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 filled personnel complement of BSP based on plantilla is distributed as follows:

	2007	2006	Change
Head Office	**3,172**	3,180	-0.25%
Regional Offices /Branches	**1,095**	1,102	-0.64%
Security Plant Complex	**562**	554	1.44%
Total	**4,829**	4,836	-0.14%

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 16 December 2008.

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). References to the preparation of these statements in accordance with the PFRSPAS/s should be viewed with this qualification and related disclosures. The BSP has adopted the applicable PAS/PFRS consistent with those of the previous financial years and compliance thereto mentioned in the specific accounts where applicable.

1. PAS 1 - Presentation of Financial Statements
2. PAS 2 - Inventories
3. PAS 7 - Cash Flow Statement
4. PAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors
5. PAS 10 - Events After Balance Sheet Date
6. PAS 12 - Income Taxes
7. PAS 16 - Property Plant and Equipment
8. PAS 17 - Leases
9. PAS 18 - Revenue
10. PAS 19 - Employee Benefits
11. PAS 21 - The Effects of Changes in Foreign Exchange Rates
12. PAS 23 - Borrowing Costs
13. PAS 24 - Related Party Disclosures
14. PAS 26 - Accounting and Reporting by Retirement Benefit Plans
15. PAS 27 - Consolidated and Separate Financial Statements .
16. PAS 32 - Financial Instruments: Disclosure and Presentation
17. PAS 36 - Impairment of Assets
18. PAS 37 - Provisions, Contingent Liabilities and Contingent Assets
19. PAS 39 - Financial Instruments: Recognition and Measurement
20. PAS 40 - Investment Property
21. PFRS 1 - First-Time adoption of PFRS
22. PFRS 5 - Non-current Assets Held for Sale and Discontinued Operations
23. PFRS 7 - Financial Instruments: Disclosures

PAS 21 provides that unrealized gains and losses due to change in exchange rates/prices regardless of classification of assets are recognized under the income statement. BSP recognized unrealized gains and losses in accordance with Section 45 of R. A. 7653 and the realized gains and losses in the income statement under PAS 21.

The Acquired Assets account was reclassified into Acquired Assets Held for Sale for properties immediately available for sale in its present condition in compliance with PFRS 5 and in Investment Property under PAS 40.

Unless otherwise stated, the CY2007 balances are prepared under the historical cost convention and/or applicable PFRS/PAS

2.2. Consolidation

The BSP's financial statements include the accounts the Bank and the PICCI as at 31 December 2007. Due to immateriality of the balances of accounts of PICCI, "consolidated was omitted from the heading of the statement.

. Having control over PICC affairs, BSP consolidates the balance sheet of PICCI line by line pursuant to provision of PAS 27.

Under a management contract, the BSP provides annual budget for operating and capital expenditures of PICCI. Budget releases are accounted under "Due from/Due to (DF/DT) accounts" and liquidated by PICCI. Operating expenditures are incorporated in PICCI operation and correspondingly, the income and expense accounts of PICCI are accounted by BSP in the "Surplus" account through charges to DF/DT accounts. The capital assets acquisitions are accounted in BSP's books through charges to above-mentioned accounts. Any unutilized amounts are refunded back to BSP in the ensuing year. The revised accounting procedures for PICCI in compliance with PAS 24 – Related Party Disclosures will be implemented in CY2008.

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.

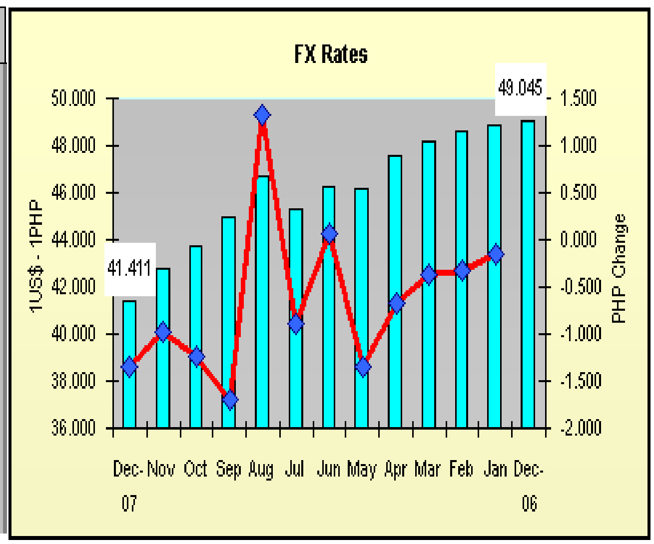
2.5. Foreign currency translation

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. Peso appreciated steadily except in the months of June and August to end up at PHP41.411 in 2007 against PHP49.045 in 2006 or PHP7.634 appreciation. Following were the end of month exchange rates in 2007. The end-December rate of PHP41.411 was used in these financial statements.

	USD - PHP	Change
Dec-07	**41.411**	**-1.348**
Nov	42.759	-0.971
Oct	43.730	-1.244
Sep	44.974	-1.690
Aug	46.664	1.320
Jul	45.344	-0.902
Jun	46.246	0.068
May	46.178	-1.358
Apr	47.536	-0.681
Mar	48.217	-0.366
Feb	48.583	-0.319
Jan	48.902	-0.143
Dec-06	49.045	
Mo Ave	45.879	-0.636

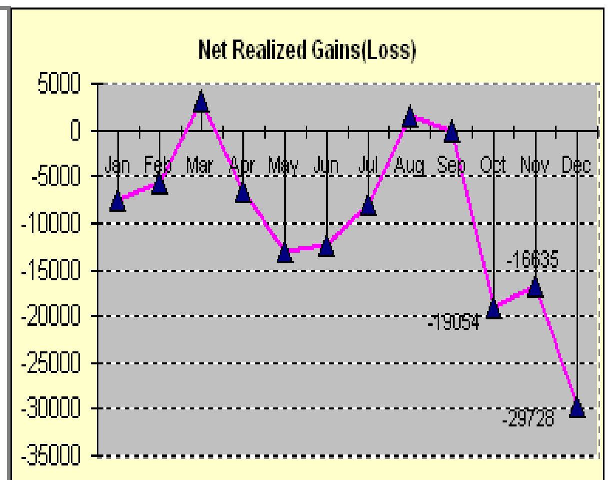


Foreign exchange gains and losses

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. The realized gain or loss arising from exchanges of the Bank's foreign currency financial assets is recognized in the income statement against a contra-account in the revaluation account in compliance with Sec. 45 of R.A. 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, a change in exchange rates of gold between two quarters is 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.

The realized gain/loss in fluctuation in prices as of 30 June 2007 was reclassified to "Trading Income-Gain (Loss)-Foreign" to separate gains (losses) due to price change from those movements in fluctuations in exchange rates.

In CY2007, no capital reserves provision was set up as the Bank incurred significant losses in fluctuations in FX rates that resulted in year-end net losses in realized Gain/Loss in Fluctuation of PHP113.709 billion.	**Gain**	**Loss**	**Net**
Jan	1555	-8954	-7399
Feb	919	-6655	-5736
Mar	4766	-1597	3169
Apr	1601	-8159	-6558
May	2436	-15433	-12997
Jun	1319	-13628	-12309
Jul	827	-8853	-8026



Aug	3087	-1445	1642
Sep	4796	-4875	-79
Oct	460	-19514	-19054
Nov	787	-17422	-16635
Dec	**860**	**-30587**	**-29727**
Total	**23413**	**-137122**	**-113709**

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 straight-line 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 straight-line 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 supervisory 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. The recognition and measurement is in accordance with PAS 39.

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 held 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 average 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. For CY2007, there were no gold swaps transactions.

Consistent with the recognition of unrealized gains and losses arising from changes in the exchange rates (as provided in Section 45 of R.A. 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.

Under the securities lending transactions, the foreign securities lent out remain in the foreign investments account.

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.

Under PAS 39,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 and allowances booked are adjusted correspondingly.

2.10. Sale and repurchase agreements

Repurchase and reverse repurchase 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 but are reclassified in the financial statements every end of the month. The domestic securities account is reclassified using the accounts: “Domestic Securities Sold under Repurchase Agreements” for securities used as collateral in the RRP transactions and “Domestic Securities-Free” for securities which are free from any encumbrance. The reclassification entry is reversed every first working day of the following month. The obligation to repurchase is recognized as a liability under the account Domestic Securities Sold under Agreements to Repurchase. The difference between the sale and repurchase price represents interest expense and is 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 in accordance with the principle adopted on the transfer of assets and liabilities of the then Central Bank to the Bangko Sentral. 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:

	Estimated Useful Life (No of Years)
Asset Group	2007
Buildings – BSP Constructed	30
BSP Acquired or Purchases	25
Property Improvements	
(building, land, leasehold and office)	10
Computer Hardware & Software	5
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. The booking to “Buildings” account includes the outstanding balance of the approved contract price.

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 actual receipt of the imported asset. 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 held for sale

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 held for sale are not depreciated. The carrying values of these 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. The use of recent appraised value in recognizing impairment is an alternative compliance to PAS 36 – Impairment of Assets- in the absence of the availability of a more realistic basis.

Expenditures such as repairs and maintenance are charged against operations in the year in which are 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 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 upon sale. CY 2007 Acquired Assets balance of P13.793 billion comprise of held for sale of P1.445 billion and held for investment of P12.348 billion. In line with the provisions of PFRS 5 and PAS 40, acquired assets were reclassified into Acquired Assets Held for Sale under PFRS 5 and Investment Property under PAS 40.

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. The raw materials are initially booked based on prevailing exchange rate at time of shipment/loading and correspondingly adjusted for any exchange rate differential upon settlement of obligation. Booking to inventory account is made upon actual receipt of shipment and costs include incidental costs incurred in bringing the inventory to BSP premises. Issuances are valued based on moving average method or on “first-in, first-out” basis, as applicable.

Finished currency notes and coins are recognized as currency inventory upon physical transfer from SPC to the Unissued Currency Division of Currency Issue and Retirement Office (CIRO) of Cash Management Sub-Sector (CMSS). Only upon issuance of notes and coins from CIRO to Cash Department, CMSS that currency production expenses for notes and coins are recognized. BSP values the currency inventory and issuances based on moving average method.

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 contracted after creation of Bangko Sentral in CY1993 are collateralized either by securities or gold. As of end CY2007, there are no outstanding foreign currency borrowings collateralized either by securities or gold.

Local currency financial liabilities refer to deposits of the National Government, banks and other financial institutions. All banks and quasi-banks operating in the country are required to maintain reserves against their deposit and/or deposit substitutes 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.

As part of BSP mandate to siphon excess liquidity and slow down growth of money supply, the BSP encouraged government-owned controlled corporations and trust departments of banks to deposit funds with BSP in CY2007.

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 the Act, notes and coins issued by the Bangko Sentral shall be liabilities of Bangko Sentral and may be issued only against, and in amounts not exceeding, the assets of the Bangko Sentral. Said notes and coins shall be a first and paramount lien on all assets of the Bangko Sentral.

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

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; b) impairment losses for acquired assets; c) minimum corporate income tax; and d) net operating loss carry over.

Pursuant to R.A. 9337, “National Internal Revenue Code” 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

2.**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 2.5%. 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. The Fund is administered by the BSP Provident Fund Board of Trustees through the Provident Fund Office and is operated independently of the existing Provident Fund loan facilities. Budgeted amounts earmarked for car plan fund are recognized as advances booked under "Due from Administrator of Funds" account and invested in marketable securities meantime that officers entitled to car plan program have not yet availed.

2.20.5. Retirement benefit fund

of departed members. and as a receivable from , as administrator, under the “Due from Administrator” account. The fund resources are invested in government securities and all incomes accrue to the Fund.**2.20.6. Medical benefit fund**

The Fund was established in 1999 under a self-insurance scheme to cover the expected medical benefits of all officials and employees of the Bank. Charges cover hospitalization expenses as approved under the BSP Medical Benefit Plan Balance of the Fund is reported under a capital reserve account in the balance sheet and the Comptrollership Sub-Sector is designated as administrator. Investments of the Fund are in government securities and all incomes accrue to 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 adopted in 1955 that was rationalized in 1996 funds the Bank’s self-insurance scheme for any losses that may arise from its currency and gold shipments. Annual transfers to the reserve account are made from the surplus account and are computed based on the highest value of the shipments for the previous year multiplied by .001%. The Fund is an internally managed fund that is accounted separately from the bank proper resources through the “Due from Administrator” account. Investments of the Fund are in government securities and all incomes accrue to 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. The Fund is an internally managed fund with the BSP Comptrollership Sub-Sector as administrator. The Fund is accounted separately from the bank proper resources through the “Due from Administrator” account. Investments of the Fund are in government securities and all incomes accrue to the Fund. There were no provisions to the Fund in CY2007 as it was determined that the balance of the fund is sufficient to cover the highest single amount of accountability covered by the fund. Since the establishment of the Fund, no claims have been charged thereon.

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 CY2007.

2.21.4. Reserve for the rehabilitation of the Security Plant Complex

The reserve account was set-up in 2003 to partially fund the rehabilitation and upgrading of the facilities of the SPC which were constructed/installed in 1979. Based on the rehabilitation master plan, the project is estimated to cost PHP5.709 billion and will be completed by 2008. Actual charges incurred chargeable against the reserve account result to reversion of the amount to 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.

In CY2007, BSP incurred heavy net realized losses in fluctuations in FX rates as the Peso continuously appreciated strongly against the US dollar by PHP7.634 or 15.57%, from CY2006 end-of-year exchange rate of PHP49.045/US1.00 to PHP41.411/US1.00 as at CY2007 end-of-year. This resulted in significant net realized losses of P113.709 billion in fluctuations in FX rates.

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 is to be provided annually until the total fund reaches PHP1.00 billion. GSIS is the claims administrator of the self-insurance program. The Fund is an internally managed fund with the Provident Fund Office as administrator. The Fund is accounted separately from the bank proper resources through the "Due from Administrator" account. Investible funds (net of amount as may be necessary for liquidity and reinvestment purposes) are invested 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 set aside for contingencies. It includes provisions for FX rates and price fluctuations approved by Monetary Board subject to the condition that quarterly reserves may be provided if the balance in the account "Reserve for Fluctuations in FX Rates" will not fall below 50% of total capital accounts.

2.21.8. Gold insurance

The fund is a self-insurance scheme of the Bank to cover for any losses that may arise from gold shipments. It is an internally managed fund by the Comptrollership Sub-Sector similar to the self-insurance scheme for currency shipments and established only in CY2006. Transfers to the reserve account are charged against surplus account. Balance of the Fund is not currently invested in government securities.

2.22. Cash flows

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. Comparative

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, adjustments to prior years' income and expense are recognized and reflected in the affected income or expense accounts in the income statement. These adjustments include, correction of errors, change in estimates and other adjustments pertaining to prior accounting periods.

2.25. Dividend distribution

In accordance with transitory provisions of R. A. 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.

There is a pending issue on the basis of the distribution of BSP net income relative to the provisions of both R. A. 7653 (BSP charter) as against R. A. 7656 (an act requiring government owned or controlled corporations to declare dividends to the National Government). BSP maintains its position that to promote adequate performance of its responsibilities and ensure viable operation, the BSP has authority to maintain reserves as necessary and consistent therewith, may exclude such reserves when calculating its net profit for purposes of distributing net income to NG as dividends based on Sections 43, 44 and 132(b) of R. A. No. 7653.

2.26. Commitments and contingent liabilities

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

	2007 PHP000
FX commitment receivable	462,270,440
Currency unissued	51,753,735
L/C held/received in process	1,914,583

Currency unissued refers to the face value of outstanding notes and coins delivered by the SPC (the printing and minting plant) to the Unissued Currency

Division of Currency Issue and Retirement Office (CIRO) of Cash Management Sub-Sector (CMSS). The production cost of the stock has been recognized as an asset in the balance sheet under "currency inventory" account.

L/Cs held/received in process refers to outstanding letter of credit (L/Cs) opened covering BSP importation of raw materials and/or capital asset acquisition where no loading/shipment has been made by the supplier.

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 currency risk protection program (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.

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 being invested in government securities to liquidate outstanding obligations of the beneficiary bank with the Bangko Sentral at certain period of time when the escrow accounts accumulated balances amount are equal to at least the outstanding balance of the loan account. On the other hand, conduits for the funds provided by the National Government and other foreign financial lending institutions are qualified rural banks and the final beneficiaries are accredited individual borrowers and/or associations for supervised agricultural credits. The Bangko Sentral manages the funds held in escrow which are mostly for account of closed banks.

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, criteria for 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 effect 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 2007 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	628	8,310	109,597	-	7,959,510	1,478,537	99,673	9,656,255
Other –Cash Balances	314	258	1,557	-	876	1,747	2,471	7,223
Investments	-	218,409	615,340	-	18,461,976	904,686	-	20,200,411
Gold in Bullion Vault	-	-	-	-	1,395,567	-	-	1,395,567
Gold with Foreign Financial Institution	-	-	-	-	2,145,043	-	-	2,145,043
IMF special drawing rights (sdr)	-	-	-	736	-	-	-	736
Loans and Advances	-	-	-	-	6,499			6,499
Other Foreign Currency Receivables	-	3,390	338	82,895	201,303	26,065	65	314,056

Total Foreign Currency Assets	**942**	**230,367**	**726,832**	**83,631**	**30,170,774**	**2,411,035**	**102,209**	**33,725,790**
Foreign Currency Financial Liabilities								
Short term deposits	-	-	147,663	-	627,290	6,017	-	780,970
Allocation of IMF sdr	-	-	-	184,043	-	-	-	184,043
Derivative instruments	-	-	-	-	443,202	-	-	443,202
Loans Payable	-	783	110,348	-	22,301	4,559	1,500	139,491
Term Loan Facility	-	-	-	-	-	-	-	-
Bonds Payable	-	-	-	-	785,000	-	-	785,000
Other Liabilities	-	7	1,504	1,190	27,740	58	-	30,499
Total Foreign Currency Liabilities	**-**	**790**	**259,515**	**185,233**	**1,905,533**	**10,634**	**1,500**	**2,363,205**

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 now on its final stage of implementing its 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 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.

The BSP Loans and Credit Department hired external lawyers to fast track collection on delinquent accounts and/or institutions on foreclosure proceedings.

4. Significant events

4.1. The Monetary Board approved on -

4.1.1. 19 April 2007 the decision to encourage government owned and controlled corporations and trust departments of banks to deposit with BSP;

4.1.2. 10 May 2007 the decision to contest the deficiency tax assessments of BSP for CY2004 and obtain a court ruling to finally settle the legal issues;

4.1.3. 16 August 2007 the grant of authority for management to negotiate hiring of tax consultant for tax assessments for 2005 and clearance to convey to BIR the BSP's position/stand on the different tax issues involved;

4.1.4. 13 December 2007 the proposal to (a) file an appeal with Court of Tax Appeals in the event that BIR denies BSP administrative appeal for tax assessments for CY2004 and (b) contest the assessment of excise taxes on BSP gold purchases from small miners from CY2001-2006.

4.2. Fully implemented the transfer of Cash Monetary Sub-Sector (CMSS) operations to Security Plant Complex, Quezon City on 22 October 2007 relative to the reorganization of Cash Department and establishment of Currency Issue and Retirement Office (CIRO) approved by the Monetary Board in its Resolution No. 989 dated 21 July 2005.

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.

Investment securities

		2007 **PHP000**	2006 PHP000
Securities available for sale	Under securities lending		
Marketable securities	0	**230,495,804**	225,970,153

Other investments	473,077,547	**606,023,407**	389,870,405
	473,077,547	**836,519,211**	615,840,558
Accrued interest		**6,870,902**	4,733,279
Total		**843,390,113**	620,573,837

The movement in marketable securities include foreign securities purchased specifically US Treasury Notes worth PHP667.51 billion and treasury strips pertaining to the 1992 RP Financing Plan amounting to USD116.201 million (face amount) reclassified from "FX Receivable" on 25 May 2007 but later sold on 12 December (USD50 million), 13 December (USD50 million), and 14 December 2007 (USD16.201 million).

Gold

	Note	**2007 PHP000**	2006 PHP000
In bullion vault	**a**	**57,791,845**	44,023,321
With foreign financial institutions	**b**	**88,828,384**	100,232,790
		146,620,229	144,256,111
Accrued interest		**289**	0
Total		**146,620,518**	144,256,111

a. Gold in bullion vault

	2007		2006	
	PHP000	**FTO**	PHP000	FTO
Opening balance- Dec.31	**44,023,321**	**1,410,229.037**	43,722,448	1,593,787.123
Additions during the year	**29,833,562**	**958,564.782**	35,267,639	1,216,948.002
Sub-Total	**73,856,883**	**2,368,793.819**	78,990,087	2,810,735.125
Transfers to foreign financial institutions	**(19,856,307)**	**(700,153.316)**	(33,121,704)	(1,400,506.088)
Net increase due to price/rate revaluation	**3,791,269**	**0**	(1,845,062)	0
Ending balance-Dec. 31	**57,791,845**	**1,668,640.503**	44,023,321	1,410,229.037

b. Gold with foreign financial institutions

	2007		2006	
	PHP000	FTO	PHP000	FTO
Opening balance – Dec.31	**100,232,790**	**3,210,825.277**	92,560,991	3,374,068.039
Additions during the year:				
Transfer from bullion vault	**19,856,306**	**700,153.316**	33,121,704	1,400,506.088
Purchases/rollovers	**23,110,526**	**723,159.661**	51,146,701	1,640,635.177
Total additions	**42,966,832**	**1,423,312.977**	84,268,405	3,041,141.265
Sub-total	**143,199,622**	**4,634,138.254**	176,829,396	6,415,209.304
Net sales during the year/Maturities	**(66,007,119)**	**(2,069,370.868)**	(99,775,835)	(3,204,384.027)
Net increase due to price/rate revaluation	**11,635,881**	**0**	23,179,229	0
Ending Balance-Dec 31	**88,828,384**	**2,564,767.386**	100,232,790	3,210,825.277
Pledged	**0**		0	
Price of Gold in USD per FTO		**2007** **836.35**		2006 636.50

International monetary fund special drawing rights

	2007 PHP000	2006 PHP000
Beginning balance – Dec. 31	**114,061**	44,709
SDR acquisition	**213,033**	1,011,915
Income accruing to the fund	**140,013**	121,288
Revaluation	**(5,187)**	2,954
Payment of charges-interest and remuneration	**(431,438)**	(1,066,805)
Net increase/(decrease) for the year	**(83,579)**	69,352
Ending balance – Dec. 31	**30,482**	114,061
Accrued interest	**215**	893
Total	**30,697**	114,954

9. Loans and advances

Foreign currency loans and advances	**% to Total**	**Note**	**2007 PHP000**	2006 PHP000
Special purpose				
IBRD 2469	**6.91**		**20,955**	20,955
Rediscounting				
Exporters yen facility			**0**	2,307
Exporters dollar facility	**93.09**		**282,401**	764,101
Total	**100.00**		**303,356**	787,363
Allowance for probable losses	6.91		**20,955**	20,955
Net	**93.09**		**282,401**	766,408
Accrued interest			**1,093**	8,262

			283,494	774,670

Local currency loans and advances	% to Total	Note	2007 PHP000	2006 PHP000
Philippine Deposit Insurance Corp.	**67.87**	**a**	**69,480,958**	81,997,776
National Government	**13.73**		**14,062,239**	14,062,239
Assumed obligations of PNB & DBP	**0.77**	**b.1**	**792,500**	792,500
RA 2052	**12.96**	**b.2**	**13,269,739**	13,269,739
Special purpose	**0.14**		**144,213**	147,089
Non-banks/Quasi banks			**0**	0
Rural Bank	**0.14**		**144,213**	147,089
Emergency	**4.98**	**c**	**5,097,264**	5,298,077
Commercial banks	**1.28**		**1,306,260**	1,306,260
Thrift banks	**2.98**		**3,053,319**	3,203,636
Rural banks	**0.72**		**737,685**	788,181
Rediscounting	**11.51**	**d**	**11,788,282**	13,463,241
Commercial banks	**5.49**		**5,621,789**	7,290,194
Thrift banks	**4.27**		**4,373,665**	4,353,679
Specialized banks	**0.22**		**230,301**	236,756
Rural banks	**1.53**		**1,562,527**	1,582,612
Overdrafts/overnight clearing line	**1.77**		**1,807,676**	1,811,927
Government securities purchased under repurchase agreement			**0**	0
Total	**100.00**		**102,380,632**	116,780,349
Allowance for probable losses	**8.10**		**8,295,792**	8,096,168
Net	**91.90**		**94,084,840**	108,684,181
Accrued interest	**0**		**9,446,900**	8,655,760
Total loans and advances	**91.90**		**103,531,740**	117,339,941
Total foreign and local currency	**100.00**		**102,683,988**	117,567,712
Allowance for probable losses	**8.10**	**e**	**8,316,747**	8,117,123
Net total	**91.90**		**94,367,241**	109,450,589
Amount past due			**8,369,682**	8,605,973
Rate			**8.15%**	7.32%

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. The decrease in net loans and advances account in the amount of PHP15.083 billion or 13.78% was mainly due to the net repayments under the PDIC facility which constituted 67.87% of the total local currency loan portfolio; PNB of PHP11.830 billion and various beneficiaries of PHP.710 billion.

   Average rate for the period is estimated at 3.58% on a registered income from interest of PHP2.731 billion.

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.

   This consists of non-interest bearing subscription loan for the payment of increase in quota contribution of the Republic of the Philippines in the IMF under the 11th General Review of Quotas. This was granted by the BSP in February 1999 to cover for the SDR246.5 million increase in quota subscription, pursuant to R.A. 2052, as amended. The note matured in February 2004 and was rolled-over for another five (5) years to mature on February 2009. Rounds of negotiation were held with the Department of Finance on the type of instruments it will issue as payment for this advances.

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

d. Rediscounting window which accounts for 11.51% of the local currency loan portfolio decreased by PHP1.675 billion or 12.44% due mainly to the net repayments made by commercial banks of PHP1.668 billion. The average rate for the period was estimated at 9.01% with derived income from interest of PHP.580 billion.

e. Allowance for probable losses

Outstanding loans and advances of PHP102.684 billion represent 5.05% of total assets. Past due accounts of PHP8.370 billion represent 8.15% of outstanding loans and advances; 99.37**%** of past due accounts are covered by allowance for probable losses. Total probable loan losses booked in 2007 amounted to PHP.551 billion, net of recoveries.

10. Other receivables

	Note	**2007 PHP000**	2006 PHP000
Foreign currency receivables			
Accrued interest		**742**	3,048
Due from foreign banks/branches	**a**	**730,295**	565,326
Foreign exchange receivables	**b**	**0**	4,076,361

Non-IR foreign exchange assets	c	**3,682,129**	3,595,935
		4,413,166	8,240,670
Local currency receivables			
Accounts receivable –Treasurer of the Philippines	d	**14,610,800**	17,521,534
Accounts receivable (net of allowance of PHP1,712,866)		**2,188,473**	3,794,909
Notes receivable		**1,366,731**	1,366,731
Due from local banks		**323,891**	174,557
Receivables from staff/others	e	**504,882**	521,675
Lease receivable	f	**118,561**	5,917
Sales contracts receivable		**1,415,076**	1,171,475
Items under litigation		**14,500**	14,500
		20,542,914	24,571,298

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. These include US treasury strips related to the 1992 RP Financing Plan with market value of USD228.5 million (par value of USD418.6 million) that was released by the Treasurer of the Philippines (TOP) and reclassified to “Foreign Investment – IR” account. In CY2007 the remaining amount with market value of USD74.55 million (face amount of USD116.201 million) were reclassified on 25 May 2007 but later sold in December 2007.

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 USD5.954 million or PHP0.292 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. On 31 May 2007 the account was reduced by PHP2.911 billion representing share of the National Government for CY2007 revaluation gain.

e. **Receivable from staff/others –** includes the PHP.026 billion advances to AMLC from January 2004 to 31 December 2007 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.

f. **Lease receivable** - in the terms and conditions agreed under Memorandum of Agreement between Bangko Sentral Ng Pilipinas (BSP) and Banco Filipino Savings and Mortgage Bank (BFSMB) signed on 20 December 1999 stated that Banco Filipino relative to its rehabilitation on 01 July 1994 shall fully settle its obligation to the BSP by dacion en pago with option to buy back or repurchase. Any properties conveyed but still remains in possession of Banco Filipino for its use and benefit shall be subject to the payment to the BSP of reasonable rental in the amount to be agreed upon by both parties."

On 18 December 2007, the lease amount of PHP100.9 million was booked as receivable from Banco Filipino covering the period CY2000 to CY2007.

11. Investments securities-available for sale

	Note	**2007 PHP000**	2006 PHP000
Treasury bonds		**48,780,667**	62,703,423
Treasury bills	**a**	**280,017,875**	158,498,377
Treasury notes		**106,278**	507,122
PICC (Investment in T-Bills)		**94,125**	185,713
Total		**328,998,945**	221,894,635
Accrued interest		**291,374**	558,400
T o t a l		**329,290,319**	222,453,035

a. **Treasury bills –** the increase in level resulted from 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 starting CY2006.

12. Due from administrator of funds

	2007	2006

	Note	P000	PHP000
Comptrollership			
Currency insurance		**2,678,348**	2,525,221
Gold insurance		**1,631**	810
Fidelity insurance	**a**	**21,491,968**	20,842,161
Medical benefit		**811,243**	832,636
Post retirement benefit		**175,561**	130,759
Sub-total		**25,158,751**	24,331,587
Provident fund office			
Post retirement benefit		**1,001,237**	1,014,145
Car plan fund		**505,456**	505,465
Provident fund		**147,784**	105,096
Directors and officers' liability Insurance (DOLI) fund	**b**	**735,191**	506,003
Sub-total		**2,389,668**	2,130,709
Department of Loans and Credit			
Apex		**7,292,670**	7,274,488
Industrial Fund		**2,515**	2,515
Sub-total		**7,295,185**	7,277,003
Total		**34,843,604**	33,739,299

a. The booking of PHP.650 million in accumulated earnings increased the balance of the Fund in CY2007.

b. The increase in the level mainly resulted from the CY2006 and CY2007 set up of annual provision for self-insurance of DOLI Fund booked on 20 February and 19 December 2007 per MB Resolution Nos. 884 and 1440 approved on 30 June 2005 and 13 December 2007, respectively.

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. 2006							
Cost	19,082,453	9,669,886	2,067,199	2,114,495	4,225,605	2,856	1,002,412
Accumulated	6,966,487	1,483,057	1,084,510	1,627,832	2,771,088	0	0

depreciation							
Net book amount	12,115,966	8,186,829	982,689	486,663	1,454,517	2,856	1,002,412
Year ended 31 Dec. 2007							
Opening net book amount	12,115,966	8,186,829	982,689	486,663	1,454,517	2,856	1,002,412
Additions	1,341,904	303,505	374,484	371,059	184,503	1,869	106,484
Disposals/Reclassification at book amount	(448,348)	(144,619)	(2,401)	(14,022)	(13,937)	(1,658)	(271,711)
Depreciation	(707,364)	(120,322)	(127,124)	(154,822)	(305,096)	0	0
Closing net book amount	**12,302,158**	**8,225,393**	**1,227,648**	**688,878**	**1,319,987**	**3,067**	**837,185**
As at 31 Dec. 2007							
Cost	19,976,922	9,828,772	2,439,282	2,471,532	4,397,084	3,067	837,185
Accumulated depreciation	7,674,764	1,603,379	1,211,634	1,782,654	3,077,097	0	0
Net book amount	**12,302,158**	**8,225,393**	**1,227,648**	**688,878**	**1,319,987**	**3,067**	**837,185**

The BSP Administrative Department hired an insurance consultant to undertake risk-based analysis of all BSP properties except for paintings and antiquities.

14. Acquired assets held for sale

	2007 PHP000	2006 PHP000
Acquired assets held for sale	**1,445,690**	14,059,480
Less: Allowance for market decline	**795,826**	2,704,611
Net	**649,864**	11,354,869

In compliance to the requirements of PFRS 5 and PAS 40, the Acquired assets account was reclassified into Acquired assets held for sale and Investment property as of December 31, 2007.

15. Investment property

	2007 PHP000
Investment property	**12,347,893**
Less: Allowance for market decline	**1,983,784**
Net	**10,364,109**

Below is the composition of the acquired assets held for sale and investment property portfolio as of 31 December 2007 and disposals during the year:

	Acquisition/Foreclosure			**Disposal**		
	Particulars	**TCT's**	**Book Value PHP000**	Particulars	TCT's	Book Value PHP000
1	Dacion en Pago with option to repurchase	2, 338	4,452,292	Auction	1	765
2	Dacion en Pago with option to repurchase waive/defaulted	458	1,957,605			
3	Foreclosure	32,056	7,269,889	Negotiation	705	540,577
4				CARP Coverage	1	45
5				Housing Fair	134	24,407
6				Housing Program III	43	19,809
7				Redemption/ Repurchase	89	13,242
	T o t a l	**34,852**	**13,679,786**		**973**	**598,845**

16. Inventories

		2007 PHP000	2006 PHP000
Gold for domestic sale		**12,312**	11,064
Gold for refining	a	**11,747,802**	7,322,503
Silver for refining		**1,065**	4,764
Currency inventory		**2,299,390**	2,604,439
SPC inventories		**2,216,927**	2,917,134

Work-in-process	**1,369,386**	1,635,046
Other supplies	**78,668**	70,231
Total	**17,725,550**	14,565,181

The increase resulted from the heavy purchases of gold for refining by the BSP gold buying stations in the regions, particularly GBS–Davao. Furthermore, the price of gold rose from USD636.50/FTO at end December 2006 to USD836.35/FTO at end December 2007.

17. Miscellaneous assets

	Note	2007 PHP000	2006 PHP000
Deferred charges		**863**	863
Deposits – utilities & services		**24,002**	23,907
Input tax		**11,795**	17,370
Withholding tax at source		**43,522**	0
Miscellaneous assets	**a**	**20,104**	43,845
		100,286	85,985
Commemorative notes & coins		**719**	765
Demonetized commemorative coins		**20**	21
Demonetized coins for melting & refining		**0**	417
Items for exhibit		**167**	7
Numismatic collections on hand	**b**	**21,007**	14,198
Paintings and sculptures		**53,447**	53,968
		75,360	69,376
Due from PICC		**144**	(642)
Checks and other cash items		**1,023**	3,620
Checks and other collection items in-transit		**1**	758
Stocks and other securities		**10,715**	10,715
T o t a l		**187,529**	169,812

a. The decrease in the account level was due to the full settlement by Philippine National Bank (PNB) of the outstanding final tax differential of PHP.024 billion on the PHP10 billion swap transactions between the Bangko Sentral Ng Pilipinas (BSP) and PNB entered on 09 February 1998.

b. Various numismatic bank notes purchased in New Jersey, USA per MB Resolution No. 108 dated 26 January 2007 in the amount of PHP5.74 million mainly accounted for the increase.

18. Short-term foreign currency deposits

	Note	2007 PHP000	2006 PHP000
Small and medium scale entities		**5,770,363**	12,254,561
National Government		**4,272,977**	27,689,760
Other entities	**a**	**22,297,423**	1,326,383
		32,340,763	41,270,704
Accrued interest		**64,423**	30,308
Total		**32,405,186**	41,301,012

a. These are hort-term deposits of other entities which pertains to the proceeds of foreign funds deposited with the BSP by government or government-controlled corporations intended for foreign funded projects among them are as follows:

	2007 PHP000	2006 PHP000
Other Entities	**22,297,423**	1,326,383
NPC	230,102	670,928
MWSS	331,876	376,329
PNOC	963,405	261,518
PSALM	20,770,581	15,881
North Luzon Railways	1,459	1,727

19. Loans payable

	Note	2007 PHP000	2006 PHP000
Maturing in 1-5 years			
Term loan facility	**a**	**0**	41,688,246
		0	41,688,246
Maturing in more than 5 years			

Blocked peso deposit (Circular 1139/1202)		**67,726**	73,972
Blocked peso deposit (Circular 1298)		**5,708,747**	8,973,202
Letter of inst. 1442- at original cost (PHP49.99)		**3,846**	3,846
	b	**5,780,319**	9,051,020
		5,780,319	50,739,266
Accrued interest		**75,683**	953,780
Total		**5,856,002**	51,693,046

a. Full/pre-termination of the five (5) years Term Loan Facility availment of the following:

USD000	PHP000	Maturity Date	Facility Agent
675,000	35,381,475	18 September 2007	Standard Chartered Bank-HK
585,000 *	30,827,745	10 April 2008	Tokyo-Mitsubishi Int'l. (HK) Ltd.

* USD60,000 million were converted to BSP floating rate note on 10 October 2003.

b. 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.

20. Bonds Payable

	Note	2007 PHP000	2006 PHP000
Bonds due 2027	a	**16,564,400**	19,618,000
Bonds due 2097		**4,141,100**	4,904,500
BSP floating rate note	b	**11,802,135**	14,958,725
		32,507,635	39,481,225
Add/(deduct): Discount on bonds		**(67,019)**	(80,732)

	32,440,616	39,400,493
Accrued interest	**162,265**	219,585
Total	**32,602,881**	39,620,078

a. These are "Yankee Bonds" issued by BSP on 24 June 1997. D 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.

b. The decrease in the account was brought about mainly by the USD60,000 million term loan facility of Bank of Tokyo, Mitsubishi Int'l. (HK) Ltd. converted to floating rate note on 10 October 2003 but later pre-terminated on 12 April 2007.

21. Allocation of special drawing rights

	2007 PHP000	2006 PHP000
Allocation of SDRs	**7,621,399**	8,602,764
Accrued interest	**49,293**	58,084
Total	**7,670,692**	8,660,848

22. Deposits

	Note	**2007 PHP000**	2006 PHP000
Government deposits			
Short –term	**a**	**131,608,212**	49,179,710
Long – term	**b**	**30,000,000**	30,000,000
Total		**161,608,212**	79,179,710
Accrued interest		**1,491,309**	1,644,582
		163,099,521	80,824,292
Demand deposits			
Banks/NBQBs-reserve deposits	**c**	**172,485,175**	163,725,170

Banks/NBQBs-liquidity reserves	**d**	**241,027,360**	169,626,801
Others		**12,121,971**	7,708,667
Total		**425,634,506**	341,060,638
Accrued interest		**1,417,032**	1,189,901
		427,051,538	342,250,539
International monetary fund and other financial institutions	**e**	**51,956,351**	55,066,923
Total		**479,007,889**	397,317,462

Government deposits

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 PHP50 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

a. 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.

b. In its 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.

c. 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 SDR701 million at 31 December 2007.

The balance of IMF's currency holdings (SDR91.080 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 CY2007, the depreciation of SDR against the peso by PHP3.673, from PHP76.127/SDR as of 30 April 2006 to PHP7.454/SDR as of 30 April 2007, resulted to a revaluation gain of PHP2.911 billion in the IMF local currency holdings with BSP. The revaluation is fully attributable to the National Government (NG) since BSP has already fully paid its credit availments from Standby Credit Facility (SCF) and Extended Fund Facility (EFF) as of December 2006. The revaluation was recognized as “Accounts Receivable-Treasurer of the Philippines”

23. Currency in circulation

Denomination	Quantity		Amount PHP(000)	
	2007	2006	**2007**	2006
Notes				
100,000	**118**	118	**11,800**	11,800
2,000	**15,533**	14,030	**31,066**	28,060
1,000	**176,579,315**	132,367,131	**176,579,315**	132,367,131
500	**336,245,302**	337,072,806	**168,122,651**	168,536,403
200	**58,590,428**	33,728,702	**11,718,086**	6,745,740
100	**416,622,560**	395,450,117	**41,662,256**	39,545,012
50	**204,545,585**	307,818,730	**10,227,279**	15,390,936
20	**520,672,772**	413,072,478	**10,413,455**	8,261,450
10	**74,331,487**	76,518,316	**743,315**	765,183
5	**31,044,485**	30,988,918	**155,222**	154,945
Total notes in circulation			**419,664,445**	371,806,660
Coins				
10 Piso	**340,385,428**	254,835,520	**3,403,854**	2,548,355
5 Piso	**1,111,564,548**	1,059,768,067	**5,557,823**	5,298,840
1 Piso	**3,598,904,716**	3,324,900,825	**3,598,905**	3,324,901
25 Sentimo	**4,791,093,721**	4,392,521,069	**1,197,774**	1,098,130
10 Sentimo	**1,899,912,156**	1,799,055,484	**189,991**	179,906
5 Sentimo	**1,298,636,789**	1,182,170,789	**64,932**	59,109
1 Sentimo	**15,529,261**	13,154,712	**155**	132
Total			**14,013,434**	12,509,373
BSP commemorative coins	**2,919,079**	2,859,897	**176,533**	175,583
Total coins in circulation			**14,189,967**	12,684,956
Total currency in circulation			**433,854,412**	384,491,616

24. Other liabilities

Foreign currency		**2007 PHP000**	2006 PHP000
Derivative instruments	**a**	**18,287,127**	3,886,961
Other liabilities		**1,613,060**	1,342,079
Accounts payable	**b**	**1,523,237**	993,020
Accrued expenses		**82,940**	177,750
Other liabilities	**c**	**6,883**	171,309
Total foreign currency liabilities		**19,900,187**	5,229,040

Local currency	**2007 PHP000**	2006 PHP000

Retirement benefit obligations		**1,697,890**	1,618,311
Miscellaneous liabilities		**3,846,536**	3,411,112
Accounts payable		**2,030,088**	1,707,119
Accrued expenses		**61,138**	74,941
Taxes payable		**533,047**	332,955
Miscellaneous liabilities		**1,222,263**	1,296,097
Dividends Payable	**d**	**0**	887,472
Total local currency liabilities		**5,544,426**	5,916,895

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. The amount established was payable to Bank of International Settlement (BIS) relative to the outstanding balance of the BSP's subscription to the offering of 3,000 shares of the third tranche of the BIS capital in the amount of SDR11.25 billion pursuant to the MB Resolution No. 1304 approved on 10 September 2003.

c. The reduction merely pertains to full negotiation of the following LCs in CY 2007:

Date	Letter of Credit No.	Beneficiary
02/05/2007	LCIOD05-265 ABN	Monark Equipment Int'l. British Virgin Islands
03/05/2007	LCIOD06-156UBSZ	Kbagiori SA, Switzerland
04/11/2007	LCIOD05-253 ABN	Poongsan Corp., Korea
04/11/2007	LCIOD06-261 ABN	Saxonia Eurocoin Gmbh, Germany
04/11/2007	LCIOD06-267 ABN	Papierfabrik Louisenthal Gmbh, Germany
04/11/2007	LCIOD06-271 ABN	Arjo Wiggins Security SAS, France
04/11/2007	LCIOD06-272 ABN	Gleitsmann Security Inks Gmbh, Germany

d. The San Miguel, Bulacan and P. Casal, Quiapo 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 were formally conveyed to the NG on 30 October and 28 December 2007, respectively.

25. Revaluation of foreign currency accounts

	2007 PHP000	2006 PHP000
Unrealized gain/loss on FX rate fluctuations –	**(45,619,694)**	(3,650,483)

beginning balance		
Unrealized gain/(loss) transactions for the year	**(222,921,248)**	(41,586,112)
Total unrealized gain/(loss)	**(268,540,942)**	(45,236,595)
Less: realized gain/(loss)	**(86,584,106)**	(383,099)
Total unrealized gain/(loss) on FX rate	**(181,956,836)**	(45,619,694)
Unrealized gain/(loss) on price fluctuation – beginning balance	**54,716,698**	61,261,795
Unrealized gain/(loss) transactions for the year	**49,696,084**	22,590,141
Total unrealized gain/(loss)	**104,412,782**	83,851,936
Less: realized gain/(loss)	**25,338,966**	29,135,238
Total unrealized gain/(loss) on price fluctuation	**79,073,816**	54,716,698
Total revaluation of foreign currency accounts	**(102,883,020)**	9,097,004
Realized gains on FX rate fluctuations		
Realized gain/(loss) on FX rate fluctuations	**9,173,552**	19,018,552
Realized gain/(loss) on FX rate fluctuations	**(122,883,106)**	(37,954,441)
Net realized loss on FX rates fluctuations	**(113,709,554)**	(18,935,889)

26. Capital accounts

	Note	2007 PHP000	2006 PHP000
Capital	**a**	**10,000,000**	10,000,000
Surplus		**54,104,823**	55,847,162
Surplus reserves for price fluctuation	**b**	**(10,156,425)**	(5,933,932)
Capital Reserves			
Currency insurance fund		**2,678,348**	2,525,514
Fidelity insurance fund		**21,491,968**	20,842,161
Medical benefit fund		**811,243**	832,636

Directors'/officers' liability		**735,191**	606,003
Retirement benefit fund		**1,176,798**	1,144,904
Total managed funds		**26,893,548**	25,951,218
Gold insurance fund		**1,631**	518
Fluctuations in FX rates	**c**	**22,994,973**	109,938,262
Fluctuations in price of gold		**54,906,136**	54,906,136
Property insurance		**1,600,000**	1,600,000
SPC rehabilitation		**1,984,993**	2,115,472
Contingencies		**12,051,232**	12,337,492
Sale of franc of closed bank	**d**	**38,640**	0
Total		**93,577,605**	180,897,880
Total capital reserves		**120,471,153**	206,849,098
Total capital		**174,419,551**	266,762,328

a. The capital of the BSP shall be fifty billion pesos (PHP50billion) pursuant to Section 2, 2nd par. of R.A. 7653, to be fully subscribed by the Government of the Republic of the Philippines. Ten billion pesos (PHP10billion) 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 Finance and the Secretary of Budget and Management, may thereafter determine. The balance of PHP40billion remains unpaid by the NG to the BSP.

b. Surplus reserves represent unrealized gains/losses from investment in domestic securities classified as available for sale. This account was created to recognize the re-measurement of the investments in domestic securities.

c. Net loss for the year of PHP86,943 million arising mainly from net realized loss from fluctuations on FX rates is closed to the account in accordance with the purpose for which the account was created.

d. This represents proceeds from the sale of the three branch franchises of the closed First Savings Bank credited to reserve for sale of franchise of closed bank on 28 December 2007 per item No. 5 of MBR No. 862 dated 02 August 2007.

27. Net interest income

	2007	2006
	PHP000	PHP000
Interest income from foreign currency financial assets		

Deposit with foreign banks	**18,135,902**	15,449,444
Investment securities – available for sale	**31,068,607**	24,166,474
Gold with foreign financial institutions	**289**	7,820
IMF special drawings rights	**2,118**	3,479
Loans and advances	**23,251**	36,792
Other foreign currency receivables	**117,797**	470,285
	49,347,964	40,134,294
Interest income from local currency financial assets		
Investment securities- available for sale	**10,504,594**	6,894,570
Loans and advances	**3,484,494**	3,620,614
Other receivables	**81,708**	51,232
	14,070,796	10,566,416
Total interest income from financial assets	**63,418,760**	50,700,710
Interest expense on foreign currency financial liabilities		
Short term deposits	**973,860**	2,279,128
Loans payable	**704,509**	6,054,678
Bonds payable	**2,852,162**	3,497,040
Allocation of IMF special drawing rights	**333,170**	1,032,439
Other liabilities	**206,203**	482,315
	5,069,904	13,345,600
Interest expense on local currency financial liabilities		
Government deposits	**22,645,200**	7,715,382
Deposits of banks and other financial institutions	**10,932,824**	4,779,556
Securities sold under agreements to repurchase	**14,800,109**	15,013,704
	48,378,133	27,508,642
Total interest expense on financial liabilities	**53,448,037**	40,854,242

28. Other operating income

	2007 PHP000	2006 PHP000
Printing, minting and refinery	**385,593**	231,301
Fees - local		
Banking supervision/clearing/license fees	**1,831,816**	2,390,330
Processing and filing fees	**48,601**	22,502
Transaction fee - *PhilPaSS*	**51,486**	48,113
Penalties and late charges	**215,759**	133,644
Others	**505**	1,955
Sub-total	**2,148,167**	2,596,544

Other income		
Rental on acquired assets	**27,568**	34,822
Building rental	**14,877**	18,020
Gain on sale of acquired assets	**62,341**	27,506
Other miscellaneous income	**249,620**	473,302
Sub-total	**354,406**	553,650
Total	**2,888,166**	3,381,495

29. Currency minting and printing cost

	2007 PHP000	2006 PHP000
Notes	**1,863,032**	589,963
Coins	**1,267,901**	797,754
Total	**3,130,933**	1,387,717

30. Operating expenses

	2007 PHP000	2006 PHP000
Personnel services, development and training	**6,365,835**	5,505,605
Administrative expenses	**2,018,785**	1,793,367
Depreciation	**486,494**	476,349
Total	**8,871,114**	7,775,321

31. Personnel services

	2007 PHP000	2006 PHP000
Salaries and wages	**4,233,104**	3,710,741
Personnel development and training	**290,466**	194,819
Sickness and death benefits	**198,640**	167,241
Medical and dental benefits	**17,136**	18,392
Social security contribution	**300,290**	278,334
Defined contribution plans	**1,144,203**	975,655
Post-retirement benefits	**181,996**	160,423
Total	**6,365,835**	5,505,605

32. Administrative expenses

		2007 PHP000	2006 PHP000
Traveling expenses		**276,036**	261,665
Taxes and licenses	**a**	**258,659**	222,921
Currency and gold operations expenses		**155,921**	92,370
Repairs and maintenance		**253,552**	228,855
Communication services		**109,473**	106,013
Grants, subsidies and contributions		**118,801**	49,573
Water, illumination and power services		**215,815**	213,784
Fidelity and property insurance		**63,208**	68,016
Rentals		**28,770**	28,351
Auditing services		**32,067**	35,226
Consultants and specialist services		**81,756**	70,336
Supplies and materials		**45,493**	48,371
Ammunitions		**5,190**	2,281
Discretionary expenses		**6,568**	6,135
Acquired assets expenses		**61,660**	56,844
Losses due to market decline		**213,661**	560,373
Others		**92,155**	(257,747)
Total		**2,018,785**	1,793,367

a. Includes tax deficiency of PHP70.982 million for taxable year 2005 settled in 2007.

33. 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:

	2007 PHP000	2006 PHP000
Profit/(loss) for the year	**(86,943,290)**	3,784,588
Reserve for fidelity losses	**0**	0
Reserve for medical benefit fund	**0**	0
Reserve for directors/officers liability fund	**0**	(100,000)
Loss	**(86,943,290)**	3,684,588

34. Reconciliation of operating cash flows with reported net income

	2007 PHP000	2006 PHP000
Reported net loss after tax	**(86,943,290)**	3,784,588
Operating cash flows from changes in asset and liability balances (refer to CFS)	**75,249,671**	166,766,886
Add (subtract) non-cash items:		
Depreciation	**486,494**	476,349
Amortization of premium/discount on bonds payable	**13,712**	8,081
Provision for probable loss	**561,707**	665,968
Provision for market decline	**213,661**	560,372
Non-cash interest income	**(545,925)**	0
Total	**729,649**	1,710,770
Add (subtract) movements in other working capital items:		
(Increase) decrease in accounts receivable	**1,405,658**	(1,446,366)
Increase (decrease) in miscellaneous liabilities	**(13,441,415)**	4,993,977
(Increase)decrease in interest receivable	**(3,630,021)**	(2,720,285)
Increase (decrease) in interest payable	**17,130,822**	(310,427)
Total	**1,465,044**	516,899
Add (subtract) investing and financing activities:		
Reserve for price fluctuation of gold holdings	**(286,260)**	4,403,784
Surplus adjustment – SPC		0
Net realized foreign exchange gain/(loss)	**113,709,554**	0
Total	**113,423,294**	4,403,784
Net cash flows from operating activities	**103,924,368**	177,182,927

35. Consolidated cash balances

	2007 PHP000	2006 PHP000
Foreign currency assets		
Deposit with foreign banks	**399,875,155**	353,883,885
Other cash balances (foreign currency on hand)	**301,150**	369,308
Marketable securities – readily convertible to cash	**703,573,351**	478,358,961
Other FX receivable – due from FX banks – special account	**730,295**	565,326

Local currency assets		
Government securities	**328,998,945**	221,894,636
Other receivables – due from local banks	**323,891**	174,557
Other receivables – revolving fund	**479,831**	354,341
Miscellaneous assets – checks and other cash Items (COCI)	**1,023**	3,620
Miscellaneous assets – COCI in-transit	**1**	758
Demand liabilities:		
Treasurer of the Philippines – short term deposits	**(131,608,212)**	(49,179,710)
Deposit of banks and other financial institutions	**(858,868,856)**	(447,201,560)
Closing cash balance	**443,806,574**	559,224,122