Philippines are micro and cottage enterprises. The table below provides a working definition of what constitutes micro, cottage, small, medium, and large enterprises in the Philippines. The classification uses two major indicators – asset size and number of employees.

Filipinos are often said to be oriented towards looking for jobs rather than being enterprising and creating jobs them-

Enterprise	Asset size	Number of Employees
Micro	PhP 150,000 and below	1 – 4
Cottage	Above PhP 150,000 to PhP 1.5 million	5 – 9
Small	Above PhP 1.5 million to PhP 15 million	10 – 99
Medium	Above PhP 15 million to PhP 60 million	100 – 199
Large	Above PhP 60 million	200 or more

Source: Anita C. Salayon, SME Development in the Philippines, Development Finance Course, Tokyo, Japan, 06-21 November 2006

selves. The choices of college and vocational courses and careers of Filipinos are geared towards the professions (nursing, engineering, accountancy, etc.) and skill-specific education and training. Many prefer working for a multinational corporation or finding work abroad. Very few take up courses and careers that will help them create and start their own businesses and create jobs that employ others.

Philippines: One of the most entrepreneurial nations

The above notion may be true in a way, but not quite in another way, when we look at the findings of Global Entrepreneurship Monitor (GEM), a London-based research consortium that surveys enterprises worldwide.

Based on the survey done in 2007, the GEM study finds the Philippines sec-

and highest in business ownership worldwide, second only to Peru. As Dr. Cielito Habito (a co-author of the GEM study, Philippine report) pointed out in his *Inquirer* column: “Filipinos are actually quite entrepreneurial compared to most countries of the world.”

Four out of 10 Filipinos (39.2 percent) own businesses. Only Peru tops us with 49.6 percent. The Philippines was actually ranked number one in the 2006 GEM survey with the highest percentage of the population, from 18-64 years old, involved in established business ownership at 19.7 percent and third highest in terms of prevalence of early-stage entrepreneurial activity at 20.4 percent.

If we have plenty of businesses, topping 41 countries in 2007, where then does our problem lie?

Based on the study, the problem lies in the nature, characteristics and quality of our enterprises. The study enumerates the overall characteristics of businesses that compose the universe of enterprises:

1. Extractive – agriculture, forestry, fishing and mining

2. Transformative – construction, manufacturing, transportation, wholesale distribution

3. Business services – primary customer is another business

4. Consumer-oriented – retail, restaurants, lodging, health, education, recreation

Filipino enterprises are mostly in extractive and customer-oriented enterprises. We ranked number 9 of 42 countries in consumer-oriented enterprises and number 3 in extractive ones. In contrast, we ranked 39th of 42 countries in terms of transformative businesses.

The experience of NRBSL supports this observation, particularly in its implementation of microfinance programs targeting the enterprising poor, community entrepreneurs, and businesses that help develop local economies.

NRBSL President Andres G. Panganiban observes that most SMEs are actually not even small enterprises (based on the official definition of government agencies) but are mostly micro, home-based/cottage (commonly women-led) industries primarily set up to augment family income.

First, they are into activities that are easy to set-up – backyard or small-plot farming, retail trade, repacking-selling, etc. These are also the activities that don’t require sophisticated skills in order to establish and operate. These are micro businesses that usually borrow mainly from the informal financial sector and/or from microfinance institutions but later drop out after one or two cycles. NRBSL’s Lima Para sa Lahat experience is replete with the latter.

Secondly, in the event that enterprising households muster enough savings ripe for investment into business (accumulated wealth brought about by overseas workers remittances of their family member, or inheritance or proceeds from sale of big-ticket properties like farmland or house and lot), they usually go into the “easy-to-set-up,” traditional enterprises.

There are two reasons for this:

1. They have no access to information on businesses.

2. There are few known innovative yet viable investment ventures, especially in remote rural areas and in local communities.

Research and development on emergent industries and specific business lines and ventures is scant or not widely known among investment-ready, upstart investors. Thus NRBSL clients who have accumulated savings from remittances spend their savings in buying real estate (a long-term investment, hoping the property will appreciate over time), or they go into the usual, trite businesses found in their localities.

Thirdly, upstart entrepreneurs, par-

“
NRBSL share in
helping the small
manufacturers towards
local economy and
industrialization
must be a
challenging task in
rural banking

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Neil Doloricon
NRBSL Board Member



ticularly those who have no experience in running a business, need to be enabled through enterprise education – how to run a business and how to chart its development and growth path.

Characteristics of “Entrepreneurial” Businesses

The GEM study identifies two basic traits that distinguish a business as “entrepreneurial”:

1. Level of innovativeness – newness of product and technology, competitor differentiation

2. Growth expectations – employment and expansion plans

The study indicates that the Philippines is the third worst performer in product newness and the worst in competitive advantage. In contrast, Thailand and India rank very high in introducing new products.

As Dr. Habito correctly pointed out, the GEM study validates the generally accepted pattern of Philippine enterprises, the *gaya-gaya* or copycat mentality, as we can see in the sprouting of sari-sari stores, pedicabs, and tricycles in a blighted urban village. Philippine enterprises are small start-up activities lacking in originality and innovation.

Characteristics of Philippine Enterprises

The GEM survey as analyzed by Dr. Habito reveals more of its findings on Philippine enterprises:

- Sixty percent of Philippine enterprises don’t have employees, indicating that enterprises are mainly micro, home-based and cottage industries, employing family labor and established primarily to augment income and other livelihood activities.

- Established Philippine businesses rank lowest in terms of job creation among the 42 countries, with only 3.3 percent employing any workers at all.

- Only one in every 20 enterprises

makes use of any bank financing. Only one out of three (34 percent) deal with banks at all – mainly to open or maintain a deposit account. Ironically, lack of financing and access to capital are the often - identified constraints in enterprise development conferences.

- Remittances as a means to finance business are scant. Of those who receive remittances, only 17 percent use them to help finance businesses.

- There are no strong socio-demographic and gender-based barriers in entrepreneurship in the Philippines. Nascent businesses are prevalent among those established by 25-44 years old entrepreneurs, but those set up by the younger segment, 18-24 years old are most bullish in outlook. The Philippines has the least gender gap among business ownership (55 percent male to 45 percent female) all over the world, based on the GEM survey. Women’s role in augmenting household income is widely recognized in the country.

To sum up, Filipino-owned enterprises while plentiful are mostly micro and small enterprises. They are set up to augment the meager household and/or personal income, making them inward-looking. They don’t create jobs and are financed through informal means, making them fiscally conservative and risk-averse to tap and access performance-based financial instruments and formal bank financing.

“It is deepening entrepreneurship where our bigger challenge lies,” Dr. Habito writes.

Revisiting NRBSL-Assisted Enterprises

How do microfinance-oriented banks and practitioners like NRBSL respond to such condition of Philippine enterprises?

What lies ahead in microfinance as an intervention given the need to deepen existing enterprises and at the same time

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NRBSL’s Microfinance Program indeed made an impact on the lives of the people we visited. I am sure that more stories such as these are echoed in other areas that the bank serves. Indeed our task is like planting small seeds that can grow into vast fields of green and golden grain.

”

Pat Gonzales
NRBSL Board Member



bring about innovative and competitive ones?

Before offering categorical responses to these queries, a revisiting of some of the poverty-alleviating, promising, and successful enterprises that NRBSL has assisted is in order. The purpose of the rapid appraisal is to help situate the macro picture of Philippine enterprises with that of the micro situation of NRBSL-assisted enterprises.

We appreciate these enterprises on two major counts – their contribution to poverty reduction and their enrichment of the entrepreneurial practice and the local economy.

Entrepreneurs in Traditional Economic Activities

Most of the microenterprises in Nueva Ecija are agriculture- and farm-based enterprises. This is expected because Nueva Ecija's economy is predominantly agricultural and is considered as the food bowl of Central Luzon.

Despite being traditional enterprises (farming, livestock and on-farm, retail), NRBSL has sought, assisted, nurtured and help enable these enterprises, some of which date back as far as 14 years ago. They have since exhibited certain characteristics that transcend the common pitfalls of these particular types of enterprise. They promise potential in terms of sustainable income for the family and extended household, savings and wealth accumulation for their long term needs and traditional enterprise practices that can be passed on to the next generation.

- Ikmo (betel leaves) production and trading

Ederlita Bermal has been into betel leaves production since 1983. Her ancestors have been into betel leaves production way before her time. In the late 1970s, Ms. Bermal and her husband decided to leave Manila and start betel leaves production in General Tinio,

Nueva Ecija. Since then, she has invested in improvements and in the expansion of her business. She ventured in diversifying into vegetable production, but this went for naught due to low market prices. With a current loan amounting to P110,000, Ms. Bermal expanded her Betel leaves production, and this has led to enough savings to allow her to send her children to school, improve her house, and reinvest some more into the farm. The market for dried betel leaves is a niche market. Old folks in the province chew on dried betel leaves (*ngannga*) as a habit which leaves a peppery taste in the mouth, and some even claim that the leaves have medicinal and balmic properties. This enterprise has a



steady and specialized market with limited competition – if one has established regular production volumes and consistent market delivery. It is woman-led.

- Hementera Family: Two generations of family-centered micro entrepreneurs

The couple Florentina and Juanito Hementera constitute the first-generation entrepreneurs in the bigger than average Hementera clan. They are also one of the first generation microfinance clients of NRBSL. The relationship between the Bank and the Hementeras go back to the early 1990s when the bank helped the family and other tenants in the area secure and own the land they have been tilling and which they now own. The

Hementeras are into various microenterprises – okra production, egg-plant production, fruit production, live-stock production, tricycle operation, and other microenterprise activities. The Hementerra couple has passed on their industry to their children and in-laws. Of the two spouses, it's Florentina who frequently visits the bank's office, transacts

informed judgment on weather patterns, market and farm gate prices, cost of inputs, and availability of financing, among a host of other factors. The Dictados are well-versed in the cost of production of both onion and palay and have better than average estimate on what type of crop to plant at a given period and when to run to NRBSL for the appropriate financing.



for the enterprises she is co-making, and is accustomed to the ways of NRBSL. This is a case where technology and positive entrepreneurial attitudes and values were transferred to the inheritors of the land and the enterprise. The second generation Hementeras are now clients of NRBSL. Their enterprises exhibit modest prosperity enough to provide employment to family members and neighbors.

• Alternate Farming Production

Isagani and Perlita Dictado are farmers in Bongabon, Nueva Ecija. Farm lands in Bongabon are known to be conducive to planting palay, onion, and other crops. The Dictados have been clients of NRBSL since 1994, starting off with a P4,000 loan. Current loan is P20,000. According to Isagani, crop farming is a risky business and “*marami ka iintindihin*” (many factors to consider). His success lies in good appreciation and

• Diverse activities spread the risks of failure

Eufemia Santos borrowed P25,000 to set up two microenterprises – a retail store and a small hog raising enterprise. A good borrower since 2005, Ms. Santos says that putting the borrowed capital into two business activities allows the family to augment their income while the other business is in gestation. This way, she's able to manage and plan her repayments well and tend to the expenses attendant to livestock raising.





Socially-oriented small, start up enterprises cooperating among each other

- Furniture Component Making tied up with Furniture Assembly and Finishing

Rolando Nono is good at fabricating furniture components. Using Gmelina wood variety (ecologically-friendly), Rolando (who is differently-abled but very skilled) transforms these into furniture components with the specified carved design. Roger and Teresita Manuel operate a furniture assembly and finishing shop. Rolando and Roger know each other and are both from Bongabon, Nueva Ecija. Rolando provides the wooden and intricately-carved legs of tables and chairs that Roger assembles and finishes for marketing to various furniture buyers. This is an example of micro/cottage enterprises cooperating with each other instead of competing within the same product line. It's a social enterprise or cooperative arrangement of sorts. The combined financing of the two enterprises is less than P25,000.

Environment Friendly and Non-traditional Enterprises

- Recycling Junk Shop

Andres and Analyn Cervantes, NRBSL borrowers since 2004, used to operate a store and soft drinks dealership. They shifted to acquiring and recycling junked components and parts of heavy transport and equipment when their former enterprise ended up with too many uncollected debts. Using the P101,500 they borrowed from NRBSL, the couple were able to ex-



pand the recycling business, a very environment-friendly endeavor. They buy or acquire unserviceable lots of transport and heavy equipment parts, disassemble them, and classify them according to homogeneity – and finally clean them so that the same can be usable anew to those looking for rare but repairable truck or heavy equipment components. In this period of high and exorbitant spare parts prices, buying recycled and reconditioned components is the cheaper and more viable alternative.

- Improving the Facilities Trinity Christian School

The Trinity Christian School, represented by Pastor Danilo Pabillo, became a borrower of the bank in 2004. Since then, the school became a regular borrower of the bank, holding several accounts. The loans were used for varied purposes, one of which is to help improve the facilities of the school. The progressive approach of the social entrepreneurs in the person of the school officials and their board has led to the growth in enrolment and need for expansion of the elementary school. This is one example of an innovative use of microfinance to further the growth and development of a social enterprise.

High Growth and Export Potential Enterprises

- Profitable Poultry

Pablo Abantao of Mallorca, San Leonardo, Nueva Ecija is a rich man. He is one of the original borrowers of NRBSL way back in 1994. Mr. Abantao first worked as a handyman in a livestock and poultry farm. Since he went solo and founded his own poultry business, he has never looked back. He operates a profitable poultry business with over 70,000 heads on two farms he owns. He has amortized all his loans, and his son, Christopher and wife Anita, maintains a



*"A piece of scrap... a piece of hope...,
a business success which the environment upholds."*

- President Boypee Panganiban

"The recent visit with the client, a Christian school, successfully run by a foundation of the Methodist Church in San Leonardo, Nueva Ecija made me appreciate more deeply both the mission of the bank and its clients. More than adding to the bank's figures and bottom lines, education and Christian and/or community nurture of children is about building another pillar for the local economy. A saying posted on the classroom aptly put it: "Teach the children how they live and they will remember it all their life." (Proverbs 22:6). It is also noteworthy to mention that the teachers, mostly women



educators and nurturers, are able to access salary loans are very diligent in their repayment."

Jocey F. Cajuat
NRBSL Corporate Treasurer
and Board Member

deposit account with NRBSL. Pablo Abantao is busy supervising the construction of his son's house, which is beside his equally grand house in San Leonardo. What is the key success factor of this enterprise? The progressive growth path and scale of operations envisioned and laid out by Pablo is surely one very important success factor.

- **Walis (Broom) Manufacturing**

Nenita Perena of San Antonio, Nueva Ecija, and her husband operate a home-cum-cottage-based broom assembly plant. They have been in this business for 25 years. At first they borrowed from informal lenders in the market. With her introduction to NRBSL, she borrowed and used these funds to expand the business. She used her current additional loan of P100,000 to buy additional stocks of *lasa* (or golden grass, in con-

trast to *tambo* or brownish grass) and other supplies essential in the assembly of the perennial household item – the broom. This enterprise shows no signs of stagnant growth. The Perenas have purchased a delivery truck that is used to transport and trade in wholesale the manufactured brooms in various places in the Philippines. Both Aling Nenita and her husband share in operating the business, with Aling Nenita handling the day-to-day operations, while her husband takes care of the other businesses like the farms. Her brooms are “competitively unique” – they sweep and clean better than the synthetic and plastic fabricated brooms in high-end markets.

- **Tsinelas (Slippers) Manufacturing**

Raymundo and Ofelia Castillo are manufacturers of the now fashionable and ubiquitous slippers. An NRBSL cli-

“From the first day of its corporate life thirteen years ago, NRBSL had been in the active pursuit of its social mission to raise family income, perk-up local economies, and improve people's well-being. Fruition of the bank's social pursuit is evident from the thousands of livelihood activities that has been transformed into little businesses of urban folks in seven provinces, Yet hundreds of these have been transformed further into microenterprises with organized business and systematic operations although at minimal levels. Most impressive from among them are the bank's high achievers who reached the category of small entrepreneurs with assets exceeding P1.5 million. For instance, the Board, Officers and Staff of NRBSL draw strength and inspiration from the life story of Mr. Pablo Abantao. He has worked as a poultry boy from his boyhood to adulthood. Then finally, equipped with vast knowledge and experience in poultry



raising, he decided to set up his own business and sought NRBSL's guidance and financial assistance. Recognizing his capability and determination, the bank responded positively. At present, Mr. Abantao operates a profitable poultry business with over 70,000 heads on two

farms which he solely owns. He has amortized all his loans and made himself one of NRBSL's valued depositors. Kudos to this living legend in the agribusiness sector of Nueva Ecija.”

Angelina Briones PhD,
NRBSL Board Member

ent since 2003, the Castillos started with a P450,000 loan. Since then, their slippers factory has expanded. From a shop near their house, they have expanded their space and are now operating separately from the erstwhile home-based enterprise. The Castillo slippers have earned the nod of wholesale footwear buyers and brand carriers. Their enterprise is gradually moving from small to medium in terms of asset size and jobs generated. Another enterprise that exhibits innovative, highly competitive and discernible growth and expansion path characteristics.

The Farther Microfinance Outlook

What lies farther in the practice of microfinance? What sort of enterprises and economic activities will microfinance and its practitioners seek out and assist, help nurture, and develop so that these can serve as stimuli in propping up their communities and local economies?

Based on the foregoing characterization and state of enterprise development at the national level and the practical experience of NRBSL with its microenterprises and their entrepreneurs at the grassroots, microfinance practice will have to address and correspondingly adjust its products and services to the needs and demands of mSMEs and their attendant overall characteristics:

1. Traditional mSMEs, particularly those in the extractive and consumer-based enterprises, and
2. Innovative, emerging and high-growth potential (“sunrise”) enterprises.

Microfinance and Traditional Enterprises

Will future microfinance practice veer away from assisting traditional enterprises? Perhaps the more appropriate question to ask is: Can microfinance practice *afford* to shy away from financing traditional enterprises in the Philippine enterprise development context?

Based on the experience of the Barefoot Banker, shying away from traditional enterprises is out of the question. Given the predominance of micro and start-up traditional microenterprises in the Philippines and the quantity of those wanting to access formal credit, it is incumbent upon the formal finance sector to cater to them.



The better recourse for microfinance practitioners and formal credit-providing institutions is to continue to seek out these micro, small and start-up enterprises that have manifested the need to obtain access to financing and other credit services from the formal financing sector (that is, rural banks and credit institutions). Finance them, induct them into the formal financing market, and then introduce and train them on the rigors of performance-based, developmental financing.

Their enterprise operations will be forced to deliver and excel in value-adding businesses processes and find their respective market niche. Only through this process can one weed out the enterprise “lemons” and continue developing the persistent enterprises. The experience of NRBSL with its promising entrepreneurs bears out the fruits of performance-based lending.

Microfinance and its allied development entities (rural banks and their marketing and investment advisors, NGOs, research and development institutions and successful entrepreneurs) can even help traditional enterprises re-engineer themselves and their value-adding processes and find their growth path and competitive advantage by:

a. *Complementation and social enterprise cooperation* – Allied yet traditional enterprises can cooperate and specialize in specific product and component lines along the value chain instead of competing and duplicating each other. Social enterprises and successful cooperatives move along the same theme of complementation and cooperation, making enterprise dropouts less frequent.

b. *Transfer of technology and entrepreneurial values and management succession* – Traditional enterprises, particularly in agriculture and on-farm activities, suffer from lack of pass-on and successor entrepreneurs. Management succession planning, transfer of technology, and the entrepreneurial values that founded the growth of traditional enterprises must be encouraged by microfinance practitioners and development workers.

c. *Spreading the risks and diversification* – Enterprises that contend with various exogenous risks – like crop farming, livestock, and poultry production – can be assisted by appropriate advisories on risk mitigation and product diversification.

d. *Planning for growth path and increasing scale of operations* – The entry of traditional and start-up businesses into the formal financing engagement will have to be prepared (or even required of) for a long-term, progressive and planned growth path and plan to increase the scale of operations.

e. *Product innovation and differentiation* – The recent demand for chemical-free farm products and certified or-

ganic farm produce offers a potentially lucrative market that traditional agriculture-based microenterprises can tap and develop into a specific competitive niche.

Microfinance, Emerging and Innovative Enterprises

Microfinance and its practitioners, while catering to the financing needs of traditional enterprises, will have to develop financing packages that will tailor-fit to the needs of emerging innovative enterprises. These innovative and high-growth expectancy enterprises, once assisted and allowed to thrive, will put the country into the enterprise competitiveness map, at least among comparable middle-developing Southeast Asian countries like Thailand.

1. Environment and Ecology-Friendly Enterprises

With the world's environment fast deteriorating, enterprises that seek to preserve and conserve the earth are the emerging trend in the era of environmental and ecological deterioration. This environment-friendly trend is seen to escalate and will definitely remain a feature of new enterprises as long as destructive and wasteful economic activities of large firms and their host countries remain insensitive to the environmental issue. Microfinance will have to develop packages for enterprises that encourage, assist, and promote environmental and ecological protection/preservation:

- Recycling – Village-based recycling plants and scrap / junk shops enterprises are some of the enterprises that can be assisted along this emerging service line

- Organic farming – Although farming itself is a traditional enterprise, doing it in an organic and environment-friendly way makes it innovative, highly-differentiated, and competitively unique. This includes the use

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Rural Banking should be about helping others help themselves through socially responsible investments, but ultimately it is really about giving new hope, restoring personal dignity and renewing one's faith in humanity, especially for the downtrodden

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Aileen Baviera, PhD
NRBSL Board Member



of natural fertilizers and pesticides and discontinuance in the use and practice of chemical-based farming, resulting in natural and organic farm produce.

- Waste-disposal practices and products – Village-based and community-led waste disposal enterprises can be assisted by microfinance and even banking institutions, particularly those that mobilize equities of cooperatives, peoples organizations, and local governments (barangays, towns and cities).

- Natural resources and water conservation – Enterprises that help conserve the forest and forest products, makes use of renewable energy like hydro and geothermal resources.

- Energy and fuel saving inventions, practices and related-products – enterprises manufacturing and promoting effective energy-saving devices, mass-production of innovative gadgets and other patents

- Bio-engineering products and technology – Microenterprises like coco coir production and packaging can be encouraged and their products used for erosion and soil control in major infrastructure projects.

2. Microfinance and the Non-traditional Enterprises: Supporting emerging innovative and competitive (“sunrise” and “sunshine”) industries.

The so-called “third industrial revolution” or the information age has ushered in a new wave of enterprises and their attendant products. Advances in information technology have made it possible to trade goods and services previously not tradable before. Jobs that produce services that can be delivered electronically can now be provided outside the country by an offshore enterprise. Advances in medicine, specialization of business processes and services and the emergence social enterprises are some of the innovative and new products that are emerging. These will definitely transform or bring about new enterprises that



microfinance will have to seriously look out for.

- Information and Communication Technology and IT-based industries – These constitute enterprises along information and communication technology software, hardware, systems analysis and design, programming, databases and data centers, IT security and others.

- Offshore Outsourcing and the Migration of Jobs – Enterprises here will not only be limited to call centers, consultancy outsourcing and encoding, typing and transcription services. In the near future, teaching jobs, security analysis, credit analysis, and even radiology analysis can be outsourced offshore. This is a case where jobs, instead of labor, migrate, as long as the service can be delivered electronically or digitally.

- Health and well-being – Of late, medical tourism has become increasingly popular with the increasing number of health and wellness centers or providers in the country. This industry will have forward and backward linkage with organic, natural and herbal industries as well as other related lines.

- Business services – Enterprises that are set up primarily to cater to other businesses have emerged and these are along marketing, organizational devel-

opment and diagnosis, taxation and insurance, and other business subsidiary services.

- Social enterprises – Social entrepreneurship has become a catch phrase lately. More social enterprises that deliver social welfare benefits and at the same time derive income from the service have been emerging. This may be an offshoot of the corporate social responsibility advocacy among business firms and enterprises.

Microfinance and Harnessing the Potential of Specific Emerging Sectors

a. Overseas Filipinos, their remittances, and investments

Filipinos in the US average a monthly remittance of about \$300. At one point in time, Filipinos in Japan were remitting an average of \$600 a month. Collectively, overseas Filipinos remit anywhere near \$13 billion to \$15 billion a year (\$14.4 billion in 2007) enough to keep the economy afloat during times of crisis and make the foreign exchange reserves robust during normal times. The large market potential posed by OSFs (immigrants, returning or still working abroad), the magnitude of their remittances and potential investments, make this sector an emerging and special one. A farther look at the practice of microfinance in the Philippines will be short-sighted without paying special attention to the potential of this sector in creating viable enterprises and stimulating local economies.

The experience of India in relation to nonresident Indians (NRIs) (the equivalent of overseas Filipinos) comes to mind. India's phenomenal national and local economic growth and development starting year 2000 would not be at its level now without the contribution of NRIs. Given the right institutional policies and with the concerted effort of the financial and

development community, the same can be done for the Philippines and overseas Filipinos.

Tapping the potential of OSFs, their remittances, and investments for microenterprise development can be realized in both traditional and non-traditional/innovative enterprises:

- In traditional enterprises and activities

- § Financial and banking services – remittance channels, foreign currency deposits, time deposits, and other financial services

- § Consumer durables and transportation – Enterprises and cooperatives can be set up catering to specific consumer durables and chattel needs and purchases of OSFs and their families.

- § Health, education and pension insurance – OSFs and their families go abroad specifically to ensure that he or she and the family members are well taken care of in terms of health care, educational needs, and old-age and retirement security.

- § Housing, construction and real estate – One of the most common objects of savings accumulation is the purchase of house and lot, home construction, or purchase of real estate for future investment

- § Social and community projects in the hometown and charitable donations – Socially-oriented enterprises can tap philanthropic OSFs since donating for the sake of their hometown or community projects comes easy for them.

- In Innovative enterprises

- § Bringing back the brain drain: Returning overseas Filipinos as brain banks for innovative enterprises – OSFs, particularly those exposed to modern technology abroad or those who pioneered in innovative enter-

prises overseas, can be instrumental in bringing back or introducing these into the local setting. These may be adopted by local enterprises and financed by entrepreneur-friendly banks. Again, the Indian experience comes to mind. NRIs previously working at Silicon Valley brought to India the innovations, technology, and enterprises they have learned or pioneered at Silicon Valley so much so that India now has its own version of the famed IT hub.

§ Setting up and bringing in the market for outsourcing and IT clients – OSFs may have developed their own contacts and have established a network of potential outsourcing clients. They can help establish the appropriate enterprise here and connect with the clients in the country where they were previously based.

b. Women-headed households and women-led home/cottage industries (or often also remittance-recipient household heads)

NRBSL's promising enterprises are characterized by strong roles played by women or both husband and wife. Future shape of microfinance will have to consider capacitating further women (and single-headed families due to overseas work of either husband or wife) entrepreneurs particularly in enterprise management and planning. The phenomenon of families headed by either the husband or the wife (whoever is working abroad) is fast becoming prevalent in Philippine society and slowly becoming a normal fare among Filipino families. Microfinance and microenterprise development aiming to: (i) promote the welfare of family-based enterprises to augment their income and (ii) influence the household in the wise use of the remittances they received will have to study specific interventions addressing this sector (that is, women-headed enterprises and/or families).



A Farther Look at Microfinance: Perspectives for the Barefoot Banker

How does microfinance look like in the future? The quick analysis that was done here indicate that:

1. Microfinance as a means to develop microenterprises and turn them into stimulants for local economic development will remain to look for and assist start-up, albeit traditional, microenterprises. The sheer number of enterprises lacking in access to formal financial products and services to help them develop, become performance-oriented and guided by a growth path, is aplenty. Microfinance to become instrumental in

enterprise growth and local economy building will have to discern which among those enterprises are serious in becoming stimuli for the community economy. NRBSL's rich experience among its successful and promising clients is an example of this discernment and selectivity.

2. The concept and practice of microfinance will have to carefully examine how it will cater to emerging innovative enterprises and enterprises that have high growth expectation. Among others, these are in the areas of environment-friendly enterprises, nontraditional and innovative areas in information and communication technology, business services, social enterprises, etc.

3. To be relevant and synergistic, microfinance will have to tap the potential posed by OSF sector, their remittances and investments in both the traditional and non-traditional enterprises. In the same breadth, special microfinance packages can be trained towards addressing issues attendant to women-headed or one-spouse headed (remittance-receiving) households and home-based enterprises.

In the immediate future, microfinance institutions, banks, and allied development entities will have to undertake purposive efforts to reach out to the particular needs of microenterprises, whether they are in the traditional or in innovative enterprises. This is primarily because most of the microenterprises in the Philippines do not have access to formal financing institutions' products and services. They have no experience in performance-based and enterprise-development oriented financing which microfinance-oriented entities and rural banks like NRBSL offer and thus could not benefit from a structured advisory, capability-building, and improvement program for microenterprises.

Allied development entities like the academe, NGOs, and microfinance and investment experts and specialists can do research and development on enterprise development and share best and innovative practices to mSMEs, particularly among traditional enterprises, so that their competitive capacities are improved and strengthened. Majority of mSMEs do not have the resources to conduct their own research and development on their processes, products, services and markets.



NRBSL Builds *Its* **LANDMARK** *in Cabanatuan*

THE SECOND half of 2007 saw the bank's leadership and management embarking on an atypical yet significant undertaking. On May 17, 2007, the Bangko Sentral ng Pilipinas approved the establishment of an NRBSL branch in Cabanatuan City. Soon after, the bank became preoccupied with planning, designing, and carefully evaluating various alternatives in the construction and finishing of its new home come the second half of 2008.

The new building in Cabanatuan will house an NRBSL branch and its Corporate Office. It's the second time that Bank will open a branch in a highly urbanized city.

Cabanatuan offers a big market, being a melting pot of sorts hosting the local socio-economies of Northern and Central Luzon. The bank's Barefoot Banking brand will surely be tested in such highly-competitive and challenging milieu. But the Barefoot Banker is undaunted.

The NRBSL Branch and Corporate Headquarters will be housed in a four-story building with a total floor area of 562.71 square meters on a busy strip of Maharlika Highway right in the heart of the city.

The building will have an elevator that can carry 11 persons and a standby electrical power enough to light up the bank and run its computer system during power outages. Since the building is sandwiched between two other struc-



tures and complies with the mandatory 6-meter offset from the national highway, a large sign carrying the bank's logo will be installed to increase its visibility to the public. The building will also have an outdoor illumination system that will be switched on at night.

Since the building construction is the biggest big-ticket project of the Bank, the NRBSL Board has to closely monitor the plans, installations, and overall projection of the edifice and character of the building's interior.

In a site visit, the NRBSL Board Members, headed by Bishop Julio Xavier Labayan and President Andres G.

building courses on investments, credit orientation, basic banking, business and enterprise development, local economy building, credit scoring, corporate governance, and other related courses. The training room will have audio-visual and digital facilities conducive to learning and training. It will comfortably accommodate 20 to 25 participants.

Prayer Room

The NRBSL in Cabanatuan City will reserve a space for prayer and meditation. The prayer room will be simple and feature an interfaith, nondenominational motif. A large stone with flowing water will be installed in a corner of the room and the ceiling is dome-shaped, making it distinct from the business ambiance exuded by the rest of the sections and rooms in the building.

The Corporate Offices will transfer from its San Leonardo office to Cabanatuan City, occupying the upper floors of the new building.

The executive offices of the President, CEO, Vice Presidents will have separate rooms and will share a small conference room for small group meetings.

The third floor will have a lounge for visitors. The whole building will have an integrated information technology and communications system.

An exclusive space for conferences and meetings of the NRBSL Board, executive management and staff, and branch managers and officers will be set up. It will be equipped with audio-visual and other teleconferencing facilities. Board meetings can now be held comfortably with the help of these modern facilities.

A large section of the fourth floor will house the San Leonardo Credit Training Center (SLCTC). The SLCTC will offer various training and capacity





NRBSL Board of Directors and Bank Officers, 2007

- Bishop Julio Xavier Labayen (Chairman of the Board)
- Mr. Andres G. Panganiban (President)
- Ms. Jocelyn F. Cajuat (Corporate Treasurer)
- Ms. Nena Gajudo-Fernandez (Corporate Secretary)
- Ms. Angelina Briones PhD
- Ms. Patricia Fe Gonzales
- Mr. Jay Bertram T. Lacsamana
- Atty. Eleanor Conda [pictured at inset]
- Ms. Pelagia Gragasín
- Prof. Leonilo Doloricon (Independent Director)
- Prof. Aileen Baviera (Independent Director)
- Mr. Abundio D. Quililan, Jr. (VP and Chief Executive Officer)
- Mr. Jose Relly M. Adrineda (Vice President)

NRBSL HEAD OFFICE and CORPORATE UNITS



Corporate and Internal Audit

From left to right: Romina Eslaya (Internal Auditor), Mary Jane Pajar (Compliance Officer), Jocelyn Lim (Head, Internal Audit), Helen Joy Gavino (Corporate Bookkeeper), Lenee Igarta (Internal Auditor)



Above: Internal audit at work. Right: Corporate office staff at work, left to right: Cleo Cruz and Mary Jane Pajar



Credit Department

Front row, left to right: Ernesto Magbitang (CI), Winnie Pulusan (Docs. Clerk), Almira Salde (Docs. Clerk), Marissa Atraje (Docs. Supervisor), Rexie Domingo (Appraiser), Christopher Liwag (CI-Appraiser)

Back, left to right: Albert Perez (CI/Appraiser), Aldrin Germino (CI), Julie Anne Melosantos (Docs. Clerk), Michael Gonzales (Liaison Officer), Victor Brillantes (Appraiser/Analyst), Joan Villegas (Docs. Clerk), Alvin Echipare (CI), Mark Anthony Panahon (CI) and Jayson Espineda (Bank Engineer)

IT and GSU

Left to right: Leo Fajardo (Property Custodian), Jowell Gonzales (Information Technologist), Marvin L. Galang (Information Technologist)

Security and Utility

Legal and Asset Management

From left to right: Reina Amor Garcia, Ronnie de Guzman and Jade Balabad (Asset Management Officers)



From left to right: Ariel A. Dionicio and Roberto Valerio (Bank Security Guards)



From left to right: Renan A. Silva and Marvin R. Pangilinan (Bank Utility staff)





Main Branch

Standing, left to right: Marc Evangelista (Marketing Assistant), Marcelino Rivera (ROI), Ryan Santiago (Bookkeeper), Bobby Villarico (ROI), Adrian Mariano (Messenger), Paulo Garcia (ROI), Mark Anthony Evangelista (ROI), Laurence Jim Velasquez (ROI), Froilan Badiola (GL Bookkeeper), Neil Hipolito (ROI).

Front, left to right: Baby May Yapchiongco (Docs. Clerk), Arlene Guinto (SL Bookkeeper), Maricel Untalan (Teller), Rolando Simbulan (Manager), Shiela Pesa (Teller), Susan Gervacio (Cashier), Eleonor Quitan (Teller).



Cabanatuan Branch

Photo at left: Cabanatuan branch staff at building construction site. From left to right: Leonor Angeles (Docs Clerk), Hygielene Acosta (Teller), Jose Rely Adrinada (VP and Manager), April Panapanaan (ROI), Rizalinda Lumibao (Cashier), Mahjelene Lucas (GL Bookkeeper). Above: Ms. Lumibao at work with a bank client.





San Antonio Branch

Left photo: front, left to right: Jonalyn Brinio (SL Bookkeeper), Lanie F. Mallare (GL Bookkeeper), Abigail F. Garcia (Branch Manager).

Standing at back, left to right: Eleonor Quitan (Teller), Michael Mendoza (Cashier), Grace Diaz (Marketing Assistant), Juanito Gonzales (ROI), Januarian Renia (Documentation Clerk), Alejandro Callanga (Messenger)

Photo below: Branch Manager Abigail Garcia and Ms. Grace Diaz visiting a valued and longtime client in San Antonio.



San Isidro Branch

Front row, left to right: Joey Javier (ROI), Arlene Elegado (GL Bookkeeper), Liza Ison (Branch Manager), Sharina Sunga (Marketing Assistant)

Back row, left to right: Rosauo Geronimo (SL Bookkeeper), Francisca Lopez (Cashier), Perlita Fernandez (ROI), Maribel Cabral (Docs Clerk), Janice Magno (Teller), Percie Engasa (ROI)





General Tinio Branch

Left photo, standing left to right: Sharon Busog (GL Bookkeeper), Rhea Caballero (Cashier), Kristine Santos (Teller), Carolyn Juachon (GL Bookkeeper). Seated, left to right: Amielyn Pajarillaga (Teller), Leilani Fernando (Manager), Lucila Corpuz (Docs Clerk).

Below: Branch Manager Lani Fernando visiting a longtime client of General Tinio Branch.



San Miguel (Bulacan) Branch

Photo at left (standing, left to right): Danilo Mendoza (ROI), Ramona Feliciano (ROI), Erlinda Sevilla (Teller), Jocelyn Cruz (Docs Clerk), Suzette Alcantara (Cashier), Jacklyn D. Baluyo (Bookkeeper)

Seated, left to right: Imelda Laguindam (Marketing Manager), Marcelo N. Jampil (Branch Manager), Annaliza de Lazo (GL Bookkeeper)

Photo above: Branch Manager Mar Jampil listening to a client, a Chicharon-maker.





Tarlac City Branch

Front row, left to right: Maren Bayangos (ROI), Cherry Ann B. Roldan (Branch Cashier), Rosalyn Gaspar (Teller), Maricel Ico (Documentation Clerk)

Second row: Ramon Mallare (Asst. Manager), Joel Chaneco (Branch Manager), Ryan Lindo (Messenger/Utility),

Third row: Jayr Lacson (Bookkeeper), Jason Pecson (ROI), Jancel Salvador-ROI,

Above photo: Branch Manager Joel Chaneco and Cherry Roldan visiting their client's store.



La Paz (Tarlac) Branch

Above: Branch Manager Ciprimo Rafael listening intently to his valued client.

Left photo, seated left to right: Rowena Esteban (GL Bookkeeper), Marieta Carlos (Cashier), Ciprimo A. Rafael Jr. (Branch Manager), Nelisa Miguel (Documentations Clerk), Hilda Garcia (Teller).
Standing, left to right: Joel Argamosa (Relationship Officer Individual), Sonny Antioquia (Messenger), Carmencita Listangco (Relationship Officer Individual), Maripaz Tandoc (SL Bookkeeper), Gilbert Magday (Relationship Officer Individual), Frederick Miguel (Marketing Assistant) and Benjie Aningat (Relationship Officer Individual).





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PHILIPPINES

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Report of Independent Auditor

The Board of Directors
NEW RURAL BANK OF SAN LEONARDO, INC.
San Leonardo, Nueva Ecija
PHILIPPINES

We have audited the accompanying financial statements of New Rural Bank of San Leonardo, Inc., which comprise the statements of condition as of December 31, 2007 and 2006, and the related statements of operation, changes in capital funds and cash flows for the year ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and the 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 audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the 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 New Rural Bank of San Leonardo, Inc. as of December 31, 2007 and 2006, and of its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards.

ODSINADA, RIVERA & CO.

TIN 300-916-661
SEC Accreditation No. 124-F

By:

DIOSCORO O. ODSINADA

TIN 113-345-340
CPA Certificate No. 18098
PRC/BOA Accreditation No 2677
SEC Accreditation No. 586-A
PTR No. 9727687
Jan. 9, 2008, Quezon City
March 29, 2008 Quezon City, Philippines

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NEW RURAL BANK OF SAN LEONARDO, INC.
STATEMENT OF CONDITION

	As of December 31,	
	2007	2006
RESOURCES		
Cash (Note 4)	2,796,500	1,464,743
Due from Bangko Sentral ng Pilipinas (Note 4)	3,799,773	2,729,104
Due from other banks (Note 4)	26,882,017	47,152,536
Investment securities (Note 5)	15,675,000	6,300,000
Loans and receivables, net (Notes 6 & 10)	263,198,306	194,430,424
Property and equipment, net (Note 7)	25,459,063	20,999,446
Real and other properties acquired (Note 8)	25,195,202	21,430,994
Other resources (Note 9)	8,577,986	5,471,459
TOTAL RESOURCES	371,583,847	299,978,706
LIABILITIES AND CAPITAL FUNDS		
Deposit liabilities (Note 11)		
Demand	2,063,812	1,349,922
Savings	179,872,779	138,818,726
Time	285,166	353,137
	182,221,758	140,521,785
Bills payable	74,077,500	50,546,209
Accrued taxes, interest and other expenses (Note 12)	4,009,395	3,515,835
Other liabilities and deferred credit (Note 13)	7,088,861	11,896,037
Total Liabilities	267,397,514	206,479,866
Capital Funds (Note 14)		
Share capital	10,000,000	10,000,000
Retained earnings - reserve	3,000,000	3,000,000
Retained earnings - free	91,186,333	80,498,840
Total Capital Funds	104,186,333	93,498,840
TOTAL LIABILITIES AND CAPITAL FUNDS	371,583,847	299,978,706

See accompanying Notes to Financial Statements

NEW RURAL BANK OF SAN LEONARDO, INC.
STATEMENT OF OPERATIONS

	Year Ended December 31,	
	2007	2006
INCOME		
Interest income	62,839,644	51,092,093
Interest expense	13,579,427	10,261,607
Net Interest Income	49,260,217	40,830,486
Provision for probable losses	461,535	40,000
Net interest income	48,798,682	40,790,486
OTHER INCOME		
Service charges and fees	4,148,232	3,089,457
Other income	8,810,314	6,169,251
	12,958,546	9,258,708
Total Income	61,757,228	50,049,194
OPERATING EXPENSES		
Compensation and fringe benefits	23,612,499	17,859,427
Depreciation and amortization (Notes 7 & 8)	3,707,067	2,828,324
Taxes and licenses (Note 16)	203,296	194,217
Other operating expenses (Note 21)	14,122,974	13,469,711
Total Operating Expenses	41,645,836	34,351,679
NET INCOME BEFORE INCOME TAX	20,111,392	15,697,515
Provision for income tax (Note 16)	4,927,851	3,056,149
NET INCOME (Note 19)	15,183,541	12,641,366
Earnings Per Share (Note 19)	P 151.84/share	P 126.41/share

See accompanying Notes to Financial Statements

NEW RURAL BANK OF SAN LEONARDO, INC.
STATEMENT OF CHANGES IN CAPITAL FUNDS

	Year Ended December 31,	
	2007	2006
SHARE CAPITAL		
Authorized -100,000 common shares at P 100 par value per share. <u>P 10,000,000</u>		
Issued and outstanding	10,000,000	10,000,000
RETAINED EARNINGS - RESERVES		
Balance, beginning	3,000,000	3,000,000
Transfer from retained earnings - free	-	-
Balance, ending	3,000,000	3,000,000
RETAINED EARNINGS - FREE		
Balance, beginning	80,498,840	66,854,990
Prior period adjustment	503,952	1,002,484
Balance, restated	81,002,792	67,857,474
Dividends declared	(5,000,000)	-
Net income	15,183,541	12,641,366
Balance, ending	91,186,333	80,498,840
TOTAL CAPITAL FUNDS	104,186,333	93,498,840

See accompanying Notes to Financial Statements

NEW RURAL BANK OF SAN LEONARDO, INC.
STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	15,183,541	12,641,366
Depreciation expense	3,707,067	2,828,324
Dividends declaration	(5,000,000)	-
Prior period adjustment, net	503,952	1,002,484
Operating income before changes in working capital	14,394,559	16,472,174
Decrease (increase) in		
Loans and receivables, net	(68,767,882)	(5,856,565)
Assets acquired	(3,764,208)	(4,870,262)
Other resources	(3,106,527)	(597,122)
Increase (decrease*) in		
Deposit liabilities	41,699,973	12,031,619
Bills payable	23,531,291	7,296,263
Accrued taxes, interest and other expenses	493,560	(2,434,449)
Other liabilities	(4,807,176)	1,700,644
Net cash provided by (used in) operating activities	(326,410)	23,742,302
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase*) in		
Investment securities	(9,375,000)	3,675,000
Property & equipment	(8,166,683)	(8,476,227)
Net cash provided by (used in) investing activities	(17,541,683)	(4,801,227)
NET INCREASE (DECREASE) IN CASH	(17,868,093)	18,941,075
CASH AND CASH EQUIVALENTS, BEGINNING	51,346,383	32,405,308
CASH AND CASH EQUIVALENTS, ENDING	33,478,290	51,346,383

See accompanying Notes to Financial Statements



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PHILIPPINES

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CERTIFICATION

Relative to our External Audit Report of the New Rural Bank of San Leonardo for the year ended December 31, 2007, and in accordance with BSP Circular 474, dated February 3, 2005, this certification is issued on the following:

- The audit fieldwork commenced on February 18, 2008 and was concluded on February 28, 2008.
- The Audited Financial Statements were submitted on March 29, 2008. No Letter of Comment (LOC) to the Board of Directors was submitted, as no major internal weakness or breach was noted to warrant its issuance.
- The Firm or any of its partners and staff do not have any direct and indirect financial interest and other circumstances that may impair its independence as external auditor.

Also, this Certification is submitted instead of a Letter of Comment (LOC), as no major internal weakness or breach was noted to warrant an LOC.

Issued this 14th day of April 2008, together with the said financial audit report.

ODSINADA, RIVERA & CO.

TIN 300-916-661
SEC Accreditation No. 124-F

By:

DIOSCORO O. ODSINADA

Partner
TIN 113-345-340
CPA Certificate No. 18098
PRC/BOA Accreditation No. 2677
SEC Accreditation No. 586-A
PTR No. 9727687
January 9, 2008, Quezon City

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The Director
SUPERVISION AND EXAMINATION DEPARTMENT IV
Bangko Sentral ng Pilipinas
A. Mabini St., Malate 1004
Manila

CERTIFICATION

This Certifies that, as a result of our annual examination of the financial statements of **NEW RURAL BANK OF SAN LEONARDO, INC.**, there are no matters to report (e.g. fraud, dishonesty, breach of laws, etc.), with regard to the items enumerated under Section 7 of Circular No.410.

CITY OF MANILA

Issued this 14th of April, 2007 in Quezon City, Philippines.

ODSINADA, RIVERA & CO.

By:

DIOSCORO O. ODSINADA
Managing Partner

SUBSCRIBED AND SWORN TO BEFORE ME, this April 14, 2008 affiant
exhibiting his Community Tax Certificate No. 16268772 issued on January 9, 2008, in Quezon
City, Philippines.

CITY OF MANILA

NOTARY PUBLIC

Until December 31, 2008

ATTY. RONALD E. RIMANDO
NOTARY PUBLIC

UNTIL DECEMBER 31, 2009.

PTR NO. 9772424 / 1-07-08 / D.C.
IBP NO. 706983 / 1-07-08 / MANILA III
ROLL NO. 49199

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