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THE BOARD OF DIRECTORS

Mallig Plains Rural Bank (Isabela), Inc.
Centro, Mallig, Isabela

I have audited the accompanying Statement of Financial Condition of Mallig Plains Rural Bank (Isabela), Inc., as of December 31, 2005 and 2004, the related Statement of Income and Expenses and Statement of Cash Flows for the years then ended. These financial statements are the responsibility of the bank management. My responsibility is to express an opinion on these financial statements based on my audits.

I have conducted my audits in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly in all material respects, the financial position of Mallig Plains Rural Bank (Isabela), Inc., as of December 31, 2005 and 2004, the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.



[Handwritten Signature]
 P. T. R. NO. 0024482
 January 10, 2006
 Santiago City

February 15, 2006

EXHIBIT A

MALLIG PLAINS RURAL BANK (ISABELA), INC.
STATEMENT OF FINANCIAL CONDITION
As of December 31, 2005

(With comparative figures for the year 2004)

	2005	2004
ASSETS		
Cash and Deposits in Banks (Note 3)	P 41,766,091	P 39,529,040
Loans and Discounts- net (Note 2)	285,575,942	256,487,888
Investments in Bonds and Other Debt Instruments	229,500	229,500
Bank Premises, Furniture, Fixture & Equipment- net (note 4)	26,194,150	22,883,820
Real & Other Properties Owned or Acquired- net	17,216,191	17,278,852
Other Assets (Note 5)	9,782,470	8,033,683
TOTAL ASSETS	P 380,764,344	P 344,422,383
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposit Liabilities (Note 6)	P 180,152,733	P 171,383,279
Bills Payable (Note 2)	118,245,082	99,236,892
Due to Local Banks	1,487	1,487
Accrued Interests, Taxes, Fringe Benefits and Other Expenses	10,902,889	0,563,879
Due to Banko Sentral ng Pilipinas	100,246	100,246
Due to Philippine Crop Insurance Corporation (PCIC)	1,516,755	1,516,755
Unearned Income and Other Deferred Credits (Note 7)	7,280,667	6,038,510
Other Liabilities (Note 8)	9,376,140	6,693,236
TOTAL LIABILITIES	327,555,679	294,534,284
Stockholders' Equity (Note 9)		
Capital Stock	32,020,000	31,585,000
Surplus Free	11,360,616	11,678,927
Surplus Reserve	9,828,049	6,626,172
TOTAL STOCKHOLDERS' EQUITY	53,208,665	49,888,099
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	P 380,764,344	P 344,422,383

(See accompanying notes to financial statements)



EXHIBIT B

MALLIG PLAINS RURAL BANK (ISABELA), INC.
STATEMENT OF INCOME AND EXPENSES
For the Year Ended December 31, 2005
(With comparative figures for the year 2004)

	<u>2005</u>	<u>2004</u>
GROSS INCOME:		
Interest on Loans	P 53,959,912 ✓	P 51,472,036
Service Charges	22,771,515 ✓	17,429,816
Interest on Bank Deposits	393,717	324,293
Interest on Investment	191,828	139,149
Other Income	1,207,770	2,169,165
Total Gross Income	<u>78,524,843</u>	<u>71,534,459</u>
OPERATING EXPENSES:		
Compensation and Other Fringe Benefits	26,738,221 ✓	22,448,757
Interest Expense	22,591,213 ✓	23,697,738
Depreciation and Amortization (Note 4)	4,355,779 ✓	4,073,857
Doubtful Account Expense	2,550,336 ✓	1,224,363
Insurance Expense (Note 4)	1,288,348	1,354,022
Litigation - Asset Acquired	828,543	130,039
Taxes and Licenses	594,528	507,618
Banking Fees	78,339	-
Fines, Penalties and Other Charges	7,050	1,803
Other Expenses	17,847,887	16,353,034
Total	<u>78,678,044</u>	<u>69,790,831</u>
INCOME FROM OPERATION	1,846,799	1,743,628
OTHER CREDITS (Note 11)	2,202,907	116,022
NET INCOME BEFORE INCOME TAX	4,049,706	1,859,650
PROVISION FOR INCOME TAX	1,126,483	900,910
NET INCOME AFTER INCOME TAX (Note 10)	<u>P 2,923,223</u>	<u>P 2,151,740</u>



(See accompanying notes to financial statements)

Attention: Jeng Rusto

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accounting and reporting of the Maling Plains Rural Bank (Isabela), Inc. conforms with the generally accepted accounting principles and with the accounting and reporting guidelines prescribed by the banking regulatory bodies. Presented below are the significant policies applied in the preparation of the financial statements.

Loans and Discounts / Allowance for Probable Losses

Loans are stated at gross reduced by an allowance for probable losses. Unearned discount is recognized as income over the term of the loan using the accrual method. The allowance for probable losses (specific) is the estimated amount of losses in the bank's loan portfolio based on the evaluation of the collectibility of the loans and prior loan-loss experiences. The allowance for probable losses general is equivalent to 1% of the outstanding balance of unclassified loans except for restructured loans which was provided 5% allowance for probable losses. In accordance with the BSP Circular No. 313 Series of 2001. Loans are written-off from allowance for probable loss when management believes that the collectibility of the principal is unlikely.

Investment in Bonds and other Debt Instruments

Investment in bonds and other debt instruments are stated at cost adjusted for discounts or premium to periodic amortization charges or credits to income.

Bank Premises, Furniture, Fixtures and Equipment

Building including leasehold improvement, transportation, furniture, fixtures and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the related assets, as follows:

Classification	Estimated useful lives
Land	N/A
Building	20 years
Appraisal increment	Fully depreciated
Leasehold improvements, net	5 years
Furniture, Fixtures and equipment	2 to 5 years
Transportation equipment	2 to 5 years

Real Properties Owned or Acquired / Allowance for Probable Losses

Assets acquired are recorded at the lower of the balance of total loan exposure or appraised value. Any excess of the loan balance over the appraised value not recoverable from the borrower is charged to operations.

Under existing BSP regulations, allowance for probable losses is provided on the property held in excess of five (5) years to cover any deterioration in the estimated realizable value.

2. Disclosure Requirements under Circular No. 212

Following are the additional disclosure requirements pursuant to Monetary Board Resolution No. 1381 Circular No. 212 dated October 1, 1999:

a) Basic Quantitative Indicators of Financial Performance

	2005	2004
Return on Average Assets	1%	1%
Return on Average Equity	7%	4%
Net Interest Margin	11%	10%

The financial performance indicators of the Bank are sound though there are some areas that can be developed in the normal course of the business but necessitates supervisory attention.

b) Capital-to-risk assets ratio under Section 22 of R.A. No. 337 is 16% (2004 – 16%). Capital is adequate to absorb any impairment of the risk assets.

c) Breakdown of Loan Portfolio

a. As to type of loans

	Loans and Discounts	Agricultural	Restructured loans	Total
2004				
Current Loans	P 85,318,814	P 134,835,348	P 15,808,018	P 238,857,878
Past due loans	18,281,594	22,864,145	1,597,471	40,543,211
Under litigation	337,540	4,144,927	-	4,482,467
Total loan portfolio	P 101,935,649	P 161,344,420	P 17,403,488	280,683,555
Allowance for probable losses				24,215,867
Net loan portfolio, 2004				P 256,467,688
2005				
Current loans	P 105,316,846	P 153,137,448	P 12,881,914	P 271,136,008
Past due loans	14,929,141	18,998,848	1,828,747	35,756,536
Under litigation	639,239	4,318,869	493,000	5,450,908
Total loan portfolio	P 120,885,024	P 178,452,763	P 15,003,661	312,341,448
Allowance for probable losses				26,785,506
Net loan portfolio, 2005				P 285,555,942

Loans and discount compose of microfinance, commercial and fringe benefits loans. Fringe benefits loans are extended to officers and employees under the Fringe Benefits Program of the Bank.

Agricultural loans are 58% (2004 - 57%) of the total loan portfolio.

b. As to type of security

	Secured	Unsecured	Total
2004			
Current loans	P 149,451,123	P 88,206,754	P 235,657,878
Past due loans	23,992,485	18,550,726	40,543,211
Under litigation	4,482,487	-	4,482,487
Total loan portfolio	P 177,926,075	P 102,757,480	280,683,555
Allowance for probable losses			24,215,867
Net loan portfolio, 2004			P 256,467,688
2005			
Current loans	P 165,101,760	P 106,034,245	P 271,136,005
Past due loans	25,445,040	13,304,067	38,749,107
Under litigation	4,811,669	639,239	5,450,908
Total loan portfolio	P 195,358,469	P 120,977,551	316,336,020
Allowance for probable losses			28,765,508
Net loan portfolio, 2005			P 287,570,512

The general loan loss provision for the period is P2,823,979 while that of the specific loan loss provision amounted to P23,941,527.

The ratio of the total of past due loans and items under litigation to total loan portfolio is 13% (2004 - 16%), which is within the industry average. Secured loans are 61% (2004 - 57%) of the total portfolio, P340,000 (2004 - P440,000) of which, .18% (2004 - .24%) represents secured loans from DOSRI.

d) Aggregate amount of secured liabilities and assets pledge as security

As of December 31, bills payable amounted to P118,245,082 (2004 - P98,236,879). Bills payable to Bangko Sentral ng Pilipinas (BSP), Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP), National Livelihood Support Fund (NLSF), People's Credit and Finance Corporation - Investment & Institutional Loans aggregating to P118,245,082 (2004- P48,235,955) are secured by loans and discounts amounting to P127,926,426.78.

The risk-based capital adequacy ratio of 14.83% (2004- 16.14%) exceeded the prescribed minimum amount as per RSP guidelines.

The concentration of credit as to industry/economic sector whose concentration is said to exist when total loan exposures to a particular industry/economic sector exceeds 30% of the total loan portfolio includes agricultural sector, P190,740,677.40 (61%) and wholesaling, retailing and personal services sector, P120,391,884.64 (39%).

a) Accounting Policies

The more significant accounting policies are provided in note 1.

3. Cash and Deposits in Banks

The account at December 31 consists of the following:

	2005		2004	
Cash and Other Cash Items	P	8,802,101	P	6,484,148
Due from Banko Sentral		1,077,861		1,829,808
Due from Other Banks		33,888,128		31,205,086
Total	P	41,768,091	P	39,529,040

4. Bank Premises, Furniture, Fixtures and Equipment

Details of the individual account as of December 31 are as follows:

	2005		2004	
Cost at December 31				
Land	P	7,071,847	P	6,844,447
Building		18,954,937		16,150,590
Appraisal Increment		131,000		131,000
Leasehold Improvements		971,874		885,322
Furniture, fixtures and equipment		14,350,412		14,195,494
Transportation equipment		9,510,873		7,935,280
Total		51,991,043		46,142,113
Accumulated Depreciation		(25,796,893)		(23,258,493)
Net book value at December 31	P	26,194,150	P	22,883,620

Depreciation and amortization charged to operations during the year amounted to P4,355,779 (2004 - P4,073,657). Accumulated depreciation to Furniture, Fixtures and Equipment corresponding to Equipments granted by the Department of Agrarian Reform amounting to P63,842 were charged to surplus free since these are non-depreciable assets they will be returned to the Department of Agriculture after the term of the program. The Furniture, Fixtures and Equipment of P494,000 was also reclassified into other assets because they are part of the grant given by Department of Agrarian Reform.

Of the total book value at December 31, 2005, P22,205,765 (85%) (2004-P19,648,942 (85%)) is covered by insurance.

5. Other Assets, net

Included in this accounts are the follows:

	2005		2004	
Accounts Receivable - net	P	141,252	P	787,322
FX Currency notes and coins on hand		-		21,247
Prepaid Expenses		588,848		588,472
Others		9,052,370		6,658,642
Total	P	9,782,470	P	8,033,683

As stated in note 4, P491,000 of the other assets – other came from the Furniture, Fixtures and Equipment granted by the Department of Agrarian Reform.

6. Deposit Liabilities

The account at December 31 consists of the following:

	2005		2004	
Savings Deposit	P	155,108,085	P	144,903,507
Time Deposit		25,044,648		26,479,772
Total	P	180,152,733	P	171,383,279

7. Unearned Income and Other Deferred Credits

This account represents interest on loans deducted in advance. A test on the propriety of the unearned interest discounts on the interest income transactions was determined on a monthly basis.

8. Other Liabilities

The account at December 31 consists of the following:

	2005		2004	
Accounts Payable	P	7,254,936	P	6,078,707
Income Tax Payable		464,864		16,663
Others		1,658,540		597,866
Total	P	9,378,140	P	6,693,236

Part of the grant of Department of Agrarian Reform amounting to P735,000 was recognized as Other Liabilities – others since the contract provides that the assets were to be returned after the sponsored program.

9. Stockholders' Equity

The net worth of the Bank at December 31 consists of the following:

	2005	2004
Capital Stock		
Preferred Stock	P 2,020,000	P 1,585,000
Common Stock	30,000,000	30,000,000
Total	32,020,000	31,585,000
Surplus		
Surplus free	P 11,360,816	P 11,676,927
Surplus reserve	9,828,049	6,626,172
Total	21,188,865	18,303,099
Total stockholders' equity	53,208,865	49,888,099

The bank was authorized in 2004 to issue 100,000 preferred B shares with a par value of P100.00 of which P2,020,000 was paid. Consequently, a restriction in the surplus free amounting to P2,020,000 was provided. The board of directors prepared a program in setting up the sinking fund which has an outstanding balance of P322,000.00.

The Bank has a sinking fund under the Surplus reserves account to finance its non-contributory benefits plan for employees' retirement. As of December 31, 2005, the fund has accumulated to P7,522,772 but the related investment included under the other assets is only P6,654,984.

10. Income from Operations

The net income for the year amounted to P2,923,223 (2004 - P2,157,740.28) of which 69% (2004 - 73%) comes from interest, and 31% (2004 - 27%) is earned from service charges/fees and other sources.

11. Non Operational Receipt

To improve the productivity and income of the Agrarian Reform Beneficiaries (ARBs) the Department of Agrarian Reform and People's Credit and Finance Corporation gave a grant to the Malig Plains Rural Bank Inc. in the amount of nine hundred seventy nine thousand (P979,000) pesos. The grant was provided to implement the "ARCs Microfinance Solutions" (MICROSOL) as one of the mandates of R.A. 8425.

12. There are no other liabilities or gain or loss contingencies that are required to be accrued or disclosed by statement of financial accounting standards no. 10/IAS 10, events after the balance sheet date.

