



Pera ng Mindanao, Para sa Mindanao

 **ONE NETWORK BANK**

Annual Report 2006

Our Vision

One Network Bank is the leader in the Philippine Rural Banking Industry with a nationwide network of branches, operated by highly motivated professionals, with a deep sense of mission, providing state of the art technology and quality banking services, especially for countryside clients.

Our Mission

To accelerate countryside development, One Network Bank will:

- ▶ Expand presence in the countryside.
- ▶ Ensure wholistic development of human resources.
- ▶ Provide modern and responsive financial products and services.
- ▶ Provide innovative and quality lending approaches to agri-business.
- ▶ Forge alliances with financial institutions, government organizations and non-government organizations.

about^{the} COVER

Pera ng Mindanao, Para sa Mindanao

At ONB, our operating philosophy brings to the fore the mission of developing countryside Mindanao. Whatever deposits generated in Mindanao should as much as possible be invested in Mindanao—exactly what we at One Network Bank have been doing.

In our desire to mobilize modern banking services in countryside Mindanao, we put up branches in remote locations that were once perceived as risky and therefore unbanked or underbanked. These branches are equipped with the technology and the package of products and services that were once known to be available only in urban centers. Further, we have identified more than 25 growth areas in Mindanao for additional branches.

In Mindanao, we will remain a rural bank that champions the small accounts culture, but with big banking powers. No other Bank today can lay claim to a more direct commitment to Mindanao.

“Pera ng Mindanao, Para sa Mindanao” is an enduring promise of growth and development for small account clients, farmers, countryside businessmen, stockholders and employees.

FINANCIAL HIGHLIGHTS

2006 Year End Performance

Operating Results (in million pesos)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net Income After Tax	202	119	104
Resources	5,161	4,151	3,085
Net Loans	3,278	2,630	2,047
Deposit Liabilities	3,607	2,988	2,343
Stockholders' Equity	886	704	608
Number of Employees	768	745	651
Number of Branches	64	61	51
Number of ATM Sites	51	40	5

Selected Financial Ratios

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Return on Private Investment	31%	25%	27%
Return on Assets	4%	3%	4%
Risk-Based Capital Adequacy Ratio	19%	21%	22%
Intermediation Ratio	91%	88%	87%
Liquidity Ratio	25%	20%	20%
Expense to Gross Income Ratio	77%	83%	77%
NPL (Non-Performing Loans)	5%	9%	8%
NPA (Non-Performing Assets)	6%	10%	9%

President and Chairman's Message

With blessings from the Almighty, we have enjoyed enduring success. While success is something we already experienced when the 3 constituent banks that made up One Network Bank (ONB) operated as separate entities, we seem to have crossed a point of inflection wherein the stable growth rates we established as individual entities have greatly escalated after we fused our fortunes as a consolidated unit. Since 1 April 2004, we have witnessed the expansion in our resources, deposits, loans as well as stockholders equity of at least 50%. We have given our private stockholders a return of 27% in 2004, 25% in 2005 and 31% in 2006. It seems as though ONB attained the critical mass to metamorphose into perhaps one of the country's fastest growing financial institutions.

Metamorphosis may indeed be the appropriate word. ONB redefined rural banking. New ground was established in terms of points of product and service delivery. Where the rural banking paradigm was a single unit operation, ONB has established a branch network of 65 branches as well as 51 ATMs. Further ground was broken when ONB became the first rural bank to become a member of the MegaLink ATM network as well as the first rural bank to participate in PCHC direct clearing and PhilPaSS, the real-time payments system administered by the Bangko Sentral ng Pilipinas (BSP). With growth came ONB's capacity to serve credit needs that were normally coursed through the commercial banking system.

There are many technical explanations for this enduring success. But we simply attribute this to FOCUS. We set out on this journey with a simple business philosophy: "PERA NG MINDANAO, PARA SA MINDANAO ". While simple, it was a commitment no other financial institution, even among those much bigger than ONB in resources, was prepared to make. And we would like to think that our publics - clients (both big and small), institutional partners, employees, suppliers, regulators and the communities where we operate in - developed confidence in ONB because of this philosophy. And we are extremely pleased to advise our publics that, in recognition of our unwavering commitment to Mindanao, we shall continue to focus our branching in the remaining unserved areas of Mindanao in the next 5 years.

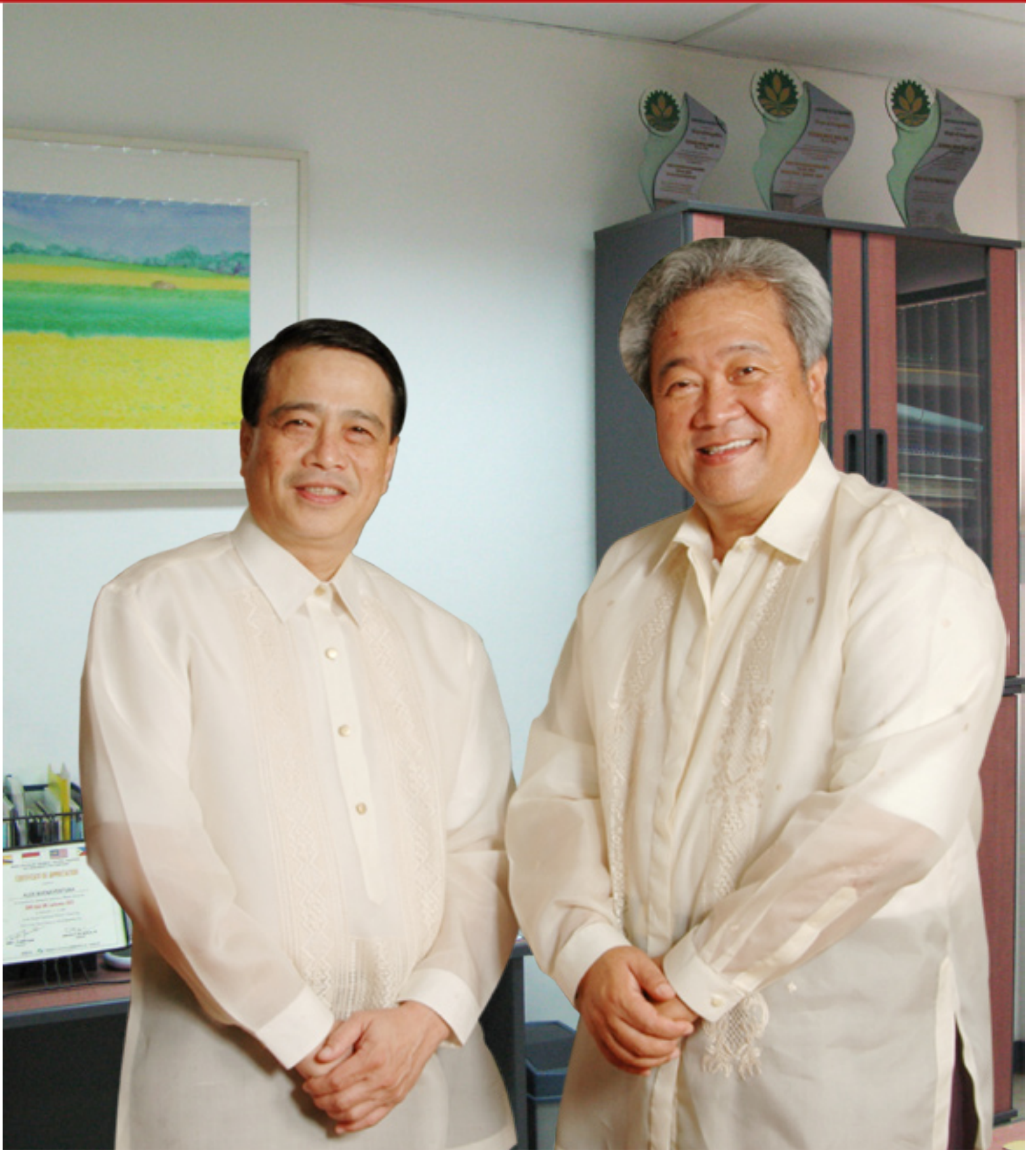
In the next few pages, we outline how ONB has become the life-altering fulcrum of life in Mindanao.

- In agriculture, we have not only provided the small farmer in Mindanao access to capital but also developed entire support systems that will make him productive enough to be an active and responsible participant in the financial system.
- ONB has developed to become a valuable financial portal to Mindanao for large corporations, regional distributorships, financial intermediaries and remittance companies. Our network in Mindanao provides them with the "last mile" to reach the doorsteps of their clientele. For some other rural banks, in fact, ONB has become the "bank of banks".
- ONB has delivered modern banking technology to more homes and offices in Mindanao. Through the platform of real time communications packaged with cutting edge software, rural Mindanao has been brought into the midst of the economic mainstream.

ONB takes pride in increasingly becoming the centerpiece in the rapidly evolving drama of life that is Mindanao. This pride is rooted in ONB's belief that its future is closely bound with how well it lives out its business philosophy, how well it lives and breathes Mindanao.


Alex V. Buenaventura
President


Victor A. Consunji
Chairman



meeting global productivity standards for small farmers



Small farmers are the least benefited sector in Mindanao's economic value chain. Their predicament may be attributed to the limited credit facilities at their disposal. However, the more telling factors on farmer productivity and income are deteriorating yield and quality levels.

In the rollout of agricultural lending programs such as One Rice, One Banana and very soon One Cassava to small farmers and growers, One Network Bank devised a credit facility that bundles lending together with a package of technology designed to bring the Mindanao farmer closer to global production standards. Being production-based, farmers, working closely with farm technicians, work to attain production targets of 150 bags per hectare per harvest for rice and 5,000 boxes of Class A bananas per hectare per year for Cavendish banana.

ONE RICE PROGRAM

Empowering Women Farmers

It was another milestone year for One Rice Program (ORP). In dry season of 2006, a woman emerged as model farmer to surpass the production standard of 150 bags of palay per hectare.

Farmer Arsenia Borja harvested 179 bags of palay that more than doubles her production of 79 bags prior to initial availment with ORP in 2006.

She credits all of these to the low interest rate of the program and the full support of ORP agri-technicians in the field.

This innovative system of rural wealth creation has worked well with compliant farmers. Production levels per hectare increased, crop quality improved and income reached levels that can sustain another cropping cycle and support basic needs. Moreover, the programs' reduced dependence on collateral as a basis for lending, as well as lighter documentary requirements allow small farmers faster access to credit.

The technical support package for farmers is coursed through the Corporative Systems Foundation (Corpo Foundation), a non-profit institution established by ONB precisely for the purpose of improving the productivity of the farmers in Mindanao. Corpo Foundation's technicians are deployed around pre-identified program areas to provide participating farmers with the supervision and advice to bring them closer to the program targets.



ONE BANANA PROGRAM

A retired zone manager of Stanfilco, Joe highly recommends the Bank's One Banana Program. Joe mentioned that ONB's tolerance to bigger loan amounts provides complete grower financing that extends to the lean months and helps achieve production standards in the agriculture of Cavendish bananas.

"I would have been stuck with a 7-hectare banana plantation and may not have expanded to manage 50 hectares of farm lots had I not been financed by ONB."

Jose Daigdigan
One Banana Program Availlee
Kapalong, Davao del Norte Branch



CORE VALUE: MAKADIYOS



accessibility & affordability for
small accounts

ang Mindanao, Para sa Mi



Through the years, ONB has nurtured the growth of its niche market, the small account clients in countryside Mindanao, by keeping its product lines accessible and affordable to them. The Bank's average deposit size of P 9,600 and average loan size of P 43,000 underscore this commitment.

We made banking accessible to many micro-depositors in remote Mindanao given low minimum deposit requirements: P100 only for passbook and ATM savings accounts, P1000 for our time deposit account and P5000 for our checking accounts. The availability of micro-deposit products encouraged many small account clients to avail of the benefits of banking.

We made credit accessible to micro-borrowers by granting as low as P10,000 loan amount, by charging

competitively low interest rates and requiring minimal documents to support loan applications. This has allowed our micro-borrowers to establish profitable enterprises, acquire real estate properties or invest in their children's education.

In the end, our commitment has been rewarded with the loyalty of small account clients. Many of our microfinance borrowers are now high net worth individuals and still continue to bank with us. We have even earned the loyalty of their children, relatives and associates.

This makes small accounts a perpetual market for banking products and services that would surely sustain ONB's growth in the years to come.

SMALL BUSINESS LOAN

Despite her business acumen, Teacher Evelyn, who is a dressed chicken dealer, hardware proprietor and operator of rent-to-own pedicab units, did not have enough capital to pursue bigger ventures. A loan from ONB came just in time to fund the cash bond requirement of a sole distributorship deal with a leading processed meat company for Compostela Valley and Davao Oriental areas.

"I am very grateful to ONB. I was only a dealer before, but now I am a distributor with the help of credit granted by ONB to me."

Evelyn Chew
Mati, Davao Oriental Branch



PINOY PeraAgad ATM DEPOSIT ACCOUNT

A college senior at a Cagayan de Oro university, Am shared how other students often end up with closed ATM accounts due to maintaining balances a regular student can hardly sustain. This is not the case for her PeraAgad ATM Pinoy Savings. The P100 opening amount is really affordable plus minimal documents required to open an account makes it even better. Moreover, her mom can conveniently deposit allowances, tuition and fees to her ATM account with our Butuan branch and the funds are immediately available for withdrawal at any ATM in CDO.

"PeraAgad ATM is very student-friendly"


Am Sherry
Butuan City Branch



CORE VALUE: MAKAMASA



big banking services for countryside businesses

A photograph of a man and a woman in a rice mill. The man, wearing a white short-sleeved shirt, is holding a small amount of white rice in his hands. The woman, wearing a light purple sleeveless top and blue jeans, is smiling and looking towards the camera. They are standing in front of a large pile of rice sacks. In the background, there is a wooden structure and a blue machine, likely part of the rice mill. The lighting is bright, and the overall scene is industrial and agricultural.

“ONB provides me additional liquidity during harvest season for the purchase of palay.”

- Aquilino de Castro
Mlang, North Cotabato
Branch

Much capital is tied up when cavans of palay are stocked from harvest season to off-season but this does not worry rice miller De Castro—who has been banking with us since he started his business in 1997. We have granted him a stand-by credit line for this purpose.

No other Bank knows the intricacies of doing business in the countryside better than One Network Bank. A long history of countryside banking, started out by its progenitor banks, developed for ONB a fervent grasp about things that matter most to countryside businesses.

Call these big banking services. ONB has become a vital component of the countryside's economic value chain by integrating financial firepower and technology to provide value-added banking products such as sweep accounts, Bills Purchase (BP) lines and cash-flow based project financing that support the growing needs of rural-based entrepreneurs.

Big banking provides more security options. Special pick-up deposit arrangements and inter-branch fund transfers provide a practical solution to the burdens of carrying cash collections on the road.

Cash Management Services

For a business enterprise operating in remote Maragusan, CMJ Trading enjoys the big banking services provided by ONB. Owner Maricel speaks highly of the speedy check clearing services, inter-branch fund transfers useful to her cola distribution and coffee trading businesses and the personalized services of her depository bank.

Maricel notes that ONB's presence is enticing more traders, agents and farmers to do business in Maragusan. This draws more people to buy and sell merchandise at her store.

"Managing CMJ Trading is easier with One Network Bank around."

Maricel Colina
Maragusan, Compostela Valley Branch

Big banking creates extended conveniences. Deposited checks now clear faster due to the Bank's participation in PCHC direct clearing while Special Deposit Agreements conveniently consolidate deposited funds from many accounts held in different ONB branches.

Big banking funds larger lines of credit. Multi-million peso credit lines packaged with competitive rates create larger opportunities for business expansion and more funds to sustain working capital requirements given the Bank's large Single Borrower's Limit (SBL) of P168 million.

Now, more than ever, Mindanao resources are employed to support the growth of Mindanao-based businesses.



Inter-branch Fund Transfer Services

For Juliet and husband Boy, ONB's inter-branch and checking facilities come in handy. Copra trading with Davao del Norte buyers is made easy with PeraDala inter-branch. Going cashless is possible through the issuance of ONB checks in transactions with upland farmers and agents.

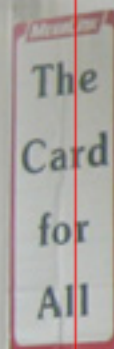
"Many of our upland clients are hesitant to accept checks as payment. Most of them are actually too shy to go inside the bank and transact with tellers; but I've made it a point to educate them on the use of checks and how they can benefit from banking."

Juliet Lim
Lupon, Davao Oriental Branch

CORE VALUE: MARUNONG MAG-IPON



ATMs in remote areas of mindanao



The thought of operating automated teller machines in remote and upland municipalities of Mindanao seemed unthinkable 5 years ago. Many of these locations were thought to be too small or too far to make automated services feasible. Moreover, it seemed impractical then to introduce such technology to a populace that may not be comfortable with transacting through machines.

That was before One Network Bank pursued the idea to pioneer ATM services in the countryside. Using modern communication facilities such as VSAT, the intranet and wireless technology, the Bank installed in 2004 the first ever upland ATM in Maragusan, a municipality in Compostela Valley Province that is 630 meters above sea level, surrounded by steep hills and mountains.

Withdraw payroll anywhere through ONB's wide ATM network

ONB Maharlika branch has served the payroll of Stanfilco-affiliate, Davao Integrated Terminal Facilities, Inc. (DITFI) since 2005.

The ATM-based payroll system of ONB allows the over 200 heavy equipment operators of DITFI to conveniently withdraw salaries at the Bank's on-site ATM even after banking hours.

What's more, the presence of PeraAgad ATMs in Bukidnon, Davao City, Davao del Norte, Compostela Valley and General Santos City provides a more convenient and less costly access to payroll funds for banana plantations based in those areas, particularly in Calinan and remote Maragusan.

Today, ATMs have crossed over from earlier impressions to become a conventional means for a fast and convenient access to cash in remote municipalities. ONB deployed 17 of its ATMs in remote Mindanao locations where no other ATMs operate.

By end 2006, a total of 51 PeraAgad ATMs spanned the countryside, putting ONB in the 8th spot in terms of ATM count against the 21 member-banks of Megalink. Number of cardholders has grown from 20,000 in 2005 to 61,000 at end 2006.

The ATM program decisively improved ONB's client access, a fitting complement to ONB's extensive branch network in Mindanao.



CORE VALUE: MASIGASIG



widest private banking network



The many growth centers of countryside Mindanao have become the focus of ONB's branching agenda, even in the days of its progenitor rural banks. The fervent intent of exclusively investing Mindanao-generated deposits— also in Mindanao, paved the way for the establishment of the widest private banking network in Mindanao, with branches in at least 16 otherwise unbanked locations.

In such municipalities devoid of any banking presence, ONB benefited from first-mover advantages in terms of deposit generation. Overall, the Bank established financial highways linking rural boundaries and facilitating economic exchanges from all over Mindanao.

A specific example is the Bank's inter-branch fund

Saturday Banking

Time is important to businessman Jonathan, who runs a Hardware and Auto Supply. Longer banking hours, full banking services on a Saturday and the 5 Year Time Deposit encouraged him to open an account with ONB.

We were inspired by Jonathan's confidence in ONB. He is convinced of the Bank's stability as it can match deposit rates of commercial banks.

"Saturday Banking is very helpful (to us businessmen). (This is an innovation of ONB). It's just recently that other banks (here) also open during Saturdays."

Jonathan Wee
Zamboanga City-Gov. Lim Branch

transfer facility called PeraDala which allows big processing and trading firms in key cities to safely transfer payments to suppliers and big farmers operating in remote locations that are deemed unserved by domestic remittance firms or by other banks.

Complementing the Bank's wide branch network is its Saturday Banking services that support inter-branch fund transfers on a Saturday and secures the weekend sales of many businessmen as well.

From 65 branches in 2006, ONB plans to put up 25 more branches in the next 5 years in Mindanao's growth centers. The Bank has identified more than 25 potential locations and commits to invest its resources exclusively in Mindanao for the next 5 years.



Sweeping of Funds Made Easy

Granstar Motors is a loyal client of our San Pedro branch since the company started its distribution of Loncin brand motorcycles way back in 2003. With 15 dealers operating all over Mindanao, a special deposit agreement sweeps deposits maintained by GranStar with our different branches to its mother account at our base branch. This facilitates management of receivables, monitoring of transactions and bank reconciliation.

The Bank's wide network of branches in Mindanao, Saturday banking facilities, longer banking hours, ATM and inter-fund transfer facilities keeps Granstar banking with ONB.

CORE VALUE: MAAYOS



THE WIDEST PRIVATE BANKING



70 ONB Branches and 60 Pera Agad AT

NG NETWORK IN MINDANAO



TM Sites

supporting the growth of mindanao's social institutions



NOTRE DAME OF SALAMAN

“With a loan from ONB we were able to expand our (school) building. We are proud of the physical set-up of the school that is unique and outstanding in this area (Lebak), and in this province (Sultan Kudarat).”

- Fr. Antonio Pueyo, President/Director
Notre Dame of Salaman
Lebak, Sultan Kudarat Branch

The successful run of the Bank's retail lending programs generated strong returns that sustained an impressive bottom line for ONB, year after year. Such programs have benefited the employees of vital institutions such as public schools, local government units and also barangays for many years. Most inspiring are the stories of borrowers who used their loan proceeds as seed capital for entrepreneurial ventures.

This time seeking for a more macroscopic distribution of benefits, ONB expanded its core business lines to cater to the funding requirements of social institutions. A bigger single borrower's limit allowed ONB to grant multi-million peso credit lines to private schools for the construction of school buildings and related facilities. This would not only increase enrollees but also enhance educational services due to more organized classrooms and modern facilities to support the learning process.

Enhanced Educational Services Through Infrastructure Expansion

To aid in the improved educational services through developmental incentive loans, ONB funded the completion of a 3-storey building of St. Michael's College of Caraga in Nasipit, as well as its acquisition of computers and other equipment. ONB also financed the construction of a nursing school building of Notre Dame of Tacurong in Tacurong, Sultan Kudarat and a school building of Notre Dame of Lambayong in Lambayong, Sultan Kudarat.

The Bank also extended credit to a hospital to fund building expansion and purchase of modern medical facilities. Through long-term credit support, hospitals can upgrade its facilities to meet health care standards and provide better services to its patients.

In the fervent aspiration of developing countryside Mindanao, ONB faithfully complies with its legal obligation of paying taxes, even making it as the top corporate income taxpayer of 2006 in Davao city, in the hope that its tax payments to the government amounting to P 104 million in 2006, would be channeled to provide more social services and infrastructure in Mindanao.

Social institutions, being vital units of rural communities, are agents of development that rightly deserve the support of Mindanao's fund providers.



Modern Health Care Facilities in the Countryside

From a 70-bed secondary hospital with limited medical facilities, Kidapawan Doctors Hospital (KDH) transformed into a tertiary level health care facility, equipped with modern in-patient rooms and top of the line medical equipment.

ONB is proud of this development. The credit line extended to KDH through our Kidapawan Branch did much to help increase number of beds, expand existing buildings and purchase 2D Echo, Ultrasound and CT Scan facilities.

All these improvements sum up to better health care facilities at the disposal of the people of Cotabato Province.



CORE VALUE: MALIGAYA



portal of remittance companies to rural mindanao



The Bank's extraordinary focus on countryside Mindanao did well to fast track its growth. In its three-year run, ONB emerged as the biggest Mindanao-based financial institution in terms of capital—now close to a billion pesos and on its way to medium term target of attaining the P 2.4 billion minimum capitalization required of commercial banks.

These gains in financial strength did not go unnoticed and in fact stirred the interest of the banking and finance sectors and some key players from other industries. ONB's extensive presence in Mindanao makes it a virtual portal, so to speak, for foreign remittance tie-ups.

Many overseas remittance companies as well as commercial banks without payout offices in remote

Mindanao locations formed remittance distribution tie-ups with ONB to route payout through its wide network of branches. These tie-ups are with:

- UniTeller
- MoneyGram/PeraGram
- BDO
- EPCIB-Xoom
- PNB
- DBP
- iRemit
- RCBC
- AUB
- SBC

In 2006, Security Banking Corporation formed strategic ties with ONB to allow both banks to take advantage of each other's strategic branch networks.

In the end, extraordinary focus and dedication of resources to the countryside created more developmental opportunities in Mindanao.

Receive Foreign Remittances Quickly

Ana's mother in law, a Singapore-based OFW, saw a BDO-ONB remittance tie-up poster at Lucky Plaza Shopping Center in Singapore and suggested that they use the service.

Today, Ana receives her remittances at ONB-Glan branch and is happy about being free from the hassles of claiming remittances in faraway General Santos City.

"I could not believe it when my mother in law told me that she saw One Network Bank in Singapore. I was pretty sure that ONB operates only in Mindanao. That's true. But guess what? She really did see ONB in Singapore."

Ana Rita Gaudicos
Glan, Sarangani Branch



CORE VALUE: MAPAGKAKATIWALAAN



commitment to
stockholders
& **employees**



To the Bank's stockholders, we have consistently delivered returns that surpass industry expectations. Through a clear cut vision, effective resource management and innovative approaches to banking ONB was able to generate impressive bottom lines which resulted in higher than average earnings per share. And as a matter of policy reinforcing this unequivocal commitment to its institutional growth, ONB has decided to convert all earnings into capital by only declaring stock dividends effective this year. ONB stockholders wishing to convert their shareholdings into cash avail of the services of the **Intra-Stock Exchange System (ISES)**, an innovative way of facilitating internal trading of ONB shares among its private common stockholders.

Moreover, we have consistently issued dividends to stockholders year after year and declared **P 171.4 million worth of cash and stock dividends in 2006**—the largest dividend issuance in Philippine rural banking history.

To the Bank's human resources, we have incessantly looked after their welfare and growth. The Bank installed an in-house health care facility called **NetCare** to administer to each employee's health care needs. Apart from providing industry-competitive compensation packages, employees also receive monthly performance bonuses. Career-wise, it has been an enduring policy of the bank to fill out branch management positions with personnel from the ranks rather than pirate from other banks. This policy is supported by a well-structured set of training programs designed to upgrade the skills of deserving personnel.

A set of core values likewise provides a guidebook that helps cultivate a culture that would embody its human resource. These core values are: MakaDiyos, MakaMasa, Marunong Mag-ipon, Mapagkakatiwalaan, Masigasig, Malusog, Maayos and Maligaya.



CORE VALUE: MALUSOG



board of directors



Victor A. Consunji
Chairman



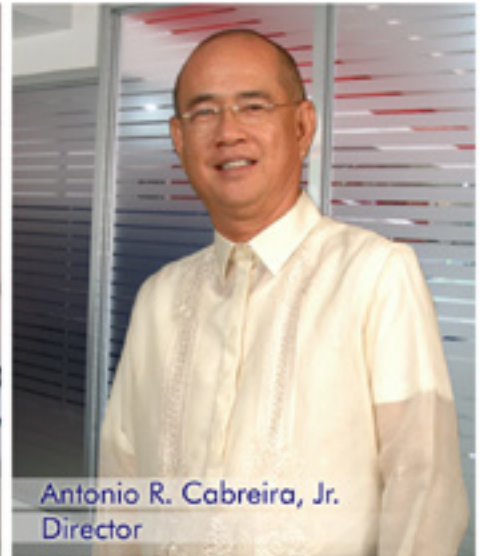
Alex V. Buenaventura
President



Antonio P. Avelino
Vice-Chairman



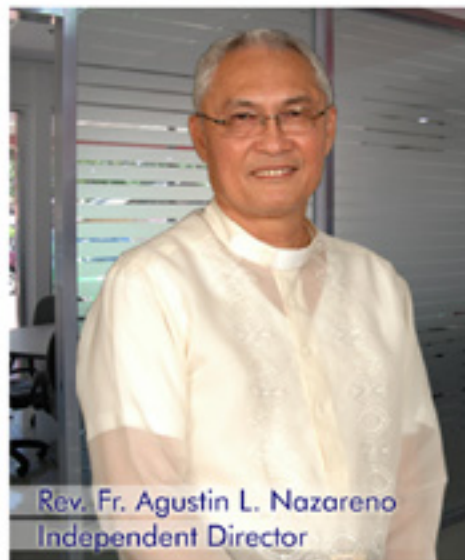
Luz Consuelo A. Consunji
Director



Antonio R. Cabreira, Jr.
Director



Alejandro I. Alcantara
Independent Director



Rev. Fr. Agustin L. Nazareno
Independent Director



Atty. Jose M. Balingit, Jr.
Corporate Secretary

council of advisers



from left: Jose V. Buenaventura, Dr. Edgardo V. Buenaventura, Armando S. Yambao, Melecia C. Avanceña, Rev. Fr. Jessie S. Esparagoza, Elpidio F. Masbad, III, Edgardo S. Lagman

executive committee



Antonio P. Avelino
Member

Alex V. Buenaventura
Chairman

Antonio R. Cabrera, Jr.
Member

Statement of Management's Responsibility for Financial Statements


The Management of One Network Rural Bank, Inc. is responsible for all information and representations contained in the financial statements for the year ended December 31, 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 management likewise discloses to the company's audit committee and to its external auditor: (i) all insignificant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

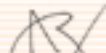
The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the financial statements of the company in accordance with Philippine Financial Reporting Standards and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

Signed under oath by the following:


VICTOR A. CONSUNJI
Chairman of the Board


ANTONIO P. AVELINO
Vice Chairman of the Board


ALEX V. BUENAVENTURA
President

Report of Independent Auditors

The Board of Directors One Network Bank, Inc.

We have audited the accompanying financial statements of One Network Rural Bank, Inc., which comprise the statements of condition as at December 31, 2006 and 2005, and the income statements, statements of changes in equity and cash flow statements for the years then ended, and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the 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 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 One Network Rural Bank, Inc. as of December 31, 2006 and 2005, and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Punongbayan & Araullo


By: Ramilito L. Nañola
Partner
CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 0267686, January 2, 2007, Makati City
SEC Accreditation No. 0395-A
BIR AN 08-002511-19-2006 (Sept. 8, 2006 to 2009)

April 11, 2007

ONE NETWORK RURAL BANK, INC.
STATEMENTS OF CONDITION

DECEMBER 31, 2006 AND 2005

(Amounts in Philippine Pesos)

	Notes	2006	2005
RESOURCES			
CASH AND OTHER CASH ITEMS	4	P 252,004,647	P 123,737,642
DUE FROM BANGKO SENTRAL NG PILIPINAS	4, 5	42,362,976	58,356,105
DUE FROM OTHER BANKS	4, 6	608,774,054	418,250,578
HELD-TO-MATURITY INVESTMENTS	8	339,822,532	412,473,949
LOANS AND RECEIVABLES - net	7	3,387,085,146	2,639,754,739
INVESTMENT IN AN ASSOCIATE	9	7,953,589	8,453,589
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - net	10	374,980,695	327,104,265
INVESTMENT PROPERTIES - net	11	18,063,601	21,359,827
OTHER RESOURCES - net	12	130,076,509	141,782,684
TOTAL RESOURCES		P 5,161,123,749	P 4,151,273,378
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	14	P 3,607,368,691	P 2,987,585,924
BILLS PAYABLE	15	460,630,022	275,458,624
ACCRUED EXPENSES, DEFERRED CREDITS AND OTHER LIABILITIES	16	207,500,872	183,911,867
TOTAL LIABILITIES		4,275,499,585	3,446,956,415
EQUITY	17	885,624,164	704,316,963
TOTAL LIABILITIES AND EQUITY		P 5,161,123,749	P 4,151,273,378

See Notes to Financial Statements.

ONE NETWORK RURAL BANK, INC.
INCOME STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

(Amounts in Philippine Pesos)

	Notes	2006	2005
INTEREST INCOME ON			
Loans		P 599,730,165	P 481,489,787
Deposits with banks		22,026,411	13,317,313
Investments		36,850,177	27,308,525
		<u>658,606,753</u>	<u>522,115,625</u>
INTEREST EXPENSE ON			
Deposit liabilities		87,629,524	92,244,735
Bills payable		32,048,480	16,903,423
		<u>119,678,004</u>	<u>109,148,158</u>
NET INTEREST INCOME		538,928,749	412,967,467
IMPAIRMENT LOSSES	13	11,603,259	30,705,830
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		527,325,490	382,261,637
OTHER INCOME			
Service charges, fees and commissions		202,651,176	155,114,621
Others	19	16,712,246	10,043,092
		<u>219,363,422</u>	<u>165,157,713</u>
OTHER EXPENSES			
Compensation and employee benefits	20	168,712,885	151,503,266
Occupancy and equipment related expenses		94,377,081	76,301,655
Security, messengerial and janitorial services		37,133,477	28,779,755
Transportation and travel		27,028,537	19,398,313
Stationery and supplies		16,869,156	14,740,431
Communications, telephone and telegraph		14,494,102	15,623,986
Taxes and licenses		13,514,900	8,895,076
Others	19	65,999,178	60,396,384
		<u>438,129,316</u>	<u>375,638,866</u>
INCOME BEFORE TAX		308,559,596	171,780,484
TAX EXPENSE	21	106,431,615	52,713,409
NET INCOME	22	P 202,127,981	P 119,067,075
Earnings Per Share:			
Basic		<u>P 0.312</u>	<u>P 0.242</u>
Diluted		<u>P 0.312</u>	<u>P 0.242</u>

See Notes to Financial Statements.

ONE NETWORK RURAL BANK, INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Amounts in Philippine Pesos)

	Notes	2006	2005
CAPITAL STOCK	17	P 648,094,212	P 497,591,868
PAID-IN SURPLUS	17	21,491,577	105,854,701
SURPLUS	17		
Balance at beginning of year		100,870,394	102,044,051
Stock dividends		(65,700,000)	(97,000,000)
Conversion of preferred private shares		(13,960,000)	-
Cash dividends		(7,300,000)	(23,240,732)
Net income		202,127,981	119,067,075
Balance at end of year		216,038,375	100,870,394
TOTAL EQUITY		P 885,624,164	P 704,316,963

See Notes to Financial Statements.

ONE NETWORK RURAL BANK, INC.
CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Amounts in Philippine Pesos)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before tax	P 308,559,596	P 71,780,484
Adjustments for:		
Depreciation and amortization	47,425,360	37,929,333
Impairment losses	11,603,259	30,705,830
Amortization of deferred charges	4,513,365	9,832,315
Operating income before changes in resources and liabilities	372,101,580	250,247,962
Increase in loans and receivables	(758,933,666)	(652,096,316)
Decrease (increase) in other resources	16,686,862	(42,274,460)
Increase in deposit liabilities	619,782,767	645,044,102
Increase in accrued expenses, deferred credits and other liabilities	5,782,882	80,133,958
Cash generated from operations	255,420,425	281,055,246
Cash paid for income taxes	(98,119,544)	(66,606,985)
Net Cash From Operating Activities	157,300,881	214,448,261
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in bank premises, furniture, fixtures and equipment	(95,301,790)	(93,567,393)
Decrease (increase) in held-to-maturity investments	72,651,417	(201,503,662)
Net decrease in investment properties	3,296,226	2,836,835
Decrease in investment in an associate	500,000	2,850,000
Net Cash Used in Investing Activities	(18,854,147)	(289,384,220)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in bills payable	185,171,398	240,458,624
Retirement of preferred private shares	(13,960,000)	-
Dividends paid	(7,300,000)	(23,243,209)
Proceeds from issuance of capital stocks	439,220	-
Net Cash From Financing Activities	164,350,618	217,215,415
NET INCREASE IN CASH AND CASH EQUIVALENTS	302,797,352	142,279,456
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	600,344,325	458,064,869
CASH AND CASH EQUIVALENTS AT END OF YEAR	P 903,141,677	P 600,344,325

Supplemental Information on Non-Cash Financing Activities

The Bank retired its preferred private shares amounting to P13,960,000 and converted the same into common shares (see Note 17).

In 2005, the Bank declared cash dividends to its common and preferred private stockholders amounting to P21,000,000 and P2,240,732, respectively, of which P936,757 remain unpaid as of December 31, 2005 (see Note 17).

See Notes to Financial Statements.



One Network Bank

Head Office

Km. 9, Sasa, Davao City, Philippines

Telephone: (082) 234 3759 / 233 1000 / 234 3631

Fax No.: (082) 234 1255

Email: onrbi@onenetworkbank.com.ph