BANGKO SENTRAL NG PILIPINAS
NOTES TO THE FINANCIAL STATEMENTS

1. General Information

The Bangko Sentral ng Pilipinas (BSP) is the central bank of the Republic of the Philippines created under Republic Act 7653, the New Central Bank Act. Under the Act, it shall function and operate as an independent and accountable corporate body in the discharge of its mandated responsibilities concerning money, banking and credit. It maintains the country's international reserves, performs credit operations, engages in open market operations, exercises supervision over banking institutions, operates the interbank real-time gross settlement system, acts as a banker of the government, and has the sole power and authority to issue currency. It is also responsible for the printing of bank notes and production of circulation coins. As an independent central monetary authority, it enjoys fiscal and administrative autonomy and the nature and extent of its activities and operations are guided by the performance of these functions.

The Bangko Sentral ng Pilipinas has its principal office at A. Mabini and P. Ocampo Streets, Manila, Philippines. It has regional offices and branches in 21 locations, and a security printing facility (Security Printing Complex or SPC) at Quezon City, Philippines. It likewise owns the PICC Inc., a wholly owned subsidiary that manages and operates the Philippine International Convention Center. The total number of employees of the Bangko Sentral ng Pilipinas is distributed in the following locations:

	2006	2005
Head Office	**3,180**	3,308
Regional Offices /Branches	**1,102**	1,147
Security Plant Complex	**554**	592
Total	**4,836**	5,047

In these financial statements, the Bangko Sentral ng Pilipinas is also referred to as the "BSP" or the "Bank". The Monetary Board has reviewed and approved the release of the accompanying financial statements on 22 March 2007.

2. Summary of significant accounting policies

2.1. Basis of preparation of financial statements

Under Philippine Accounting Standards (PAS) 1, financial statements shall not be described as complying with Philippine Financial Reporting Standards (PFRSs)/PAS unless they comply with all the requirements of PFRSs. The BSP's financial statements have been prepared in compliance with some, but not all, PFRSs and PAS as aligned with the provisions of the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). References to the preparation of these statements in accordance with the PFRSs should be viewed with this qualification and related disclosures.

Unless otherwise stated, the CY2006 balances are prepared under the historical cost convention and/or applicable PAS.

2.2. Consolidation

The BSP's financial statements include the transactions of the bank and the PICC as at 31 December 2006.

All inter-company balances are eliminated prior to consolidation. In accordance with the PAS 27, no separate parent-subsidiary financial statements were produced because the difference between the parent and subsidiary accounts is not material. Due to the immateriality of the balances of accounts of PICC, "consolidated" was omitted from the heading of the statement.

2.3. Presentation and recognition

The BSP presents financial assets, liabilities and derivative instruments, and the related income and expense accounts by distinguishing foreign currency and local currency accounts. The separate reporting of foreign and local currency accounts is considered for better presentation of the BSP's financial position.

Unless otherwise stated, all financial assets and liabilities are recognized in the balance sheet on a settlement date basis.

2.4. Currency of presentation

Unless otherwise stated, all amounts are expressed in Philippine Pesos (PHP), the domestic currency. The currency symbol "PHP" is used in these statements to conform to the universal currency symbols.

2.5. Foreign currency translation

Transactions in foreign currency are translated to Philippine pesos using exchange rates applying on the value/settlement date of the transaction. For reporting purposes, foreign currency assets and liabilities are translated to the local currency equivalent using the closing exchange rate at reporting date; third currency assets and liabilities are first converted to United States dollars (USD) then translated to the local currency equivalent at reporting date.

The monthly revaluation gains or losses arising from changes in the exchange rates/prices are presented in the revaluation account which can be either in the asset (if net loss) or liability (if net gain) side of the balance sheet. Although PAS 21 provides that unrealized gains and losses due to change in exchange rates are to be recognized in the income statement regardless of classification of assets, the BSP's recognition of these unrealized gains and losses is in accordance with Section 45 of the BSP charter.

Exchange rates are based on the published BSP Reference Rate Bulletin. Following were the closing exchange rates used in these financial statements:

As at December 31	**2006**	2005	Difference
USD1 is equivalent to PHP	**49.045**	53.062	-4.017

2.6. Foreign exchange gains and losses

The realized gains or losses arising from exchanges of the Bank's net assets and liabilities (including derivative instruments) in foreign currencies with respect to the Philippine peso are carried to the income statement under the account gain/loss on fluctuation in FX rates with an offsetting charge or credit to the appropriate revaluation account in the balance sheet. On a quarterly basis, the exchange rate fluctuation between two quarters is calculated for the foreign currency assets and liabilities, and capital reserves for FX rate fluctuation are set-up by a direct charge to the net realized gain on fluctuation in FX rates.

2.7. Interest income and expenses

The Bank follows the accrual basis of accounting. Interest income and expenses are recognized in the income statement for all instruments measured at fair market value/amortized cost using the effective interest method. Interest on financial liabilities is accrued monthly and discounts/premiums amortized semi-annually on interest coupon date based on the term of the loan. The difference between the booked accrued interest/amortized discount and estimated interest payable using effective interest method is recognized in the income statement as adjustment to the interest expense account against accrued interest payable.

Interest paid on demand deposit of banks and the National Government are accrued monthly and credited to the respective accounts quarterly.

Interest on financial liabilities is accrued monthly and discounts/premiums are amortized semi-annually on interest coupon date based on the term of the loan.

2.8. Fee income

Entities, which are subject to examination by the BSP, pay an annual supervisory fee in an amount equivalent to a percentage of the average total of their selected net assessable assets during the preceding year. The supervision fees are recognized on an accrual basis. Transaction fees related to the use of the BSP's payments system are recognized on value date and directly charged against the demand deposit account of the bank maintained with the BSP.

2.9. Financial assets

The Bank classifies its financial assets in the following categories: available-for-sale financial assets, loans and other receivables.

2.9.1. Available-for-sale

Available-for-sale financial assets are foreign currency assets (including gold) forming part of the international reserves, and domestic securities. Although investments have fixed or determinable payments and maturities, these are neither purely held for trading nor held up to maturity by the BSP as they may be sold in response to needs of liquidity in the exercise of its functions under the Act.

Available-for-sale financial assets (except gold) are initially recognized at cost and subsequently carried at fair values. The fair value of financial instruments traded in active markets is based on quoted closing market prices (current bid price) at the balance sheet date. The value of financial instruments that are not traded in an active market is determined by using interpolated deposit rates or valuation techniques commonly supported by market participants.

Gold is initially recognized at prevailing international market prices quoted in USD and translated to the local currency using the closing exchange rate at reporting date. Changes in prices and exchange rates are calculated as the difference between the current market values against the moving costs. Gold swaps with non-central banks are treated as collateralized loan in which the foreign currency proceeds are added to international reserves with a corresponding foreign currency liability recognized.

Consistent with the recognition of unrealized gains and losses arising from changes in the exchange rates (as provided in Section 45 of Republic Act (R.A.) No. 7653, gains and losses arising from changes in market values of foreign currency denominated financial assets are also recognized in the corresponding revaluation account in the asset or liability side of the balance sheet. For domestic securities, changes in prices are recognized in equity. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the BSP has transferred all the risks and rewards of ownership. Gains and losses arising from derecognition or impairment is recognized in the income statement with a charge or credit to the corresponding revaluation account.

The realized gain or loss arising from exchanges of the Bank's foreign currency financial assets are recognized in the income statement against a contra-account in the revaluation account in compliance with Sec. 45 of R.A. No. 7653 which describes the revaluation account as a frozen account which shall neither be credited nor debited for any other purpose. On a quarterly basis, changes in exchange rates and market price of gold between two quarters are calculated and the corresponding capital reserves are set-up by a direct charge to the corresponding net realized gain or loss. For domestic securities, the realized gain or loss is recognized in the income statement contra the cumulative gain or loss previously recognized in equity.

2.9.2. Loans and receivables

Loans and receivables consist of receivable from banks and the deposit insurer, advances to the National Government, sales contracts receivable, accrued interest receivable, and accounts receivable.

Loans and receivables are stated at the outstanding balance, reduced by unearned discounts and allowance for probable losses. Unearned discounts are amortized or interest is accrued monthly (except for those considered past due) and recognized in the income statement. Past due loans are not reclassified as current until interest and principal payments are brought current or the receivables are restructured and future payments appear assured.

Impairment is recognized if there is objective evidence that an impairment loss on loans has been incurred. However, in view of the difficulty in identifying a single, discreet event that may cause the impairment, the carrying amount of loans and receivables is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. The following schedule shows how the allowance is estimated:

	No. of months past due	Allowance to be set-up as % to total outstanding
Loans and advances including overdrafts	3	10%
	6	20%
	12	50%
	24	100%
Banking fees, penalties	12	50%
	24	100%
Banks under receivership and liquidation	-	100%

When a loan is uncollectible, it is written off against the related allowance for loan impairment. A loan is written off when a 100% allowance had been set up, no repayments were made and all the required collection procedures had been undertaken. All write offs are authorized by the Monetary Board. Subsequent recoveries of amounts previously written off are recognized directly to income.

2.10. Sale and repurchase agreements

Repo and reverse repo transactions are used as monetary tools when the Bank engages in open market purchase and sale of government securities to achieve its mandate of maintaining price stability and for liquidity management purposes. Government securities purchased under agreements to re-sell are presented under loans and advances in the balance sheet. Income earned from the transaction is reflected in the income statement as local currency interest income.

Securities sold under agreements to repurchase remain part of the government securities inventory and are not reclassified in the financial statements as pledged assets. The obligation to repurchase is recognized as a liability under securities sold under agreements to repurchase. The difference between the sale and repurchase price represents interest expense accrued and recognized in the income statement.

To maximize the Bank's returns from its investments in foreign securities and to offset custody fees, BSP, through its securities lending agents, engages in securities lending transactions. Securities under custody may be lent out to accredited borrowers, such as banks, securities dealers, and other market makers, who may require such securities to meet settlement commitments or to participate in various arbitrage and hedging activities. Securities lending involves the temporary exchange of securities for cash or other securities of an equivalent or greater value (collateral) with a contractual obligation to redeliver a like quantity of the same securities at a future date. Securities lent to counterparties remain in the balance sheet.

If the collateral received by the BSP is cash, the lender/agent (on behalf of the lender) invests the cash in short-term investment vehicles under BSP's investment guidelines. BSP's earnings from the program are determined by the difference between the rebate rate paid to the lender of cash and the reinvestment rate gained on the cash collateral investments. On the other hand, if the collateral received by the BSP is non-cash, the BSP is paid a fee (lending fee) by the borrower based on the market value of the loaned securities. Both the rebate and lending fee are negotiated at the time of the transactions and can be amended during the life of the loan in response to changing market conditions. Income received from securities lending are recognized in the income statement.

2.11. Bank premises, furniture, fixtures, and equipment

Land and buildings acquired from the then Central Bank on 3 July 1993 are stated at appraised value less accumulated depreciation. Subsequent acquisitions are stated at acquisition cost less accumulated depreciation.

The initial cost of fixed assets consists of purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance are charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of bank premises, furniture, fixtures and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of fixed assets. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts, and any resulting gain or loss is carried in the income statement.

Depreciation is computed using the straight-line method based on the following table of the expected useful life of depreciable assets:

Asset Group	Estimated useful life (no. of years) 2006
Buildings -	
BSP Constructed	**30**
Acquired or Purchased	**25**
Property Improvements (building, land, leasehold and office)	**10**
Computer Hardware & Software	**5**
Plant Machinery & Equipment – Printing	**10**
Plant Machinery & Equipment – Minting	**10**
Furniture and Equipment	**5**
Motor Vehicles	**7**
Armored Vehicles	**10**

Construction-in-progress, which covers BSP-owned buildings under construction, is valued at cost. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated and reclassified to the “Buildings” account until such time that the completion of construction is accepted and ready for occupancy and total construction cost is fully paid.

Assets acquired through import Letters of Credit (L/Cs) are recognized as “in-transit” account contra a liability account upon receipt of advice/proof of loading/shipment from suppliers and reclassified to the appropriate asset account upon delivery. Any exchange differential between the recognition of the liabilities and actual payment upon L/C negotiation is treated as an addition/deduction to/from the value of the imported asset. Customs duties, brokerage fees and other related expenses (when not exempt) are capitalized.

2.12. Acquired assets

These are generally land and buildings acquired by the BSP in the settlement of loans granted or other claims. Properties acquired through foreclosure (legal proceedings initiated by the Bank to repossess collateral for loan that is in default) are recorded at bid price or appraised value of the asset, whichever is lower. Any asset acquired other than through foreclosure is booked at cost or at appraised value.

Transaction costs, which include non-refundable capital gains tax and documentary stamp tax, incurred in connection with foreclosure are recognized in the balance sheet as receivables from banks.

Acquired assets are not depreciated. The carrying values of acquired assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. An allowance for market decline equivalent to the excess of the carrying amount over the most recent appraised value is set-up annually.

Expenditures such as repairs and maintenance are charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of acquired assets beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of acquired assets.

Under PFRS 5, acquired assets are classified as held for sale. Assets sold on installment basis under a duly executed contract to sell, title to which is still in the name of the BSP and will be transferred to the buyer only upon full payment of the agreed selling price plus accrued interest is reclassified from acquired assets to sales contract receivable. The difference between the purchase price or the total consideration under the sales contract and the carrying amount is recognized as gain on sale of acquired assets in the income statement.

2.13. Leases

Under PAS 17, a lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. BSP engages in operating lease either as lessor or lessee based on a lease agreement. Lease rentals received/paid in connection with the operating lease are recognized in the income statement. When BSP is the lessee, security deposits paid to the lessor are recognized in the balance sheet as other assets. Improvements made on the leased property are capitalized and booked under leasehold improvement account and amortized for a period of five (5) years.

2.14. Inventories

Under PAS 2, inventories are assets in the form of materials or supplies to be consumed in the production process or in the rendering of services. Raw materials acquired by the BSP through import Letters of Credit are recognized as "Asset in transit" account upon receipt of notice of loading/shipment from the suppliers.

Finished currency notes and coins are recognized as currency inventory upon physical transfer from SPC to Unissued Currency Stock Committee (UCSC). Only upon issuance of notes and coins from UCSC to Cash Department that currency production expenses for notes and coins are recognized.

2.15. Numismatic collections, artworks, paintings and sculptures

These are recorded at historical cost except those received as donations that are initially booked at nominal value. Pending completion of the property appraisal, the property insurance based on acquisition cost was augmented in prior years by increasing capital reserves.

2.16. Financial liabilities

Financial liabilities denominated in foreign currency comprise of short-term foreign currency deposits of banks, the National Government and other government entities, and short and long-term borrowings of the BSP. These liabilities are initially recognized at cost and subsequently converted at the current value using month-end exchange rates. Interest is accrued monthly and recognized in the income statement. Foreign currency borrowings are collateralized either by securities or gold.

Local currency financial liabilities refer to deposits of the National Government, banks and other financial institutions. All banks operating in the country are required to maintain reserves against their deposit liabilities. The reserve position of each bank or quasi-bank is calculated daily on the basis of the amount of the institution's reserves at the close of business for the day and the amount of its liability accounts against which reserves are required to be maintained. A portion of these deposits is paid interest at rates approved by the Monetary Board. Interest is accrued monthly and credited to the respective demand deposit accounts quarterly. The fair value of deposits with no stated maturity is the amount repayable on demand.

2.17. Currency in circulation

Currency issued is a claim on the BSP, fully guaranteed by the government of the Republic of the Philippines, in favor of the holder. Currency in circulation is recorded at face value as a liability in the balance sheet. In accordance with Section 51 of R.A. No.7653, the BSP's holdings of its own notes and coins are not considered part of its currency issue, and accordingly, do not form part of the assets and liabilities of the BSP.

2.18. Derivative instruments

The BSP engages in foreign currency forwards, swaps, cross-currency swaps and currency, securities and gold options including non-deliverable forwards. Derivatives are not designated as hedges. For forwards and non-deliverable contracts, a contingent asset/liability is recognized at spot date and at maturity date the contingent asset/liability is reversed and the purchase/sale of the currency is recorded. For swaps and cross currency swap transactions, a purchase/sale of the currency is recorded at spot date together with the contingent asset/liability and at maturity date the contingent asset/liability is reversed and the sale/purchase of the currency is recorded. For options, no contingency accounts are recognized but on spot date, premiums received from options are recognized in the income statement.

In line with PAS 39, derivative instruments are recognized at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques. At maturity date, the revaluation entry for the derivative instruments is reversed and a gain or loss from the sale of the currency, gold or securities is recognized in the income statement.

2.19. Taxes

The BSP is liable for all national, provincial, municipal and city taxes, fees, charges and assessments. However, it continues to be fully exempted from all customs duties and fees and all other taxes in relation to the importation and exportation of notes, coins and gold and other metals and all equipment needed for bank note production, minting of coins, metal refining and other security printing operations authorized under Section 126 of the R.A. No. 7653.

PAS 12 provides for the acceptable method of accounting for the temporary differences or changes between the carrying amount of an asset or liability in the balance sheet and its tax base. These may result in taxable amounts or in amounts that are deductible in determining taxable profit (tax loss) of future period when the carrying amount of the asset or liability is recovered or settled. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. The acceptable method of accounting for temporary differences is the Balance Sheet Liability method or Asset/Liability method.

BSP has identified the following temporary differences where a deferred tax asset is recognized in the books of accounts: a) impairment losses on loans and advances and b) impairment losses for acquired assets.

Pursuant to R.A. No. 9337, "National Internal Revenue Code" (NIRC) as amended, the Bank computes its income tax obligation based on (a) Regular Corporate Income Tax (RCIT) computed at 35% of net income or (b) Minimum Corporate Income Tax (MCIT) computed at 2% based on gross income, whichever is higher. Taxable amount computed under RCIT is booked as an expense. Amount computed under MCIT in excess of the normal income tax/RCIT is recognized as deferred charges which will be carried forward and credited against the normal income tax for three (3) immediately succeeding taxable years as provided under Section 27.E(2) of the NIRC, as amended.

The Expanded Value Added Tax (EVAT), while imposing a 70% cap on input as off-set/creditable against output VAT was increased from 10% to 12% effective 01 February 2006.

2.20. Employee benefit plans

The funds listed below had been set-up for BSP employees. The BSP's contributions to the funds are charged to operating expenses and recognized in the income statement. Contributions to and augmentation of the Funds are disbursed to the fund administrators. All incomes accrue to the Funds and are recognized in the balance sheet as increase in the Fund balance. The Fund balances reported by the fund administrators are measured at fair market values.

2.20.1. Provident fund

This fund was established in accordance with Republic Act No. 4537 dated June 9, 1965 which authorized such fund to be set-up by government owned or controlled banking institutions. This is a defined contribution plan wherein the Bank's monthly contribution is equivalent to 20% of the basic salary of each employee while the employee contributes 5%. All regular employees automatically become members of the Fund. The Bank's contributions are recognized in the income statement as operating expenses. The Fund is administered by the Provident Fund Office, a separate legal entity established for the purpose of managing the Fund and staffed by Bank personnel.

2.20.2. Housing fund

This fund was established in 1978 in line with the government's program to provide low cost housing for the people. Similar to the provident fund, the Bank's monthly contribution is equivalent to 20% of the basic salary of each employee while the employee contributes 5%. All regular employees automatically become members of the Fund. The Bank's contributions are recognized in the income statement as operating expenses. The Fund is administered by the Provident Fund Office.

2.20.3. Longevity trust fund

This Fund was created in 1991 for the exclusive purpose of paying longevity benefits to seceding members of the provident fund based on the length of service, the minimum of which is 5 years. The Bank contributes an equivalent of 10% of the member's annual basic salary. The Bank's contributions are recognized in the income statement as operating expenses. The Fund is administered by the Provident Fund Office.

2.20.4. Car plan fund

BSP implemented the car plan program in 1993 in line with the approval of the motor vehicle lease purchase plan for the government financial institutions by the Office of the President on 20 July 1992. Positions from Assistant Manager (JG12) and up are entitled to availment of BSP Car Plan Program. Budgeted amounts earmarked for car plan fund are invested in marketable securities for the meantime that officers entitled to car plan program have not yet availed. The BSP sets up a "Due from Administrator of Funds" account from the Provident Fund Office who administers the fund.

2.20.5. Retirement benefit fund

This fund was set-up in 1997 for employees who will be eligible to retire under R.A. No. 1616. Based on estimates made by Human Resource Management Department (HRMD) in 2005, the outstanding balance of the fund plus projected earnings would be sufficient to cover for the benefits of the employees who will be qualified to retire up to 2023 under the plan. Actual charges include (a) retirement gratuity pay and (b) financial assistance to beneficiaries. The balance of the Fund is reported in the balance sheet under capital reserves account. The Fund is administered by the Provident Fund Office and all incomes accrue to the Fund.

2.20.6. Medical benefit fund

The Fund was established in 1999 under a self-insurance scheme with the initial funding computed based on the 1998 actual expenses incurred by the BSP employees. Balance of the Fund is reported under a capital reserve account in the balance sheet. Investments of the Fund are in government securities and all incomes accrue to the Fund. The BSP Comptrollership Sub-Sector is the administrator of the Fund.

2.21. Capital reserves

The capital reserves listed below had been set-up to cover for various risks.

2.21.1. Currency insurance fund

The currency insurance fund which was adopted in 1955 and rationalized in 1996 funds the Bank's self-insurance scheme for any losses that may arise from its currency shipments. Transfers to the reserve account are made from the surplus account and are computed based on the highest value of the shipment for the previous year multiplied by .001%. Investments of the Fund are in government securities and all incomes accrue to the Fund. The BSP Comptrollership is the administrator of the Fund.

2.21.2. Fidelity insurance fund

This Fund was set-up in 1997 as self-insurance for the fidelity bond of bank officers and staff with cash and gold accountabilities in excess of PHP100 million. Accountabilities up to PHP100 million are covered by fidelity bonds issued by the Bureau of the Treasury. Annual charges against surplus are computed at 75% of 1% of the maximum amount of accountabilities (net of PHP100 million) of each group/individual covered by the Fund. Investments of the Fund are in government securities and all incomes accrue to the Fund. No additions to the Fund were made in CY2006. The BSP Comptrollership Sub-Sector is the administrator of the Fund.

2.21.3. Property insurance

A self-insurance was set-up in 2003 to cover for potential losses that are in excess of what are presently covered by the insurance policy written by the Government Service Insurance System. Properties insured are artworks, paintings, and sculptures which are valued at acquisition cost. Amounts earmarked are not invested. No additions were made to the fund in CY2006.

2.21.4. Reserve for the rehabilitation of the Security Plant Complex

The account was set-up in 2003 to fund the rehabilitation and upgrading of the facilities of the SPC which were constructed in 1979. Based on the rehabilitation master plan, the project is estimated to cost PHP5.709 billion and will be completed by 2008. Of the PHP821.20 million budgeted in CY 2006 for SPC rehabilitation, PHP184.5 million was utilized and reverted to the surplus account.

2.21.5. Reserves for fluctuation in foreign exchange rates and price of gold

These reserves were initially set-up in 1998 to serve as repository of provisions for potential loss arising from the volatility of the exchange rates and price of gold. The amounts are set aside quarterly from the net realized FX and gold price gains. Total provision provided in CY2006 amounted to PHP11.225 billion.

2.21.6. Directors and officers liability insurance fund

The fund was set up in CY2005 under a self insurance scheme as an additional coverage for those officers already covered by insurance written by the Government Service Insurance System (GSIS). The initial fund set up amounted to PHP500 million and additional fund of PHP100 million was provided in CY2006. GSIS is the Claims Administrator of the self-insurance program. The PFO is the administrator of the fund and investments are in the form of government securities where income earned accrues to the fund, net of 15% management fee to PFO.

2.21.7. Reserve for contingencies

This is a general reserve. In CY 2006, PHP6.820 billion was reverted to “Surplus Account” corresponding to capital reserves set up in CY2004 for the advances to the National Government (NG) for IMF quota subscription. The NG partially settled the advances on 8 February 2006.

2.21.8. Gold insurance

The fund is similar to the self-insurance scheme for currency shipments of the Bank to cover for any losses that may arise from gold shipments. Transfers to the reserve account are charged against surplus account. Funds are not invested in government securities. Bookings on the account started in CY2006 only.

2.22. Cash flows

Cash is defined as those financial instruments that are highly liquid and are used in the day-to-day cash management of the central bank. This includes the highly liquid foreign reserve assets of the BSP and local currency financial assets that arise from the BSP’s management of the National Government account. This also includes other foreign and local demand deposits with other financial institutions, revolving fund in the form of receivables from accountable BSP employees and checks and other cash items. Cash liabilities include government short-term deposits, deposits of banks and other financial institutions.

Investing activities are those relating to the acquisition and disposal of non-cash current and non-current securities and advances and any other non-current assets.

Financing activities are those relating to changes in equity and debt capital structure of the Bank and those activities relating to the cost of servicing the entity’s equity capital.

Operating activities are all activities that are not investing or financing activities.

2.23. Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

2.24. Prior period adjustments

Following PAS 8, subsequent adjustments to prior years' income and expense are recognized in the income statement.

2.25. Dividend distribution

In accordance with transitory provisions of R. A. No. 7653, Sec. 132 (b), the BSP remits seventy-five (75%) of its net profits to a sinking fund until such time as the net liabilities of the old central bank shall have been liquidated or to the National Government as dividends with the remaining twenty five (25%) as residual to BSP surplus.

2.26. Commitments and contingent liabilities

As of the balance sheet date, the BSP recognizes the following as commitments and contingent liabilities:

	2006 PHP000
FX commitment receivable	**303,976,308**
Currency unissued	**192,272,761**
L/C held/received in process	**794,122**

Currency unissued refers to the face value of notes and coins delivered by the SPC (the printing and minting plant) to the Unissued Currency Stock Committee (UCSC). The production cost of the stock has been recognized either in currency inventory (still held by the UCSC) or as expense (delivered to Cash Department).

FX commitment receivable consists of FX currency forward, foreign currency swap, non-deliverable forward contract and forward contracts under the currency risk protection program (CRPP). A foreign currency swap transaction refers to the simultaneous purchase and sale of identical amounts of currency for different value dates, although quite typically the near leg of a swap is a spot deal. At spot date, a contingent asset/liability is set-up at a forward (agreed) rate. The CRPP transaction refers to a non-deliverable USD/PHP forward contract (NDF) between BSP and an authorized universal/commercial bank, for bank clients, to hedge their eligible foreign currency obligations. Under the CRPP facility, only the net difference between the contracted forward rate and the prevailing spot rate/fixing rate shall be settled in pesos at maturity of the contract. At spot date, contingent asset/liability is set-up at forward (agreed) rate.

Letters of Credit (L/Cs) held/received in process refers to outstanding L/Cs opened covering BSP importation of raw materials and/or capital asset acquisition where no loading/shipment has been made as of CY2006.

2.27. Trust Accounts

In addition to the various funds set-up for BSP employees and to cover various risks, BSP also administers (a) funds provided by the National Government, Government of Japan and other foreign financial lending institutions for relending to participating financial institutions and (b) funds held in escrow that are invested in government securities.

3. Financial risk management

The BSP is exposed to financial risks associated with its foreign currency and local currency activities. In managing the risks, Treasury Department, Department of Loans and Credit and Asset Management Department are guided by policies approved by the Monetary Board.

The Monetary Board has approved in CY2004 the adoption of a modified centralized enterprise-wide risk management system to institutionalize a structured and systematic approach towards a consistent risk management practice within the Bank. In line with the approval, a Risk Management Office was created under the supervision of the Risk Management Committee consisting of Monetary Board members.

Risk-taking and risk-controlling activities are covered by investment guidelines that were designed to achieve the objectives of capital preservation, liquidity and profitability. The guidelines include permissible investments, allowable markets, allowable currencies, minimum credit rating of issues and deposit banks, and maximum maturity/duration limits, liquidity of an issue and concentration limits, monitoring compliance and reporting breaches to limits. The principle of separation of the front, middle and back office functions, specific authorization levels and accountabilities and plans for contingency are observed.

The risk factors considered are as follows:

3.1. Currency risk

The Bank considers the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The limits on the level of exposure by currency and in total for both overnight and intraday positions are monitored daily. The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2006 grouped into assets and liabilities at carrying amounts.

In USD Thousand Equivalent

	CAD	GBP	YEN	SDR	USD	EUR	Others	Total
Foreign Currency Financial Assets								
Deposit with Foreign Banks	825	737	119,564	-	6,365,482	722,062	6,823	7,215,493
Other –Cash Balances	292	416	2,789	-	1,013	1,470	1,528	7,508
Investments	-	224,297	516,125	-	10,981,964	834,257	-	12,556,643
Gold in Bullion Vault	-	-	-	-	897,611	-	-	897,611
Gold with Foreign Financial Institution	-	-	-	-	2,043,690	-	-	2,043,690
IMF special drawing rights (sdr)	-	-	-	2,326	-	-	-	2,326
Loans and Advances			47		15,732			15,779
Other Foreign Currency Receivables	-	3,516	64	63,284	191,261	21,612	-	279,737
Total Foreign Currency Assets	**1,117**	**228,966**	**638,589**	**65,610**	**20,496,753**	**1,579,401**	**8,351**	**23,018,787**
Foreign Currency Financial Liabilitie								
Short term deposits	-	-	256,836	-	584,487	163	-	841,486
Allocation of IMF sdr	-	-	-	175,406	-	-	-	175,406
Derivative instruments	-	-	-	-	79,277	-	-	79,277
Loans Payable	312	1,027	131,803	-	37,081	11,474	2,770	184,467
Term Loan Facility	-	-	-	-	850,000	-	-	850,000
Bonds Payable	-	-	-	-	805,000	-	-	805,000
Other Liabilities	6	8	1,786	3,090	27,402	169	22	32,483
Total Foreign Currency Liabilities	**318**	**1,035**	**390,425**	**178,496**	**2,383,247**	**11,806**	**2,792**	**2,968,119**

3.2. Market risk

Market risk is the risk that the value of an investment will decrease due to change in market factors, i. e., interest, currency and commodity risks. In managing the foreign currency reserves portfolio, the BSP generally matches the maturity and currency of the assets that comprise the portfolio with those of the liabilities that funded those assets. The matched positions mitigate currency, interest rates and liquidity risk exposures. The investment guidelines specify, among others, the currency exposure and duration cap. Adherence to these guidelines is closely monitored and any breaches are reported and addressed immediately. With respect to its exposure to commodity risk associated with the gold holdings, the BSP manages this risk by placing a cap on the level of the gold holdings and by closely monitoring gold price volatility.

The BSP Treasury Department is currently testing a recently acquired Middle Office Risk Management System (MORMS) that will complement existing market risk management tools with value at risk (VaR) back testing and stress testing. VaR is a common tool used by financial institutions (including central banks) in managing market risk exposures of their aggregate portfolios. Back testing, on the other hand, when performed on a regular basis, will help ensure the integrity of the VaR model while stress testing will ensure that extreme events are identified and captured in the risk measurement.

3.3. Credit risk

Credit risk is the potential for financial loss from default of a debtor, issuer or counterparty. For the foreign currency reserve portfolio, deposit placements and other money market transactions are made only with the BSP accredited counterparties. Limits are assigned to these counterparties in relation to their credit ratings (minimum of Moody's rating of A3 or its equivalent rating from other international rating agencies), financial strength and size of capital. The limits are updated quarterly or more frequently as necessary when new information about the counterparties' creditworthiness becomes available.

The BSP also has investments in marketable sovereign issues of well developed markets with minimum Moody's credit rating of AA2 (or its equivalent rating from other international rating agencies) and supranational issues with minimum Moody's rating of AA3 (or its equivalent rating from other international rating agencies).

As a means of enhancing revenues, the BSP also participates in the securities lending programs through its global custodian-securities lending agents and a third party lending agent. Agreements executed with these entities provide for the full indemnification of the BSP of these entities (in case of borrower's default) and over collateralization, which effectively eliminates credit risk exposure from the borrowing brokers.

For the domestic portfolio, which is essentially held for open market operations in pursuit of the policy objective of price stability, holdings are limited to debt issues of the Philippine government as well as in debt issues of government instrumentalities that are fully guaranteed by the government.

Credit risks associated with repurchase agreements of the BSP with local banks are covered by government securities placed as collateral by the borrowing bank. To ensure that the BSP is adequately covered from potential loss, it assesses the collateral based on its existing market value but adjusted by haircuts. The haircuts, which are based on price and exchange rate volatilities, are designed to protect the BSP (under normal and extreme market conditions) against collateral value shortfall in the event of borrower's default.

The BSP Loans and Credit Department is exposed to credit risk associated with rediscounting, overnight clearing line and emergency loans to distressed banks and the Philippine Deposit Insurance Corporation. In managing the risks, the department observes the credit policy measures approved in 26 January 2006 by the Monetary Board. These measures include adopting: (a) new credit limits to individual banks under the new Credit Information System (CRIS); (b) additional documentation in the form of notarized surety agreement, deed of assignment and trust receipt agreement; (c) stricter standards for acceptability and valuation of collaterals on loans; (d) discontinued automatic conversion of overdrafts into emergency loans and (e) aligning interest rates with market rates for rediscounting loans. Other risk management practices already in place are (a) automatic debit of maturing obligations of banks' demand deposit with BSP; (b) post credit investigation of borrowing banks and (c) periodic updating of records on collateral covers for loan exposures.

3.4. Liquidity risk

Liquidity risk is the risk that foreign currency assets cannot be mobilized or sold in a timely and economic manner to sufficiently meet the demands for liquidity. These demands take the form of payments of interest and principal of maturing foreign currency obligations and if warranted, in providing liquidity to the local foreign exchange market. The BSP manages this risk by regularly monitoring its foreign currency obligations and allocating sufficient funds to meet those obligations. The funds allocated are thus invested in short-term money market instruments and marketable securities whose securities generally match the maturities of the foreign currency liabilities that funded those investments.

3.5. Operational, legal and reputational risk

Aligned with the institutional requirements, policies and procedures that include levels of authority and accountabilities are documented and operations are subject to internal and external audits. Internal control procedures include the observance of the principles of separation of duties and checks and balances, staff rotation, and the code of ethics.

In treasury operations, the recent launch of the Philippine Dealing Exchange (PDeX) FX Trading Platform allows for a straight through processing of USD/PHP spot transactions, which in turn is expected to minimize operational risk by eliminating the additional step of re-encoding of the settlement transaction details by the back-office personnel.

In accordance with the BSP's business continuity management, onsite and offsite back-up facilities are in place. To minimize business disruptions in the event that the primary installations become inoperable, the back-up facilities are periodically tested.

The BSP Asset Management Department is exposed to risks associated with the decline in market values of acquired assets. In managing the risk, the department has periodic appraisal of its acquired assets and valuation set up to align with current market prices.

4. Significant events

a. The Monetary Board approved on 23 February 2006 the renewal of the Memorandum of Agreement (MOA) establishing the Common Aviation Unit for two units Bell Helicopters for six years from 18 March 2004 until 2010. BSP paid PHP4.282 million corresponding to two (2) years annual share for the renewal of aviation policy with the Government Service Insurance System.

b. The Monetary Board approved on 15 December 2006 to recognize as additional expenses for CY2006 the basic compensation withholding tax deficiency of PHP56.234 million pertaining to CY 2004.

c. The Monetary Board approved on 29 December 2006 prepayment in full by the BSP of its outstanding availments under the extended fund facility (EFF) with the International Monetary Fund (IMF) amounting to US$219.7 million (SDR146.3 million) or PHP11.136 billion. The prepayment resulted to the closing and recognition of the related outstanding revaluation account of PHP3.26 billion under "Loss on Fluctuation in FX Rates-DFFI-IMF Holdings" in the income statement.

d. The Bureau of Internal Revenue has issued as assessment notice dated 29 January 2007 relative to the BSP's internal revenue tax liabilities for taxable year CY2004 covering "Gross Receipts Tax" amounting to PHP2.294 billion and "Final Withholding Tax" aggregating PHP1.423 billion (both inclusive of surcharges and interest up to 30 January 2007) or a total assessment of PHP3.717 billion. BSP has requested BIR for the reconsideration/re-evaluation of the assessment.

e. Cash Department implemented in CY2006 the complete shredding of 77.909 million pieces (out of 80.0 million pieces) of issued and recalled imported 100-piso error (Arrovo) notes with face value of PHP7.791 billion. Current negotiation between the BSP and the Francois Charles Overthur Fiduciare (FCOF), printer of the "defective notes is on-going and any agreement reached for amicable settlement between the parties shall be subject to approval of Philippine Court."

5. Critical accounting estimates, and judgments in applying accounting policies

The preparation of the financial statements in accordance with previous GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses, and disclosure of contingent assets and contingent liabilities. Future events may occur which can cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

6. Investment securities

		2006 PHP000	2005 PHP000
Securities available for sale	Under securities lending		
Marketable securities	0	**225,970,153**	430,486,435
Other investments	252,388,808	**389,870,405**	178,215,845
	252,388,808	**615,840,558**	608,702,280
Accrued interest		**4,733,279**	3,705,425
Total		**620,573,837**	612,407,705

Marketable securities include treasury strips pertaining to the 1992 RP Financing Plan reclassified from “FX Receivable” upon release by the Treasurer of the Philippines that have outstanding balance of PHP3.45 billion (market value) as of 31 December 2006.

7. Gold

	Note	**2006 PHP000**	2005 PHP000
In bullion vault	**a**	**44,023,321**	43,722,448
With foreign financial institutions	**b**	**100,232,790**	92,560,991
		144,256,111	136,283,439
Accrued interest		**0**	8,876
Total		**144,256,111**	136,292,315

a. Gold in bullion vault

	2006		2005	
	PHP000	**FTO**	PHP000	FTO
Opening balance- Dec.31	**43,722,448**	**1,593,787.123**	30,287,582	1,229,729.436
Additions during the year	**35,267,639**	**1,216,948.002**	25,078,523	1,063,794.379
	78,990,087	**2,810,735.125**	55,366,105	2,293,523.815
Transfers to foreign financial institutions	**(33,121,704)**	**(1,400,506.088)**	(15,140,518)	(699,736.692)
Net increase due to price/rate revaluation	**(1,845,062)**	**0**	3,496,861	0
Ending balance-Dec. 31	**44,023,321**	**1,410,229.037**	43,722,448	1,593,787.123

b. Gold with foreign financial institutions

	2006		2005	
	PHP000	**FTO**	PHP000	FTO
Opening balance – Dec.31	**92,560,991**	**3,374,068.039**	145,049,614	5,889,271.063
Additions during the year:				
Transfer from bullion vault	**33,121,704**	**1,400,506.088**	15,140,518	699,736.692
Purchases/rollovers	**51,146,701**	**1,640,635.177**	74,130,653	3,056,638.703
Total additions	**84,268,405**	**3,041,141.265**	89,271,171	3,756,375.395
	176,829,396	**6,415,209.304**	234,320,785	9,645,646.458
Net sales during the year/Maturities	**(99,775,835)**	**(3,204,384.027)**	(152,285,246)	(6,271,578.419)
Net increase due to price/rate revaluation	**23,179,229**	**0**	10,525,452	0
Ending Balance-Dec 31	**100,232,790**	**3,210,825.277**	92,560,991	3,374,068.039
Pledged	**0**		24,457,782	
Price of Gold in USD per FTO		**2006**		2005
		636.50		517.00

8. International monetary fund special drawing rights

	2006	2005
	PHP000	PHP000
Beginning balance	**44,709**	56,283
SDR acquisition	**1,011,915**	1,192,283
Income accruing to the fund	**121,288**	95,580
Revaluation	**2,954**	(12,617)
Payment of charges-interest and remuneration	**(1,066,805)**	(1,286,820)
` **Net increase/(decrease) for the year**	**69,352**	(11,574)
Ending balance	**114,061**	44,709
Accrued interest	**893**	162
Total	**114,954**	44,871

9. Loans and advances

Foreign currency loans and advances	% to Total	2006 PHP000	2005 PHP000
Special purpose			
IBRD 2469	**2.66**	**20,955**	20,955
Rediscounting			
Exporters yen facility	**0.29**	**2,307**	1,576
Exporters dollar facility	**97.05**	**764,101**	506,479
	100.00	**787,363**	529,010
Allowance for probable losses	**2.66**	**20,955**	20,955
	97.34	**766,408**	508,055
Accrued interest		**8,262**	1,810
Total		**774,670**	509,865

Local currency loans and advances	% to Total	Note	2006 PHP000	2005 PHP000
Philippine Deposit Insurance Corp.	**70.22**	**a**	**81,997,776**	73,103,329
National Government	**12.04**		**14,062,239**	20,882,822
Assumed obligations of PNB & DBP	**0.68**	**b.1**	**792,500**	792,500
RA 2052	**11.36**	**b.2**	**13,269,739**	20,090,322
Special purpose	**0.13**		**147,089**	148,635
Non-banks/Quasi banks	**0.00**		**0**	0
Rural Bank	**0.13**		**147,089**	148,635
Emergency	**4.53**	**c**	**5,298,077**	5,410,017
Commercial banks	**1.12**		**1,306,260**	1,305,881
Thrift banks	**2.74**		**3,203,636**	3,276,315
Rural banks	**0.67**		**788,181**	827,821
Rediscounting	**11.53**		**13,463,241**	14,594,197
Commercial banks	**6.24**		**7,290,194**	7,962,872
Thrift banks	**3.73**		**4,353,679**	4,788,328
Specialized banks	**0.20**		**236,756**	241,740
Rural banks	**1.36**		**1,582,612**	1,601,257

Overdrafts/overnight clearing line	**1.55**		**1,811,927**	1,836,836
Government securities purchased under repurchase agreement	**0.00**		**0**	40,000
Total	**100.00**		**116,780,349**	116,015,836
Allowance for probable losses	**6.93**		**8,096,168**	7,672,911
Net	**93.07**		**108,684,181**	108,342,925
Accrued interest			**8,655,760**	7,297,590
Total loans and advances			**117,339,941**	115,640,515
Total foreign and local currency	**100.00**		**117,567,712**	116,544,846
Allowance for probable losses	**6.90**	**d**	**8,117,123**	7,693,866
Net total	**93.10**		**109,450,589**	108,850,980
Amount past due			**8,605,973**	13,532,094
Rate			**7.32%**	11.61%

a. **Loans and advances to the Philippine Deposit Insurance Corporation (PDIC*)*** were re-lent to banks requiring financial assistance. The loans to PDIC are collateralized and interest-bearing.

b. **Loans and advances to the National Government (NG)**

1. These represent loans originally granted to the Development Bank of the Philippines (DBP) and the Philippine National Bank (PNB). The NG absorbed the loans and advances during the financial restructuring of these institutions.

2. These consist of non-interest bearing subscription loans and advances for the payment of increase in quota contribution of the Republic of the Philippines in the IMF under the 11^{th} General Review of Quotas. The PHP13.270 billion was granted by the BSP in February 1999 to cover for the SDR246.5 million increase in quota subscription, pursuant to R.A. No. 2052, as amended. The note matured in February 2004 and was rolled-over for another five (5) years to mature on 26 February 2009.

c. **Emergency loans** are forms of financial assistance, secured by assets, extended to banks and non-bank financial intermediaries.

d. **Allowance for probable losses**

Total outstanding loans and advances of PHP117.568 billion, represents 7.48% of total assets. Past due accounts of PHP8.606 billion represent 7.32% of outstanding loans and advances; 94.32% of past due accounts are covered by allowance for probable losses. Total probable loan losses booked in 2006 amounted to PHP.656 billion, net of recoveries.

10. Other receivables

	Note	**2006 PHP000**	2005 PHP000
Foreign currency receivables			
Accrued interest		**3,048**	9,734
Due from local banks		**0**	53,062
Due from foreign banks/branches	**a**	**565,326**	1,150,102
Foreign exchange receivables	**b**	**4,076,361**	18,309,776
Non-IR foreign exchange assets	**c**	**3,595,935**	4,758,378
		8,240,670	24,281,052
Local currency receivables			
Accounts receivable –Treasurer of the Philippines	**d**	**17,521,534**	22,581,759
Accounts receivable (net of allowance of PHP1,625,831)	**e**	**3,794,909**	2,337,146
Notes receivable		**1,366,731**	1,366,731
Due from local banks		**174,557**	151,503
Receivables from staff/others	**f**	**521,675**	758,329
Lease receivable		**5,917**	22,445
Sales contracts receivable		**1,171,475**	854,968
Items under litigation		**14,500**	16,258
		24,571,298	28,089,139

a. **Due from foreign banks/branches – special account** – is used to record all peso/dollar purchase/sale transactions through the Philippine Dealing System. It is a temporary non-international reserve account from which funds are transferred to/from the Federal Reserve.

b. **Foreign exchange receivables-** represent collaterals in the form of securities put up by then Central Bank of the Philippines (CBP) for the CBP RP loans assumed by the National Government and converted into US Dollar bonds known as “Brady Bonds” under the 1992 RP Financing Plan. These collaterals are held by the collateral agent, FRBNY, under the name of the Republic of the Philippines. The net reduction of PHP14.233 billion in 2006 includes US treasury strips related to the 1992

RP Financing Plan with market value of USD228.5 million (par value of US$418.6 million) that was released by the Treasurer of the Philippines (TOP) and reclassified to "Foreign Investment – International Reserve (IR)" account.

c. **Non-IR FX assets –** include BSP's 25% subscription to the offering of 3,000 shares of the third tranche of the Bank for International Settlement's (BIS) capital and investment in BSP "Yankee" bonds issued on 24 June 1997 to mature in 2027 worth US$5.954 million or PHP.292 billion acquired by BSP in the open market.

d. **Accounts Receivable-TOP –** a special receivable account to record the NG's share in the annual revaluation of the IMF holdings of Philippine Peso with the BSP based on change in PHP/SDR exchange rate.

e. **Accounts Receivable –** part of the balance are receivables of the Security Plant Complex in the amount of PHP.246 billion mostly coming from the printing of passports.

f. **Receivable from staff/others –** includes the PHP.025 billion advances to AMLC from January 2004 to 31 December 2006 which is not covered by appropriation from the National Government.

Amount also includes cash shortage of PHP.033 billion found in the cash accountability of accountable officer in BSP Cotabato Branch in December 2005.

11. Investments securities-available for sale

	Note	**2006 PHP000**	2005 PHP000
Treasury bonds		**62,703,423**	57,642,527
Treasury bills	a	**158,498,377**	14,707,629
Treasury notes		**507,122**	1,649,729
PICC (Investment in T-Bills)		**185,713**	165,590
Total		**221,894,635**	74,165,475
Accrued interest		**558,400**	737,713
T o t a l		**222,453,035**	74,903,188

a. **Treasury bills –** the increase in level is in line with the approval by the Monetary Board on 16 March 2006 of the adoption of the revised implementing guidelines on the mode of compliance with the liquidity reserve requirement from government securities holdings bought directly from the Bangko Sentral ng Pilipinas (BSP) to term deposits in reserve deposit account (RDA) maintained with BSP.

12. Due from administrator of funds

	Note	**2006 PHP000**	2005 PHP000
Comptrollership			
Currency insurance		**2,525,221**	2,390,421
Gold insurance		**810**	0
Fidelity insurance		**20,842,161**	17,500,186
Medical benefit		**832,636**	617,756
Post retirement benefit		**130,759**	27,350
Sub-total		**24,331,587**	20,535,713
Provident fund office			
Post retirement benefit		**1,014,145**	1,386,550
Car plan fund		**505,465**	261,230
Provident fund		**105,096**	88,644
Directors and Officers liability insurance fund	**a**	**506,003**	0
Sub-total		**2,130,709**	1,736,424
Department of Loans and Credit			
Apex		**7,274,488**	6,920,229
Industrial Fund		**2,515**	2,515
Sub-total		**7,277,003**	6,922,744
Total		**33,739,299**	29,194,881

a. Represents initial fund set up in CY2006 of PHP.500 billion for the BSP self insurance scheme and accumulated earnings for CY2006.

13. Bank premises, furniture, fixtures and equipment

	TotaL PHP000	Land and Bldgs. PHP000	Property Improve-ment PHP000	Computer Hardware and Software PHP000	Plant and Equipment PHP000	In-Transit Items PHP000	In-Process/ Progress/ under Construc-tion Items PHP000
As at 31 Dec. 2005							
Cost	18,042,912	9,634,738	1,694,175	1,948,567	3,787,111	95,745	882,576
Accumulated depreciation	6,258,772	1,365,917	984,743	1,413,412	2,494,700	0	0
Net book amount	**11,784,140**	**8,268,821**	**709,432**	**535,155**	**1,292,411**	**95,745**	**882,576**
Year ended 31 Dec. 2006							
Opening net book amount	**11,784,140**	**8,268,821**	**709,432**	**535,155**	**1,292,411**	**95,745**	**882,576**
Additions	1,229,445	35,148	326,580	166,539	471,031		230,147
Disposals/Reclassification at book amount	(189,903)	0	46,444	(611)	(32,536)	(92,889)	(110,311)
Depreciation	(707,716)	(117,141)	(99,767)	(214,420)	(276,388)	0	0
Closing net book amount	**12,115,966**	**8,186,828**	**982,689**	**486,663**	**1,454,518**	**2,856**	**1,002,412**
As at 31 Dec. 2006							
Cost	19,082,454	9,669,886	2,067,199	2,114,495	4,225,606	2,856	1,002,412
Accumulated depreciation	(6,966,488)	(1,483,058)	(1,084,510)	(1,627,832)	(2,771,088)	0	0
Net book amount	**12,115,966**	**8,186,828**	**982,689**	**486,663**	**1,454,518**	**2,856**	**1,002,412**

14. Acquired assets

	2006 PHP000	2005 PHP000
Various properties	**14,059,480**	14,200,479
Less: Allowance for market decline	**2,704,611**	2,403,786
Net	**11,354,869**	11,796,693

Although the acquired assets portfolio increased in 2006 to a total of 34,680 titles from 13,123 titles or 60.88%, the overall value showed a net decrease of PHP.141 billion.

15. Inventories

	Note	2006 PHP000	2005 PHP000
Gold for domestic sale		**11,064**	9,364
Gold for refining		**7,322,503**	10,437,252
Silver for refining		**4,764**	3,505
Currency inventory	a	**2,604,439**	784,268
SPC inventories		**2,917,134**	3,738,432
Work-in-process		**1,635,046**	3,620,153
Other supplies		**70,231**	98,394
Total		**14,565,181**	18,691,368

a. The increase in level resulted from accelerated delivery of high denominated notes and coins in 2006 by SPC to the Unissued Currency Stock Committee in line with the approval of the Monetary Board in its resolution dated 23 November 2006, of the maintenance of a "buffer stock" at manageable/optimum levels of currency inventory in Cash Department and RMASS for contingency purposes.

16. Miscellaneous assets

	Note	2006 PHP000	2005 PHP000
Deferred charges		**863**	863
Deposits – utilities & services		**23,907**	4,766
Input tax		**17,370**	14,404
Withholding tax at source		**0**	5,558
Miscellaneous assets	a	**43,845**	1,250,068
Total		**85,985**	1,275,659
Commemorative notes & coins		**765**	721
Demonetized commemorative coins		**21**	22
Demonetized coins for melting & refining		**417**	417
Items for exhibit		**7**	7
Numismatic collections on hand		**14,198**	14,198
Paintings and sculptures		**53,968**	52,520
Total commemorative coins and artworks		**69,376**	67,885
Due from PICC		**(642)**	447
Checks and other cash items	b	**3,620**	184
Checks and other collection items in –transit		**758**	559
Stocks and other securities		**10,715**	10,735
Total		**169,812**	1,355,469

a. The decrease resulted mainly from the closing of in-transit items as of end of 2005 which are covered by import Letters of Credit.

b. Includes two (2) checks received after cut-off on 29 December 2006 amounting to PHP.003 billion.

17. Short-term foreign currency deposits

	2006 PHP000	2005 PHP000
Small and medium scale entities	**12,254,561**	11,307,241
National Government	**27,689,760**	4,852,194
Other entities	**1,326,383**	1,476,791
Foreign banks	**0**	2,149,542
	41,270,704	19,785,768
Accrued interest	**30,308**	29,515
Total	**41,301,012**	19,815,283

Short-term deposits of other entities represent proceeds of foreign funds deposited with the BSP by government or government-controlled corporations intended for foreign funded projects.

18. Loans payable

	Note	**2006 PHP000**	2005 PHP000
Maturing in 1-5 years			
Gold-backed loans		**0**	7,959,300
Gold repo deposits		**0**	11,938,950
Term loan facility		**41,688,246**	111,650,110
		41,688,246	131,548,360
Maturing in more than 5 years			
Blocked peso deposit (Circular 1139/1202)		**73,972**	73,278
Blocked peso deposit (Circular 1298)		**8,973,202**	13,657,845
Letter of inst. 1442- at original cost (PHP49.99)		**3,846**	3,846
	a	**9,051,020**	13,734,969
		50,739,266	145,283,329
Accrued interest		**953,780**	2,110,730
Total		**51,693,046**	147,394,059

a. These are local currency deposits of original public sector borrowers (National Government owned and controlled corporations and government financial institutions) transferred to the then Central Bank on the date the loan amortizations fell due. These deposits were later registered with the

BSP under various foreign loan restructuring arrangements. BSP became the assuming obligor under these rescheduled contracts.

19. Bonds payable

	Note	2006 PHP000	2005 PHP000
Bonds due 2027	a	**19,618,000**	21,224,800
Bonds due 2097		**4,904,500**	5,306,200
BSP floating rate note		**14,958,725**	19,576,930
		39,481,225	46,107,930
Deduct: Discount on bonds		**(80,732)**	(88,812)
		39,400,493	46,019,118
Accrued interest		**219,585**	291,769
Total		**39,620,078**	46,310,887

a. These are "Yankee Bonds" issued by BSP on 24 June 1997. It includes bonds worth US$5.954 million or PHP.292 billion acquired by BSP in the open market. The bonds acquired are recorded as investment in "Foreign Currency denominated securities – Non-IR FX Assets" in line with the terms and conditions of the BSP Yankee Bonds.

20. Allocation of special drawing rights

	2006 PHP000	2005 PHP000
Allocation of SDRs	**8,602,764**	8,842,556
Accrued interest	**58,084**	43,004
Total	**8,660,848**	8,885,560

21. Deposits

	Note	2006 PHP000	2005 PHP000
Government deposits			
Short –term	a	**49,179,710**	50,511,210
Long – term	b	**30,000,000**	30,000,000
Total		**79,179,710**	80,511,210
Accrued interest		**1,644,582**	2,456,487
		80,824,292	82,967,697
Demand deposits			
Banks/NBQBs-reserve deposits	c	**163,725,170**	130,845,239
Banks/NBQBs-liquidity reserves	d	**169,626,801**	0
Others		**7,708,667**	1,500,488
Total		**341,060,638**	132,345,727

Accrued interest		**1,189,901**	183,304
		342,250,539	132,529,031
International monetary fund and other financial institutions	**e**	**55,066,923**	82,514,610
Total		**397,317,462**	215,043,641

Government deposits

a. Short-term deposits include NG's regular and special deposit accounts which are paid four percent (4%) interest per annum and fixed term deposits with interest rate based on weekly treasury bills auction rate.

b. The long-term deposit is backed by the PHP30.000 billion 1993 25-Year Treasury Bond. This deposit earns the same interest rate as the Treasury Bonds.

Demand deposits of banks/non-banks with quasi-banking licenses

c. Forty percent (40%) of the required reserves (excluding liquidity reserve) or demand deposit balance maintained with the BSP, whichever is lower, are paid interest at four percent (4%) per annum. The interest is credited to the demand deposit accounts on a quarterly basis.

d. In its Resolution dated 16 March 2006, the Monetary Board approved the revised mode of compliance for liquidity reserves from holdings in government securities purchased from Bangko Sentral issued specifically for the purpose of placing term deposits in the reserve deposit account (RDA). The interest rates applied to the RDA was set at one-half percent (1/2%) below the prevailing market rate for comparable government securities.

e. International monetary fund currency holdings and other financial institutions

   The Republic of the Philippines (RP) has been a member of the International Monetary Fund (IMF) since 1945. BSP is the designated depository for the IMF's holdings of local currency. The IMF's holdings of local currency amounted to the equivalent of SDR706 million at 31 December 2006.

   The balance of IMF's currency holdings (SDR86.685 million) represented by a non-negotiable, non-interest bearing security encashable on demand and issued in the favor of the IMF, is held by the BSP on a custodial basis in its capacity as the IMF's depository. The IMF revalues its local currency holdings on 30 April of each year at which time a currency valuation adjustment arises.

For CY2006, the depreciation of SDR against the peso by PHP6.386, from PHP82.513/SDR as of 30 April 2005 to PHP76.127/SDR as of 30 April 2006, resulted to a revaluation loss of PHP6.396 billion in the IMF local currency holdings with BSP. The revaluation is shared between the BSP and the National Government (NG) based on the outstanding balances of quota subscription (for NG) and credit availments from Standby Credit Facility (SCF) and Extended Fund Facility (EFF) for BSP. Of the total accrued revaluation of PHP6.396 billion, the BSP's share of PHP1.336 billion was recognized under "Revaluation of International Reserves" account while the NG's share of PHP5.060 billion was recognized as "Accounts Receivable – Treasurer of the Philippines".

The reduction of PHP27.448 billion in the deposit accounts of IMF and other financial institutions maintained with BSP is accounted mainly by (a) settlement of PHP6.479 billion matured availments under the Extended Fund Facility (EFF) of IMF, (b) prepayment of outstanding EFF availments as of 29 December 2006 aggregating PHP11.136 billion, and (c) recognition of annual revaluation loss of IMF local currency holdings in April 2006 amounting to PHP6.386 billion.

22. Currency in circulation

Denomination	Quantity		Amount	
	2006	2005	**2006 PhP000**	2005 Php000
Notes				
100,000	**118**	118	**11,800**	11,800
2,000	**14,030**	9,964	**28,060**	19,928
1,000	**132,367,131**	110,734,593	**132,367,131**	110,734,593
500	**337,072,806**	296,212,179	**168,536,403**	148,106,090
200	**33,728,702**	19,744,360	**6,745,740**	3,948,872
100	**395,450,117**	373,158,111	**39,545,012**	37,315,811
50	**307,818,730**	263,320,427	**15,390,936**	13,166,021
20	**413,072,478**	538,123,864	**8,261,450**	10,762,477
10	**76,518,316**	81,992,779	**765,183**	819,928
5	**30,988,918**	31,306,345	**154,945**	156,532
Total notes in circulation			**371,806,660**	325,042,052
Coins				
10 Piso	**254,835,520**	194,290,797	**2,548,355**	1,942,908
5 Piso	**1,059,768,067**	1,011,398,412	**5,298,840**	5,056,992
1 Piso	**3,324,900,825**	3,143,795,626	**3,324,901**	3,143,796
25 Sentimo	**4,392,521,069**	3,897,513,626	**1,098,130**	974,378
10 Sentimo	**1,799,055,484**	1,691,889,330	**179,906**	169,189
5 Sentimo	**1,182,170,789**	1,109,115,270	**59,109**	55,456
1 Sentimo	**13,154,712**	12,029,642	**132**	120
Total			**12,509,373**	11,342,839
BSP commemorative coins	**2,859,897**	2,793,092	**175,583**	172,615
Total coins in circulation			**12,684,956**	11,515,454,
Total currency in circulation			**384,491,616**	336,557,506

23. 23. Other liabilities

Foreign currency	Note	2006 PHP000	2005 PHP000
Derivative instruments	a	**3,886,961**	13,557
Other liabilities	b	**1,342,079**	3,376,926
Accounts payable		**993,020**	927,685
Accrued expenses		**177,750**	225,137
Other liabilities		**171,309**	2,224,104
Total foreign currency liabilities		**5,229,040**	3,390,483

Local currency		2006 PHP000	2005 PHP000
Retirement benefit obligations		**1,618,311**	1,311,051
Miscellaneous liabilities		**3,411,112**	2,407,897
Accounts payable	c	**1,707,119**	926,859
Accrued expenses		**74,941**	35,184
Taxes payable		**332,955**	277,910
Miscellaneous liabilities		**1,296,097**	1,167,944
Dividends Payable	d	**887,472**	0
Total local currency liabilities		**5,916,895**	3,718,948

a. The increment resulted from increased outstanding foreign currency swap where the unrealized gain/loss due to change in fair value and exchange rate are recognized as a liability account in line with PAS 39.

b. Pursuant to the provision of PAS 2, raw materials acquired through import Letters of Credit (LCs)are recognized as “asset-in-transit” only upon receipt of notice of actual loading/shipment from suppliers. LCs for importation not delivered but booked as in-transit account as of 31 December 2006 were reclassified as “Contingent” account.

c. Includes an outstanding obligation of a previously closed bank to CB-BOL amounting to PHP.915 billion assigned to BSP on 28 February 2006 per Memorandum of Agreement (MOA) and Deed of Assignment of Receivable.

d. This consists of P. Casal and San Miguel, Bulacan properties which were approved by the Monetary Board on 22 June 2006 to be deducted from the 75% share of the NG in the 2005 BSP net income as property dividend.

24. Revaluation of foreign currency accounts

	2006 PHP000	2005 PHP000
Unrealized gain or (loss) on FX rate fluctuations – beginning balance	**(3,650,483)**	48,991,696
Unrealized gain/(loss) transactions for the year	**(41,586,112)**	(38,377,619)
Total unrealized gain/(loss)	**(45,236,595)**	10,614,077
Less:Realized gain/(loss)	**(383,099)**	(14,264,560)
Total unrealized gain/(loss) on FX rate fluctuations	**(45,619,694)**	(3,650,483)
Unrealized gain/(loss) on price fluctuations – beginning balance	**61,261,795**	51,020,526
Unrealized gain/(loss) transactions for the year	**22,590,141**	27,860,059
Total unrealized gain/(loss)	**83,851,936**	78,880,585
Less: Realized gain/(loss)	**(29,135,238)**	(17,618,789)
Total unrealized gain/(loss) on price fluctuations	**54,716,698**	61,261,796
Total revaluation of foreign currency accounts	**9,097,004**	57,611,313

Realized gains on FX rate and price fluctuations

Realized gains on FX rate fluctuations	**19,018,552**	29,509,195
Realized loss on FX rate fluctuations	**(37,954,442)**	(29,509,195)
Net realized gain/(loss) on FX rates fluctuations	**(18,935,890)**	0
Realized gain on price fluctuations	**18,952,515**	11,847,817
Realized loss on price fluctuations	**(16,625)**	0
Net realized gain on price fluctuations	**18,935,890**	11,847,817
Total net gain on price and FX rate fluctuation	**0**	11,847,817

25. 25. Capital accounts

	Note	2006 PHP000	2005 PHP000
Capital	a	**10,000,000**	10,000,000
Surplus	b	**55,847,162**	48,736,809
Surplus reserves for price fluctuation		**(5,933,932)**	(12,426,819)
Capital Reserves			
Currency insurance fund		**2,525,514**	2,390,421
Fidelity insurance fund		**20,842,161**	20,037,183
Medical benefit fund		**832,636**	810,256
Directors/officers liability		**606,003**	500,000
Retirement benefit fund		**1,144,904**	1,413,900
Total managed funds		**25,951,218**	25,151,760
Gold insurance fund		**518**	0
Fluctuations in FX rates		**109,938,262**	109,938,262
Fluctuations in price of gold		**54,906,136**	43,681,769
Property insurance		**1,600,000**	1,600,000
SPC rehabilitation		**2,115,472**	2,300,000
Contingencies		**12,337,492**	19,158,075
Total		**180,897,880**	176,678,106
Total capital reserves		**206,849,098**	201,829,866
Total capital		**266,762,328**	248,139,856

a. The capital of the BSP shall be fifty billion pesos (PHP50.000 billion) pursuant to Section 2 2nd par. of R.A. No. 7653, to be fully subscribed by the Government of the Republic of the Philippines. Ten billion pesos (PHP10.000 billion) had been fully paid for by the Government upon effectivity of R.A. No. 7653 in 1993 and the balance to be paid within a period of two years from the effectivity of the Act in such manner and form as the Government, through the Secretary of the Finance and the Secretary of Budget and Management, may thereafter determine. The balance of PHP40.000 billion remains unpaid by the NG to the BSP.

b. Surplus includes the share of the National Government in the 2006 net profit for distribution. Pursuant to Section 132(b) of R.A. No. 7653, the BSP shall remit seventy five percent (75%) of its net profits to a special deposit account (sinking fund) until such time as the net liabilities of the then Central Bank shall have been liquidated, or to the National Government as dividends. The remaining twenty five percent (25%) shall be retained as the BSP's share and is recorded in the surplus account. Dividends are declared upon authority of the Monetary Board and remitted to the account of the Treasurer of the Philippines.

26. 26 Net interest income

	2006	2005
	PHP000	PHP000
Interest income from foreign currency financial assets		
Deposit with foreign banks	**15,449,444**	6,342,163
Investment securities – available for sale	**24,166,474**	21,398,391
Gold with foreign financial institutions	**7,820**	21,885
IMF special drawings rights	**3,479**	2,954
Loans and advances	**36,792**	33,357
Other foreign currency receivables	**470,285**	1,629,531
	40,134,294	29,428,281
Interest income from local currency financial assets		
Investment securities- available for sale	**6,894,570**	7,252,593
Loans and advances	**3,620,614**	4,202,142
Other receivables	**51,232**	29,220
	10,566,416	11,483,955
Total interest income from financial assets	**50,700,710**	40,912,236
Interest expense on foreign currency financial liabilities		
Short term deposits	**2,279,128**	1,006,823
Loans payable	**6,054,678**	6,103,948
Bonds payable	**3,497,040**	6,311,116
Allocation of IMF special drawing rights	**1,032,439**	1,204,052
Other liabilities	**482,315**	858,691
	13,345,600	15,484,630
Interest expense on local currency financial liabilities		
Government deposits	**7,715,382**	7,397,473
Deposits of banks and other financial institutions	**4,779,556**	3,147,120
Securities sold under agreements to repurchase	**15,013,704**	8,430,862
	27,508,642	18,975,455
Total interest expense on financial liabilities	**40,854,242**	34,460,085

27. Other operating income

	2006 **PHP000**	2005 PHP000
Printing, minting and refinery	**231,301**	228,649
Fees – local		
Banking supervision/clearing/license fees	**2,390,330**	1,389,548
Processing and filing fees	**22,502**	18,001
Transaction fee - *PhilPaSS*	**48,113**	44,284
Penalties and late charges	**133,644**	115,210
Others	**1,955**	203
Sub-total	**2,596,544**	1,567,246
Other income		
Rental on acquired assets	**34,822**	57,698
Building rental	**18,020**	16,903
Gain on sale of acquired assets	**27,506**	132,863
Other miscellaneous income	**473,302**	591,387
Sub-total	**553,650**	798,851
Total	**3,381,495**	2,594,746

28. Currency printing and minting cost

	2006 **PHP000**	2005 PHP000
Notes	**589,963**	1,151,185
Coins	**797,754**	592,836
Total	**1,387,717**	1,744,021

29. Operating expenses

	2006 **PHP000**	2005 PHP000
Personnel services, development and training	**5,505,605**	6,322,223
Administrative expenses	**1,795,541**	2,332,401
Depreciation	**476,349**	437,836
Total	**7,777,495**	9,092,460

30. Personnel services

	2006 PHP000	2005 PHP000
Salaries and wages	**3,710,741**	3,493,368
Personnel development and training	**194,819**	171,017
Sickness and death benefits	**167,241**	155,678
Medical and dental benefits	**18,392**	10,496
Social security contribution	**278,334**	239,176
Defined contribution plans	**975,655**	940,780
Post-retirement benefits	**160,423**	1,311,708
Total	**5,505,605**	6,322,223

31. Administrative expenses

	2006 PHP000	2005 PHP000
Traveling expenses	**261,665**	235,938
Taxes and licenses	**222,921**	171,175
Currency and gold operations expenses	**92,370**	79,799
Repairs and maintenance	**228,855**	162,776
Communication services	**106,013**	120,336
Grants, subsidies and contributions	**49,573**	65,579
Water, illumination and power services	**213,784**	227,735
Fidelity and property insurance	**68,016**	64,341
Rentals	**28,351**	27,972
Auditing services	**35,226**	32,298
Consultants and specialist services	**70,336**	68,774
Supplies and materials	**48,371**	62,517
Ammunitions	**2,281**	5,925
Discretionary expenses	**6,135**	6,055
Acquired assets expenses	**56,844**	34,247
Losses due to market decline	**560,373**	914,203
Others	**(255,573)**	52,731
Total	**1,795,541**	2,332,401

32. Profit for distribution

Based on Sections 43 and 132 (b) of R.A. No. 7653, The New Central Bank Act, the profit for distribution was computed as follows:

	2006 PHP000	2005 PHP000
Profit for the year	**3,784,588**	8,034,446
Reserve for fidelity losses	**0**	(2,536,997)
Reserve for medical benefit fund	**0**	(192,500)
Reserve for directors/officers liability fund	**(100,000)**	(500,000)
Profit for distribution	**3,684,588**	4,804,949

33. Reconciliation of operating cash flow with reported net income

	2006 PHP000	2005 PHP000
Reported net income after tax	**3,784,588**	8,034,446
Add (subtract) non-cash items:		
Depreciation	**476,349**	437,836
Amortization of premium/discount on bonds payable	**8,081**	(110,036)
Provision for probable loss	**665,968**	977,131
Provision for market decline	**560,372**	914,203
Total	**1,710,770**	2,219,134
Add (subtract) movements in other working capital items:		
(Increase) decrease in accounts receivable	**(1,446,366)**	3,668,953
Increase (decrease) in miscellaneous liabilities	**5,936,494**	(1,074,812)
Increase in interest receivable	**(2,720,285)**	(6,216,269)
Increase (decrease) in interest payable	**(310,427)**	1,521,768
Total	**1,459,416**	(2,100,360)
Add (subtract) investing and financing activities:		
Reserve for price fluctuation of gold holdings	**4,403,784**	11,087,302
Surplus adjustment – SPC	**0**	(4,283)
Net realized foreign exchange gain/(loss)	**0**	2,682,675
Total	**4,403,784**	13,765,694
Net cash flow from operating activities	**11,358,558**	21,918,914

34. Consolidated cash balances

	2006 PHP000	2005 PHP000
Foreign currency assets		
Deposit with foreign banks	**353,883,885**	225,427,674
Other cash balances (foreign currency on hand)	**369,308**	310,004
Marketable securities – readily convertible to cash	**478,358,961**	430,486,435
Other FX receivable – due from FX banks – special account	**565,326**	1,150,102
Other receivables – due from local Banks	**0**	53,062
Local currency assets		
Government securities	**221,894,636**	74,165,475
Other receivables – due from local Banks	**174,557**	151,503
Other receivables – revolving fund	**354,341**	602,892
Miscellaneous assets – checks and other cash Items (COCI)	**3,620**	184
Miscellaneous assets – COCI in-transit	**758**	559
Demand liabilities:		
Treasurer of the Philippines – short term deposits	**(49,179,710)**	(50,511,210)
Deposit of banks and other financial institutions	**(447,201,560)**	(214,860,337)
Closing cash balance	**559,224,122**	466,976,343