SEC Number AS 093000120
File Number ______________

FORUM PACIFIC, INC.
(Formerly: Air Philippines International Corp.)

(Company's Full Name)

22F Citibank Tower, 8741 Paseo de Roxas, Makati City

(Company's Address)

848-0848

(Telephone Number)

DECEMBER 31

(Fiscal Year Ending)
(month & day)

FORM 17-Q

Form Type

Amendment Designation(If Applicable)

June 30, 2005

Period Ended Date

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF CORPORATION CODE OF THE PHILIPPINES

1. For the quarterly period ended June 30, 2005

2. SEC Identification number AS 093000120   3. BIR Tax Identification No. 312-002-155-598

4. Exact name of registrant as specified in its charter : FORUM PACIFIC INC.

PHILIPPINES
5. Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (SEC Use Only)

22/F CITIBANK TOWERS, 8741 PASEO DE ROXAS ST., MAKATI CITY   1226
7. Address of registrant's principal office   Postal Code

(0632) 848-08-48
8. Registrant's telephone number, including area code

9. Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares- P1.00 par value	Issued - 819,355,920 Subscribed - 1,055,644,080 (Subscription receivable - P668,382,040)

11. Are any or all of the securities listed on the Philippine Stock Exchange?
Yes [x]   No [ ]

12. Indicate by check mark whether the registrant:
(a) has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports)
Yes [x]   No [ ]

(b) has been subject to such filing requirements for the past 90 days.
Yes [x]   No [ ]

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

See Annex A.1 to A..5

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following table shows the comparative interim financial statements of the Company for the period ending June 30, 2005 and 2004.

Comparative Income Statement

	June 2005	June 2004
	Amount	Amount
Revenues	**6,557,226**	8,617,672
Less: Cost and Expenses	**12,447,583**	15,384,855
Income (Loss) From Operations	**-5,890,357**	-6,676,183
Less: Finance Costs	**5,067,240**	2,474,319
Income(Loss) before Minority Interest	**-10,957,597**	-9,241,502
Minority Interest	**4,400,136**	3,393,850
Net Loss	**-6,557,461**	-5,847,652
Earnings (Loss) Per Share	**-0.00356**	-0.00318

- **Comparative Balance Sheet**

	2005	2004
	Amount	Amount
ASSETS		
Current Assets	**66,615,339**	87,156,591
Real and other properties owned or acquired	**72,464,274**	64,103,529
Investment In and advances to affiliates	**798,562,655**	818,326,387
Other Investments	**1,193,028**	1,192,949
Property and Equipment	**1,048,902**	2,337,757
Other Assets	**5,080,683**	15,540,651
Total Assets	**944,964,881**	988,657,864
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities	**164,549,011**	180,447,880
Non Current Liabilities	**4,372,818**	4,372,818
Minority Interest	**-6,301,764**	-3,366,976
Capital Stock	**1,206,617,960**	1,206,537,960
Retained Earnings	**-364,261,996**	-339,824,635

Treasury Stock	**-34,605,596**	-34,605,596
Total Stockholders' Equity	**782,344,816**	807,204,142
Total Liabilities & S/H Equity	**944,964,881**	988,657,864

<u>Interim ended June 30, 2005 as compared with interim ended June 30, 2004</u>

RESULTS OF OPERATION

Revenues and Earnings per share

- Revenues decreased by 23.91%, from Php8.6 million to Php6.6 million. The bulk of the company's revenues were derived from the interest income earned by Express Savings Bank from loans and the decrease was due to lower collection of interest on loans. This was the result of increasing level of non-performing loans.

- The company incurred loss of P6.56 million in June 2005, whereas last year of the same period the loss incurred was P5.8 million an increase in loss of P.71 million. Loss per share increased by P0.000318 or 11.95% from -P0.00318 to -P0.003560.

Cost and Expenses

-Cost and expenses consisted primarily of compensation and fringe benefits, depreciation and amortization, office rentals, professional fees, taxes and licenses, membership dues and subscriptions and representation expenses. Cost and expenses decreased by 19%, from Php15.38 million to Php12.45 million, however there was an increase in finance cost by Php2.6 million.

FINANCIAL CONDITION

Current Assets

-Current assets decreased by Php20.54 million due to decrease in loans and discounts and decrease in deposit in other banks of the subsidiary, Express Savings Bank since funds were used to finance operating cash requirements of the bank.

Real and other properties owned or acquired

-This account consists mainly of residential lots and residential houses and lots which are all located in Laguna. To secure the loans in case of debtor's non-payment, the Bank requires that loans be backed-up with chattel mortgages. Once the debtors default on its loan payments, the debtors are required to surrender the mortgaged assets to the Bank. These assets are booked under this account. There was an increase in this account by Php8.36 million due to foreclosed properties.

Investments in and advances to affiliates

- The decrease of 2% amounting to Php19.76 million in this account was due to permanent impairment in value of investment in Petrocorp.

Other investments

- This represents investments in treasury bonds and government security amounting to Php1.192 million in 2004 and Php1.193 in 2005; the increase was due to interest.

Property and equipment

- This account consists of land and bank premises, furniture and equipment, transportation equipment, and leasehold improvement. The decrease was due to disposal of furniture and equipment by the bank ESBI.

Other assets

- This primarily consists of the deferred taxes, deferred charges and accrued interest receivable; the decrease of Php10.46 million was due to increase in allowance for probable losses.

Current liabilities

- This primarily consists of time, savings, and demand deposit liabilities and bills payable to Bangko Sentral ng Pilipinas(BSP) and Land Bank of the Philippines. There was a decrease amounting to Php15.9 million or 8.81%. The decrease was due to decrease in accrued taxes, interest and other liabilities, however there was an increase in deposit liabilities due to bank deposit campaign promo.

Capital stock

- The change of P80,000 in the Capital stock was due payment of subscription.

Revaluation Increment

- The sale of the FEI shares does not included the rig which is an asset of FEI. FEI had the rig appraised in 2003 by an appraisal company accredited with the SEC, whose report dated June 30, 2003 showed a revaluation increment of P30,702,000. The company's share in the revaluation increment amounted to P10,234,00.

The financial performance indicators of the Bank required under BSP Circular No. 212 are as follows:

	2005	2004
Return on average equity		
= Net income after income tax x100 / Average total capital accounts	**668.3%**	- 69.03%
Return on average assets		
= Net income after income tax x 100 / Average total assets	**- 6.53%**	- 4.58%
Net interest margin		
= Net income after income tax x 100 / Average interest earning assets	**- 1.94%**	- 2.13%

Return on Average Equity measures the mount the bank earned on the owners' investment. It is an important indication of the bank's profitability because it determines how well the bank is performing with the investment contributed by its owners.

Return Average Assets measures the operating efficiency. It indicates how well the bank's management has used the asset under its control to generate income. The bank would be more profitable if its assets would be used in a more productive or efficient manner

Net Income Margin measures how well the bank is managing its interest earning assets or loans.

The top five (5) key performance indicators are:

a). Loans – Decrease in loans and discounts by Php4.8 million due to partial payment and transfer of accounts to ROPOA due to foreclosure.

b). Deposit – Overall deposit generated, increased by Php2.6 million compared to the same period of last year due to the bank deposit campaign promo.

c). Income – The bank's operations remained at a loss due to lower collection of interest on loans as a result of increasing past due accounts.

d). Liquidity Reserve Position – The bank's liquidity and reserve positions as required by the Bangko Sentral ng Pilipinas was complied.

e). Capital – The bank's capital position is below the minimum requirement by BSP. However, the bank has submitted a capital build-up program in order to attain the required capital.

OTHERS

Discussion and analysis of material event/s and uncertainties known to management that would address the past and would be an impact on future operations of the following:

a. Any known trends, demands, commitments, events or uncertainties that will have a material impact on the issuer's liquidity.

   - The bank's liquidity position remained healthy considering that it is able to meet the minimum requirements of the Bangko Sentral ng Pilipinas.

b. Any event that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

   - Non infusion of the required capital may result to monetary penalties to be imposed by the Bangko Sentral ng Pilipinas.

c. Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.

   - None

d. Any significant elements of income or loss that did not arise from the issuer's continuing operations.

   - None

e. Any seasonal aspects that had a material effect on the financial condition or results of operations.

   - None

PART II--OTHER INFORMATION

Reports on SEC Form 17-C

There are no disclosures not made under SEC Form 17-C during the 2nd quarter of 2005.

SIGNATURES

Pursuant to the requirements of the Revised Securities Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant **PETER S. SALUD**
Title President/CEO

Signature ....

Date............................

Principal Financial/Accounting Officer/Controller **CLEOFE V. CANETE**
Title Chief Finance Officer

Signature ....CVCanete....
Date ....11/10/05....

FORUM PACIFIC, INC. Annex A.1

COMPARATIVE CONSOLIDATED BALANCE SHEETS(Unaudited)

AS OF JUNE 30, 2005

	June 30,2005	June 30, 2004	(Audited) Dec. 31, 2004
ASSETS			
CURRENT ASSETS			
Cash & cash equivalents	4,380,201	2,664,204	1,566,846
Due from the Bangko Sentral ng Pilipinas	7,781,791	8,188,232	7,792,786
Due from local banks	10,716,203	31,071,500	8,650,867
Receivables-net	17,525	17,525	17,525
Loans and discounts-net (Note 4)	43,719,619	45,215,130	40,950,275
Other current assets	-	-	-
Total Current Assets	66,615,339	87,156,591	58,978,299
NON-CURRENT ASSETS			
Real and other properties owned and acquired (Note 5)	72,464,274	64,103,529	73,865,540
Investments in and advances to affiliates (Note 6)	798,562,655	818,326,387	799,577,321
Other investments (Note 7)	1,193,028	1,192,949	1,189,987
Property and equipment (Note 8)	1,048,902	2,337,757	1,837,191
Other assets (Notes 9)	5,080,683	15,540,651	5,139,781
Total Non-Current Assets	878,349,542	901,501,273	881,609,820
	944,964,881	988,657,864	940,588,119
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Deposit liabilities (Note 11)	149,794,740	147,237,472	135,062,931
Bills Payable (Note 12)	3,063,754	3850708	3,899,730
Accounts payable and accrued expenses	1,368,378	903,603	1,408,123
Accrued taxes, interest and other liabilities (Note 13)	10,322,139	28,456,097	9,036,175
Total Current Liabilities	164,549,011	180,447,880	149,406,959
NON-CURRENT LIABILITIES			
Accrued retirement benefits	4,372,818	4372818	4,372,818
Deposit for future substription	-	-	
Due to affiliates	-	-	
Total Non-Current Liabilities	4,372,818	4,372,818	4,372,818
	168,921,829	184,820,698	153,779,777
MINORITY INTEREST	(6,301,764)	(3,366,976)	(1,932,773)
STOCKHOLDERS' EQUITY			
Capital stock	1,206,617,960	1,206,537,960	1,206,617,960
Revaluation increment	10,234,000	10,234,000	10,234,000
Net Unrealized loss on decline in value of investment	(35,639,552)	(35,137,587)	(35,639,552)
Deficit	(364,261,996)	(339,824,635)	(357,865,697)
	816,950,412	841,809,738	823,346,711
Less: cost of treasury shares	(34,605,596)	(34,605,596)	(34,605,596)
	782,344,816	807,204,142	788,741,115
	944,964,881	988,657,864	940,588,119

Annex A.2

FORUM PACIFIC, INC.
COMPARATIVE CONSOLIDATED STATEMENTS OF OPERATIONS
AND RETAINED EARNINGS(Unaudited)
FOR THE PERIOD ENDED JUNE 30, 2005

	April-June,2005	April-June,2004	Jan.-June,2005	Jan.-June,2004
REVENUES	1,952,804	2,418,491	3,867,313	6,818,907
Other Income				
Profit(loss) from assets sold/acquired	508,331	-	1,209,257	170,114
Service charges and fees	562,684	666,520	1,168,563	1,271,047
Miscellaneous income	158,684	314,494	312,093	357,604
	1,229,699	981,014	2,689,913	1,798,765
COST AND EXPENSES (Note 14)	6,161,381	9,177,772	12,447,583	15,384,855
Interest Expense	2,483,066	-	5,067,240	2,474,319
INCOME(LOSS) BEFORE MINORITY INTEREST	(5,461,944)	(5,778,267)	(10,957,597)	(9,241,502)
MINORITY INTEREST	2,224,322	2,290,218	4,400,136	3,393,850
NET INCOME(LOSS)	(3,237,622)	(3,488,049)	(6,557,461)	(5,847,652)
RETAINED EARNINGS AT BEG. OF THE YEAR			(357,865,697)	(333,976,983)
PRIOR PERIOD ADJUSTMENTS			161,163	0
			(357,704,534)	(333,976,983)
RETAINED EARNINGS AT THE END OF PERIOD			(364,261,995)	(339,824,635)
EARNINGS PER SHARE (Note 17)	P (0.00176)	P (0.00190)	P (0.00356)	P (0.00318)

FORUM PACIFIC, INC. Annex A.3

COMPARATIVE CONSOLIDATED STATEMENT OF CASH FLOWS(Unaudited)

FOR THE PERIOD ENDED JUNE 30, 2005

	June 30,2005	June 30,2004	(Audited) Dec. 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income(Loss) before tax	(10,796,435)	(9,241,502)	(5,433,498)
Adjustments for:			
Depreciation and amortization	384,020	859,391	1,467,206
Loss from sale of investment			-
Permanent decline in value of investment			10,510,194
Gain on sale of bank premises, furnitures and equipment			(18,497,254)
Amortization/write off of goodwill			-
Interest income			(17,567,124)
Interest expense			10,947,244
Equity in net losses of investee companies-net			-
Provision for probable losses	-		-
Prior period adjustments			-
Revaluation increment			
Operating income(loss) before working capital changes	(10,412,415)	(8,382,111)	(18,573,232)
Decrease (increase)Due from Bangko Sentral ng Pilipinas			-
Decrease (increase)Due from local banks			-
Decrease (increase)Receivables-net			-
Decrease (increase)Loans and discounts	(2,769,344)	(3,879,497)	3,884,698
Decrease (increase)Drilling materials inventories			-
Decrease (increase)Other current assets	-	-	-
Decrease (increase)in Deposit liabilities	14,731,809	12,436,998	262,457
Accrued retirement benefits			-
Decrease(increase)Accounts payable and accrued expenses	(39,745)	103,387	607,907
Decrease(increase)Accrued taxes, interest and other liabilities	1,285,964	20,573,126	(17,811,689)
Decrease(increase)Other assets			-
Cash generated from (used in) operations	2,796,269	20,851,903	(31,629,859)
Interest paid		-	(10,485,785)
Interest received		-	11,562,126
Income tax paid		-	-
Net cash provided by (used in) operating activities	2,796,269	20,851,903	(30,553,518)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in real and other properties owned or acquired	1,401,266	831,997	(10,815,525)
Decrease (increase) in marketable securities			-
Net disposal(acquisition of) property and equipment	417,840	101,008	18,857,748
Decrease(increase) in investments in and advances to affiliates	1,045,811	(20,724,312)	3,052,619
Decrease(increase) in other assets	42,486	3,874,157	340,957
Decrease(increase) in other investments			10,013
Decrease(increase) in deposit from future subscription			-
Reduction of deferred exploration costs			-
Net cash provided by (used in) investing activities	2,907,403	(15,917,150)	11,445,812
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase(decrease) in due to affiliates			
Increase(decrease) bills payable	(835,976)	(49,022)	-
Proceeds from issuance of capital stock			80,000
Increase(decrease) in equity of minority stockholders of ESBI			-
Net cash provided by(used in) financing activities	(835,976)	(49,022)	80,000
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	4,867,696	4,885,731	(19,027,706)
CASH AND CASH EQUIVALENTS, January 1	18,010,499	37,038,205	37,038,205
CASH AND CASH EQUIVALENTS, June 30	22,878,195 *	41,923,936	18,010,499

*cash & cash equivalent includes:

cash	4,380,201
Due from Banko Central ng Pilipinas	7,781,791
Due from local banks	10,716,203
Total	22,878,195

FORUM PACIFIC, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended June 30, 2005 and 2004

	June-05	**June-04**
Capital Stock	**1,206,617,960**	1,206,537,960
Additional capital stock	**0**	0
Treasury Shares	**(34,605,596)**	(34,605,596)
Revaluation Increment	**10,234,000**	10,234,000
Net unrelized loss on decline in value od investment	**(35,639,552)**	-35137587
Retained Earnings, Beginning	**(357,865,697)**	(333,976,983)
Prior Period Adjustments	**161,163**	
Net Loss	**(6,557,462)**	(5,847,652)
Retained Earnings, End	**(364,261,996)**	(339,824,635)
Total	**782,344,816**	807,204,142

FORUM PACIFIC, INC.
AGING OF RECEIVABLES
As of June 30, 2005

Particulars	Balance As of 6/30/05	0-30 days	31-60 days	61-90 days	91-120 days	120 days & over
CURRENT						
Accounts Receivable - Others(SSS)	10,800					10,800
Sub-total	10,800	-	-	-	-	10,800
RECEIVABLE FROM AFFILIATES						
Waterfront	6,725					6,725
Sub-total	6,725	-	-	-	-	6,725
TOTAL RECEIVABLES	17,525	-	-	-	-	17,525

FORUM PACIFIC, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 – Organizational Information

FORUM PACIFIC, INC. or FPI is a company incorporated in the Philippines with principal office at the 22nd floor of Citibank Towers, Paseo de Roxas, Makati City.

The shares of FPI are listed and traded in the Philippine Stocks Exchange or PSE. Formerly known as Air Philippines International Corporation, FPI was registered to engage in investing, purchasing and acquiring assets of any kind and description with the secondary purpose of engaging in the exploration, development and production of petroleum and related products, as well as other mineral and chemical substances. It is presently a holding company, owning shares of stocks of an exploration company, a thrift bank and other companies. Its subsidiary, Express Savings Bank, Inc. (ESBI), referred in this report as "the Bank", is registered as a savings and loan association authorized under Republic Act No. 3779 to engage in the business of granting loans, receiving deposits from the general public and paying interest on such deposits as may be prescribed under regulations approved by the Monetary Board from time to time. In 2003, the Board of Directors resolved to convert the Bank's license into that of a rural bank, under the provisions of the General Banking Act of the Republic of the Philippines.

The Bank has suffered continued losses and has a deficit of P4.4 million as of December 31, 2004. However, management has developed plans and programs including infusion of fresh funds by the majority owners and or new investors to improve operations and financial condition and obtain profitable results as fully disclosed in Note 2.

On March 11, 2003, Forum Energy Corp. (formerly Tracer Petroleum Corporation), a company organized in Canada, entered into a Share Purchase Agreement ("SPA") with FPI and Mullins Group/Eastmark Limited for the purchase of 66 2/3% of the issued and outstanding shares of Forum Exploration, Inc. (FEI), a company organized under the laws of the Philippines.

FPI and its subsidiary bank has 39 and 40 employees as of December 31, 2004 and 2003, respectively.

Note 2 - Basis of Consolidation and Financial Statement Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the Philippines and under the historical cost convention.

The consolidated financial statements include the accounts of FPI, the Parent Company, and ESBI in 2005 and 2004, collectively known as the Company.

Name of Subsidiary	Principal Activity	Percentage of Ownership
ESBI	Thrift banking	56

Subsidiaries are consolidated from the date when control is exercised by FPI and are excluded from consolidation from the date FPI ceases to have control over it.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses, are eliminated. However, unrealized losses for which the costs cannot be recovered are excluded from elimination.

Investment in ESBI

In 2003, the Board of Directors resolved and authorized the Bank to convert its thrift bank license to that of a rural bank, under the provisions of the General Banking Act.

The Bank has been experiencing continuing operating losses, slowdown in the collection of receivables and sale of acquired assets and deficiency in working capital. The Bank has a capital deficiency of P4,392,667 as at December 31, 2004. These factors, among others, indicate that the Bank may be unable to continue as a going concern.

Further, the BSP, in its regular examination as of June 30, 2004, directed the Bank to infuse capital funds of at least P71.373 million to meet the P52 million minimum capital requirements for thrift banks located outside Metro Manila or at least P33.311 million to meet the P6.5 million minimum capital requirement for rural banks, as the case maybe; and to maintain its capital adequacy ratio of at least 10%.

Under BSP Circular 181, those banks failing to comply with the minimum capital requirements are required to execute a Memorandum of Undertaking (MOU) setting forth the prompt corrective action program and viable capital restoration plan to be implemented. In compliance with the said circular, the Bank entered into a MOU with the BSP on October 9, 2003.

The salient feature of the MOU is the capital build up plan which involves income-generating schemes and cost- savings measures to improve operations, sale of acquired assets and infusion of fresh funds by the majority owners and/or new investors. The Bank was given up to March 31, 2005 to comply with the said capital requirement. On March 21, 2005, the Bank requested for an extension until June 30, 2005 to comply with the minimum capital requirement.

As instructed by BSP, the Bank reversed all entries made in 2003 in relation to the alleged sale of the property occupied by the head office until such time that the Bank has complied with the submission of all the required documents and explanations that will prove the validity of the transaction.

Note 3 – Summary of Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis in accordance with applicable Statements of Financial Accounting Standards/International Accounting Standards (SFAS/IAS) issued by the Accounting Standards Council (ASC) of the Philippines.

The Accounting Standards Council has been adopting the International Accounting Standards (IAS) issued by the International Accounting Standards Committee or IASC. The International Accounting Standards Board or IASB has assumed from the IASC the responsibility for setting the IAS. The standards issued by the IASB are designated as International Financial Reporting Standards or IFRS. The IAS issued by the IASB have been adopted and have been improved by the IASC for the full adoption of IFRS effective January 1, 2005.

The ASC has renamed the new standards "Philippine Accounting Standards" or PAS and "Philippine Financial Reporting Standards" or PFRS to correspond with those adopted by the IASB.

The accounting policies adopted are consistent with those of the previous year except that, the Company has adopted the following accounting standards effective beginning January 1, 2004:

> PAS 12, "Income Taxes," which prescribes the accounting treatment for current and deferred income taxes requiring the use of a balance sheet liability method for deferred income taxes and the recognition of a deferred tax liability and, subject to certain conditions, asset for all temporary differences with certain exceptions.
>
> It also provides for the recognition of a deferred tax asset when it is probable that taxable income will be available against which the deferred tax asset can be used, and the recognition of a deferred tax liability with respect to asset revaluation.
>
> PAS 17, "Leases," which prescribes the accounting policies and disclosure to be applied to finance and operating leases. Finance leases are those that transfer substantially all risk and rewards of ownership to the lessor. The standard provides certain guidelines on assessing whether leases on similar agreements would qualify as finance lease. The adoption of this standard leads to the disclosures in Note 22 to the financial statements.

The Accounting Standards Council (ASC) has approved the following accounting standards, which will be effective subsequent to 2004:

> PAS 19, "Employee Benefits", prescribes the accounting and disclosure for employee benefits (all forms of consideration given by an enterprise in exchange for service rendered by employees). The principle underlying all of the detailed requirements of the Standard is that the cost of providing employee benefits should be recognized in the period in which the benefit is earned by the employee, rather than when it is paid or payable.
>
> PAS 32, "Financial Instruments, Disclosures and Presentation", prescribes the requirements for the presentation of financial instruments and identifies the information that should be disclosed about them. The presentation requirements apply to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and liabilities should be offset. The standard requires disclosure of information about factors that affect the amount, timing and certainty of an entity's future cash flows relating to financial instruments and the accounting policies applied to those instruments. This standard also requires disclosure of information about the nature and extent of an entity's use of financial instruments, the business purposes they serve, the risks associated with them, and management policies for controlling those risks
>
> PAS 39, "Financial Instruments: Recognition and Measurement", prescribes the principles for recognizing, measuring, and disclosing information about financial assets and financial liabilities. PAS 39 supplements the disclosure provision of PAS 32, Financial Instruments: Disclosure and Presentation.
>
> PAS 40, "Investment Property," which prescribes the measurement in a lessee's financial statements of investment property held under a finance lease and with the measurement in a lessor's financial statements of investment property leased out under an operating lease.
>
> PFRS 3, "Business Combination," which will result in the cessation of amortization of goodwill and a requirement for an annual test for goodwill impairment. Any resulting negative goodwill after performing reassessment will be credited to income. Moreover, pooling of interests in accounting for business combination will no longer be permitted.

The following accounting policies have been applied:

<u>Revenue Recognition</u>
Interest is recognized by the Parent Company on a time proportion basis that takes into account the effective yield on the assets.

Unearned discount of the subsidiary bank is recognized as income over the term of the loans using the interest method. Interest income on nondiscounted loans is accrued as earned, except in the case the past due accounts as required by the existing regulations of the Bangko Sentral ng Pilipinas (BSP). Interest income on these past due accounts is recognized upon actual collection. Loan fee income that represents an adjustment of yield on respective loans, if any, is included in interest income on loans in the statements of operations. Service charges and fees are recognized only upon collection or accrued where there is reasonable degree of certainty as to collectibility.

Cash and Cash Equivalents

Cash and cash equivalents are cash balances and other cash items with original maturities of three months or less from the date of acquisition including due from BSP and other banks and interbank loans.

Accounts Receivable

Accounts receivable are carried at the outstanding balances net of allowance for probable losses.

Allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectibility.

Loans and Discounts

Loans and discounts are stated at the outstanding principal balances, reduced by unearned discount and allowance for loan losses.

Under the existing BSP regulations, non-accruing loans are those that have been defined as past due and items in litigations, or those in which on the opinion of management, collection of interest or principal is doubtful. Loans are not classified as accruing until interest and principal payments are brought current or are restructured in accordance with existing BSP regulations and future payments appear assured. BSP Circular No. 143, as amended, redefined the reclassification of past due loans as follows:

a. loans payable monthly with three installments in arrears or with the total amount of arrearages equal to 20% or more of the outstanding loan balances.

b. loans payable quarterly, half-yearly and annually with one installment in arrear or with total amount of arrearages equal to 20% or more of the outstanding loan balance; and

c. loans payable daily, weekly or semi-monthly with total amount of arrearages equal to 10% or more of the outstanding loan balance.

Allowance for Loan Losses

In accordance with BSP Circular No. 313, banks are required to set up a general provision for probable loan losses equivalent to 5% of the outstanding balance of unclassified restructured loans less the outstanding balance of restructured loans, which are considered non-risk under existing laws/rules/regulations; and 1% of the outstanding balance of unclassified loans other than restructured loans less loans, which are considered non-risk under the existing laws/rules/regulations.

Under the BSP Manual of Regulations, banks are required to establish an allowance for probable loan losses and other accounts in accordance with the following classification:

Classification	Required Allowance
Unclassified	0%
Loans specially mentioned	5%
Sub-standard secured	10%
Sub-standard unsecured	25%
Doubtful	50%
Loss	100%

Investments

Investments in associates are accounted for under the equity method. These associates are entities in which the Parent Company has significant influence mainly through representation in the associate's board of directors and participation in policy-making processes and which are neither subsidiaries nor joint ventures. Under the equity method, the Parent Company recognizes in its statements of operations its share in the earnings or losses of the investees. The cost of investments is increased or decreased by the Parent Company's equity in net earnings or losses of the investees since the date of acquisition adjusted for the amortization of the excess of the underlying equity in the net assets of the investees. Dividends received from the investee are considered a return of capital and are credited to the investment account.

Non-current investments in marketable equity securities are carried at the lower of its aggregate cost or market value, determined at the balance sheet dates. The amount by which the aggregate cost of the non-current portfolio exceeds market value is accounted as a valuation allowance. Accumulated changes in the valuation allowance for non-current marketable equity securities are included in the equity section of the balance sheet as net unrealized losses. When there is a permanent decline in the value of such investments, the difference between the cost and market value is treated as a realized loss and charged to operations.

Other investments in stocks (other than non-current marketable equity securities), which do not qualify for the use of the equity method are carried at cost. The net accumulated earnings of the investee, subsequent to the date of the investment, are recognized by the investor only to the extent distributed by the investee as dividends. Dividends received in excess of earnings subsequent to the date of investment are considered a return of investment and are recorded as reductions of the cost of the investment. When there is a significant and apparently permanent decline in value of an individual security, the carrying amount of the individual investment is written down to its fair value.

Investment in Bonds and Other Debt Instruments

Investments in bonds and other debt instruments (IBODI) are debt securities where the Bank has the positive intent and ability to hold to maturity. These securities are carried at amortized cost; realized gains and losses are credited or charged against current operations. An allowance for probable losses is established by a charge to income to reflect other-than-temporary impairments in value. Under current bank regulations, IBODI shall not exceed 50% of the adjusted statutory net worth and 40% of total deposit liabilities.

Real and Other Properties Owned or Acquired

Assets acquired in settlement of loans are stated at the total outstanding exposure of the loans at the time of the foreclosure or bid price, whichever is lower. Nonrefundable capital gains tax and documentary stamp tax incurred in connection with foreclosure are capitalized as part of the carrying values of the foreclosed properties, provided that the carrying values do not exceed appraised values. Securities, maintenance and the other holding costs are charged to operations as incurred. Allowance for probable losses is set up for any anticipated losses based on the BSP provisioning requirements, appraisal reports, current negotiations and programs to dispose these properties.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is computed using the straight-line method over the estimated useful lives of the properties. Leasehold improvements are amortized over the term of the lease or the life of the assets, whichever is shorter. The useful lives of the properties are as follows:

Transportation equipment	- 5 years
Furniture, fixtures and equipment	- 3 to 7 years

Costs of minor repairs and maintenance are charged to operations. Renewals and betterments, which improve the original assessed standard of performance of the property, are capitalized to the appropriate property account. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is charged to income.

Impairment of Assets

Property and equipment and other long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The excess shall be recognized as impairment loss in the statement of operations. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the assets belong. Impairment losses recognized in prior years are reversed when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal is recorded as income to the extent previously recognized as expense in the statements of operations.

Provisions

A provision is recognized when the Company has a present obligation (legal or constructive) as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Income Taxes

Deferred income tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts on the financial statements. Currently enacted tax rates are used in the determination of the deferred income tax.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit would be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising from past service retirement benefits cost and unrealized gains/losses from foreign currency translation except where it is probable that the temporary differences will not reverse in the foreseeable future.

Foreign Currency Transactions

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency denominated monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Exchange gains and losses arising from foreign currency transactions are credited or charged directly to current operations.

Retirement Benefits Cost

The Parent Company adopted Republic Act No. 7641 as its arrangement to provide retirement benefits to all regular employees. In case of retirement, employees shall be entitled to receive such retirement benefits as may have been earned under the existing laws.

The cost of providing retirement benefits is determined using the Projected Unit Credit Method. Under this method, each year of service is deemed to give rise to an additional unit of pension entitlement and each unit is valued separately to build up a total retirement benefit obligation.

A separate fund was not established from which payments would be made in order to meet the Parent Company's obligation for retirement benefits. Thus, the Parent Company retains the obligation for the payment of the retirement benefits.

The Bank has a defined benefit retirement plan covering all permanent and regular full-time employees. Plan costs are allocated according to the projected unit credit cost method, which utilizes the normal cost, actuarial accrued liability and unfunded actuarial liability concepts.

Treasury Shares

Treasury shares are stated at cost.

Earnings (Loss) Per Share

Earnings (loss) per share is computed by dividing the net income (loss) attributable to common shares by the weighted average number of common shares outstanding during the year.

Segment Reporting

Segment accounts include operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of accounts payable, accrued expenses and long-term debt. Segment assets and liabilities do not include deferred income taxes.

Segment revenues, segment expenses and segment performance include transfers between business segments. The transfers are accounted for at competitive market prices charged to unaffiliated customers for similar products. Such transfers are eliminated in the consolidation process.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individual or corporate entities. Transactions between related parties are based on terms similar to those offered to nonrelated parties.

Note 4 – Loans and Discounts - net

In the consolidated balance sheets, the balance of this account is composed of the following:

	06.30.05	06.30.04
Commercial	**₱2,237,676**	₱11,087,000
Real estate	**2,014,642**	2,216,000
Agricultural	**-**	2,500,000
Consumption	**8,540,780**	8,858,000
Past due	**28,065,451**	19,461,000
Others loans and discounts	**6,646,937**	8,231,130
	47,505,486	52,353,130
Less:		
Allowance for probable losses (see note 10)	**3,785,867**	(7,138,000)
Capitalized interest and other charges	**-**	-
Unearned discounts	**-**	-
	3,785,867	(7,138,000)
	₱43,719,619	₱45,215,130

The following table shows information relating to loans by collateral type:

	06.30.05	
	Amount	**%**
Secured:		
Real estate	**₱31,126,972**	**65.52**
Chattel	**8,910,751**	**18.76**
Hold-out against deposit	**5,092,807**	**10.72**
	45,130,530	**95.00**
Unsecured	**2,374,956**	**5.00**
	₱47,505,486	**100.00**

As of December 31, 2004 and 2003, nonaccruing or nonperforming loans follow:

	06.30.05
Secured nonaccruing loans	**₱27,767,179**
Unsecured nonaccruing loans	**298,272**
Total NPLs	**28,065,451**
NPLs fully covered by allowance for probable losses	**(959,769)**
	₱27,105,682

Under Circular No. 351 the BSP allows banks that have no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification those loans classified as Loss in the latest examination of the BSP which are fully covered by allowance for probable losses, provided that interest on said loans shall not be accrued.

The nonperforming loans (NPLs) of the Bank, under such regulations are as follows:

	06.30.05	06.30.04
Total NPLs	**₱28,065,461**	₱19,461,000
NPLs fully covered by allowance for probable losses	**(959,768)**	(824,000)
	₱27,105,682	₱18,637,000

Information on the concentration of credit as to industry type follows:

	2004	
	Amount	**%**
Agriculture, hunting and forestry	**₱ -**	**0.00**
Fishing	**3,000,000**	**6.31**
Manufacturing	**5,078,000**	**10.69**
Construction	**2,851,082**	**6.00**
Wholesale and retail trade, repair of motor vehicles,		**0**
motorcycles and personal and household goods	**28,108,598**	**59.17**
Real estate, renting and business activities	**6,582,806**	**13.86**
Education	**1,885,000**	**3.97**
	₱47,505,486	**100.00**

The BSP considers that concentration of credit results when total loan exposure on economic sector exceeds 30% of total loan portfolio.

Note 5 – Real and Other Properties Owned and Acquired (ROPOA)

This account consists of:

	06.30.05	06.30.04
ROPOA	**₱59,883,453**	₱52,434,493
Sales contract receivable	**13,254,520**	11,669,129
	73,137,973	64,103,622
Less allowance for probable losses (see note 10)	**673,699**	-
	₱72,464,274	₱64,103,622

Note 6 – Investments in and Advances to Affiliates

The Investments in and Advances to Affiliates account consists of the following:

	06.30.05	06.30.04
At equity:		
FEI, 33 1/3% owned in 2004 and 2003		
Acquisition cost	**₱72,734,000**	₱187,500,000
Sale of investment	**-**	(125,000,000)
Share in FEI's revaluation increment	**-**	10,234,000
	72,734,000	72,734,000
Equity in net earnings (losses):		
Balance at beginning of year	**477,573**	1,448,489
Sale of investment	**-**	(965,659)
Prior period adjustment	**-**	(5,256)
Balance at end of year	**477,573**	477,573
	73,211,573	73,211,573
Advances	**359,902,345**	363,067,998
	433,113,918	436,279,571
At cost		
Petrochemicals Corporation of Asia Pacific or Petrocorp (7% owned)	**42,040,774**	₱52,550,968
Philippine Estates Corporation or PHES (3% owned) net of allowance for decline in value of ₱35,639,552 in 2004 and ₱35,137,587 in 2003	**4,478,052**	15,371,365
	46,518,826	67,922,333
Advances to:		
The Wellex Group, Inc. (TWGI)	**318,848,884**	314,043,456
ESBI	**81,027**	81,027
	318,929,911	314,124,483
	₱798,562,655	₱818,326,387

Investment in FEI

In 2003, the Company sold 2/3 of its investments in the shares of FEI equivalent to 125 million shares.

Investment in Petrocorp

Petrocorp has been experiencing capital deficiency for five years now. In 2003, FPI wrote off 75% of its investment in Petrocorp due to the significant decline in its market value. Permanent decline recognized amounted to ₱157,652,905. The additional capital infusion in 2004 did not materialize. Thus, an additional permanent decline of 5% was recognized amounting to ₱10,510,194.

Investment in PHES

The Company provided an allowance for decline in value of its investments in PHES amounting to ₱35,639,552 in 2004 and recorded them as deductions in the stockholders' equity section of the balance sheets.

Advances to TWGI

The increase in this account was basically due to interest income from the Company's advances to TWGI amounting to P6.25 million which was computed at 2.5% per annum.

Note 7 – Other Investments

Other investments in the consolidated balance sheets include the Bank's investment in treasury bonds and government securities with a face value amounting to ₱1,190,805 and ₱1,200,000 in 2005 and 2004.

Note 8 – Property and Equipment

The reconciliation of property and equipment is as follows:

	Net Carrying Amount January 1, 2005	Additions	Disposals and Other Movements	Depreciation	Net Carrying Amount June 30, 2005
Land	₱ -	₱ -	₱ -	₱ -	₱ -
Building	-	-	-	-	-
Transportation equipment	610,330	-	(508,072)	(102,256)	2
Furniture, fixtures and equipment	688,746	100,173	(2)	(178,683)	633,286
Leasehold rights and improvements	557,061	-	-	(118,393)	438,868
	₱1,856,136	₱100,173	(₱508,075)	(₱399,332)	₱1,048,902

	Cost	Accumulated Depreciation	Net Carrying Amount June 30, 2005
Transportation equipment	₱377,728	₱377,727	₱1
Furniture, fixtures and equipment	5,098,876	4,488,643	610,233
Leasehold rights and improvements	557,061	118,393	438,868
	₱6,033,665	₱4,984,763	₱1,837,191

In 2003, the Bank disposed the property occupied by its head office and two other real estate properties located in Sta. Rosa and Calamba, Laguna with an aggregate carrying amount of ₱6,607,274 to three bank directors for ₱27,000,000, out of which the Bank earned ₱20,392,726. The sale of the property occupied by the Bank's head office was documented by a deed of sale between related parties signed unilaterally by the Bank, which required prior approval by the BSP. As of December 31, 2003, negotiations were still underway for the Bank to legalize this transaction.

In its letter dated May 21, 2004, the BSP has instructed the Bank to reverse all the entries made in relation to the alleged sale of the property occupied by its head office until such time that the Bank has complied with the submission of all the required documents and explanations that will prove the validity of the transaction.

On October 1, 2004, the Bank sold the property occupied by its head office to a related party from which the Bank recognized a gain of ₱18,505,489. As at December 31, 2004, the sale of this property had already been paid. The sale was documented by a deed of absolute sale. As at report date, however, the legal title on said property has not yet been transferred to the buyer. The Bank in its letter dated October 20, 2004 has informed the BSP of the sale.

Note 9 – Other Assets

Included in Other Assets are the following:

	06.30.05	06.30.04
Accrued interest receivable	**₱6,569,424**	₱6,937,801
Deferred income tax – net	**12,471,501**	10,938,750
Miscellaneous asset	**660,018**	-
Accounts receivable	**205,088**	-
Returned checks and other cash items	**160,423**	-
Stationery and supplies unissued	**117,800**	75,191
Prepaid expenses	**165,073**	-
Deferred charges	**54,286**	2,196,745
Others	**32,243**	2,157,570
	20,435,856	22,306,057
Less allowance for probable losses (see Note 10)	**15,355,173**	6,765,396
	₱5,080,683	₱15,540,651

Note 10 – Allowance for Probable Losses

Changes in the allowance for probable losses are as follows:

	06.30.05
Balance at beginning of year	
Loans and discounts-	**₱3,638,659**
Real and other properties owned or acquired	**685,512**
Other resources	**6,820,364**
	11,144,535
Provision for the year	**147,208**
Reversal of allowance charged to capital funds	**(223,676)**
	(223,676)
Balance at end of year	
Loans and discounts-	**₱3,785,867**
Real and other properties owned or acquired	**673,699**
Other resources	**6,608,501**
	₱11,068,067

With the foregoing level of allowance for probable losses, management believes that the Bank has sufficient allowance to cover any losses that may be incurred from the non-collection or non-realization of its receivables and other risk assets.

Note 11 – Deposit Liabilities

Deposit liabilities are those of ESBI and these consist of the following:

	06.30.05	06.30.04
Demand	**₱5,527,333**	₱5,498,106
Savings	**142,599,188**	140,009,236
Time	**1,668,219**	1,730,130
	₱149,794,740	₱147,237,472

Note 12 – Bills Payable

Bills payable consists of:

	06.30.05	06.30.04
Land Bank of the Philippines (LBP)	**₱3,063,754**	₱3,850,709

Note 13 – Accrued Taxes, Interest and Other Liabilities

This consists of:

	06.30.05	06.30.04
Unrealized profit on sale of asset sold/acquired	**₱3,150,765**	₱3,060,527
Income tax payable	**2,324,732**	1,314,591
Accounts payable	**596,448**	19,811,057
Accrued interest payable	**1,335,501**	1,361,763
Withholding tax payable	**614,535**	612,893
Others	**2,300,158**	54,989
	₱10,322,139	₱28,456,097

Note 14 – Costs and Expenses

This account includes:

	06.30.05	06.30.04
Salaries and wages	**₱3,975,949**	₱4,269,383
Occupancy	**2,280,121**	2,146,383
Litigation	**776392**	263,137
Professional fees	**768,357**	769,331
Depreciation and amortization	**384,020**	859,391
Insurance expense	**343,580**	390,590,
Taxes and licenses	**318,634**	1,156,316
Power, light and water	**313,011**	274,482
Security and janitorial services	**262,629**	262,727
Representation and entertainment	**215,713**	142,301
Repairs and maintenance	**92,771**	153,452
Transportation and travel	**85,088**	194,434
Stock expense	**59,196**	110,990
Provision for probable losses	**-**	194,000
Others	**2,572,122**	4,291,938
	₱12,447,583	₱15,384,855

Note 15– Retirement Benefits Cost

The Parent Company adopted Republic Act No. 7641 as its arrangement to provide retirement benefits to all regular employees. In case of retirement, employees shall be entitled to receive such retirement benefits as may have been earned under the existing laws.

The cost of providing retirement benefits is determined using the Projected Unit Credit Method. Under this method, each year of service is deemed to give rise to an additional unit of pension entitlement and each unit is valued separately to build up a total retirement benefit obligation.

In 2004, the Parent Company did not make additional provision for the retirement benefit of employees. Since March 2003, the Parent Company's retirement benefit cost is being shouldered by FEI and is being billed in turn by FEI to the Parent Company based on time charges.

The Bank has a funded, noncontributory retirement plan made effective January 1, 2004. The benefits are based on the monthly salaries at date of retirement multiplied by years of service.

Based on the actuarial report date as of January 1, 2004, the unfunded accrued liability amounted to ₱2,372,756 and is amortizable over a period of 10 years. The fair value of the assets amounted to ₱1,323,908.

Note 16 – Related Party Transactions

Related party transactions consist of advances representing the carrying value of exploration net assets transferred to an affiliate and interest-bearing advances granted to finance the working capital requirements of certain affiliates (see Note 6). As of December 31, the balances of the advances and other significant accounts are as follows:

	06.30.05	06.30.04
Forum Exploration, Inc.	**₱359,902,345**	₱436,279,571
Express Bank	**81,027**	81,027
The Wellex Group, Inc.	**318,848,884**	314,043,456
Waterfront Phil., Inc.	**-**	6,725

The interest rate charged to advances to TWGI was 2.5%.

In the ordinary course of business, the Bank has transactions with its affiliates. The more significant related party transactions include deposit liabilities, lease of the Bank's premises and loans to certain directors, officers, stockholders and related interests (DOSRI). Under existing policies of the Bank, these transactions are made on substantially the same terms as transactions to other individuals and businesses of comparable risks.

The General Banking Act and BSP regulations limit the amount of loans to each affiliate to 25% of the Bank's capital funds. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their deposit and book value of their investment in the Bank. In the aggregate, loans to DOSRI (exclusive of loans secured by hold - out deposits) generally should not exceed the total capital funds or 15% of the total loan portfolio of the Bank, whichever is lower.

The following table shows information relating to the DOSRI loans of the Bank:

	06.30.05	06.30.04
Total outstanding DOSRI loans	**₱5,862,807**	₱5,192,807
Percent of DOSRI to total loan portfolio	**12%**	10%
Percent of unsecured DOSRI to total DOSRI loans	**0%**	0%
Percent of past due DOSRI to total DOSRI loans	**0%**	0%
Percent of non-performing DOSRI to total DOSRI loans	**0%**	0%

Note 17 – Loss Per Share

The following table presents information necessary to calculate the loss per share:

	06.30.05	06.30.04
Net loss	**₱6,557,461**	₱5,874,652
Weighted average number of common shares outstanding during the year	**1,840,414,404**	1,840,394,404
Loss per share	**₱0.00356**	₱0.00318

Note 18 - Basic Quantitative Indicators

The financial performance indicators of the Bank required under BSP Circular No. 212 are as follows:

		06.30.05	06.30.04
Return on average equity			
=	<u>Net loss after tax</u> Average total capital funds	**668.30%**	102.17%
Return on average assets			
=	<u>Net loss after tax</u> Average total assets	**6.53%**	8.23%
Net interest margin			
=	<u>Net interest income</u> Average interest earning assets	**1.94%**	0.43%

Note 19 – Business Segment Information

	Revenues		Total Assets		Net Assets	
	06.30.05	06.30.04	**06.30.05**	06.30.04	**06.30.05**	06.30.04
Bank	**-**	₱8,617,672	**146,331,414**	257,779,685	**(14,322,191)**	(7,652,218)
Holding	**6,557,226**	-	**800,790,405**	816,233,102	**782,344,819**	807,204,143
	₱6,557,226	₱8,617,672	**₱947,121,819**	₱1,078,298,029	**₱768,022,628**	₱799,551,925

Note 20 – Lease Commitments

The Parent Company leases its office space for a period of one year commencing January 2, 2004 to December 31, 2004, renewable upon mutual agreement of the parties. The future minimum lease payments are as follows:

Period	Rental expense
Not more than one year	₱652,800
More than one year but not more than five years	2,611,200

The Bank leases its head office and branch premises for periods ranging from 5 to 10 years, renewable upon mutual agreement of both parties. Certain lease contracts are subject to 5% and 10% annual escalations on the rental fees.