

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

REPORT ON EXAMINATION
OF
FINANCIAL STATEMENTS

December 31, 2007

EDNA L. LABIAGA
CERTIFIED PUBLIC ACCOUNTANT

Mallig Plains Rural Bank (Isabela), Inc.

Centro, Mallig, Isabela


STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Mallig Plains Rural Bank (Isabela), Inc. is responsible for all information contained in the financial statements as of and for the years ended December 31, 2007 and 2006. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the shareholders of the company.

Edna L. Labiaga, CPA, the independent auditor appointed by shareholders, has audited the financial statements of the company in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination, in its reports to the Board of Directors and shareholders.


PRAXEDES A. IGNACIO
President and CEO


LUZ B. COSTALES
Accountant



March 1, 2008

REPORT OF INDEPENDENT AUDITOR

THE BOARD OF DIRECTORS

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

I have audited the accompanying financial statements of **Mallig Plains Rural Bank (Isabela), Inc.**, which comprise the balance sheets as at December 31, 2007 and 2006, and the statements of income, statements of changes in equity and cash flow statements for the years then 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 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

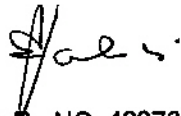
My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Philippine Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether 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 risk assessment, the auditor consider 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects the financial position of **Mallig Plains Rural Bank (Isabela), 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.

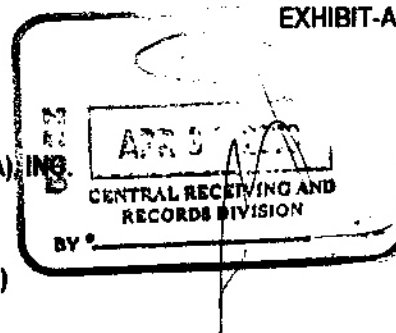
A handwritten signature in black ink, appearing to read 'J. A. S.', is positioned above the typed address and date.

P. T. R. NO. 4237689
Tuba, Benguet
January 16, 2008

Baguio City, Philippines
February 28, 2008

EXHIBIT-A

MALLIG PLAINS RURAL BANK (ISABELA) INC.
BALANCE SHEET
DECEMBER 31, 2007
(With Comparative Figures for 2006)



	2007		2006
ASSETS			
Cash on Hand and In Banks (Note 3)	P 60,559,031	P	34,709,323
Loans and Receivables - net (Notes 1 & 2)	306,221,098		299,679,422
Investments in Bonds and Other Debt Instruments (Note 1)	229,500		229,500
Bank Premises, Furniture, Fixture & Equipment- net (Notes 1 & 4)	28,293,675		26,221,123
Real and Other Properties Acquired- net (Note 1)	14,407,019		17,132,588
Other Assets- net (Note 5)	17,786,268		15,130,203
TOTAL ASSETS	P 427,496,590	P	393,102,159
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit Liabilities (Note 6)	P 200,314,890	P	166,732,948
Bills Payable (Note 2)	136,035,470		147,010,217
Due to Local Banks	1,487		1,487
Accrued Interest, Taxes, Fringe Benefits ad Other Expenses	8,037,083		7,914,811
Redeemable Preferred Shares	2,363,300		2,363,300
Due to Banko Sentral ng Pilipinas	100,246		100,246
Due to Philippine Insurance Crop Corporation (PICIC)	1,516,755		1,516,755
Deferred Credit (Note 7)	1,847,431		2,915
Other Liabilities (Note 8)	11,393,543		12,458,459
TOTAL LIABILITIES	361,610,205		338,101,137
EQUITY			
Share Capital	35,661,404		30,661,404
Surplus Free	15,099,446		12,275,330
Surplus Reserve	15,125,535		12,064,288
Total Equity (Note 9)	65,886,385		55,001,022
TOTAL LIABILITIES & EQUITY	P 427,496,590	P	393,102,159

(See accompanying notes to financial statements)

EXHIBIT-B

MALLIG PLAINS RURAL BANK (ISABELA), INC.
INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2007
(With Comparative Figures for the Year Ended December 31, 2006)

	2007		2006
INCOME			
Interest on Loans and Receivables	P 61,176,948	P	57,861,287
Service Fees and Other Charges	-		19,975,692
Interest on Bank Deposits	-		409,507
Gain on Sale of Non-Financial Asset	1,794,325		205,790
Recovery on charged - off asset	116,203		
Other Income	26,474,280		41,209
Total Income	89,561,756		78,493,486
EXPENSES			
Compensation and Fringe Benefits	29,092,581		29,253,449
Interest Expense	24,272,284		21,046,763
Bad Debts Written-Off	6,111,948		3,317,468
Depreciation and Amortization	4,704,304		4,574,383
Insurance	-		1,284,612
Management and other Professional Fee	-		30,000
Taxes and Licenses	1,245,853		740,101
Litigation/Assets Acquired Expenses	-		376,315
Banking Fees	-		83,058
Fines, Penalties and Other Charges	-		-
Other Expenses (Schedule 1)	21,224,440		18,414,894
Total	86,651,410		79,121,044
Profit from Operation	2,910,346		(627,559)
Other Credits (Debits)			2,313,524
Net Profit Before Income Tax	2,910,346		1,685,965
Less: Provision for Income Tax	934,543		307,753
NET PROFIT(Note 10)	P 1,975,803	P	1,378,213

(See accompanying notes to financial statements)

EXHIBIT-C

MALLIG PLAINS RURAL BANK (ISABELA), INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007
(With Comparative Figures for the Year Ended December 31, 2006)

	2007		2006
Cash flows from operating activities:			
Net profit before income tax	P 2,910,346	P	1,685,965
Adjustment for depreciation and amortization	4,704,304		4,574,383
Operating profit before working capital changes	7,614,650		6,260,348
(Increase) decrease in:			
Loans and Receivables- net	(6,541,876)		(14,103,480)
Real and other properties acquired- net	2,725,569		83,603
Other assets- net	(2,656,065)		(5,347,733)
Increase (decrease) in:			
Deposit liabilities	33,581,942		(13,419,785)
Bills payable	(10,974,747)		28,765,135
Accrued interest, taxes and other liabilities	122,272		(2,987,858)
Deferred credit	1,844,516		(7,257,653)
Other Liabilities	(1,064,916)		3,571,142
Cash generated from operations	24,651,545		(4,436,280)
Income taxes paid	(646,277)		(1,261,240)
Net cash provided by (used in) operations	24,005,268		(5,697,520)
Cash used in investing activities:			
Acquisition of fixed assets	(6,230,473)		(4,136,692)
Cash flow from financing activities:			
Additional issue of share capital	5,000,000		343,300
Prior period adjustments	3,074,913		2,434,144
Net cash provided by (used in) financing activities	8,074,913		2,777,444
Net increase (decrease) in cash on hand and in banks	25,849,708		(7,056,768)
Cash on hand and in banks - beginning	34,709,323		41,766,091
Cash on hand and in banks - end	P 60,559,031	P	34,709,323

(See accompanying notes to financial statements)

MALLIG PLAINS RURAL BANK (ISABELA), INC.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2007
(With Comparative Figures for the Year Ended December 31, 2006)

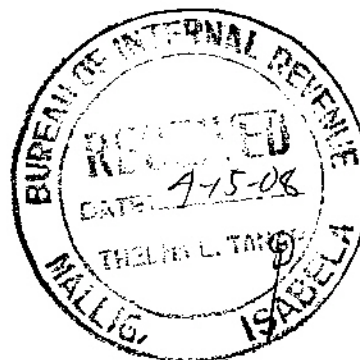
	<u>2007</u>	<u>2006</u>
SHARE CAPITAL (subscribed and outstanding)		
Ordinary at P100 par value		
Beginning	30,661,404	30,661,404
Issued during the year	5,000,000	-
December 31,	<u>35,661,404</u>	<u>30,661,404</u>
Total Share Capital , December 31	<u>35,661,404</u>	<u>30,661,404</u>
SURPLUS		
Free - January 1	12,275,330	10,699,212
Reserve - January 1	14,177,300	9,828,049
Total surplus - January 1	<u>26,452,630</u>	<u>20,527,261</u>
Add - net profit for the year	1,975,803	1,378,213
Prior period adjustments	1,796,548	2,434,144
Total Surplus, December 31	<u>30,224,981</u>	<u>24,339,618</u>
TOTAL EQUITY, December 31	<u>P 65,886,385</u>	<u>P 55,001,022</u>

(See accompanying notes to financial statements)

SCHEDULE - 1

MALLIG PLAINS RURAL BANK (ISABELA), INC.
 SCHEDULE OF OTHER EXPENSES
 FOR THE YEAR ENDED DECEMBER 31,2007

Rent	P	1,474,600
Power, Light and Water		1,464,977
Postage, Telephone, Cables & Telegrams		1,149,672
Repairs and Maintenance		290,011
Security, Clerical, Mess. & Jan. Services		1,962,013
Management and Other Professional Fees		43,850
Information and Technology		102,423
Supervision Fee		91,119
Membership Fees and Dues		25,000
Insurance		1,373,551
Representation and Entertainment		945,076
Travelling Expenses		4,809,332
Fuel and Lubricants		1,737,229
Fines, Penalties and Other Charges		76,418
Donations and Charitable Contributions		73,866
Periodicals and Magazines		88,765
Documentary Stamps Used		333,494
Stationery and Supplies Used		1,555,808
Other - Miscellaneous		3,627,236
TOTAL (To Exhibit- B)	P	<u>21,224,440</u>



NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accounting and reporting of the Mallig 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 Receivables / 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 compliant to the international accounting standards. 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 while the restructured loans are provided 5% and for substandard loans a provision of 25%, 50% for doubtful and 100% for loss is provided as allowance for probable losses in accordance with the BSP Circular No. 313 Series of 2001.

Investment in Bonds and other Debt Instruments

Investment in bonds and other debt instruments are stated at cost. These bonds had matured and necessitated processes in order that it be converted into cash.

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 10 years
Transportation equipment	2 to 5 years

Real and Other Properties 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

	2007	2006
Return on Average Assets	0.49%	0.36%
Return on Average Equity	3.40%	2.49%
Net Interest Margin	9%	10%

The financial performance indicators of the Bank, specifically return on average assets and return on average equity, increased by more than double due to a peso increase in the net profit of the bank compared to last year.

The increase in the net profit was due to the aggressive marketing of the bank's services and expansion of branches.

b. Breakdown of Loan Portfolio

b.1. As to type of loans

		Loans and Receivables		Agricultural		Restructured loans		Unamortized Discount		Total
2007										
Current Loans	P	114,573,865	P	184,908,660	P	4,771,423	P	11,822,936	P	292,431,012
Past due loans		14,941,776		16,570,854		1,326,355		-		32,838,985
Under litigation		652,829		3,270,218		487,000		-		4,410,047
Total loan portfolio	P	130,168,470	P	204,749,732	P	6,584,778	P	11,822,936	P	329,680,044
Allowance for credit losses										23,458,946
Net loan portfolio, 2007									P	306,221,098
2006										
Current loans	P	110,491,917	P	165,843,458	P	12,117,915			P	288,453,290
Past due loans		12,613,573		20,180,237		1,497,165				34,290,976
Under litigation		544,506		4,230,496		492,000				5,267,002
Total loan portfolio	P	123,649,996	P	190,254,192	P	14,107,080				328,011,268
Allowance for probable losses										28,331,846
Net loan portfolio, 2006									P	299,679,422

Loans and receivables include microfinance, commercial and fringe benefits loans. Fringe benefit loans are extended to officers and employees under the Fringe Benefits Program of the Bank. Agricultural loans are 60% (2006- 58%) of the total loan portfolio.

Total Loans Granted to DOSRI

Total DOSRI Loans P 1,575,000.00

Percentage of Unsecured DOSRI loans to total DOSRI loans

Percentage of Unsecured DOSRI -0-%

Percentage of Past Due DOSRI loans to total DOSRI loans

Percentage of Past Due DOSRI -0-%

Percentage of Non-Performing DOSRI loans to total DOSRI loans

Percentage of Non-Performing DOSRI -0-%

b.2. As to type of security

		Secured	Unsecured	Unamortized Discount	Total
2007					
Current loans	P	217,411,358	P 86,842,590	P 11,822,936	P 292,431,012
Past due loans		18,699,516	14,139,469		32,838,985
Under litigation		3,872,218	537,829		4,410,047
Total loan portfolio	P	239,983,092	P 101,519,888		329,680,044
Allowance for credit losses/Unamortized Discount					23,458,946
Net loan portfolio, 2007				P	P 306,221,098
2006					
Current loan	P	180,019,824	P 108,433,467	P	288,453,290
Past due loans		21,524,737	12,766,238		34,290,976
Under litigation		4,722,496	544,506		5,267,002
Total loan portfolio	P	206,267,057	P 121,744,211		328,011,268
Allowance for probable losses					28,331,846
Net loan portfolio, 2006				P	299,679,422

b.3 As to economic activity

		2007
Agriculture, Hunting, and Forestry	P	211,185,044
Construction		2,062,443
Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycles and Personal and Household Goods		128,255,492
Total Loan Portfolio, 2007		341,502,979
Allowance for Credit Losses/Unamortized Discount		35,281,882
Net Loan Portfolio, 2007	P	306,221,097

b. 4 Breakdown of Secured Loans as to types of Security

a. REM.....	P	237,270,570
b. Chattel		2,712,522
c. Unsecured.....		101,519,888
Total.....	P	341,502,980

The general loan loss provision as of December 31, 2007 is P817,340 while that of the specific loan loss provision amounted to P935,302. The total amount of write-offs and total loan loss provisions for the year amounted to P6,111,948 and P1,752,642, respectively.

The ratio of the total of past due loans and items under litigation to total loan portfolio is 8% (2006 – 12%), which is within the industry average. Secured loans are 70% (2006 – 63%) of the total loan portfolio. The past due and items under litigation ratio to total loan portfolio was reduced by 4% due to the write-off of loans receivable. This was approved by the Board of Directors.

c. Aggregate amount of secured liabilities and assets pledged as security

As of December 31, bills payable amounted to P136,035,470 (2006 – P147,010,217). Bills payable to Bangko Sentral ng Pilipinas (BSP), Land Bank of the Philippines (LBP), National Livelihood Support Fund (NLSF), People's Credit and Finance Corporation – Investment & Institutional Loans aggregating to P136,035,470 (2006-P147,010,217) are secured by loans and receivables amounting to P144,796,340.

The risk-based capital adequacy ratio of 16.45% (2006- 15.84%) exceeded the prescribed minimum amount as per BSP guidelines.

3. Cash and Deposits in Banks

The account at December 31 consists of the following:

		2007		2006
Cash and Other Cash Items	P	10,836,579	P	7,803,280
Due from Banko Sentral		1,230,088		1,344,355
Due from Other Banks		48,492,364		25,561,687
Total	P	60,559,031	P	34,709,323

4. Bank Premises, Furniture, Fixtures and Equipment

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

		2007		2006
Cost at December 31				
Land	P	7,196,947	P	7,196,947
Building		23,440,715		20,276,689
Appraisal increment		-		-
Leasehold improvements		417,399		698,036
Furniture, fixtures and equipment		20,144,356		17,588,144
Transportation equipment		10,983,241		10,192,369
Total		62,182,658		55,952,185
Accumulated Depreciation		(33,888,983)		(29,731,062)
Carrying amount at December 31	P	28,293,675	P	26,221,123

Depreciation and amortization charged to operations during the year amounted to P4,704,304 (2006 – P4,574,383).

Of the total carrying amount at December 31, 2007, P21,096,728 or 100% (2006- P18,326,140 or 70%) is covered by insurance.

5. Other Assets, net

Included in this account are as follows:

		2007		2006
Accounts Receivable - net	P	189,164	P	129,847
Prepaid Expenses		2,667,181		736,490
Sales Contract Receivable, net		-		113,369
Others		14,929,922		14,150,496
Total	P	17,786,267	P	15,130,203

Others are investments for the retirement of employees and preference shares. The funds are being managed by Land Bank of the Philippines and other stable financial institutions.

6. Deposit Liabilities

The account as of December 31 consists of the following:

		2007		2006
Savings Deposit	P	177,785,329	P	157,387,987
Time Deposit		22,529,561		9,344,961
Total	P	200,314,890	P	166,732,948

These accounts have been examined randomly by tracing to their supporting documents and to prove the authenticity, I confirmed and found no material discrepancies.

Interest rate of savings and time deposits are 1-3% and 5-17% respectively.

7. Deferred Credit

This account represents unearned income in relation to the sales of real and other properties acquired. Sales contract receivable for the period is P1,944,517.

8. Other Liabilities

The account at December 31 consists of the following:

		2007		2006
Accounts Payable	P	9,693,788	P	8,557,221
Income Tax Payable		288,266		(488,824)
Deposit for Stock Subscription		-		3,000,000
Others		1,411,489		1,390,061
Total	P	11,393,543	P	12,458,458

Collections from micro clients amounting to P8,427,256 and deposit on sale of ROPA amounting to P422,521 are included in the accounts payable. Withholding tax payable of P324,834 and SSS, Philhealth, Pag-ibig Premium and

SSS Loans collected from employees in the amount of P351.654 are included in the other account.

9. Shareholders' Equity

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

		2007		2006
Share Capital				
Ordinary Shares	P	35,661,404	P	30,661,404
Surplus				
Surplus Free	P	15,099,446	P	12,275,330
Surplus Reserve		15,125,535		12,064,288
Total		30,224,981		24,339,618
Total Shareholders' Equity	P	65,886,385	P	55,001,022

10. Operations

The net profit for the year amounted to P 1,975,803 (2006 – P1,378,213) of which 68% (2006 – 72%) comes from interest, and 32% (2006 – 28%) is earned from service charges/fees and other sources.

11. There are no other liabilities or gain or loss on contingencies that are required to be accrued or disclosed as mandated by international accounting standards no.10, Events after the Balance Sheet Date.

