BANGKO SENTRAL NG PILIPINAS
NOTES TO THE FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL INFORMATION

The Bangko Sentral ng Pilipinas (BSP) was established on 3 July 1993 as a central monetary authority of the Republic of the Philippines (ROP) pursuant to Republic Act (RA) No. 7653, otherwise known as "The New Central Bank Act". Under this 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 banknotes 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 BSP Main Complex is situated at A. Mabini and P. Ocampo Streets, Manila, Philippines. It has several buildings, namely: Multi-Storey building, 5-Storey building, EDPC building, Cafetorium building, Multi-purpose building, Metropolitan Museum of Manila and BSP Money Museum, which showcases its collection of currencies.

The Security Plant Complex (SPC) which is located in Quezon City, Philippines, houses the banknote and security printing plant, and mint and gold refinery. The banknote printing plant and mint take charge of the production of currency notes and coins, respectively.

The BSP has three (3) regional offices (ROs) sited in San Fernando City, La Union; Cebu City and Davao City, and branches in nineteen (19) locations. The ROs and branches perform cash operations and gold buying operations (in 2 ROs and 2 branches).

It also owns the Philippine International Convention Center, Inc. (PICCI), a wholly owned subsidiary that manages and operates the Philippine International Convention Center, the premiere venue for meetings, exhibitions and special events.

The powers and functions of the BSP shall be exercised by the Bangko Sentral Monetary Board, hereafter referred to as the Monetary Board (MB), composed of seven (7) members appointed by the President of the Philippines for a term of six (6) years. The seven (7) members are: (a) the Governor of the Bangko Sentral, who shall be the Chairman of the MB; (b) a member of the Cabinet to be designated by the President of the Philippines; (c) five (5) members who shall come from the private sector, all of whom shall serve full-time.

The Governor is the chief executive officer of the BSP and is required to direct and supervise the operations and internal administration of the BSP. A deputy governor heads each of the BSP's operating sector as follows:

a. Monetary Stability Sector takes charge of the formulation and implementation of the BSP's monetary policy, including serving the banking needs of all banks through accepting deposits, servicing withdrawals and extending credit through the rediscounting facility.

b. Supervision and Examination Sector supervises and regulates all banks, quasi-banks and other financial institutions which under special laws are subject to BSP supervision, to promote a sound and healthy banking system.

c. Resource Management Sector serves the human, financial and physical resource needs of the BSP.

As at 31 December 2017, the BSP has a total personnel complement of 5,254 employees consisting of 4,891 regular and 363 contractual, distributed according to location, as follows:

Location	CY 2017	CY 2016	Change
Head Office	3,670	3,648	22
Regional Offices/ Branches	1,044	1,039	5
Security Plant Complex	540	549	(9)
Total	**5,254**	**5,236**	**18**

In these financial statements, the BSP is also referred to as the "Bank". The MB has approved the release of the financial statements on 28 June 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

Under Section 3 of the New Central Bank Act (RA 7653), the primary objective of the Bangko Sentral is to maintain price stability conducive to a balanced and sustainable growth of the economy. In line with this objective, the Bank's financial statements have been prepared in compliance with the provisions of RA 7653 and applicable Philippine Financial Reporting Standards (PFRSs) and Philippine Accounting Standards (PASs) as aligned with the provisions of International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs). It is the Bank's position that having considered its responsibilities in the formulation and conduct of effective monetary policy, it is appropriate to differ, in some aspects, from the adoption of relevant PASs.

In accordance with PAS 1 (Revised 2009), *Presentation of Financial Statements,* effective 1 January 2009, an entity is required to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two (2) statements: a separate income statement and a statement of comprehensive income. The income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit or loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operation). Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g., dividends and capital increase). An entity would also be required to include in its set of financial statements, a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement.

Unless otherwise stated, the CY 2017 balances are prepared under the historical cost convention and/or applicable PFRS/PAS.

2.2 Cash flows

Cash and cash equivalents (CCE) are financial instruments that are highly liquid and are used in the day-to-day cash management operations of the Bank. This includes the highly liquid foreign currency financial reserve assets of the BSP and local currency financial assets that arise from the BSP's management of the National Government (NG) 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. The CCE include government short-term deposits, deposits of banks and other financial institutions which are cash liabilities of BSP, hence, are deducted therefrom.

Operating activities are the principal revenue-producing activities of the entity and other activities not considered as investing or financing.

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

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

2.3 Consolidation

The BSP's financial statements include the accounts of the Bank and the PICCI as of 31 December 2017. Due to immateriality of the balances of the accounts of PICCI, "consolidated" was omitted from the heading of the statement. All inter-company balances are eliminated prior to consolidation.

2.4 Subsidiary

Under PAS 24, "*a party is related to an entity if, directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the entity."*

The BSP wholly owns the PICCI. Its Board of Directors is composed of two (2) members from the BSP, the Governor as Chairman and the Deputy Governor, Resource Management Sector as Vice-Chairman and five (5) members from private sector. Its principal officers are the general manager, the deputy manager and the directors of departments performing support functions and receiving basic salaries and other benefits. As stipulated under a management contract, the PICCI is tasked to manage and administer the business affairs of the Philippine International Convention Center (PICC) and is entitled to a management fee as compensation equivalent to three per cent (3%) of gross income payable quarterly and five per cent (5%) of net income sourced from rental facilities, admission fees, commissions and miscellaneous income except interest income from PICCI's share in investments of government securities. Said management fee is used to undertake activities for the benefit and welfare of PICCI employees. The BSP provides PICCI its annual budget for capital expenditures and operational expenses. Its approved budget is accounted under "Due from PICCI" for capital expenditures and under "Advances to PICCI" for operational expenses.

In accordance with the provisions of PAS 27, the "Investment in PICCI" account was created to record the PHP50.000 million investment of the BSP in PICCI consisting of 500 shares of stock with par value of PHP100 thousand. The balance sheet and income statement accounts of PICCI are consolidated line by line of like items with BSP. Income and expense accounts of dissimilar nature with BSP's are consolidated under two summary accounts, namely: "Miscellaneous Income-PICCI" and "Miscellaneous Expenses-PICCI", respectively.

2.5 Presentation and recognition

The BSP presents financial assets, liabilities and derivative instruments, and the related income and expense accounts by distinguishing foreign and local currency accounts. These are reported separately 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.

2.6 Currency of presentation

All amounts are presented in Philippine Peso (PHP), the functional currency, unless specifically disclosed. The currency symbol "PHP" is used in the financial statements to conform to universal currency symbols.

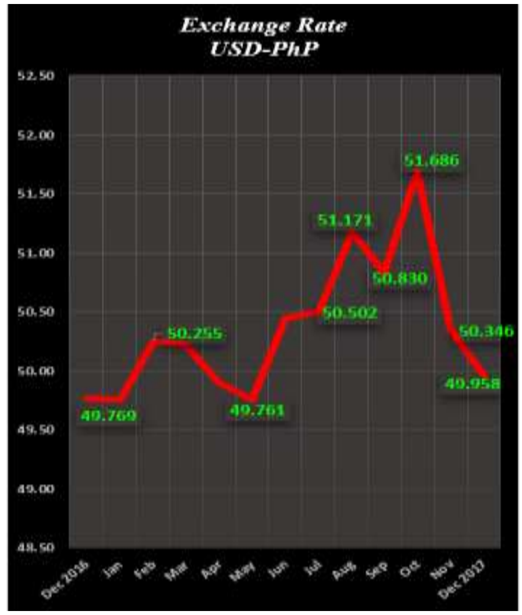
2.7 Foreign currency translation

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

The WAER at reporting date was used by BSP in translating foreign currency denominated assets and liabilities, instead of the closing rate as prescribed in paragraph 23 of PAS 21, since the WAER is a more representative rate as it captures the results of all done transactions for the day in the Philippine Dealing System (PDS) rather than a closing rate which is based on a single/last transaction. The use of WAER increased the foreign denominated assets and liabilities by PHP62.594 billion and PHP12.404 billion, respectively.

Exchange rates used are based on the published BSP Reference Exchange Rate Bulletin. The Philippine Peso versus the US Dollar depreciated by PHP0.189 or 0.38%, from PHP49.769 as of end December 2016 to PHP49.958 as of end December 2017. The end-December 2017 rate of PHP49.958 was used in the financial statements. Following are the prevailing month-end WAERs in 2017.

For the Month Ended	Exchange Rate USD-PHP	Change
2017		
December	49.958	(0.388)
November	50.346	(1.340)
October	51.686	0.856
September	50.830	(0.341)
August	51.171	0.669
July	50.502	0.053
June	50.449	0.688
May	49.761	(0.139)
April	49.900	(0.319)
March	50.219	(0.036)
February	50.255	0.498
January	49.757	(0.012)
2016		
December	49.769	
AVERAGE	**50.403**	



2.8 Recognition of income and expenses

2.8.1 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. Interests are accrued monthly. Likewise, discounts/premiums are amortized monthly using the effective interest rate method. The accrued interests are booked contra a receivable (income)/ payable (expense) account while the amortized discounts/premiums are capitalized. Reversal of the previous month's accruals and amortization of discounts/premiums is done simultaneously with the setting up of accruals and amortization of discounts/premiums as of the current month, except for the Department of Loans and Credit (DLC) and Asset Management Department (AMD), where only the adjustments to the previous month's accruals and amortizations are booked for the current month.

Payment of interest due on demand deposits of banks and other financial institutions maintained with the Bank was discontinued effective 6 April 2012, pursuant to MB Resolution (MBR) No. 1924 dated 27 December 2011 and Circular No. 753 dated 29 March 2012. Interests on deposit accounts of the NG (Regular and Other-Special accounts) with the BSP are credited quarterly to the regular demand deposit account (DDA) of the Treasurer of the Philippines-Treasury Single Account (TOP-TSA), except for TOP-Special Account No. 2 under MBR No. 560, interests of which are also credited semi-annually to the regular DDA of TOP-TSA. On the other hand, interests on foreign currency deposits (FCDs) of the NG are credited to the FCD-TOP account of the TOP upon maturity of the funds that were placed in repurchase agreements and/or time deposits. In case of negative interest, the negative interest received from the counterparty/nostro banks will be pro-rated between the outstanding deposits of BSP, TOP and other Government-Owned and Controlled Corporations (GOCCs). The shares of the NG and other GOCCs will be subsequently debited to the FCD account of TOP and other GOCCs.

2.8.2 Fee income

Banks and non-banks institutions, which are subject to supervision and examination by the BSP, pay an annual supervisory fee (ASF) in an amount equivalent to a certain percentage of their preceding year's average net assessable assets. The ASF shall be collected through the Philippine Payment Settlement System (PhilPaSS) on the specified date referred to in the billing notice sent by the Supervisory Data Center (SDC). On the other hand, Offshore Banking Unit's annual fees are collected by way of wire transfer through the Treasury Department (TD). Likewise, these entities pay penalties in violation of BSP's directives under the Manual of Regulations for Banks and Non-Banks Financial Institutions (MORB/MORNBFI) as well as processing fees for the establishment of bank branches, registration fees of pawnshops, accreditation of banks to engage in capital markets, trust activities and similar services. The collection of penalties shall be fifteen (15) days from the date of receipt of the billing notice, by debiting the bank's demand deposit account (DDA) maintained with the BSP while processing fees, registration fees and other similar fees shall be debited directly against bank's DDA upon approval.

Further, transaction fees related to the use of the BSP's payments system are recognized on value date and directly charged against the bank's DDAs maintained with the BSP.

2.8.3 Gains or losses due to changes in price and exchange rates

BSP complies with the requirements of PAS 21 and 39 with regard to the reclassification, marking to market and revaluation of the financial assets, liabilities and derivative instruments but not with the provisions in the booking of the unrealized and realized gains or losses due to change in price and exchange rates.

BSP's practice recognizes unrealized gains or losses in accordance with Section 45 of RA 7653 where change in price and exchange rates of financial assets, liabilities and derivative instruments are booked under "Revaluation of International Reserves" (RIR) account, either as asset (if loss) or liability (if gain). Reversal of the previous month's marking to market and revaluation is done simultaneously with the setting up of the current month's marking to market and revaluation as of the current month.

For change in price, realized gains or losses are recognized upon sale of gold and foreign or domestic securities. On the other hand, as approved by the MB effective CY 2010, gains or losses due to changes in exchange rates are realized only when the foreign currency is repatriated to local currency or the foreign currency is used to pay foreign obligations, or upon maturity of a foreign exchange (FX) forward or option contract involving the Philippine Peso. FX gains or losses arising from the sale of third currencies to USD or vice versa and re-investments shall continue to be treated as unrealized FX gains or losses since the BSP is still exposed to FX rate fluctuations. This practice of recognizing realized gains/losses on FX rate fluctuations is generally the industry practice of other central banks.

The realized gains or losses arising from change in price and exchange rates are presented in the income statement under the accounts “Trading Gains/ (Losses)” and “Gains/ (Losses) on Fluctuation in FX Rates”, respectively.

2.9 Financial assets

The Bank classifies its financial assets in the following categories: available-for-sale, held-to-maturity, and loans and other receivables, in compliance with PAS 39 (Recognition and Measurement) as approved under MBR No. 122 dated 29 January 2010.

2.9.1 Available-for-sale

Available-for-sale (AFS) financial assets include gold and foreign and local investments denominated in foreign currency. Domestic securities held by the BSP are also classified as AFS as they may be sold in response to the needs for liquidity in the exercise of its functions under the Act.

AFS financial assets (except gold) are initially recognized at cost in USD and subsequently carried at fair values. The fair values of the internally and externally managed portfolios and investments in Asian Bond Fund (ABF) and Inflation Linked Fund (ILF) are based on current market prices provided by the custodians at balance sheet date. Change in price is computed as the difference between the current market price and the amortized price (weighted average price +/- amortized discount/premium) while the change in exchange rates is the difference between the current exchange rates and the historical moving average exchange rates.

Gold is initially recognized at cost in USD and translated to the local currency using the WAER at reporting date. Change in price is calculated as the difference between the current market price against the historical moving average price while change in exchange rate is the difference between current exchange rate and historical moving average exchange rate. Gold swaps with non-central banks are treated as collateralized loans in which the foreign currency proceeds are added to international reserves with a corresponding foreign currency liability recognized. Location swap costs on the transfer of gold in bullion vault to foreign financial institutions (FFIs) are capitalized and form part of the cost of gold with FFIs.

Consistent with the recognition of unrealized gains or losses arising from the changes in the exchange rates (as provided in Section 45 of RA 7653), unrealized gains or losses arising from changes in market values of foreign currency denominated financial assets are also recognized in the corresponding revaluation account in the balance sheet. For domestic securities, changes in prices are recognized in the equity section. Financial assets are derecognized when the right to receive cash flows from the investments have expired or have been transferred and the BSP has relinquished all the risks and rewards of ownership. Gains or losses arising from de-recognition or impairment is recognized in the income statement.

2.9.2 Held-to-maturity

Held-to-maturity (HTM) securities are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Bank has the positive intention and ability to hold to maturity. HTM securities are carried at amortized cost using effective interest rate method.

These HTM securities are revalued at month-end to its current exchange rate and the unrealized gains or losses due to change in exchange rate are booked in the revaluation account in the Balance Sheet.

2.9.3 Loans and receivables

Loans and receivables consist of receivables from banks and deposit insurer, Philippine Deposit Insurance Corporation (PDIC), advances to the NG, notes receivable from restructured loan accounts, sales contracts receivable, accrued interest receivable, and accounts receivable.

Loans and receivables at outstanding balance are 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 updated 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.

For loans booked by the DLC, impairment loss is provided when there is objective evidence that the amount due is not collectible pursuant to the regulations set forth under PAS 39. The amount of the impairment loss is determined as the difference between the asset’s original or carrying amount and the estimated recoverable amount.

The impairment loss provision is reviewed semi-annually to determine the collectability of the loans and receivables accounts, and is accordingly adjusted when payments are received, either in cash, dacion en pago or through foreclosure of the underlying collaterals; or when the loans of the end-user borrowers are restructured; or when there is an indication that the impairment loss previously recognized no longer exists based on available facts and circumstances affecting the collectability of the loan.

However, in view of the difficulty in identifying a single, discrete event that may cause 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, as applicable.

When a loan is determined as uncollectible, it is written-off against the related allowance for loan impairment. A loan is written-off when a 100 per cent (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 MB. Subsequent recoveries of amounts previously written-off are recognized directly as income.

Past due banking fees and penalties of more than twelve (12) and twenty-four (24) months are provided with an allowance for doubtful accounts of fifty per cent (50%) and one hundred per cent (100%), respectively.

2.10 Acquired assets held for sale

These are the acquired assets readily available for disposition during the year. Bank policies on the valuation of these assets are the same with the investment property. See Note 2.11.

Expenditures such as repairs and maintenance are charged against operations in the year in which the costs are incurred.

2.11 Investment property

These are generally land and buildings acquired by the BSP either through foreclosure (legal proceedings initiated by the Bank to acquire the collateral securing the loan of the defaulting bank) or dacion en pago in settlement of loans and advances of defaulting banks, or assets acquired through the implementation of an execution of attachment of real properties in settlement of the BSP's deficiency claims against defaulting banks (legal proceedings initiated by the Bank in case there are still deficiency claims after all the underlying collaterals of the borrower-bank were judicially/extra judicially acquired by the BSP). These assets are being held until such time that these are readily available for disposition and are reclassified to acquired assets held for sale.

Investment properties acquired through foreclosure are booked at the amount indicated in the Certificate of Sale. The amount recovered (equivalent to the BSP bid price) is applied first to foreclosure expenses then to liquidated damages, accrued interest, interest income and principal, in that order of priority. After exhaustion of the principal and, if there may be any remaining balance from the proceeds of the foreclosure sale, said balance is applied to other obligations incurred by the BSP (e.g., consolidation expenses) as stipulated and agreed upon in the loan documents executed by the borrower-banks in favor of the BSP.

Investment properties are not depreciated. However, periodic appraisal of properties available for sale is conducted by appraisal companies acceptable to the BSP. Market value of all other properties that are not yet available for sale is determined through table appraisal. An allowance for market decline is set up when the book value of an asset exceeds its most recent appraised value. The use of recent appraised value in recognizing impairment is an alternative compliance to PAS 36 - Impairment of Asset, in the absence of a more realistic basis.

2.12 Bank premises, furniture, fixtures, and equipment

Land and buildings acquired from the then Central Bank of the Philippines (CBP) 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 CBP to the BSP. Subsequent acquisitions are stated at acquisition cost less accumulated depreciation.

The initial cost of bank premises, furniture, fixtures and equipment (BPFFE) 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 BPFFE beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are derecognized, and any resulting gain or loss is carried in the income statement. Depreciation is computed using the straight-line method based on the following expected useful life of depreciable assets, after deduction of 10 per cent (10%) residual value:

Asset Group	Estimated Useful Life (No of Years)
Buildings-BSP Constructed	30
Buildings-BSP-Acquired or Purchased	25
Property Improvements (building, land, leasehold and office)	10
Plant Machinery and Equipment - Minting	10
Computer Hardware	5
Furniture and Equipment	5
Armored Vehicles	10
Motor Vehicles	7

Construction-in-progress, which covers BSP-owned buildings and property improvements under construction, is valued at cost. This includes site preparation, materials, labor, professional/consultancy fees and other cost directly attributable to the construction of properties. Transfer of account balances from "Building Construction" and "Building Improvements In-Progress" to "Buildings" and "Building Improvements" accounts, respectively, is made upon payment of ninety-five per cent (95%) accomplishment of the contractor/s and receipt of recommendation from the proponent department/office to reclassify the account. The unpaid balance of the project cost is directly booked to proper account upon presentation and/or settlement of final billing and notice of the department/office concerned. Depreciation starts on the following month upon transfer of the construction cost to the appropriate property account.

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 gain or loss on fluctuations in FX rates. Customs duties, brokerage fees and other related expenses (when not exempt) are capitalized.

2.13 Intangible assets

Under PAS 38, intangible asset is an identifiable non-monetary asset without physical substance. The identifiable criterion is met when the intangible asset is separable (when it can be sold, transferred, licensed, rented or exchanged) or when it arises from contractual or other legal rights.

"Computer network and application systems" account is carried at cost less any accumulated amortization computed using the straight line method based on estimated useful life of five (5) years.

2.14 Leases

Under PAS 17, a lease is classified as an operating lease when 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.

2.15 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 LCs are recognized as "Asset in transit" account upon receipt of notice of loading/shipment from the suppliers. The raw materials are booked based on prevailing exchange rate at the time of shipment/loading if Incoterms is Cost and Freight/Cost Paid To (CFR/CPT) and based on prevailing exchange rate at the time of acceptance by end-user department if Incoterms is Delivered at Place/Delivered Duty Paid (DAP/DDP). Booking to inventory account is made upon actual receipt of shipment including costs incurred in bringing the inventory to BSP premises. Issuances are valued based on moving average method.

Finished currency notes and coins are recognized as "*finished goods"* once these are packed and ready for delivery and as "*currency inventory"* upon physical transfer from SPC to Currency Issue and Integrity Office (CIIO) of Currency Management Sub-Sector (CMSS). Currency production expenses for imported and in-house produced notes and in-house produced coins are recognized in the BSP income statement only upon issuance of notes and coins from CIIO to Cash Department (CD), CMSS and Regional Monetary Affairs Sub-Sector (RMASS), for circulation to the banks and public. BSP values the currency inventory and issuances based on moving average method.

2.16 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 self-insurance based on acquisition cost was augmented in prior years by increasing capital reserves.

2.17 Financial liabilities

Financial liabilities denominated in foreign currency comprise short-term foreign currency deposits of banks, the NG and other government entities, and short and long-term borrowings of the BSP. These liabilities are initially recognized at cost and subsequently converted at current value using WAER at reporting date. The difference is recognized in the balance sheet as unrealized gains or losses due to change in exchange rates. Interest is accrued monthly and recognized in the income statement.

Financial liabilities denominated in local currency refer to deposits of the NG, 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 substitute 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. No interest was paid on the deposits of banks and other financial institutions effective 06 April 2012, in pursuant to MBR No. 1924 dated 27 December 2011 and Circular No. 753 dated 29 March 2012. On the other hand, the interest for the DDAs of the NG is accrued monthly and credited quarterly, except for the TOP-Special Account No. 2 which is credited semi-annually to the TOP-TSA.

On 3 June 2016, the BSP formally adopted an interest rate corridor (IRC) system as a framework for conducting its monetary operations. The IRC is a system for guiding short-term market interest rates towards the central bank (CB) target/policy rate. It consists of a rate at which the CB lends to banks (typically an overnight lending rate) and a rate at which it takes deposits from them (deposit rate). In a standard corridor, the lending rate will be above the CB target/policy rate (thereby forming an upper bound for short-term market rates), and the deposit rate will be below the CB rate, thereby forming the lower bound. The IRC system is intended to help ensure that the money market interest rates move within a reasonably close range around the BSP's policy rate.

With the adoption of the IRC, the Repurchase facility was replaced by a standing overnight lending facility; the Reverse Repurchase facility was transformed into an overnight Reverse Repurchase which was offered at a fixed rate equivalent to the policy rate; and the Special Deposit Account term (SDA) facility was replaced by a standing overnight deposit facility and the auction-based Term Deposit Facility.

2.18 Derivative instruments

The BSP engages in forwards, swaps, gold options and futures. Derivatives are not designated as hedges. 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 re-measured at fair value. Fair values are obtained from Bloomberg.

For forwards, a contingent asset/liability is recognized at spot date. At month-end, the forward contract is marked-to-market and the unrealized gains or losses due to change in exchange rates are booked under the RIR account. At maturity date, the contingent asset/liability is reversed and the purchase/sale of the currency is recorded. Realized gains or losses due to change in exchange rates are recognized in the income statement and accounted for as the difference between the spot rate on forward date and historical moving average rate. The RIR account is reversed at month-end.

For swaps at spot date, a purchase/sale of the currency (USD for PHP or vice versa) is recorded together with the contingent asset/liability. Realized gains or losses due to change in exchange rates, which is the difference between the contracted spot rates on value date and the historical moving average cost of the asset, is recognized in the income statement. At month-end, the forward contract is marked-to-market and the unrealized gains or losses due to change in exchange rates are booked under the RIR account. At maturity date, the contingent asset/liability is reversed, and the sale/ purchase of the currency and the corresponding realized gains or losses due to change in exchange rates, which is the difference between the spot rate on forward date and the contracted forward rate, are recorded. The RIR account is reversed at month-end.

For options, a derivative asset or liability is recognized on spot date when premium is paid or received. The derivative asset or liability is revalued at month-end and the unrealized gains or losses due to change in exchange rate are booked under the RIR account. At maturity date or once the option is exercised, the derivative asset or liability is reversed and the premium paid or received from the options is closed to "Premium Received/(Paid) on Call/Put Option" account and recognized in the Income Statement. Further, if the option is exercised, trading gains or losses from the sale of the underlying asset are also recorded in the Income Statement. The RIR account is reversed at month-end.

For futures contract, a contingent asset/liability is recognized at spot date including the set-up of an initial margin. Variation margin, also known as maintenance margin is posted daily to cover any decline in the market value of the open positions. At month-end, the futures contract is marked-to-market and the unrealized gains or losses due to change in price and exchange rates are booked under the RIR account. Once the open position (long/short) in a futures contract is closed, the contingent asset/liability is reversed and the corresponding realized gains or losses are recorded. The RIR account is reversed at month-end.

2.19 Overnight lending facility, overnight reverse repurchase, overnight deposit facility, term deposit facility, and securities lending agreements

2.19.1 Overnight lending facility (OLF)

The OLF is a BSP standing facility which allows counterparties to obtain overnight liquidity from the BSP on an open-volume basis against eligible collateral in order to cover short-term liquidity requirements. The OLF is open to banks (universal, commercial and thrift) and NBQBs.

2.19.2 Overnight reverse repurchase agreement (RRP)

RRP refers to the BSP's monetary instrument where the BSP sells government securities with a commitment to buy them back at a later date. RRPs are open to banks (universal, commercial and thrift) and NBQBs. These counterparties may enter into RRP transactions with the BSP by participating in the RRP auction operation. The BSP withholds twenty percent (20%) final withholding tax (FWT) and five percent (5%) gross receipts tax (GRT) on RRP transactions.

2.19.3 Overnight deposit facility (ODF)

The ODF is a BSP standing facility which allows banks (universal, commercial and thrift) and NBQBs, and trust entities to place overnight deposits with the BSP. Beginning 01 July 2017, however, placements of trust entities in the ODF were discontinued in compliance with MBR No. 1945 dated 27 October 2016.

The ODF is offered using a fixed-rate and full-allotment method, where individual bidders are awarded a portion of the total offer depending on their bid size. Fixed-rate and full allotment allocation helps ensure that the overnight rate sits close to the BSP policy rate.

ODF transactions are subject to the twenty percent (20%) FWT and five percent (5%) GRT.

2.19.4 Term deposit facility (TDF)

The TDF is a liquidity absorption facility used by the BSP for liquidity management. It is used to withdraw a large part of the structural liquidity from the financial system to bring market rates closer to the BSP policy rate. The BSP offers two tenors: seven (7) days and twenty-eight (28) days, in its term deposit auction. Pre-termination is prohibited for the 7-day tenor but is allowed for the 28-day tenor after the 7-day holding period at the appropriate pre-termination rate. The TDF auction is operated using a variable-rate, multiple-price tender (English auction) in order to bring short-term interest rates within a reasonable close range to the policy rate. Banks, NBQBs and Trust entities can participate in the TDF facility. However, beginning 01 July 2017, placements of trust entities in the TDF were discontinued in compliance with MBR No.1945 dated 27 October 2016.

TDF transactions are subject to the twenty percent (20%) FWT and five percent (5%) GRT.

2.19.5 Securities lending agreements

To maximize the Bank's returns from its investments in foreign securities and to offset custody fees, the BSP, through its accredited 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 re-deliver 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 instruments 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 re-investment 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.

Under the securities lending transactions, the foreign securities lent out remain in the foreign securities account but are reclassified in the financial statements every end of the month to distinguish those securities which are free from any encumbrance. The reclassification entry is reversed every first working day of the following month.

2.20 Currency in circulation

Currency issued is a claim on the BSP for notes and coins issued for circulation, fully guaranteed by the government of the Republic of the Philippines (ROP), 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 New Central Bank Act, notes and coins issued by the Bangko Sentral shall be liabilities of the 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. Also, notes and coins held in the vaults of the CD and RMASS of the BSP are deducted from the total currency issued, and accordingly, do not form part of the assets or liabilities of the BSP.

2.21 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 income accrue to the Funds and are recognized in the balance sheet as addition in the Fund balance except for Provident fund and Housing fund wherein the Board of Trustees shall set aside a portion of the earnings as General Reserve Fund (GRF) for both Provident and Housing funds sub-accounts when their respective balances fall below an amount equivalent to one-half of one per cent (1/2 of 1%) of the total members' equity as of the end December of each year. The balance of the unappropriated earnings of the Provident fund and Housing fund are declared as the fund members' share in the earnings of both Funds for the year. The assets of the Funds are reported at either cost or fair market value depending on the asset classification, following the applicable PASs.

2.21.1 Provident and housing funds

The Provident Fund was established in accordance with RA 4537 dated 9 June 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 twenty per cent (20%) of the basic salary of each employee while the employee contributes 2.5 per cent. As approved by the MB on 19 December 2008, the Bank's monthly contribution was increased from 20 per cent to 22.5 per cent while the employees are given the option to increase their personal contribution from 2.5 per cent to 5 per cent which took effect in February 2009.

Another defined contribution plan is the Housing Fund established in CY 1978, wherein the contribution is similar to the Provident Fund.

All regular employees automatically become members of the Funds. The Bank's contributions are recognized in the income statement as operating expenses. The Funds are administered by the Provident Fund Office (PFO), a separate legal entity established for the purpose of managing the Funds and staffed by Bank personnel.

On 1 November 2017, the Bank implemented the consolidation of the Provident and Housing Funds as approved per BSP PF Resolution No. 186 dated 24 May 2017. This is in line with MBR No. 488 dated 19 April 2006 which approved the revised rules and regulations governing the Provident Fund.

2.21.2 Longevity trust fund

This Fund was created in CY 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 five (5) years. The Bank contributes an equivalent of twelve per cent (12%) 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 PFO.

2.21.3 Car plan fund

BSP implemented the car plan program in CY 1993 in line with the approval of the motor vehicle lease purchase plan (MVLPP) for government financial institutions by the Office of the President on 20 July 1992. Effective 21 December 2017, Bank Officer IV and equivalent positions (JG 6) and up are entitled to avail under the BSP's MVLPP (or "Car Plan") pursuant to MBR No. 2062 dated 7 December 2017. The Fund is administered by the BSP Provident Fund Board of Trustees through the PFO 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.

2.21.4 Retirement benefit fund

This Fund was set-up in CY 1997 for employees who will be eligible to retire under RA 1616. Based on a study made by Human Resource Management Department (HRMD) in CY 2005, the outstanding balance of the fund plus projected earnings up to CY 2023 would be sufficient to cover the benefits of the employees who will be qualified to retire under the plan. Actual charges include (a) retirement gratuity pay and (b) financial assistance to beneficiaries of departed members. The balance of the Fund is reported in the balance sheet under "Capital Reserves" account and as a receivable from the PFO, as administrator, under the "Due from Administrator of Funds" account. The Fund resources are invested in government securities and all income accrues to the Fund, net of fifteen per cent (15%) management fee to PFO.

2.22 Capital reserves

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

Managed funds

2.22.1 Fidelity insurance fund

This Fund was set-up in CY 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 (BTr). Annual charges against surplus are computed at one per cent of seventy-five per cent (1% of 75%) 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 (CoSS) as administrator. It is accounted separately from the bank proper resources through the “Due from Administrator of Funds” account. There was no additional provision to the Fund since CY 2006 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.

2.22.2 Currency insurance fund

The currency insurance fund adopted in CY 1955 and rationalized in CY 1996 was established as a self-insurance scheme to cover for any loss that may arise from its currency shipments. At the start of the year, annual transfers to the reserve account are made from the surplus account and are computed based on one-tenth of one per cent (1/10 of 1%) of the highest recorded value of currency shipment for the previous year. The Fund is an internally managed fund that is accounted separately from the bank proper resources through the “Due from Administrator of Funds” account. Investments of the Fund are in government securities and all income accrues to the Fund. Since CY 2010, no additional set-up was made as the balance of the fund had exceeded the estimated maximum risk exposure at any given time.

2.22.3 BSP properties self-insurance fund

The MB approved the setting-up of Fund in the aggregate amount of PHP3.650 billion chargeable against the “Surplus” account of the BSP and to be built up through staggered contributions (i.e., PHP1.100 billion in 2011 and PHP0.850 billion each for 2012, 2013, and 2014). This shall cover the difference between the estimated replacement cost and sound/net book value of the BSP properties. The Board also granted authority to the Administrative Services Department (ASD) to use part of the earnings of the Fund to pay for the annual insurance premium and designated the BSP PFO to administer and manage the Fund. On 4 April 2013, the Board approved the deferment of the appropriation of PHP0.850 billion from the “Surplus Account” as additional contribution to the Fund for CY 2013 until such time that the BSP has accumulated a substantial positive Surplus balance.

2.22.4 Retirement benefit fund

This Fund was set-up in CY 1997 for employees who will be eligible to retire under RA 1616. See Note 2.21.4.

2.22.5 Directors and officers liability insurance (DOLI) fund

The self-insurance fund was set up in CY 2005 in order to provide an additional insurance for those officers already covered under the Government Service Insurance System (GSIS). The GSIS is the claims adjudicator of the self-insurance program. The Fund is an internally managed fund with the PFO as administrator. It is accounted separately from the bank proper resources through the “Due from Administrator of Funds” 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 fifteen per cent (15%) management fee payable to the PFO.

Other funds

2.22.6 Reserves for fluctuation in foreign exchange rates and price of gold

These reserves were initially set-up in CY 1998 to serve as repository of provisions for potential loss arising from the volatility of the exchange rates and price of gold. The additional provisions are set aside from net realized gains from FX rate fluctuations and price of gold, as necessary.

2.22.7 Reserve for contingencies

This is a general reserve set aside for contingencies. It includes provisions for FX rates and price fluctuations approved by MB subject to the condition that reserves may be provided if the balance in the account "Reserve for Fluctuation in FX Rates" will not fall below fifty per cent (50%) of total capital accounts.

2.22.8 Property insurance (artworks, paintings and sculptures)

A self-insurance fund set-up in CY 2003 to cover for the amount of potential loss in excess of what is presently covered by the insurance policy with the GSIS. 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 since CY 2004.

2.22.9 Reserve for the rehabilitation of the Security Plant Complex

The reserve account was set-up in CY 2003 to partially fund the rehabilitation and upgrading of the SPC facilities constructed/installed in CY 1979. Based on the rehabilitation master plan, the project is estimated to cost PHP5.709 billion. At the end of each year, the reserve account is reverted to surplus based on actual charges incurred, if any.

2.22.10 Cultural properties acquisition

The Cultural Properties Acquisition Fund was established on 05 November 2010 as per MBR No. 751 dated 21 May 2009, to acquire artworks and other cultural properties including those for the Money Museum.

2.22.11 Gold insurance

The Fund is under the self-insurance scheme of the Bank which was established in CY 2006 to cover for any loss that may arise from gold shipments from the BSP regional gold buying stations to the SPC for refining. It is an internally managed fund by the CoSS similar to the self-insurance scheme for currency shipments. Transfers to the reserve account are charged against surplus account. Balance of the Fund is not currently invested.

2.23 Commitments and contingent liabilities

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

	2017	2016
FX commitment receivable/sales	21,227,225,000	0
FX commitment receivable/payable	463,552,390,085	462,109,059,165
Currency unissued	195,910,619,700	59,490,676,000
LCs held/received in process	3,929,164,518	10,235,313,743
Equity investment receivable/payable	861,173,900	861,173,900

Below is the FX commitment receivable/payable with no maturity as of 31 December 2017:

	USD	PHP
FX commitment receivable/payable		
New arrangements to borrow (NAB)	446,442,317	20,489,878,085
Chiang Mai initiative multi-lateralization agreement (CMIM)	9,104,000,000	399,920,512,000
Note purchase agreement (NPA)	1,000,000,000	43,142,000,000
Total	**10,550,442,317**	**463,552,390,085**

2.23.1 FX commitment receivable/sales represents the forward leg of a foreign currency swap transaction (purchase of USD for PHP)

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.

2.23.2 FX commitment receivable/payable represents foreign currency forward

A foreign currency forward transaction refers to a commitment to buy/sell certain amounts of foreign currency at an agreed rate and future date.

2.23.3 FX commitment receivable/payable of futures

Futures are exchange traded derivative contracts to buy or sell a particular commodity or financial instrument at a pre-determined price in the future.

2.23.4 FX commitment receivable/payable of BSP under various International Monetary Fund (IMF) facilities (FTP, NAB, NPA and CLIFF-LICs)

a. Financial transactions plan (FTP) of the IMF

The FTP is a mechanism through which the IMF finances its lending and repayment operations by drawing on its own funds (the local currency component of the Philippines' quota subscription in the IMF) held by the fiscal agent (BSP) and converted into freely usable currency. Participation in the FTP is based on the strength of the member's reserve position. The BSP (as fiscal agent), when called upon by the IMF, facilitates the transfer of freely convertible currencies to the Fund borrower resulting in an increase in the "Reserve Tranche Position" in the Fund.

The Philippines has participated in the FTP since August 2010. As of 31 December 2017, total IMF drawdowns amounted to SDR235.100 million (USD362.475 million), where payments received totaled SDR84.500 million (USD116.358 million) leaving an outstanding balance of SDR150.600 million (USD246.117 million).

b. New arrangements to borrow (NAB)

The NAB facility of the IMF is a credit arrangement between the Fund, and a group of forty (40) members and institutions to provide supplementary resources to the IMF, to cope with an impairment of the international monetary system or to deal with an exceptional situation that poses a threat to the stability of that system. As participant in the IMF's NAB, the BSP undertakes to provide a credit line of up to SDR340.00 million (USD524.474 million).

As of end December 2017, out of total commitment of SDR340.000 million (USD524.474 million), total loans granted amounted to SDR89.920 million (USD133.156 million). Repayments received from the IMF reached SDR52.300 million (USD74.622 million), leaving an outstanding loan balance of SDR37.620 million (USD58.534 million). The amount of SDR302.380 million (USD466.442 million) is available for drawdown under the BSP's commitment.

c. Note purchase agreement (NPA) between the BSP and the IMF

The NPA was entered into between the BSP and the IMF to enhance the resources available to the Fund for crisis prevention and resolution. Under said agreement, the BSP agreed to purchase from the Fund promissory notes in a total principal amount up to USD1.000 billion. The commitment under the NPA was booked in 2013. As of end 2017, no transactions were made under the agreement.

d. Concessional lending instrument and financing framework for low-income countries (CLIFF-LICs)

The Philippines, through the BSP, provided subsidy contribution to the Poverty Reduction and Growth Trust (PRGT), which is the Fund's concessional lending facility for LICs. The BSP's strong external position allowed it to provide subsidy contribution to the Fund in the amount of SDR1.900 million (USD2.700 million) to be disbursed in five (5) equal annual installments subject to prevailing exchange rates at the time of transactions for the fiscal years 2011 to 2015. With the fifth and final payment made on 9 December 2015, the BSP has fulfilled its pledge in 2010 and the Fund has expressed gratitude for the Philippines' generous support to the PRGT of the IMF.

2.23.5 Currency swap arrangements with central banks

a. Chiang Mai initiative multilateralization (CMIM) arrangement

The Philippines is a member of the CMIM. It is a USD240 billion multilateral arrangement among the finance ministries and central banks of the ASEAN

(Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam) plus three (3) member countries (China, Japan and Korea) and the Hong Kong Monetary Authority, aimed at providing financial support in the event of balance of payment difficulty. The contribution to the CMIM does not involve outright transfer of the committed amount but is instead in the form of a commitment letter, whereby the central banks/monetary authority of ASEAN + 3 countries as well as the Hong Kong Monetary Authority issues a promissory note in the amount equivalent to their committed contribution. Under this arrangement, the management and custody of committed reserves remain with the central banks until a swap request has been approved. The Philippines, through the BSP has an outstanding contribution commitment of USD9.104 billion to the CMIM. The BSP may be able to borrow up to 2.5 times its contribution, i.e. USD22.760 billion from the CMIM. As of end 2017, no transactions were made.

b. Bilateral swap arrangement (BSA) with the Bank of Japan (BOJ)

The BSA with BOJ, acting as the agent for the Minister of Finance of Japan, would allow the BSP to swap up to USD12.000 billion in the event of a potential or an actual liquidity need. The BSP has a commitment to provide up to USD500.000 million to the BOJ in the event of a potential or an actual liquidity need.

c. ASEAN swap arrangement (ASA)

The ASA is a USD2.000 billion facility of the ten (10) ASEAN member central banks that allows them to swap their local currencies with major international currencies, i.e., US Dollar, Japanese Yen and Euro, for an amount up to twice their committed amount under the facility. The Philippines committed to contribute up to USD300.000 million and could request swap of up to USD600.000 million worth of Philippine peso.

2.23.6 Bank for international settlements (BIS)

The commitment amounted to SDR12.000 million (USD18.500 million), which represents the uncalled portion or seventy-five per cent (75%) of the BSP shareholdings in the BIS.

2.23.7 Currency unissued refers to the face value of outstanding notes and coins held by the Currency Issue Division of CIIO of CMSS. The production cost and/or cost of importation of the stock is recognized as an asset in the balance sheet under “Currency Inventory” account.

2.23.8 L/Cs held/received in process refers to outstanding letters of credit (L/Cs) opened covering BSP importation of raw materials and/or capital asset acquisition where loading/shipment is yet to be made by the supplier.

2.24 Trust accounts

In addition to the various funds set-up for BSP employees and to cover various risks, BSP administers (a) funds provided by the NG, 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 BSP until such time when the escrow accounts' accumulated balances are equal to at least the outstanding balance of the loan account. Conduits for the funds provided by the NG 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 funds held in escrow are mostly for the account of closed banks that the BSP manages.

2.25 Prior period adjustments

Adjustments to prior years' income and expenses are recognized and reflected in the affected income or expense accounts' subsidiary ledgers. These adjustments include change in estimates and other adjustments pertaining to previous accounting periods.

Following PAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", corrections of material errors are either restated in the comparative amounts for the prior period(s) presented in which the error occurred; or if the transactions relate to periods before those presented in the financial statements, adjustments are restated in the opening balances of assets, liabilities and capital (usually the Surplus account) for the earliest prior period presented.

2.26 Comparatives

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

2.27 Dividend distribution

In accordance with transitory provisions of RA 7653, Section 132 (b), the BSP remits seventy-five per cent (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 through generally accepted finance mechanisms or to the NG as dividends with the remaining twenty-five per cent (25%) as residual to BSP surplus. For CY 2016, the MB approved the declaration and remittance to NG of fifty percent (50%) of the earnings of the BSP as dividends, computed pursuant to RA 7656 (The Dividend Law) and its Revised Implementing Rules and Regulations (IRR) without prejudice to the final resolution of the case on BSP dividend declaration pending with the Supreme Court.

2.28 Taxes

The BSP is liable for all national, provincial, municipal and city taxes, fees, charges and assessments. However, as clarified under Revenue Memorandum Circular No. 65-2008, BSP is exempt from business taxes for its revenues and receipts derived from the exercise of essential governmental functions but subject to business taxes in the exercise of purely proprietary functions. BSP also continues to be fully exempted from all customs duties and consular fees and all other taxes, assessments and charges in relation to the importation and exportation of notes and 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 RA 7653. This exemption also includes importation of supplies, raw materials and spare parts of equipment needed for bank note production, minting of coins, and metal refining.

Further, the BSP is exempt from documentary stamp taxes, pursuant to Section 199 of the, "National Internal Revenue Code" (NIRC) of 1997, as amended by RA 9243, implemented under Revenue Regulation (RR) No. 13-2004 dated 23 December 2004.

The accounting treatment for income taxes is prescribed under PAS 12. The principal issue in accounting for income taxes is how to account for the current and future tax consequences of (a) the future recovery (settlement) of the carrying amount of assets (liabilities) that are recognized in the entity's balance sheet; and (b) transactions and other events of the current period that are recognized in an entity's financial statements.

Pursuant to PAS 12, the BSP has identified the accounts where tax implications may require recognition of deferred taxes in the books of accounts. Deferred taxes may either be an asset or a liability. Deferred tax assets are the amounts of income taxes recoverable in future period with respect to: a) deductible temporary differences; b) carry-forward of excess minimum corporate income tax over regular income tax; c) carry-forward of net operating loss; and, d) carry forward of unused tax credits. Deferred tax liabilities, on the other hand, are amounts of income taxes payable in future periods in respect of taxable temporary differences. The BSP, applying the provisions of paragraph 74 of PAS 12, offsets deferred tax asset and deferred tax liability.

In the recognition of deferred taxes with respect to temporary differences, the BSP uses the Balance Sheet Method or Asset/Liability Method, which is the acceptable method prescribed under PAS 12. This may result in taxable amounts or in amounts that are deductible in determining taxable profit (taxable loss) of future period when the carrying amount of the asset or liability is recovered or settled.

Pursuant to the NIRC, as amended, the Bank computes its income tax obligation based on (a) Regular Corporate Income Tax (RCIT) computed at thirty per cent (30%) of net taxable income; or (b) Minimum Corporate Income Tax (MCIT) computed at two per cent (2%) based on gross income, whichever is higher. For purposes of applying the MCIT, gross income means gross receipts less sales returns, allowances, discounts and cost of services as provided under RR No. 9-98, as amended, in relation to Section 27(E)(4) of the NIRC. Income tax obligation computed under RCIT is booked as an expense. As provided for under RR 9-98, as amended, the amount computed and paid under MCIT in excess of the normal income tax/RCIT is recognized as deferred charges. This asset account shall be carried forward and credited against the normal income tax for a period not exceeding three (3) taxable years immediately succeeding the taxable year/s in which the same has been paid, as provided under Section 27(E)(2) of the NIRC, as amended.

The business tax/value added tax (VAT) expenses are capitalized which form part of the cost of inputs. The monthly VAT declaration and returns are filed with the BIR and the corresponding VAT outputs are paid. VAT rate remains at twelve per cent (12%) since 01 February 2006 (NIRC of 1997, as amended).

Discount on Treasury Bills purchased from the secondary market are subject to twenty per cent (20%) final withholding tax. However, the taxes paid in the secondary market are not remitted to BIR, but imposed to recoup the taxes paid on the original sale in the primary market by the original buyer (from BTr). This market convention is in accordance with the provisions of Department of Finance Order No. 141-95 and BIR

Revenue Ruling dated 9 November 1995, Ref. No.177-95, which state that, *"xxx twenty per cent (20%) final withholding tax (FWT) on discounts xxx shall be imposed only on every original sale in the primary market but shall no longer be collected in the secondary market trading of the said securities."*

Interest income on government securities collected on every coupon date are likewise subject to twenty per cent (20%) FWT and are withheld and remitted by the BTr to the NG through credit to the demand deposit account of the Treasurer of the Philippines (TOP) maintained with the BSP.

In accordance with Sections 57 and 58 of the NIRC, as amended, and RR 2-98, as amended, BSP acts as withholding agent on income payments made to its suppliers and other counterparties. For its gold buying operations performed pursuant to its mandate, BSP acts as a withholding agent for creditable withholding taxes on gold purchased. By virtue of a Memorandum of Agreement with the Bureau of Internal Revenue dated 10 June 2011, BSP also acts as collecting agent for excise taxes on gold purchased since July 2011.

3. RISK MANAGEMENT

The BSP has adopted a modified centralized enterprise-wide risk management (ERM) system to institutionalize a structured and systematic approach towards a consistent risk management practice within the Bank. In line with this, the BSP has created a risk management structure composed of a Monetary Board level Risk Oversight Committee responsible for ensuring the effectiveness of the ERM Framework in the Bank, a centralized Risk Management Office (RMO) that acts as a coordinating body and process oversight on risk management, and decentralized Risk Management Units (RMUs) responsible for promoting and coordinating the implementation of the ERM in the operating units.

The BSP is exposed to financial risks associated with its foreign and local currency activities. In managing the risks, the TD, DLC and AMD are guided by policies approved by the MB.

Financial risks arising from reserve management activities are managed through adherence to investment guidelines designed to achieve the BSP's investment objectives.

The risk factors considered are as follows:

3.1 Market risk

Market risk is the risk that the value of an investment will fluctuate due to change in market factors, e.g., exchange rates, interest rates and commodity prices. Allowable exposures and limits thereon are specified in the investment guidelines. Adherence to the investment guidelines is monitored daily.

3.1.1 Currency risk

The Bank considers the effects of fluctuations in the prevailing currency exchange rates on its financial position and cash flows. The following table summarizes the Bank's exposure to foreign currency exchange rate risk as at 31 December 2017 grouped into assets and liabilities at carrying amounts:

Currency	Original Currency	USD Equivalent
Assets		
USD	72,897,038,799	72,897,038,799
JPY	638,457,536,586	5,684,100,022
AUD	3,510,351,644	2,734,691,382
SDR	952,607,406	1,355,500,782
CNH	3,591,667,730	552,556,556
CAD	1,589,217	1,269,620
EUR	54,489,592	915,591
CHF	560,820	577,169
GBP	253,201	342,786
HKD	1,844,570	235,370
KRW	226,029,000	207,387
SAR	774,874	205,959
AED	742,895	202,267
SGD	265,458	197,704
BND	254,572	190,856
CNY	750,860	112,616
THB	1,488,570	45,391
BHD	3,650	9,676
IDR	96,912,000	7,171
Liabilities		
SDR	857,170,410	1,224,143,634
USD	127,389,379	127,389,379
JPY	1,829,863,394	16,294,536
EUR	11,103,708	13,393,293
CAD	900,000	719,942
DKK	8,592	11,684

In managing the foreign currency risk of the reserves portfolio, the BSP has set allowable currencies and percentage currency exposure limits to mitigate risks arising from fluctuations in foreign exchange rates. The adherence to exposure limits to foreign currencies is monitored daily.

3.1.2 Interest rate risk

The risk that the value of an investment will fluctuate due to changes in interest rates. The investment guidelines also specify duration limits to manage interest rate risk exposures from investments in fixed income securities. Adherence to duration limits is monitored daily.

3.1.3 Commodity risk

The risk that the value of an investment will fluctuate due to changes in commodity prices. Currently, the only commodity held by the BSP as part of its reserves is gold. Exposure to commodity risk associated with the gold holdings is managed by placing a limit on the level of the gold holdings and gold derivative transactions; and by monitoring gold price volatility.

Market risk measurement in reserve management

The BSP makes use of the Value-at-Risk (VaR) concept in measuring the market risk both in absolute terms and relative to each portfolio's respective benchmark. VaR is used to aggregate the risk of individual portfolios, providing useful information on the diversification benefits of holding certain securities or sub-portfolios or group of assets. To complement VaR, stress testing and scenario analyses are used to assess the impact of adverse market movements.

The sensitivity of the portfolios to changes in risk factors is also measured. BSP adopts the duration, the PV01 and the CR01 measures. Tracking error which is calculated as the standard deviation of a portfolio's active return is likewise being used to complement the other risk measures.

3.2 Credit risk

Credit risk is the potential financial loss that may arise 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 BSP accredited counterparties.

The Bank has a set of guidelines to manage and mitigate credit risk arising from reserve management activities, which includes, among others the following:

a. Counterparty Accreditation and Eligibility of Investments - the Bank only deals with accredited counterparties and invests in instruments allowed under the guidelines. Due diligence is observed in evaluating the creditworthiness of its counterparties by monitoring the key financial ratios and other market monitoring tools.

b. Minimum Credit Rating (MCR) Requirements - the Bank requires that counterparties and investments meet the respective minimum credit rating requirements, as approved by the MB. Compliance to MCR is monitored daily.

c. Exposure Limits - exposures and compliance to limits are monitored daily.

d. International Swaps and Derivatives Association (ISDA) Agreements – over the counter (OTC) derivative transactions shall generally be covered by ISDA Agreements with credit support and two-way margining provisions.

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 collateralized by government securities from the borrowing bank. To ensure that the BSP is adequately covered from potential loss, it assesses the collateral based on its existing market value, adjusted for haircuts. The haircuts, which are based on price and exchange rate volatilities, are designed to protect the BSP (under both normal and extreme market conditions) against collateral value shortfall in the event of borrower's default.

The BSP is exposed to credit risk associated with rediscounting, overdraft credit line and emergency loans to distressed banks and the PDIC. To manage and minimize the risk, the DLC observes the credit policy measures approved by the MB. These measures include the adoption of the following: (a) strict qualification standards for access to the lending window of the BSP; (b) aligning the interest rates with policy rates; (c) integrated off-site credit analysis and on-site credit verification of debtor banks; (d) loan confirmation and project verification; (e) strict credit and collateral documentation requirements; and (f) "total responsibility" approach in the management of loans.

3.3 Liquidity risk

Liquidity risk in reserve management is the risk that foreign currency assets cannot be mobilized or sold in a timely and economic manner to sufficiently meet the immediate demands for liquidity. These demands take the form of payments of interest and/or principal of maturing foreign currency obligations and, as may be necessary, providing liquidity in the local foreign exchange market.

Liquidity risk in reserve management may be in the form of asset or funding liquidity. The BSP manages the funding liquidity risk by apportioning from its internally-managed fund a certain amount or portfolio value known as the liquidity tranche. The level of the fund is determined based on the projected semestral liquidity requirements. Foreign currency obligations and actual flows to and from the portfolio are monitored regularly, taking into account the maturities and currency denominations of every flow. Asset liquidity risk is addressed by requiring that invested securities are listed in an exchange, when relevant, and with a certain minimum issue size.

As required by PFRS 7, schedule of maturity analysis showing the remaining contractual maturities of financial liabilities is attached as Annex A.

3.4 Operational, legal and reputational risks

Aligned with the institutional requirements, policies and procedures that include levels of authority and accountabilities are documented and continually updated, while operations are subject to internal and external audits. Internal control procedures include the observance of the principles of separation of duties, checks and balances, staff rotation and strict adherence to policies and procedures including the code of ethics. These all form part of the established bankwide framework for operational risks with RMO, acting as coordinating body.

To ensure the continuity of business operations in emergency situations, onsite and offsite back-up facilities are in place for mission-critical units. These facilities are periodically tested to minimize business disruptions in the event that the primary installations become unavailable.

In treasury operations, enhancement and automation of processes are continuously being made in order to mitigate operational risks. Apart from the development of a straight-through processing system, which entails the automation of the processing of deal transactions from the front office up to the settlement of transactions by the back office, hence eliminating redundant manual encoding, the TD intends to include Regulatory Technology (RegTech) functionalities in its systems, in order to automate compliance with the requirements of various regulations and consolidate all available data and information into a unified book of record. This will help TD in its function of monitoring local and international regulatory changes and developments in relevant financial markets.

TD also coordinates with relevant BSP departments, external stakeholders and other institutions to facilitate compliance with regulations affecting its investment activities. All agreements, contracts, and other documents which may contractually bind the BSP to TD's counterparties, custodians, securities lending agents, and other entities, are referred to the BSP's General Counsel for review and clearance, before they are signed and executed.

Furthermore, the DLC engages the services of external lawyers to fast track collection on delinquent accounts and to handle foreclosure proceedings, and other cases arising therefrom, such as, execution of attachment of properties of third parties covered by Surety Agreement executed by the borrower-bank.

In managing BSP's risks associated with the decline in market values of its acquired assets, the AMD engages the services of appraisal companies acceptable to the BSP's Monetary Operations Sub-Sector (MOSS) to conduct periodic appraisal of the acquired assets in accordance with established appraisal valuation principles and practices.

4. SIGNIFICANT EVENTS

The MB approved on –

a. 12 January 2017 the grant of authority to the Bangko Sentral ng Pilipinas to enter into a five-year contract with the winning vendor for the supply, implementation, post implementation support, and maintenance of Portfolio Management System, subject to Republic Act No. 9184 and its Revised Implementing Rules and Regulations, as well as Budget Administration Guidelines and Policies.

b. 2 February 2017 the award to Trend and Technologies Inc. the contract for one lot - Bangko Sentral ng Pilipinas 2016 LAN Enhancement Project consisting of supply, delivery, installation, configuration, testing and commissioning of network intrusion prevention system, aggregation service routers, network switches, new licenses for Nexus 7010 core switches, network UPS and IP phones, as per BSP terms and references and service level agreement, in the total amount of PHP75.369 million, value added tax inclusive.

c. 9 March 2017 the release to the Armed Forces of the Philippines, USD1.697 million representing the total interest income earned from the Central Bank of the Philippines-AFP-Foreign Military Sales Principal Account.

d. 16 March 2017 the institutionalization of the Severance Package for Personnel Affected by Reorganizations under the Organizational Development based Severance Category of the Integrated Bangko Sentral ng Pilipinas Employee Severance Program.

e. 1 June 2017 the award to Automation Specialists and Power Exponents Inc. of the contract for one lot - Service Desk Management and Personal Computer Maintenance Services for the BSP Head Office, SPC, and Regional Offices and Branches, as per BSP terms of reference, in the total amount of PHP67.480 million, inclusive of value added tax, for three years.

f. 29 June 2017 the compromise settlement of the Bangko Sentral ng Pilipinas' tax cases pending before the Court of Tax Appeals covering the Taxable Years 2009 and 2010.

g. 14 September 2017 the award to Grabener Pressensysteme GmbH & Co. KG through Machinebanks Corporation of the contracts for the supply and delivery of spare parts for 19 units of Grabener MPU 106 coin press, as per BSP technical specifications, in the total amount of EUR1.200 million, CPT, Manila.

h. 22 September 2017 the award to Muhlbauer Gmbh and Co., KG, through Solid Business Machines Center, Inc., the contract for one lot - supply, delivery, installation and commissioning of one banknote sheet inspection machine, including supply and delivery of consumables for 18 months feedstock and wear and tear spare parts sufficient for the inspection of 46.8 million banknote sheets, as per BSP technical specifications and terms of reference, in the total amount of USD3.484 million, Delivered at Place, BSP-SPC.

i. 28 September 2017 the award to Philcare Manpower Services of the contract for one lot - supply of manpower, tools, equipment, supplies, materials and supervision for janitorial, sanitation, hauling and other related services for the BSP SPC in the total contract amount of PHP77.678 million inclusive of value added tax for three years.

j. 5 October 2017 the award to Royal Canadian Mint through FMC Research Solutions, Inc. of the contract for the supply and delivery of 3,172 metric tons 1-Piso New Generation Currency (NGC) coin metals as per BSP technical specifications in the total amount of USD13.289 million, Delivered at Place, BSP-SPC.

k. 26 October 2017 the award to Surys, through FMC Research Solutions, Inc. of the contract for one lot - supply and delivery of Optically Variable Device Patch, as per BSP technical specifications and terms of conditions, in the total amount of EUR18.155 million, Delivered at Place, BSP-SPC.

l. 28 December 2017 the award to Teer Coatings Limited through Nicklaus Machinery Corporation the contract for one lot - supply, delivery, installation and commissioning of Physical Vapor Deposition coating machine including ancillary equipment, and supply and delivery of consumables and wear and tear parts sufficient for 500 coating cycles, as per BSP technical specifications and terms of reference, in the total contract amount of USD1.500 million, Cost and Freight, Manila.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of the financial statements in accordance with previous accounting policies 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 cause the assumptions and estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

6. DEPOSITS WITH FOREIGN BANKS

Due from Foreign Banks (DFFB) account represents demand and time deposits of BSP with foreign depository banks.

	Note	2017	2016 (as restated)
DFFB-Demand Deposit	a	277,425,829,163	165,908,383,846
DFFB-Time Deposit	b	553,035,060,000	731,143,106,321
		830,460,889,163	897,051,490,167
Accrued interest		1,314,041,526	1,271,194,298
Total		**831,774,930,689**	**898,322,684,465**

Accrued interest, 31 December 2016, before adjustments	**1,269,423,135**
Add:	
Additional interest earned in December 2016 but received in 2017 with no prior period provision for accrual	1,771,163
Accrued interest, 31 December 2016, as restated	**1,271,194,298**

a. **Due from foreign banks - demand deposits (DFFB-DD)** represent BSP's foreign currency deposits with foreign banks and are considered to be the most liquid among the international assets since they are already in the form of cash and may be withdrawn without restrictions.

b. **Due from foreign banks - time deposits (DFFB-TD)** represent placements of BSP with accredited foreign banks. Foreign exchange holdings of the BSP not otherwise needed for operation in the near term, are invested as time deposits with foreign correspondent banks with terms up to one year at varying interest rates.

7. OTHER CASH BALANCES

This represents fit foreign currency notes purchased from Authorized Agent Banks (AABs) held by the CD and BSP Regional Currency Operation Units. All foreign currencies are recorded at their peso and/or dollar equivalent based on the BSP Reference Exchange Rate Bulletin.

Month-end revaluation of foreign currencies arising from fluctuations in exchange rates is debited/credited to the Revaluation of Foreign Currency-Unrealized account.

8. INVESTMENT SECURITIES

	2017	2016
Marketable securities	1,973,881,080,636	1,933,907,438,824
Other investments	735,568,034,478	715,307,049,610
	2,709,449,115,114	2,649,214,488,434
Accrued interest	9,859,596,376	9,933,685,725
Total	**2,719,308,711,490**	**2,659,148,174,159**

Marketable securities consist of foreign securities (free) and repurchase agreements. The former primarily includes commercial papers in USD, JPY, CNH and AUD currencies. Other investments include externally managed funds (PHP684.007 billion), Asian bond fund (PHP35.846 billion) and BISIP (Bank for International Settlement and Investment Pool - PHP15.715 billion).

9. FOREIGN SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

This represents excess funds of BSP's daily requirements held and invested automatically by Nostro banks in an overnight facility. See Note 2.19.1.

10. LOAN TO INTERNATIONAL MONETARY FUND

This represents calls on the new arrangements to borrow (NAB) facility of the IMF. The NAB facility credit arrangement between the IMF and a group of forty (40) member countries and institutions to provide supplementary resources to the IMF in coping with an impairment of the international monetary system or dealing with an exceptional situation that poses a threat in the stability of that system. The claims arising from calls under the NAB will be in the form of loan to IMF.

	2017	2016
Beginning balance-January 1	3,942,099,150	2,154,663,263
Add/(deduct):		
IMF NAB availment	0	1,944,886,816
Repayment	(1,512,246,305)	(242,074,633)
Revaluation adjustments	71,825,185	93,347,034
Moving average cost (MAC) adjustments	182,359,204	(8,723,330)
	(1,258,061,916)	1,787,435,887
	2,684,037,234	3,942,099,150
Accrued interest	3,527,275	1,409,708
Ending balance-December 31	**2,687,564,509**	**3,943,508,858**

11. GOLD

	Note	2017	2016
In bullion vault	a	170,927,051,012	148,282,117,369
With foreign financial institutions	b	245,582,747,545	212,995,544,139
Ending balance-December 31		**416,509,798,557**	**361,277,661,508**

a. Gold in bullion vaults

	2017		2016	
	FTO	PHP	FTO	PHP
Opening balance-January 1	2,590,901.525	148,282,117,369	2,576,927.751	129,214,825,341
Additions during the year:				
Purchases			13,973.774	875,978,981
Net increase due to price/rate revaluation		22,644,933,643		18,191,313,047
	0	22,644,933,643	13,973.744	19,067,292,028
Ending balance-December 31	**2,590,901.525**	**170,927,051,012**	**2,590,901.525**	**148,282,117,369**

	US$/FTO	US$/FTO
Revaluation Rate	1.320.55	1.149.95
Moving Average Rate	1,036.11	1,036.11

b. Gold with foreign financial institutions

	2017		2016	
	FTO	PHP	FTO	PHP
Opening balance-January 1	3,721,625.304	212,995,544,139	3,721,625.304	186,613,366,811
Additions during the year:				
Purchases	652.711	39,965,065	0	0
Net increase due to price/rate revaluation		32,530,753,354		26,382,177,328
	652.711	32,570,718,419	0	26,382,177,328
	3,722,278.015	245,566,262,558	3,721,625.304	212,955,544,139
Accrued interest	0	16,484,987	0	0
Ending balance-December 31	**3,722,278.015**	**245,582,747,545**	**3,721,625.304**	**212,995,544,139**

	US$/FTO	US$/FTO
Revaluation Rate	1,320.55	1,149.95
Moving Average Rate	1,415.77	1,415.77

12. INTERNATIONAL MONETARY FUND SPECIAL DRAWING RIGHTS

The Special Drawing Rights (SDR) is an international reserve asset created by the IMF in 1969 to supplement its member countries' official reserves. SDR value is based on a basket of five key international currencies. It can be exchanged for freely usable currencies.

	2017	2016
Beginning balance-January 1	56,638,983,258	55,265,679,509
Add/(deduct):		
Income accruing to the fund	351,464,479	40,921,432
Revaluation	3,768,907,623	1,369,850,762

	2017	2016
Payment of interest and assessment	(262,369,176)	(33,111,379)
Adjustment due to moving average computations/change in policy	(9,092,165)	(4,357,066)
	3,848,910,761	1,373,303,749
	60,487,894,019	56,638,983,258
Accrued interest	72,323,601	20,260,061
Ending balance-December 31	**60,560,217,620**	**56,659,243,319**

13. LOANS AND ADVANCES

	Note	Per cent to Total	2017	2016 (as restated)
Foreign currency loans and advances				
Special purpose				
IBRD 2469		100.00	20,955,142	20,955,142
Total		100.00	20,955,142	20,955,142
Allowance for probable losses		100.00	20,955,142	20,955,142
Net		**0**	**0**	**0**
Local currency loans and advances				
Philippine Deposit Insurance Corp.	a	30.96	52,988,366,691	53,093,282,169
National Government- Assumed Obligations of:				
Philippine National Bank	b.1		350,000,000	350,000,000
Development Bank of the Phil.	b.1		442,499,511	442,499,511
IMF quota subscription	b.2		77,921,409,740	77,921,409,740
		45.98	78,713,909,251	78,713,909,251
Special purpose				
Thrift banks			4,077,768	4,077,768
Specialized banks			12,811,512	12,830,637
Rural banks			88,199,956	91,009,132
		0.06	105,089,236	107,917,537
Allowance for probable losses			92,277,724	95,086,900
			12,811,512	12,830,637
Emergency	c			
Commercial banks			1,578,259,754	1,578,259,754
Thrift banks			128,496,998	199,636,810
Rural banks			264,776,522	285,801,422
NBQBs			3	3
		1.15	1,971,533,277	2,063,697,989
Allowance for probable losses			1,946,633,223	2,030,544,322
			24,900,054	33,153,667
Rediscounting	d			
Thrift banks			942,427,770	82,591,949
Specialized banks			154	5,459,134
Rural banks			250,224,550	363,715,689
		0.70	1,192,652,474	451,766,772
Allowance for probable losses			211,550,470	280,824,040
			981,102,004	170,942,732
Overdrafts/overnight clearing line		1.04	1,783,867,208	1,786,069,726
Allowance for probable losses			1,757,217,454	1,778,231,524
			26,649,754	7,838,202
Overnight Lending Account		20.11	34,425,000,000	0
Total		100.00	171,180,418,137	136,216,643,444
Allowance for probable losses			4,007,678,871	4,184,686,786

	Note	Per cent to Total	2017	2016 (as restated)
Net			167,172,739,266	132,031,956,658
Accrued interest			20,294,767,075	19,030,051,202
Allowance for doubtful accts-AIR-L&A			49,402,901	28,757,698
Net			20,245,364,174	19,001,293,504
Total			**187,418,103,440**	**151,033,250,162**
Total foreign and local currency - loans and advances		**100.00**	**171,201,373,279**	**136,237,598,586**
Allowance for probable losses	e	**2.35**	**4,028,634,013**	**4,205,641,928**
Net		**97.65**	**167,172,739,266**	**132,031,956,658**
Amount past due (*Annex B*)			**7,895,239,129**	**8,082,697,147**
Per cent to total loans and advances			**4.61**	**5.93**

	Emergency Rural Banks	Rediscounting Rural Banks	Overnight Clearing Line
Balances, 31 December 2016, before adjustment	285,794,394	363,787,900	1,786,238,545
Add/(deduct):			
Reapplication/adjustment of payment	7,028	(72,211)	(168,819)
Balances, 31 December 2016, as restated	**285,801,422**	**363,715,689**	**1,786,069,726**

Accrued interest, 31 December 2016, before adjustment	19,048,121,991
Deduct:	
Over accrual of interests on NG assumed loans of the PNB and DBP	17,806,212
Reapplication/adjustment of payment and reversal of AR dacioned	264,577
	18,070,789
Accrued interest, 31 December 2016, as restated	**19,030,051,202**

a. Loans and advances to PDIC intended as Financial Assistance (FA) to banks slightly decreased to PHP52.988 billion compared to last year's level of PHP53.093 billion. This constituted 30.96 per cent of the total local currency loan portfolio.

The loans and advances to PDIC of PHP3.006 billion used as FA to the Philippine National Bank (PNB) which matured in October 2011 have an approved restructuring under MBR No. 1618 dated 27 October 2011 but subject to certain conditions which were partially complied with by the PDIC on 03 November 2011 upon remittance of payment amounting to PHP2.800 billion, PHP1.440 billion of which was applied by BSP to interest while the remaining PHP1.360 billion to principal.

The restructuring terms, as well as the requirement under MBR No. 1618, are yet to be implemented awaiting opinion of the Department of Justice (DOJ), due to the controverted interpretation by the PDIC on certain provision of the Loan Agreement (LA) covering the loan to PDIC used as FA to PNB. In BSP's reply-memorandum dated 04 October 2017 submitted to DOJ, in response to PDIC's memorandum dated 19 July 2017, the BSP prayed, among other things, that the DOJ issue a decision ordering the PDIC to pay to the BSP its outstanding obligations in the LA dated 21 November 2002. The BSP is awaiting the opinion of the DOJ.

b.1 Loans and advances to NG represents loans originally granted to the PNB and the Development Bank of the Philippines (DBP). The NG absorbed the loans and advances during the financial restructuring of PNB and DBP.

b.2 IMF quota subscription represents non-interest bearing loan extended to the ROP to cover the increase in the IMF quota subscription from SDR1,019.300 million to SDR2,042.900 million or an increase of SDR1,023.600 million pursuant to Section 2 of RA No. 2052 and MBR No. 1752 dated 9 December 2010. The loan is covered by a five (5) year non-negotiable, non-interest bearing promissory note that will mature on 17 February 2021 and is renewable for another period of five (5) years.

c. Emergency loans are forms of financial assistance, secured by assets, extended to banks.

d. Rediscounting window which accounts for 0.70% of the local currency loan portfolio increased by PHP0.741 billion or 164% from last year-end balance of PHP0.452 billion.

e. Allowance for probable losses - of the total outstanding loans and advances which amounted to PHP171.201 billion exclusive of accrued interest receivable, 2.35 per cent or PHP4.029 billion is provided for as Allowance for Probable Losses.

14. OTHER RECEIVABLES

	Note	2017	2016 (as restated)
Foreign currency receivables			
Non-IR foreign exchange assets	a	90,165,053,870	86,261,611,041
Accrued interest		1,546,324,985	1,571,982,194
Due from foreign banks/branches	b	26,194,879	25,918,637
Total		**91,737,573,734**	**87,859,511,872**
Local currency receivables			
Accounts receivable -TOP	c	12,900,960,772	9,627,794,584
Sales contracts receivable	d	3,484,964,611	4,159,310,661
Accounts receivable		3,291,469,327	3,453,560,566
Allowance for doubtful accounts – AR		(1,747,301,303)	(1,632,274,552)
		1,544,168,024	1,821,286,014
Notes receivable	e	1,366,730,850	1,366,730,850
Due from local banks		599,998,306	529,731,950
Receivables from staff/others		531,119,721	597,776,005
Accrued interest - Sales contracts receivable		23,441,609	37,241,919
Lease receivable	f	69,503,585	82,860,863
Allowance for uncollectible rental/receivable		(46,871,157)	(45,542,940)
		22,632,428	37,317,923
Items under litigation	g	14,500,000	14,500,000
Accrued interest - receivable from redemption of acquired assets		0	10,620
Total		**20,488,516,321**	**18,191,700,526**

	Balance, 31 December 2016, before adjustments	Adjustments	Balance, 31 December 2016, as restated
Sales contracts receivable	4,144,619,200	14,691,461	4,159,310,661
Accounts receivable	3,451,684,642	1,875,924	3,453,560,566
Allowance for doubtful accounts - AR	(1,631,607,851)	(666,701)	(1,632,274,552)
Receivables from staff/others	617,199,332	(19,423,327)	597,776,005
Accrued interest - sales contracts receivable	150,913,881	(113,671,962)	37,241,919
Lease receivable	82,986,355	(125,492)	82,860,863
	6,815,795,560	**(117,320,098)**	**6,698,475,462**

Sales contracts receivable, 31 December 2016, before adjustments	4,144,619,200
Add:	
Prior year's sale of acquired assets	14,691,461
Sales contracts receivable, 31 December 2016, as restated	**4,159,310,661**

Accounts receivable, 31 December 2016, before adjustments	3,451,684,642
Add/(deduct):	
Shares of lessee/borrowers/buyers on electricity, foreclosure expenses, real estate tax and other expenses advanced by BSP	2,137,351
Overpayment of personnel services	659,559
Disallowances on medical/hospitalization claims	489,518
Reapplication/adjustment on payment	95,261
Adjustments on vault rental charges, lost firearms, unreturned service ammunitions, penalties and supervisory fees	41,306
Over set up/reversal of accounts receivable dacioned	(1,547,071)
	1,875,924
Accounts receivable, 31 December 2016, as restated	**3,453,560,566**

Allowance for doubtful accounts - AR, 31 December 2016, before adjustments	(1,631,607,851)
Add:	
Reversal of accounts receivable, recovery of accounts previously written-off and adjustments on related allowance for doubtful accounts	(666,701)
Allowance for doubtful accounts -AR, 31 December 2016, as restated	**(1,632,274,552)**

Receivables from staff/others, 31 December 2016, before adjustments	617,199,332
Deduct:	
Liquidation of prior year's cash advances of BSP personnel	17,430,985
Recoupment of advances-dealers and contractors	1,992,342
	19,423,327
Receivables from staff/others, 31 December 2016, as restated	**597,776,005**

Accrued interest - Sales contracts receivable, 31 December 2016, before adjustments	150,913,881
Deduct:	
Collection of prior year's income on sale of acquired assets	113,671,962
Accrued interest-Sales contracts receivable, 31 December 2016, as restated	**37,241,919**

Lease receivable, 31 December 2016, before adjustments	82,986,355
Deduct:	
Collection of prior year's income on lease properties	125,492
Lease receivable, 31 December 2016, as restated	**82,860,863**

a. Non-IR FX assets - the account primarily consists of investments in ROP bonds issued by the NG and investment in BSP "Yankee" bonds acquired by the BSP in the open market to mature in CY 2027. It also includes twenty-five per cent (25%) of the BSP's subscription to the offering of 3,000 shares of the third tranche capital of the Bank for International Settlements (BIS) authorized under MBR No. 1304 dated 10 September 2003.

The increase was primarily due to net revaluation gains of PHP2.084 billion, net purchase of ROP bonds of PHP0.800 billion and net investment activity of PHP1.019 billion.

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

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 maintained with the BSP based on change in PHP/SDR exchange rate. On 23 May 2017, the account increased by PHP3.273 billion representing the revaluation of the IMF holdings as at the end of its financial year of 30 April 2017.

d. Sales contracts receivable - pertains to receivables arising from the sale on installment of BSP assets owned or acquired each of which is covered by a duly executed Contract to Sell. Breakdown is as follows:

		Total 2017	Current	Non-Current
I.	**Auction /Negotiated sales**			
	a. BSP personnel	7,740,820	794,204	6,946,616
	b. Non-BSP personnel/others	3,162,098,394	385,623,642	2,776,474,752
	c. Restructured principal - Non-BSP	13,293,345	1,214,557	12,078,788
	d. Restructured interest - Non-BSP	2,215,769	226,709	1,989,060
		3,185,348,328	387,859,112	2,797,489,216
II.	**Sales under AMD - PFO housing program**			
	a. BSP personnel	210,567,633	7,371,814	203,195,819
	b. Non-BSP personnel/others	89,048,650	2,968,288	86,080,362
		299,616,283	10,340,102	289,276,181
	Total	**3,484,964,611**	**398,199,214**	**3,086,765,397**

e. Notes receivable - claim of BSP against First Philippine International Bank (now First Producers Holdings) guaranteed by a 28.5 year scripless Treasury Bonds with PHP375.000 million cash flow back plus PHP15.000 million cash payment for three (3)-year amortization for 1996, 1997 and 1998 or a total of PHP390.000 million to be placed in an Escrow fund to be administered by DLC until the fund reaches PHP1.367 billion. It shall be applied against BSP claim, per MBR No. 1131 dated 27 September 1995 as amended by MBR Nos. 590 and 1069 dated 13 June and 16 October 1996, respectively. As of 31 December 2017, PHP453.788 million is now with the Escrow fund.

f. Lease receivable - Due to the absence of a lease contract, the lease from dacioned properties acquired from the Banco Filipino Savings and Mortgage Bank (BFSMB) was reclassified to Accounts Receivable account in year 2016.

g. Items under litigation

	Note	2017	2016
CSS-FAD	a	14,500,000	14,500,000
BSRU-Tacloban	b	2,499,920	2,499,920
BSRU-Legazpi	c	1,758,500	1,758,500
Total		18,758,420	18,758,420
Less: Allowance for doubtful account		4,258,420	4,258,420
Net		**14,500,000**	**14,500,000**

a. The amount refers to the pilfered PHP4.500 million clearing items paid to Bank of Philippine Island (BPI) under Case No. 18793 and tampered PHP10.000 million denominated Treasury bills under Case No. 88-2389.

b. This pertains to the uncollected claims from the BSP officer of BSRU-Tacloban arising from misappropriated cash on hand under Civil Case No. 97-11-219.

c. The amount of loss declared in the robbery case at BSRU-Legazpi cash vault filed under Case No. 6672.

15. INVESTMENTS SECURITIES – DOMESTIC

		2017		2016	
	Note	Face Value	Market Value	Face Value	Market Value
BSP-Head Office	a				
Treasury bills		174,296,810,350	171,869,868,711	174,298,223,000	172,551,946,935
Semi-annual FLT treasury bond		50,000,000,000	49,809,969,886	50,000,000,000	48,282,423,814
Fixed rate treasury bonds		2,723,656,023	2,819,496,629	2,119,365,023	2,297,931,219
LBP Bond			3,576[1]		12,977[1]
		227,020,466,373	224,499,338,802	226,417,588,023	223,132,314,945
Accrued interest			116,714,173		94,252,626
Total			**224,616,052,975**		**223,226,567,571**

a. The movement in investment securities is summarized as follows:

	2017	2016
Beginning balance, January 1	223,132,314,945	222,527,922,167
Add/(Deduct):		
Purchases	430,739,135,919	426,795,458,410
Marking to market	1,170,970,534	480,632,841
Accrual/reversal of discount	496,056,668	(103,019,787)
Redemption	(425,273,744,761)	(425,596,545,973)
Sales	(5,764,606,721)	(971,787,429)
Net premium amortization	(787,782)	(345,284)

[1] A*t redeemed value, representing BSP share on claims against closed banks*

	2017	2016
	1,367,023,857	604,392,778
Ending balance, December 31	**224,499,338,802**	**223,132,314,945**

b. Below is the schedule of maturity of investment securities:

	Below 90 days	90-180 days	181-365 days	More than 1 year	Total
Treasury bills		64,392,889,448	107,476,979,263		171,869,868,711
Semi-annual FLT treasury bond				49,809,969,886	49,809,969,886
Fixed rate treasury bonds				2,819,496,629	2,819,496,629
LBP bond	3,576				3,576
Total	**3,576**	**64,392,889,448**	**107,476,979,263**	**52,629,466,515**	**224,499,338,802**

16. DUE FROM ADMINISTRATOR OF FUNDS

	Note	2017	2016 (as restated)
Financial Accounting Department (FAD)			
Fidelity insurance		22,247,379,248	22,247,379,248
Currency insurance		2,798,665,272	2,798,665,272
Post-retirement benefit	a	5,338,370	6,518,547
Gold insurance		9,333,617	9,333,617
Industrial fund		2,515,220	2,515,220
		25,063,231,727	25,064,411,904
Provident Fund Office (PFO)			
BSP Properties self-insurance fund		1,950,000,000	1,950,000,000
Post-retirement benefit		1,091,565,879	1,111,565,879
Directors' and officers' liability insurance (DOLI) fund		1,092,289,420	1,092,289,420
Car plan fund		1,246,825,228	555,455,978
Provident fund		185,167,931	187,562,970
		5,565,848,458	4,896,874,247
Total		**30,629,080,185**	**29,961,286,151**

Provident fund, 31 December 2016, balance before adjustments	187,390,355
Add:	
Overpayment of personnel services affecting contributions for provident fund	172,615
Provident fund, 31 December 2016, as restated	**187,562,970**

a. The balance decreased resulting from the transfer of PHP20.000 million from PFO to FAD for the retirement gratuity of retired/ resigned BSP officials/employees offset by the payments made to availees eligible under RA 1616 and the grant of financial assistance provided to beneficiaries of deceased personnel totaling PHP21.180 million.

17. ACQUIRED ASSETS HELD FOR SALE

	2017	2016 (as restated)
Acquired assets held for sale	59,581,036	56,067,752
Less: Allowance for market decline	24,632	8,030,855
Net	**59,556,404**	**48,036,897**

	TCTs	Book Value
Acquired assets held for sale, 31 December 2016, before adjustments	409	77,907,435
Deduct: Prior years' sale of acquired assets	60	21,839,683
Acquired assets held for sale, 31 December 2016, as restated	**349**	**56,067,752**

Allowance for market decline, 31 December 2016, before adjustments	8,931,539
Deduct: Prior years' sale of acquired assets	900,684
Allowance for market decline, 31 December 2016, as restated	**8,030,855**

Below is the movement of the acquired assets held for sale for the year ended 31 December 2017:

	TCTs	Book Value
Balance, 01 January 2017, as restated	349	56,067,752
Additions:		
Transferred from investment property	664	212,217,441
Net reclassification/adjustments	275	36,951,419
	939	249,168,860
Deductions:		
Sale/negotiation	671	174,656,900
Revert to investment property	489	70,998,676
	1,160	245,655,576
Balance, 31 December 2017	**128**	**59,581,036**

18. INVESTMENT PROPERTY

	2017	2016 (as restated)
Investment property	16,005,546,325	15,899,017,528
Less: Allowance for market decline	805,462,614	271,969,030
Net	**15,200,083,711**	**15,627,048,498**

	TCTs	Book Value
Investment property, 31 December 2016, before adjustments	25,900	15,890,941,072
Add:		
Effect of restatement of prior period adjustments:		
Capitalization of foreclosure expenses	0	7,703,962
Adjustment on payment/sale of acquired assets	1	245,000
Adjustment on investment property-dacioned	0	127,494
	1	8,076,456
Investment property, 31 December 2016, as restated	**25,901**	**15,899,017,528**

Below is the movement of the investment property for the year 2017:

	TCTs	Book Value
Balance, 01 January 2017, as restated	25,901	15,899,017,528
Additions:		
Foreclosure	240	169,633,323
Dacion en pago	104	30,570,755
Reverted from acquired assets	489	70,998,676
Reclassification	3	29,547,650
Net reclassification/adjustments	94	19,194,234
	930	319,944,638
Deductions:		
Sale/negotiation	3	1,198,400
Transferred to acquired assets	664	212,217,441
	667	213,415,841
Balance, 31 December 2017	**26,164**	**16,005,546,325**

19. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT (BPFFE)

	Land and Building	Property Improvement	Computer Hardware	Plant and Equipment	In-Transit Items	In Progress/ under Construction Items	Total
Cost							
01 January 2017, as restated	13,434,588,141	5,652,886,759	1,206,573,578	8,402,343,975	78,691,637	1,439,925,895	30,215,009,985
Additions	425,097,571	274,689,332	172,117,089	962,594,993	4,317,230,782	883,906,258	7,035,636,025
Disposals	(23,531,439)		(90,296,314)	(13,214,900)			(127,042,653)
Reclassification		(20,461,863)	(35,406,819)	(45,894,949)	(99,487,835)	(458,015,845)	(659,267,311)
Adjustments	(29,547,650)			(12,179)			(29,559,829)
31 December 2017	**13,806,606,623**	**5,907,114,228**	**1,252,987,534**	**9,305,816,940**	**4,296,434,584**	**1,865,816,308**	**36,434,776,217**
Accumulated depreciation							
01 January 2017, as restated	(3,204,811,190)	(3,456,555,529)	(735,076,092)	(4,826,128,498)	0	0	(12,222,571,309)
Depreciation - CY 2017	(214,937,102)	(354,199,952)	(138,386,112)	(625,948,238)	0	0	(1,333,471,404)
Disposals	7,566,811		81,198,425	10,652,925	0	0	99,418,161
Reclassification		(7,113,609)	31,522,964	62,314,448	0	0	86,723,803
Adjustments		153,527		15,786	0	0	169,313
31 December 2017	**(3,412,181,481)**	**(3,817,715,563)**	**(760,740,815)**	**(5,379,093,577)**	**0**	**0**	**(13,369,731,436)**
Net book value, 31 December 2017	**10,394,425,142**	**2,089,398,665**	**492,246,719**	**3,926,723,363**	**4,296,434,584**	**1,865,816,308**	**23,065,044,781**
Net book value, 31 December 2016, as restated	**10,229,776,951**	**2,196,331,230**	**471,497,486**	**3,576,215,477**	**78,691,637**	**1,439,925,895**	**17,992,438,676**

The BPFFE costs and accumulated depreciation balances as at 31 December 2016 are restated, as follows:

	Land and Building	Property Improvement	Computer Hardware	Plant and Equipment	In Progress/ Under Construction Items	Total
Cost						
31 December 2016, before adjustments	13,434,119,132	5,575,860,286	1,223,924,242	8,444,380,455	1,517,805,827	30,196,089,942
Add/(deduct):						
Effect of restatement of prior period adjustments:						
Change in Accounting Policy in compliance with COA Circular		(60,000)	(61,794)	(36,691,845)		(36,813,639)
Non/(de)-recognition of						

	Land and Building	Property Improvement	Computer Hardware	Plant and Equipment	In Progress/ Under Construction Items	Total
properties acquired, disposed/donated		(793,459)	(17,288,870)	(5,344,635)		(23,426,964)
Reclassification/Recognition to proper PPE account	469,009	77,879,932			(77,879,932)	469,009
	469,009	77,026,473	(17,350,664)	(42,036,480)	(77,879,932)	(59,771,594)
31 December 2016, as restated	**13,434,588,141**	**5,652,886,759**	**1,206,573,578**	**8,402,343,975**	**1,439,925,895**	**30,136,318,348**
Accumulated depreciation						
31 December 2016, before adjustments	(3,204,726,768)	(3,458,988,853)	(750,881,374)	(4,798,934,582)		(12,213,531,577)
(Add)/deduct:						
Effect of restatement of prior period adjustments:						
Change in Accounting Policy in compliance with COA Circular				(10,707,595)		(10,707,595)
Non/(de)-recognition of properties acquired, disposed/donated		488,264	15,801,728	4,642,725		20,932,717
Non-booking of depreciation & Reversal of booked depreciation for non-depreciable asset	(84,422)	1,945,060	3,554	(21,129,046)		(19,264,854)
	(84,422)	2,433,324	15,805,282	(27,193,916)	0	(9,039,732)
31 December 2016, as restated	**(3,204,811,190)**	**(3,456,555,529)**	**(735,076,092)**	**(4,826,128,498)**	**0**	**(12,222,571,309)**
Net book value, 31 December 2016, as restated	**10,229,776,951**	**2,196,331,230**	**471,497,486**	**3,576,215,477**	**1,439,925,895**	**17,913,747,039**

As of 31 December 2017, the total amount of PHP299.556 million charged against the PHP317.000 million Asia-Pacific Economic Cooperation (APEC) Fund for the PICC rehabilitation projects was booked under the BPFFE, and the total depreciation expense of PHP80.635 million was recognized at year-end, broken down as follows:

Account	Amount	Depreciation
Building Improvement	198,405,488	44,564,267
Furniture and Equipment	99,751,657	35,756,348
Land Improvements	1,399,000	314,775
Total	**299,556,145**	**80,635,390**

20. INTANGIBLES

	Computer Network and Application System	Computer Network and Application System in Process	Total
Cost			
01 January 2017	2,518,761,250	80,406,158	2,599,167,408
Additions	51,226,041	19,790,465	71,016,506
Reclassification	1,500,000		1,500,000
31 December 2017	**2,571,487,291**	**100,196,623**	**2,671,683,914**
Accumulated amortization			
01 January 2017	(2,329,983,987)		(2,329,983,987)
Amortization - CY 2017	(88,320,039)		(88,320,039)
Reclassifications	(294,400)		(294,400)
31 December 2017	**(2,418,598,426)**	**0**	**(2,418,598,426)**
Net book value, 31 December 2017	**152,888,865**	**100,196,623**	**253,085,488**

	Computer Network and Application System	Computer Network and Application System in Process	Total
Net book value, 31 December 2016	**188,777,263**	**80,406,158**	**269,183,421**

21. INVENTORIES

	Note	2017	2016
SPC inventories	a	4,869,268,571	4,437,770,520
Currency inventory	b	1,293,124,356	1,584,568,661
Work-in-process		556,162,194	702,274,093
Gold for refining	c	1,287,798,989	433,899,398
Gold for domestic sale	d	41,377,978	20,557,732
Silver for refining		900,482	417,248
Silver for domestic sale		388,052	388,052
Total		**8,049,020,622**	**7,179,875,704**

a. The increase in raw materials inventory was primarily due to the higher receipt of banknotes inventories, both inks and banknote papers of different denomination, as compared to its consumption. Likewise, the raw materials in-transit rose due to outstanding in-transit delivery of 10-Piso NGC coin metals from Royal Canadian Mint with Invoice No. 17801-01 dated 22 October 2017.

b. Currency Inventory decreased by PHP291.444 million in 2017 brought about by the higher-than-anticipated demand during the year particularly for the 1,000-Piso bank notes.

c. The account balance build up due to the disrupted operation of the Gold Refinery caused by the rehabilitation of the whole Gold Refinery area. No refining activity was made, thus, the accumulation of the gold for refining inventory.

d. The increase came from the CY 2017 production of gold grains/sheets of 69.169 tr.oz. by Mint and Refinery Operations Department (MROD) amounting to PHP20.820 million net of receipts and sale of gold grains/sheets by Department of General Services (DGS).

22. MISCELLANEOUS ASSETS

	Note	2017	2016 (as restated)
Withholding tax at source	a	1,191,603,185	1,066,884,073
Prepaid expenses	b	340,236,185	225,567,365
Other supplies		329,777,255	354,936,788
Paintings and sculptures	c	134,899,929	131,153,858
Assets for disposal		78,066,840	79,954,839
Due from PICC	d	58,101,975	11,510,539
Deposits - utilities and services	e	52,082,802	47,115,991
Numismatic collections on hand		21,800,932	21,831,099
Stocks and other securities	f	20,610,500	20,630,500
Semi-expendable property		14,879,637	3,533,916
Miscellaneous assets		14,749,562	1,575,054

	Note	2017	2016 (as restated)
Input tax	g	14,655,107	13,507,193
Creditable tax certificates		4,835,087	4,835,087
Checks and other cash items		2,839,333	98,193
Items for exhibit		1,040,680	1,040,681
Land under usufruct	h	82,275	82,275
Commemorative notes and coins		34,170	93,482
Checks and other cash items in-transit		16,000	0
Demonetized commemorative coins		164	370
Total		**2,280,311,618**	**1,984,351,303**

	Balance, 31 December 2016 before adjustments	Adjustments	Balance, 31 December 2016, as restated
Other supplies	**355,307,507**	**(370,719)**	**354,936,788**
- Utilization and unreturned ammunition charged to BSP personnel		(48,712)	
- Utilization of supplies & material-in-stock/bldg. materials in-stock		(322,007)	
Assets for disposal			
- De-recognition of PPE sold/donated	**83,075,567**	**(3,120,728)**	**79,954,839**
Stocks and Other Securities			
- PICCI's compliance with COA AOM re: impairment loss on investment	**30,130,500**	**(9,500,000)**	**20,630,500**
Semi-expendable property			
- Change in capitalization threshold for PPE per COA Circular	**8,293,356**	**(4,759,440)**	**3,533,916**
Miscellaneous Assets			
- Capitalization of foreclosure expenses	**0**	**1,575,054**	**1,575,054**

a. The taxes withheld were largely from interest income from loans, service fees on deposit of notes, supervisory and other bank fees, income from payments and settlements transactions.

b. The account includes taxes withheld from purchases of short-term government securities which are later recognized as expense upon maturity. The increment of PHP114.669 million or 51 percent was principally due to the increase in realty taxes of BSP properties and prepaid expenses of PICCI.

c. The change in the account was brought about by the Bank's acquisition of various paintings of renowned artists.

d. The account refers to the approved budget of the PICCI for capital expenditures (CAPEX) advanced by the BSP subject to liquidation. The account is credited for the liquidation of disbursements for CAPEX and remittance of unutilized budget.

e. The increase was due to additional bill deposits with the Manila Electric Company (MERALCO) for the new mint building.

f. Breakdown includes the following:

Particulars	Amount
PICCI investments	20,000,000
Proprietary membership share	601,000
Telephone companies stocks	9,500
Total	**20,610,500**

g. The amount represents refund of customs duties, taxes, fees, etc. earlier paid in protest by the Bank from CY 1996 to CY 1998 for the importation of various spare parts by CD evidenced by tax credit certificates issued by the Bureau of Customs on 23 December 2008 in favor of the BSP. It also includes input taxes claimed by the MROD from the suppliers of blister packaging, wooden medal boxes and clear plastic capsules for Papal coins.

h. Survey fee and other incidental expenses incurred for the subject lot reserved for BSP to which it acquired the right to construct its building complex and use of the property pursuant to Proclamation No. 473 dated 30 September 1994. At present, the subject property is where the BSP Dagupan Branch building is located.

23. SHORT-TERM FOREIGN CURRENCY DEPOSITS

	Note	2017	2016 (as restated)
National Government	a	15,087,485,587	11,019,869,316
Other entities	b	1,012,495,877	50,835,559
		16,099,981,464	11,070,704,875
Accrued interest		1,768,791	408,780
Total		**16,101,750,255**	**11,071,113,655**

Accrued interest, 31 December 2016 before adjustments	425,372
Deduct:	
Adjustment of December 2016 accrual in foreign currency deposit accounts	16,592
Accrued interest, 31 December 2016, as restated	**408,780**

a. These represent foreign currency denominated time and special accounts deposits of the TOP arising from receipts of loan proceeds from foreign creditors, as follows:

	2017	2016
National Government		
TOP-Time Deposits	2,098,236,000	5,275,514,000
TOP-Special Accounts	12,989,249,587	5,744,355,316
Total	**15,087,485,587**	**11,019,869,316**

b. These are short-term deposits of financial institution and other entities representing proceeds of foreign funds deposited with the BSP by government-owned or controlled corporations intended for foreign funded projects, as follows:

	2017	2016
Financial Institution		
Bank of America S.A. Manila	999,160,000	0
Other Entities		
NPC	0	37,550,134
PSALM	11,561,370	11,517,632
North Luzon Railways	1,759,782	1,753,125
MWSS	14,725	14,668
Total	**1,012,495,877**	**50,835,559**

24. LOANS PAYABLE

	Note	2017	2016
Maturing in more than 5 years			
Blocked peso deposit (Circular 1202)	a	28,381,263	24,530,449
CB memorandum circular (at original cost PHP14.00)	b	2,067,205	3,845,927
Total		**30,448,468**	**28,376,376**

a. Local currency deposits of original public sector borrowers (NG, government-owned or controlled corporations and government financial institutions) used to cover for their FX loan amortizations that were transferred to the then Central Bank of the Philippines (CBP) on the date the amortizations fell due. The deposits were later registered with the BSP under foreign loan restructuring arrangements. The amount increased by 15.70% resulting from its accrual/revaluation.

b. This pertains to Term Loan Facility representing forward exchange cover granted by the then CBP for the Philippine Sugar Commission (now Sugar Regulatory Administration) through Republic Planters Bank (RPB) pursuant to Memorandum Circular dated 05 December 1983.

25. BONDS PAYABLE

	Note	2017	2016
Bonds due 2027	a	19,983,200,000	19,907,600,000
Bonds due 2097		4,995,800,000	4,976,900,000
		24,979,000,000	24,884,500,000
Less: Discount on bonds		87,982,072	88,379,963
		24,891,017,928	24,796,120,037
Accrued interest		95,475,288	95,114,089
Total		**24,986,493,216**	**24,891,234,126**

a. These are “Yankee Bonds” issued by BSP on 24 June 1997. However, bonds worth USD5.950 million or PHP0.292 billion were acquired by BSP in the open market. The bonds acquired are recorded as investment in “Foreign Currency denominated securities - Non-IR FX Assets” in line with the terms and conditions of the BSP Yankee Bonds.

26. ALLOCATION OF SPECIAL DRAWING RIGHTS

	2017	2016
Allocation of SDRs	59,785,445,303	56,064,832,440
Accrued interest	71,483,717	20,054,660
Total	**59,856,929,020**	**56,084,887,100**

SDR Allocation is a low cost way of adding to members' international reserves, allowing members to reduce their reliance on more expensive domestic or external debt for building reserves. This is a long term liability with no maturity date. This account will only become due upon demand by the IMF or when the Philippines ceases to be a member of the IMF.

27. OTHER LIABILITIES

	Note	2017	2016 (as restated)
Foreign currency financial liabilities			
Accounts payable		1,568,188,651	1,663,953,700
Accrued expenses		233,315,588	218,505,982
Derivatives liability		98,292,324	0
Other financial liabilities		4,488,368,988	1,021,403,610
Total		**6,388,165,551**	**2,903,863,292**
Local currency non-financial liabilities			
Retirement benefit obligations		2,998,141,788	2,499,889,130
Dividends payable	a	449,345,216	449,345,216
Miscellaneous liabilities		6,082,872,023	6,178,138,526
Accounts payable		2,942,866,537	2,535,771,183
Taxes payable		1,077,510,060	1,310,813,054
Accrued expenses		62,466,484	44,306,795
Other local currency liabilities	b	2,000,028,942	2,287,247,494
Total		**9,530,359,027**	**9,127,372,872**

	Balance, 31 December 2016, before adjustments	Adjustments	Balance, 31 December 2016, as restated
Foreign Currency Financial Liabilities			
Accounts payable	1,646,683,600	17,270,100	1,663,953,700
- Payment of BTR for the account of other agency		6,899,999	
- Booking of 5% performance charge		438,620	
- Unrecorded expenses (i.e. membership fees- SEACEN, periodicals/ news services/		9,931,481	
Accrued Expenses			
- Adjustment of 2016 expenses paid in 2017	220,137,880	(1,631,898)	218,505,982
Local currency Non-Financial Liabilities			
Miscellaneous liabilities			
Accounts payable	2,466,721,376	69,049,807	2,535,771,183
- Unrecorded expenses due to late submission of DVs (personal, travel, consultancy and other services)		282,366,345	

	Balance, 31 December 2016, before adjustments	Adjustments	Balance, 31 December 2016, as restated
- Under/(over) payment of supervisory fees, penalty, personal services, postage and expressage		604,025	
- Reapplication/adjustment of payment and COA disallowance		71,335	
- Collection of prior year's income on sale of acquired assets & leased properties		(213,754,597)	
- Collection of borrower's share on foreclosure expenses		(237,301)	
Taxes payable	1,294,859,749	15,953,305	1,310,813,054
- Unrecorded expenses due to late submission of DVs (personal, travel and other services)		16,027,962	
- Late recording of collection from rental income		10,891	
- Over payment of personnel services		(85,548)	
Other local currency liabilities	2,275,603,131	11,644,363	2,287,247,494
Deferred income			
- Income realized from amortization and advance rental payment		(369,334)	
Deposit from leased properties			
- Receipt of security deposits		1,785	
Unrealized profit on assets sold			
- Adjustment to correct account balance due to error		12,438,926	
- Collection of prior year's income on sale of acquired assets		(100,569)	
Deferred VAT			
- Over accrual of deferred VAT related to rental from BSP leased properties		(10,891)	
- Adjustments of correct account balance due to error		(284,935)	
Unearned interest income-SCR			
- Adjustment on advance collection of interest		(30,619)	

a. The amount refers to the total assigned value of the Pamintuan Mansion in Angeles City together with thirteen (13) other properties for conveyance to the NG as property dividend for CY 2009 per MBR No. 761 dated 4 June 2010. This was decreased by the dividend deficiency for CY 1995 remitted to the NG in February 2014 through credit to the TOP-TSA maintained with the BSP. The Deed of Conveyance is still with the NG for signature.

b. The PHP317.000 million APEC funds received from the NG per SARO No. F-13-01344 dated 27 December 2013, for the implementation of various PICC building and facilities rehabilitation projects was reclassified from "Donated Surplus Account" to "Deferred Income Account" on 29 December 2016 pursuant to PAS 20, Accounting for Government Grants and Disclosures of Government Assistance. The deferred income is recognized in profit and loss on a systematic basis over the useful lives of the assets.

28. DEPOSITS

	Note	2017	2016 (as restated)
Government deposits			
Short –term	a.1	282,090,448,559	96,542,116,859
Long – term	a.2	28,265,953,299	28,265,953,299
		310,356,401,858	124,808,070,158
Accrued interest		1,352,036,773	957,916,010
Total		**311,708,438,631**	**125,765,986,168**

	Note	2017	2016 (as restated)
Demand Deposits			
Banks/NBQBs-reserve deposits	b.1	1,868,885,238,058	1,633,235,188,335
Fixed term deposit		3,100,000,000	1,878,000,000*
Others		29,748,382,425	29,839,785,860
		1,901,733,620,483	1,664,952,974,195
Accrued interest		354,295,689	344,662,521
Total		**1,902,087,916,172**	**1,665,297,636,716**
IMF and other financial institutions	c.1	**115,052,829,070**	**111,089,598,361**

* *Fixed term deposit with the related accrued interest were presented under government deposits - short term in CY 2016, reclassified under demand deposits in CY 2017, for proper classification.*

a. Government deposits

a.1 Short-term deposits include NG's peso regular and special deposit accounts (except Special Account No. 2) that are paid four per cent (4%) interest rate per annum up to 4 August 2013. The interest rate was reduced from four per cent (4%) to two per cent (2%) effective on 05 August 2013 up to 11 August 2013 as per MBR No. 1250.A dated 01 August 2013. Effective 12 August 2013 and onward, the interest rate used is "One minus the Reserve Requirement (RR) rate multiplied by the Special Deposit Account (SDA) rate (1-RR rate x SDA rate) as approved under MBR Nos. 1301 and 1308 both dated 08 August 2013. Effective 3 June 2016, the Overnight Deposit Facilities (ODF) replaced the SDA per MBR No. 961 dated 2 June 2016, and thus, as the factor in the computation of the interest rate.

As approved by the MB in its MBR Nos. 1934 and 1972.A dated 23 November 2017 and 28 November 2017, respectively, the new remuneration formula shall take effect on 01 December 2017, as follows:

Basis	Rate
Working Balance	ODF rate
Excess of Working Balance	Weighted average of TDF and RRP rates

a.2 The long-term deposit is backed by the PHP50.000 billion 1993 25-Year Treasury Bonds. This deposit earns the same interest rate as that of the Treasury Bonds.

b. Demand deposits of banks/non-banks performing quasi-banking functions (NBQBs)

b.1 Effective 6 April 2012, deposits maintained by banks/NBQBs with the BSP in compliance with the reserve requirements was no longer paid interest as per MBR No. 1924 dated 27 December 2011 and BSP Circular No. 753 dated 29 March 2012. Before its implementation, forty per cent (40%) of the required reserves (excluding liquidity reserve) or demand deposit balance maintained with the BSP, whichever is lower, was paid interest at four per cent (4%) per annum. The interest was previously credited to the demand deposit accounts on a quarterly basis.

c. IMF currency holdings and other financial institutions

c.1 The ROP has been a member of the IMF since 1945. BSP is the designated depository for the IMF's holdings of local currency. The IMF's (Account No. 1) holdings of local currency amounted to an equivalent of SDR1.611 billion as at 31 December 2017.

The balance of IMF's security holdings (SDR92.500 million) that includes 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 2017, the Peso depreciated by PHP1.845 against the SDR, from the peso/SDR exchange rate of PHP66.293/SDR as at 30 April 2016 to PHP68.138/SDR as at 30 April 2017. The peso depreciation resulted in a revaluation loss of PHP3.273 billion. The revaluation is solely attributable to the NG since BSP has already fully paid its credit availments from Standby Credit Facility (SCF) and Extended Fund Facility (EFF) since December 2006. BSP booked the revaluation loss as addition to the receivable from NG under the account "Accounts Receivable-TOP".

As at 31 December 2017, IMF Summary Statement of Position showed that the total IMF currency holdings aggregated to PHP127.230 billion consisting of the balances of "Account Nos. 1 and 2" of PHP114.951 billion, security holdings of PHP6.599 billion and accrued revaluation loss of PHP5.680 billion (covering the period May 2017 to December 2017). The valuation adjustments shall be booked in May 2018 to coincide with the IMF's records.

29. CURRENCY IN CIRCULATION

	2017	2016
Currency notes issued	1,546,644,971,815	1,513,281,498,680
Cash on hand - notes	(311,452,785,345)	(418,957,808,975)
Net notes in circulation	**1,235,192,186,470**	**1,094,323,689,705**
Currency coins issued	32,439,026,669	30,564,915,323
Cash on hand - coins	(148,896,566)	(696,028,195)
Net coins in circulation	**32,290,130,103**	**29,868,887,128**
Currency in circulation, 31 December	**1,267,482,316,573**	**1,124,192,576,833**

Inventory of Currency Issued

	January 1 2017	Requisitions from CID	Retirement	December 31 2017
Currency issued				
Notes	1,513,281,498,680	917,089,065,500	(883,725,592,365)	1,546,644,971,815
Coins	30,564,915,323	1,892,458,746	(18,347,400)	32,439,026,669
	1,543,846,414,003	918,981,524,246	**(883,743,939,765)**	**1,579,083,998,484**
Cash on hand				
Notes				311,452,785,345
Coins				148,896,566
Total Held in BSP-CMSS and RMASS				311,601,681,911
Total currency in circulation				**1,267,482,316,573**

Details of currency in circulation are as follows:

		Quantity (No. of Pcs)		Amount	
	Denomination	**2017**	**2016**	**2017**	**2016**
Notes	100,000	253	127	25,300,000	12,700,000
	2,000	36,304	35,236	72,608,000	70,472,000
	1,000	864,675,838	735,417,109	864,675,838,000	735,417,109,000
	500	470,752,249	445,919,519	235,376,124,500	222,959,759,500
	200	27,502,892	29,515,283	5,500,578,400	5,903,056,600
	100	765,221,555	750,335,884	76,522,155,500	75,033,588,400
	50	550,637,727	610,772,299	27,531,886,350	30,538,614,950
	20	1,273,199,141	1,179,216,173	25,463,982,820	23,584,323,460
	10	1,794,535	65,591,142	17,945,350	655,911,420
	5	1,153,510	29,630,875	5,767,550	148,154,375
		3,954,974,004	3,846,433,647	1,235,192,186,470	1,094,323,689,705
Coins	10 - Piso	831,827,526	716,769,450	8,318,275,260	7,167,694,500
	5 - Piso	2,314,301,862	2,263,112,653	11,571,509,310	11,315,563,265
	1 - Piso	9,332,091,147	8,521,879,193	9,332,091,147	8,521,879,193
	25 - Sentimo	9,214,292,069	8,533,361,376	2,303,573,017	2,133,340,344
	10 - Sentimo	3,771,223,550	3,523,315,736	377,122,355	352,331,574
	5 - Sentimo	2,822,898,082	2,758,090,561	141,144,904	137,904,528
	1 - Sentimo	36,023,903	35,280,006	360,239	352,800
		28,322,658,139	26,351,808,975	32,044,076,232	29,629,066,204
Commemorative coins		4,286,467	4,158,144	246,053,871	239,820,924
		28,326,944,606	26,355,967,119	32,290,130,103	29,868,887,128
Total currency in circulation, 31 December		**32,281,918,610**	**30,202,400,766**	**1,267,482,316,573**	**1,124,192,576,833**

30. REVALUATION OF FOREIGN CURRENCY ACCOUNTS

	2017	2016
Unrealized gains on FX rate fluctuations		
Beginning balance, January 1	324,395,410,766	111,636,138,376
Add:		
Unrealized gains for the year (net of realized transactions)	30,849,731,356	212,759,272,390
Ending balance, December 31	355,245,142,122	324,395,410,766
Unrealized gains(losses) on price fluctuations		
Beginning balance, January 1	(24,868,210,069)	(37,725,112,049)
Add:		
Unrealized gains for the year (net of realized transactions)	51,167,895,517	12,856,901,980
Ending balance, December 31	26,299,685,448	(24,868,210,069)
Unrealized gains on FX rate and price fluctuations, December 31	**381,544,827,570**	**299,527,200,697**

31. CAPITAL ACCOUNTS

	Note	2017	2016 (as restated)
Capital	a	50,000,000,000	50,000,000,000
Surplus/(deficit)	b	(45,608,051,164)	(67,191,015,620)
Unrealized losses on investments in government securities	c	(1,324,097,853)	(2,495,068,387)
Capital Reserves		77,620,662,962	77,697,634,943
Managed Funds			
Fidelity insurance fund		22,247,379,248	22,247,379,248
Currency insurance fund		2,798,665,272	2,798,665,272
BSP Properties self-insurance fund		1,950,000,000	1,950,000,000
Retirement benefit fund		1,096,904,249	1,118,084,425
Directors'/officers' liability		1,092,289,420	1,092,289,420
		29,185,238,189	29,206,418,365
Other Fund			
Fluctuations in price of gold		42,582,587,455	42,582,587,455
Contingencies		3,644,871,739	3,644,871,739
Property insurance		1,600,000,000	1,600,000,000
SPC rehabilitation		556,967,755	610,010,469
Cultural properties acquisition fund		41,664,207	44,413,298
Gold insurance fund		9,333,617	9,333,617
		48,435,424,773	48,491,216,578
Total		**80,688,513,945**	**58,011,550,936**

a. The required capitalization of the BSP in the amount of PHP50.000 billion pursuant to Section 2, paragraph 2 of RA No. 7653, was fully subscribed by the Government of the ROP.

The PHP10.000 billion initial capitalization had been fully paid for by the Government upon effectivity of RA No. 7653 in 1993. An additional capital of PHP10.000 billion from the NG was credited on 04 November 2011 as per the BTr Debit Authority No. A.a 2011-11-2179 dated 04 November 2011, as equity infusion to ensure monetary and financial stability. Subsequently, the BSP received another PHP20 billion capital from the NG in the form of LBP checks dated 28 December 2012 issued by the BTr, in accordance with Special Allotment Release Order (SARO) Nos. F-12-01423 and F-12-01424 issued by the DBM. As indicated in the Debit Authority and SAROs, the releases form part of the fiscal years 2011 and 2012 Disbursement Acceleration Program (DAP) approved by the President on 12 October 2011 and 21 December 2012, respectively. The balance of PHP10.000 billion representing full payment of BSP capitalization was credited on 02 January 2014 per BTr Debit Authority No. GF-2014-01-0013 dated 02 January 2014.

b. In accordance with PAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", the Surplus/(deficit) for calendar year 2016 is restated as follows:

Surplus/(deficit), 1 January 2016, before adjustments	(84,446,183,041)
Add:	
Restatement of adjustments on income and expenses prior to CY 2016	(34,994,381)
Surplus/(deficit), 1 January 2016, as restated	(84,481,177,422)
Add:	
Transactions for CY 2016	(215,991,546)
Surplus/(deficit), 31 December 2016, before net income	(84,697,168,968)
Net income for the period, before adjustments	17,814,958,864
Deduct:	
Restatement on income and expenses for CY 2016	(308,805,516)
Net income for the period, as restated	17,506,153,348
Surplus/(deficit), 31 December 2016, as restated	**(67,191,015,620)**

The details of restated prior period adjustments on income and expenses and transactions for CY 2016 are presented in the Statement of Changes in Equity.

c. The amount represents unrealized gains/(losses) from investment in local government securities classified as available for sale. This account was created to recognize the marking-to-market of investments in government securities.

The movement in reserve for unrealized gains/(losses) on investments is summarized as follows:

	2017	**2016**
Beginning balance	(2,495,068,387)	(2,975,701,228)
Effect of marking to market of gov't securities - Increase in government securities	1,170,970,534	480,632,841
Ending balance	**(1,324,097,853)**	**(2,495,068,387)**

32. INTEREST INCOME AND INTEREST EXPENSES

	2017	**2016 (as restated)**
Interest income from financial assets		
Interest income from foreign currency financial assets		
Investment securities	39,082,998,343	32,188,463,522
Deposit with foreign banks	8,280,763,175	5,485,340,787

	2017	2016 (as restated)
Other foreign currency receivables	3,422,945,805	3,093,868,416
IMF special drawings rights	334,535,745	49,909,691
Gold Deposits	90,455,871	12,905,086
Due from/(to) broker	35,651	110,821
Loans and advances	0	688,593
	51,211,734,590	40,831,286,916
Interest income from local currency financial assets		
Investment securities	5,198,005,600	3,968,050,627
Loans and advances	1,616,248,242	1,756,594,109
Other receivables	244,187,867	288,787,744
	7,058,441,709	6,013,432,480
Total	**58,270,176,299**	**46,844,719,396**

Interest income from foreign currency financial assets

Interest income on investment securities, 31 December 2016, before adjustments	31,644,884,917
Add:	
Reclassification from interest income on deposits with foreign banks	543,578,605
Interest income on investment securities, 31 December 2016, as restated	**32,188,463,522**

Interest income on deposit with foreign banks, 31 December 2016, before adjustments	6,027,148,230
Add/(deduct):	
Receipt of additional interest earned on December 2016 but received in 2017 with no prior period provision for accrual	1,771,162
Reclassification to interest income on investment securities	(543,578,605)
Interest income on deposit with foreign banks, 31 December 2016, as restated	**5,485,340,787**

Interest income from local currency financial assets

Interest income on Loans and advances, 31 December 2016, before adjustments	1,756,161,578
Add:	
Adjustment of prior year's collection and deferred income	432,531
Interest income on loans and advances, 31 December 2016, as restated	**1,756,594,109**

Interest income on other receivables, 31 December 2016, before adjustment	271,808,728
Add:	
Collection of prior period income	16,979,016
Interest income on other receivables, 31 December 2016, as restated	**288,787,744**

	2017	2016 (as restated)
Interest expense from financial liabilities		
Interest expense on foreign currency financial liabilities		
Bonds payable	2,151,804,301	2,067,865,916
Allocation of IMF special drawing rights	312,109,554	46,654,384
Short term deposits	185,301,346	109,133,861
	2,649,215,201	2,223,654,161
Interest expense on local currency financial liabilities		
Deposits of banks and other financial institutions	18,197,309,844	14,434,120,887

Securities sold under agreements to repurchase	8,075,284,334	10,699,075,667
Government deposits	6,582,973,124	6,013,141,890
Special deposit account	0	10,249,990,729
	32,855,567,302	41,396,329,173
Total	**35,504,782,503**	**43,619,983,334**

* *Interest expense on fixed term deposit amounting to PHP45,113,523 was presented under government deposits in CY 2016, reclassified under deposits of banks and other financial institutions in CY 2017, for proper classification.*

Interest expense on short term deposit, 31 December 2016, before adjustment	109,150,453
Deduct:	
Adjustment of December 2016 accrual in foreign currency deposit accounts	16,592
Interest expense on short term deposit, 31 December 2016, as restated	**109,133,861**

33. OTHER OPERATING INCOME

	Note	2017	2016 (as restated)
Printing, minting and refinery		239,482,818	661,162,216
Fees – local			
Banking supervision/clearing/license fees		4,503,670,778	4,247,746,011
Penalties and late charges		585,736,556	1,223,936,599
Transaction fee - PhilPaSS		142,334,446	141,635,235
Processing and filing fees		63,625,538	170,668,109
Others		128,366,827	221,949,558
		5,423,734,145	6,005,935,512
Other income			
Rental on building and facilities		736,828,130	273,784,691
Income on acquired assets		537,205,699	579,828,722
Rental on acquired assets		21,116,361	41,289,005
Other miscellaneous income	a	12,049,258,393	347,142,193
		13,344,408,583	1,242,044,611
Total		**19,007,625,546**	**7,909,142,339**

a. The amount includes income from demonetized new design series (NDS) currency notes not returned to BSP after 29 December 2017 aggregating PHP11,603,788,630 pursuant to MBR No. 258 dated 15 February 2018.

	Banking Supervision/ Clearing/License Fees	Penalties and Late Charges
Balances, 31 December 2016, before adjustments	4,247,747,108	1,209,064,861
Add/(deduct):		
Effect of restatement of prior period adjustments:		
Recomputation of supervisory fees	(1,097)	
Adjustments on penalties (i.e. liquidated damages, violation of BSP issuances and late delivery of purchases)		(741,308)
Collection of period income from installment sales		15,613,046
	(1,097)	14,871,738
Balances, 31 December 2016, as restated	**4,247,746,011**	**1,223,936,599**

	Income on Acquired Assets	Rental on Acquired Assets	Other Miscellaneous Income
Balances, 31 December 2016, before adjustments	570,076,858	41,380,268	346,685,863
Add/(deduct):			
Effect of restatement of prior period adjustments:			
Prior year's sale of acquired asset	7,823,514		
Adjustment on collection of income, receivable and related allowances	1,949,400		(24,555)
Refund of deposit due to sale of property	(21,050)	(91,263)	
Disposal of various properties			(95,122)
Client share on real estate tax and adjustment on collection/rentals			576,007
	9,751,864	(91,263)	456,330
Balances, 31 December 2016, as restated	**579,828,722**	**41,289,005**	**347,142,193**

34. CURRENCY PRINTING AND MINTING COST

	2017	2016
Notes	5,710,883,304	6,816,648,707
Coins	2,350,054,600	2,422,854,648
Total	**8,060,937,904**	**9,239,503,355**

35. OPERATING EXPENSES

	2017	2016 (as restated)
Personnel services, development and training	13,443,159,279	12,601,894,529
Administrative expenses	5,964,752,270	3,192,056,038
Depreciation/amortization	833,026,516	776,029,848
Loss/(recovery) due to/from market decline	514,813,200	(36,356,187)
Total	**20,755,751,265**	**16,533,624,228**

Effective January 2015, the PICCI expenses with similar accounts to BSP are consolidated on a line-by-line basis while dissimilar items are lodged under the summary account “Miscellaneous Expense-PICCI”.

a. PERSONNEL SERVICES

	2017	2016 (as restated)
Salaries and wages	9,404,363,130	9,035,746,876
Defined contribution plans	2,238,331,495	2,226,393,927
Post-retirement benefits	859,126,800	378,481,700
Social security contribution	500,514,543	502,650,502
Sickness and death benefits	267,326,812	275,430,747
Personnel development and training	164,815,694	170,740,735
Medical and dental benefits	8,680,805	12,450,042
Total	**13,443,159,279**	**12,601,894,529**

The following personnel services account balances for the year ended 31 December 2016 are restated as follows:

Accounts	Balance, 31 December 2016, before adjustments	Prior Period Adjustments	Balance, 31 December 2016, as restated
Salaries and wages	9,031,906,522	3,840,354	9,035,746,876
Sickness and death benefits	262,738,054	12,692,693	275,430,747
Personnel development and training	165,707,994	5,032,741	170,740,735
Medical and dental benefits	12,433,014	17,028	12,450,042
	9,472,785,584	**21,582,816**	9,494,368,400

b. ADMINISTRATIVE EXPENSES

	2017	2016 (as restated)
Taxes and licenses	2,887,863,853	143,548,257
Repairs and maintenance	547,800,262	600,882,695
Traveling expenses	391,241,683	324,351,967
Currency and gold operations expenses	320,608,979	342,834,211
Water, illumination and power services	302,462,726	291,560,865
Communication services	264,040,777	278,078,120
Acquired assets expenses	212,336,705	240,429,643
Consultants and specialist services	117,855,649	196,429,564
Fidelity and property insurance	67,053,625	71,507,334
Supplies and materials	62,936,723	50,776,465
Auditing services	50,216,548	45,492,131
Conference, workshop and convention expenses	46,340,402	61,399,379
Rentals	27,208,582	26,992,790
Grants, subsidies and contributions	18,376,868	32,606,202
Bad debts	9,376,925	6,322,856
Ammunitions	6,655,863	2,495,692
Discretionary expenses	3,288,773	4,290,546
Others	629,087,327	472,057,321
Total	**5,964,752,270**	**3,192,056,038**

The following administrative expense account balances for the year ended 31 December 2016 are restated as follows:

Accounts	Balance, 31 December 2016, before adjustments	Prior Period Adjustments	Balance, 31 December 2016, as restated
Taxes and licenses	143,109,735	438,522	143,548,257
Repairs and maintenance	470,002,481	130,880,214	600,882,695
Traveling expenses	322,468,559	1,883,408	324,351,967
Currency and gold operations expenses	318,891,889	23,942,322	342,834,211
Water, illumination and power services	290,413,573	1,147,292	291,560,865
Communication services	266,449,498	11,628,622	278,078,120
Acquired assets expenses	247,514,743	(7,085,100)	240,429,643
Consultants and specialist services	127,767,193	68,662,371	196,429,564
Supplies and materials	50,574,295	202,170	50,776,465
Auditing services	39,071,718	6,420,413	45,492,131

Accounts	Balance, 31 December 2016, before adjustments	Prior Period Adjustments	Balance, 31 December 2016, as restated
Conference, workshop and convention expenses	60,458,764	940,615	61,399,379
Grants, subsidies and contributions	24,578,404	8,027,798	32,606,202
Ammunitions	2,497,702	(2,010)	2,495,692
Discretionary expenses	4,181,126	109,420	4,290,546
Others	401,515,590	70,541,731	472,057,321
Total	**2,769,495,270**	**317,737,788**	**3,087,233,058**

Taxes and licenses account balances for CYs 2017 and 2016 are reduced by the amounts of final taxes paid on interest income/discounts (presented as a separate line item in the Income Statement) and taxes and licenses paid on acquired assets (included in the total acquired assets expenses as shown in the succeeding table).

The acquired assets expenses consist of the following:

	2017	2016 (as restated)
Taxes and licenses	135,273,528	112,753,470
Security services	48,066,240	89,902,297
External professional services	16,864,237	21,049,379
Association condominium fees	9,263,681	9,949,759
Fidelity insurance	2,300,053	2,992,139
Legal fees	878,458	1,621,697
Repairs and maintenance	7,390	703,677
Light, fuel and water	490	57,911
Foreclosure expenses	(317,372)	1,399,314
Total	**212,336,705**	**240,429,643**

	Foreclosure Expenses	Fidelity Insurance
Balances, 31 December 2016, before adjustments	8,496,163	2,980,390
Add/(deduct):		
Effect of restatement of prior period adjustments:		
Unrecorded expenses (DVs submitted beyond the cut-off period)	267,928	11,749
Capitalization of foreclosure expenses to investment property	(7,101,829)	
Expenses incurred reimbursed by borrower	(262,948)	
	(7,096,849)	11,749
Balances, 31 December 2016, as restated	**1,399,314**	**2,992,139**

c. DEPRECIATION/AMORTIZATION

Depreciation of BPFFE and amortization of CNAS for the year ended 31 December 2016 are restated as follows:

	Depreciation	Amortization	Total
Depreciation expense, 31 December 2016, before adjustments	695,174,887	74,635,108	769,809,995
Add/(deduct):			
Reclassification from building improvement in progress to building improvement	3,696,434		3,696,434
Change in accounting policy	2,551,814		2,551,814
Reclassification from furniture & equipment to machinery & equipment	798,836		798,836
Additional depreciation corresponding to final payment	14,070		14,070
Adjustment on double booking (APEC related transaction)	(634,919)		(634,919)
Net adjustment due to wrong computation of depreciation	(206,382)		(206,382)
	6,219,853	0	6,219,853
Depreciation expense, 31 December 2016, as restated	**701,394,740**	**74,635,108**	**776,029,848**

36. PROFIT FOR DISTRIBUTION

The BSP shall remit fifty per cent (50%) of its net profits to the NG as dividend to be computed pursuant to RA 7656 (The Dividend Law) and its Revised IRR.

	2017	2016 (as restated)
Net income for the year	**23,505,835,485**	**17,506,153,348**

In accordance with PAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", the Net Income for calendar year 2016 was restated as shown in Note 31(b). The details of restated prior period adjustments on income and expenses are presented in the Statement of Changes in Equity.

37. TRUST FUNDS

	Note	2017	2016
Comptrollership – Trust Fund Accounting System	a	25,052,210,222	25,053,146,602
Supervision & Examination Department-Rural Banks	b	2,217,870,300	2,218,083,061
Treasury Department-Domestic	c	1,820,697,113	1,890,260,323
Department of Loans and Credit-Accounting	d	500,750,431	468,672,526
FAD-General Accts. Financial Reports & Group	e	0	2,224,341
Total		**29,591,528,066**	**29,632,386,853**

a. This consists of BSP self-insurance fund established for retirement benefits under RA 1616, shipment of currency and additional fidelity insurance bond for accountabilities in excess of PHP100.000 million.

b. These are local counterpart funds, special agricultural rehabilitation funds and rural bank trust funds for various lending programs of the government and capital assistance to rural banks.

c. This pertains to Keppel Monte fund created to implement rehabilitation of Monte de Piedad Savings Bank; Comprehensive Agricultural Loan Fund (CALF) and Agro Industry Modernization Credit and Financing Program (AMCFP) of the Agricultural Credit Policy Council (ACPC) for various financing programs.

d. This refers to Educational Loan Guarantee Fund (ELGF) and other funds for the account of various banks.

e. This represents Personnel Human Resource Development (PHRD) grant from the World Bank-International Bank for Reconstruction and Development (WB-PHRD) for various training seminars on upgrading of financial system framework of the ROP. The outstanding balance was closed on 29 September 2017 upon confirmation with the Department of Finance (DOF) and other concerned BSP departments that the remaining fund after the completion of the project was already credited to the BTr – General Fund.

38. CASH AND CASH EQUIVALENTS

	2017	2016
Foreign currency assets		
Foreign investments - readily convertible to cash	1,973,881,080,636	1,933,907,438,824
Deposit with foreign banks	830,286,363,585	896,876,964,590
Other cash balances (foreign currency on hand)	233,178,717	258,108,080
Non-IR foreign currency on hand	32,471,204	34,551,723
Other FX receivable - due from FX banks - special account	26,194,879	25,918,637
	2,804,459,289,021	2,831,102,981,854
Local currency assets		
Government securities	224,499,338,802	223,132,314,945
Other receivables - due from local banks	599,998,306	529,731,950
Other receivables - revolving fund	259,295,342	259,402,067
Miscellaneous assets - checks and other cash Items	219,012	(2,522,128)
	225,358,851,462	223,918,926,834
Demand liabilities		
Deposit of banks and other financial institutions	(2,160,026,933,314)	(2,533,893,856,319)
Government demand deposits	(281,927,784,383)	(95,157,452,682)
	(2,441,954,717,697)	(2,629,051,309,001)
Cash and cash equivalents, 31 December	**587,863,422,786**	**425,970,599,687**

39. RECONCILIATION OF OPERATING CASH FLOW WITH REPORTED NET INCOME

	2017	2016 (as restated)
Reported operating surplus	23,505,835,485	17,506,153,348
Operating cash flows from changes in asset and liability balances	(11,234,509,954)	(92,830,763,248)
Add/(deduct) non-cash items		
Depreciation/amortization	833,026,516	776,029,848
Provision for probable loss	65,872,850	441,854,974
Recovery from provision for market decline	514,813,200	(36,356,187)
Income tax expense due to movement in deferred income tax (DIT)	1,140,561,882	106,502,838

	2017	2016 (as restated)
Amortization of discount/premium on bonds payable	397,890	(4,072,712)
	2,554,672,338	1,283,958,761
Add/(deduct) movements in other working capital items:		
Increase/(decrease) in miscellaneous liabilities	798,438,022	(29,580,389)
Increase/(decrease) in interest payable	41,137,407	(1,009,971,940)
Increase in interest receivable	(1,269,123,358)	(2,713,536,160)
Decrease in accounts receivable	277,117,989	611,247,258
	(152,429,940)	(3,141,841,231)
Add/(deduct) investing and financing activities		
Net realized gain on FX rates fluctuation	(15,478,154,129)	(19,123,837,557)
Net cash used in operating activities	**(804,586,200)**	**(96,306,329,927)**

40. TAXES

40.1 Income taxes

The reconciliation of the provision for (benefit from) income tax computed at the statutory income tax rate shown for financial statement purposes to the actual provision (benefit) computed for income tax purposes is as follows:

	2017		2016 (as restated)	
	Amount	**Percent**	**Amount**	**Percent**
Provision for income tax computed at the statutory income tax rate, before adjustments	7,393,919,210		5,376,438,511	
Add/(deduct):				
Restatements to financial statements computed at statutory rate			(92,641,655)	
Provision for income tax computed at the statutory income tax rate, as restated	7,393,919,210	30.00	5,283,796,856	30.00
Additions to/(reductions in) income tax resulting from the tax effects of:				
Non-deductible national taxes	1,155,001,080	4.69	257,846,180	1.46
Provision for allowance for doubtful accounts	57,758,552	0.23	105,459,641	0.60
Provision for unused leave credits	275,562,025	1.12	139,685,523	0.79
Interest Income subject to Final Tax	(1,559,401,680)	(6.33)	(1,190,415,688)	(6.76)
Prior year reversal of allowance for doubtful accounts	(21,810,676)	(0.09)	(67,787,701)	(0.38)
Actual leave credits paid	(127,330,264)	(0.52)	(103,250,731)	(0.58)
Income related to the sale of acquired assets	(150,862,806)	(0.61)	(167,202,814)	(0.95)
Provision for loss on market decline	154,443,960	0.63	(10,906,856)	(0.06)
PICC income and expenses	(127,825,849)	(0.52)	2,421,471	0.01
Debits on valuation allowance credited to Miscellaneous Income	(928,861)	0	(576,630)	0
Written-off accounts	(46,790,414)	(0.19)	(179,389,344)	(1.02)
Net operating loss carry-over applied in current year	(5,851,403,643)	(23.74)	(4,069,679,907)	(23.11)
	(6,243,588,576)	(25.33)	(5,283,796,856)	(30.00)
Actual provision for corporate income tax	**1,150,330,634**	**4.67**	**0**	**0**

Also presented above is the numerical reconciliation between the average effective tax rate and the applicable tax rate of thirty per cent (30%). The average effective tax rate, which is computed by dividing the tax expense (benefit) by the net financial income/(loss), explains the relationship between the tax expense (benefit) and the net financial income/(loss).

40.2 Deferred income taxes

The significant components of the Bank's deferred tax assets (DTA) as at 31 December are as follows:

	2017	2016
Deferred tax asset		
Allowance for doubtful accounts	1,756,087,594	1,767,858,984
Unused leave credits	893,669,125	745,437,364
Tax overpayments	3,489,790,111	4,262,855,229
Excess minimum corporate income tax (MCIT)	0	377,265,517
PICC unused tax credit (for consolidation purposes)	8,256,573	40,753,796
Total deferred income tax assets	**6,147,803,403**	**7,194,170,890**

The movement in DTA account is summarized as follows:

	2017	2016
Net balance at the beginning of the year, before adjustments	7,194,170,890	7,269,115,401
Add/(deduct):		
Excess Minimum corporate income tax (MCIT)	0	377,265,517
Tax Overpayments utilized to pay tax due	(773,065,117)	(377,265,517)
Excess MCIT carried forward and credited against normal income tax	(377,265,517)	0
Temporary differences charged to income tax expense	136,460,371	(106,502,838)
PICC unused tax credits (for consolidation purposes)	(32,497,224)	31,558,327
Sub-total	(1,046,367,487)	(74,944,511)
Net balance at the end of the year	**6,147,803,403**	**7,194,170,890**

Income tax overpayments recorded under the DTA account comprise the excess of BSP's quarterly payments of income taxes under regular rate over the regular income tax computed in its annual adjusted return. These overpayments are carried over as tax credits for the next taxable periods.

Excess MCIT, on the other hand, is the excess of the MCIT over the RCIT, which can be carried forward and credited against the computed RCIT for the three (3) immediately succeeding taxable years.

The temporary differences in the DTA charged to income tax expense comprise the following:

	2017	2016
Provision for allowance for doubtful accounts	57,758,552	104,815,983
Provision for unused leave credits	275,562,025	139,685,523
Reversal of account valuations	(22,739,528)	(68,364,270)
Actual leave credits paid	(127,330,264)	(103,250,731)
Written-off accounts	(46,790,414)	(179,389,343)
Temporary differences charged to income tax expense	**136,460,371**	**(106,502,838)**

Details of outstanding excess MCIT as at 31 December are as follows:

Year Incurred	2017	2016
2016	377,265,517	377,265,517
Applied in current year		
2016	(377,265,517)	
	0	**377,265,517**

Details of outstanding net operating loss carry over (NOLCO) as at 31 December are as follows:

Year Incurred	2017	2016
2013		20,250,633,213
2014	11,119,492,982	11,119,492,982
2015	8,385,185,827	8,385,185,827
	19,504,678,809	39,755,312,022
Applied in current year		
2013		(13,565,599,690)
2014	(11,119,492,982)	
2015	(8,385,185,827)	
Expired Portion		
2013		(6,685,033,523)
Outstanding NOLCO	0	19,504,678,809
Tax Rate	30%	30%
	0	**5,851,403,643**

NOLCO applied in 2016, before adjustments		13,872,305,036
Add/(deduct):		
Net restatement and adjustments on:		
Income from foreign currency financial assets		(5,128,837)
Income from local currency financial assets		17,411,547
Other income, net of restatement on income subjected to final tax		
Net restatement	10,116,931	
Less: Restatement on income subjected to final tax	9,552,990	563,941
Banking supervision/clearing/license fees		14,870,641
Expenses related to foreign currency financial liabilities		1,617,819
Expenses related to local currency financial liabilities		(2,153,160)
Personnel services		(21,582,816)
Administrative expenses, net of restatement on non-deductible expenses		
Net restatement	(317,737,788)	
Less: Restatement on non-deductible expenses	(11,653,160)	(306,084,628)
Depreciation/amortization		(6,219,853)
		(306,705,346)
NOLCO applied in 2016, as restated		13,565,599,690

PAS 12 provides that DTA shall be recognized for the carry forward of unused tax losses to the extent that it is probable that the future taxable profit will be available against which the unused tax losses can be utilized. DTA related to NOLCO as shown above are not recognized as it is believed that future taxable profit will not be sufficient against which these unused tax losses can be applied. As further provided in PAS 12, the existence of unused tax losses is strong evidence that future taxable profits may not be available.

Similarly, the mark-to-market valuation of domestic securities booked directly to equity under the account "Unrealized Losses on Investments in Government Securities" are not considered as DTA components as the future taxable profit will not be sufficient to absorb these deductible temporary differences. The deferred tax asset that should have been recognized on the said mark-to-market account is PHP0.397 billion in 2017 and PHP0.749 billion in 2016.

Revaluation of International Reserve (RIR) account amounting to PHP381.578 billion is not included as a DTA component pursuant to Section 45 of RA 7653 which states that "profits or losses arising from any revaluation of the Bangko Sentral's net assets or liabilities in gold or foreign currencies with respect to the Philippine peso shall not be included in the computation of the annual profits and losses of the Bangko Sentral".

40.3 Additional tax information under revenue regulation (RR) No. 15-2010

In compliance with the requirements set forth by RR No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year 2017.

a. The BSP is a VAT-registered company with respect to its proprietary activities, with VAT output declared on these activities for the year amounting to PHP0.022 billion based on the rental of owned/acquired properties, sale of printing and other services, and other income from proprietary activities reflected in the Miscellaneous Income account of PHP0.183 billion.

b. The BSP has exempt sales corresponding to the sale of its real and other properties acquired (ROPA), classified as governmental functions exempt from VAT, pursuant to Revenue Memorandum Circular No. 65-2008 dated 5 September 2008. These properties are treated as capital assets and the sales were subjected to Capital Gains Tax.

c. Input VAT claimed during the year amounted to PHP0.397 million recognized from local purchases of various goods and services.

d. All other taxes, local and national included in the Taxes and Licenses account under Operating Expenses in the Income Statement, excluding taxes and licenses paid by the PICCI, are as follows:

	2017	2016 (as restated)
Local Taxes		
Real estate tax	162,813,257	138,758,874
Taxes and licenses related to acquired assets	46,706,599	46,726,800
Others (registration fees, licenses, permits)	1,647,441	1,718,917
Total	**211,167,297**	**187,204,591**
National Taxes		
Capital gains tax on sale of acquired assets	88,566,929	66,026,671
Total	**88,566,929**	**66,026,671**
Compromise Settlement of Tax Assessments		
Final Withholding of Percentage Tax	2,226,508,050	0
Final Withholding Tax	440,380,578	0
Expanded Withholding Tax	42,672,517	0
Value-Added Tax (VAT)	10,886,235	0
Final Withholding of VAT	618,509	0
Total	**2,721,065,889**	**0**

Others (registration fees, licenses, permits), 31 December 2016, before adjustments	1,280,394
Add:	
Net Restatement of prior period adjustments	438,523
Others (registration fees, licenses, permits), 31 December 2016, as restated	**1,718,917**

e. The amount of withholding taxes and collected excise tax which are paid/ accrued for the year amounted to:

	2017	2016
Final withholding tax on income	6,692,201,682	8,386,764,183
Withholding tax on compensation and benefits	2,425,676,311	2,297,675,300
VAT and other percentage tax withheld	1,484,338,396	1,918,714,774
Expanded withholding tax	108,403,015	97,374,711
Excise tax collected	17,067,424	14,895,860
Total	**10,727,686,828**	**12,715,424,828**

f. BSP has two (2) pending cases with the Court of Tax Appeals (CTA) pertaining to deficiency taxes assessed by BIR for taxable years 2009 and 2010:

(1) In 2013, the BSP was issued a Final Assessment Notice (FAN) for internal revenue taxes for taxable year 2009. The BSP partially resolved the tax audit for taxable year 2009 with payments for deficiency internal revenue taxes in the amount of PHP3.838 billion. The 2009 BIR assessment for final withholding of percentage tax amounting to PHP1.335 billion basic tax, and PHP1.037 billion interest as of 29 November 2013 is subject of the case pending with the CTA *En Banc.*

(2) After the BSP filed a protest to the 27 December 2013 FAN issued by the BIR against BSP for 2010 deficiency taxes, the BSP, received on 2 May 2014 a Final Decision on Disputed Assessment (FDDA) amounting to PHP9.399 billion with interest of PHP6.242 billion computed as of 30 June 2014 and surcharges of PHP1.496 billion.

To appeal the FDDA, the BSP filed the case entitled Bangko Sentral ng Pilipinas vs. Commissioner of Internal Revenue docketed as CTA Case No. 8827.

In relation to the partial resolution of tax audit for taxable year 2009, the BIR issued a Certificate of Availment approving BSP's application for compromise settlement amounting to PHP1.272 billion for the expanded withholding tax on domestic purchases of gold by BSP. Thus, reconsidering the Notice of Denial issued on the matter in 2016.

The unresolved items in the tax audits for taxable years 2009 and 2010 which became subject of the tax cases were covered by settlements with the BIR, under the primary consideration of assisting the national government in its collection efforts. The settlement amounted to PHP0.667 billion and PHP2.054 billion for taxable years 2009 and 2010, respectively.

The BSP is also currently undergoing audit of its alleged tax liabilities covering taxable years 2011 and 2012.

(1) For taxable year 2011, the BSP received on 13 June 2017 the BIR's Preliminary Assessment Notice (PAN) dated 09 June 2017 for alleged deficiency taxes aggregating PHP34.963 billion, inclusive of interest, surcharges and compromise penalty. On 28 June 2017, the BSP submitted its reply to the BIR's PAN, requesting reconsideration of the deficiency tax assessment.

    Subsequently, the BSP received on 28 September 2017 BIR's Formal Letters of Demand for the alleged deficiency taxes. In reply thereto, the BSP filed on 27 October 2017 its protest in the nature of a request for reinvestigation. On 22 December 2017, the BSP submitted the relevant supporting documents in support of the protest.

(2) For taxable year 2012, the BSP received on 19 January 2017 the PAN issued by the BIR assessing the BSP for alleged deficiency taxes amounting to PHP103.013 billion, inclusive of interest. On 03 February 2017, the BSP submitted its reply to the BIR's PAN requesting reconsideration of the deficiency tax assessment.