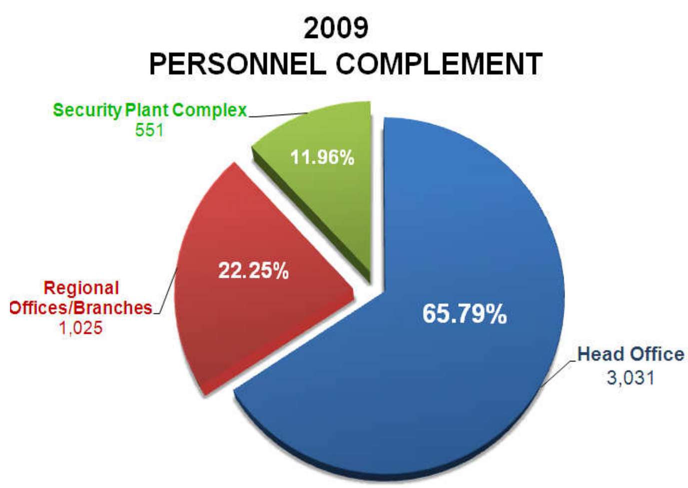
BANGKO SENTRAL NG PILIPINAS
NOTES TO THE FINANCIAL STATEMENTS
(All amounts in thousand unless otherwise stated)

1. GENERAL INFORMATION

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

The Bangko Sentral ng Pilipinas has its principal office at A. Mabini and P. Ocampo Streets, Manila, Philippines. It has regional offices and branches in 21 locations, and a security printing facility (Security Printing Complex or SPC) at Quezon City, Philippines. It likewise owns the PICC Inc., a wholly owned subsidiary that manages and operates the Philippine International Convention Center. The filled personnel complement of BSP based on location decreased by 6.89% and are distributed as follows:

Location	CY 2009	CY 2008	Change
Head Office	3,031	3,318	-287
Regional Offices/ Branches	1,025	1,048	-23
Security Plant Complex	551	582	-31
Total	**4,607**	**4,948**	**-341**



In these financial statements, the Bangko Sentral ng Pilipinas is also referred to as the "BSP" or the "Bank". The Monetary Board has reviewed and approved the release of the accompanying financial statements on 09 September 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

Under Philippine Accounting Standards (PAS) 1, financial statements shall not be described as complying with Philippine Financial Reporting Standards (PFRS)/PAS unless they comply with all the requirements of PFRS. The BSP's financial statements have been prepared in compliance with some, but not all, PFRS and PAS as aligned with the provisions of the International Financial Reporting Standards (IFRS). References to the preparation of these statements in accordance with the PFRS/PAS should be viewed with this qualification and related disclosures. The BSP has adopted the applicable PAS/PFRS consistent with those of the previous financial years and compliance thereto mentioned in the specific accounts where applicable.

In accordance with PAS 1 (Revised 2009), *Presentation of Financial Statements* (effective from January 1, 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 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 operations). 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

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

Unless otherwise stated, the CY2009 balances are prepared under the historical cost convention and/or applicable PFRS/PAS.

2.2 Consolidation

The BSP's financial statements include the accounts of the Bank and the PICCI as of 31 December 2009. 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.

2.3 Subsidiary

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

As stipulated under a management contract, BSP wholly owns Philippine International Convention Center Incorporated (PICCI). The PICCI Board of Directors is composed of two members from the BSP, the Governor as Chairman and Deputy Governor, Resource Management Sector as Vice-Chairman and five 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. PICCI, is tasked to manage and administer the business affairs of the Philippine International Convention Center and is entitled to a management fee as compensation equivalent to three per cent of gross income payable quarterly and five per cent 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. BSP provides PICCI its annual budget for capital expenditures and operational expenses. The PICCI approved budget was accounted under "Due from PICCI" for the capital expenditures and under "Advances to PICCI" for the operational expenses.

In accordance with the provisions of PAS 27, the "Investment in PICCI" account was created to reclassify the PHP50.000 million investment of the BSP in PICCI consisting of 500 shares of stock with par value of PHP100 thousand which was previously lodged under the "Stocks and Other Securities" account. The balance sheet accounts (assets, liabilities and equity) of PICCI are consolidated line by line of like items with BSP. Income and expenses are consolidated under two summary accounts, namely: "Miscellaneous Income-PICCI" and "Miscellaneous Expenses-PICCI", respectively. BSP recognizes income only upon receipt of dividends from PICCI.

2.4 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.

2.5 Currency of presentation

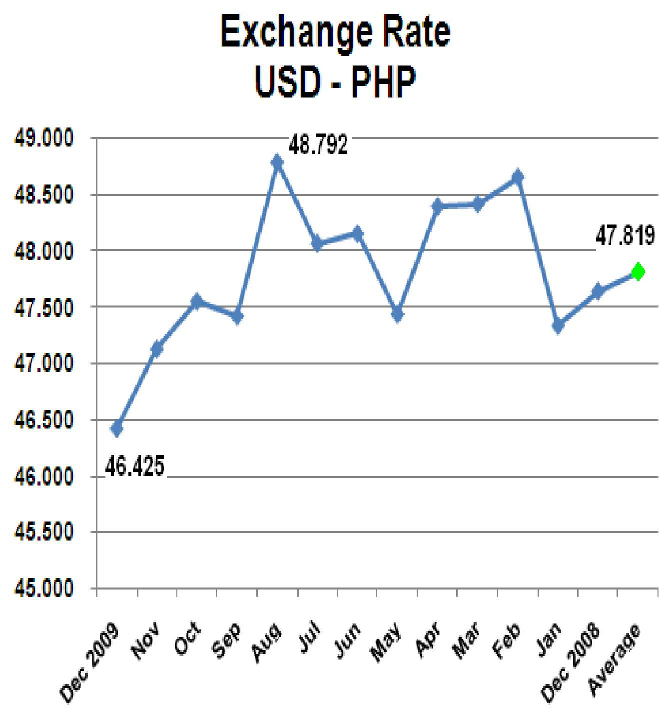
All amounts are expressed in Philippine Pesos (PHP), the domestic currency, unless specifically disclosed. The currency symbol "PHP" is used in the financial statements to conform with universal currency symbols.

2.6 Foreign currency translation

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

Exchange rates used are based on the published BSP Reference Rate Bulletin. Philippine peso versus the US dollar appreciated by 2.56 per cent from January's PHP47.340 to December's PHP46.425. The end-December 2009 rate of PHP46.425 was used in the financial statements. Following were the prevailing end-month exchange rates in 2009.

For the Month Ended	Exchange Rate USD-PHP	Change
2009		
December	46.425	(0.707)
November	47.132	(0.425)
October	47.557	0.133
September	47.424	(1.368)
August	48.792	0.721
July	48.071	(0.087)
June	48.158	0.717
May	47.441	(0.96)
April	48.401	(0.021)
March	48.422	(0.24)
February	48.662	1.322
January	47.340	(0.307)
2008		
December	47.647	
AVERAGE	47.819	



2.7 Foreign exchange gains and losses

The realized gains or losses arising from 'translation" of the Bank's net assets and liabilities (including derivative instruments) in foreign currencies with respect to the Philippine peso are presented in the income statement under the account "Gain/loss on fluctuation in FX rates" with an offsetting charge or credit to the appropriate revaluation account in the balance sheet. This is in compliance with Sec. 45 of R.A. 7653 which provides that the revaluation account as a frozen account shall neither be credited nor debited for any other purpose.

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

The Monetary Board approved guidelines on the treatment of net realized losses from fluctuations in FX rates at year end, as follows:

1. In case where no additional periodic/quarterly provision for capital reserves-fluctuations in FX rates was set up during the year, the whole amount of net realized losses at year-end shall be closed against the following capital accounts in order of application:

a. Capital reserve-reserves for contingency account to the extent of previously booked capital reserve balance, if any.

b. Capital reserve-fluctuation in FX rates account for the remaining uncovered balance of net realized loss from fluctuations in FX rates, if any, or for the whole amount of the net realized loss, and .

c. Surplus account for any remaining uncovered balance net loss, if any, after applying the capital reserves for contingencies and capital reserves for fluctuations in FX rates.

2. In case periodic/quarterly additional provisions are set up during the year, capital reserve provision booked during the year shall be applied first to the net realized loss through reversal of entries for capital provision originally recognized during the year. If there is still any resulting net realized losses after the reversal, these shall be closed following order of application enumerated in No. 1 above.

3. Where there is substantial net realized gain from exchange rate differential resulting from peso depreciation against US dollar and other FX currencies, booking of additional provision for capital reserves-fluctuation in FX rates outside the prescribed quarterly timeline is authorized subject to approval of the Monetary Board.

2.8 Interest income and expenses

The Bank follows the accrual basis of accounting. Interest income and expenses are recognized in the income statement for all instruments measured at fair market value/amortized cost using the effective interest rate method. Since CY 2008, adjustments were effected to account for the change from straight line to effective interest rate method in compliance with par. 47, PAS 39. Interest on financial liabilities is accrued monthly and discounts/premiums on bonds payable is amortized semi-annually on interest coupon date based on the term of the loan. The difference between the estimated accrued interest payable or amortized discount / premiums and the actual interest is recognized in the income statement as an adjustment to the interest expense and its corresponding interest payable.

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

On domestic transactions, interests and discounts/premiums on financial liabilities are accrued/amortized monthly based on the term of the loan.

2.9 Fee income

Entities, which are subject to examination by the BSP, pay an annual supervisory fee (ASF) in an amount equivalent to a percentage of their preceding year's average assessable assets (AAA) and collection thereof shall be within the current year as initiated for 2007(ASF). The supervisory fees are recognized on an accrual basis. Transaction fees related to the use of the BSP's payments system are recognized on value date and directly charged against the demand deposit account of the bank maintained with the BSP.

2.10 Financial assets

The Bank classifies its financial assets in the following categories: available-for-sale financial assets, loans and other receivables. The recognition and measurement is in accordance with PAS 39.

2.10.1 Available-for-sale (AFS)

Available-for-sale financial assets are foreign currency assets (including gold) forming part of the international reserves, and domestic securities held by the BSP as they may be sold in response to needs of liquidity in the exercise of its functions under the Act.

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

Gold is initially recognized at cost in USD and translated to the local currency using the closing exchange rate at reporting date. Changes in prices and exchange rates are calculated as the difference between the current market values against the moving average costs. Gold swaps with non-central banks are treated as collateralized loan in which the foreign currency proceeds are added to international reserves with a corresponding foreign currency liability recognized. Liabilities arising from gold swap transactions entered in 2008 were fully settled in October 2009.

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

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

2.10.2 Loans and receivables

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

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

Under PAS 39 – Impairment of Assets- impairment is recognized if there is objective evidence that an impairment loss on loans has been incurred.

Effective 31 December 2009, policy on loan impairment provisioning (aligned with PAS/IAS39) was adopted where "*the amount of loss is measured by computing the difference between original or carrying amount and estimated recoverable amount* ".

As a general rule, loans under current status are not subject to impairment unless presence of impairment indicators exists. Below shows how the recoverable amount is determined:

Borrower's Bank Status	Percentage of collection
Recently closed banks	78% for total collectibles
BSP claims filed with PDIC	39% based collection experience less allowance of 25%
Closed banks with pending cases	0% recovery rate

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

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

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

Loans and advances as of year-end comprise 31.87 per cent current and 68.13 per cent non-current accounts. Current accounts are to be recovered or settled within twelve months from date of grant while non-current accounts are to be recovered or settled beyond twelve months.

2.11 Sale and repurchase agreements

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

Securities sold under agreements to repurchase remain part of the government securities inventory but are reclassified in the financial statements every end of the month. The domestic securities account is reclassified using the accounts: “Domestic Securities Sold under Repurchase Agreements” for securities used as collateral in the RRP transactions and “Domestic Securities-Free” for securities which are free from any encumbrance. The reclassification entry is reversed every first working day of the following month. The obligation to repurchase is recognized as a liability under the account Domestic Securities Sold under Agreements to Repurchase. The difference between the sale and repurchase price represents interest expense and is recognized in the income statement.

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

2.12 Bank premises, furniture, fixtures, and equipment

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

	Estimated Useful Life (No of Years)
Asset Group	**2009**
Buildings – BSP Constructed	**30**
BSP Acquired or Purchases	**25**
Property Improvements (building, land, leasehold and office)	**10**
Computer Hardware & Software	**5**
Plant Machinery & Equipment–Minting	**10**
Furniture and Equipment	**5**
Motor Vehicles	**7**
Armored Vehicles	**10**

Construction-in-progress, which covers BSP-owned buildings and property improvements under construction, is valued at cost. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated but reclassified to "Buildings" and appropriate "property improvements" account upon payment of at least 95 per cent accomplishment by the contractor/s and the receipt of the recommendation from the proponent department/office to reclassify the account. The remaining cost of the project shall be booked directly to "*Buildings"* and improvements accounts based on the settlement/presentation of final billing and notice of project proponent. The booking to "Buildings" and property improvement accounts include the outstanding balance of the approved contract price.

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

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher amount between an asset's fair value less costs to sell and value in use.

2.13 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. (Note 2.14)

2.14 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. These assets are being held until such time that these are readily available for disposition and are reclassified to acquired assets held for sale.

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

Investment properties are not depreciated. However, periodic appraisal of these assets is conducted by appraisal companies acceptable to the BSP. An allowance for market decline is set up should 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.

2.15 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 or licensed) or where it arises from contractual or other legal rights.

Computer, network and application systems and in process accounts are carried at cost less any accumulated amortizations, as applicable.

2.16 Leases

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

2.17 Inventories

Under PAS 2, inventories are assets in the form of materials or supplies to be consumed in the production process or in the rendering of services. Raw materials acquired by the BSP through import Letters of Credit are recognized as "Asset in transit" account upon receipt of notice of loading/shipment from the suppliers. The raw materials are initially booked based on prevailing exchange rate at time of shipment/loading. 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. Booking to inventory account is made upon actual receipt of shipment and costs include incidental costs incurred in bringing the inventory to BSP premises. Issuances are valued based on moving average method or on "first-in, first-out" basis, as applicable.

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

2.18 Numismatic collections, artworks, paintings and sculptures

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

2.19 Financial liabilities

Financial liabilities denominated in foreign currency comprise of short-term foreign currency deposits of banks, the National Government and other government entities, and short and long-term borrowings of the BSP. These liabilities are initially recognized at cost and subsequently converted at the current value using month-end exchange rates. Interest is accrued monthly and recognized in the income statement. Foreign currency borrowings contracted after the creation of Bangko Sentral in CY1993 are collateralized either by securities or gold. As of end CY2009, there are no outstanding foreign currency borrowings collateralized by gold.

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

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

2.20 Currency in circulation

Currency issued is a claim on the BSP, fully guaranteed by the government of the Republic of the Philippines, in favor of the holder. Currency in circulation is recorded at face value as a liability in the balance sheet.

In accordance with Section 51 of the Act, notes and coins issued by the Bangko Sentral shall be liabilities of Bangko Sentral and may be issued only against, and in amounts not exceeding, the assets of the Bangko Sentral. Said notes and coins shall be a first and paramount lien on all assets of the Bangko Sentral.

The BSP's holdings of its own notes and coins are not considered part of its currency issue, and accordingly, do not form part of the assets and liabilities of the BSP.

2.21 Derivative instruments

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

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

2.22 Taxes

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

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

BSP has identified the following temporary differences where a deferred tax asset is recognized in the books of accounts. Deferred tax assets are expected future benefits arising from temporary differences existing at the end of the accounting period that will reduce the taxable income relative to pretax accounting income in the future period. It is the amount of income tax recoverable in the future period with respect to: a) impairment losses on loans and advances; b) impairment losses for acquired assets; c) excess minimum corporate income tax over regular income tax; d) net operating loss carry over; and e) carry forward of unused tax credits.

Pursuant to R.A. 9337, "National Internal Revenue Code" as amended, the Bank computes its income tax obligation based on (a) Regular Corporate Income Tax (RCIT) computed at 35 per cent of net income or (b) Minimum Corporate Income Tax (MCIT) computed at 2 per cent based on gross income, whichever is higher. Taxable amount computed under RCIT is booked as an expense. Amount computed under MCIT in excess of the normal income tax/RCIT is recognized as deferred charges which will be carried forward and credited against the normal income tax for three immediately succeeding taxable years as provided under Section 27.E(2) of the NIRC, as amended.

The business tax/value added tax (VAT) expenses are capitalized which forms part of the cost of inputs. VAT rate remains at 12 per cent since 01 February 2006 (NIRC of 1997 as amended.

2.23 Employee benefit plans

The funds listed below had been set-up for BSP employees. The BSP's contributions to the funds are charged to operating expenses and recognized in the income statement. Contributions to and augmentation of the Funds are disbursed to the fund administrators. All incomes accrue to the Funds and are recognized in the balance sheet as increase in the Fund balance except for Provident Fund and Housing Fund wherein the Board of Directors shall set aside a portion of the earnings as General Reserve Fund (GRF) equivalent to one-half of one per cent (1/2 of 1 per cent) of total members' equity as of the end December of each year. The net balance of the income is declared as dividends to the employees. The Fund balances reported by the fund administrators are measured at fair market values.

2.23.1 Provident fund

This fund was established in accordance with Republic Act 4537 dated June 9, 1965 which authorized such fund to be set-up by government owned or controlled banking institutions. This is a defined contribution plan wherein the Bank's monthly contribution is equivalent to 20 per cent of the basic salary of each employee while the employee contributes 2.5 per cent. As approved by the Monetary Board in 19 December 2008, the Bank's monthly contribution is increased from 20 per cent to 22.5 per cent and employees' optional personal contribution from 2.5 per cent to 5 per cent increment to take effect in February 2009. All regular employees automatically become members of the Fund. The Bank's contributions are recognized in the income statement as operating expenses. The Fund is administered by the Provident Fund Office, a separate legal entity established for the purpose of managing the Fund and staffed by Bank personnel.

2.23.2 Housing fund

This fund was established in 1978 in line with the government's program to provide low cost housing for the people. Similar to the provident fund, the Bank's monthly contribution is equivalent to 20 per cent of the basic salary of each employee while the employee contributes 2.5 per cent. As approved by the Monetary Board in 19 December 2008, the Bank's monthly contribution is increased from 20 per cent to 22.5 per cent and employees' optional personal contribution from 2.5 per cent to 5 per cent increment to take effect in February 2009. All regular employees automatically become members of the Fund. The Bank's contributions are recognized in the income statement as operating expenses. The Fund is administered by the Provident Fund Office.

2.23.3 Longevity trust fund

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

2.23.4 Car plan fund

BSP implemented the car plan program in 1993 in line with the approval of the motor vehicle lease purchase plan for the government financial institutions by the Office of the President on 20 July 1992. Positions from Assistant Manager (JG12) and up are entitled to availment of BSP Car Plan Program. The Fund is administered by the BSP Provident Fund Board of Trustees through the Provident Fund Office and is operated independently of the existing Provident Fund loan facilities. Budgeted amounts earmarked for car plan fund are recognized as advances booked under "Due from Administrator of Funds" account and invested in marketable securities meantime that officers entitled to the car plan program have not yet availed.

2.23.5 Retirement benefit fund

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

2.23.6 Medical benefit fund

The Fund was established in 1999 under a self-insurance scheme to cover the expected medical benefits of all officials and employees of the Bank. Charges cover hospitalization expenses as approved under the BSP Medical Benefit Plan. Balance of the Fund is reported under a capital reserve account in the balance sheet and the Comptrollership Sub-Sector is designated as administrator. Investments of the Fund are in government securities and all income accrue to the Fund.

MB Resolution No. 1565 dated 29 October 2009 approved the closure of the Fund to "Surplus" account upon the maturity of the related government securities investments and retain the existing practice of including the provision for the estimated hospitalization and medical expenses in the annual budget of the Bank.

2.24 Capital reserves

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

2.24.1 Currency insurance fund

The currency insurance fund adopted in 1955 that was rationalized in 1996 funds the Bank's self-insurance scheme for any losses that may arise from its currency and gold shipments. Annual transfers to the reserve account are made from the surplus account and are computed based on one-tenth (1/10) of 1 per cent of the highest value of the shipments 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" account. Investments of the Fund are in government securities and all income accrue to the Fund.

2.24.2 Fidelity insurance fund

This Fund was set-up in 1997 as self-insurance for the fidelity bond of bank officers and staff with cash and gold accountabilities in excess of PHP100 million. Accountabilities up to PHP100 million are covered by fidelity bonds issued by the Bureau of the Treasury. Annual charges against surplus are computed at 75 per cent of 1 per cent of the maximum amount of accountabilities (net of PHP100 million) of each group/individual covered by the Fund. The Fund is an internally managed fund with the BSP Comptrollership Sub-Sector as administrator. It is accounted separately from the bank proper resources through the “Due from Administrator” account. Investments of the Fund are in government securities and all income accrued to the Fund. There was no additional provision to the Fund since CY2006 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.

2.24.3 Property insurance

A self-insurance was that set-up in 2003 to cover for the amount of potential losses in excess of what are presently covered by the insurance policy with the Government Service Insurance System. Properties insured are artworks, paintings, and sculptures which are valued at acquisition cost. Amounts earmarked are not invested. No additions were made to the fund since CY2004.

2.24.4 Reserve for the rehabilitation of the Security Plant Complex

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

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

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

2.24.6 Directors and officers liability insurance (DOLI) fund

The self-insurance fund was set up in CY2005 in order to provide an additional insurance for those officers already covered under the Government Service Insurance System (GSIS). The initial amount set up was PHP500 million with additional annual provision of PHP100 million until the total fund reaches PHP1.00 billion. GSIS is the claims administrator of the self-insurance program. The Fund is an internally managed fund with the Provident Fund Office (PFO) as administrator. It is accounted separately from the bank proper resources through the “Due from Administrator” account. Investible funds (net of amount as may be necessary for liquidity and reinvestment purposes) are invested in the form of government securities where income earned accrues to the fund, net of 15 per cent management fee payable to the PFO.

2.24.7 Reserve for contingencies

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

2.24.8 Gold insurance

The fund is under the self-insurance scheme of the Bank which was established in CY2006 to cover for any loss that may arise from gold shipments. It is an internally managed fund by the Comptrollership Sub-Sector (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.

2.25 Cash flows

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

Investing activities are those 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.

Activities not related to investing and financing are considered as Operating Activities.

2.26 Comparatives

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

2.27 Prior period adjustments

Following PAS 8, adjustments to prior years' income and expense are recognized and reflected in the affected income or expense accounts subsidiary ledgers in the income statement. These adjustments include change in estimates and other adjustments pertaining to previous accounting periods. For correction of prior years' errors, these are lodged in the capital accounts.

2.28 Dividend distribution

In accordance with transitory provisions of R. A. 7653, Sec. 132 (b), the BSP remits 75 per cent of its net profits to a sinking fund until such time as the net liabilities of the old central bank shall have been liquidated or to the National Government as dividends with the remaining 25 per cent as residual to BSP surplus.

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

2.29 Commitments and contingent liabilities

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

	2009	2008
FX commitment receivable	640,272,670	110,666,787
Currency unissued	270,339,762	162,070,177
L/C held/received in process	5,655,616	3,213,270

Currency unissued refers to the face value of outstanding notes and coins delivered by the SPC (the printing and minting plant) to the Unissued Currency Division of Currency Issue and Retirement Office (CIRO) of Cash Management Sub-Sector (CMSS). The production cost of the stock is recognized as an asset in the balance sheet under “currency inventory” account.

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

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

Maturity Schedule of FX Commitment Receivable
As of 31 December 2009
(In Million US Dollars)

	1-3 months	4 months to 1 yr.	Total
FX Exchange Forward Contract	6,020	710	6,730
	3,409	710	4,119
	1,344	938	2,282
		150	150
		275	275
	10,773	**2,783**	**13,556**

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

3. FINANCIAL RISK MANAGEMENT

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

The BSP has adopted a modified centralized enterprise-wide risk management system to institutionalize a structured and systematic approach towards a consistent risk management practice within the Bank. In line with this, the BSP has created risk management structure, headed by Risk Oversight Committee (ROC), which consists of Monetary Board Members, the Risk Management Office (RMO) and Risk Management Units (RMU). The ROC assures that the BSP's risk management objectives are aligned with overall business strategies and that the BSP takes prudent risk management. Under the ROC is the RMO, which is tasked to provide overall risk management advisory and to recommend/review risk management policies within the Bank. The RMU's are groups within each Department/Offices and basically performs risk monitoring and control at the operations level, and provides necessary risk reports to the RMO.

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

The risk factors considered are as follows:

3.1 Market Risk

Market risk is the risk that the value of an investment will decrease due to change in market factors, i.e., interest, currency and commodity risks. Allowable exposures and limits thereon are specified in the investment guidelines. Adherence to the investment guidelines is monitored daily by the Asset/Liability Management Group of the Treasury Department that functions as the middle office.

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 limits on the level of exposure by currency and in total for both overnight and intraday positions are monitored daily. The following table summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2009 grouped into assets and liabilities at carrying amounts:

	In Thousands	
Assets	**Original Currency**	**USD Equivalent**
USD	30,018,488	30,018,488
JPY	484,417,128	5,208,937
EUR	1,960,919	2,809,801
SDR	860,790	1,211,944
AUD	183,654	164,741
GBP	6,132	9,918
CAD	918	873
VHF	613	593
SGD	717	512
AED	1,809	493
SAR	1,466	391
HKD	3,015	389
BND	159	113
THB	3,005	90
BHD	28	73
CNY	325	48
KRW	43,636	37
IDR	16,766	2

Liabilities	Original Currency	USD Equivalent
USD	5,271,377	5,271,377
SDR	863,180	1,353,199
JPY	7,613,498	81,868
EUR	14,964	21,442
DKK	4,259	820
GBP	220	357

In managing the foreign currency reserves portfolio, the BSP has set allowable currencies and percentage currency exposure limits to mitigate risks arising from fluctuations in foreign exchange.

3.1.2 Interest Rate Risk

The investment guidelines also specify duration cap to manage interest rate risk exposures from investments in fixed income securities.

3.1.3 Commodity Risk

Exposures to commodity risk, associated with the gold holdings, are managed by placing a cap on the level of the gold holdings and by monitoring gold price volatility.

Market Risk Measurement

In addition to the existing market risk management tools, the BSP Treasury Department has implemented the use of Middle Office Risk Management System (MORMS) to measure market risks inherent in the management of reserves portfolio. It uses Value-at- Risk (VaR) approach to calculate maximum expected portfolio loss due to market movements given a certain confidence level over a specified holding period. VaR measure is complemented with stress testing and back testing.

3.2 Credit Risk

Credit risk is the potential financial loss from default of a debtor, issuer or counterparty. For the foreign currency reserve portfolio, deposit placements and other money market transactions are made only with BSP accredited counterparties. Exposure limits are assigned to these counterparties in relation to their credit ratings (minimum of Moody's rating of Aa3 or its equivalent ratings from other international rating agencies), financial strength and size of capital, among others. The exposure limits are calculated weekly or more frequently as necessary when new information about the counterparties' creditworthiness becomes available.

The BSP also has investments in marketable government debt issues of well developed markets with zero-credit risk weight based on Basel II's standardized approach for measuring credit risk.

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

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

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

Credit Risk Management

To complement the existing credit risk management tools, the BSP Treasury Department has implemented the use of Middle Office Risk Management System (MORMS) to measure credit risks inherent in the management of reserves portfolio. It uses Basel II's internal-ratings based approach to measure the credit risk of the total reserves portfolio.

3.3 Liquidity Risk

Liquidity risk is the risk that foreign currency assets cannot be mobilized or sold in a timely and economic manner to sufficiently meet the 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, in providing liquidity to the local foreign exchange market. The BSP manages this risk by regularly monitoring its foreign currency obligations and other projected outflows and allocating sufficient funds for the purpose.

Liquidity requirements are also included in the investment guidelines to ensure that BSP's debt holdings are of sufficient size and are traded actively. As required by PFRS 7, schedule of maturity analysis showing the remaining contractual maturities of financial liabilities are hereto attached. (Annex A)

3.4 Operational, legal and reputational risk

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

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

In accordance with the BSP's business continuity management, onsite and offsite back-up facilities are in place for Treasury Department and other mission-critical operations. The back-up facilities are periodically tested to minimize business disruptions in the event that the primary installations become inoperable

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

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

4. SIGNIFICANT EVENTS

4.1 The Monetary Board approved on -

4.1.1. 20 August 2009 the acquisition of a 1,679 square meter lot adjoining the existing BSP property for the prospective site of the BSP Pampanga.

4.1.2. 24 September 2009 conversion of the Bangko Sentral ng Pilipinas advances of PHP26.2 million to the Anti-Money Laundering Council from CYs 2004 to 2007 for AMLC's capital and operating expenses into financial assistance.

4.1.3. 29 October 2009 (1) closure of Medical Benefit Fund to “Surplus” account upon maturity of the related government securities investments; and (2) retention of the existing practice of including the provision for hospitalization and medical expenses in the annual budget of the bank.

4.2 Effective 01 August 2009, the Commission on Audit (COA) reinstated the selective pre-audit on government transactions under its Circular No.2009-002 dated 18 May 2009. Essentially, pre-audit is defined as the examination of documents supporting a transaction or series of transactions before these are paid for and recorded. In this regard, the Bank issued implementing guidelines and procedures that cover Bangko Sentral transactions than includes cash advances, payments of salaries and terminal benefits and infrastructure projects, procurement of capital assets, goods & services and disposal of real properties and unserviceable property.

5. CRITICAL ACCOUNTING ESTIMATES, AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of the financial statements in accordance with previous Generally Accepted Accounting Principles 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. INVESTMENT SECURITIES – AVAILABLE FOR SALE

	2009	**2008**
Marketable securities	1,187,931,418	1,312,612,603
Other investments	269,665,764	215,229,755
	1,457,597,182	1,527,842,358
Accrued interest	8,617,095	9,143,709
	1,466,214,277	**1,536,986,067**

Marketable securities consists of foreign securities (free) and repurchase agreements. The former primarily includes US Treasury Notes and Japanese Government Bonds aggregating USD23.744 billion or PHP1,102.322 billion while Other Investments includes externally managed funds, Asian bond fund and those securities under the Securities Lending Agreement amounting to PHP183.947 billion, PHP12.628 billion and PHP73.090 billion, respectively.

7. GOLD

	Note	**2009**	**2008**
In bullion vault	a	128,870,729	88,409,475
With foreign financial institutions	b	124,598,040	119,232,972
		253,468,769	207,642,447
Accrued interest		-	53,934
		253,468,769	207,696,381

a. Gold in bullion vault

	2009		2008	
	PHP	FTO	PHP	FTO
Opening balance- January 1	88,409,475	2,107,336.514	57,791,845	1,668,640.503
Additions during the year	41,717,471	928,143.890	42,207,433	1,138,808.863
	130,126,946	3,035,480.404	99,999,278	2,807,449.366
Transfers to foreign financial institutions	(16,453,373)	(500,073.022)	(21,491,630)	(700,112.852)
Net increase due to price/rate revaluation	15,197,156	-	9,901,827	-
Ending balance-December 31	**128,870,729**	**2,535,407.382**	**88,409,475**	**2,107,336.514**

Price of Gold in USD per FTO	**2009**	**2008**
Revaluation Rate	**1,094.85**	**880.50**
Moving Average Rate	**789.84**	**702.68**

b. Gold with foreign financial institutions

	2009		2008	
	PHP	FTO	PHP	FTO
Opening balance – January 1	119,232,972	2,842,048.249	88,828,384	2,564,767.386
Additions during the year:				
Transfer from bullion vault	16,453,373	500,073.022	21,491,630	700,112.852
Purchases	25,444,364	501,074.821	7,333,402	202,069.183
	41,897,737	1,001,147.843	28,825,032	902,182.035
	161,130,709	3,843,196.092	117,653,416	3,466,949.421
Net sales during the year	(66,974,073)	(1,391,849.761)	(24,094,891)	(624,901.172)
Net increase due to price/rate revaluation	30,441,404	-	25,674,447	-
Ending Balance-December 31	**124,598,040**	**2,451,346.331**	**119,232,972**	**2,842,048.249**
Pledged	-		52,919,857	

Price of Gold in USD per FTO	**2009**	**2008**
Revaluation Rate	**1,094.85**	**880.50**
Moving Average Rate	**682.20**	**565.85**

8. INTERNATIONAL MONETARY FUND SPECIAL DRAWING RIGHTS

	2009	2008
Beginning balance – January 1	507,228	30,482
SDR acquisition	54,998,278	12,997
Income accruing to the fund	46,562	663,095
Revaluation	(2,501,238)	42,388
Payment of charges-interest and remuneration	(71,792)	(241,734)
	52,471,810	476,746
Ending balance – December 31	52,979,038	507,228
Accrued interest	23,905	1,622
	53,002,943	**508,850**

9. LOANS AND ADVANCES

Foreign currency loans and advances	% to Total	2009	2008
Special purpose			
IBRD 2469	3.54	20,955	20,955
Rediscounting			
Exporters dollar facility	96.46	570,862	1,448,672
	100.00	591,817	1,469,627
Allowance for probable losses	3.54	20,955	20,955
		570,862	1,448,672
Accrued interest		201	2,624
	96.46	**571,063**	**1,451,296**

Local currency loans and advances	% to Total	Note	2009	2008
Philippine Deposit Insurance Corp.	51.02	a	72,629,408	72,481,966
National Government				
Assumed obligations of PNB & DBP	0.56	b.1	792,500	792,500
RA 2052		b.2	-	6,769,739
	0.56		792,500	7,562,239
Special purpose				
Non-banks/Quasi banks			-	-
Rural Bank	0.09		133,978	143,400
	0.09		133,978	143,400
Emergency		c		
Commercial banks			446,846	1,578,260
Thrift banks			3,075,102	2,468,070
Rural banks			631,867	654,280
	2.92		4,153,815	4,700,610
Rediscounting		d		
Commercial banks			53,394,011	34,793,640
Thrift banks			6,937,469	3,017,980
Specialized banks			102,005	110,190
Rural banks			2,439,731	1,619,396
	44.16		62,873,216	39,541,206
Overdrafts/overnight clearing line	1.25		1,777,335	1,803,128
Government securities purchased under repurchase agreement			-	850,000
	100.00		142,360,252	127,082,549
Allowance for probable losses			7,268,241	7,759,001
			135,092,011	119,323,547
Accrued interest			12,140,397	10,529,720
			147,232,408	**129,853,267**
Total foreign and local currency	100.00		142,952,069	128,552,176
Allowance for probable losses	5.10	e	7,289,196	7,779,956
	94.90		**135,662,873**	**120,772,220**
Amount past due			**6,759,700**	**8,184,357**
Rate			4.73%	6.37%

a. Loans and advances to the Philippine Deposit Insurance Corporation (PDIC) intended for ailing banks reached PHP72.629 billion compared to the last year's level of PHP72.482 billion. The loans to PDIC are collateralized and interest-bearing. This constituted 51.02 per cent of the total local currency loan portfolio.

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

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

b.2. This consists of non-interest bearing subscription loan for the payment of increase in quota contribution of the Republic of the Philippines in the IMF under the 11th General Review of Quotas. This was granted by the BSP in February 1999 to cover for the SDR246.5 million increase in quota subscription, pursuant to R.A. 2052, as amended. The note originally matured in February 2004 and was rolled-over for another five years to mature 26 February 2009. BSP collected the outstanding balance of PHP6.8 billion (net of PHP6.5 billion paid on 22 December 2008) on maturity.

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

d. Rediscounting window which accounts for 44.16 per cent of the local currency loan portfolio increased by a hefty PHP23.332 billion from last year-end balance of PHP39.541 billion due mainly to the net grants made to commercial banks of PHP18.600 billion.

e. Allowance for probable losses

Outstanding loans and advances of PHP142.952 billion represents 5.57 per cent of the BSP's total assets. Past due accounts of PHP6.760 billion represents 4.7 per cent of outstanding loans and advances; PHP70.323 billion or 49.19 per cent are covered by the Allowance for Probable Losses which amounts to PHP7.289 billion. Total probable loan losses booked in 2009 amounted to PHP0.491 billion, net of recoveries.

AGING OF PAST DUE ACCOUNTS
As of 31 December 2009

ACCOUNT	1-2 YRS.	3-5 YRS.	6-10 YRS.	>10 YRS	TOTAL
I. SED –RURAL BANKS – TRUST (093)					
A. Operating Banks					
IBRD				7,514	7,514
SRD-LSP				1,061	1,061
ADB-PADF				309	309
Commercialized Bank (SB)			1,686	12,915	14,601
	-	-	1,686	21,799	23,485
B. Closed Banks					
IBRD				95,700	95,700
ADB-PADF				3,725	3,725
Savings & Loan Banks				10,592	10,592
Development Bank (IBRD:PDB)				334	334
	-	-	-	110,351	110,351
	-	**-**	**1,686**	**132,150**	**133,836**
II. DLC – ACCOUNTING (061)					
A. Operating Banks					
Emergency / Liquidity - TB	762,415	670,939	1,247,901		2,681,255
Overnight Clearing Line			117,821		117,821
Non-Interest Bearing Loans to LBP	2,189	16,442			18,631
Rediscounting & RL	34		21,196	43,371	64,601
	764,638	687,381	1,386,918	43,371	2,882,308
B. Closed Banks					
Emergency / Liquidity - TB			151,747	242,099	393,846
Emergency / Liquidity - KB				446,846	446,846
Non-Interest Bearing Loans to LBP	24,095	11,627			35,722
Emergency Loan	5,887	54,293	76,979	501,673	638,832
Rediscounting & RL	279,831	15,755	108,787	150,174	554,547
	309,813	81,675	337,513	1,340,792	2,069,793
	1,074,451	**769,056**	**1,724,431**	**1,384,163**	**4,952,101**
III. CSS-FAD-FID (013)					
Overdrafts - TB		28,136	409,532		437,668
Overdrafts - KB				1,215,140	1,215,140
	-	**28,136**	**409,532**	**1,215,140**	**1,652,808**
IV. TD – INTERNATIONAL OPERATIONS (132)					
IBRD 2469 (Agri Input Project) - TOP				20,955	20,955
	-	**-**	**-**	**20,955**	**20,955**
	1,074,451	**797,192**	**2,135,649**	**2,752,408**	**6,759,700**

10. OTHER RECEIVABLES

	Note	2009	2008
Foreign currency receivables			
Accrued interest		838,987	703,934
Due from foreign banks/branches	a	47,234	430,249
Non-IR foreign exchange assets	b	35,394,878	26,228,135
		36,281,099	**27,362,318**
Local currency receivables			
Accounts receivable –Treasurer of the Philippines (TOP)	c	14,999,117	11,432,631
Accounts receivable (net of allowance of PHP1,516.305 million)	d	519,173	2,971,236
Notes receivable	e	1,366,731	1,366,731
Due from local banks		25,962	37,722
Receivables from staff/others	f	375,166	597,824
Lease receivable	g	78,854	91,876
Sales contracts receivable	h	1,644,296	1,624,158
Accrued interest-Sales contracts receivable		4,630	2,817
Items under litigation	i	273,437	14,500
		19,287,366	**18,139,495**

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

b. Non-IR FX assets – the account primarily consists of investments in ROP bonds issued by the National Government. It also includes BSP's 25 per cent subscription to the offering of 3,000 shares of the third tranche of the Bank for International Settlements' (BIS) capital and investment in BSP "Yankee" bonds acquired by BSP in the open market to mature on 2027.

The account increased mainly from accumulated purchases of ROP Bonds with an aggregate balance of USD633.371 million or PHP29.404 billion as of 31 December 2009 and another ROP Bonds amounting to USD53.015 million or PHP2.461 billion used as collateral for domestic borrowings.

c. Accounts receivable-TOP – a special receivable account to record the NG's share in the annual revaluation of the IMF holdings of Philippine Peso with the BSP based on change in PHP/SDR exchange rate. On 29 May 2009 the account was increased by PHP3.566 billion representing share of the National Government for CY2009 revaluation loss.

d. Account receivable – decline was due mainly to the collections of supervisory fees set up in CY2008 and partial reimbursement by banks on the compromise settlement of final withholding tax paid by BSP to the Bureau of Internal Revenue.

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 million cash flow back plus PHP15 million cash payment for three-year amortization for 1996, 1997 & 1998 placed in an Escrow fund to be administered by DLC until the fund reaches PHP1.367 billion and shall be applied against BSP claim, per MB Res. No. 1131 as amended by Res. Nos. 590 and 1069 dated 13 June and 16 October 1996, respectively. PHP150.4 million is now with the Escrow fund.

f. Receivable from staff/others – the decrease in the account represents the utilized PHP0.183 billion advances to PICC for operating expenses in accordance with the requirements of PAS 27.

g. Lease receivable - rental receivable from Banco Filipino Savings and Mortgage bank (BFSMB) on any properties converted to Bangko Sentral ng Pilipinas (BSP) but still in possession of BFSMB for its use and benefit. The arrangement is accordance with the terms and conditions agreed under Memorandum of Agreement between Bangko Sentral Ng Pilipinas and Banco Filipino Savings and Mortgage Bank signed on 20 December 1999 which stated that Banco Filipino relative to its rehabilitation on 01 July 1994 shall fully settle its obligation to the BSP by dacion en pago with option to buy back or repurchase.

h. Sales contract receivable- contract or selling price of the BSP assets owned or acquired, sold on installment basis under a duly executed Contract to Sell, title to which is still in the name of the BSP and will be transferred to the buyer only upon full payment of the agreed selling price plus accrued interest thereon breakdown shown below:

	Total 2009	**Current**	**Non – current**
BSP personnel	2,958	197	2,761
Non-BSP personnel	1,236,964	82,465	1,154,499
Other government bureaus and offices	224,482	14,965	209,517
Banks	104	7	97
Housing program III	179,788	5,993	173,795
	1,644,296	**103,627**	**1,540,669**

11. ITEMS UNDER LITIGATION

	Note	2009	2008
CSS-FAD	a	14,500	14,500
Security Plant Complex (SPC)	b	258,937	-
BSRU-Legaspi	c	1,758	1,758
BSRU-Tacloban	d	2,500	2,500
		277,695	18,758
Less: Allowance for doubtful account-Items under litigation		4,258	4,258
		273,437	**14,500**

a. CSS –FAD- refers to the pilfered PHP14,500 million clearing items paid to BSP under Case No. 18793 and tampered PHP10.0 million denominated Treasury bills under Case No. 88-2389.

b. SPC – replacement by Fabrica de Moneda y Timbre-Real Casa de la Moneda (FNMT-RCM) of the 100-piso and 1,000-piso banknotes for the amicable settlement of the dispute between FNMT-RCM and the BSP in respect to the discrepancies in the aforementioned supply of 100-piso and 1,000-piso banknote paper.

c. BSRU-Legazpi- robbery case at Legazpi cash vault filed under Case No. 6672

d. BSRU Tacloban - uncollected claims from BSP officers and employees of BSRO-Tacloban

12. INVESTMENTS SECURITIES-AVAILABLE FOR SALE

	Note	Face Value 2009	Market Value 2009	Face Value 2008	Market Value 2008
BSP-Head Office	a				
Fixed rate treasury bonds		2,591,094	2,656,412	2,535,738	2,641,031
Fixed rate treasury notes		91,900	96,677	91,900	100,393
Treasury bonds		-	-	39,285	38,966
LBP bond		-	-	201	201
Semi-annual FLT-T-bond		50,000,000	39,318,824	50,000,000	47,723,307
Treasury bills		212,215,010	206,884,461	273,485,940	264,682,487
		264,898,004	248,956,374	326,153,064	315,186,385
PICC-Investments	b		300,835		364,449
Accrued interest			140,664		180,061
			249,397,873		**315,730,895**

a. The movement in investment-securities available for sale for BSP-Head Office is summarized as follows:

	2009	2008
Beginning balance	315,186,385	328,904,820
Purchases	467,002,816	603,773,547
Sales	(6,651,451)	(121,524,155)
Redemption	(517,452,079)	(501,466,380)
Net premium amortization	(10,873)	(5,036)
Marking to market	(6,190,405)	2,448,199
Accrual/reversal of discount	(2,928,019)	3,055,390
Ending balance	**248,956,374**	**315,186,385**

Schedule of Maturity
Investment Securities

	91-180 days	181 – 364 days	More than 1 year	Total
Fixed rate treasury bonds	-	-	2,656,412	2,656,412
Fixed rate treasury notes	-	-	96,677	96,677
Semi-annual FLT-T-bond	-	-	39,318,824	39,318,824
Treasury bills	62,880,847	144,003,614	-	206,884,461
	62,880,847	**144,003,614**	**42,071,913**	**248,956,374**

b. PICC investments for the year 2009 includes balances of special deposit account and time deposit, amounting to PHP0.279 billion and PHP0.012 billion, respectively.

13. DUE FROM ADMINISTRATOR OF FUNDS

	Note	2009	2008
Comptrollership			
Currency insurance		2,798,110	2,759,456
Gold insurance		3,964	2,635
Fidelity insurance		22,247,379	22,040,864
Medical benefit		622,343	786,499
Post retirement benefit	a	71,102	229,823
		25,742,898	25,819,277
Provident fund office			
Post retirement benefit	b	1,170,103	993,687
Car plan fund		505,456	505,456
Provident fund		187,099	150,012
Directors' and officers' liability Insurance (DOLI) fund	c	1,030,101	774,621
Sub-total		2,892,759	2,423,776
Department of Loans and Credit			
Industrial Fund		2,515	2,515
		2,515	2,515
		28,638,172	**28,245,568**

a. The decrease in balance is due to funds transfer to/from PFO amounting to PHP110 million and utilization of fund for the year 2009 amounting to PHP48.721 million.

b. The increase in balance is due mainly to funds transfer from/to CoSS amounting to PHP110 million and income earned for the year 2009 amounting to PHP66.416 million.

c. The increase in balance is due to booking of annual provision for the year 2008 & 2009 of PHP100.0 million each and the accumulated earnings for the year amounting to PHP55.480 million.

14. ACQUIRED ASSETS HELD FOR SALE

	2009	2008
Acquired assets held for sale	801,785	773,793
Less: Allowance for market decline	389,534	397,856
	412,251	**375,937**

Below is the composition of the acquired assets portfolio as of 31 December 2009 and disposals during the year.

Acquisition / Foreclosure			Disposal		
Particulars	**TCT's**	**Book Value PHP**	**Particulars**	**TCT's**	**Net Book Value PHP**
Dacion en Pago with option to repurchase waived / defaulted	41	86,906	Auction	5	4,486
Foreclosure	1,526	714,879	Negotiation	1,501	245,054
			Housing Program III	134	58,514
			Redemption	1	1,150
			Repurchase	4	6,212
			Conveyance to NG	10	268,083
	1,567	**801,785**		**1,655**	**583,499**

15. INVESTMENT PROPERTY

	2009	2008
Investment property	11,516,466	11,987,425
Less: Allowance for market decline	1,585,194	2,021,547
	9,931,272	**9,965,878**

Below is the composition of the investment property portfolio as of 31 December 2009 and disposals during the year.

Acquisition / Foreclosure			Disposal		
Particulars	**TCT's**	**Book Value PHP**	**Particulars**	**TCT's**	**Book Value PHP**
1. Dacion en Pago with option to repurchase	2,508	4,458,773	Redemption / Repurchase	19	15,159
2. Dacion en Pago with option to repurchase waived / defaulted	313	1,511,280	Auction	4	4,025
3. Foreclosure	29,298	5,546,413	Negotiation	1,305	404,012
			Housing Program III	61	40,872
	32,119	**11,516,466**		**1,389**	**464,068**

In compliance to the requirements of PFRS 5 and PAS 40, the acquired assets portfolio was reclassified into acquired asset held for sale and investment property details shown under Items 14 and 15 above.

16. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

	Land and Bldgs.	Property Improvement	Computer Hardware	Plant and Equipment	In-Transit Items	In-Process/ Progress/ under Construction Items	Total
Cost							
01 January 2009	9,867,785	2,860,695	891,635	4,798,270	4,196	926,290	19,348,871
Additions	320,778	585,125	91,321	315,418	138,954	281,031	1,732,627
Disposals		(10)	(1,826)	(17,515)			(19,351)
Reclassifications/ adjustments		2,541	(335)	(104,561)	(142,964)	(642,318)	(887,637)
31 December 2009	10,188,563	3,448,351	980,795	4,991,612	186	565,003	20,174,510
Accumulated depreciation							
01 January 2009	1,726,373	1,380,781	593,370	3,371,337			7,071,861
Depreciation	180,106	218,652	77,296	215,070			691,124
31 December 2009	1,906,479	1,599,433	670,666	3,586,407			7,762,985
Net book value 31 December 2009	**8,282,084**	**1,848,918**	**310,129**	**1,405,205**	**186**	**565,003**	**12,411,525**
Net book value 31 December 2008	**8,141,412**	**1,479,914**	**298,265**	**1,426,933**	**4,196**	**926,290**	**12,277,010**

The BSP Administrative Department hired an insurance consultant who undertook risk-based analysis and appraisal update of all BSP properties except for paintings and antiquities. However, the results of the appraisal report submitted with ASD only indicates the total sound value of the property as a whole, as such cannot be used in the establishment of the fair value of Bank's Property, Plant and Equipment. Hence, ASD will propose to hire another consultant to appraise BSP owned properties based on the IPSMMS data.

17. INTANGIBLE ASSETS

	Computer Network and Application System	Computer Network and Application System in Process	Total
Cost			
01 January 2009	1,728,985	2,484	1,731,469
Additions	109,027	23,914	132,941
Disposals/retirement at book amount	(98,198)	-	(98,198)
Reclassifications/adjustments	-	27,938	27,938
31 December 2009	1,739,814	54,336	1,794,150
Accumulated amortization			
01 January 2009	1,344,399	-	1,344,399
Amortization	140,230	-	140,230
31 December 2009	1,484,629	-	1,484,629
Net book value 31 December 2009	**255,185**	**54,336**	**309,521**
Net book value 31 December 2008	**384,586**	**2,484**	**387,070**

18. INVENTORIES

	Note	2009	2008
Gold for domestic sale		13,219	14,946
Gold for refining	a	4,026,542	4,739,050
Silver for refining		1,038	1,008
Currency inventory	b	1,700,851	1,183,067
SPC inventories		1,860,313	1,876,705
Work-in-process		1,503,998	1,431,944
		9,105,961	**9,246,720**

a. The continuous decline of the volume in the purchases of raw gold despite fluctuating prices ranging from USD838.50/FTO to as high as USD1,105.05/FTO and increased production of gold bullion transferred to bullion vault contributed to the decline in the outstanding balance of "*Gold for Refining*" account.

b. Increase in inventory of notes such as 100-piso and 20-piso notes as at 31 December 2009 was due to the high demands from banks of lower denomination notes for their ATM's use and to even compel the Bank to outsource the 20-piso notes from foreign suppliers.

19. MISCELLANEOUS ASSETS

	Note	2009	2008
Deferred charges		863	863
Deposits – utilities & services		23,902	23,966
Input tax		35,144	17,249
Prepaid expenses	a	516,353	1,818
Withholding tax at source	b	219,173	148,326
Creditable tax certificates	c	5,512	-
Miscellaneous assets-SPC	d	11,094	-
Other supplies		117,124	95,690
		929,165	287,912
Commemorative notes & coins		309	195
Demonetized commemorative coins		18	19
Items for exhibit		167	167
Numismatic collections on hand		21,007	21,007
Paintings and sculptures		58,061	54,876
		79,562	76,264
Checks and other cash items		1,186	1,240
Checks and other collection items in-transit		-	148
Stocks and other securities		10,715	10,715
		1,020,628	**376,279**

a. The increase was primarily from taxes withheld from purchases of short-term government securities which are later recognized as expense upon maturity.

b. This refers to the withholding tax on supervisory fees of banks, SPC services and interest on PDIC loans recognized.

c. The amount represents refund of customs duties, taxes, fees, etc. earlier paid in protest by the Bank sometime in 1996 and 1998 for the importation of various spare parts by Cash Department evidenced by tax credit certificates issued by the Bureau of Customs on 23 December 2008 in favor of the Bangko Sentral.

d. The account includes the following: a) 361 million undelivered BIR strip stamps of BSPD in the amount of PHP2.244 million b) architect's fee of PHP8.850 million for the architectural design of the proposed Money Museum, Training Institute and SPC expansion but later closed in SPC books on January 2010.

20. SHORT-TERM FOREIGN CURRENCY DEPOSITS

	Note	2009	2008
National Government	a	58,490,653	5,354,710
Regular FCD		7,428,000	1,191,175
Other entities	b	26,941,750	1,871,602
		92,860,403	8,417,487
Accrued interest		5,198	3,208
		92,865,601	**8,420,695**

a. These represent foreign currency denominated time and special accounts deposits of the Treasurer of the Philippines (TOP) arising from receipts of loans from foreign creditors, as follows:

	2009	2008
National Government		
TOP-Time Deposits	46,437,177	-
TOP-Special Accounts	12,053,476	5,354,710
	58,490,653	**5,354,710**

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

	2009	2008
Other Entities		
NPC	43,097	138,326
MWSS	379,880	389,336
PNOC	-	78,602
PSALM	26,517,138	1,263,660
North Luzon Railways	1,635	1,678
	26,941,750	**1,871,602**

21. LOANS PAYABLE

	Note	2009	2008
Maturing in 1-5 years			
Securities –backed loan	a	-	23,823,500
Gold repo deposit	b	-	47,647,000
		-	71,470,500
Maturing in more than 5 years			
Blocked peso deposit (Circular 1139/1202)	c	40,249	72,655
Blocked peso deposit (Circular 1298)	c	4,115,301	5,951,907
Letter of inst. 1442- at original cost (PHP49.99)		3,846	3,846
		4,159,396	6,028,408
		4,159,396	77,498,908
Accrued interest		54,522	536,879
		4,213,918	**78,035,787**

Availments /Settlements of the following Foreign Loans:

	PHP		Settlement	
	2008 Balance	2009 Revaluation	Amount	Date
Securities Backed Loan	23,823,500	153,500	23,670,000	27 Feb. 2009
Gold Repo Deposit	47,647,000	54,000	47,701,000	30 Oct. 2009

a. These are loans from the Bank for International Settlement (BIS) collateralized by BSP's holdings of Fixed Rate Investments (FIXBIS) or Medium Term Instruments (MTIs) issued by the BIS. The loans were fully settled as at 27 Feb 2009.

b. These are liability accounts for gold under swap agreement whereby there is a firm commitment to repurchase the quantity of gold exchanged. BSP fully paid the loans as at 30 October 2009.

c. These are local currency deposits of original public sector borrowers (National Government owned or controlled corporations and government financial institutions) 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. These deposits were later registered with the BSP under various foreign loan restructuring arrangements.

22. BONDS PAYABLE

	Note	2009	2008
Bonds due 2027	a	18,570,000	19,058,800
Bonds due 2097		4,642,500	4,764,700
BSP floating rate note	b	9,285,000	9,529,400
		32,497,500	33,352,900
Discount on bonds		(85,863)	(88,450)
		32,411,637	33,264,450
Accrued interest		113,110	135,354
		32,524,747	**33,399,804**

a. These are "Yankee Bonds" issued by BSP on 24 June 1997. It includes bonds worth USD5.954 million or PHP0.292 billion acquired by BSP in the open market. The bonds acquired are recorded as investment in "Foreign Currency denominated securities – Non-IR FX Assets" in line with the terms and conditions of the BSP Yankee Bonds.

b. The decrease in the account level was brought about mainly by revaluation.

23. ALLOCATION OF SPECIAL DRAWING RIGHTS

	2009	2008
Allocation of SDRs	60,987,078	8,556,819
Accrued interest	27,519	27,314
	61,014,597	**8,584,133**

24. DEPOSITS

	Note	2009	2008
Government deposits			
Short –term	a	61,451,181	115,384,011
Long – term	b	28,265,953	30,000,000
		89,717,134	145,384,011
Accrued interest		243,889	3,304,140
		89,961,023	**148,688,151**
Demand deposits			
Banks/NBQBs-reserve deposits	c	154,137,083	136,119,939
Banks/NBQBs-liquidity reserves	d	310,134,790	278,792,220
Others		29,902,955	5,476,552
		494,174,828	420,388,711
Accrued interest		1,123,384	1,458,870
		495,298,212	**421,847,581**
International monetary fund and other financial institutions	e	**51,493,209**	**48,232,401**
		546,791,421	**470,079,982**

Government deposits

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

b. The long-term deposit is backed by the PHP50 billion 1993 25-Year Treasury Bonds. This deposit earns the same interest rate as of the Treasury Bonds. The difference of PHP1.7 billion resulted from the transfer of funds to UCPB in compliance with MOA dated 25 July 2008 signed and executed by PDIC, PCGG and UCPB.

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

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

d. Term deposits of banks/NBQBs placed in reserve deposit account with BSP as mode of compliance for liquidity reserves from holdings in government securities purchased from Bangko Sentral issued specifically for the purpose as approved by the Monetary Board per its Resolution dated 16 March 2006. The interest rates applied to the RDA was set at 3.7 per cent below the prevailing market rate for comparable government securities as at 31 December 2009.

e. International Monetary Fund currency holdings and other financial institutions - The Republic of the Philippines (RP) has been a member of the International Monetary Fund (IMF) since 1945. BSP is the designated depository for the IMF's holdings of local currency. The IMF's holdings of local currency amounted to the equivalent of SDR701.77 million at 31 December 2009.

The balance of IMF's currency holdings (SDR90.467 million) includes a non-negotiable, non-interest bearing security encashable on demand and issued in the favor of the IMF, is held by the BSP on a custodial basis in its capacity as the IMF's depository. The IMF revalues its local currency holdings on 30 April of each year at which time a currency valuation adjustment arises.

For CY2009, the depreciation of peso against the SDR by PHP4.501, from PHP68.443/SDR as at 30 April 2008 to PHP72.944/SDR as at 30 April 2009, resulted to a revaluation loss of PHP3.566 billion in the IMF local currency holdings with BSP. The revaluation is solely attributable to the National Government (NG) since BSP has already fully paid its credit availments from Standby Credit Facility (SCF) and Extended Fund Facility (EFF) since December 2006. The revaluation was recognized as "Accounts Receivable-Treasurer of the Philippines".

25. CURRENCY IN CIRCULATION

Denomination		Quantity		Amount	
		2009	2008	2009	2008
Notes	100,000	117	117	11,700	11,700
	2,000	23,466	21,660	46,932	43,320
	1,000	258,040,363	229,565,863	258,040,363	229,565,863
	500	437,812,547	441,481,228	218,906,274	220,740,614
	200	32,034,317	47,560,681	6,407,063	9,512,136
	100	463,166,044	402,519,818	46,316,604	40,251,982
	50	398,055,328	358,686,738	19,902,767	17,934,337
	20	747,248,115	523,300,061	14,944,962	10,466,001
	10	71,525,223	72,501,741	715,252	725,017
	5	30,654,385	30,915,284	153,272	154,577
				565,445,189	529,405,547
Coins	10 Piso	419,881,378	372,893,729	4,198,814	3,728,937
	5 Piso	1,341,233,590	1,246,370,073	6,706,168	6,231,850
	1 Piso	4,301,783,477	4,030,754,908	4,301,784	4,030,755
	25 Sentimo	5,514,490,893	4,873,019,877	1,378,623	1,218,255
	10 Sentimo	2,430,344,280	2,272,446,051	243,034	227,245
	5 Sentimo	1,619,881,957	1,495,184,177	80,994	74,759
	1 Sentimo	18,718,592	16,575,969	187	166
				16,909,604	15,511,967
BSP commemorative coins		3,038,835	2,985,735	178,095	177,416
				17,087,699	15,689,383
				582,532,888	**545,094,930**

26. OTHER LIABILITIES

	Note	2009	2008
Foreign currency			
Derivative instruments in a loss position	a	10,174,438	448,447
Other liabilities		3,139,824	1,215,469
Accounts payable	b	2,538,161	870,106
Accrued expenses		118,991	114,246
Other foreign currency financial liabilities	c	482,672	231,117
		13,314,262	**1,663,916**
Local currency			
Retirement benefit obligations		1,534,437	1,715,566
Dividends payable	d	695,337	-
Miscellaneous liabilities		3,611,047	3,449,873
Accounts payable		1,422,192	1,707,084
Accrued expenses		58,298	79,638
Taxes payable		1,048,778	532,899
Other local currency liabilities		1,081,779	1,130,252
		5,840,821	**5,165,439**

a. The account is used to book unrealized losses due to changes in fair value and exchange rate of derivative instruments. As at 31 December 2009, the outstanding amount represents unrealized losses from exchange rate differences in swap transactions.

b. The amount represents reclassification of IMF remuneration due to the National Government which was previously booked under "Miscellaneous Income" account.

c. The increase in balance was due to the opening of various LCs in CY2009.

d. The amount was remitted to the regular demand deposit account of the Treasurer of the Philippines on 18 February 2010 per MB Resolution No. 84 dated 21 January 2010.

27. REVALUATION OF FOREIGN CURRENCY ACCOUNTS

	2009	**2008**
Unrealized gain/(loss) on FX rate fluctuations – beginning balance	11,182,074	(181,956,836)
Unrealized gain/(loss) transactions for the year	(38,704,094)	211,647,343
	(27,522,020)	29,690,507
Less: Realized loss	(21,010,604)	(18,508,433)
Unrealized gain/(loss) on FX rate	(48,532,624)	11,182,074
Unrealized gain on price fluctuation – beginning balance	138,618,655	79,073,816
Unrealized gain on transactions for the year	28,827,816	76,082,860
	167,446,471	155,156,676
Less: Realized gain	34,608,143	16,538,021
Unrealized gain on price fluctuation	132,838,328	138,618,655
	84,305,704	**149,800,729**
Realized gain/loss on FX rate fluctuations		
Realized gain on FX rate fluctuations	26,680,672	7,326,852
Realized loss on FX rate fluctuations	(36,351,046)	(6,799,509)
	(9,670,374)	**527,343**

28. CAPITAL

	Note	2009	2008
Capital	a	10,000,000	10,000,000
Surplus		64,798,861	61,291,109
Reserve for Unrealized Losses on Investments	b	(13,382,443)	(7,372,587)
Capital Reserves			
Managed funds			
Currency insurance fund		2,798,109	2,759,456
Fidelity insurance fund		22,247,379	22,040,864
Medical benefit fund	c	622,343	786,499
Directors'/officers' liability	d	1,030,101	874,621
Retirement benefit fund		1,241,206	1,223,509
		27,939,138	27,684,949
Gold insurance fund		3,964	2,635
Fluctuations in FX rates		81,683,953	81,683,953
Fluctuations in price of gold		54,906,136	54,906,136
Property insurance		1,600,000	1,600,000
SPC rehabilitation		1,614,290	1,614,290
Contingencies	e	9,644,872	9,551,232
Sale of franchise of closed bank	e	-	38,640
		149,453,215	149,396,886
		177,392,353	177,081,835
		238,808,771	**241,000,357**

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

b. Represent unrealized gains/losses from investment in 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:

	2009	2008
Beginning balance	(7,372,587)	(10,156,425)
Effect of marking to market of gov't securities:		
Increase/(decrease) in government securities	(6,190,405)	2,448,199
Unrealized trading gain/(loss) price fluctuation – government securities	(490,567)	335,639
Effect of prepaid tax adjustments on treasury bills	671,116	-
	(13,382,443)	**(7,372,587)**

c. MB Resolution No. 1565 dated 29 October 2009 approved the closure of the Medical Benefit Fund to "Surplus" account upon the maturity of the related government securities investments and retention of the existing practice of including the provision for hospitalization and medical expenses in the annual budget of the Bank. Partial closure of the fund amounting to PHP0.187 billion was booked on 29 December 2009.

d. In CY2009, an appropriation of PHP0.100 billion as additional funds for the build-up of the complementary self-funded Directors and Officers Liability Insurance scheme for CY2009 was taken-up from the accumulated Bangko Sentral ng Pilipinas "Surplus" account as per Monetary Board Resolution No. 22 dated 7 January 2010.

e. The balance of PHP0.094 billon under "Reserve from Sale of Franchise of Closed Bank" account representing proceeds from sale of franchises from closed banks was closed to "Surplus" account. On 29 December 2009 a corresponding reserve was set up under "Reserve for Contingencies" account per MB Resolution No. 24 dated 7 January 2010.

29. INTEREST INCOME AND INTEREST EXPENSE

Interest income from financial assets	2009	2008
Interest income from foreign currency financial assets		
Investment securities – available for sale	36,689,496	41,990,548
Deposit with foreign banks	424,931	7,077,879
Gold with foreign financial institutions	169,260	54,894
IMF special drawings rights	49,890	11,391
Loans and advances	5,292	24,198
Other foreign currency receivables	1,842,206	1,217,642
	39,181,075	50,376,552
Interest income from local currency financial assets		
Investment securities- available for sale	15,531,719	14,591,845
Loans and advances	4,536,094	3,138,383
Other receivables	134,534	120,181
	20,202,347	17,850,409
	59,383,422	**68,226,961**
Interest expense from financial liabilities		
Interest expense on foreign currency financial liabilities		
Bonds payable	2,421,903	2,764,237
Loans payable	80,565	272,211
Short term deposits	73,775	536,202
Allocation of IMF special drawing rights	71,361	219,188
Other liabilities	1,383,116	628,332
	4,030,720	4,420,170
Interest expense on local currency financial liabilities		
Government deposits	32,993,157	39,536,724
Deposits of banks and other financial institutions	14,620,324	13,891,116
Securities sold under agreements to repurchase	9,348,307	14,030,841
	56,961,788	67,458,681
	60,992,508	**71,878,851**

30. OTHER OPERATING INCOME

	2009	2008
Printing, minting and refinery	445,550	361,563
Fees - local		
Banking supervision/clearing/license fees	1,906,710	1,866,597
Penalties and late charges	231,504	167,414
Transaction fee - *PhilPaSS*	132,499	113,901
Processing and filing fees	31,676	42,640
Others	286	273
	2,302,675	2,190,825
Other income		
Rental on acquired assets	203,709	63,796
Building rental	16,444	12,073
Gain on sale of acquired assets	42,412	20,475
Other miscellaneous income	423,045	155,600
	685,610	251,944
	3,433,835	**2,804,332**

31. CURRENCY PRINTING AND MINTING COST

	2009	2008
Notes	2,452,635	2,110,863
Coins	1,879,645	1,456,207
	4,332,280	**3,567,070**

32. OPERATING EXPENSES

	2009	2008
Personnel services, development and training	7,818,351	7,105,366
Administrative expenses	2,101,100	2,026,853
Depreciation	536,831	499,737
	10,456,282	**9,631,956**

33. PERSONNEL SERVICES

	2009	2008
Salaries and wages	4,921,840	5,082,306
Defined contribution plans	1,247,689	1,196,524
Post-retirement benefits	1,022,089	155,559
Social security contribution	303,186	316,098
Sickness and death benefits	217,273	231,838
Personnel development and training	84,347	101,511
Medical and dental benefits	21,927	21,530
	7,818,351	**7,105,366**

34. ADMINISTRATIVE EXPENSES

	2009	2008
Repairs and maintenance	309,446	276,084
Traveling expenses	276,722	266,152
Water, illumination and power services	211,959	217,480
Currency and gold operations expenses	160,231	134,832
Taxes and licenses	138,442	160,735
Communication services	135,663	146,409
Grants, subsidies and contributions	119,232	170,684
Consultants and specialist services	101,315	79,769
Losses due to market decline	77,900	(153,962)
Fidelity and property insurance	64,384	72,828
Auditing services	38,222	40,507
Acquired assets expenses	37,410	38,321
Rentals	35,452	33,981
Supplies and materials	30,391	51,958
Ammunitions	5,563	6,439
Discretionary expenses	5,296	5,775
Others	353,472	478,861
	2,101,100	**2,026,853**

35. PROFIT FOR DISTRIBUTION

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

	2009	2008
Profit for the year	13,130,640	8,927,116
	13,130,640	**8,927,116**

36. RECONCILIATION OF OPERATING CASH FLOW WITH REPORTED NET INCOME

	2009	2008
Reported operating surplus	13,130,640	8,927,116
Operating cash flows from changes in asset and liability balances	4,832,949	(171,756,346)
Add (subtract) non-cash items		
Depreciation	536,831	499,737
Amortization of premium/discount on bonds payable	2,587	21,431
Provision for probable loss	987,453	241,998
Recovery from provision for market decline	77,900	(153,962)
	1,604,771	609,204
Add (subtract) movements in other working capital items		
(Increase) decrease in accounts receivable	2,490,356	(782,748)
Decrease in miscellaneous liabilities	(655,289)	(920,018)
Increase in interest receivable	(1,160,101)	(2,286,185)
Decrease in interest payable	(4,256,682)	(1,118,653)
	(3,581,716)	(5,107,604)
Add (subtract) investing and financing activities		
Net realized gain/(loss) on fluctuations in foreign exchange rates	9,670,374	(527,343)
	9,670,374	(527,343)
Net cash flow provided by (used in) operating activities	**25,657,018**	**(167,854,973)**

37. CONSOLIDATED CASH BALANCES

	2009	2008
Foreign currency assets		
Deposit with foreign banks	274,522,542	37,250,461
Other cash balances (foreign currency on hand)	359,288	308,715
Foreign investments - readily convertible to Cash	1,187,931,419	1,312,612,603
Other FX receivable – due from FX banks – special account	47,234	430,249
Local currency assets		
Government securities	249,257,209	315,550,834
Other receivables – due from local banks	25,962	37,722
Other receivables – revolving fund	298,886	375,554
Miscellaneous assets – checks and other cash Items (COCI)	1,186	1,240
Miscellaneous assets – COCI in transit	-	148
Demand liabilities		
Government demand deposits	(59,717,134)	(115,384,011)
Deposit of banks and other financial institutions	(1,094,192,964)	(870,235,112)
	558,533,628	**680,948,403**

38. TRUST FUNDS

	2009	2008
Comptrollership Sub-Sector	25,745,956	26,061,362
Department of Loans & Credit-Accounting	2,781,542	2,587,280
Department of Loans & Credit-Industrial Fund	7,519	7,519
Examination Department-Rural Banks	2,032,739	2,011,377
Treasury Department-Domestic	5,831,199	5,632,606
	36,398,955	**36,300,144**

39. EVENTS AFTER THE BALANCE SHEET DATE

In a letter to the Chairman, Commission on Audit, dated 24 August 2010, BSP requested concurrence to the agreement reached by Bangko Sentral ng PIlipinas (BSP), Department of Budget and Management (DBM), Commission on Audit (COA) and the Chairman, Senate Committee on Finance in a meeting on 23 August 2010 where BSP shall settle its alleged dividend deficiency to the National Government for CY2003 to CY2006 aggregating PHP9.213 billion arising out of various capital reserve provisions not allowable as deductible items for dividend distribution purposes as per COA Audit Observation Memorandum FSAT-DP-AO-2007-02 dated 27 March 2008. BSP emphasized that in the calculation of dividend due to the NG, R.A.7653, the New Central Bank Act, shall be the governing law. As of date, BSP still awaits the reply of the COA Chairman.