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

## 1. GENERAL INFORMATION

The Bangko Sentral ng Pilipinas (BSP) was established on 3 July 1993 as a central monetary authority of the Republic of the Philippines pursuant to Republic Act (RA) No. 7653, otherwise known as "The New Central Bank Act". Under this Act, it shall function and operate as an independent and accountable corporate body in the discharge of its mandated responsibilities concerning money, banking and credit. It maintains the country's international reserves, performs credit operations, engages in open market operations, exercises supervision over banking institutions, operates the interbank real-time gross settlement system, acts as a banker of the government, and has the sole power and authority to issue currency. It is also responsible for the printing of banknotes and production of circulation coins. As an independent central monetary authority, it enjoys fiscal and administrative autonomy and the nature and extent of its activities and operations are guided by the performance of these functions.

The BSP Main Complex is situated at A. Mabini and P. Ocampo Streets, Manila, Philippines. It has several buildings, namely: Multi-Storey building, 5-Storey building, EDPC building, Cafetorium building, Multi-purpose building, Metropolitan Museum of Manila and BSP Money Museum, which showcases its collection of currencies.

The Security Plant Complex (SPC) which is located in Quezon City, Philippines, houses the banknote 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 (3) regional offices (ROs) sited in San Fernando City, La Union; Cebu City and Davao City, and branches in nineteen (19) locations. The ROs and branches perform cash operations and gold buying operations (in 2 ROs and 2 branches).

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

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

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

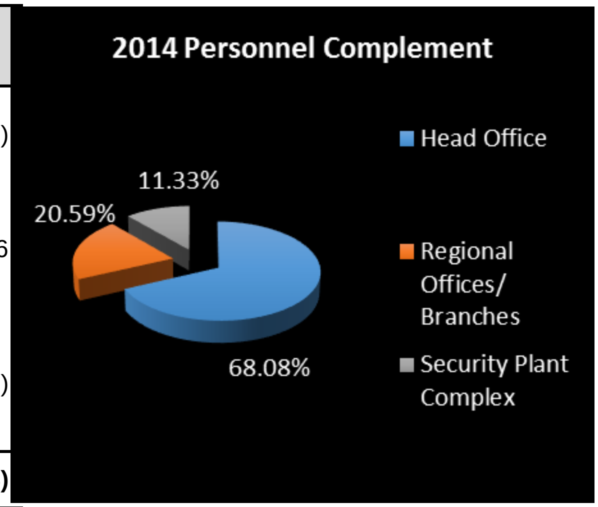
a. Monetary Stability Sector takes charge of the formulation and implementation of the BSP's monetary policy, including serving the banking needs of all banks through accepting deposits, servicing withdrawals and extending credit through the rediscounting facility.

b. Supervision and Examination Sector 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 2014, the BSP has total personnel complement of 5,385 consisting of 5,050 regular employees and 335 contractual, distributed as to location as follows:

| Location | CY 2014 | CY 2013 | Change |
|---|---|---|---|
| Head Office | 3,666 | 3,694 | (28) |
| Regional Offices/ Branches | 1,109 | 1,083 | 26 |
| Security Plant Complex | 610 | 626 | (16) |
| **Total** | **5,385** | **5,403** | **(18)** |




In these financial statements, the BSP is also referred to as the "Bank". The MB has approved the release of the financial statements on 30 July 2015.

## 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 2014 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 currency financial 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 of 31 December 2014. Due to immateriality of the balances of the accounts of PICCI, "consolidated" was omitted from the heading of the statement. All inter-company balances are eliminated prior to consolidation.

2.4 Subsidiary

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

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

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

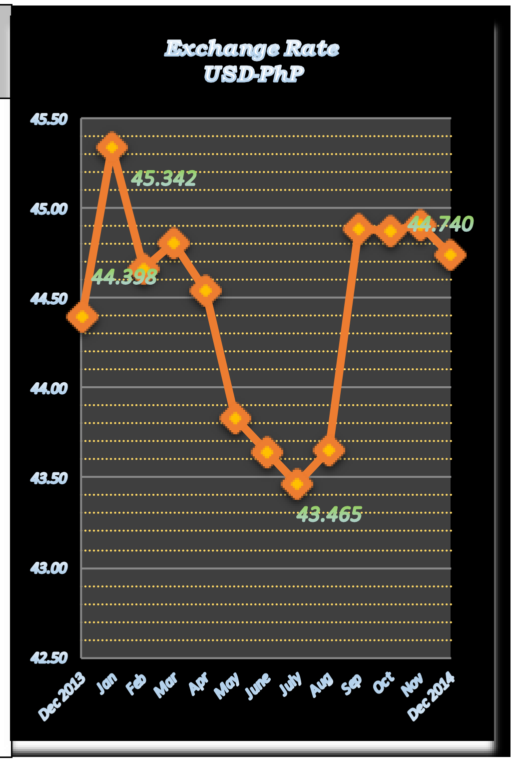
All amounts are expressed in Philippine Peso (PHP), the domestic currency, unless specifically disclosed. The currency symbol "PHP" is used in the financial statements to conform to universal currency symbols.

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 exchange 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 Exchange Rate Bulletin. The Philippine peso versus the US dollar depreciated by PHP0.342 or 0.77%, from PHP44.398 as of end December 2013 to PHP44.740 as of end December 2014. The end-December 2014 rate of PHP44.740 was used in the financial statements. Following are the prevailing month-end weighted average exchange rates in 2014.

| For the Month Ended | Exchange Rate USD-PHP | Change |
|---|---|---|
| **2014** | | |
| December | 44.740 | (0.165) |
| November | 44.905 | 0.024 |
| October | 44.881 | (0.001) |
| September | 44.882 | 1.222 |
| August | 43.660 | 0.195 |
| July | 43.465 | (0.182) |
| June | 43.647 | (0.185) |
| May | 43.832 | (0.709) |
| April | 44.541 | (0.268) |
| March | 44.809 | 0.145 |
| February | 44.664 | (0.678) |
| January | 45.342 | 0.944 |
| **2013** | | |
| December | 44.398 | |
| **AVERAGE** | **44.447** | |




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 as of the current month, except for the Department of Loans and Credit (DLC) and Asset Management Department (AMD), where only the adjustments to the previous month’s accruals and amortizations are booked for the current month.

Payment of interest due on demand deposits of banks maintained with the Bank was discontinued effective 6 April 2012 per MB approval. Interests on deposit accounts of 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 certain percentage of their preceding year’s average net assessable assets. Likewise, these entities pay penalties in violation of BSP's directives under the Manual of Regulations for Banks and Non-Banks Financial Institutions (MORB/MORNBFI) as well as processing fees for the establishment of bank branches, registration fees of pawnshops, accreditation of banks to engage in capital markets and similar services. The ASF shall be collected through the Philippine Payment Settlement System (PhilPaSS) on the specified date referred to in the billing notice sent by the Supervisory Data Center, while collection of penalties shall be fifteen (15) days from the date of receipt of the billing notice, by debiting the bank's demand deposit account (DDA) maintained with the BSP. On the other hand, processing fees, registration fees and other similar fees shall be debited directly against bank's DDA upon approval.

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

2.8.3 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 as of the current month.

For change in price, realized gains or losses are recognized upon sale of gold and foreign or domestic securities. On the other hand, as approved by the MB effective CY 2010, gains or losses due to changes in exchange rates are realized only when the foreign currency is repatriated to local currency or the foreign currency is used to pay foreign obligations, or upon maturity of 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 for liquidity in the exercise of its functions under the Act.

AFS financial assets (except gold) are initially recognized at cost in USD and subsequently carried at fair values. The fair values of the internally and externally managed portfolios and investments in Asian Bond Fund (ABF) and Inflation Linked Fund (ILF) are based on current market prices provided by the custodians at balance sheet date. 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 the equity section. Financial assets are derecognized when the right to receive cash flows from the investments have expired or have been transferred and the BSP has relinquished all the risks and rewards of ownership. Gains or losses arising from de-recognition or impairment is recognized in the income statement.

### 2.9.2 Held-to-maturity

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

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

2.9.3 Loans and receivables

Loans and receivables consist of receivables from banks and deposit insurer, Philippine Deposit Insurance Corporation (PDIC), advances to the National Government (NG), 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 twelve (12) and twenty-four (24) months are provided with an allowance for doubtful accounts of fifty (50) and one hundred (100) per cent, respectively.

2.10 Acquired assets held for sale

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

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

2.11 Investment property

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

Investment properties 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 (10%) residual value:

| Asset Group | Estimated Useful Life (No of Years) |
|---|---|
| Buildings-BSP Constructed | 30 |
| Buildings-BSP-Acquired or Purchased | 25 |
| Property Improvements (building, land, leasehold and office) | 10 |
| Plant Machinery and Equipment–Minting | 10 |
| Computer Hardware 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” accounts, respectively, is made upon payment up to ninety-five per cent (95%) accomplishment of the contractor/s and receipt of recommendation from the proponent department/office to reclassify the account. The unpaid balance of the project cost is directly booked to proper account upon presentation and/or settlement of final billing and notice of the department/office concerned. Depreciation starts on the following month upon transfer of the construction cost to the appropriate property account.

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

2.13 Intangible assets

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

Computer network and application systems accounts are carried at cost less any accumulated amortizations.

2.14 Leases

Under PAS 17, a lease is classified as an operating lease when it does not transfer substantially all the risks and rewards incidental to ownership. BSP engages in operating lease either as lessor or lessee based on a lease agreement. Lease rentals received/paid in connection with the operating lease are recognized in the income statement. When BSP is the lessee, security deposits paid to the lessor are recognized in the balance sheet as other assets. Improvements made on the leased property are capitalized and booked under leasehold improvement account and amortized for a period of five (5) years.

2.15 Inventories

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

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

2.16 Numismatic collections, artworks, paintings and sculptures

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

2.17 Financial liabilities

Financial liabilities denominated in foreign currency comprise of short-term foreign currency deposits of banks, the National Government (NG) and other government entities, and short and long-term borrowings of the BSP. These liabilities are initially recognized at cost and subsequently converted at current value using weighted average exchange rate at reporting date The difference is recognized in the balance sheet as an unrealized exchange rate revaluation. Interest is accrued monthly and recognized in the income statement. Some foreign currency borrowings contracted after the creation of BSP in CY 1993 are collateralized either by securities or gold. As of end CY 2014, there are no outstanding foreign currency borrowings collateralized by securities or gold.

Financial liabilities denominated in local currency refer to deposits of the NG, banks and other financial institutions. All banks and quasi-banks operating in the country are required to maintain reserves against their deposit and/or deposit substitute liabilities. The reserve position of each bank or quasi-bank is calculated daily on the basis of the amount of the institution’s reserves at the close of business for the day and the amount of its liability accounts against which reserves are required to be maintained. 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 and futures. Derivatives are not designated as hedges.

In line with PAS 39, derivative instruments are recognized at fair value on the date at which the derivative contract is entered into and are subsequently re-measured at fair value. Fair values are obtained from 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 Revaluation of International Reserves (RIR) account. At maturity date, the contingent asset/ liability is reversed and the purchase/sale of the currency is recorded. Realized gains or losses due to fluctuation in FX rates, accounted as 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 realized 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.

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

## 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 commercial 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 (SDAs) 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% 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% 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 accredited agents, engages in securities lending transactions. Securities under custody may be lent out to accredited borrowers, such as banks, securities dealers, and other market makers, who may require such securities to meet settlement commitments or to participate in various arbitrage and hedging activities. Securities lending involves the temporary exchange of securities for cash or other securities of an equivalent or greater value (collateral) with a contractual obligation to re-deliver a like quantity of the same securities at a future date. Securities lent to counterparties remain in the balance sheet.

If the collateral received by the BSP is cash, the lender/agent (on behalf of the lender) invests the cash in short-term investment instruments under BSP's investment guidelines. BSP's earnings from the program are determined by the difference between the rebate rate paid to the lender of cash and the re-investment rate gained on the cash collateral investments. On the other hand, if the collateral received by the BSP is non-cash, the BSP is paid a fee (lending fee) by the borrower based on the market value of the loaned securities. Both the rebate and lending fee are negotiated at the time of the transactions and can be amended during the life of the loan in response to changing market conditions. Income received from securities lending are recognized in the income statement.

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

2.20 Special Foreign Deposit Account – EUR-Denominated Special Account - AFI Fund

The Fund is a grant from the Alliance for Financial Inclusion (AFI) to finance all expenses related to the BSP project - "Measuring Impact and Recommending Improvements to Consumer Protection Advisories". It is a non-interest bearing euro-denominated special account which is accounted for separately from the other demand deposit and liability accounts of BSP in terms of computing its monthly revaluation, historical moving average (HMA) and realized FX gain/loss.

2.21 Currency in Circulation

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

In accordance with Section 51 of the New Central Bank Act, notes and coins issued by the Bangko Sentral shall be liabilities of the Bangko Sentral and may be issued only against, and in amounts not exceeding, the assets of the Bangko Sentral. Said notes and coins shall be a first and paramount lien on all assets of the Bangko Sentral. Also, notes and coins held in the vaults of the CD and RMASS of the BSP are deducted from the total currency issued, and accordingly, do not form part of the assets or liabilities of the BSP.

2.22 Employee benefit plans

The Funds listed below had been set-up for BSP employees. The BSP's contributions to the Funds are charged to operating expenses and recognized in the income statement.

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

2.22.1 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 twenty per cent (20%) of the basic salary of each employee while the employee contributes 2.5 per cent. As approved by the MB on 19 December 2008, the Bank's monthly contribution was increased from 20 per cent to 22.5 per cent while the employees are given the option to increase their personal contribution from 2.5 per cent 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.

2.22.2 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 twenty per cent (20%) of the basic salary of each employee while the employee contributes 2.5 per cent. As approved by the MB on 19 December 2008, the Bank's monthly contribution was increased from 20 per cent to 22.5 per cent while the employees' 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.

2.22.3 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 (5) years. The Bank contributes an equivalent of twelve per cent (12%) of the member's annual basic salary. The Bank's contributions are recognized in the income statement as operating expenses. The Fund is administered by the PFO.

2.22.4 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.

On 16 October 2014, the MB approved the appropriation of PHP49.53 million as supplemental budget, representing the replenishment of the Car Plan Fund (CPF) by the BSP of fifty per cent (50%) subsidies on the insurance and registration fees of PHP36.66 million for the period 2011 to 2013; and advance funding of the estimated BSP subsidies of PHP12.87 million, inclusive of tax, for 2014.

The MB also approved the grant of advances of PHP50.00 million to cover the CPF, corresponding to the estimated increase in Advances to Officers from CPF for the years 2014 to 2016. Furthermore, the MB approved the institution of a threshold of PHP30.00 million for the available CPF balance which when breached, will trigger PFO to request additional funding for the CPF from the Bank through its Budget Committee.

2.22.5 Retirement benefit fund

This Fund was set-up in CY 1997 for employees who will be eligible to retire under R.A. 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 fifteen per cent (15%) management fee to PFO.

2.23 Capital reserves

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

Managed funds

2.23.1 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 seventy-five per cent (1% of 75%) of the maximum amount of accountabilities (net of PHP100 million) of each group/ individual covered by the Fund. The Fund is an internally managed fund with the BSP Comptrollership Sub-Sector 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.

2.23.2 Currency insurance fund

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

2.23.3 BSP properties self-insurance fund

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

2.23.4 Retirement benefit fund

This Fund was set-up in CY 1997 for employees who will be eligible to retire under R.A. 1616. See Note 2.22.5.

2.23.5 Directors and officers liability insurance (DOLI) fund

The self-insurance fund was set up in CY 2005 in order to provide an additional insurance for those officers already covered under the Government Service Insurance System (GSIS). The 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 fifteen per cent (15%) management fee payable to the PFO.

Other funds

2.23.6 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.

2.23.7 Reserve for contingencies

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

2.23.8 Property insurance (artworks, paintings and sculptures)

A self-insurance fund set-up in CY 2003 to cover for the amount of potential loss in excess of what is presently covered by the insurance policy with the GSIS. Properties insured are artworks, paintings and sculptures which are valued at acquisition cost. Amounts earmarked are not invested. No additions were made to the fund since CY 2004.

2.23.9 Reserve for the rehabilitation of the Security Plant Complex

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

2.23.10 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.

2.23.11 Gold insurance

The Fund is under the self-insurance scheme of the Bank which was established in CY 2006 to cover for any loss that may arise from gold shipments from the BSP regional gold buying stations to the SPC for refining. It is an internally managed fund by the 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.

2.24 Commitments and contingent liabilities

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

| | **2014** | **2013** |
|---|---|---|
| FX commitment receivable/payable/sales | 516,995,901,830 | 477,078,195,986 |
| Currency unissued | 286,447,665,000 | 13,108,795,000 |
| L/C held/received in process | 7,371,244,114 | 5,069,339,591 |
| Equity investment receivable/payable | 861,173,900 | 861,173,900 |

Below is the maturity schedule of FX commitment receivable/payable/sales as of 31 December 2014:

Maturity Schedule of FX Commitment Receivable/Payable/Sales
As of 31 December 2014

| | **1-3 months** | | **No Maturity** | | **Total** | |
|---|---|---|---|---|---|---|
| | **USD** | **PHP** | **USD** | **PHP** | **USD** | **PHP** |
| Foreign Currency Swap - *Peso/US Dollar* | 1,200,000,000 | 53,638,700,600 | | | 1,200,000,000 | 53,638,700,600 |
| Foreign Currency Forwards - *Buy GBP/Sell USD* | 46,737 | 2,085,265 | | | 46,737 | 2,085,265 |
| New Arrangement of Borrowing (NAB) | | | 461,382,687 | 20,267,618,675 | 461,382,687 | 20,267,618,675 |
| Concessional Lending Instruments for Low Income Countries (CLI-LICS) | | | 588,776 | 24,985,290 | 588,776 | 24,985,290 |
| Chiang Mai Initiative Multi-Lateralization Agreement (CMIM) | | | 9,104,000,000 | 399,920,512,000 | 9,104,000,000 | 399,920,512,000 |
| Note Purchase Agreement (NPA) | | | 1,000,000,000 | 43,142,000,000 | 1,000,000,000 | 43,142,000,000 |
| | **1,200,046,737** | **53,640,785,865** | **10,565,971,463** | **463,355,115,965** | **11,766,018,200** | **516,995,901,830** |

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

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

2.24.2 FX commitment receivable/payable represents foreign currency forward

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

2.24.3 FX commitment receivable/payable of futures

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

2.24.4 FX commitment receivable/payable of BSP under various International Monetary Fund (IMF) facilities (NAB, CLI-LICS, CMIM and NPA).

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 (USD524.50 million). The Fund pays interest on outstanding NAB claims at SDR interest rate. In 2014, loans granted totaled SDR6.70 million (USD10.34 million) and payments received amounted to SDR9.90 million (USD14.97 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 SDR1.90 million to be disbursed in five equal annual installments (approximately PHP25.10 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 four equal installments of SDR0.38 million in 2011, 2012, 2013 and 2014.

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) + 3 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 + 3 countries as well as the 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. As of end 2014, no transactions were made.

d. Note Purchase Agreement (NPA) between the Bangko Sentral ng Pilipinas and the IMF

The NPA was entered into between the BSP and the IMF to enhance the resources available to the Fund for crisis prevention and resolution. Under said agreement, the BSP agreed to purchase from the Fund promissory notes in a total principal amount up to USD1.00 billion. The commitment under the NPA was booked in 2013. As of end 2014, no transactions were made.

2.24.5 Financial Transactions Plan (FTP) of the IMF

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

The Philippines has participated in the FTP since August 2010 with total IMF drawdowns amounting to SDR230.10 million (USD355.60 million). In terms of annual breakdown, about SDR75.00 million (USD116.90 million) were drawn in 2010; SDR109.80 million (USD169.54 million) in 2011; no transactions in 2012; SDR34.00 million (USD51.80 million) in 2013; and SDR11.30 (USD17.36) in 2014. More than sixty per cent (60%) of the funds were disbursed to European countries in an effort to address the financial crisis impacting the European economic zone.

2.24.6 Bank for International Settlements (BIS)

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

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

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

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

2.26 Prior period adjustments

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

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

2.27 Comparatives

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

2.28 Dividend distribution

In accordance with transitory provisions of RA 7653, Section 132 (b), the BSP remits seventy-five per cent (75%) of its net profits to a sinking fund until such time as the net liabilities of the old central bank shall have been liquidated through generally accepted finance mechanisms or to the NG as dividends with the remaining twenty-five per cent (25%) as residual to BSP surplus.

2.29 Taxes

The BSP is liable for all national, provincial, municipal and city taxes, fees, charges and assessments. However, as clarified under Revenue Memorandum Circular No. 65-2008, BSP is exempt from business taxes for its revenues and receipts derived from the exercise of essential governmental functions but subject to business taxes in the exercise of purely propriety functions. BSP also continues to be fully exempted from all customs duties and consular fees and all other taxes, assessments and charges in relation to the importation and exportation of notes and coins, and gold and other metals and all equipment needed for bank note production, minting of coins, metal refining and other security printing operations authorized under Section 126 of R.A. 7653. This exemption also includes importation of supplies, raw materials and spare parts of equipment needed for bank note production, minting of coins, and metal refining.

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

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

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

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

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

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

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

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

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

## 3. RISK MANAGEMENT

The BSP has adopted a modified centralized enterprise-wide risk management 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.

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.

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

The risk factors considered are as follows:

### 3.1 Market Risk

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

#### 3.1.1 Currency risk

The Bank considers the effects of fluctuations in the prevailing currency exchange rates on its financial position and cash flows. The following table summarizes the Bank's exposure to foreign currency exchange rate risk as at 31 December 2014 grouped into assets and liabilities at carrying amounts:

| Currency | Original Currency | USD Equivalent |
|---|---|---|
| **Assets** | | |
| USD | 72,203,298,098 | 72,203,298,098 |
| JPY | 766,002,979,872 | 6,403,549,595 |
| AUD | 2,876,157,063 | 2,356,156,110 |
| SDR | 932,086,059 | 1,350,415,603 |
| CNH | 3,268,604,991 | 524,875,858 |
| EUR | 84,077,710 | 100,929,212 |
| CHF | 767,206 | 766,544 |
| CAD | 845,975 | 719,605 |
| SGD | 461,259 | 347,890 |
| AED | 1,109,425 | 302,038 |
| SAR | 1,039,956 | 277,018 |
| GBP | 144,462 | 221,685 |
| HKD | 1,692,080 | 217,176 |
| BRN | 128,416 | 96,134 |
| CNY | 560,416 | 90,331 |
| THB | 2,457,850 | 74,693 |
| KRW | 46,398,000 | 41,990 |
| IDR | 166,613,000 | 13,329 |
| BHD | 4,013 | 10,645 |
| **Liabilities** | | |
| SDR | 838,034,880 | 1,214,153,315 |
| USD | 863,542,645 | 863,542,645 |
| EUR | 99,065,133 | 118,917,785 |
| JPY | 835,055,395 | 6,931,795 |
| DKK | 2,555,100 | 412,028 |

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

3.1.2 Interest Rate Risk

The investment guidelines also specify duration limits 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 limit on the level of the gold holdings and by monitoring gold price volatility.

Market Risk Measurement in Reserve Management

The BSP makes use of the Value-at-Risk (VaR) concept in measuring the market risk both in absolute terms and relative to each portfolio's respective benchmark. VaR is 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.

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

3.2 Credit Risk

Credit risk is the potential financial loss from default of a debtor, issuer or counterparty. For the foreign currency reserve portfolio, deposit placements and other money market transactions are made only with BSP accredited counterparties.

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

a. Counterparty Accreditation and Eligibility of Investments - the Bank only deals with accredited counterparties and invests in instruments allowed under the guidelines. Due diligence is observed in evaluating the creditworthiness of its counterparties by monitoring, on a daily basis, their credit ratings, earnings updates, credit default swap spreads, share price movements relative to market movements, market news specific to counterparties, and financial report updates.

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

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

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

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

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

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

3.3 Liquidity Risk

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

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

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

3.4 Operational, legal and reputational risks

Aligned with the institutional requirements, policies and procedures that include levels of authority and accountabilities are documented, 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. These all form part of the established bankwide framework for operational risks with RMO, acting as coordinating body.

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.

TD also monitors regulatory changes and developments in the financial markets it operates. It coordinates with relevant BSP departments, external counterparties and other financial institutions to facilitate compliance with regulations affecting its investment activities.

To ensure the continuity of business operations in emergency situations, onsite and offsite back-up facilities are in place for TD and other mission-critical units. 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 engages 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. 9 January 2014 the extension of the existing contract with CCK Financial Solutions, Ltd. for the development/implementation of Treasury Management System (TMS) to consider the transition from settlement date to trade accounting policy; and the recommendation to enter into a new contract through direct contracting with CCK in the amount of PHP5.906 million, to cover additional assistance to implement the trade date accounting policy and weighted average price accounting, complete migration covering 2013 static data and year-end account balances, and conduct parallel run;

b. 23 January 2014 the filing of a protest with the Bureau of Internal Revenue (BIR), within 30 days from 3 January 2014 to 2 February 2014, contesting the taxable year 2010 BSP deficiency tax assessment of PHP21.276 billion inclusive of interest and surcharge;

c. 30 January 2014 the award of contract to Vinhar Construction & Marketing for the procurement of a general contractor for the proposed construction of the Philippine International Convention Center (PICC) meeting room 1 for the 2015 Asia-Pacific Economic Cooperation (APEC) meeting, inclusive of all applicable taxes;

d. 20 February 2014 the reclassification, from Available for Sale to Loans and Receivables, of the international reverse repurchase transactions; and the use of weighted average method in the daily computation of realized and unrealized gains/(losses) due to change in price and exchange rates, effective March 2014, retroactive January 2014;

e. 20 February 2014 the remittance to the National Government of the amount of PHP403,393.94, representing the CY 1995 outstanding interest rebate and dividend payables of PHP0.049 million and PHP0.355 million, respectively, through credit to the Regular Demand Deposit Account of the Treasurer of the Philippines - Treasury Single account maintained with the BSP;

f. 17 July 2014 the payment of the net amount of PHP1.635 billion basic creditable withholding tax (CWT) due on BSP local gold purchases for calendar year 2011;

g. 24 October 2014 the proposed transfer for the Philippines of SDR98 million under the Financial Transactions Plan (FTP) and the call for the BSP of SDR54.5 million under the New Arrangements to Borrow (NAB) of the International Monetary Fund for the period October to December 2014; and

h. 22 December 2014 the issuance of 50-Piso, 500-Piso, 1000-Piso, and 10,000-Piso commemorative legal tender coins for the 2015 Papal Visit.

## 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

| | 2014 | 2013 |
|---|---|---|
| Marketable securities | 1,893,083,650,597 | 2,244,909,869,488 |
| Other investments | 573,687,601,706 | 530,987,635,252 |
| | 2,466,771,252,303 | 2,775,897,504,740 |
| Accrued interest | 7,606,671,905 | 7,548,054,206 |
| | 2,474,377,924,208 | 2,783,445,558,946 |

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 (PHP534.617 billion), Asian bond fund (PHP29.957 billion) and BISIP (Bank for International Settlement and Investment Pool - PHP9.114 billion).

## 7. GOLD

| | Note | 2014 | 2013 |
|---|---|---|---|
| In bullion vault | a | 136,366,686,374 | 133,768,830,816 |
| With foreign financial institutions | b | 198,449,312,325 | 199,146,448,029 |
| | | 334,815,998,699 | 332,915,278,845 |

a. Gold in bullion vault

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | FTO | PHP | FTO | PHP |
| Opening balance-January 1 | 2,499,852.498 | 133,768,830,816 | 2,473,503.481 | 169,774,427,826 |
| Additions during the year | 57,500.665 | 4,020,932,466 | 26,349.017 | 1,971,611,210 |
| | 2,557,353.163 | 137,789,763,282 | 2,499,852.498 | 171,746,039,036 |
| Net decrease due to price/ rate revaluation | | (1,423,076,908) | | (37,977,208,220) |
| Ending balance-December 31 | 2,557,353.163 | 136,366,686,374 | 2,499,852.498 | 133,768,830,816 |

| | USD/FTO | USD/FTO |
|---|---|---|
| Revaluation Rate | 1,191.850 | 1,205.250 |
| Moving Average Rate | 1,031.240 | 1,017.350 |

b. Gold with foreign financial institutions

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | FTO | PHP | FTO | PHP |
| Opening balance-January 1 | 3,721,619.921 | 199,146,448,030 | 3,722,541.101 | 255,504,910,478 |
| Additions during the year: Purchases | | | 289,504.120 | 19,041,162,143 |
| | 3,721,619.921 | 199,146,448,030 | 4,012,045.221 | 274,546,072,621 |
| Net sales during the year | | | (290,425.300) | (18,082,100,242) |
| Net decrease due to price/ rate revaluation | | (697,135,705) | | (57,317,524,350) |
| Ending balance-December 31 | 3,721,619.921 | 198,449,312,325 | 3,721,619.921 | 199,146,448,029 |

| | USD/FTO | USD/FTO |
|---|---|---|
| Revaluation Rate | 1,191.850 | 1,205.250 |
| Moving Average Rate | 1,415.770 | 1,415.770 |

## 8. INTERNATIONAL MONETARY FUND SPECIAL DRAWING RIGHTS

| | 2014 | 2013 |
|---|---|---|
| Beginning balance-January 1 | 57,841,955,758 | 52,922,577,277 |
| Add/(Deduct): | | |
| Income accruing to the fund | 75,834,281 | 54,553,630 |
| Revaluation | (3,001,703,393) | 4,413,512,395 |
| Share in IMF/windfall | 0 | 498,134,452 |
| Payment of charges-interest and assessment | (54,021,004) | (40,192,521) |
| Adjustment due to moving average computations/change in policy | (5,252,737) | (6,629,475) |
| | (2,985,142,853) | 4,919,378,481 |
| | 54,856,812,905 | 57,841,955,758 |
| Accrued interest | 4,594,294 | 10,046,785 |
| Ending Balance-December 31 | **54,861,407,199** | **57,852,002,543** |

## 9. LOANS AND ADVANCES

| | Note | Per cent to Total | 2014 | 2013 (as restated) |
|---|---|---|---|---|
| Foreign currency loans and advances | | | | |
| Special purpose | | | | |
| IBRD 2469 | | 13.21 | 20,955,142 | 20,955,142 |
| Rediscounting | | | | |
| Exporters dollar facility | | 86.79 | 137,664,980 | 377,986,813 |
| Total | | 100.00 | 158,620,122 | 398,941,955 |
| Allowance for probable losses | | 13.21 | 20,955,142 | 20,955,142 |
| Net | | 86.79 | 137,664,980 | 377,986,813 |
| Accrued interest | | | 418,082 | 68,453 |
| | | | 138,083,062 | 378,055,266 |
| Local currency loans and advances | | | | |
| Philippine Deposit Insurance Corp. | a | 77.81 | 56,051,396,181 | 63,609,764,122 |
| National Government- Assumed Obligations of: | | | | |
| Philippine National Bank | b.1 | | 350,000,000 | 350,000,000 |
| Development Bank of the Phil. | b.1 | | 442,499,511 | 442,499,511 |
| IMF Quota Subscription | b.2 | | 9,569,312,300 | 9,569,312,300 |
| | | 14.38 | 10,361,811,811 | 10,361,811,811 |
| Special purpose | | | | |
| Thrift banks | | | 4,077,768 | 11,096,294 |
| Specialized banks | | | 14,524,415 | 14,524,415 |
| Rural banks | | | 91,566,707 | 100,871,076 |
| | | 0.15 | 110,168,890 | 126,491,785 |
| Emergency | c | | | |
| Commercial banks | | | 1,578,259,753 | 1,578,259,753 |
| Thrift banks | | | 479,505,852 | 1,039,643,077 |
| Rural banks | | | 527,731,173 | 540,244,780 |
| NBQBs | | | 3 | 3 |
| | | 3.59 | 2,585,496,781 | 3,158,147,613 |
| Rediscounting | d | | | |
| Commercial banks | | | 0 | 1,115,436,544 |
| Thrift banks | | | 356,604,734 | 849,500,836 |
| Specialized banks | | | 53,276,737 | 54,689,584 |
| Rural banks | | | 734,888,318 | 977,168,961 |
| | | 1.59 | 1,144,769,789 | 2,996,795,925 |
| Overdrafts/overnight clearing line | | 2.48 | 1,787,948,090 | 1,788,453,011 |
| Total | | 100.00 | 72,041,591,542 | 82,041,464,267 |
| Allowance for probable losses | | | 4,267,782,023 | 4,362,995,926 |
| Net | | | 67,773,809,519 | 77,678,468,341 |
| Accrued interest (net of allowance) | | | 17,422,734,272 | 16,434,771,362 |
| | | | 85,196,543,791 | 94,113,239,703 |
| Total foreign and local currency | | 100.00 | 72,200,211,664 | 82,440,406,222 |
| Allowance for probable losses | e | 5.94 | 4,288,737,164 | 4,383,951,067 |
| | | 94.06 | 67,911,474,500 | 78,056,455,155 |
| Amount past due (Annex B) | | | 8,948,739,826 | 9,556,732,995 |
| Percent to total loans and advances | | | 12.39 | 11.59 |

| | Special Purpose | | | |
|---|---|---|---|---|
| | Specialized Banks | Rural Banks | Rediscounting Rural Banks | Overnight Clearing Line |
| Balances, 31 December 2013, before adjustments | 14,502,448 | 101,023,116 | 977,159,920 | 1,788,456,817 |
| Add/(deduct): | | | | |
| Payment received to conform with the approved final plan of distribution | | (152,041) | | |
| Interest income inadvertently credited to loans and advances | 21,967 | | | |
| Application of payment | | | 9,041 | (3,807) |
| | 21,967 | (152,041) | 9,041 | (3,807) |
| **Balances, 31 December 2013, as restated** | **14,524,415** | **100,871,075** | **977,168,961** | **1,788,453,010** |

a. Loans and advances to Philippine Deposit Insurance Corporation (PDIC*)* intended for ailing banks slightly decreased to PHP56.051 billion compared to last year's level of PHP63.610 billion. The loans to PDIC are collateralized and interest-bearing. This constituted 77.81 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 non-interest bearing loan extended to the Republic of the Philippines (ROP) 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 or 15.84% as provided for under IMF Resolution No. 63-2, as required under the Articles of Agreement on the IMF and as authorized under Section 2(a) of RA No. 2052, as amended. The loan was covered by a five-year non-negotiable and non-interest bearing promissory note issued on 11 July 2011, maturing on 10 July 2016 and is renewable for another period of five (5) years.

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 1.59% of the local currency loan portfolio decreased by PHP1.852 billion (total payments of PHP3.209 billion less total grants and restructuring of PHP1.338 billion and PHP0.019 billion, respectively) or 61.80% from last year-end balance of PHP2.997 billion.

e. Allowance for probable losses - total past due accounts amounted to PHP8.949 billion or 12.39% of total outstanding loans and advances of PHP72.200 billion exclusive of accrued interest receivable. PHP5.174 billion or 7.17% of said outstanding loans and advances are covered by the Allowance for Probable Losses amounting to PHP4.289 billion.

## 10. OTHER RECEIVABLES

| | Note | 2014 | 2013 (as restated) |
|---|---|---|---|
| Foreign currency receivables | | | |
| Non-IR foreign exchange assets | a | 100,762,971,819 | 69,492,884,543 |
| Due from foreign banks - NIR | b | 2,046,743,335 | 23,042,562,428 |
| Accrued interest | | 1,549,771,091 | 1,554,909,533 |
| Due from foreign banks/branches | c | 23,157,422 | 538,059,853 |
| | | 104,382,643,667 | 94,628,416,357 |
| Local currency receivables | | | |
| Accounts receivable -Treasurer of the Philippines (TOP) | d | 11,514,341,895 | 6,792,474,234 |
| Sales contracts receivable | e | 1,989,038,562 | 2,041,847,452 |
| Accounts receivable (net of allowance) | | 1,949,521,316 | 1,397,904,473 |
| Notes receivable | f | 1,366,730,850 | 1,366,730,850 |
| Due from local banks | | 447,069,289 | 312,781,850 |
| Receivables from staff/others | | 396,591,512 | 328,997,282 |
| Lease receivable (net of allowance) | g | 72,859,754 | 131,958,869 |
| Accrued interest-Sales contracts receivable | | 56,556,009 | 51,045,319 |
| Items under litigation | h | 14,500,000 | 14,500,000 |
| Accrued interest -receivable from redemption of acquired assets | | 1,877,099 | 1,872,241 |
| | | **17,809,086,286** | **12,440,112,570** |

| | Sales Contract Receivable | Accounts Receivable |
|---|---|---|
| Balances, 31 December 2013, before adjustments | 2,067,805,237 | 1,043,103,573 |
| Add/(deduct): | | |
| Dacioned assets and mortgage credit booked at dacioned value | | 355,022,461 |
| Medical expense and scholarship refund | | 1,595,783 |
| Application of payment | (25,957,785) | |
| Supervisory fees, penalties and incentive on approved consolidation | | (1,802,026) |
| Payment received to conform with the approved final plan of distribution | | (15,318) |
| | (25,957,785) | 354,800,900 |
| **Balances, 31 December 2013, as restated** | **2,041,847,452** | **1,397,904,473** |

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

The account increased primarily from purchase of CNH bonds (PHP21.058 billion), ROP bonds (PHP5.460 billion) and BISIP bonds (PHP2.261 billion).

b. Due from foreign banks - Non-IR - the account decreased by PHP20.996 billion or 91.12% mainly due to higher level of time deposit maturities (PHP133.058 billion) over placements (PHP113.825 billion).

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

d. Accounts receivable - TOP - a special receivable account to record the NG's share in the annual revaluation of the IMF holdings of Philippine Peso with the BSP based on change in PHP/SDR exchange rate. On 16 June 2014 the account increased by PHP4.722 billion representing the NG share in the CY2014 revaluation loss.

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

| | Total 2014 | Current | Non-Current |
|---|---|---|---|
| I. Auction /Negotiated Sales | | | |
| a. BSP personnel | 7,761,627 | 517,442 | 7,244,185 |
| b. Non-BSP personnel/Others | 1,660,321,453 | 110,688,097 | 1,549,633,356 |
| c. Restructured principal - Non-BSP | 19,472,479 | 1,298,165 | 18,174,314 |
| d. Restructured interest - Non-BSP | 3,219,213 | 214,614 | 3,004,599 |
| | 1,690,774,772 | 112,718,318 | 1,578,056,454 |
| II. Sales under Asset Management Department – Provident Fund Office Housing Program | | | |
| a. BSP personnel | 223,863,706 | 14,924,247 | 208,939,459 |
| b. Non-BSP personnel/Others | 74,400,084 | 4,960,006 | 69,440,078 |
| | 298,263,790 | 19,884,253 | 278,379,537 |
| | **1,989,038,562** | **132,602,571** | **1,856,435,991** |

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 (3)-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. PHP360.92 million is now with the Escrow fund as of 31 December 2014.

g. Lease receivable - includes rental receivable from Banco Filipino Savings and Mortgage Bank (BFSMB) on properties dacioned to BSP. The Memorandum of Agreement (MOA) 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 on 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 | 2014 | 2013 |
|---|---|---|---|
| CSS-FAD | a | 14,500,000 | 14,500,000 |
| BSRU-Tacloban | b | 2,499,920 | 2,499,920 |
| BSRU-Legaspi | c | 1,758,500 | 1,758,500 |
| Total | | 18,758,420 | 18,758,420 |
| Less: Allowance for doubtful account | | 4,258,420 | 4,258,420 |
| | | **14,500,000** | **14,500,000** |

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

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

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

## 11. INVESTMENTS SECURITIES – DOMESTIC

| | | 2014 | | 2013 | |
|---|---|---|---|---|---|
| | Note | Face Value | Market Value | Face Value | Market Value |
| BSP-Head Office | a | | | | |
| Treasury bills | | 174,342,700,000 | 172,678,817,895 | 174,343,527,000 | 173,745,393,839 |
| Semi-annual FLT treasury bond | | 50,000,000,000 | 47,302,090,383 | 50,000,000,000 | 43,165,579,433 |
| Fixed rate treasury bonds | | 2,086,964,023 | 2,332,039,681 | 2,080,992,023 | 2,379,877,106 |
| LBP Bond | | 33,638 | 52,693[1] | 50,457 | 47,721 |
| | | 226,429,697,661 | 222,313,000,652 | 226,424,569,480 | 219,290,898,099 |
| PICC-Investments | | | 0 | | 150,000,000 |
| Accrued interest | | | 91,660,359 | | 65,084,890 |
| | | | **222,404,661,011** | | **219,505,982,989** |

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

| | 2014 | 2013 |
|---|---|---|
| Beginning balance, January 1 | 219,290,898,099 | 217,680,370,268 |
| Add/(Deduct): | | |
| Purchases | 432,208,085,097 | 428,702,740,544 |
| Marking to market | 3,574,393,894 | 1,169,639,270 |
| Accrual/reversal of discount | 325,542,497 | (608,388,003) |

[1] *Includes PHP19,799.71 at redeemable value, representing BSP share on claims against closed banks.*

| | 2014 | 2013 |
|---|---|---|
| BSP share on claims against closed banks | 19,800 | 0 |
| Redemption | (432,095,277,272) | (426,554,402,696) |
| Sales | (989,648,162) | (1,099,061,284) |
| Reclass of tax on discount | (983,066) | 0 |
| Net premium amortization | (30,235) | 0 |
| | 3,022,102,553 | 1,610,527,831 |
| **Ending balance, December 31** | **222,313,000,652** | **219,290,898,099** |

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

Maturity Schedule of Investment Securities

| | 90-180 days | 181 - 365 days | More than 1 year | Total |
|---|---|---|---|---|
| Treasury bills | 148,184,775,397 | 24,494,042,498 | | 172,678,817,895 |
| Semi-annual FLT treasury bond | | | 47,302,090,383 | 47,302,090,383 |
| Fixed rate treasury bonds | | | 2,332,039,681 | 2,332,039,681 |
| LBP Bond | | | 52,693 | 52,693 |
| | **148,184,775,397** | **24,494,042,498** | **49,634,182,757** | **222,313,000,652** |

## 12. DUE FROM ADMINISTRATOR OF FUNDS

| | Note | 2014 | 2013 |
|---|---|---|---|
| Comptrollership | | | |
| Fidelity insurance | | 22,247,379,248 | 22,247,379,248 |
| Currency insurance | | 2,798,665,272 | 2,798,665,272 |
| Post retirement benefit | a | 84,166,313 | 55,380,572 |
| Gold insurance | | 9,333,617 | 9,333,617 |
| | | 25,139,544,450 | 25,110,758,709 |
| Provident fund office | | | |
| BSP Properties Self-Insurance Fund | | 1,950,000,000 | 1,950,000,000 |
| Directors' and officers' liability Insurance (DOLI) fund | | 1,092,289,420 | 1,092,289,420 |
| Post retirement benefit | | 1,067,334,453 | 1,097,334,453 |
| Car plan fund | b | 555,455,978 | 505,455,978 |
| Provident fund | | 155,497,090 | 155,421,575 |
| | | 4,820,576,941 | 4,800,501,426 |
| Department of Loans and Credit | | | |
| Industrial Fund | | 2,515,220 | 2,515,220 |
| | | **29,962,636,611** | **29,913,775,355** |

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

b. The increase of PHP50 million pertains to the advances to cover the Car Plan Fund (CPF) as approved by the MB, corresponding to the estimated increase in advances to officers from CPF for the years 2014 to 2016.

## 13. ACQUIRED ASSETS HELD FOR SALE

| | 2014 | 2013 |
|---|---|---|
| Acquired assets held for sale | 79,514,364 | 16,093,863 |
| Less: Allowance for market decline | 13,627,287 | 8,342,387 |
| | **65,887,077** | **7,751,476** |

Below is the movement of the acquired assets held for sale for the year ended 31 December 2014:

| | TCTs | Book Value |
|---|---|---|
| Balance, 01 January 2014 | 1,508 | 16,093,863 |
| Additions: | | |
| Transferred from Investment Property | 563 | 99,026,486 |
| Reclassification/adjustments | 71 | 125,109,183 |
| | 634 | 224,135,669 |
| Deductions: | | |
| Sale/negotiation | (787) | (139,686,986) |
| Revert to Investment Property | (204) | (21,028,182) |
| | (991) | (160,715,168) |
| **Balance, 31 December 2014** | **1,151** | **79,514,364** |

## 14. INVESTMENT PROPERTY

| | 2014 | 2013 (as restated) |
|---|---|---|
| Investment property | 16,201,545,327 | 16,043,703,037 |
| Less: Allowance for market decline | 1,408,269,958 | 1,453,327,980 |
| | **14,793,275,369** | **14,590,375,057** |

| | |
|---|---|
| Investment property, 31 December 2013, before adjustments | 15,978,655,177 |
| Add/(deduct): | |
| Dacioned assets and mortgage credit booked at dacioned value | 36,589,836 |
| Foreclosure expenses reclassified to investment property | 28,458,024 |
| | 65,047,860 |
| Investment property, 31 December 2013, as restated | 16,043,703,037 |

Below is the movement of the investment property for the year ended 31 December 2014:

| | TCTs | Book Value |
|---|---|---|
| Balance, 01 January 2014, as restated | 27,406 | 16,043,703,037 |
| Additions: | | |
| Foreclosure | 136 | 694,101,868 |
| Dacion en pago | 436 | 36,561,283 |
| Revert from acquired assets | 204 | 21,028,182 |
| | **776** | **751,691,333** |
| Deductions: | | |
| Sale/negotiation | (598) | (416,585,970) |

| | TCTs | Book Value |
|---|---|---|
| Transferred to acquired assets | (563) | (99,026,486) |
| Reclassification/adjustments | (13) | (41,646,751) |
| Effect of restatement to beginning balance of investment property valued at dacioned value | | (36,589,836) |
| | (1,174) | (593,849,043) |
| **Balance, 31 December 2014** | **27,008** | **16,201,545,327** |

## 15. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT (BPFFE)

| | Land and Building | Property Improvement | Computer Hardware | Plant and Equipment | In-Transit Items | In-Process / Progress/under Construction Items | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| 01 January 2014, as restated | 12,925,764,992 | 4,248,439,435 | 1,342,801,211 | 8,894,703,712 | 20,510,653 | 934,587,158 | 28,366,807,161 |
| Additions | 755,667 | 305,869,036 | 195,976,975 | 442,098,892 | 102,804,836 | 628,174,538 | 1,675,679,944 |
| Disposals | 0 | (23,882) | (82,014,742) | (34,581,848) | 0 | 0 | (116,620,472) |
| Adjustments | 0 | 0 | 0 | (2,387,567) | (20,510,653) | (111,497,811) | (134,396,031) |
| **31 December 2014** | **12,926,520,659** | **4,554,284,589** | **1,456,763,444** | **9,299,833,189** | **102,804,836** | **1,451,263,885** | **29,791,470,602** |
| **Accumulated depreciation** | | | | | | | |
| 01 January 2014, as restated | (2,594,729,130) | (2,517,002,127) | (850,646,915) | (4,663,890,869) | 0 | 0 | (10,626,269,041) |
| Depreciation - CY 2014 | (197,852,948) | (277,261,884) | (137,466,073) | (561,603,212) | 0 | 0 | (1,174,184,117) |
| Disposals | 0 | 14,509 | 74,911,926 | 29,609,906 | 0 | 0 | 104,536,341 |
| Adjustments | 0 | (1,006,547) | 0 | 2,305,264 | 0 | 0 | 1,298,717 |
| **31 December 2014** | **(2,792,582,078)** | **(2,795,256,049)** | **(913,201,062)** | **(5,193,578,911)** | **0** | **0** | **(11,694,618,100)** |
| **Net book value, 31 December 2014** | **10,133,938,581** | **1,759,028,540** | **543,562,382** | **4,106,254,278** | **102,804,836** | **1,451,263,885** | **18,096,852,502** |
| **Net book value, 31 December 2013, as restated** | **10,331,035,862** | **1,731,437,308** | **492,154,296** | **4,230,812,843** | **20,510,653** | **934,587,158** | **17,740,538,120** |

The BPFFE cost and accumulated depreciation balances as at 31 December 2013 are restated, as follows:

| | Property Improvement | Computer Hardware | Plant and Equipment |
|---|---|---|---|
| <u>Cost</u> | | | |
| 31 December 2013, before adjustments | 4,253,556,508 | 1,342,775,211 | 8,889,947,060 |
| Add/(Deduct): | | | |
| a. Misclassifications to/from other BPFFE accounts | (4,983,035) | 26,000 | 4,957,035 |
| b. Misclassifications to/from expense and other asset accounts | (134,038) | 0 | (204,678) |
| c. Erroneous credits to BPFFE accounts | 0 | 0 | 4,295 |
| | (5,117,073) | 26,000 | 4,756,652 |
| 31 December 2013, as restated | 4,248,439,435 | 1,342,801,211 | 8,894,703,712 |

| | Property Improvement | Computer Hardware | Plant and Equipment |
|---|---|---|---|
| Accumulated depreciation | | | |
| 31 December 2013, before adjustments | (2,517,952,980) | (850,636,775) | (4,654,240,956) |
| (Add)/Deduct: | | | |
| a. Depreciation of items misclassified to/from other BPFFE accounts | 877,523 | (10,140) | (9,773,327) |
| b. Depreciation of items misclassified to/from expense and other asset accounts | 73,330 | 0 | 123,560 |
| c. Erroneous credits to BPFFE accounts | 0 | 0 | (146) |
| | 950,853 | (10,140) | (9,649,913) |
| 31 December 2013, as restated | (2,517,002,127) | (850,646,915) | (4,663,890,869) |
| Net book value, 31 December 2013, as restated | 1,731,437,308 | 492,154,296 | 4,230,812,843 |

In CY 2014, the amount incurred for the PICC rehabilitation projects in preparation for the hosting of the Asia-Pacific Economic Cooperation (APEC) meeting in 2015 is booked under the Building In-Progress account in the amount of PHP94.517 million.

## 16. INTANGIBLES

| | Computer Network and Application System | Computer Network and Application System in Process | Total |
|---|---|---|---|
| Cost | | | |
| 01 January 2014, as restated | 2,206,267,426 | 48,775,628 | 2,255,043,054 |
| Additions | 118,968,892 | 17,483,766 | 136,452,658 |
| 31 December 2014 | 2,325,236,318 | 66,259,394 | 2,391,495,712 |
| Accumulated amortization | | | |
| 01 January 2014, as restated | (2,017,366,166) | 0 | (2,017, 366,166) |
| Amortization – CY 2014 | (95,710,542) | 0 | (95,710,542) |
| Adjustment | 194,645 | 0 | 194,645 |
| 31 December 2014 | (2,112,882,063) | 0 | (2,112,882,063) |
| Net book value, 31 December 2014 | 212,354,255 | 66,259,394 | 278,613,649 |
| Net book value, 31 December 2013, as restated | 188,901,260 | 48,775,628 | 237,676,888 |

The Computer Network and Application System (CNAS) and accumulated amortization balances as at 31 December 2013 are restated, as shown below:

| | |
|---|---|
| Cost | |
| 31 December 2013, before adjustments | 2,207,317,006 |
| Add/(deduct): | |
| Misclassification to/from expense accounts | (1,049,580) |
| 31 December 2013, as restated | 2,206,267,426 |
| Accumulated amortization | |
| 31 December 2013, before adjustments | (2,018,287,464) |

| | |
|---|---|
| (Add)/deduct: | |
| Misclassification to/from expense accounts | 921,298 |
| 31 December 2013, as restated | (2,017,366,166) |
| Net book value, 31 December 2013, as restated | 188,901,260 |

## 17. INVENTORIES

| | Note | 2014 | 2013 |
|---|---|---|---|
| SPC inventories | a | 5,115,924,969 | 3,208,188,606 |
| Currency inventory | b | 2,309,663,689 | 882,135,669 |
| Work-in-process | | 660,032,573 | 2,494,738,330 |
| Gold for refining | c | 582,955,846 | 1,628,240,990 |
| Gold for domestic sale | d | 8,089,185 | 16,596,716 |
| Silver for refining | | 408,846 | 3,316,373 |
| Silver for domestic sale | | 388,052 | 386,490 |
| | | **8,677,463,160** | **8,233,603,174** |

a. The increase was largely attributed to the procurement of raw materials for New Generation Currency (NGC) and shipment to port of loading of outsourced NGC PHP1,000, PHP100 and PHP20 notes denominations by PHP0.398 billion.

b. The account represents the costs of unissued finished notes and coins received by the Currency Issue and Integrity Office (CIIO) from the Banknotes and Securities Printing Department (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 2014, the Currency Inventory balance went up by PHP1.428 billion mainly due to the BSP's efforts to fortify the currency inventory to prevent shortages of banknotes in anticipation of the New Design Series (NDS) demonetization and to maintain sufficient currency reserves to endure demand shocks. During the year, the banknote order of 3,679.80 million pieces (mpcs.) equivalent to PHP1,062,380 million was higher by 45.45% and 63.20%, respectively, as compared to the previous year's order of 2,530.00 mpcs. or PHP650,980 million.

c. The decrease in the account was due to the drop in the volume of semi-processed panned gold sold to BSP upon imposition by the BIR of the 2% excise tax and 5% creditable withholding tax on gold panners effective 11 July 2011.

d. The sale of gold decreased by 21.176 FTO (PHP1.459 million) or 14.64% due to the BSP's revised selling rate. It is computed based on the prevailing BSP selling price as determined by the Treasury Department and estimated processing cost plus 10% minimal margin or the average ledger cost per gram plus 10% minimal margin whichever is higher. Previous selling rate was based on BSP selling price plus applicable service fees. Consequently, the DGS's request for gold grains/sheets for sale from the MROD decreased.

## 18. REVALUATION OF FOREIGN CURRENCY ACCOUNTS

| | 2014 | 2013 (as restated) |
|---|---|---|
| Unrealized gains/(losses) on FX Rate Fluctuations | | |
| Beginning balance, January 1 | (17,236,147,832) | (222,975,858,218) |
| Unrealized gains/(losses) for the year (net of realized transactions) | (42,327,376,787) | 205,739,710,386 |
| Ending balance, December 31 | (59,563,524,619) | (17,236,147,832) |
| Unrealized gains(losses) on Price Fluctuations | | |
| Beginning balance, January 1 | (15,317,465,015) | 158,412,953,698 |
| Unrealized gains/(losses) for the year (net of realized transactions) | 33,216,769,089 | (173,730,418,713) |
| Ending balance, December 31 | 17,899,304,074 | (15,317,465,015) |
| Unrealized gains(losses) on FX Rate and Price Fluctuations, December 31 | (41,664,220,545) | (32,553,612,847) |

| | |
|---|---|
| Unrealized gains/(losses) on FX Rate Fluctuations, 31 December 2013, before adjustment | (17,235,806,574) |
| Add: | |
| Unrealized gains/(losses) on Special foreign deposit account | (341,258) |
| Unrealized gains/(losses) on FX Rate Fluctuations, 31 December 2013, as restated | (17,236,147,832) |
| Unrealized gains/(losses) on Price Fluctuations, 31 December 2013, before adjustment | (15,317,806,273) |
| Deduct: | |
| Unrealized gains/(losses) on Special foreign deposit account | (341,258) |
| Unrealized gains/(losses) on Price Fluctuations, 31 December 2013, as restated | (15,317,465,015) |
| Unrealized gains(losses) on FX Rate and Price Fluctuations, 31 December 2013, as restated | (32,553,612,847) |

## 19. MISCELLANEOUS ASSETS

| | Note | 2014 | 2013 (as restated) |
|---|---|---|---|
| Withholding tax at source | a | 714,242,175 | 590,749,865 |
| Prepaid expenses | b | 178,387,844 | 47,038,729 |
| Other supplies | | 141,163,720 | 119,106,931 |
| Paintings and sculptures | c | 116,983,485 | 112,611,647 |
| Deposits – utilities and services | d | 45,771,666 | 28,966,026 |
| Numismatic collections on hand | | 21,902,959 | 21,902,959 |
| Stocks and other securities | e | 10,275,680 | 10,275,680 |
| Input tax | f | 5,887,665 | 3,050,557 |
| Creditable tax certificates | | 4,835,087 | 4,835,087 |
| Checks and other cash items in-transit | | 2,140,753 | 10,252 |
| Items for exhibit | | 1,040,680 | 1,040,679 |
| Semi-expendable property | | 588,243 | 1,196,606 |
| Assets for disposal | | 486,707 | 951,647 |
| Due from PICC | | 348,483 | (2,000) |
| Commemorative notes and coins | | 150,804 | 84,874 |

| | Note | 2014 | 2013 (as restated) |
|---|---|---|---|
| Land under usufruct | g | 82,275 | 82,275 |
| Checks and other cash items | | 38,696 | 1,606,444 |
| Demonetized commemorative coins | | 6,169 | 9,159 |
| BSP Inter-office reciprocal account | | 3,788 | (44,337) |
| Philpass-RMASS account | | 0 | (3,800,000) |
| | | 1,244,336,879 | 939,673,080 |

| | |
|---|---|
| Semi-expendable property, 31 December 2013, before adjustment | 1,062,568 |
| Add: | |
| Reclassification from building improvement | 134,038 |
| Semi-expendable property, 31 December 2013, as restated | 1,196,606 |

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

b. The account includes taxes withheld from purchases of short-term government securities which are later recognized as expense upon maturity. The increase of PHP131 million was principally due to the change in accounting policy on prepaid taxes related to treasury bonds (T-bonds). Beginning January 2014, the prepaid taxes on T-bonds were recognized separately from the bond principal amount. Additionally, the purchases of treasury bills at higher yields resulted to higher discounts and higher prepaid taxes.

c. The change in the account was brought about by the Bank's acquisition of various paintings of renowned artists in CY 2014.

d. The increase was primarily due to deposits paid to the Manila Electric Company (MERALCO) in the amount of PHP11.445 million.

e. Breakdown includes the following:

| Particulars | Amount |
|---|---|
| PICC investments | 9,520,000 |
| Proprietary membership share | 741,000 |
| Telephone companies stocks | 14,680 |
| | **10,275,680** |

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

g. 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 BSP Dagupan Branch building is located.

## 20. SHORT-TERM FOREIGN CURRENCY DEPOSITS

| | Note | 2014 | 2013 |
|---|---|---|---|
| National Government | a | 19,075,122,135 | 1,924,110,716 |
| Other entities | b | 45,845,861 | 49,497,198 |
| | | 19,120,967,996 | 1,973,607,914 |
| Accrued interest | | 4,571,756 | 152,482 |
| | | **19,125,539,752** | **1,973,760,396** |

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

| | 2014 | 2013 |
|---|---|---|
| National Government | | |
| TOP-Time Deposits | 11,822,854,064 | 0 |
| TOP-Special Accounts | 7,252,268,071 | 1,924,110,716 |
| | **19,075,122,135** | **1,924,110,716** |

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:

| | 2014 | 2013 |
|---|---|---|
| Other Entities | | |
| NPC | 33,902,887 | 37,645,518 |
| PSALM | 10,353,811 | 10,274,665 |
| North Luzon Railways | 1,575,977 | 1,563,930 |
| MWSS | 13,186 | 13,085 |
| | **45,845,861** | **49,497,198** |

## 21. LOANS PAYABLE

| | Note | 2014 | 2013 |
|---|---|---|---|
| Maturing in more than 5 years | a | | |
| Blocked peso deposit (Circular 1139/1202) | | 27,694,553 | 32,880,061 |
| Blocked peso deposit (Circular 1298) | | 18,434,122 | 20,935,143 |
| CB Memorandum Circular (at original cost PHP14.00) | | 3,845,927 | 3,845,927 |
| | | **49,974,602** | **57,661,131** |

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. Recorded partial settlement of FLP blocked peso deposits is PHP1.249 million for CY 2014 while revaluation marked at PHP6.438 million which contributed mainly to the decrease in the outstanding balance of the account.

## 22. BONDS PAYABLE

| | Note | 2014 | 2013 |
|---|---|---|---|
| Bonds due 2027 | a | 17,896,000,000 | 17,759,200,000 |
| Bonds due 2097 | | 4,474,000,000 | 4,439,800,000 |
| | | 22,370,000,000 | 22,199,000,000 |
| Less: Discount on bonds | | (80,605,677) | (80,494,812) |
| | | 22,289,394,323 | 22,118,505,188 |
| Accrued interest | | 85,503,111 | 79,546,416 |
| | | **22,374,897,434** | **22,198,051,604** |

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

| | 2014 | 2013 |
|---|---|---|
| Allocation of SDRs | 54,316,670,175 | 57,294,093,328 |
| Accrued interest | 4,549,116 | 9,952,157 |
| | **54,321,219,291** | **57,304,045,485** |

## 24. DEPOSITS

| | Note | 2014 | 2013 (as restated) |
|---|---|---|---|
| Government deposits | | | |
| Short –term | a.1 | 366,741,623,401 | 388,038,598,487 |
| Long – term | a.2 | 28,265,953,299 | 28,265,953,299 |
| | | 395,007,576,700 | 416,304,551,786 |
| Accrued interest | | 1,682,193,054 | 263,812,096 |
| | | 396,689,769,754 | 416,568,363,882 |
| | | | |
| Demand Deposits | | | |
| Banks/NBQBs-reserve deposits | b.1 | 1,394,058,920,672 | 1,128,424,927,482 |
| Special foreign deposit | | 1,127,738 | 3,167,677 |
| Others | | 29,875,671,453 | 29,871,600,858 |
| | | 1,423,935,719,863 | 1,158,299,696,017 |
| Accrued interest | | 344,447,573 | 330,672,782 |
| | | 1,424,280,167,436 | 1,158,630,368,799 |
| **IMF and other financial institutions** | **c.1** | **39,477,284,370** | **35,464,472,931** |

| | Government Deposits Short-term | Demand Deposits Banks/NBQBs |
|---|---|---|
| Balances, 31 December 2013, before adjustments | 386,509,981,012 | 1,128,419,729,872 |
| Add/(deduct): | | |
| Tax deficiency assessments for TYs 2008-2011 | 1,635,467,475 | |
| Reversal of accrued interest on TOP demand deposit account | (106,850,000) | |
| Payment received to conform with approved final plan of distribution | | 4,905,312 |
| Interest income inadvertently credited to loans and advances | | 13,819 |
| Non-imposition/reconsideration/ reduction of penalty | | 278,479 |
| | 1,528,617,475 | 5,197,610 |
| **Balances, 31 December 2013, as restated** | **388,038,598,487** | **1,128,424,927,482** |

a. Government deposits

a.1 Short-term deposits include NG's peso regular and special deposit accounts (except Special Account No. 2) that are paid four per cent (4%) interest rate per annum up to 04 August 2013 and fixed term deposits with interest rate based on weekly treasury bills auction rate. The interest rate was reduced from 4% to two per cent (2%) effective on 05 August 2013 up to 11 August 2013 as per Monetary Board Resolution (MBR) No. 1250.A dated 01 August 2013. Effective 12 August 2013 and onward, the interest rate used is "One minus the Reserve Requirement (RR) rate multiplied by the Special Deposit Account (SDA) rate (1-RR rate x SDA rate) as approved under MBR Nos. 1301 and 1308 both dated 08 August 2013.

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

c. IMF currency holdings and other financial institutions.

c.1 The 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 SDR603.963 million at 31 December 2014.

The balance of IMF's security holdings (SDR101.338 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 CY 2014 , the depreciation of peso against the SDR by PHP6.968, from PHP61.936/SDR as at 30 April 2013 to PHP68.904/SDR as at 30 April 2014, resulted to a revaluation loss of PHP4.722 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 (SCF) and Extended Fund Facility (EFF) since December 2006. BSP booked the revaluation loss as addition to the receivable from NG under the account "Accounts Receivable-TOP".

As at 31 December 2014, IMF Summary of Statement of Position showed that the total IMF currency holdings aggregated to PHP43.393 billion consisting of the balances of "Account Nos. 1 and 2" of PHP39.330 billion, security holdings of PHP6.599 billion and accrued revaluation gain of PHP2.536 billion (covering the period May 2014 to December 2014). The valuation adjustments shall be booked in May 2015 to coincide with the IMF's records.

## 25. CURRENCY IN CIRCULATION

| | 2014 | 2013 |
|---|---|---|
| Currency notes issued | 1,128,024,007,770 | 827,109,055,630 |
| Cash on hand - notes | (224,538,523,540) | (53,834,628,955) |
| Net notes in circulation | 903,485,484,230 | 773,274,426,675 |
| Currency coins issued | 26,685,203,587 | 24,959,966,156 |
| Cash on hand - coins | (668,535,645) | (782,455,378) |
| Net coins in circulation | 26,016,667,942 | 24,177,510,778 |
| Total currency in circulation | 929,502,152,172 | 797,451,937,453 |

**Inventory of Currency Issued**

| | January 1 2014 | Requisitions from CID | Retirement | December 31 2014 |
|---|---|---|---|---|
| Currency issued | | | | |
| Notes | 827,109,055,630 | 748,864,777,000 | (447,949,824,860) | 1,128,024,007,770 |
| Coins | 24,959,966,157 | 1,728,010,930 | (2,773,500) | 26,685,203,587 |
| | 852,069,021,787 | 750,592,787,930 | (447,952,598,360) | 1,154,709,211,357 |
| Cash on hand | | | | |
| Notes | | | | 224,538,523,540 |
| Coins | | | | 668,535,645 |
| Total Held in BSP-CMSS and RMASS | | | | 225,207,059,185 |
| Total currency in circulation | | | | 929,502,152,172 |

Details of currency in circulation are as follows:

| Denomination | | Quantity (No. of Pcs) 2014 | Quantity (No. of Pcs) 2013 | Amount 2014 | Amount 2013 |
|---|---|---|---|---|---|
| Notes | 100,000 | 127 | 127 | 12,700,000 | 12,700,000 |
| | 2,000 | 33,381 | 32,139 | 66,762,000 | 64,278,000 |
| | 1,000 | 542,961,143 | 402,712,977 | 542,961,143,000 | 402,712,977,000 |
| | 500 | 476,998,421 | 526,771,690 | 238,499,210,500 | 263,385,845,000 |
| | 200 | 44,313,466 | 46,484,431 | 8,862,693,200 | 9,296,886,200 |
| | 100 | 648,105,710 | 599,096,329 | 64,810,571,000 | 59,909,632,900 |
| | 50 | 526,462,331 | 402,720,479 | 26,323,116,550 | 20,136,023,950 |
| | 20 | 1,056,164,142 | 846,379,575 | 21,123,282,840 | 16,927,591,500 |
| | 10 | 67,524,463 | 67,746,303 | 675,244,630 | 677,463,030 |
| | 5 | 30,152,102 | 30,205,819 | 150,760,510 | 151,029,095 |
| | | 3,392,715,286 | 2,922,149,869 | 903,485,484,230 | 773,274,426,675 |
| Coins | 10 - Piso | 646,478,391 | 617,562,301 | 6,464,783,910 | 6,175,623,010 |
| | 5 - Piso | 1,978,717,147 | 1,811,486,684 | 9,893,585,735 | 9,057,433,420 |
| | 1 - Piso | 7,249,181,363 | 6,704,589,959 | 7,249,181,363 | 6,704,589,959 |
| | 25 - Sentimo | 7,186,860,830 | 6,612,356,670 | 1,796,715,208 | 1,653,089,168 |
| | 10 - Sentimo | 3,108,067,195 | 2,934,524,742 | 310,806,720 | 293,452,474 |
| | 5 - Sentimo | 2,353,642,586 | 2,207,033,786 | 117,682,130 | 110,351,689 |
| | 1 - Sentimo | 30,288,757 | 26,714,401 | 302,888 | 267,144 |
| | | 22,553,236,269 | 20,914,268,543 | 25,833,057,954 | 23,994,806,864 |
| | Commemorative coins | 3,379,837 | 3,293,505 | 183,609,988 | 182,703,914 |
| | | 22,556,616,106 | 20,917,562,048 | 26,016,667,942 | 24,177,510,778 |
| Total currency in circulation | | 25,949,331,392 | 23,839,711,917 | 929,502,152,172 | 797,451,937,453 |

## 26. OTHER LIABILITIES

| | Note | 2014 | 2013 (as restated) |
|---|---|---|---|
| Foreign currency Financial Liabilities | | | |
| Accounts payable | | 1,963,900,101 | 3,470,074,653 |
| Accrued expenses | | 248,745,640 | 233,148,021 |
| Derivatives liability | | 36,691,274 | 0 |
| Other financial liabilities | | 1,066,047,586 | 1,326,567,911 |
| | | 3,315,384,601 | 5,029,790,585 |
| Local currency Non-Financial Liabilities | | | |
| Retirement benefit obligations | | 1,577,549,184 | 1,479,812,406 |
| Dividends payable | a | 449,345,216 | 449,700,098 |
| Interest rebate | b | 0 | 48,512 |
| Miscellaneous liabilities | | 4,686,650,252 | 5,178,781,386 |
| Accounts payable | | 2,505,842,973 | 2,874,439,326 |
| Taxes payable | c | 1,384,481,296 | 1,541,606,497 |
| Accrued expenses | | 90,587,284 | 79,069,911 |
| Other local currency liabilities | | 705,738,699 | 683,665,652 |
| | | 6,713,544,651 | 7,108,342,402 |

| | Foreign Currency Financial Liabilities | Local Currency (LC) Non-Financial Liabilities-Miscellaneous Liabilities | |
|---|---|---|---|
| | Accounts Payable | Accounts Payable | Other LC Liabilities |
| Balances, 31 December 2013, before adjustments | 3,470,864,642 | 2,713,493,595 | 697,684,612 |
| Add/(deduct): | | | |
| HSBC overpayment of gold weight differential | (789,989) | | |
| Interest on net remuneration received from IMF | | 186,857,266 | |
| Foreclosure expenses reclassified to investment property | | 46,250 | |
| Adjustments due to application of payments | | (25,957,785) | (9,791,384) |
| Understated miscellaneous income | | | (4,225,817) |
| Amortization of deferred income | | | (1,759) |
| | (789,989) | 160,945,731 | (14,018,960) |
| Balances, 31 December 2013, as restated | 3,470,074,653 | 2,874,439,326 | 683,665,652 |

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

b. The MB approved the remittance to NG of the outstanding interest rebate for CY 1995 through credit to the RDDA-TOP-Treasury Single Account.

c. The decrease was primarily due to the decline in the level of SDA-Trust in 2012 and the three (3) reductions in 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.

## 27. CAPITAL ACCOUNTS

| | Note | 2014 | 2013 (as restated) |
|---|---|---|---|
| Capital | a | 50,000,000,000 | 40,000,000,000 |
| Surplus | b | (80,190,370,914) | (71,864,788,447) |
| Unrealized losses on Investments | c | (3,311,669,996) | (6,886,063,890) |
| Capital Reserves | | 77,860,914,897 | 78,370,228,719 |
| Managed Funds | | | |
| Fidelity insurance fund | | 22,247,379,248 | 22,247,379,248 |
| Currency insurance fund | | 2,798,665,272 | 2,798,665,272 |
| BSP Properties Self-Insurance Fund | | 1,950,000,000 | 1,950,000,000 |
| Retirement benefit fund | | 1,151,500,767 | 1,152,715,025 |
| Directors'/officers' liability | | 1,092,289,420 | 1,092,289,420 |
| | | 29,239,834,707 | 29,241,048,965 |

| | Note | 2014 | 2013 (as restated) |
|---|---|---|---|
| Others Fund | | | |
| Fluctuations in price of gold | | 42,582,587,455 | 42,582,587,455 |
| Contingencies | | 3,646,871,739 | 3,646,871,739 |
| Property insurance | | 1,600,000,000 | 1,600,000,000 |
| SPC rehabilitation | | 727,676,862 | 1,232,570,080 |
| Cultural Properties Acquisition Fund | | 54,610,517 | 57,816,863 |
| Gold insurance fund | | 9,333,617 | 9,333,617 |
| | | 48,621,080,190 | 49,129,179,754 |
| | | 44,358,873,987 | 39,619,376,382 |

a. The capital of the BSP shall be PHP50 billion pursuant to Section 2, paragraph 2 of RA No. 7653, to be fully subscribed by the Government of the Republic of the Philippines. The PHP10 billion initial capitalization had been fully paid for by the Government upon effectivity of RA No. 7653 in 1993 and the balance to be paid within a period of two (2) 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 (DBM), may thereafter determine.

An additional capital of PHP10 billion from the National Government (NG) was credited on 04 November 2011 as per the Bureau of the Treasury (BTr) Debit Authority No. A.a 2011-11-2179 dated 04 November 2011, as equity infusion to ensure monetary and financial stability. Subsequently, the BSP received another PHP20 billion capital from the NG in the form of LBP checks dated 28 December 2012 issued by the BTr, in accordance with Special Allotment Release Order (SARO) Nos. F-12-01423 and F-12-01424 issued by the DBM. As indicated in the Debit Authority and SAROs, the releases form part of the fiscal years 2011 and 2012 Disbursement Acceleration Program (DAP) approved by the President on 12 October 2011 and 21 December 2012, respectively.

The balance of PHP10 billion representing full payment of BSP capitalization was credited on 02 January 2014 per BTr Debit Authority No. GF-2014-01-0013 dated 02 January 2014.

b. This includes the amount of PHP317 million representing funds received from the NG per SARO No. F-13-01344 dated 27 December 2013, for the implementation of various PICC building and facilities rehabilitation projects relative to the hosting of the Asia-Pacific Economic Cooperation (APEC) meeting in CY 2015.

In accordance with PAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors”, the Surplus for calendar year 2013 is restated as follows:

| | |
|---|---|
| Surplus, 1 January 2013, before adjustments | (45,138,904,848) |
| Add/(deduct): | |
| Restatement of adjustments on income and expenses prior to CY 2013 | (8,698,954,975) |
| Surplus, 1 January 2013, as restated | (53,837,859,823) |
| Add/(deduct): | |
| Transactions for CY 2013 | (522,076,761) |
| Surplus, 31 December 2013, before net loss | (54,359,936,584) |
| Net loss for the period, before adjustments | (25,052,280,055) |

| | |
|---|---|
| Add/(deduct): | |
| Restatement of adjustments on income and expenses for CY 2013 | 7,547,428,192 |
| Net loss for the period, as restated | (17,504,851,863) |
| Surplus, 31 December 2013, as restated | (71,864,788,447) |

The details of restated prior period adjustments on income and expenses and transactions for CY 2013 are presented in the Statement of Changes in Equity.

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

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

| | 2014 | 2013 |
|---|---|---|
| Beginning balance | (6,886,063,890) | (8,055,703,160) |
| Effect of marking to market of gov't securities - | | |
| Increase/(decrease) in government securities | 3,574,393,894 | 1,169,639,270 |
| Ending balance | (3,311,669,996) | (6,886,063,890) |

## 28. INTEREST INCOME AND INTEREST EXPENSES

| | 2014 | 2013 (as restated) |
|---|---|---|
| Interest income from financial assets | | |
| Interest income from foreign currency financial assets | | |
| Investment securities | 23,528,227,380 | 22,184,187,221 |
| Deposit with foreign banks | 1,452,520,500 | 1,178,709,091 |
| IMF special drawings rights | 51,248,019 | 46,172,774 |
| Loans and advances | 1,906,507 | 2,426,978 |
| Other foreign currency receivables | 3,566,615,656 | 3,013,561,193 |
| | 28,600,518,062 | 26,425,057,257 |
| Interest income from local currency financial assets | | |
| Investment securities | 2,446,155,954 | 1,891,102,150 |
| Loans and advances | 1,815,472,375 | 3,961,787,949 |
| Other receivables | 140,009,929 | 151,199,434 |
| | 4,401,638,258 | 6,004,089,533 |
| | 33,002,156,320 | 32,429,146,790 |

| | |
|---|---|
| Interest income on loans and advances, 31 December 2013, before adjustment | 3,959,124,233 |
| Add/(deduct): | |
| Adjustment on application of payment | 2,663,716 |
| Interest income on loans and advances, 31 December 2013, as restated | 3,961,787,949 |

| | 2014 | 2013 |
|---|---|---|
| Interest expense from financial liabilities | | |
| Interest expense on foreign currency financial liabilities | | |
| Bonds payable | 1,906,307,030 | 1,878,366,923 |

| | 2014 | 2013 (as restated) |
|---|---|---|
| Allocation of IMF special drawing rights | 48,511,188 | 44,314,345 |
| Short term deposits | 11,264,285 | 5,445,936 |
| | 1,966,082,503 | 1,928,127,204 |
| Interest expense on local currency financial liabilities | | |
| Special deposit account | 26,246,005,931 | 41,415,404,300 |
| Securities sold under agreements to repurchase | 11,058,232,764 | 10,204,110,538 |
| Government deposits | 6,872,463,225 | 5,959,312,482 |
| Deposits of banks and other financial institutions | 13,774,791 | 22,970,569 |
| | 44,190,476,711 | 57,601,797,889 |
| | 46,156,559,214 | 59,529,925,093 |

| | |
|---|---|
| Interest expense on Allocation of IMF special drawing rights, 31 December 2013, before adjustment | 43,793,585 |
| Add/(deduct): | |
| Adjustment on interest on net remuneration received from the IMF in 2013 | 520,760 |
| Interest expense on Allocation of IMF special drawing rights, 31 December 2013, as restated | 44,314,345 |

## 29. OTHER OPERATING INCOME

| | **2014** | **2013 (as restated)** |
|---|---|---|
| Printing, minting and refinery | 814,743,129 | 1,545,739,557 |
| Fees – local | | |
| Banking supervision/clearing/license fees | 3,511,341,268 | 3,285,663,605 |
| Processing and filing fees | 1,062,824,395 | 806,684,076 |
| Penalties and late charges | 253,126,836 | 900,383,095 |
| Transaction fee - PhilPaSS | 144,948,471 | 154,119,067 |
| Others | 59,062,377 | 54,960,530 |
| | 5,031,303,347 | 5,201,810,373 |
| Other income | | |
| Income on acquired assets | 482,083,683 | 180,617,905 |
| Rental on acquired assets | 36,019,638 | 24,117,154 |
| Building rental | 10,486,047 | 10,997,767 |
| Other miscellaneous income | 367,747,690 | 365,101,145 |
| | 896,337,058 | 580,833,971 |
| | 6,742,383,534 | 7,328,383,901 |

| | Banking Supervision/Clearing/ License Fees | Penalties and Late Charges |
|---|---|---|
| Balances, 31 December 2013, before adjustments | 3,276,087,189 | 896,429,737 |
| Add/(deduct): | | |
| Adjustments on liquidated damages, reserve deficiency and late reporting | | 3,953,358 |
| Restatement of supervisory fees and liquidated damages | 9,576,416 | |
| | 9,576,416 | 3,953,358 |
| Balances, 31 December 2013, as restated | 3,285,663,605 | 900,383,095 |

| | Income on Sale of Acquired Assets | Other Miscellaneous Income |
|---|---|---|
| Balances, 31 December 2013, before adjustments | 177,226,521 | 331,551,918 |
| Add/(deduct): | | |
| Adjustment on realized profit from asset sold due to application of payment made | 3,391,384 | |
| Adjustment on provision for accounts written-off | | 33,549,227 |
| | 3,391,384 | 33,549,227 |
| Balances, 31 December 2013, as restated | 180,617,905 | 365,101,145 |

## 30. CURRENCY PRINTING AND MINTING COST

| | 2014 | 2013 |
|---|---|---|
| Notes | 4,905,633,369 | 3,558,811,747 |
| Coins | 1,857,898,751 | 2,207,397,983 |
| | 6,763,532,120 | 5,766,209,730 |

## 31. OPERATING EXPENSES

| | 2014 | 2013 (as restated) |
|---|---|---|
| Personnel services, development and training | 10,700,409,755 | 10,255,395,316 |
| Administrative expenses | 2,814,522,339 | 2,009,245,567 |
| Depreciation/amortization | 668,497,673 | 624,910,494 |
| Loss due to market decline | 25,000 | (41,760,108)[2] |
| | 14,183,454,767 | 12,847,791,269 |

### a. PERSONNEL SERVICES

| | 2014 | 2013 (as restated) |
|---|---|---|
| Salaries and wages | 7,680,128,861 | 7,349,616,498 |
| Defined contribution plans | 1,845,360,391 | 1,812,473,128 |
| Social security contribution | 418,721,124 | 415,609,315 |
| Sickness and death benefits | 254,554,667 | 265,907,296 |
| Post-retirement benefits | 325,175,462 | 241,031,253 |
| Personnel development and training | 166,878,769 | 162,977,655 |
| Medical and dental benefits | 9,590,481 | 7,780,171 |
| | 10,700,409,755 | 10,255,395,316 |

| | |
|---|---|
| Salaries and wages, 31 December 2013, before adjustment | 7,340,465,190 |
| Add/(deduct): | |
| Reversal of salaries and benefits due to AWOP and overpayment | 9,151,308 |
| Salaries and wages, 31 December 2013, as restated | 7,349,616,498 |

[2] *With on-going reconciliation.*

b. ADMINISTRATIVE EXPENSES

| | 2014 | 2013 (as restated) |
|---|---|---|
| Taxes and licenses | 134,412,438 | 109,832,346 |
| Acquired assets expenses | 482,908,656 | 272,456,224 |
| Repairs and maintenance | 401,048,060 | 405,421,482 |
| Water, illumination and power services | 308,839,667 | 294,624,451 |
| Traveling expenses | 272,755,994 | 276,654,623 |
| Currency and gold operations expenses | 209,331,024 | 202,162,913 |
| Communication services | 162,391,862 | 151,435,453 |
| Grants, subsidies and contributions | 103,357,664 | 126,500,402 |
| Consultants and specialist services | 114,903,040 | 91,573,531 |
| Auditing services | 59,629,375 | 59,360,472 |
| Supplies and materials | 57,674,779 | 50,024,610 |
| Fidelity and property insurance | 47,318,116 | 65,663,508 |
| Rentals | 26,459,837 | 43,139,459 |
| Ammunitions | 6,775,218 | 4,268,574 |
| Discretionary expenses | 2,985,276 | 2,996,360 |
| Others | 423,731,333 | (146,868,841) |
| | 2,814,522,339 | 2,009,245,567 |

The following administrative expense account balances as of 31 December 2013 are restated as follows:

| | Taxes and Licenses | Acquired Assets Expenses | Others |
|---|---|---|---|
| Balance, 31 December 2013, before adjustments | 5,520,116,761 | 161,499,891 | (146,890,001) |
| Add/(deduct): | | | |
| Restatement of tax deficiency assessments for TYs 2008-2011 | (5,274,207,793) | | |
| CGT on title consolidation | (106,243,657) | 106,243,657 | |
| Capital gains tax (CGT) on sale | (22,086,391) | 22,086,391 | |
| Transfer tax | (7,746,574) | 7,746,574 | |
| Foreclosure expenses reclassified to investment property | | (25,120,289) | |
| Aquarium accessories reclassed from PPE | | | 21,160 |
| | (5,410,284,415) | 110,956,333 | 21,160 |
| Balance, 31 December 2013, as restated | 109,832,346 | 272,456,224 | (146,868,841) |

Taxes and licenses account balances for CYs 2014 and 2013 are reduced by the amounts of final taxes paid on interest income/discounts (presented as a separate line item in the Income Statement) and taxes and licenses paid on acquired assets (included in the total acquired assets expenses as shown in the succeeding table).

The acquired assets expenses consist of the following:

| | 2014 | 2013 (as restated) |
|---|---|---|
| Taxes and licenses | 387,087,181 | 171,002,125 |
| Security services | 39,536,730 | 28,403,043 |
| External professional services | 22,226,759 | 18,602,838 |
| Association condominium fees | 12,517,925 | 3,932,946 |
| Foreclosure expenses | 12,045,664 | 22,041,598 |
| Repairs and maintenance | 3,711,329 | 2,796,474 |
| Light, fuel and water | 3,561,402 | 1,277,869 |
| Legal fees | 1,452,860 | 21,386,064 |
| Fidelity insurance | 768,806 | 3,013,267 |
| Total | 482,908,656 | 272,456,224 |

| | |
|---|---|
| Taxes and licenses, 31 December 2013, before adjustment | 34,925,503 |
| Add/(deduct): | |
| Capital gains tax (CGT) on sale | 106,243,657 |
| CGT on title consolidation | 22,086,391 |
| Transfer tax | 7,746,574 |
| | 136,076,622 |
| Taxes and licenses, 31 December 2013, as restated | 171,002,125 |

| | |
|---|---|
| Foreclosure expenses, 31 December 2013, before adjustment | 47,161,887 |
| Add/(deduct): | |
| Foreclosure expenses reclassified to investment property | (25,120,289) |
| Foreclosure expenses, 31 December 2013, as restated | 22,041,598 |

Furthermore, depreciation of BPFFE and amortization of CNAS as at 31 December 2013 are restated as follows:

| | Depreciation | Amortization | Total |
|---|---|---|---|
| Depreciation expense, 31 December 2013, before adjustment | 529,648,604 | 95,669,833 | 625,318,437 |
| Add/(deduct): | | | |
| Reclassification of furniture and equipment - special supplies | 25,283 | | 25,283 |
| Reclassification from building improvement to semi-expendable property | (11,826) | | (11,826) |
| Reclassification of aquarium accessories from furniture and equipment to expense | (1,568) | | (1,568) |
| Reclassification of maintenance fees from CNAS to expense | | (419,832) | (419,832) |
| | 11,889 | (419,832) | (407,943) |
| Depreciation expense, 31 December 2013, as restated | 529,660,493 | 95,250,001 | 624,910,494 |

## 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.

| | 2014 | 2013 (as restated) |
|---|---|---|
| Loss for the year | (10,114,536,491) | (17,504,851,863) |

In accordance with PAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", the Net Loss for calendar year 2013 was restated as shown in Note 27. The details of restated prior period adjustments on income and expenses are presented in the Statement of Changes in Equity.

## 33. TRUST FUNDS

| | 2014 | 2013 |
|---|---|---|
| Comptrollership | 25,132,686,451 | 25,103,768,233 |
| Supervision & Examination Department-Rural Banks | 2,214,863,869 | 2,187,484,493 |
| Treasury Department-Domestic | 1,975,514,986 | 2,042,515,244 |
| Department of Loans and Credit-Accounting | 405,802,356 | 375,437,373 |
| | 29,728,867,662 | 29,709,205,343 |

## 34. CASH AND CASH EQUIVALENTS

| | 2014 | 2013 (as restated) |
|---|---|---|
| Foreign currency assets | | |
| Foreign investments - readily convertible to Cash | 1,893,083,650,597 | 2,244,909,869,489 |
| Deposit with foreign banks | 649,206,559,420 | 492,481,582,005 |
| Due from foreign banks - NIR | 2,046,743,335 | 23,042,562,428 |
| Other cash balances (foreign currency on hand) | 214,956,951 | 211,211,317 |
| Other FX receivable - due from FX banks - special account | 23,157,422 | 538,059,852 |
| Non-IR foreign currency on hand | 15,183,786 | 5,990 |
| | 2,544,590,251,511 | 2,761,183,291,081 |
| Local currency assets | | |
| Government securities | 222,313,000,652 | 219,440,898,099 |
| Other receivables - due from local banks | 447,069,289 | 312,781,849 |
| Other receivables - revolving fund | 259,178,306 | 279,261,904 |
| Miscellaneous assets - checks and other cash Items | 38,696 | 1,606,444 |
| | 223,019,286,943 | 220,034,548,296 |
| Demand liabilities | | |
| Deposit of banks and other financial institutions | (2,302,543,440,032) | (2,554,744,608,535) |
| Government demand deposits | (363,478,959,225) | (384,775,934,311) |
| | (2,666,022,399,257) | (2,939,520,542,846) |
| Cash and Cash Equivalents, 31 December | 101,587,139,197 | 41,697,296,531 |

## 35. RECONCILIATION OF OPERATING CASH FLOW WITH REPORTED NET LOSS

| | 2014 | 2013 (as restated) |
|---|---|---|
| Reported operating deficit | (10,114,536,491) | (17,504,851,863) |
| Operating cash flows from changes in asset and liability balances | (18,864,826,195) | 48,567,434,973 |
| Add/(deduct) non-cash items | | |
| Depreciation | 668,497,673 | 624,910,494 |
| Provision for probable loss | 468,590,801 | 316,126,046 |
| Provision for market decline | 25,000 | (41,760,108) |
| Income tax expense/(benefit) due to movement in deferred income tax (DIT) | (41,988,323) | 107,994,488 |
| Amortization of premium/discount on bonds payable | (110,865) | (5,591,413) |
| Interest income - loans and advances - prior period | 0 | (738,385) |
| | 1,095,014,286 | 1,000,941,122 |
| Add/(deduct) movements in other working capital items: | | |
| Increase/(decrease) in interest payable | 1,371,569,941 | (853,733,831) |
| (Increase)/decrease in interest receivable | (1,171,989,724) | (1,148,464,669) |
| (Increase)/decrease in accounts receivable | (551,660,610) | 759,769,101 |
| Increase/(decrease) in miscellaneous liabilities | (696,688,844) | 867,856,298 |
| | (1,048,769,237) | (374,573,101) |
| Add/(deduct) investing and financing activities | | |
| Net realized gain on FX rates fluctuation | (8,935,935,223) | (5,598,245,582) |
| Net cash provided by (used in ) operating activities | (37,869,052,860) | 26,090,705,549 |

## 36. TAXES

### 36.1 Income Taxes

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

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Amount | Per cent | Amount (as restated) | Per cent |
| Provision for income tax computed at the statutory income tax rate, before adjustments | (3,392,415,479) | | (6,822,010,282) | |
| Add/(deduct): Restatements to financial statements computed at statutory rate | 345,458,035 | | 1,602,953,069 | |
| Provision for income tax computed at the statutory income tax rate, as restated | (3,046,957,444) | (30.00) | (5,219,057,213) | (30.00) |
| Additions to/(reductions in) income tax resulting from the tax effects of: | | | | |
| Non-deductible national taxes | 247,257,501 | 2.43 | 151,745,808 | 0.87 |
| Provision for allowance for doubtful accounts | 147,664,981 | 1.45 | 100,048,150 | 0.58 |
| Provision for unused leave credits | 108,341,182 | 1.07 | 76,172,878 | 0.44 |
| Interest Income subject to Final Tax | (733,846,786) | (7.22) | (567,218,489) | (3.26) |
| Prior year reversal of allowance for doubtful accounts | (124,923,621) | (1.23) | (200,249,349) | (1.15) |

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Amount | Per cent | Amount (as restated) | Per cent |
| Actual leave credits paid | (79,020,149) | (0.78) | (82,567,338) | (0.47) |
| Income related to the sale of acquired assets | (138,332,208) | (1.36) | (50,673,822) | (0.29) |
| Provision for loss on market decline | 7,500 | 0.00 | (12,528,032) | (0.07) |
| PICC income and expenses | (1,115,633) | (0.01) | (8,027,449) | (0.05) |
| Debits on valuation allowance credited to Miscellaneous Income | (10,004,049) | (0.10) | (1,746,410) | (0.01) |
| Written-off accounts | (54,066) | (0.00) | (785,789) | (0.00) |
| Taxable adjustments to surplus | 289,157,780 | 2.85 | (260,302,908) | (1.50) |
| | (294,867,568) | (2.90) | (856,132,751) | (4.91) |
| Actual provision for corporate income tax | (3,341,825,012) | (32.90) | (6,075,189,964) | (34.91) |

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

### 36.2 Deferred Income Taxes

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

| | 2014 | 2013 |
|---|---|---|
| Deferred income tax asset | | |
| Allowance for doubtful accounts | 1,779,080,476 | 1,766,413,187 |
| Unused leave credits | 473,264,755 | 443,943,722 |
| Tax overpayments | 4,280,661,693 | 4,280,661,693 |
| PICC unused tax credit (for consolidation purposes) | 34,183,429 | 29,550,126 |
| Total deferred income tax assets | 6,567,190,353 | 6,520,568,728 |

The movement in DTA account is summarized as follows:

| | 2014 | 2013 |
|---|---|---|
| Net balance at the beginning of the year, before adjustments | 6,520,568,728 | 6,777,568,593 |
| Add/(deduct): | | |
| Expired Excess MCIT | 0 | (171,458,253) |
| Temporary differences charged to income tax expense | 41,988,323 | (107,994,488) |
| PICC unused tax credits (for consolidation purposes) | 4,633,302 | 29,550,126 |
| | 46,621,625 | (249,902,615) |
| Net balance at the end of the year, before adjustments | 6,567,190,353 | 6,527,665,978 |
| Add/(deduct): | | |
| Net adjustments due to de-recognition of allowance for doubtful accounts of PICC | | (7,097,250) |
| Net balance at the end of the year | 6,567,190,353 | 6,520,568,728 |

The provision for losses for bad debts on PICCI receivables and changes in its balances do not necessarily affect the Income Tax Return (ITR) and are therefore neither assets nor liabilities as far as the BSP is concerned, hence not considered in the computation of the DTA. These accounts are consolidated in the BSP financial statements for presentation purposes.

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

| | 2014 | 2013 |
|---|---|---|
| Provision for allowance for doubtful accounts | 147,664,982 | 100,048,150 |
| Provision for unused leave credits | 108,341,182 | 76,172,878 |
| Reversal of account valuations | (134,943,626) | (200,862,389) |
| Actual leave credits paid | (79,020,149) | (82,567,338) |
| Written-off accounts | (54,066) | (785,789) |
| Temporary differences charged to income tax expense | 41,988,323 | (107,994,488) |

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

| Year Incurred | 2014 | 2013 |
|---|---|---|
| 2010 | | 71,470,030,370 |
| 2011 | 38,802,844,780 | 38,802,844,780 |
| 2012 | 98,936,485,378 | 98,936,485,378 |
| 2013 | 20,250,633,213 | 20,250,633,213 |
| 2014 | 11,139,416,708 | |
| | 169,129,380,079 | 229,459,993,741 |
| Expired Portion | | |
| 2010 | | (71,470,030,370) |
| 2011 | (38,802,844,780) | |
| Outstanding NOLCO | 130,326,535,299 | 157,989,963,371 |
| Tax Rate | 30% | 30% |
| | 39,097,960,590 | 47,396,989,011 |

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

Similarly, the mark-to-market valuation of domestic securities booked directly to equity under the account “Unrealized Losses on Domestic Investments” are not considered as DTA components as the future taxable profit will not be sufficient to absorb these deductible temporary differences. The DTA that should have been recognized on the said mark-to-market account is PHP0.994 billion in 2014 and PHP2.066 billion in 2013.

Revaluation of International Reserve (RIR) account amounting to PHP41.664 billion is not included as a DTA component pursuant to Section 45 of RA 7653 which states that "profits or losses arising from any revaluation of the Bangko Sentral's net assets or liabilities in gold or foreign currencies with respect to the Philippine peso shall not be included in the computation of the annual profits and losses of the Bangko Sentral".

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

In compliance with the requirements set forth by RR No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year 2014.

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 PHP0.213 billion based on the rental of owned/acquired properties and sale of printing and other services reflected in the Miscellaneous Income account of PHP1.773 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 PHP0.050 billion recognized from local purchases and importations of various goods and services.

d. The landed cost of the BSP's importations not related to activities mentioned in Section 126 of RA 7653 (see Note 2.29) amounted to PHP0.415 billion for the year, with paid/accrued amount of PHP0.013 billion as customs duties tariff fees.

e. All other taxes, local and national included in the Taxes and Licenses account under Operating Expenses in the Income Statement are as follows:

| | 2014 | 2013 (as restated) |
|---|---|---|
| Local Taxes | | |
| Real estate tax | 132,902,822 | 106,103,579 |
| Taxes and licenses related to acquired assets | 52,195,431 | 42,672,077 |
| Others (registration fees, licenses, permits) | 1,278,616 | 3,728,767 |
| | 186,376,869 | 152,504,423 |
| National Taxes | | |
| Capital gains tax on sale of acquired assets | 334,891,750 | 128,330,048 |
| Donor's tax | 231,000 | 0 |
| | 335,122,750 | 128,330,048 |

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

| | 2014 | 2013 |
|---|---|---|
| Final withholding tax on income | 9,069,182,220 | 11,700,147,012 |
| Withholding tax on compensation and benefits | 1,990,498,092 | 1,901,937,631 |
| VAT and other percentage tax withheld | 935,785,791 | 134,013,873 |
| Expanded withholding tax | 103,755,690 | 101,819,878 |
| Excise tax collected | 20,886,365 | 21,188,944 |
| | 12,120,108,158 | 13,859,107,338 |

g. In 2014, the BSP was assessed for deficiency creditable withholding tax (CWT) on its domestic purchases of gold covering the first semester of taxable year 2011. BSP settled the deficiency CWT amounting to PHP1.635 billion. The related BSP application for abatement of interest and surcharges amounting to PHP1.898 billion has been filed and remains pending with the BIR. The BSP started withholding the applicable CWT on its local purchases of gold in July 2011.

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

(1) In 2013, the BSP was issued a Final Assessment Notice (FAN) for internal revenue taxes for taxable year 2009. The BSP partially resolved the tax audit for taxable year 2009 with payments for deficiency internal revenue taxes in the amount of PHP3.838 billion. The related BSP application for abatement/cancellation of interest amounting to PHP0.639 billion remains to be pending with the BIR. The 2009 BIR assessment for final withholding of percentage tax amounting to PHP1.335 billion basic tax, and PHP1.037 billion interest as at 29 November 2013 remain unresolved and the same is subject of the case entitled Bangko Sentral ng Pilipinas vs Commissioner of Internal Revenue, docketed as CTA Case No. 8810.

(2) After the BSP filed a protest to the 27 December 2013 FAN issued by the BIR against BSP for 2010 deficiency taxes, the BSP, received on 2 May 2014 a Final Decision on Disputed Assessment (FDDA) amounting to PHP9.399 billion with interest of PHP6.242 billion computed as of 30 June 2014 and surcharges of PHP1.496 billion. To appeal the FDDA, the BSP filed the case entitled Bangko Sentral ng Pilipinas vs. Commissioner of Internal Revenue docketed as CTA Case No. 8827.

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