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) was established on 3 July 1993 as a central monetary authority of the Republic of the Philippines pursuant to Republic Act (RA) No. 7653, otherwise known as “The New Central Bank Act”. Under this Act, it shall function and operate as an independent and accountable corporate body in the discharge of its mandated responsibilities concerning money, banking and credit. It maintains the country’s international reserves, performs credit operations, engages in open market operations, exercises supervision over banking institutions, operates the interbank real-time gross settlement system, acts as a banker of the government, and has the sole power and authority to issue currency. It is also responsible for the printing of 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 BSP Main Complex is situated at A. Mabini and P. Ocampo Streets, Manila, Philippines. It has several buildings, namely: Multi-Storey building, 5-Story building, the EDPC building and the BSP Money Museum, which showcases its collection of currencies.

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

The BSP has three regional offices (ROs) sited in La Union, Cebu City and Davao City, and branches/regional units (RUs) in 21 locations. The ROs perform cash operations, cash administration, rediscounting loan collection, bank supervision and gold buying operations. Likewise, the RUs handle cash operations, cash administration, rediscounting loan collection and gold buying operations (in two RUs).

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

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

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

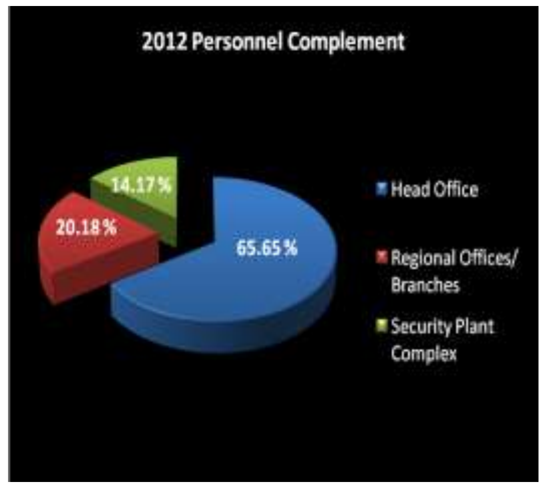
a. Monetary Stability Sector takes charge of the formulation and implementation of the BSP's monetary policy, including serving the banking needs of all banks through accepting deposits, servicing withdrawals and extending credit through the rediscounting facility.

b. Supervision and Examination Sector enforces and monitors compliance to banking laws to promote a sound and healthy banking system.

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

As at 31 December 2012, the BSP has total personnel complement of 5,377 consisting of 4,990 regular employees and 387 contractual, distributed as to location as follows:

Location	CY 2012	CY 2011	Change
Head Office	3,530	3,418	112
Regional Offices/ Branches	1,085	989	96
Security Plant Complex	762	549	213
Total	5,377	4,956	421



In these financial statements, the BSP is also referred to as the "Bank". The MB has approved the release of the financial statements on 20 June 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

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

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

Unless otherwise stated, the CY 2012 balances are prepared under the historical cost convention and/or applicable PFRS/PAS.

2.2 Cash flows

Cash and cash equivalents are financial instruments that are highly liquid and are used in the day-to-day cash management operations of the bank. This includes the highly liquid foreign 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.

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

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

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

2.3 Consolidation

The BSP's financial statements include the accounts of the Bank and the PICCI as at 31 December 2012. Due to immateriality of the balances of the accounts of PICCI, "consolidated" was omitted from the heading of the statement. All inter-company balances are eliminated prior to consolidation.

2.4 Subsidiary

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

The BSP wholly owns the PICCI. Its Board of Directors is composed of two members from the BSP, the Governor as Chairman and the 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. As stipulated under a management contract, the 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. The BSP provides PICCI its annual budget for capital expenditures and operational expenses. Its approved budget is accounted under "Due from PICCI" for capital expenditures and under "Advances to PICCI" for operational expenses.

In accordance with the provisions of PAS 27, the "Investment in PICCI" account was created to 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.

2.5 Presentation and recognition

The BSP presents financial assets, liabilities and derivative instruments, and the related income and expense accounts by distinguishing foreign and local currency accounts. These are reported separately for better presentation of the BSP's financial position.

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

2.6 Currency of presentation

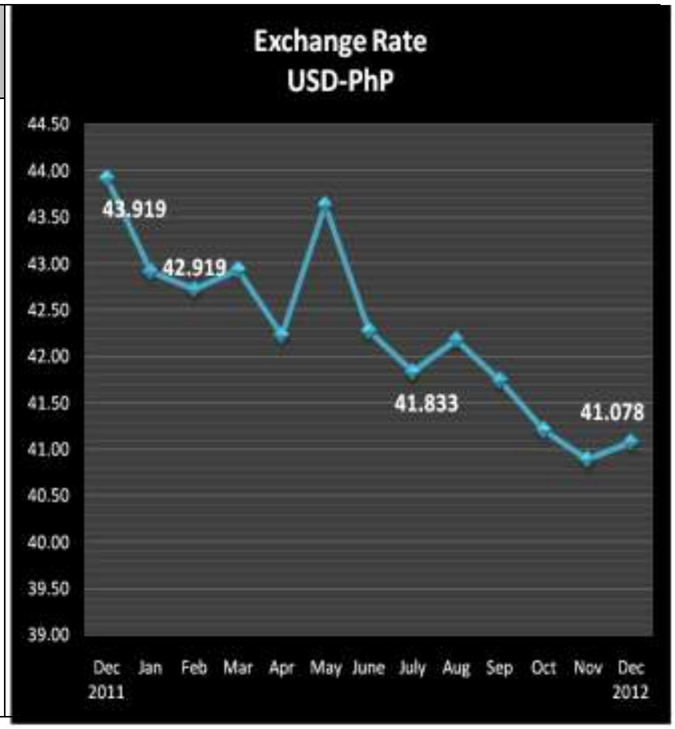
All amounts are expressed in Philippine Peso (PHP), the domestic currency, unless specifically disclosed. The currency symbol "PHP" is used in the financial statements to conform to universal currency symbols.

2.7 Foreign currency translation

Transactions in foreign currency are translated to Philippine pesos using exchange rates applying on the value at settlement date of the transaction. For reporting purposes, foreign currency assets and liabilities are translated to the local currency equivalent using the weighted average rate at reporting date; third currency assets and liabilities are first converted to United States dollars (USD) then translated to local currency equivalent using the prevailing 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 4.29 per cent, from 01 January 2012 of PHP42.919 to 31 December 2012 of PHP41.078. The end-December 2012 rate of PHP41.078 was used in the financial statements. Following are the prevailing end-of month exchange rates in 2012.

For the Month Ended	Exchange Rate USD-PHP	Change
2012		
December	41.078	0.189
November	40.889	(0.319)
October	41.208	(0.531)
September	41.739	(0.439)
August	42.178	0.345
July	41.833	(0.443)
June	42.276	(1.354)
May	43.630	1.401
April	42.229	(0.705)
March	42.934	0.212
February	42.722	(0.197)
January	42.919	(1.000)
2011		
December	43.919	
AVERAGE	42.136	



2.8 Recognition of income and expenses

2.8.1 Interest income and expenses

The Bank follows the accrual basis of accounting. Interest income and expenses are recognized in the income statement for all instruments measured at fair market value/amortized cost. Interests are accrued and discounts/premiums are amortized monthly using the effective interest rate method. The accrued interests are booked contra a receivable (income)/ payable (expense) account while the amortized discounts/premiums are capitalized. Reversal of the previous month's accruals and amortization of discounts/premiums is done simultaneously with the setting up of accruals and amortization of discounts/premiums for the current month, except for the Department of Loans and Credit (DLC), where only the adjustments to the previous month's accruals and amortizations are booked for the current month.

Interests paid on demand deposits of banks (wherein payment of interest was discontinued effective 6 April 2012 per MB approval) and the National Government (Regular and Other-Special accounts) with the BSP are accrued monthly and credited quarterly to the respective accounts except for TOP-Special Account No. 2 (MBR 560), interests of which are credited semi-annually.

2.8.2 Fee income

Banks and non-banks institutions, which are subject to supervision and examination by the BSP, pay an annual supervisory fee (ASF) in an amount equivalent to a percentage of their preceding year's average net assessable assets. Likewise, these entities pay penalties in violation to BSP's directives under the Manual of Regulations for Banks and Non-Banks. Collection of ASF and penalties shall be within the current year and 15 days from the date of receipt of the billing notice, respectively, by directly debiting the bank's demand deposit account (DDA) maintained with the BSP.

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

2.8.3 Price and foreign exchange gains and losses

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

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

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

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

2.9 Financial assets

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

2.9.1 Available-for-sale

Available-for-sale (AFS) financial assets include gold and, foreign and local investments denominated in foreign currency. Domestic securities held by the

BSP are also classified as AFS as they may be sold in response to the needs of liquidity in the exercise of its functions under the Act.

AFS financial assets (except gold) are initially recognized at cost in USD and subsequently carried at fair values. The fair values of the internally and externally managed portfolios and investments in Asian Bond Fund (ABF) and Inflation Linked Fund (ILF) are based on current market prices provided by the custodians at balance sheet date. The values of financial instruments that are not traded in an active market are determined by using interpolated deposit rates or valuation techniques commonly supported by market participants. Change in prices is computed as the difference between the current market price and the amortized price while the change in exchange rates is the difference between the current exchange rates and the historical moving average exchange rates.

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

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

2.9.2 Held-to-maturity

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

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

2.9.3 Loans and receivables

Loans and receivables consist of receivables from banks and deposit insurer, advances to the National Government, notes receivable from restructured loan accounts, 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 is recognized if there is objective evidence that an impairment loss on loans has been incurred.

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

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

However, in view of the difficulty in identifying a single, discreet event that may cause impairment, the carrying amount of loans and receivables is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement, as applicable.

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

Past due banking fees and penalties of more than 12 and 24 months are provided with an allowance for doubtful accounts of 50 and 100 percent, respectively.

2.10 Acquired assets held for sale

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

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

2.11 Investment property

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

Investment properties 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 when the book value of an asset exceeds its most recent appraised value. The use of recent appraised value in recognizing impairment is an alternative compliance to PAS 36 - Impairment of Asset, in the absence of a more realistic basis.

2.12 Bank premises, furniture, fixtures, and equipment

Land and buildings acquired from the then Central Bank of the Philippines (CBP) on 3 July 1993 are stated at appraised value less accumulated depreciation in accordance with the principle adopted on the transfer of assets and liabilities of the then CBP to the BSP. Subsequent acquisitions are stated at acquisition cost less accumulated depreciation.

The initial cost of bank premises, furniture, fixtures and equipment (BPFFE) consists of purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance are charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of BPFFE beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the assets. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation, 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 expected useful life of depreciable assets, after deduction of 10 per cent residual value:

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

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

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

2.13 Intangible assets

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

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

2.14 Leases

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

2.15 Inventories

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

Finished currency notes and coins are recognized as finished goods once these are packed and ready for delivery and as currency inventory upon physical transfer from SPC to Currency Issue and 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, for circulation to the banks and public that currency production expenses for imported and in-house produced notes and in-house produced coins are recognized in the BSP income statement. BSP values the currency inventory and issuances based on moving average method.

2.16 Numismatic collections, artworks, paintings and sculptures

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

2.17 Financial liabilities

Financial liabilities denominated in foreign currency comprise 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 current value using weighted average exchange rate at reporting date. Interest is accrued monthly and recognized in the income statement. Some foreign currency borrowings contracted after the creation of BSP in CY1993 are collateralized either by securities or gold. As of end CY2012, there are no outstanding foreign currency borrowings collateralized by securities or 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 substitute liabilities. The reserve position of each bank or quasi-bank is calculated daily on the basis of the amount of the institution’s reserves at the close of business for the day and the amount of its liability accounts against which reserves are required to be maintained. A portion of these deposits is paid interest at rates approved by the MB until 05 April 2012. Interest is accrued monthly and credited quarterly to the respective demand deposit accounts. The fair value of deposits with no stated maturity is the amount repayable on demand.

As part of the 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 the BSP through the “Special Deposit Account” (SDA) facility.

2.18 Derivative instruments

The BSP engages in foreign currency forwards that include non-deliverable forwards (NDF) and forward contracts under the Currency Risk Protection Program (CRPP), currency swaps and currency/securities/gold options. Derivatives are not designated as hedges.

In line with PAS 39, derivative instruments are recognized at fair value on the date at which the derivative contract is entered into and are subsequently re-measured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques.

For forwards and non-deliverable contracts, a contingent asset/liability is recognized at spot date. At month-end, the forward contract is marked-to-market and the unrealized gains or losses due to change in exchange rates are booked under the RIR account. At maturity date, the contingent asset/ liability is reversed and the purchase/sale of the currency is recorded. Gains or losses due to fluctuation in FX rates, which is the difference between the spot rate on forward date and the contracted forward rate, is recognized in the income statement. The RIR account is reversed at month-end. Under the NDF/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.

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

For options, a derivative asset or liability is recognized on spot date when premium is paid or received. At maturity date or once the option is exercised, the derivative asset or liability is reversed and the premium paid or received from the options is closed to “Trading Gains/(Losses)” account and recognized in the Income Statement. Further, if the option is exercised, trading gains or losses from the purchase or sale of the underlying asset are also recorded in the Income Statement.

2.19 Repurchase, reverse repurchase, special deposit account and securities lending agreements

2.19.1 Repurchase and reverse repurchase

Repurchase (RP) and reverse repurchase (RRP) transactions are used as monetary tools when the Bank intends to expand or contract, for the time being, money supply in the market. RP involves the purchase of government securities from a bank with a commitment to sell it back at a specified future date at a predetermined rate. In effect, an RP transaction expands the money supply's level. Under an RRP, the BSP acts as the seller of the government securities, thus, the bank's payment results in a contraction in the system's money supply. For both RP and RRP, the BSP can only affect the level of money supply temporarily, given that the parties involved commit to reverse the transaction at an agreed future date. Repurchase agreements are presented in the balance sheet under the account "Government securities purchased under agreements to re-sell." 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 government securities account is reclassified using the accounts: "Government securities sold under agreements to repurchase" for securities used as collateral in the RRP transactions and "Government 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 "Government securities sold under agreements to repurchase". The difference between the sale and repurchase price represents interest expense and is recognized in the income statement.

2.19.2 Special Deposit Account

Special Deposit Accounts (SDA) are uncollateralized short-term borrowings of BSP classified as fixed term deposits. These pertain to placements of banks which can be considered as an alternative compliance with the liquidity floor requirement, and income thereon is subject to the 20 per cent final withholding tax (FWT). The SDA also includes funds deposited by trust entities (under BSP supervision) which may either be tax exempt or subject to 20 per cent FWT depending on the purpose of the accountee of the fund deposited with the BSP.

2.19.3 Securities Lending Agreements

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.

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

2.20 Currency in circulation

Currency issued is a claim on the BSP, 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 RA No.7653, notes and coins issued by the Bangko Sentral shall be liabilities of the Bangko Sentral and may be issued only against, and in amounts not exceeding, the assets of the Bangko Sentral. Said notes and coins shall be a first and paramount lien on all assets of the Bangko Sentral. Also, the BSP's holdings of its own notes and coins issued for circulation are deducted from the total currency issued, and accordingly, do not form part of the assets or liabilities of the BSP.

2.21 Employee benefit plans

The Funds listed below had been set-up for BSP employees. The BSP's contributions to the Funds are charged to operating expenses and recognized in the income statement. Contributions to and augmentation of the Funds are disbursed to the Fund administrators. All income accrue to the Funds and are recognized in the balance sheet as addition in the Fund balance except for Provident fund and Housing fund wherein the Board of Trustees shall set aside a portion of the earnings as General Reserve Fund (GRF) for both Provident and Housing funds sub-accounts when their respective balances fall below an amount equivalent to one-half of one per cent of the total members' equity as of the end December of each year. The balance of the unappropriated earnings of the Provident fund and Housing fund are declared as the fund members' share in the earnings of both Funds for the year. The assets of the Fund are reported at either cost or fair market value depending on the asset classification, following the International Accounting Standards.

2.21.1 Provident fund

This Fund was established in accordance with RA 4537 dated 9 June 1965 which authorized such fund to be set-up by government owned or controlled banking institutions. This is a defined contribution plan wherein the Bank’s monthly contribution is equivalent to 20 per cent of the basic salary of each employee while the employee contributes 2.5 per cent. As approved by the Monetary Board on 19 December 2008, the Bank’s monthly contribution was increased from 20 per cent to 22.5 per cent while the employees are given the option to increase their personal contribution from 2.5 per cent up to five per cent which took 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 (PFO), a separate legal entity established for the purpose of managing the Fund and staffed by Bank personnel.

2.21.2 Housing fund

This Fund was established in CY 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 on 19 December 2008, the Bank’s monthly contribution was increased from 20 per cent to 22.5 per cent while the employees’ personal contribution is from 2.5 per cent with the option to increase it up to five per cent which took 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 PFO.

2.21.3 Longevity trust fund

This Fund was created in CY 1991 for the exclusive purpose of paying longevity benefits to seceding members of the provident fund based on the length of service, the minimum of which is five 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 PFO.

2.21.4 Car plan fund

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

2.21.5 Retirement benefit fund

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

2.22 Capital reserves

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

Managed funds

2.22.1 Fidelity insurance fund

This Fund was set-up in CY 1997 as self-insurance for the fidelity bond of bank officers and staff with cash and gold accountabilities in excess of PHP100 million. Accountabilities up to PHP100 million are covered by fidelity bonds issued by the Bureau of the Treasury. Annual charges against surplus are computed at one per cent of 75 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 of Funds" account. There was no additional provision to the Fund since CY 2006 as it was determined that the balance of the fund is sufficient to cover the highest single amount of accountability covered by the Fund. Since the establishment of the Fund, no claims have been charged thereon.

2.22.2 Currency insurance fund

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

2.22.3 BSP properties self-insurance fund

The Monetary Board approved the setting-up of Fund in the aggregate amount of PHP3.650 billion chargeable against the “Surplus” account of the BSP and to be built up through staggered contributions (i.e., PHP1.100 billion in 2011 and PHP0.850 billion each for 2012, 2013, and 2014). This shall cover the difference between the estimated replacement cost and sound/net book value of the BSP properties. The Board also granted authority to the Administrative Services Department to use part of the earnings of the Fund to pay for the annual insurance premium and designated the BSP PFO to administer and manage the Fund.

2.22.4 Directors and officers liability insurance (DOLI) fund

The self-insurance fund was set up in CY 2005 in order to provide an additional insurance for those officers already covered under the Government Service Insurance System (GSIS). The 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 PFO as administrator. It is accounted separately from the bank proper resources through the “Due from Administrator of Funds” account. Investible funds (net of amount as may be necessary for liquidity and reinvestment purposes) are invested in the form of government securities where income earned accrues to the fund, net of 15 per cent management fee payable to the PFO.

Other funds

2.22.5 Reserve for fluctuation in foreign exchange rates and price of gold

These reserves were initially set-up in CY 1998 to serve as repository of provisions for potential loss arising from the volatility of the exchange rates and price of gold. The additional provisions are set aside from net realized gains from FX rate fluctuations and price of gold, as necessary. In January 2011, the reserve for FX fluctuations had been applied to losses incurred from exchange rates in CY 2010, and the remaining balance was closed to “Surplus” account per MB Resolution No. 1702 dated 19 December 2008.

2.22.6 Reserve for contingencies

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

2.22.7 Property insurance (artworks, paintings and sculptures)

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

Properties insured are artworks, paintings and sculptures which are valued at acquisition cost. Amounts earmarked are not invested. No additions were made to the fund since CY 2004.

2.22.8 Reserve for the rehabilitation of the Security Plant Complex

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

2.22.9 Cultural properties acquisition

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

2.22.10 Gold insurance

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

2.23 Commitments and contingent liabilities

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

	2012	2011
FX commitment receivable/payable/sales	555,149,680	334,044,449
Currency unissued	30,283,870	118,944,587
L/C held/received in process	5,174,481	2,776,649
Equity investment receivable/payable	861,174	861,174

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

A foreign currency swap transaction refers to the simultaneous purchase and sale of identical amounts of currency for different value dates, although quite typically the near leg of a swap is a spot deal.

Maturity Schedule of FX Commitment Receivable
As at 31 December 2012

	1-3 months		4 months to 1 year		Total	
	USD	PHP	USD	PHP	USD	PHP
Foreign Currency Swap – *Peso/USDollar*	3,129,000	128,675,510	-	-	3,129,000	128,675,510
Foreign Currency Forwards – *Sell AUD/Buy USD*	50,000	2,052,920	-	-	50,000	2,052,920
Sell EUR/Buy USD	100,000	4,110,730	-	-	100,000	4,110,730
	150,000	6,163,650	-	-	150,000	6,163,650
	3,279,000	134,839,160	-	-	3,279,000	134,839,160

2.23.2 FX commitment payable represents foreign currency forward and commitment of BSP under various International Monetary Fund (IMF) facilities (NAB, CMIM and CLI-LICS).

a. New Arrangement of Borrowing (NAB)

The NAB facility of the IMF is a credit arrangement between the Fund, and a group of 40 members and institutions to provide supplementary resources to the IMF, to cope with an impairment of the international monetary system or to deal with an exceptional situation that poses a threat to the stability of that system. As participant in the IMF's NAB, the BSP undertakes to provide a credit line of up to SDR340 million (USD524.5 million). The Fund pays interest on outstanding NAB claims at SDR interest rate. In 2012, loans granted totaled SDR40.50 million (USD62.00 million) and payments received amounted to SDR0.30 million (USD0.46 million).

b. Concessional Lending Instruments for Low-Income Countries (CLI-LICS)

The CLI-LICS is an IMF Financing facility for low-income countries wherein the BSP shall provide the subsidy contribution on behalf of the Philippine Government in the amount of SDR1.9 million to be disbursed in five equal annual installments (approximately PHP25.1 million per year) subject to the prevailing exchange rate at the time of transactions for the fiscal years 2011 to 2015, as approved under MB Resolution No. 759 dated 4 June 2010. BSP has remitted the two equal installments of SDR0.38 million in 2011 and 2012.

c. Currency Swap Arrangements with Central Banks under the Chiang Mai Initiative Multilateralization Agreement (CMIM)

The Philippines is a member of the CMIM. It is a USD120 billion multilateral arrangement among the finance ministries and central banks of the ASEAN (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam) + three member countries (China, Japan and Korea) and the Hongkong Monetary Authority aimed at providing financial support in the event of balance of payment difficulty. The contribution to the CMIM does not involve outright transfer of the committed amount but is instead in the form of a commitment letter, whereby the central banks/monetary authority of ASEAN + three countries as well as Hongkong Monetary Authority issues a promissory note in the amount equivalent to their committed contribution. Under this arrangement, the management and custody of committed reserves remain with the central banks until a swap request has been approved. The Philippines, through the BSP has an outstanding contribution commitment of USD9.104 billion to the CMIM. The BSP may be able to borrow up to 2.5 times its contribution, i.e. USD22.76 billion from the CMIM. Commitment under the CMIM is not yet recorded awaiting final documentation. As of 2012, no transactions were made.

2.23.3 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 CIRO of CMSS. The production cost and/or cost of importation of the stock is recognized as an asset in the balance sheet under "Currency Inventory" account.

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

2.23.5 Bank for International Settlements (BIS)

Commitment amounted to SDR12.0 million (USD18.5 million). This represents the uncalled portion or 75 per cent of the shareholdings in the BIS.

2.24 Trust Accounts

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

2.25 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. The corrections of prior years' errors are lodged in the capital accounts.

2.26 Comparatives

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

2.27 Dividend distribution

In accordance with transitory provisions of RA 7653, 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 through generally accepted finance mechanisms or to the National Government as dividends with the remaining 25 per cent as residual to BSP surplus.

2.28 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 RA 7653.

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

BSP has identified the accounts where tax implications may require recognition of deferred taxes 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) deductible temporary differences; b) carry-forward of excess minimum corporate income tax over regular income tax; c) carry-forward of net operating loss; and, e) carry forward of unused tax credits. Deferred tax liabilities are amounts of income taxes payable in respect of taxable temporary differences.

Pursuant to RA 9337, "National Internal Revenue Code" (NIRC), as amended, the BSP computes its income tax obligation based on (a) Regular Corporate Income Tax (RCIT) computed at 30 per cent of net income or (b) Minimum Corporate Income Tax (MCIT) computed at two 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 form part of the cost of inputs. The monthly VAT declaration and returns are filed with the BIR and the corresponding VAT outputs are paid. VAT rate remains at 12 per cent since 01 February 2006 (NIRC of 1997, as amended).

Discount on Treasury Bills purchased from the secondary market are subject to 20 per cent final withholding tax. However, the taxes paid in the secondary market are not remitted to BIR, but imposed to recoup the taxes paid on the original sale in the primary market by the original buyer (from BTr). This market convention is in accordance with the provisions of Department of Finance Order No. 141-95 and BIR Revenue Ruling dated 9 November 1995, Ref. No.177-95 which state that, “xxx twenty per cent (20%) final withholding tax (FWT) on discounts xxx shall be imposed only on every original sale in the primary market but shall no longer be collected in the secondary market trading of the said securities.”

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

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 (TD), DLC and Asset Management Department (AMD) are guided by policies approved by the MB.

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 a risk management structure, headed by the Risk Oversight Committee (ROC), which consists of the MB Members, the Risk Management Office (RMO) and Risk Management Units (RMUs). 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 RMUs are groups within each department/office and basically perform risk monitoring and control at the operations level, and provide 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, maximum maturity/duration limits, criteria for liquidity of an issue and concentration limits, monitoring compliance, and reporting of breaches on 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., currency, interest and commodity risks. Allowable exposures and limits thereon are specified in the investment guidelines. Adherence to the investment guidelines is monitored daily by the Investment Risk and Analytics Group of the TD 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 2012 grouped into assets and liabilities at carrying amounts:

Currency	Original Currency	USD Equivalent
Assets		
USD	70,089,799	70,089,799
JPY	674,854,107	7,804,477
EUR	2,333,047	3,076,440
AUD	2,275,210	2,362,294
SDR	1,230,935	1,891,849
CNH	640,952	102,997
GBP	750	1,219
SAR	3,936	1,049
CAD	985	992
SGD	1,107	905
CHF	639	697
AED	2,427	661
HKD	2,517	324
BND	153	125
THB	3,821	125
CNY	517	83
KRW	50,025	47
BHD	12	33
IDR	69,050	7
Liabilities		
USD	5,530,117	5,530,117
SDR	864,209	1,328,219
JPY	9,424,790	108,696
EUR	35,375	46,683
DKK	2,555	452

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

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

Market Risk Measurement

The TD makes use of the Value-at-Risk (VaR) concept in measuring the market risk both in absolute term and relative to each portfolio's respective benchmark. VaR is also measured in aggregate and disaggregate basis (i.e. VaR per portfolio or sub-portfolios), providing useful information on the diversification benefits of holding certain securities or sub-portfolios or group of assets.

For the investment portfolio, a certain level or budget of risk for a given period (known as the stop loss budget) is recommended to and approved by the Investment Management Committee (IMC). Depending upon the existing market condition and outlook, the stop loss budget is allocated in market/ security selection, duration, curve and credit.

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

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

3.3 Liquidity Risk

Liquidity risk 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.

Liquidity risk may be in the form of asset or funding liquidity. The BSP manages the funding liquidity risk by apportioning from its internally-managed fund a certain amount or portfolio value known as the liquidity portfolio. The level of the fund is determined based on the projected semestral liquidity requirements. Foreign currency obligations and actual flows to and from the portfolio is monitored regularly taking into account the maturities and currency denominations of every flows.

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 is attached as Annex A.

For the asset liquidity risk, BSP requires investing in securities listed in an exchange and a certain minimum issue size.

3.4 Operational, legal and reputational risks

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, checks and balances, staff rotation and strict adherence with the code of ethics.

In treasury operations, the Philippine Dealing Exchange 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 TD 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 AMD is exposed to risks associated with the decline in market values of acquired assets. In managing these risks, the Department engages the services of appraisal companies acceptable to the BSP Monetary Operations Sub-Sector to conduct periodic appraisal of the BSP acquired assets in accordance with established appraisal valuation principles and practices.

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

4. SIGNIFICANT EVENTS

The MB approved on -

a. 2 February 2012 the collection of the excess interest paid on the Demand Deposit Account of all banks/non-banks with quasi-banking functions amounting to about PHP990.90 million for the first semester of 2011;

b. 5 July 2012 the amicable settlement of PHP9.20 million in Construction Industry Arbitration Commission (CIAC) Case No. 40-2011 entitled “New Kanlaon Construction, Inc. versus Bangko Sentral ng Pilipinas”, pending before the CIAC;

c. 30 October 2012 the conveyance, by way of property dividends to the National Government (NG) as part of the total CY 2009 dividend due, of 14 properties located in various areas with total assigned value of PHP451.02 million; and the booking of a receivable from the NG amounting to PHP1.67 million, representing the difference between the Commission on Audit's final valuation on the 14 properties which is higher than the previously booked amount to be deducted/offset from any dividend due and payable to NG in the future; and

d. 20 December 2012 the reacquisition of the property in Fort San Pedro, Iloilo City, at a cost of not more than PHP69.25 million payable to the National Housing Authority.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

6. INVESTMENT SECURITIES

	2012	2011
Marketable securities	2,231,762,814	2,111,001,223
Other investments	504,480,851	513,246,532
	2,736,243,665	2,624,247,755
Accrued interest	8,073,449	9,717,560
	2,744,317,114	2,633,965,315

Marketable securities consist of foreign securities (free) and repurchase agreements. The former primarily includes commercial papers in USD, JPY, EUR and AUD currencies. Other investments include externally managed funds (PHP465.048 billion), Asian bond fund (PHP26.951 billion), BISIP (Bank for International Settlement and Investment Pool - PHP9.030 billion) and securities under the securities lending agreement (PHP3.452 billion).

7. GOLD

	Note	2012	2011
In bullion vault	a	169,774,428	167,543,286
With foreign financial institutions	b	255,504,910	184,368,597
		425,279,338	351,911,883

a. Gold in bullion vault

	2012		2011	
	FTO	PHP	FTO	PHP
Opening balance-January 1	2,435,953.316	167,543,286	2,830,066.357	175,436,873
Additions during the year	37,550.165	2,684,206	606,010.088	37,993,448
Sub-Total	2,473,503.481	170,227,492	3,436,076.445	213,430,321
Transfers to foreign financial institutions	-	-	(1,000,123.129)	(45,227,168)
Net decrease due to price/ rate revaluation	-	(453,064)	-	(659,867)
Ending balance-December 31	2,473,503.481	169,774,428	2,435,953.316	167,543,286

	USD/FTO	USD/FTO
Revaluation Rate	1,670.900	1,566.050
Moving Average Rate	1,009.510	999.649

b. Gold with foreign financial institutions

	2012		2011	
	FTO	PHP	FTO	PHP
Opening balance-January 1	2,680,580.686	184,368,597	2,124,369.305	131,690,449
Additions during the year:				
Transfer from bullion vault	-	-	1,000,123.129	45,250,880
Purchases	1,254,794.339	92,645,818	1,461,732.253	102,729,091
	1,254,794.339	92,645,818	2,461,855.382	147,979,971
Sub-Total	3,935,375.025	277,014,415	4,586,224.687	279,670,420
Net sales during the year	(212,833.924)	(12,874,047)	(1,905,644.001)	(82,941,474)
Net decrease due to price/ rate revaluation		(8,635,458)	-	(12,360,349)
Ending balance-December 31	3,722,541.101	255,504,910	2,680,580.686	184,368,597

	USD/FTO	USD/FTO
Revaluation Rate	1,670.900	1,566.050
Moving Average Rate	1,404.077	1,262.670

8. INTERNATIONAL MONETARY FUND SPECIAL DRAWING RIGHTS

	2012	2011
Beginning balance – January 1	49,095,928	49,103,339
SDR acquisition	7,368,120	-
Income accruing to the fund	87,990	272,182
Revaluation	(3,548,324)	(4,247)
Payment of charges-interest and remuneration	(68,676)	(248,147)
Adjustment due to moving average computations/ change in policy	(12,461)	(27,199)
	3,826,649	(7,411)
Ending balance – December 31	52,922,577	49,095,928
Accrued interest	6,047	14,971
	52,928,624	49,110,899

9. LOANS AND ADVANCES

	Note	% to Total	2012	2011
Foreign currency loans and advances				
Special purpose				
IBRD 2469		1.58	20,955	20,955
Rediscounting				
Exporters dollar facility		98.42	1,307,154	1,351,120
Total		100.00	1,328,109	1,372,075

	Note	% to Total	2012	2011
Allowance for probable losses		1.58	20,955	20,955
Net		98.42	1,307,154	1,351,120
Accrued interest			349	331
			1,307,503	1,351,451
Local currency loans and advances				
Philippine Deposit Insurance Corp.	a	62.53	66,673,374	66,657,752
National Government- Assumed				
Obligations of :	b.1			
Philippine National Bank			350,000	350,000
Development Bank of the Phil.			442,500	442,500
IMF Quota Subscription	b.2		9,569,312	9,569,312
		9.72	10,361,812	10,361,812
Special purpose				
Thrift banks			11,177	11,177
Specialized banks			14,503	14,503
Rural banks			106,769	105,533
		0.12	132,449	131,213
Emergency	c			
Commercial banks			1,578,260	1,578,260
Thrift banks			2,981,674	3,011,907
Rural banks			542,908	556,495
		4.79	5,102,842	5,146,662
Rediscounting	d			
Commercial banks			17,229,401	13,354,050
Thrift banks			4,185,115	4,635,343
Specialized banks			56,542	62,226
Rural banks			1,095,158	1,285,983
		21.16	22,566,216	19,337,602
Overdrafts/overnight clearing line		1.68	1,790,066	1,789,983
Total		100.00	106,626,759	103,425,024
Allowance for probable losses			4,787,048	4,666,913
Net			101,839,711	98,758,111
Accrued interest			15,363,071	14,027,351
			117,202,782	112,785,462
Total foreign and local currency		100.00	107,954,868	104,797,099
Allowance for probable losses	e	4.45	4,808,003	4,687,868
		95.55	103,146,865	100,109,231
Amount past due (Annex B)			11,578,630	8,542,682
Rate			10.73	8.15

a. Loans and advances to Philippine Deposit Insurance Corporation (PDIC*)* intended for ailing banks slightly increased to PHP66.673 billion compared to last year's level of PHP66.658 billion. The loans to PDIC are collateralized and interest-bearing. This constituted 62.53 per cent of the total local currency loan portfolio.

b.1 Loans and advances to National Government (NG) represents 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 PNB and DBP.

b.2 IMF Quota Subscription represents loan extended to the Republic of the Philippines (ROP) covered by promissory note dated 11 July 2011, to cover the increase in the IMF quota subscription from SDR879.9 million to SDR1,019.3 million or an increase of SDR139.4 million as provided for under IMF Resolution No. 63-2, as required under the Articles of Agreement of the IMF and as authorized under Section 2(a) of RA No. 2052, as amended.

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 21.16 per cent of the local currency loan portfolio increased by PHP3.229 billion from last year-end balance of PHP19.338 billion due mainly to the net grants made to commercial banks of PHP3.875 (total grants of PHP35.601 billion less total payments of PHP31.726 billion).

e. Allowance for probable losses - total past due accounts amounted to PHP11.579 billion or 10.73 per cent of total outstanding loans and advances of PHP107.955 billion exclusive of accrued interest receivable. PHP8.179 billion or 7.58 per cent of said outstanding loans and advances are covered by the Allowance for Probable Losses amounting to PHP4.808 billion.

10. OTHER RECEIVABLES

	Note	2012	2011
Foreign currency receivables			
Non-IR foreign exchange assets	a	54,572,149	49,271,246
Due from foreign banks – NIR		4,178,425	-
Accrued interest		1,046,923	1,031,950
Due from foreign banks/branches	b	70,204	22,727
		59,867,701	50,325,923
Local currency receivables			
Accounts receivable -Treasurer of the Philippines (TOP)	c	9,416,981	12,064,078
Sales contracts receivable	d	1,886,671	1,671,272
Accounts receivable (net of allowance)	e	1,381,913	4,461,476
Notes receivable	f	1,366,731	1,366,731
Receivables from staff/others		322,780	332,257
Lease receivable	g	180,093	130,373
Due from local banks		50,880	63,870
Accrued interest-Sales contracts receivable		24,642	15,665
Items under litigation	h	14,500	14,500
Accrued interest -receivable from redemption of acquired assets		2,358	-
		14,647,549	20,120,222

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

The account increased primarily from purchase of ROP bonds amounting to USD103.100 million or PHP4.374 billion. ROP Bonds of USD1.252 billion or PHP51.422 billion was used as collateral for domestic borrowings as at 31 December 2012.

b. 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.

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 23 May 2012 the account decreased by PHP2.647 billion representing the NG share in the CY2012 revaluation gain.

d. Sales contract receivable - pertains to receivables arising from the sale on installment of BSP assets owned or acquired which are covered by a duly executed Contract to Sell. Breakdown is shown below:

	Total 2012	Current	Non-Current
I. Auction /Negotiated Sales			
a. BSP personnel	8,793	586	8,207
b. Non-BSP personnel/Others	1,622,449	108,163	1,514,286
c. Restructured principal – Non-BSP	589	39	550
d. Restructured interest – Non-BSP	126	8	118
II. Sales under AMD-PFO Housing Program			
a. BSP personnel	171,563	5,719	165,844
b. Non-BSP personnel/Others	83,151	2,772	80,379
	1,886,671	117,287	1,769,384

e. Accounts receivable - the decrease represents full settlement of the excess accrued interest paid to banks and closure of the amount reclassified as receivable representing the value of San Miguel, Bulacan property applied as property dividend to the NG.

f. 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 and 1998 placed in an Escrow fund to be administered by DLC until the fund reaches PHP1.367 billion. It shall be applied against BSP claim, per MB Res. No. 1131 dated 27 September 1995 as amended by Res. Nos. 590 and 1069 dated 13 June and 16 October 1996, respectively. PHP301.38 million is now with the Escrow fund as of 31 December 2012.

g. Lease receivable - includes rental receivable from Banco Filipino Savings and Mortgage Bank (BFSMB) on properties dacioned to BSP. The Memorandum of

Agreement between BSP and BFSMB signed on 20 December 1999 provides that "xxx, all fruits of the property conveyed shall pertain to Bangko Sentral. If any of the properties conveyed remains in the possession of Banco Filipino for its use and benefit, they shall be subject to the payment to Bangko Sentral of reasonable rental in such amount as may be agreed upon by the parties, xxx." The BFSMB, however, filed with the Regional Trial Court of Makati City, Civil Case No. 08-991 for Declaration of Nullity of Contracts with Extremely Urgent Application for TRO/Writ of Preliminary Injunction seeking injunction against the consolidation of titles acquired by the BSP pursuant to the MOA. The dacioned assets are being managed and administered by the PDIC as liquidator of BFSMB.

h. Items under litigation

	Note	2012	2011
CSS-FAD	a	14,500	14,500
BSRU-Tacloban	b	2,500	2,500
BSRU-Legaspi	c	1,758	1,758
Total		18,758	18,758
Less: Allowance for doubtful account		4,258	4,258
		14,500	14,500

a. The amount refers to the pilfered PHP4.500 million clearing items paid to the Bank of the Philippine Islands under Case No. 18793 and tampered PHP10.0 million denominated Treasury bills under Case No. 88-2389.

b. This pertains to the uncollected claims from BSP officers and employees of BSRO-Tacloban.

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

11. INVESTMENTS SECURITIES – DOMESTIC

		2012		2011	
	Note	Face Value	Market Value	Face Value	Market Value
BSP-Head Office	a				
Treasury bills		174,341,501	173,091,516	196,534,000	194,377,935
Semi-annual FLT treasury bond		50,000,000	42,244,120	50,000,000	43,227,878
Fixed rate treasury bonds		2,072,139	2,344,657	2,174,513	2,309,471
LBP Bond		78	78	155	151
		226,413,718	217,680,371	248,708,668	239,915,435
PICC-Investments			392,500		364,000
Accrued interest			69,850		93,882
			218,142,721		240,373,317

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

	2012	2011
Beginning balance	239,915,435	245,358,084
Purchases	426,422,748	457,994,990
Sales	(1,149,931)	(11,174,848)
Redemption	(447,021,582)	(454,964,557)
Net premium amortization	4,674	8,152
Marking to market	(38,203)	4,315,464
Accrual/reversal of discount	(452,770)	(1,621,850)
Ending balance	217,680,371	239,915,435

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

Maturity Schedule of Investment Securities

	91-180 days	181 – 365 days	More than 1 year	Total
Treasury bills	64,673,681	108,417,835	-	173,091,516
Semi-annual FLT treasury bond	-	-	42,244,120	42,244,120
Fixed rate treasury bonds	-	-	2,344,657	2,344,657
LBP Bond	-	-	78	78
	64,673,681	108,417,835	44,588,855	217,680,371

12. DUE FROM ADMINISTRATOR OF FUNDS

	Note	2012	2011
Comptrollership			
Fidelity insurance		22,247,379	22,247,379
Currency insurance		2,798,665	2,798,645
Post retirement benefit	a	29,168	40,748
Gold insurance		9,334	7,412
		25,084,546	25,094,184
Provident fund office			
BSP Properties Self-Insurance Fund	b	1,960,158	1,100,000
Post retirement benefit	c	1,157,335	1,197,334
Directors' and officers' liability Insurance (DOLI) fund		1,092,289	1,092,289
Car plan fund		505,456	505,456
Provident fund		153,764	147,344
Longevity trust fund		149	-
		4,869,151	4,042,423
Department of Loans and Credit			
Industrial Fund		2,515	2,515
		29,956,212	29,139,122

a. Financial assistance and retirement benefits paid for CY2012.

b. Additional provision for Properties Self-Insurance Fund for CY2012 and income earned to fund the payment of GSIS insurance premium.

c. Amount transferred from Provident Fund Office to Comptrollership Department for the retirement gratuity of retired/resigned BSP officials/employees.

13. ACQUIRED ASSETS HELD FOR SALE

	2012	2011
Acquired assets held for sale	469,913	1,217,407
Less: Allowance for market decline	2,380	5,575
	467,533	1,211,832

Below is the movement of the acquired assets held for sale for the year ended 31 December 2012:

Additions			Deduction		
Particulars	TCTs	Book Value	Particulars	TCTs	Book Value
Transferred from investment property	1,390	135,788	Sale/negotiation	414	60,649
			Transferred to investment property as property dividend to NG	13	276,500
			Reclassification/ adjustment	3,728	546,133
Total	1,390	135,788	Total	4,155	883,282

14. INVESTMENT PROPERTY

	2012	2011
Investment property	11,923,337	11,298,584
Less: Allowance for market decline	1,493,892	1,553,314
	10,429,445	9,745,270

Below is the movement of the investment property for the year ended 31 December 2012:

Additions			Deduction		
Particulars	TCTs	Book Value	Particulars	TCTs	Book Value
Dacion en Pago	1,279	597,010	Sale/negotiation	1,852	477,939
Foreclosure	397	405,851	Transferred to acquired assets	1,390	135,788
Transferred from acquired assets as property dividend to NG	13	276,500	Distributed as property dividend to NG	13	276,500
Reclassification/ adjustment	3,689	235,619			
Total	5,378	1,514,980	Total	3,255	890,227

15. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

	Land and Bldg.	Property Improvement	Computer Hardware	Plant and Equipment	In-Transit Items	In-Process / Progress/under Construction Items	Total
Cost							
01 January 2012	11,541,550	3,836,492	1,038,596	5,300,212	1,803,364	690,111	24,210,325
Additions	439,094	121,515	140,372	2,121,704	74,347	1,023,099	3,920,131
Disposals	(14,137)	(1,239)	(5,122)	(14,752)	-	-	(35,250)
Reclassifications /adjustments	961,661	41,059	(1,348)	(36,558)	(1,877,711)	(987,660)	(1,900,557)
31 December 2012	12,928,168	3,997,827	1,172,498	7,370,606	-	725,550	26,194,649
Accumulated depreciation							
01 January 2012	(2,205,421)	(2,013,585)	(710,752)	(3,905,220)	-	-	(8,834,978)
Depreciation - CY2012	(200,474)	(245,077)	(75,698)	(349,145)	-	-	(870,394)
Disposals			-	-			-
Reclassifications / adjustments	9,255	-	-	-			9,255
31 December 2012	(2,396,640)	(2,258,662)	(786,450)	(4,254,365)	-	-	(9,696,117)
Net book value 31 December 2012	10,531,528	1,739,165	386,048	3,116,241	-	725,550	16,498,532
Net book value 31 December 2011	9,336,129	1,822,907	327,844	1,394,992	1,803,364	690,111	15,375,347

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. The results of the appraisal report was submitted to ASD on November 2011 to be used as reference in the formulation of the policy guidelines on the establishment of the fair value of Bank's PPE.

16. INTANGIBLES

	Computer Network and Application System	Computer Network and Application System in Process	Total
Cost			
01 January 2012	2,072,535	51,853	2,124,388
Additions	58,375	-	58,375
Disposals/retirement	-	-	-
Reclassifications/adjustments	4,270	-	4,270
31 December 2012	2,135,180	51,853	2,187,033
Accumulated amortization			
01 January 2012	(1,785,365)	-	(1,785,365)
Amortization	(114,226)	-	(114,226)
Reclassifications/adjustments	-	-	-
31 December 2012	(1,899,591)	-	(1,899,591)
Net book value 31 Dec 2012	235,589	51,853	287,442
Net book value 31 Dec 2011	287,170	51,853	339,023

17. INVENTORIES

	Note	2012	2011
Gold for refining	a	3,074,295	3,377,676
SPC inventories	b	2,780,398	3,292,900
Work-in-process		1,803,090	1,821,782
Currency inventory	c	1,034,592	1,356,023
Gold for domestic sale		26,563	24,004
Silver for refining		10,219	8,838
Silver for domestic sale		386	-
Gold and silver for refining recovery		-	15,957
		8,729,543	9,897,180

a. The decrease in the account was due to the drop in the volume of gold sold to BSP upon imposition by the BIR of the two per cent excise tax and five per cent creditable withholding tax on panners of gold effective 11 July 2011.

b. The decline was attributed to the drop in the procurement of the New Designed Series (NDS) banknotes to make way for the in-house production of the New Generation Currencies (NGC), purchases of raw materials of which were done only in the latter part of 2012.

c. The account represents the costs of notes and coins received by the Currency Issue and Retirement Office (CIRO) from the Banknotes Securities Printing Division (BSPD) and, Mint and Refinery Operations Department (MROD). The costs of production are charged to the Currency Inventory account for every delivery made by BSPD or MROD.

For CY 2012, there were shortfalls in production of notes and coins primarily due to shortage of ink and coin blanks resulting from delayed procurement or delivery of these items, or delayed delivery of outsourced finished notes. For MROD, of the target delivery of 1,420.548 million pieces (mpcs.), only 88.16 per cent or 1,252.393 mpcs. were actually delivered to CIRO. The undelivered 168.155 mpcs. consisted of 5-Piso and 25-Sentimo coins. For BSPD, only 60.85 per cent of 2,637.22 mpcs. equivalent to 1,604.67 mpcs. were delivered during the year.

18. REVALUATION OF FOREIGN CURRENCY ACCOUNTS

	2012	2011
Unrealized gains/(losses) on FX Rate Fluctuations		
Beginning balance, January 1	9,878,936	(66,442,509)
Unrealized gains/(losses) for the year (net of realized transactions)	(232,854,794)	76,321,445
Ending balance, December 31	(222,975,858)	9,878,936
Unrealized gains(losses) on Price Fluctuations		
Beginning balance, January 1	135,914,506	128,349,930
Unrealized gains for the year (net of realized transactions)	22,498,447	7,564,576
Ending balance, December 31	158,412,953	135,914,506
Unrealized gains(losses) on FX Rate and Price Fluctuations, December 31	(64,562,905)	145,793,442

19. MISCELLANEOUS ASSETS

	Note	2012	2011
Withholding tax at source		460,154	347,577
Prepaid expenses	a	137,268	153,530
Other supplies		115,035	114,668
Paintings and sculptures	b	91,461	82,716
Input tax		46,982	37,281
Deposits – utilities & services		24,984	24,959
Numismatic collections on hand		21,837	21,493
Stocks and other securities	c	10,715	10,715
Semi-expendable property		6,167	-
Creditable tax certificates	d	4,835	4,835
Assets for disposal		1,026	802
Deferred charges		863	863
Items for exhibit		242	242
Commemorative notes & coins		168	7
Land under usufruct	e	82	-
Demonetized commemorative coins		11	13
Checks and other cash items		3	2
Checks and other cash items in-transit		2	5,004
Miscellaneous assets-SPC		-	2,243
BSP Inter-office reciprocal account		(738)	-
Philpass FAD account		(32)	-
		921,065	806,950

a. The account includes taxes withheld from purchases of short-term government securities which are later recognized as expense upon maturity. The decrease in CY 2012 was primarily due to low exposure of banks in government securities attributed to lower interest rates.

b. The change in the account was brought about by the bank's acquisition of various paintings of renowned artists in CY2012.

c. Breakdown includes the following:

Particulars	Amount
PICC investments	9,520
Proprietary membership share	741
Telephone companies stocks	454
	10,715

d. The amount represents refund of customs duties, taxes, fees, etc. earlier paid in protest by the Bank from CY1996 to CY1998 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 BSP.

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

20. SHORT-TERM FOREIGN CURRENCY DEPOSITS

	Note	2012	2011
National Government	a	12,054,344	26,121,425
Regular FCD		-	14,405,432
Other entities	b	20,471,455	57,862
		32,525,799	40,584,719
Accrued interest		1,191	562
		32,526,990	40,585,281

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:

	2012	2011
National Government		
TOP-Special Accounts	6,706,787	25,064,120
TOP-Time Deposits	5,347,557	1,057,305
	12,054,344	26,121,425

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

	2012	2011
Other Entities		
PSALM	20,430,358	10,151
NPC	39,638	46,151
North Luzon Railways	1,447	1,547
MWSS	12	13
	20,471,455	57,862

21. LOANS PAYABLE

	Note	2012	2011
Maturing in more than 5 years			
Blocked peso deposit (Circular 1139/1202)		30,377	33,123
Blocked peso deposit (Circular 1298)	a	18,569	918,854
CB Memorandum Circular at original cost (PHP14.00)		3,846	3,846
		52,792	955,823
Accrued interest		-	12,142
		52,792	967,965

a. These are local currency deposits of original public sector borrowers NG, government owned or controlled corporations and government financial institutions) used to cover for their FX loan amortizations that were transferred to the then Central Bank of the Philippines (CBP) on the date the amortizations fell due. These deposits were later registered with the BSP under various foreign loan restructuring arrangements. Partial settlement of FLP blocked peso deposits of PHP0.901 billion contributed mainly to the decrease in the balance of the outstanding account.

22. BONDS PAYABLE

	Note	2012	2011
Bonds due 2027	a	16,431,200	17,567,600
Bonds due 2097		4,107,800	4,391,900
		20,539,000	21,959,500
Less: Discount on bonds		(74,903)	(80,504)
		20,464,097	21,878,996
Accrued interest		73,598	78,688
		20,537,695	21,957,684

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

23. ALLOCATION OF SPECIAL DRAWING RIGHTS

	2012	2011
Allocation of SDRs	52,903,728	56,501,884
Accrued interest	6,044	17,229
	52,909,772	56,519,113

24. DEPOSITS

	Note	2012	2011
Government deposits			
Short –term	a.1	300,352,564	7,557,965
Long – term	a.2	28,265,952	28,265,953
		328,618,516	35,823,918
Accrued interest		160,166	133,945
		328,778,682	35,957,863
Demand Deposits			
Banks/NBQBs-reserve deposits	b.1	782,668,347	284,344,270
Banks/NBQBs-liquidity reserves	b.2	-	389,178,460
Others		29,859,606	29,933,793
		812,527,953	703,456,523
Accrued interest		307,702	566,987
		812,835,655	704,023,510
IMF and other financial institutions	c.1	40,331,897	42,962,614

a. Government deposits

a.1 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.

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

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

b.1 40 per cent of the required reserves (excluding liquidity reserve) or demand deposit balance maintained with the BSP, whichever is lower, is paid interest at four per cent per annum. The interest is credited to the demand deposit accounts on a quarterly basis. Effective 06 April 2012, deposits maintained by banks with the BSP in compliance with the reserve requirements shall no longer be paid interest as per MB Res. No. 1924 dated 27 December 2011 and BSP Circular No. 753 dated 29 March 2012.

b.2 Term deposits of banks/NBQBs placed in reserve deposit account (RDA) with BSP as mode of compliance for liquidity reserves from holdings in government securities purchased from BSP issued specifically for the purpose as approved by the MB per its Resolution dated 16 March 2006.

Effective 6 April 2012, the RDA Facility was discontinued with the issuance of the following BSP Circulars both dated 29 March 2012:

(1) Circular No. 752 which changed the maturity dates of all RDA deposits to 04 April 2012.

(2) Circular No. 753, series of 2012, which discontinued the RDA facility and that BSP, shall no longer accept new RDA placements from NBQBs effective 06 April 2012. However, outstanding placements in the RDA facility shall continue to be eligible and be paid interest at maturity based on existing regulations.

c. IMF currency holdings and other financial institutions.

c.1 The Republic of the Philippines has been a member of the IMF since 1945. BSP is the designated depository for the IMF's holdings of local currency. The IMF's (Account No. 1) holdings of local currency amounted to an equivalent of SDR606.520 million at 31 December 2012.

The balance of IMF's security holdings (SDR105.222 million) that 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 CY2012, the depreciation of peso against the SDR by PHP3.74, from PHP69.539/SDR as at 30 April 2011 to PHP65.799/SDR as at 30 April 2012, resulted to a revaluation gain of PHP2.647 billion in the IMF local currency holdings with BSP. The revaluation is solely attributable to the NG since BSP has already fully paid its credit availments from Standby Credit Facility and Extended Fund Facility since December 2006. BSP booked the revaluation loss as additional receivable from NG under the account "Accounts Receivable-TOP".

25. CURRENCY IN CIRCULATION

	2012	2011
Currency notes issued	741,436,986	769,079,151
Cash on hand - notes	70,789,886	139,830,436
Net notes in circulation	670,647,100	629,248,715
Currency coins issued	22,626,346	20,298,497
Cash on hand - coins	616,369	636,279
Net coins in circulation	22,009,977	19,662,218
Net currency in circulation	692,657,077	648,910,933

Inventory of Currency Issued

	January 1 2012	Requisitions from UCSC	Retirement	31 December 2012
Currency issued				
Notes	769,079,151	459,011,831	486,653,996	741,436,986
Coins	20,298,497	2,329,440	1,591	22,626,346
	789,377,648	461,341,271	486,655,587	764,063,332
Cash on hand				
Notes				70,789,886
Coins				616,369
Total Held in BSP-Cash Department				71,406,255
Total currency in circulation				692,657,077

Details of currency in circulation are as follows:

		Quantity		Amount	
	Denomination	2012	2011	2012	2011
Notes	100,000	122	117	12,200	11,700
	2,000	30,882	28,594	61,764	57,188
	1,000	357,208,764	359,808,429	357,208,764	359,808,429
	500	428,661,228	345,789,521	214,330,614	172,894,761
	200	36,739,177	34,272,943	7,347,836	6,854,589
	100	565,412,913	510,571,571	56,541,291	51,057,157
	50	413,605,566	429,579,072	20,680,278	21,478,954
	20	681,631,519	812,435,954	13,632,630	16,248,719
	10	68,029,405	68,545,142	680,294	685,451
	5	30,285,697	30,353,456	151,429	151,767
				670,647,100	629,248,715
Coins	10 - Piso	554,327,359	462,935,579	5,543,273	4,629,356
	5 - Piso	1,644,619,551	1,498,059,741	8,223,098	7,490,299
	1 - Piso	6,145,911,809	5,531,434,696	6,145,912	5,531,434
	25 - Sentimo	6,157,221,807	5,917,437,738	1,539,305	1,479,359
	10 - Sentimo	2,734,758,713	2,574,427,459	273,476	257,443
	5 - Sentimo	2,046,369,034	1,844,482,148	102,318	92,224
	1 - Sentimo	24,680,206	22,895,172	247	229
				21,827,629	19,480,344
Commemorative coins		3,258,957	3,196,633	182,348	181,874
				22,009,977	19,662,218
Total currency in circulation				692,657,077	648,910,933

26. OTHER LIABILITIES

	Note	2012	2011
Foreign currency			
Derivative instruments in a loss position	a	634,857	320,628
Other liabilities		5,216,547	3,670,925
Accounts payable		3,343,552	2,344,474
Accrued expenses		202,010	193,401
Derivatives liability	b	117,935	151,417
Other financial liabilities		1,553,050	981,633
		5,851,404	3,991,553
Local currency			
Retirement benefit obligations		1,501,127	1,514,816
Dividends payable	c	449,700	449,345
Interest rebate		49	-
Miscellaneous liabilities		4,424,952	5,511,642
Taxes payable	d	2,014,894	2,622,911
Accounts payable		1,712,048	1,969,918
Accrued expenses		92,836	77,565
Other local currency liabilities	e	605,174	841,248
		6,375,828	7,475,803

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 2012, the outstanding amount represents unrealized losses from exchange rate differences in swap transactions.

b. The amount represents premium received from gold trading option transactions with foreign banks as of 31 December 2012.

c. The amount refers to the total assigned value of the Pamintuan Mansion in Angeles City together with 13 other properties for conveyance to the National Government as property dividend for CY2009 per MB Resolution No. 761 dated 4 June 2010. This was increased by dividend deficiency for CY1995 due to the difference between the "should be" cash dividend and actual payment.

d. The decrease was primarily due to the decline in the level of SDA-Trust in 2012 and the reduction of the policy rates by 25 basis points each on 19 January, 1 March, 26 July and 25 October in 2012. Moreover, the stoppage in the payment of interest in RDA facility effective 6 April 2012 likewise pushed down the final tax corresponding to the interest.

e. The decrease in the account represents various adjustments made to close the outstanding balance credited to Deferred Income account particularly transactions on closed banks and against book value of acquired assets.

27. CAPITAL ACCOUNTS

	Note	2012	2011
Capital	a	40,000,000	20,000,000
Surplus		(45,936,387)	49,767,955
Unrealized losses on Investments	b	(8,055,703)	(8,017,500)
Capital Reserves		78,507,840	77,798,147
Managed Funds			
Fidelity insurance fund		22,247,379	22,247,379
Currency insurance fund		2,798,665	2,798,645
BSP Properties Self-Insurance Fund	c	1,950,000	1,100,000
Retirement benefit fund		1,186,503	1,238,082
Directors'/officers' liability		1,092,289	1,092,289
		29,274,836	28,476,395
Fluctuations in price of gold		42,582,587	42,582,587
Contingencies		3,644,872	3,644,872
Property insurance		1,600,000	1,600,000
SPC rehabilitation		1,321,755	1,408,595
Cultural Properties Acquisition Fund		74,456	78,286
Gold insurance fund		9,334	7,412
		49,233,004	49,321,752
		64,515,750	139,548,602

a. The capital of the BSP shall be PHP50 billion pursuant to Section 2, paragraph 2 of RA 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 RA 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. Additional PHP10 billion capital from the NG was credited on 04 November 2011 as per BTR debit advice no. A.a 2011-11-2179 dated 04 November 2011. On 28 December 2012, the NG remitted an additional PHP20 billion capital subscriptions to the BSP as per LBP Checks Nos. 2088015, 2088016, and 2088017, all dated 28 December 2012. The balance of PHP10 billion remains unpaid by the NG to the BSP.

b. The amount represents 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:

	2012	2011
Beginning balance	(8,017,500)	(12,332,964)
Effect of marking to market of gov't securities -		
Increase/(decrease) in government securities	(38,203)	4,315,464
Ending balance	(8,055,703)	8,017,500

c. The increase represents additional provision for the year in compliance with MB Resolution Nos. 1851 and 323 dated 23 December 2010 and 3 March 2011, respectively.

28. INTEREST INCOME AND INTEREST EXPENSES

	2012	2011
Interest income from financial assets		
Interest income from foreign currency financial assets		
Investment securities	30,185,234	32,834,620
Deposit with foreign banks	569,264	808,866
IMF special drawings rights	58,300	197,008
Loans and advances	3,759	4,320
Other foreign currency receivables	2,251,091	1,908,616
	33,067,648	35,753,430
Interest income from local currency financial assets		
Investment securities	4,497,375	5,745,948
Loans and advances	3,206,926	3,983,746
Other receivables	144,010	138,278
	7,848,311	9,867,972
	40,915,959	45,621,402
Interest Expense from financial liabilities		
Interest expense on foreign currency financial liabilities		
Bonds payable	1,794,966	1,881,182
Allocation of IMF special drawing rights	56,853	226,798
Short term deposits	45,214	79,496
Other liabilities	3,399	49,186
	1,900,432	2,236,662
Interest expense on local currency financial liabilities		
Special deposit account	70,754,736	70,155,779
Securities sold under agreements to repurchase	10,019,934	11,200,651
Government deposits	5,738,088	5,196,919
Deposits of banks and other financial institutions	2,348,453	6,843,848
	88,861,211	93,397,197
	90,761,643	95,633,859

29. OTHER OPERATING INCOME

	2012	2011
Printing, minting and refinery	572,664	356,595
Fees – local		
Banking supervision/clearing/license fees	2,591,469	3,528,298
Processing and filing fees	1,841,445	52,320
Penalties and late charges	269,784	379,107
Transaction fee - *PhilPaSS*	163,695	152,554
Others	43,960	35,439
	4,910,353	4,147,718
Other income		
Gain on sale of acquired assets	294,694	88,254
Rental on acquired assets	163,971	18,461
Building rental	12,449	13,269
Other miscellaneous income	373,512	767,371
	844,626	887,355
	6,327,643	5,391,668

30. CURRENCY PRINTING AND MINTING COST

	2012	2011
Notes	3,502,785	3,606,770
Coins	2,065,874	1,836,035
	5,568,659	5,442,805

31. OPERATING EXPENSES

	Note	2012	2011
Personnel services, development and training	a	9,364,820	8,934,954
Administrative expenses	b	2,202,001	3,121,634
Depreciation		646,455	613,340
		12,213,276	12,669,928

a. Personnel services

	2012	2011
Salaries and wages	6,493,412	6,336,457
Defined contribution plans	1,774,006	1,690,050
Social security contribution	402,239	385,360
Sickness and death benefits	256,953	218,125
Post-retirement benefits	230,269	208,961
Personnel development and training	192,541	74,642
Medical and dental benefits	15,400	21,359
	9,364,820	8,934,954

b. Administrative expenses

	2012	2011
Repairs and maintenance	353,416	340,733
Traveling expenses	309,295	398,948
Water, illumination and power services	308,470	277,506
Currency and gold operations expenses	209,070	208,433
Taxes and licenses	169,910	2,799,238
Acquired assets expenses	169,786	59,849
Grants, subsidies and contributions	143,915	128,333
Communication services	130,633	153,401
Consultants and specialist services	100,733	99,849
Fidelity and property insurance	61,932	62,469
Supplies and materials	54,161	59,039
Auditing services	43,028	38,922
Losses due to market decline	38,514	(153)
Rentals	26,751	38,815
Ammunitions	9,107	9,167
Discretionary expenses	3,963	4,252
Others	69,317	(1,557,167)
	2,202,001	3,121,634

32. PROFIT FOR DISTRIBUTION

In view of the net loss incurred, BSP has no dividend to remit as prescribed under Section 132 (b) of RA No. 7653, The New Central Bank Act.

	2012	2011
Loss for the year	(95,380,263)	(33,688,107)

33. TRUST FUNDS

	2012	2011
Comptrollership	25,077,525	25,089,016
Department of Loans and Credit-Accounting	3,265,297	3,102,127
Department of Loans and Credit -Industrial Fund	-	7,519
Supervision & Examination Department-Rural Banks	2,178,053	2,175,152
Treasury Department-Domestic	1,949,468	1,777,359
	32,470,343	32,151,173

34. CASH AND CASH EQUIVALENTS

	2012	2011
Foreign currency assets		
Foreign investments - readily convertible to Cash	2,231,762,814	2,111,001,223
Deposit with foreign banks (net of derivatives liability of PHP117,934,938)	198,661,902	251,036,383
Due from foreign banks - NIR	4,178,425	-
Other cash balances (foreign currency on hand)	429,429	295,386
Other FX receivable - due from FX banks - special account	70,204	22,727
Non-IR foreign currency on hand	19,309	12,330
	2,435,122,083	2,362,368,049
Local currency assets		
Government securities	218,072,870	240,279,435
Other receivables – revolving fund	278,501	279,114
Other receivables – due from local banks	50,880	63,870
Miscellaneous assets – checks and other cash Items	3	2
	218,402,254	240,622,421
Demand liabilities		
Deposit of banks and other financial institutions	(2,485,496,164)	(2,380,607,451)
Government demand deposits	(298,618,517)	(5,823,918)
	(2,784,114,681)	(2,386,431,369)
Cash and Cash Equivalents, 31 December	(130,590,344)	216,559,101

Cash and cash equivalents turned to a negative balance in CY 2012 due to the increase in the NG's placements in fixed-term deposits by PHP292.795 billion, which according to the BTr, resulted from the intensified collections of the Bureau of Customs and the BIR.

As a central monetary authority, the BSP is backed-up by its total financial assets of PHP3,867 billion composed mainly of gross international reserves (GIR) of PHP3,424 billion. It shall be free to convert any of the GIR into other assets as provided for in

Section 66 of RA 7653. With a negative cash and cash equivalent balance, the BSP's unencumbered gold holdings of PHP425.279 billion at year-end can be converted to cash to pay its short-term obligations. Furthermore, the BSP can exercise its sole power and authority to issue currency or to avail of the lending facilities of the IMF, when circumstances warrant.

35. RECONCILIATION OF OPERATING CASH FLOW WITH REPORTED NET INCOME/LOSS

	2012	2011
Reported operating deficit	(95,380,263)	(33,688,107)
Operating cash flows from changes in asset and liability balances	(192,458,126)	(50,808,087)
Add (subtract) non-cash items		
Depreciation	646,455	613,340
Provision for probable loss	473,606	283,897
Income Tax expense due to movement in DIT	44,576	230,834
Recovery from provision for market decline	38,514	(153)
Amortization of premium/discount on bonds payable	5,600	186
Miscellaneous income from sale of gold closed to Surplus account	3,565	-
Interest income - loans and advances - prior period	739	-
	1,213,055	1,128,104
Add (subtract) movements in other working capital items:		
(Increase)/decrease in accounts receivable	3,079,563	(1,915,840)
(Increase)/decrease in interest receivable	337,094	(3,320,642)
Increase in miscellaneous liabilities	452,994	46,219
Increase/(decrease) in interest payable	(1,325,553)	943,928
	2,544,098	(4,246,335)
Add (subtract) investing and financing activities		
Net realized loss on fluctuations in FX rates	50,375,851	36,223,621
Net cash used in operating activities	(233,705,385)	(51,390,804)

36. TAXES

36.1 Income Taxes

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

	2012		2011	
	Amount	%	Amount (as restated)	%
Provision for income tax computed at the statutory income tax rate	(28,600,706)	(30.00)	(10,037,182)	(30.00)
Additions to/(reductions in) income tax resulting from the tax effects of:		`		
Non-deductible national taxes	275,098	0.29	351,768	1.05
Provision for allowance for doubtful accounts	142,082	0.15	85,169	0.25
Provision for unused leave credits	71,796	0.08	56,525	0.17
Provision for loss on market decline	11,554	0.01	(46)	0.00
Debits on valuation allowance credited to Miscellaneous Income	(474)	(0.00)	(297,087)	(0.89)

	2012		2011	
	Amount	%	Amount (as restated)	%
PICC income and expenses	(3,163)	(0.02)	(825)	0.00
Written-off accounts	(15,873)	(0.02)	(6,401)	(0.02)
Actual leave credits paid	(75,902)	(0.08)	(64,707)	(0.19)
Income related to the sale of acquired assets	(82,140)	(0.09)	-	-
Prior year reversal of allowance for doubtful accounts	(163,736)	(0.17)	-	-
Interest Income subject to Final Tax	(1,492,076)	(1.57)	(1,723,780)	(5.15)
	(1,332,834)	(1.42)	(1,599,384)	(4.78)
Actual provision for corporate income tax	(29,933,540)	(31.42)	(11,636,566)	(34.78)

Actual provision for corporate income tax, 31 December 2011, before adjustments	(11,640,854)
Add (deduct):	
Realized losses from market decline	4,375
Deferred interest income	44
Accrued interest income earned	(131)
	4,288
Actual provision for corporate income tax, 31 December 2011, as restated	(11,636,566)

36.2 Deferred Income Taxes

The significant components of the Bank's deferred tax assets and liabilities as at 31 December are as follows:

	2012	2011 (as restated)
Deferred income tax asset		
Allowance for doubtful accounts	1,883,755	1,924,224
Unused leave credits	450,338	454,445
Excess minimum corporate income tax (MCIT)	171,458	171,458
Tax overpayments	4,280,662	4,280,662
Total deferred income tax assets	6,786,213	6,830,789

Deferred income tax assets, 31 December 2011, before adjustment	7,298,456
Add (deduct):	
Allowance for market decline	(467,667)
Deferred income tax assets, 31 December 2011, as restated	6,830,789

Deferred income tax liability, 31 December 2011, before adjustment	(43)
Add (deduct):	
Unearned interest income	43
Deferred income tax liability, 31 December 2011, as restated	-

The movement in the deferred income tax account is summarized as follows:

	2012	2011 (as restated)
Net balance at the beginning of the year, before adjustments	6,830,789	7,529,247
Add (deduct):		
Allowance for market decline	-	(467,667)

	2012	2011 (as restated)
Unearned interest income	-	43
		(467,624)
Net balance at the beginning of the year, after adjustments	6,830,789	7,061,623
Income tax expense	(44,576)	(230,834)
Net balance at the end of the year	6,786,213	6,830,789

The allowance for market decline account amounting to PHP1.496 billion was derecognized as deferred income tax (DIT) component in CY 2012. This refers to the provision for loss from market decline of acquired assets and investment property, which are classified as capital assets subject to capital gains tax. Capital losses are deductible only to the extent of capital gains, pursuant to Section 34 (D)(4)(A) of the Tax Code, hence, the said allowance for market decline is accounted for as a permanent difference for deferred tax purposes. The deferred tax asset that was derecognized on the said allowance for market decline account (equivalent to 30 per cent) is PHP0.449 billion and PHP0.468 billion in CY 2012 and CY 2011, respectively. For comparative purposes, the affected figures for CY 2011 were restated, wherever appropriate.

The deferred tax charge in the statement of income comprises of the following temporary differences:

	2012	2011
Provision for allowance for doubtful accounts	142,082	85,169
Provision for unused leave credits	71,795	56,525
Actual interest income earned	-	131
Reversal of account valuations	(166,678)	(297,087)
Actual leave credits paid	(75,902)	(64,707)
Written-off accounts	(15,873)	(6,400)
Realized losses from market decline	-	(4,375)
Provision for loss on market decline	-	(46)
Deferred interest income	-	(44)
Income tax expenses	(44,576)	(230,834)

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

Date of Incurrence	Date of Expiration	2012	2011
Excess MCIT			
December 31, 2009	December 31, 2012	171,458	171,458
Outstanding NOLCO			
December 31, 2008	December 31, 2011	-	6,288,314
December 31, 2010	December 31, 2013	71,470,030	71,470,030
December 31, 2011	December 31, 2014	38,802,845	38,802,845
December 31, 2012	December 31,2015	99,773,754	-
		210,046,629	116,561,189
Expired Portion		-	6,288,314
Net		210,051,984	110,272,875
Tax Rate		30%	30%
Deferred income tax asset on NOLCO		63,013,989	33,081,863

Consolidated deferred income tax assets have been recorded to the extent that such consolidated deferred income tax assets are expected to be utilized against sufficient future taxable profit. Deferred income tax assets related to NOLCO as shown above are not recognized as it is believed that future taxable profit will not be sufficient to realize these deductible temporary differences in the future.

Similarly, the mark-to-market valuation of domestic securities booked directly to equity under the account “Unrealized Losses on Domestic Investments” are not considered as DIT components as the future taxable profit will not be sufficient to absorb these deductible temporary differences. The deferred tax asset that should have been recognized on the said mark-to-market account is PHP2.417 billion in 2012 and PHP2.405 billion in 2011.

Revaluation of International Reserve account amounting to PHP64.563 billion is not included as a DIT component pursuant to Section 45 of RA 7653 which states that “profits or losses arising from any revaluation of the Bangko Sentral's net assets or liabilities in gold or foreign currencies with respect to the Philippine peso shall not be included in the computation of the annual profits and losses of the Bangko Sentral”.

36.3 Additional Tax Information under Revenue Regulation (RR) No. 15-2010

In compliance with the requirements set forth by RR 15-2010 hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year 2012.

a. The BSP is a VAT-registered company with respect to its proprietary activities, with VAT output declared on these activities for the year amounting to PHP0.162 billion based on the rental of owned/acquired properties and sale of printing and other services reflected in the Miscellaneous Income account of PHP1.353 billion.

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

c. Input VAT claimed during the year amounted to PHP0.161 million recognized from local purchases and importations of various goods and services.

d. The BSP is fully exempt from all customs duties and consular fees on the importation and exportation by the BSP of notes and coins, gold and other metals to be used for purposes authorized under the BSP Charter and importation of all equipment needed for bank note production, minting of coins, metal refining and other security printing operations, pursuant to Section 126 of Republic Act 7653 or the Central Banking Act. The exemption also includes importation of supplies, raw materials and spare parts of equipment needed for bank note production, minting of coins, and metal refining.

The landed cost of the BSP's importations not related to activities mentioned above amounted to PHP0.492 billion for the year, with paid/accrued amount of PHP0.009 billion as customs duties tariff fees.

e. The BSP is exempt from documentary stamp taxes, pursuant to Section 199 of the NIRC (1997) as amended by Republic Act No. 9243 implemented under RR No. 13-2004 dated 23 December 2004.

f. All other taxes, local and national shown under the Taxes and Licenses account in the Operating expenses account in the statements of revenue and expenses are as follows:

	2012	2011
Local Taxes		
Real Estate Tax	142,310	129,077
Others (registration fees, licenses, permits)	9,373	3,500
	151,683	132,577
National Taxes		
Final Tax on interest income/discounts	899,493	1,147,089
Capital gains tax on sale of ROPA	18,227	27,248
Deficiency excise tax	-	2,639,414
	917,720	3,813,751

g. The amount of withholding taxes paid/accrued for the year amounted to:

	2012	2011
Final withholding tax	17,405,854	17,496,820
Tax on compensation and benefits	1,617,997	1,686,161
Expanded withholding tax	122,879	162,602
	19,146,730	19,345,583

h. The BIR classified the BSP as Large Taxpayer under the jurisdiction of Revenue District Office (RDO) No. 125, Large Taxpayers Services, effective 1 January 2012. Consequently, the BSP’s pending tax audit with BIR RDO No. 33, Manila, covering taxable years 2008 and 2009 were also transferred to RDO No. 125 under the Large Taxpayers Regular Audit Division (LTRAD). As such, BSP has received notices of Continuance of Audit/Investigation from LTRAD 2 for the taxable years 2008 and 2009. In the 3rd quarter of 2012, RDO No. 125 returned the audit of 2008 to RDO No. 33, Manila, since Notice of Assessment for the said taxable year has been served already by the latter.

BSP has received letters of authority from BIR RDO No. 125 for the audit of tax liabilities covering taxable years 2010 and 2011.