BANGKO SENTRAL NG PILIPINAS
NOTES TO FINANCIAL STATEMENTS

1. General Information

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

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

	2005	2004
Head Office	3,308	3,399
Regional Offices /Branches	1,147	1,049
Security Plant Complex	592	524
Total	5,047	4,972

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 April 27, 2006.

2. Summary of significant accounting policies

2.1. Basis of preparation

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

In compliance with its charter, the BSP publishes monthly its General Balance Sheet. The balance sheets that were published from January to November 2005 were prepared in accordance with generally accepted accounting principles consistent with the preparation of its CY 2004 financial statements. The adoption of the applicable IAS and IFRS has resulted in some changes in the Bank's accounting policies for CY 2005 and these were applied to the balances reported in its balance sheet, and income statement as of and for the year ending 31 December 2005.

The CY 2005 balances have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, other financial liabilities and derivative instruments. To provide comparability of presentation, the CY 2004 balances for material items have been restated using the same accounting policies adopted for CY 2005 as enumerated in this section.

2.2. Consolidation

The BSP's financial statements include the transactions of the bank proper, regional offices and branches, SPC, and the PICC.

All inter-company balances are eliminated prior to consolidation. The net income of SPC is reported under other income in the Statement of income & expenses. The Statement of condition accounts of the PICC are consolidated with the BSP; its capital accounts are included in the surplus account. In accordance with the IAS, no separate parent-subsidiary financial statements were presented because the difference between the parent and subsidiary accounts is not material. Due to the immateriality of the balances of accounts of PICC, "consolidated" was omitted from the heading of the statement.

2.3. Presentation and recognition

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

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

2.4. Currency of presentation

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

2.5. Foreign currency translation

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

The monthly revaluation gains or losses arising from changes in the exchange rates 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 IAS 21 provides that unrealized gains and losses due to change in exchange rates are to be recognized in the income statement regardless of classification of assets, the BSP's recognition of these unrealized gains and losses is in accordance with Section 45 of the BSP charter.

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

As at December 31	**2005**	2004	Difference
USD1 is equivalent to PHP	**53.062**	56.341	-3.279

2.6. Foreign exchange gains and losses

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

2.7. Interest income and expenses

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

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

2.8. Fee income

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

2.9. Financial assets

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

2.9.1. Available-for-sale

Available-for-sale financial assets are foreign currency assets (including gold) forming part of the international reserves, and domestic securities. Although investments have fixed or determinable payments and maturities, these are neither purely held for trading nor held up to maturity 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 price are calculated as the difference between the current market value against the last revalued amount. 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 a clearer presentation of the international reserves, gold used as collateral for borrowings are not reclassified in the financial statements as pledged assets but such restriction is disclosed in Note 7 b.

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 are recognized in the income statement with a charge or credit to the corresponding revaluation account.

The realized gain or loss arising from exchanges of the Bank's foreign currency financial assets are recognized in the income statement against a contra-account in the revaluation account in compliance with Sec. 45 of R.A. 7653 which describes the revaluation account as a frozen account which shall neither be credited nor debited for any other purpose. On a quarterly basis, changes in exchange rates and market price of gold between two quarters are calculated and the corresponding capital reserves are set-up by a direct charge to the corresponding net realized gain or loss. For domestic securities, the cumulative gain or loss previously recognized in equity is recognized in the income statement.

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. Loans are not reclassified as accruing until interest and principal payments are brought current or the receivables are restructured and future payments appear assured.

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. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognized directly to income.

2.10. Sale and repurchase agreements

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

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

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

If the collateral received by the BSP is cash, the lender/agent (on behalf of the lender) invests the cash in short-term investment vehicles under BSP's investment guidelines. BSP's earnings from the program are determined by the difference between the rebate rate paid to the lender of cash and the reinvestment rate gained on the cash collateral investments. On the other hand, if the collateral received by the BSP is non-cash, the BSP is paid a fee (lending fee) by the borrower based on the market value of the loaned securities. Both the rebate and lending fee are negotiated at the time of the transactions and can be amended during the life of 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 July 3, 1993 are stated at appraised value less accumulated depreciation. Subsequent acquisitions are stated at acquisition cost less accumulated depreciation.

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

Depreciation is computed using the straight-line method based on the revised estimated useful life of depreciable capital assets and residual value based on various depreciable base years following the Commission on Audit Circular Nos. 2004-005 as amended, and 2005-002. This revised computation was applied in CY 2005 and adjustments amounting to PHP129.152 million were made to profit or loss.

Below is the comparative table of the expected useful life of depreciable assets used in CY 2004 and CY 2005:

	Estimated useful life (no. of years)	
Asset Group	**2005**	2004
Buildings -		
BSP Constructed	**30**	75
Acquired or Purchased	**25**	25
Property Improvements (building, land, leasehold and office)	**10**	5
Computer Hardware & Software	**5**	5
Plant Machinery & Equipment –Printing	**10**	Various
Plant Machinery & Equipment – Minting	**10**	20
Furniture and Equipment	**5**	5
Motor Vehicles	**7**	5
Armored Vehicles	**10**	10

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

2.12. Acquired assets

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

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

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

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

Acquired assets are generally held for sale. Assets sold on installment basis under a duly executed contract to sell, title to which is still in the name of the BSP and will be transferred to the buyer only upon full payment of the agreed selling price plus accrued interest is reclassified from acquired assets to sales contract receivable.

The difference between the purchase price or the total consideration under the sales contract and the carrying amount is recognized as gain on sale of acquired assets in the income statement.

2.13. Leases

The BSP leases a portion of its bank premises and acquired assets under an operating lease. Rent received is recognized as rental income in the income statement. When the BSP is the lessee, the lease rentals payable on operating leases are recognized in the income statement. 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

Imported items were recognized assets-in-transit immediately upon opening of the irrevocable letter of credit. In CY 2005, the balance of assets-in-transit account for which title or risks to the goods have not yet been transferred to the BSP were reclassified to miscellaneous assets.

Finished currency notes and coins were immediately recognized as currency production expenses upon physical transfer from the SPC to the Unissued Currency Stock Committee (UCSC). In CY 2005, the balance of currency production expenses were adjusted to recognize as expenses only those currency notes and coins that have been recognized as cash on hand (measured at face value) contra the liability account, currency issued upon transfer from UCSC to the Cash Department. Transfers from SPC's finished goods inventory (at cost) to the UCSC will be recognized contra a currency inventory account with a corresponding recognition of a contingent liability - currency unissued (measured at face value). The effect of this change in accounting policy was a reduction of the expenses in CY 2005 by PHP784 million and an increase in the inventory account in the balance sheet.

2.15. Numismatic collections, artworks, paintings and sculptures

These are recorded at historical cost except those received as donations which 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 fair value. BSP borrowings are subsequently stated at amortized cost using the effective interest rate method. Interest is accrued monthly and recognized in the income statement. Foreign currency borrowings are collateralized either by securities or gold.

Local currency financial liabilities refer to deposits of the National Government, banks and other financial institutions. All banks operating in the country are required to maintain reserves against their deposit liabilities. The required reserves of each bank shall be proportional to the volume of its deposit liabilities and shall ordinarily take the form of cash in its vaults and deposit with the BSP. A portion of these deposits is paid interest at rates approved by the Monetary Board. Interest is accrued monthly and credited to the respective demand deposit accounts quarterly. The fair value of deposits with no stated maturity is the amount repayable on demand.

2.17. Currency in circulation

Currency issued is a claim on the BSP, fully guaranteed by the government of the Republic of the Philippines, in favor of the holder. Currency in circulation is recorded at face value as a liability in the balance sheet. In accordance with Section 51 of the Act, 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. At spot date, a contingent asset/liability is recognized and at maturity date the contingent asset/liability is reversed and the purchase/sale of the currency is recorded. For options, no contingency accounts are recognized but on spot date, option fees are recognized in the income statement.

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. The unrealized gain/loss due to change in fair value and exchange rate are recognized monthly in the balance sheet under the revaluation account contra a derivatives asset (if income) or liability account (if loss). At maturity date, a gain or loss is recognized in the income statement with a corresponding reversal of the revaluation account.

2.19. Taxes

The BSP is liable for all national, provincial, municipal and city taxes, fees, charges and assessments. However, it continues to be fully exempted from all customs duties and fees and all other taxes in relation to the importation and exportation of notes, coins and gold and other metals and all equipment needed for bank note production, minting of coins, metal refining and other security printing operations authorized under Section 126 of the Act.

IAS 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 should be recognized in the books of accounts: a) impairment losses on loans and advances and b) impairment losses for acquired assets. Although these expenses are deducted from the pretax net income in arriving at estimated income tax currently payable, no deferred tax asset was recognized in the books of accounts. To comply with IAS 12, BSP has set up the deferred tax asset/liability account in CY 2005 to account for the temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Pursuant to R.A. 9337, the income tax rate for domestic corporations was increased from 32% to 35%, and the Expanded Value Added Tax (EVAT) was further amended imposing a 70% cap on input as off-set/creditable against output VAT, effective 01 November 2005. Taxable income for the year was spread equally and subjected to the applicable tax rate, 32% for the first ten-month period and 35% for the remaining two-month period.

2.20. Employee benefit plans

The funds listed below had been set-up for BSP employees. Except for the car plan fund, and the medical benefit fund which are funded through the surplus account before profit distribution, the BSP's contribution 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 income accrue to the Funds and are recognized in the balance sheet as increase in the Fund balance. The Fund balances reported by the fund administrators are measured at fair market values.

2.20.1. Provident fund

This fund was established in accordance with Republic Act 4537 dated June 9, 1965 which authorized such fund to be set-up by government owned or controlled banking institutions. This is a defined contribution plan wherein the Bank's monthly contribution is equivalent to 20% of the basic salary of each employee while the employee contributes 5%. All regular employees automatically become members of the Fund.

The Bank's contributions are recognized in the income statement as operating expenses. The Fund is administered by the Provident Fund Office, a separate legal entity established for the purpose of managing the Fund and staffed by Bank personnel.

2.20.2. Housing fund

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

2.20.3. Longevity trust fund

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

2.20.4. Car plan fund

BSP implemented the car plan program in 1993 in line with the approval of the motor vehicle lease purchase plan for the government financial institutions by the Office of the President on July 20, 1992. The fund is administered by the Provident Fund Office.

2.20.5. Retirement benefit fund

This fund was set-up in 1997 for employees who will be eligible to retire under R.A. 1616. Based on estimates made by Human Resource Management Department (HRMD), the Bank will contribute up to 2005 to cover for the benefits of the employees who will be qualified to retire up to 2023. The Bank's contributions are recognized in the income statement as operating expenses. Actual charges include (a) retirement gratuity pay (b) payments for periodic monetization of accumulated leaves of active employees (c) money value of unutilized leave of retiring/seceding employees, and (d) financial assistance to beneficiaries. The balance of the Fund is reported in the balance sheet under a capital reserves account. The Fund is administered by the Provident Fund Office and all incomes accrue to the Fund.

In accordance with IAS 19, the BSP recognized as liability the estimated value of accumulated unused leave credits of all active BSP employees as of 31 December 2005. This recognition was composed of charges against operating expenses amounting to PHP1.311 billion and a reclassification from the retirement benefit fund amounting to PHP319 million.

2.20.6. Medical benefit fund

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

In November 2005, the Monetary Board approved augmentation by PHP192.5 million of the medical benefit fund for CY 2005 to be taken from the BSP's net income before dividend distribution, an annual replenishment of the Fund starting 2006 before closing of books at year-end based on actual utilization, net of interest earned on its investments, and for management to undertake an actuarial study on the Fund.

2.21. Capital reserves

The capital reserves listed below had been set-up to cover for various risks. Other than the car plan fund, and the medical benefit fund which are under employee benefits, the Bank had set aside portions of its undistributed earnings as self-insurance. In addition, quarterly capital reserves are set-up by a direct charge from net realized FX and gold price gains.

2.21.1. Currency insurance fund

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

2.21.2. Fidelity insurance fund

This Fund was set-up in 1997 as self-insurance for the fidelity bond of bank officers and staff with cash and gold accountabilities in excess of PHP100 million. Accountabilities up to PHP100 million are covered by fidelity bonds issued by the Government Service Insurance System (GSIS). Annual charges against surplus are computed at 75% of 1% of the maximum amount of accountabilities (net of PHP100.00 million) of each group/individual covered by the Fund. The provision made in CY 2005 has reached the highest single accountability, hence, given the same limits, no additions to the Fund are contemplated after CY 2005. Investments of the Fund are in government securities and all incomes accrue to the Fund. The BSP Comptrollership is the administrator of the Fund.

2.21.3. 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.

2.21.4. Reserves for the rehabilitation of the Security Plant Complex

The account was set-up in 2003 to fund the rehabilitation and upgrading of the facilities of the SPC which were constructed in 1979. Based on the rehabilitation master plan, the project is estimated to cost PHP5.709 billion and will be completed by 2006.

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.

2.21.6. Directors and officers liability insurance fund

The initial amount of this Fund of PHP500 million was set-up in CY 2005 to cover through self-insurance any liability of directors and officers that may arise in connection with the exercise of their functions.

2.21.7. Reserve for contingencies

This is a general reserve. In CY 2005, PHP13.269 billion was reclassified to augment the shortfall in reserve for gold price fluctuation.

2.22. Cash flows

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

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

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

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

2.23. Comparatives

Where necessary, comparative amounts and accounts have been restated to conform with changes in presentation in the current year.

2.24. Prior period adjustments

Up to CY 2004, prior period adjustments were recognized in the equity section of the balance sheet as surplus adjustments. The balance was closed to the surplus account in CY 2005 and following IAS 8, the subsequent adjustments to prior years' income and expense are recognized in the income statement.

2.25. Dividend distribution

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

2.26. Commitments and contingent liabilities

As of the balance sheet date, the BSP recognizes commitments and contingent liabilities such as Currency issued of PHP 78,970,182 and FX spot and forward exchange contracts of PHP 31,796,355.

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

BSP is currently awaiting definitive BIR ruling on the imposition of VAT assumed on upfront/agency fees on Term Loan Facility and interest paid amounting to PHP114.928 million in view of the passage of R.A. No. 9294, "Restoring the Tax Exemption of Offshore Banking Units (OBUs) and Foreign Currency Deposit Units (FCDUs)" which became effective on 21 May 2004. In the event the courts rule in favor of the BIR, BSP will assume and pay the VAT due after assessment and/or a definitive ruling has been issued. Pending resolution of the issue on the applicability of VAT on foreign loans, BSP has no tax liability to assume.

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 which are invested in government securities. As of 31 December 2005, the total of these funds amounted to PHP15.858 billion.

3. Financial risk management

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

Risk-taking and risk-controlling activities are covered in its investment guidelines which were designed to achieve the objectives of capital preservation, liquidity and profitability. The guidelines include permissible investments, allowable markets, allowable currencies, minimum credit rating of issues and deposit banks, and maximum maturity/duration limits, liquidity of an issue and concentration limits, monitoring compliance and reporting breaches to limits.

The risk factors considered are as follows:

3.1. Currency risk

The Bank considers the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The limits on the level of exposure by currency and in total for both overnight and intraday positions are monitored daily. The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2005 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	10,840	160,245	286,722	-	2,715,213	925,581	149,781	4,248,382
Other -Cash Balances	208	204	2,201	-	449	1,674	1,111	5,847
Investments	-	231,787	399,335	-	10,368,761	470,172	1,474	11,471,529
Gold in Bullion Vault	-	-	-	-	823,988	-	-	823,988
Gold with Foreign Financial Institution	-	-	-	-	1,744,393	-	-	1,744,393
IMF special drawing rights (s(	-	-	-	843	-	-	-	843
Loans and Advances	-	-	30	-	9,536	-	-	9,566
Other Foreign Currency Receivables	2	3,682	212	60,110	460,457	7,343	120	531,926
Total Financial Currency Assets	**11,050**	**395,918**	**688,500**	**60,953**	**16,122,797**	**1,404,770**	**152,486**	**18,836,474**
Financial Currency Liabiliti								
Short term deposits	-	-	231,595	-	141,140	145	-	372,880
Allocation of IMF sdr	-	-	-	166,646	-	-	-	166,646
Derivative instruments	-	-	-	-	253	-	-	253
Loans Payable	939	1,201	167,280	-	436,048	23,558	4,749	633,775
Term Loan Facility	-	-	-	-	2,104,292	-	-	2,104,292
Bonds Payable	-	-	-	-	868,944	-	-	868,944
Other Liabilities	19	26	2,248	3,494	80,269	4,511	91	90,658
Total Financial Currency Liabilities	**958**	**1,227**	**401,123**	**170,140**	**3,630,946**	**28,214**	**4,840**	**4,237,448**

3.2. Market risk

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, presently set at 15% to the portfolio vis-à-vis the benchmark and 20% exposure to non-US dollar currencies. Adherence to these guidelines is closely monitored and any breaches are reported and addressed immediately.

3.3. Credit risk

On its international reserves portfolio, the BSP invests only in investment grade banks for short-term placements and in top-quality sovereign, supranational and government issues for medium to long-term investments. Counterparties are first accredited and a counterparty limit is set based on the credit rating assigned to them by reputable international rating agencies and the results of internal evaluation on the counterparty's financial strength and soundness. Actual credit exposures based on the notional amounts are measured against these limits and breaches, if any, are addressed immediately. For certain major counterparties, credit risks are mitigated through netting arrangements specified in International Swaps and Derivatives Associations, Inc. (ISDA) Agreement executed with them.

On the domestic portfolio, the BSP's charter allows the BSP to buy and sell in the open market for its own account debt issues of the Philippine Government or by its political subdivisions, and debt issues of government instrumentalities that are fully guaranteed by the government.

Credit risks associated with loans to banks are addressed through the use of repurchase agreements which require that cash loans be covered by government securities placed as collateral by the borrowing bank. Collaterals are valued at market and reduced by haircuts to consider price and exchange rate volatilities, and maturity date.

3.4. Liquidity risk and foreign currency liquidity constraints

Liquidity risk is the risk that certain assets cannot be sold in a timely and economic manner to meet liquidity needs. Liquidity risk is contained by limiting the maximum size of certain investments to 5% of the outstanding issue.

To ensure sufficient liquidity for servicing the maturing foreign currency obligations and for maintaining orderly local foreign exchange market conditions, liquidity management measures are in place. Other than the matching of the duration of its assets and liabilities and avoidance of concentration of maturities of its liabilities, the measures also include a conservative approach of allocating funds to meet unexpected demands for liquidity in the local foreign exchange market and arrangements to ensure continued access to capital markets.

3.5. Operational, legal and reputational risk

Aligned with the institutional requirements, policies and procedures which 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. To enhance its current systems and procedures, an automated risk management system will be installed.

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.

4. Significant events

a. The Monetary Board approved-in principle on 2 June 2005 the cession, by way of property dividend to the National Government, through the Department of Finance, the BSP property located in P. Casal St., Quiapo, Manila (BSP Motorpool). The property consisting of land and building has a net carrying value of PHP.065 billion.

b. The Monetary Board approved on 2 June 2005 the declaration and payment of dividends to the National Government in the amount of PHP1.611 billion representing its 75% of the net profits for CY 2004.

c. The Monetary Board approved on 02 February 2006 a negotiated settlement with Francois Charles Oberthus Fiduciare (FCOF) relative to the defective 100-piso banknotes printed by said firm where FCOF will replace only 58,431,300 pieces 100-piso notes representing 75% of the total 77,908,400 defective 100-piso notes. The Memorandum of Agreement (MOA) between Bangko Sentral ng Pilipinas (BSP) and FCOP is being finalized to be submitted to the court of competent jurisdiction for approval/confirmation in coordination with the Office of the Solicitor General (OSG). Upon approval of the MOA, BSP shall recognize an extraordinary loss equivalent to the total printing cost of 19,477,100 pieces 100-piso notes or 25% of the total defective notes not to be replaced by FCOF.

   The total quantity of defective 100-piso notes delivered amounted to 80.0 million pieces. Except for one (1) box containing 50,000 pieces (50 bundles of 1,000 pieces/bundle) and 2.092 million pieces released for circulation, the Monetary Board approved the shredding of the remaining notes in the vault of Cash Department, Unissued Currency Stock Committee and Security Plant Complex. The shredding of the remaining notes shall have no impact on the BSP financial statements.

d. Bangko Sentral recognized in the books a receivable account for PHP32.702 million (net of overage amounting to PHP3.562 million) from the Assistant Cashier of BSP-Cotabato Branch representing cash shortage arising from the cash count of her accountability performed by the Commission on Audit (COA) on 16 December 2005. Upon completion of audit, the COA shall recommend to BSP the necessary legal action to take against the Assistant Cashier.

e. The National Government settled on 08 February 2006 its past due obligation with BSP in the amount of PHP6.820 billion representing advances made by the then Central Bank of the Philippines (CBP) to the International Monetary Fund (IMF) as payment for the increase in quota contribution of the Republic of the Philippines in the IMF under the IMF's Ninth General Review of Quotas in 1992.

f. The Monetary Board approved the amount of PHP749 million as the value of the BSP property dividend for 2005 to the National Government arising from the conveyance to the NG of a 1,551-hectare property dacioned by a bank to the BSP.

5. Critical accounting estimates and judgments in applying accounting policies

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

6. Investment securities - available for sale

	Under securities lending	**2005 PHP000**	2004 PHP000
Foreign currency			
Marketable securities	235,410,853	**430,486,435**	376,481,875
Other investments	56,294,768	**178,215,845**	151,753,027
	291,705.621	**608,702,280**	528,234,902
Accrued interest		**3,705,425**	851,784
		612,407,705	529,086,686

7. Gold

	Note	**2005 PHP000**	2004 PHP000
In bullion vault	**a**	**43,722,448**	30,287,582
With foreign financial institutions	**b**	**92,560,991**	145,049,614
		136,283,439	175,337,196
Accrued interest		**8,876**	56,116
		136,292,315	175,393,312

a. Gold in bullion vault

	2005		2004	
	PHP000	**FTO**	PHP000	FTO
Opening balance- Dec.31	**30,287,582**	**1,229,729.436**	11,797,812	511,740.347
Additions during the year	**25,078,523**	**1,063,794.379**	25,441,767	1,198,199.920
	55,366,105	**2,293,523.815**	37,239,579	1,709,940.267
Transfers to foreign financial institutions	**(15,140,518)**	**(699,736.692)**	(8,556,608)	(480,210.831)
Net increase due to price/rate revaluation	**3,496,861**	**0**	1,604,611	0
Ending balance-Dec. 31	**43,722,448**	**1,593,787.123**	30,287,582	1,229,729.436

b. Gold with foreign financial institutions

	2005		2004	
	PHP000	**FTO**	PHP000	FTO
Opening balance – Dec.31	**145,049,614**	**5,889,271.063**	177,650,005	7,705,723.248
Additions during the year:				
Transfer from bullion vault	**15,140,518**	**699,736.692**	8,556,608	480,210.831
Purchases/rollovers	**74,130,653**	**3,056,638.703**	187,415,350	9,000,294.352
Total additions	**89,271,171**	**3,756,375.395**	195,971,958	9,480,505.183
	234,320,785	**9,645,646.458**	373,621,963	17,186,228.431
Net sales during the year/Maturities	**(152,285,246)**	**(6,271,578.419)**	(241,194,076)	(11,296,957.368)
Net increase due to price/rate revaluation	**10,525,452**	**0**	12,621,727	0
Ending Balance-Dec 31	**92,560,991**	**3,374,068.039**	145,049,614	5,889,271.063
Gold deposits used as collateral for foreign currency borrowings	**24,457,782**			
Price of Gold in USD per FTO		**2005** 517.00		2004 437.15

8. International Monetary Fund special drawing rights

	2005 PHP000	**2004 PHP000**
Beginning balance – December 31	**56,283**	98,517
SDR acquisition	**1,192,283**	1,445,421
Income accruing to the fund	**95,580**	68,262
Revaluation	**(12,617)**	4,824
Payment of charges-interest and remuneration	**(1,286,820)**	(1,560,741)
Net increase/(decrease) for the year	**(11,574)**	(42,234)
Accrued interest	**162**	293
Ending balance – December 31	**44,871**	56,576

9. Loans and advances

Foreign currency loans and advances	% to Total	2005 PHP000	2004 PHP000
Special purpose			
CFBP		**0**	2,206,933
IBRD 2469	3.96	**20,955**	20,955
Rediscounting			
Exporters yen facility	0.30	**1,576**	0
Exporters dollar facility	95.74	**506,479**	1,304,718
	100.00	**529,010**	3,532,606
Allowance for probable losses	3.96	**20,955**	2,227,888
	96.04	**508,055**	1,304,718
Accrued interest		**1,810**	2,658
`		**509,865**	1,307,376

The Consolidated foreign borrowings program (CFBP) loan with a 100% loan-loss provision was settled in full by the National Government through the issuance of peso-denominated 3-year treasury bonds with a coupon rate of 10.5083% maturing on 28 February 2008. The recoveries were recognized in the balance sheet as surplus adjustments (for prior years) and the excess was recognized in the income statement.

Local currency loans and advances	% to Total	Note	2005 PHP000	2004 PHP000
Philippine Deposit Insurance Corp.	**63.01**	**a**	**73,103,329**	80,828,267
National Government	**18.00**		**20,882,822**	20,882,822
Assumed obligations of PNB & DBP	0.68	**b.1**	**792,500**	792,500
RA 2052	17.32	**b.2**	**20,090,322**	20,090,322
Non-banks/Quasi banks	0.00		**0**	0
Special purpose	0.13		**148,635**	159,144
Non-banks/Quasi banks	0.00		**0**	194
Rural Bank	0.13		**148,635**	158,950
Emergency	**4.66**	**c**	**5,410,017**	5,947,348
Commercial banks	1.13		**1,305,881**	1,305,880
Thrift banks	2.82		**3,276,315**	3,836,195
Rural banks	0.71		**827,821**	805,273
Rediscounting	**12.58**		**14,594,197**	13,454,785
Commercial banks	6.86		**7,962,872**	7,737,880
Thrift banks	4.13		**4,788,328**	3,479,825
Specialized banks	0.21		**241,740**	274,230
Rural banks	1.38		**1,601,257**	1,962,850

Overdrafts/overnight clearing line	**1.58**		**1,836,836**	2,076,398
Government securities purchased under repurchase agreement	**0.04**		**40,000**	3,375,000
	100.0		**116,015,836**	126,723,764
Allowance for probable losses	6.61		**7,672,911**	6,877,769
	93.39		**108,342,925**	119,845,995
Accrued interest			**7,297,590**	4,372,358
			115,640,515	124,218,353
Total foreign and local currency	**100.0**		**116,544,846**	130,256,370
Allowance for probable losses	6.60	**d**	**7,693,866**	9,105,657
	93.40		**108,850,980**	121,150,713
Amount past due			**13,532,094**	31,076,388
Rate			**12%**	24%

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

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

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

2. These consist of two 5-year non-interest bearing subscription loans and advances for the payment of increase in quota contribution of the Republic of the Philippines in the IMF under the IMF's 9^{th} and 11^{th} General Review of Quotas. The first note for PHP6.820 billion was granted in November 1992 to cover the payment of SDR193 million increase in quota subscription by the then Central Bank of the Philippines. The note matured in 1997 and was rolled-over for another five (5) years to mature on 30 November 2002. In reply to the NG's request for opinion, the Department of Justice (DOJ) opined that this is an obligation of the NG, and not the BSP.

3. The second note for PHP13.270 billion was granted by the BSP in February 1999 to cover for the SDR246.5 million increase in quota subscription, pursuant to R.A. 2052, as amended. The note matured in February 2004 and was rolled-over for another five (5) years to mature on 26 February 2009.

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

d. **Allowance for probable losses**

Total outstanding loans and advances of PHP116.545 billion, including securities purchased under agreements to re-sell represents 9% of total assets. Past due accounts of PHP13.532 billion represent 12% of outstanding loans and advances; 56% of past due accounts are covered by allowance for probable losses. Total probable loan losses booked in 2005 amounted to PHP977.131 million, net of recoveries.

10. Other receivables

	Note	**2005 PHP000**	2004 PHP000
Foreign currency			
Accrued interest		**9,734**	2,049,274
Due from local banks		**53,062**	56,341
Due from foreign banks/branches	**a**	**1,150,102**	5,098,374
Foreign exchange receivables	**b**	**18,309,776**	19,892,109
Non-IR foreign exchange assets		**4,758,378**	19,484,510
		24,281,052	46,580,608
Local currency			
Accounts receivable –Treasurer of the Philippines (TOP)	**c**	**22,581,759**	21,196,129
Accounts receivable (net of allowance of PHP1,645,311)		**2,337,146**	3,487,117
Notes receivable		**1,366,731**	1,366,731
Due from local banks		**151,503**	275,939
Receivables from staff/others		**758,329**	949,475
Lease receivable		**22,445**	14,240
Sales contracts receivable		**854,968**	370,564
Items under litigation		**16,258**	16,258
		28,089,139	27,676,453

a. **Due from foreign banks/branches – special account** – This 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, Federal Reserve Bank of New York, under the name of the Republic of the Philippines.

c. **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.

11. Investments securities-available for sale

	2005 PHP000	2004 PHP000
Local currency		
Treasury bonds	**57,642,527**	55,000,869
Treasury bills	**14,707,629**	32,051,387
Treasury notes	**1,649,729**	2,855,223
PICC (Investment in T-Bills)	**165,590**	114,113
	74,165,475	90,021,592
Accrued interest	**737,713**	613,404
	74,903,188	90,634,996

12. Due from administrator of funds

	2005 PHP000	2004 PHP000
Comptrollership		
Currency insurance	**2,390,421**	2,256,428
Fidelity insurance	**17,500,186**	13,475,597
Medical benefit	**617,756**	751,874
Post retirement benefit	**27,350**	26,365
	20,535,713	16,510,264
Provident fund office		
Post retirement benefit	**1,386,550**	1,386,321
Car plan fund	**261,230**	264,346
Longevity	**0**	1,000
Housing	**0**	10,809
Provident	**88,644**	58,276
SPC fund	**0**	2,148
	1,736,424	1,722,900
Department of Loans and Credit		
Apex	**6,920,229**	6,448,040
Industrial Fund	**2,515**	2,515
	6,922,744	6,450,555
	29,194,881	24,683,719

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. 2004							
Cost	17,182,481	9,634,511	1,462,555	1,832,080	3,652,110	79,499	521,726
Accumulated depreciation	5,658,239	1,249,292	897,418	1,226,606	2,284,923	0	0
Net book amount	**11,524,242**	**8,385,219**	**565,137**	**605,474**	**1,367,187**	**79,499**	**521,726**
Year ended 31 Dec. 2004							
Opening net book amount	**11,524,242**	**8,385,219**	**565,137**	**605,474**	**1,367,187**	**79,499**	**521,726**
Additions	860,500	227	231,620	116,487	135,001	16,315	360,850
Disposals/Reclassification at book amount	(69)	0	0	0	0	(69)	0
Depreciation	(600,533)	(116,625)	(87,325)	(186,806)	(209,777)	0	0
Closing net book amount,31 Dec,2005	**11,784,140**	**8,268,821**	**709,432**	**535,155**	**1,292,411**	**95,745**	**882,576**
As at 31 Dec. 2005							
Cost	18,042,912	9,634,738	1,694,175	1,948,567	3,787,111	95,745	882,576
Accumulated depreciation	6,258,772	1,365,917	984,743	1,413,412	2,494,700	0	0
Net book amount	**11,784,140**	**8,268,821**	**709,432**	**535,155**	**1,292,411**	**95,745**	**882,576**

14. Acquired assets

	2005 PHP000	2004 PHP000
Various properties	**14,200,479**	13,919,343
Less: Allowance for market decline	**2,403,786**	1,692,515
	11,796,693	12,226,828

15. Inventories

	2005 PHP000	2004 PHP000
Gold for domestic sale	**9,364**	1,659
Gold for refining	**10,437,252**	9,919,370
Silver for refining	**3,505**	2,571
Currency inventory	**784,268**	0
SPC inventories	**3,738,432**	6,531,229
Work-in-process	**3,620,153**	3,295,805
Other supplies	**98,394**	70,155
	18,691,368	19,820,789

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16. Miscellaneous assets

	2005 PHP000	2004 PHP000
Deferred charges	**863**	863
Deposits – utilities & services	**4,766**	5,110
Input tax	**14,404**	14,326
Withholding tax at source	**5,558**	11,581
Prepaid expenses	**1,250,068**	42,918
	1,275,659	74,798
Commemorative notes & coins	**721**	775
Demonetized commemorative coins	**22**	28
Demonetized coins for melting & refining	**417**	417
Items for exhibit	**7**	7
Numismatic collections on hand	**14,198**	14,198
Paintings and sculptures	**52,520**	52,266
	67,885	67,691
Due from PICC	**447**	137
Checks and other cash items	**184**	391
Checks and other collection items in –transit	**559**	583
Stocks and other securities	**10,735**	10,734
	1,355,469	154,334

Prepaid expenses include the reclassification from inventories/goods that are covered by outstanding letters of credit.

17. Short-term foreign currency deposits

	2005 PHP000	2004 PHP000
Small and medium scale entities	**11,307,241**	10,411,094
National Government	**4,852,194**	7,574,679
Other entities	**1,476,791**	5,271,941
Foreign banks	**2,149,542**	0
	19,785,768	23,257,714
Accrued interest	**29,515**	13,513
	19,815,283	23,271,227

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

18. Loans payable

	Note	**2005 PHP000**	2004 PHP000
Maturing in 1-5 years			
Gold-backed loans	a	**7,959,300**	49,298,375
Gold repo deposits	a	**11,938,950**	0
1989 relending		**0**	155,445
Term loan facility		**111,650,110**	107,827,282
		131,548,360	157,281,102
Maturing in more than 5 years	b		
Blocked peso deposit (Circular 1139/1202)		**73,278**	90,722
Blocked peso deposit (Circular 1298)		**13,657,845**	20,731,109
MC 12/5/83–Republic Planters Banks		**3,846**	29,558
		13,734,969	20,851,389
		145,283,329	178,132,491
Accrued interest		**2,110,730**	1,890,057
		147,394,059	180,022,548

a. Gold-backed loans and gold repo deposits are liabilities covered by collaterals in the form of gold with financial institutions with a carrying value of PHP24,257,782 thousand.

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.

19. Bonds payable

	2005 PHP000	2004 PHP000
Bonds due 2027	**21,224,800**	22,536,400
Bonds due 2097	**5,306,200**	5,634,100
BSP floating rate note	**19,576,930**	12,179,046
Fixed rate note	**0**	45,072,800
	46,107,930	85,422,346
Add/(deduct): Premium on bonds	**0**	117,084
Discount on bonds	**(88,812)**	(95,860)
	46,019,118	85,443,570
Accrued interest	**291,769**	736,704
	46,310,887	86,180,274

20. Allocation of IMF special drawing rights

	2005 PHP000	2004 PHP000
Allocation of SDRs	**8,842,556**	10,167,883
Accrued interest	**43,004**	35,005
	8,885,560	10,202,888

21. Deposits

	Note	2005 PHP000	2004 PHP000
Government deposits	a		
Short-term		**50,511,210**	22,742,406
Long-term		**30,000,000**	30,000,000
		80,511,210	52,742,406
Accrued interest		**2,456,487**	749,439
		82,967,697	53,491,845
Demand deposits	b		
Banks/NBQBs-reserve deposits		**130,845,239**	105,132,647
Others		**1,500,488**	1,114,867
		132,345,727	106,247,514
Accrued interest		**183,304**	203,554
		132,529,031	106,451,068
International Monetary Fund and other financial institutions	c	**82,514,610**	97,774,019
		215,043,641	204,225,087

a. 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.

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

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

The Monetary Board in its Resolution No.898 dated 7 July 2005 approved the increase in the reserve requirements for universal banks and commercial banks and non-bank financial intermediaries with quasi-banking functions and with trust licenses by 1% for the statutory/legal reserves and another 1% for the liquidity reserves.

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.

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 SDR985 million at 31 December 2005.

The balance of IMF's currency holdings (SDR79.976 million) represented by a non-negotiable, non-interest bearing security encashable on demand and issued in 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 CY 2005, the revaluation loss of IMF local currency holdings amounted to PHP1.436 billion due to the appreciation of SDR against the peso by PHP1.210/SDR, from PHP81.303/SDR as of 30 April 2004 to PHP82.513/SDR as of 30 April 2005. The revaluation is shared between the BSP and the National Government (NG) based on the outstanding balances of quota subscription (for NG) and credit availments from Standby Credit Facility (SCF) and Extended Fund Facility (EFF) for BSP. The BSP's share of PHP477 million was booked under Revaluation of foreign currency accounts while the NG's share of PHP959 million was recognized as Accounts receivable – Treasurer of the Philippines.

22. Currency in circulation

Denomination	Quantity		Amount	
	2005	2004	**2005**	2004
Notes			**PHP**	PHP
100,000	**118**	108	**11,800**	10,800
2,000	**9,964**	9,461	**19,928**	18,922
1,000	**110,734,593**	109,759,945	**110,734,593**	109,759,945
500	**296,212,179**	283,591,960	**148,106,090**	141,795,980
200	**19,744,360**	3,873,899	**3,948,872**	774,779
100	**373,158,111**	356,512,659	**37,315,811**	35,651,267
50	**263,320,427**	251,761,026	**13,166,021**	12,588,051
20	**538,123,864**	509,602,347	**10,762,477**	10,192,047
10	**81,992,779**	90,678,308	**819,928**	906,783
5	**31,306,345**	31,561,326	**156,532**	157,807
Total notes in circulation			**325,042,052**	311,856,381
Coins				
10 Piso	**194,290,797**	160,186,042	**1,942,908**	1,601,861
5 Piso	**1,011,398,412**	953,993,747	**5,056,992**	4,769,969
1 Piso	**3,143,795,626**	3,006,623,388	**3,143,796**	3,006,623
25 Sentimo	**3,897,513,626**	3,454,916,972	**974,378**	863,729
10 Sentimo	**1,691,889,330**	1,557,030,568	**169,189**	155,703
5 Sentimo	**1,109,115,270**	1,003,545,179	**55,456**	50,177
1 Sentimo	**12,029,642**	10,966,686	**120**	110
			11,342,839	10,448,172
BSP commemorative coins	**2,793,092**	2,932,193	**172,615**	161,012
Total coins in circulation			**11,515,454**	10,609,184
Total currency in circulation			**336,557,506**	322,465,565

23. Other liabilities

Foreign currency		**2005 PHP000**	2004 PHP000
Other liabilities	a		
Accounts payable		**927,685**	884,654
Accrued expenses		**225,137**	301,877
Other liabilities		**2,224,104**	3,965,025
		3,376,926	5,151,556

Local currency		**2005 PHP000**	2004 PHP000
Miscellaneous liabilities	b		
Accounts payable		**926,859**	2,967,248
Accrued expenses		**35,184**	20,574
Taxes payable		**277,910**	625,588
Miscellaneous liabilities		**1,167,944**	1,685,228
		2,407,897	5,298,638

24. Retirement benefit obligations

The Bank recognized as expense of the current year the retirement benefit obligations for unused leave credits of BSP employees as of 31 December 2005:

	2005 PHP000
Total amount of accumulated leave credits	1,629,995
Less: Amount to be taken from retirement benefit plan fund	318,944
Amount recognized as liability	**1,311,051**

25. Revaluation of foreign currency accounts

	2005 PHP000	2004 PHP000
Unrealized FX rate fluctuations – beginning balance	**48,991,696**	42,187,394
Add(subtract):		
Unrealized FX rate transactions for the year	**(38,377,619)**	44,086,225
Realized FX rate fluctuations	**(14,264,560)**	(24,995,036)
	(3,650,483)	61,278,583
Unrealized price fluctuations – beginning balance	**51,020,526**	50,443,754
Add(subtract):		
Unrealized price fluctuations for the year	**27,860,059**	29,463,480
Realized price fluctuations	**(17,618,789)**	(11,017,135)
	61,261,796	68,890,099
Total revaluation of foreign currency accounts	**57,611,313**	130,168,682

Realized gains on FX rate/price fluctuations

Realized gains on FX rate fluctuations	**29,509,195**	34,471,524
Realized loss on FX rates fluctuations	**(29,509,195)**	(32,317,595)
Net realized gain/(loss) on FX rates fluctuations	**0**	2,153,929
Realized gain on price fluctuations	**11,847,817**	7,335,887
Realized loss on price fluctuations	**0**	0
Net realized gain on price fluctuations	**11,847,817**	7,335,887
Total net gain on price and FX rate fluctuation	**11,847,817**	9,489,816

26. Capital accounts

	Note	**2005 PHP000**	2004 PHP000
Capital	**a**	**10,000,000**	10,000,000
Surplus	**b**	**48,736,809**	34,267,926
Surplus reserves for price fluctuation	**c**	**(12,426,819)**	(15,226,442)
Capital Reserves			
Currency insurance fund		**2,390,421**	2,256,428
Fidelity insurance fund		**20,037,183**	16,573,459
Medical benefit fund		**810,256**	751,874
Retirement benefit fund		**1,413,900**	1,412,686
Total managed funds		**24,651,760**	20,994,447
Fluctuations in FX rates		**109,938,262**	97,831,007
Fluctuations in price of gold	**d**	**43,681,769**	19,324,727
Property insurance		**1,600,000**	1,600,000
Directors'/officers' liability		**500,000**	0
SPC rehabilitation		**2,300,000**	2,300,000
Contingencies	**d**	**19,158,075**	32,427,814
		177,178,106	153,483,548
		201,829,866	174,477,995
		248,139,856	203,519,479

a. The capital of the BSP shall be fifty billion pesos (PHP50,000,000,000) 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 (PHP10,000,000,000) had been fully paid for by the Government upon effectivity of the Act in 1993 and the balance to be paid within a period of two years from the effectivity of the Act in such manner and form as the Government, through the Secretary of the Finance and the Secretary of Budget and Management, may thereafter determine.

b. Surplus includes the share of the National Government in the 2005 net profit for distribution. Pursuant to Section 132(b) of the Act, the BSP shall remit seventy five percent (75%) of its net profits to a special deposit account (sinking fund) until such time as the net liabilities of the then Central Bank shall have been liquidated, or to the National Government as dividends. The remaining twenty five percent (25%) shall be retained as the BSP's share and is recorded in the surplus account. Dividends are declared upon authority of the Monetary Board and remitted to the account of the Treasurer of the Philippines.

c. Surplus reserves for price fluctuation was created to recognize the re-measurement of the investments in government securities. The CY 2004 balance was restated for presentation purposes (Note 11).

d. PHP13.270 billion in reserve for contingencies was reclassified to reserve for fluctuation in gold price.

27. Net interest income

	2005 PHP000	2004 PHP000
Interest income from foreign currency financial assets		
Deposit with foreign banks	**6,342,163**	2,824,146
Investment securities – available for sale	**21,398,391**	20,282,378
Gold with foreign financial institutions	**21,885**	181,866
IMF special drawings rights	**2,954**	2,521
Loans and advances	**33,357**	15,549
Other foreign currency receivables	**1,629,531**	365,576
	29,428,281	23,672,036
Interest income from local currency financial assets		
Investment securities- available for sale	**7,252,593**	10,582,696
Loans and advances	**4,202,142**	4,710,933
Other receivables	**29,220**	25,542
	11,483,955	15,319,171
	40,912,236	38,991,207
Interest expense on foreign currency financial liabilities		
Short term deposits	**1,006,823**	410,461
Loans payable	**6,103,948**	5,373,364
Bonds payable	**6,311,116**	7,549,395
Allocation of IMF special drawing rights	**1,204,052**	1,555,044
Other liabilities	**858,691**	1,078,196
	15,484,630	15,966,460

Interest expense on local currency financial liabilities		
Government deposits	**7,397,473**	5,409,460
Deposits of banks and other financial institutions	**3,147,120**	2,582,451
Securities sold under agreements to repurchase	**8,430,862**	4,278,045
Accounts payable - special escrow fund	**0**	6,590
	18,975,455	12,276,546
	34,460,085	28,243,006

28. Other operating income

	2005 PHP000	2004 PHP000
Printing, minting and refinery	**228,649**	165,369
Fees - local		
Banking supervision/clearing/license fees	**1,389,548**	1,446,318
Processing and filing fees	**18,001**	31,853
Transaction fee - *PhilPass*	**44,284**	25,954
Penalties and late charges	**115,210**	189,515
Others	**203**	202
	1,567,246	1,693,842
Other income		
Rental on acquired assets	**57,698**	40,161
Building rental	**16,903**	23,404
Gain on sale of acquired assets	**132,863**	1,674
Other miscellaneous income	**591,387**	539,597
	798,851	604,836
	2,594,746	2,464,047

29. Currency printing and minting cost

	2005 PHP000	2004 PHP000
Notes	**1,151,185**	2,702,145
Coins	**592,836**	846,472
	1,744,021	3,548,617

30. Operating expenses

	2005 PHP000	2004 PHP000
Personnel services, development and training	**6,322,223**	3,707,966
Administrative expenses	**2,332,401**	1,725,156
Depreciation	**437,836**	645,237
	9,092,460	6,078,359

31. Personnel services

	2005 PHP000	2004 PHP000
Salaries and wages	**3,493,368**	2,543,915
Personnel development and training	**171,017**	171,975
Sickness and death benefits	**155,678**	123,941
Medical and dental benefits	**10,496**	16,777
Social security contribution	**239,176**	175,368
Defined contribution plans	**940,780**	675,990
Post-retirement benefits	**1,311,708**	0
	6,322,223	3,707,966

32. Administrative expenses

	2005 PHP000	2004 PHP000
Traveling expenses	**235,938**	236,944
Taxes and licenses	**171,175**	559,412
Currency and gold operations expenses	**79,799**	80,057
Repairs and maintenance	**162,776**	161,112
Communication services	**120,336**	99,383
Grants, subsidies and contributions	**65,579**	54,977
Water, illumination and power services	**227,735**	211,694
Fidelity and property insurance	**64,341**	35,427
Rentals	**27,972**	29,364
Auditing services	**32,298**	39,462
Consultants and specialist services	**68,774**	64,231
Supplies and materials	**62,517**	55,610
Ammunitions	**5,925**	5,720
Discretionary expenses	**6,055**	6,281
Acquired assets expenses	**34,247**	13,835
Losses due to market decline	**914,203**	26,582
Others	**52,731**	45,065
	2,332,401	1,725,156

33. Reconciliation of operating cash flow with reported net income

	2005 PHP000	2004 PHP000
Reported net income after tax	**8,034,446**	5,246,822
Add (subtract) non-cash items:		
Depreciation	**437,836**	645,237
Amortization of premium/discount on bonds payable	**(110,036)**	(101,152)
Provision for probable loss	**977,131**	861,678
Provision for market decline	**914,203**	26,582
	2,219,134	1,432,345
Add (subtract) movements in other working capital items:		
(Increase) decrease in accounts receivable	**3,668,953**	(3,297)
Increase (decrease) in miscellaneous liabilities	**(1,074,812)**	1,088,108
(Increase) decrease in interest receivable	**(6,216,269)**	3,277,030
Increase (decrease) in interest payable	**1,521,768**	218,352
	(2,100,360)	4,580,193
Add (subtract) investing and financing activities:		
Reserve for contingencies	**0**	3,410,291
Reserve for price fluctuation of gold holdings	**11,087,302**	3,697,922
Surplus adjustment – SPC	**(4,283)**	(57,715)
Net realized foreign exchange gain/(loss)	**2,682,675**	(2,153,929)
	13,765,694	4,896,569
Net cash flow from operating activities	**21,918,914**	16,155,929

34. Consolidated cash balances

	2005 **PHP000**	2004 PHP000
Foreign currency assets		
Deposit with foreign banks	**225,427,674**	207,430,103
Other cash balances (foreign currency on hand)	**310,004**	282,133
Marketable securities – readily convertible to cash	**430,486,435**	376,481,875
Other FX receivable – due from FX banks – special account	**1,150,102**	5,098,374
Other receivables – due from local banks	**53,062**	56,341
Local currency assets		
Government securities	**74,165,475**	90,021,592
Other receivables – due from local banks	**151,503**	275,939
Other receivables – revolving fund	**602,892**	802,398
Miscellaneous assets – checks and other cash Items (COCI)	**184**	391
Miscellaneous assets – COCI in-transit	**559**	583
Demand liabilities:		
Treasurer of the Philippines – short term deposits	**(50,511,210)**	(22,742,406)
Deposit of banks and other financial institutions	**(214,860,337)**	(204,021,533)
Closing cash balance	**466,976,343**	453,685,790