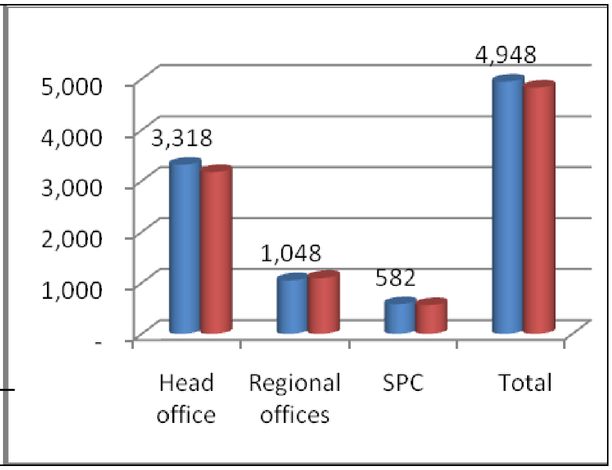
**(All amounts in thousand pesos unless otherwise stated)**

## 1. GENERAL INFORMATION

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

The Bangko Sentral ng Pilipinas has its principal office at A. Mabini and P. Ocampo Streets, Manila, Philippines. It has regional offices and branches in 21 locations, and a security printing facility (Security Printing Complex or SPC) at Quezon City, Philippines. It likewise owns the Philippine International Convention Center Inc. (PICCI), a wholly owned subsidiary that manages and operates the Philippine International Convention Center. The filled personnel complement of BSP based on location increased by 2.46 per cent and are distributed as follows:

| | **2008** | 2007 | Change |
|---|---|---|---|
| Head Office | **3,318** | 3,172 | 146 |
| Regional Offices /Branches | **1,048** | 1,095 | -47 |
| Security Plant Complex | **582** | 562 | 20 |
| Total | **4,948** | 4,829 | 119 |




In these financial statements, the Bangko Sentral ng Pilipinas is also referred to as the "BSP" or the "Bank". The Monetary Board has reviewed and approved the release of the accompanying financial statements on 23 July 2009.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation of financial statements

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

PAS 21 provides that unrealized gains and losses due to change in exchange rates/prices regardless of classification of assets are recognized under the income statement. BSP recognized unrealized gains and losses in accordance with Section 45 of Republic Act No. 7653. The realized gains and losses are recognized in the income statement under PAS 21.

Unless otherwise stated, the CY2008 balances are prepared under the historical cost convention and/or applicable PFRS/PAS.

### 2.2 Consolidation

The BSP's financial statements include the accounts of the Bank and the PICCI as at December 31, 2008. Due to immateriality of the balances of the accounts of PICCI, "consolidated" was omitted from the heading of the statement. All inter-company balances are eliminated prior to consolidation.

### 2.3 Subsidiary

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

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

In accordance with the provisions of PAS 27, the “Investment in PICCI” account was created to reclassify the PHP50.000 million investment of the BSP in PICCI which consists of the 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) are consolidated line by line of like items. Income and expense accounts are consolidated under two summary accounts namely, “Miscellaneous Income-PICCI” and “Miscellaneous Expenses-PICCI”, respectively. BSP recognizes income only upon receipt of dividends from PICCI.

### 2.4 Presentation and recognition

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

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

### 2.5 Currency of presentation

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

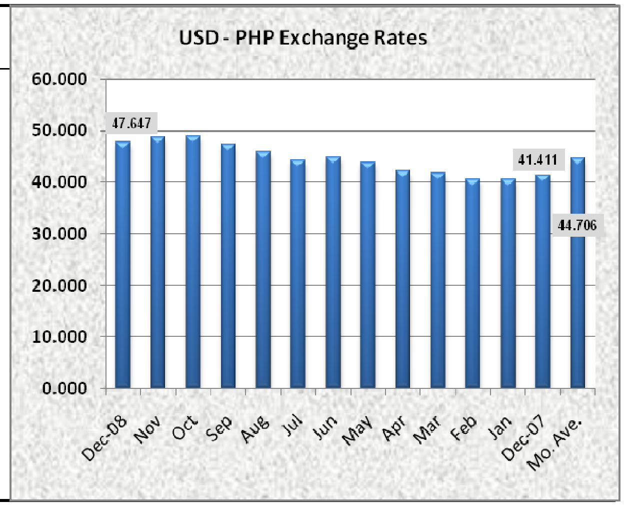
### 2.6 Foreign currency translation

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

Exchange rates used are based on the published BSP Reference Rate Bulletin. Philippine peso versus the US dollar depreciated steadily from January’s PHP40.626 to December’s PHP47.647. Comparing end-December 2008 and 2007 exchange rates, peso depreciated by 13.09 per cent against the US dollar. The end-December 2008 rate of PHP47.647 was used in the financial statements.

Following were the end-month exchange rates in 2008.

| 2008 | USD – PHP | CHANGE |
|---|---|---|
| **Dec-08** | **47.647** | -1.152 |
| **Nov** | **48.799** | -0.103 |
| **Oct** | **48.902** | 1.638 |
| **Sep** | **47.264** | 1.400 |
| **Aug** | **45.864** | 1.654 |
| **Jul** | **44.210** | -0.686 |
| **Jun** | **44.896** | 1.076 |
| **May** | **43.820** | 1.593 |
| **Apr** | **42.227** | 0.471 |
| **Mar** | **41.756** | 1.299 |
| **Feb** | **40.457** | -0.169 |
| **Jan** | **40.626** | -0.785 |
| **Dec-07** | **41.411** | |
| **Mo. Ave** | **44.706** | |




2.7 Foreign exchange gains and losses

The realized gains or losses arising from 'translation" of the Bank's net assets and liabilities (including derivative instruments) in foreign currencies with respect to the Philippine peso are carried to the income statement under the account "Gain/loss on fluctuation in FX rates" with an offsetting charge or credit to the appropriate revaluation account in the balance sheet in compliance with Section 45 of Republic Act No. 7653 which provides that the revaluation account as a frozen account shall neither be credited nor debited for any other purpose.

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

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

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

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

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

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

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

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

2.8 Interest income and expenses

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

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

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

2.9 Fee income

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

2.10 Financial assets

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

2.10.1 Available-for-sale

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

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

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

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

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

2.10.2 Loans and receivables

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

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

Under PAS 39 – Impairment of Assets, impairment is recognized if there is objective evidence that an impairment loss on loans has been incurred. However, in view of the difficulty in identifying a single, discreet event that may cause the impairment, the carrying amount of loans and receivables is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. The following schedule shows how the allowance is estimated:

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

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

Loans and advances as of year-end comprise 31.87 per cent current and 68.13 per cent non-current accounts. Current accounts are to be recovered or settled within 12 months from date of grant while non-current accounts are to be recovered or settled beyond 12 months.

2.11 Sale and repurchase agreements

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

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

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

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

## 2.12 Bank premises, furniture, fixtures, and equipment

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

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

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

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

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

### 2.13 Acquired assets held for sale

These are the acquired assets readily available for disposition during the year. Bank policies on the valuation of these assets are the same with the investment property (Note 2.14).

### 2.14 Investment property

These are generally land and buildings acquired by the BSP either through foreclosure (legal proceedings initiated by the Bank to acquire the collateral securing the loan of the defaulting bank) or *dacion en pago* in settlement of loans and advances of defaulting banks. These assets are being held until such time that these are readily available for disposition and are reclassified to acquired assets held for sale.

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

Investment properties are not depreciated. However, periodic appraisal of these assets is conducted by appraisal companies acceptable to the BSP. An allowance for market decline is set up should the book value of an asset exceeds its most recent appraised value. The use of recent appraised value in recognizing impairment is an alternative compliance to PAS 36 – Impairment of Asset-in the absence of a more realistic basis.

### 2.15 Intangible assets

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

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

### 2.16 Leases

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

### 2.17 Inventories

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

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

### 2.18 Numismatic collections, artworks, paintings and sculptures

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

### 2.19 Financial liabilities

Financial liabilities denominated in foreign currency comprise of short-term foreign currency deposits of banks, the National Government and other government entities, and short and long-term borrowings of the BSP. These liabilities are initially recognized at cost and subsequently converted at the current value using month-end exchange rates. Interest is accrued monthly and recognized in the income statement. Foreign currency borrowings contracted after the creation of Bangko Sentral in CY1993 are collateralized either by securities or gold. As of end CY2008, there are outstanding foreign currency borrowings collateralized by gold.

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

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

### 2.20 Currency in circulation

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

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

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

### 2.21 Derivative instruments

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

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

### 2.22 Taxes

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

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

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

Pursuant to Republic Act No. 9337, "National Internal Revenue Code" (NIRC) as amended, the Bank computes its income tax obligation based on (a) Regular Corporate Income Tax (RCIT) computed at 35 per cent of net income or (b) Minimum Corporate Income Tax (MCIT) computed at two per cent based on gross income, whichever is higher. Taxable amount computed under RCIT is booked as an expense. Amount computed under MCIT in excess of the normal income tax/RCIT is recognized as deferred charges which will be carried forward and credited against the normal income tax for three immediately succeeding taxable years as provided under Section 27.E(2) of the NIRC, as amended.

The Expanded Value Added Tax (EVAT) was increased from 10 per cent to 12 per cent effective 01 February 2006.

2.23 Employee benefit plans

The funds listed below had been set-up for BSP employees. The BSP's contributions to the funds are charged to operating expenses and recognized in the income statement. Contributions to and augmentation of the Funds are disbursed to the fund administrators. All incomes accrue to the Funds and are recognized in the balance sheet as increase in the Fund balance. The Fund balances reported by the fund administrators are measured at fair market values.

2.23.1 Provident fund

This fund was established in accordance with Republic Act No. 4537 dated June 9, 1965 which authorized such fund to be set-up by government owned or controlled banking institutions. This is a defined contribution plan wherein the Bank's monthly contribution is equivalent to 20 per cent of the basic salary of each employee while the employee contributes 2.5 per cent. As approved by the Monetary Board in 19 December 2008, the Bank's monthly contribution is increased from 20 per cent to 22.5 per cent and employees' optional personal contribution from 2.5 per cent to 5 per cent increment to take effect in February 2009. All regular employees automatically become members of the Fund. The Bank's contributions are recognized in the income statement as operating expenses. The Fund is administered by the Provident Fund Office, a separate legal entity established for the purpose of managing the Fund and staffed by Bank personnel.

2.23.2 Housing fund

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

2.23.3 Longevity trust fund

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

2.23.4 Car plan fund

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

2.23.5 Retirement benefit fund

This fund was set-up in 1997 for employees who will be eligible to retire under Republic Act No. 1616. Based on estimates made by Human Resource Management Department in 2005, the outstanding balance of the fund plus projected earnings would be sufficient to cover for the benefits of the employees who will be qualified to retire up to 2023 under the plan. Actual charges include (a) retirement gratuity pay and (b) financial assistance to beneficiaries of departed members. The balance of the Fund is reported in the balance sheet under capital reserves account and as a receivable from Provident Fund Office, as administrator, under the "Due from Administrator" account. The Fund resources are invested in government securities and all income accrues to the Fund, net of 15 per cent management fee to PFO.

2.23.6 Medical benefit fund

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

## 2.24 Capital reserves

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

### 2.24.1 Currency insurance fund

The currency insurance fund adopted in 1955 that was rationalized in 1996 funds the Bank's self-insurance scheme for any losses that may arise from its currency and gold shipments. Annual transfers to the reserve account are made from the surplus account and are computed based on the highest value of the shipments for the previous year multiplied by .001 per cent. The Fund is an internally managed fund that is accounted separately from the bank proper resources through the "Due from Administrator" account. Investments of the Fund are in government securities and all income accrue to the Fund.

### 2.24.2 Fidelity insurance fund

This Fund was set-up in 1997 as self-insurance for the fidelity bond of bank officers and staff with cash and gold accountabilities in excess of PHP100 million. Accountabilities up to PHP100 million are covered by fidelity bonds issued by the Bureau of the Treasury. Annual charges against surplus are computed at 75 per cent of 1 per cent of the maximum amount of accountabilities (net of PHP100 million) of each group/individual covered by the Fund. The Fund is an internally managed fund with the BSP Comptrollership Sub-Sector as administrator. The Fund is accounted separately from the bank proper resources through the "Due from Administrator" account. Investments of the Fund are in government securities and all income accrue to the Fund. There were no provisions to the Fund in CY2007 as it was determined that the balance of the fund is sufficient to cover the highest single amount of accountability covered by the fund. Since the establishment of the Fund, no claims have been charged thereon.

### 2.24.3 Property insurance

A self-insurance was set-up in 2003 to cover for potential losses that are in excess of what are presently covered by the insurance policy written by the Government Service Insurance System. Properties insured are artworks, paintings, and sculptures which are valued at acquisition cost. Amounts earmarked are not invested. No additions were made to the fund in CY2007.

### 2.24.4 Reserve for the rehabilitation of the Security Plant Complex

The reserve account was set-up in 2003 to partially fund the rehabilitation and upgrading of the facilities of the SPC which were constructed/installed in 1979. Based on the rehabilitation master plan, the project is estimated to cost PHP5.709 billion and will be completed by 2008. Actual charges against the reserve account result to reversion of the amount to surplus account.

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

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

In CY2008, a total of PHP58.689 billion realized gains from fluctuation in FX rates were reclassified to capital reserves for fluctuation in FX rates to augment the depleted amount of reserves resulting from significant net realized losses on fluctuations in FX rates of PHP86.943 in CY2007.

2.24.6 Directors and officers liability insurance fund

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

2.24.7 Reserve for contingencies

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

2.24.8 Gold insurance

The fund is a self-insurance scheme of the Bank to cover for any losses that may arise from gold shipments. It is an internally managed fund by the Comptrollership Sub-Sector similar to the self-insurance scheme for currency shipments and established only in CY2006. Transfers to the reserve account are charged against surplus account. Balance of the Fund is not currently invested in government securities.

## 2.25 Cash flows

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

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

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

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

### 2.26 Comparatives

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

### 2.27 Prior period adjustments

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

### 2.28 Dividend distribution

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

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

### 2.29 Commitments and contingent liabilities

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

| | 2008 | 2007 |
|---|---:|---:|
| FX commitment receivable | 110,666,787 | 462,270,440 |
| Currency unissued | 162,070,177 | 51,753,735 |
| L/C held/received in process | 3,213,270 | 1,914,583 |

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

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 no loading/shipment has been made by the supplier.

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

### 2.30 Trust accounts

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

## 3. FINANCIAL RISK MANAGEMENT

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

The BSP has adopted a modified centralized enterprise-wide risk management system to institutionalize a structured and systematic approach towards a consistent risk management practice within the Bank. In line with this, the BSP has created risk management structure, headed by Risk Oversight Committee (ROC), which consist of Monetary Board 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/Offices and basically performs risk monitoring and control at the operations level, and provides necessary risk reports to the RMO.

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

The risk factors considered are as follows:

### 3.1 Market risk

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

#### 3.1.1 Currency risk

The Bank considers the effects of fluctuations in the prevailing currency exchange rates on its financial position and cash flows. The limits on the level of exposure by currency and in total for both overnight and intraday positions are monitored daily. The following table summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2008 grouped into assets and liabilities at carrying amounts:

**In Millions**

| **Assets** | **Original Currency** | **USD Equivalent** |
|---|---|---|
| | | |
| JPY | 497,116.82 | 5,392.22 |
| EUR | 2,015.02 | 2,797.46 |
| GBP | 73.60 | 106.93 |
| KRW | 35.55 | 0.03 |
| IDR | 19.81 | 0.00 |
| SDR | 6.93 | 10.68 |
| HKD | 2.99 | 0.39 |
| SAR | 1.73 | 0.46 |
| AED | 1.39 | 0.38 |
| THB | 1.32 | 0.04 |
| AUD | 1.15 | 0.81 |
| CAD | 0.92 | 0.76 |
| SGD | 0.70 | 0.48 |
| CHF | 0.46 | 0.43 |
| UAN | 0.22 | 0.03 |
| BND | 0.09 | 0.06 |
| BHD | 0.02 | 0.04 |

| **Liabilities** | **Original Currency** | **USD Equivalent** |
|---|---|---|
| | | |
| JPY | 10,939.56 | 118.66 |
| EUR | 10.11 | 14.06 |
| GBP | 0.32 | 0.45 |
| SDR | 116.60 | 179.59 |
| DKK | 5.96 | 1.11 |

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

3.1.2 Interest rate risk

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

3.1.3 Commodity risk

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

Market Risk Measurement

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

3.2 Credit risk

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

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

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

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

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

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

Credit Risk Management

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

### 3.3 Liquidity risk

Liquidity risk is the risk that foreign currency assets cannot be mobilized or sold in a timely and economic manner to sufficiently meet the immediate demands for liquidity. These demands take the form of payments of interest and/or principal of maturing foreign currency obligations and, as may be necessary, in providing liquidity to the local foreign exchange market. The BSP manages this risk by regularly monitoring its foreign currency obligations and other projected outflows and allocating sufficient funds therefore.

Liquidity requirements are also included in the investment guidelines to ensure that BSP's debt holdings are of sufficient size and are traded actively.

### 3.4 Operational, legal and reputational risk

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

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

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

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

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

## 4. SIGNIFICANT EVENTS

4.1. The Monetary Board approved on -

4.1.1. 30 January 2008 the decision to recognize as additional expenses in 2008, for the 2005, 2006 and 2007 compensation withholding taxes on representation allowance.

4.1.2. 10 July 2008 on approval for the acquisition of lot for the prospective site of Bangko Sentral Regional Unit (BSRU) Butuan branch

4.1.3. 31 July 2008 the Compromise Agreement between Bangko Sentral ng Pilipinas and Bureau of Internal Revenue on settlement of Court of Tax Appeals Case and other pending tax assessments of BSP for taxable years 2005 to 2007

4.1.4. 31 July 2008 on approval for the acquisition of lot for the prospective site of BSRU Roxas branch

4.1.5. 21 August 2008 the issuance of a circular on the imposition of the 20 per cent final withholding tax on BSP overnight reverse repurchase agreements

4.1.6. 18 September 2008 noted the report on the issuance by Bureau of Internal Revenue of circular on clarifying business taxation on the activities undertaken by BSP in pursuance of mandate as independent central monetary authority of the Republic of the Philippines.

4.1.7. 2 and 23 October 2008 the grant of authority for BSP and remittance to Bureau of Internal Revenue on deficiency on final withholding taxes of overnight reverse repurchase transactions from 1 January to 31 August 2008

4.1.8. 21 November 2008 on approval for the acquisition of lot for the prospective site of BSRU Tacloban

4.1.9. 4 December 2008 on approved appropriation to cover total project cost for the construction of BSRU-Legazpi branch

4.1.10. 19 December 2008 on the adoption of guidelines on treatment of net realized losses from fluctuations in foreign exchange rates

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

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

## 6. INVESTMENT SECURITIES – AVAILABLE FOR SALE

| | **2008** | **2007** |
|---|---|---|
| Marketable securities | 1,312,612,603 | 230,495,804 |
| Other investments | 215,229,755 | 606,023,407 |
| | 1,527,842,358 | 836,519,211 |
| Accrued interest | 9,143,709 | 6,870,902 |
| | **1,536,986,067** | **843,390,113** |

Marketable securities primarily include foreign securities purchased, specifically US Treasury Notes and Japanese Government Bonds, worth PHP727.379 billion and repurchase agreements aggregating PHP300.638 billion.

Securities used as collateral under the securities backed loan agreement amounts to PHP24.648 billion as of 31 December 2008.

## 7. GOLD

| | **Note** | **2008** | **2007** |
|---|---|---|---|
| In bullion vault | a | 88,409,475 | 57,791,845 |
| With foreign financial institutions | b | 119,232,972 | 88,828,384 |
| | | 207,642,447 | 146,620,229 |
| Accrued interest | | 53,934 | 289 |
| | | **207,696,381** | **146,620,518** |

a. Gold in bullion vault

| | **2008** | | **2007** | |
|---|---|---|---|---|
| | **PHP** | **FTO** | **PHP** | **FTO** |
| Opening balance- January 1 | 57,791,845 | 1,668,640.503 | 44,023,321 | 1,410,229.037 |
| Additions during the year | 42,207,433 | 1,138,808.863 | 29,833,562 | 958,564.782 |
| | 99,999,278 | 2,807,449.366 | 73,856,883 | 2,368,793.819 |
| Transfers to foreign financial institutions | (21,491,630) | (700,112.852) | (19,856,307) | (700,153.316) |
| Net increase due to price/ rate revaluation | 9,901,827 | - | 3,791,269 | - |
| **Ending balance-December 31** | **88,409,475** | **2,107,336.514** | **57,791,845** | **1,668,640.503** |

b. Gold with foreign financial institutions

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **PHP** | **FTO** | **PHP** | **FTO** |
| Opening balance – January 1 | 88,828,384 | 2,564,767.386 | 100,232,790 | 3,210,825.277 |
| Additions during the year: | | | | |
| Transfer from bullion vault | 21,491,630 | 700,112.852 | 19,856,306 | 700,153.316 |
| Purchases | 7,333,402 | 202,069.183 | 23,110,526 | 723,159.661 |
| | 28,825,032 | 902,182.035 | 42,966,832 | 1,423,312.977 |
| | 117,653,416 | 3,466,949.421 | 143,199,622 | 4,634,138.254 |
| Net sales during the year | (24,094,891) | (624,901.172) | (66,007,119) | (2,069,370.868) |
| Net increase due to price/rate revaluation | 25,674,447 | - | 11,635,881 | - |
| **Ending Balance-December 31** | **119,232,972** | **2,842,048.249** | **88,828,384** | **2,564,767.386** |
| Pledged | 52,919,857 | | - | |
| | | **2008** | | **2007** |
| **Price of Gold in USD per FTO** | | **880.50** | | **836.35** |

## 8. INTERNATIONAL MONETARY FUND SPECIAL DRAWING RIGHTS

| | 2008 | 2007 |
|---|---|---|
| Beginning balance – January 1 | 30,482 | 114,061 |
| Income accruing to the fund | 663,095 | 140,013 |
| Revaluation | 42,388 | (5,187) |
| SDR acquisition | 12,997 | 213,033 |
| Payment of charges-interest and remuneration | (241,734) | (431,438) |
| | 476,746 | (83,579) |
| Ending balance – December 31 | 507,228 | 30,482 |
| Accrued interest | 1,622 | 215 |
| | **508,850** | **30,697** |

## 9. LOANS AND ADVANCES

| Foreign currency loans and advances | % to Total | 2008 | 2007 |
|---|---|---|---|
| Special purpose | | | |
| IBRD 2469 | 1.43 | 20,955 | 20,955 |
| Rediscounting | | | |
| Exporters dollar facility | 98.57 | 1,448,672 | 282,401 |
| | 100.00 | 1,469,627 | 303,356 |
| Allowance for probable losses | 1.43 | 20,955 | 20,955 |
| | | 1,448,672 | 282,401 |
| Accrued interest | | 2,624 | 1,093 |
| | **98.57** | **1,451,296** | **283,494** |

| Local currency loans and advances | % to Total | | 2008 | 2007 |
|---|---|---|---|---|
| Philippine Deposit Insurance Corp. | 57.00 | a | 72,481,966 | 69,480,958 |
| National Government | | | | |
| Assumed obligations of PNB & DBP | 0.62 | b.1 | 792,500 | 792,500 |
| RA 2052 | 5.33 | b.2 | 6,769,739 | 13,269,739 |
| | 5.95 | | 7,562,239 | 14,062,239 |
| Special purpose | | | | |
| Non-banks/Quasi banks | | | - | - |
| Rural Bank | 0.11 | | 143,400 | 144,213 |
| | 0.11 | | 143,400 | 144,213 |
| Emergency | | c | | |
| Commercial banks | 1.24 | | 1,578,260 | 1,306,260 |
| Thrift banks | 1.94 | | 2,468,070 | 3,053,319 |
| Rural banks | 0.51 | | 654,280 | 737,685 |
| | 3.70 | | 4,700,610 | 5,097,264 |
| Rediscounting | | d | | |
| Commercial banks | 27.37 | | 34,793,640 | 5,621,789 |
| Thrift banks | 2.37 | | 3,017,980 | 4,373,665 |
| Specialized banks | 0.09 | | 110,190 | 230,301 |
| Rural banks | 1.32 | | 1,619,396 | 1,562,527 |
| | 31.15 | | 39,541,206 | 11,788,282 |
| Overdrafts/overnight clearing line | 1.42 | | 1,803,128 | 1,807,676 |
| Government securities purchased under repurchase agreement | | | 850,000 | - |
| | 100.00 | | 127,082,549 | 102,380,632 |
| Allowance for probable losses | 6.11 | | 7,759,001 | 8,295,792 |
| | 93.89 | | 119,323,547 | 94,084,840 |
| Accrued interest | 0 | | 10,529,720 | 9,446,900 |
| | **93.89** | | **129,853,267** | **103,531,740** |
| | | | | |
| Total foreign and local currency | 100.00 | | 128,552,176 | 102,683,988 |
| Allowance for probable losses | 6.05 | e | 7,779,956 | 8,316,747 |
| | **93.95** | | **120,772,220** | **94,367,241** |
| **Amount past due** | | | **8,184,357** | **8,369,682** |
| Rate | | | 6.37% | 8.15% |

a. Loans and advances to the Philippine Deposit Insurance Corporation (PDIC) were re-lent to banks requiring financial assistance. The loans to PDIC are collateralized and interest-bearing. The increase in net loans and advances account in the amount of PHP2.950 billion or 4.25 per cent was mainly due to the net grants under the PDIC facility amounting to PHP2.568 billion which constituted 57.0 per cent of the total local currency loan portfolio.

Average interest rate for the period on loans to PDIC is estimated at 4.328 per cent per annum.

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

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

b.2 This consists of non-interest bearing subscription loan for the payment of increase in quota contribution of the Republic of the Philippines in the IMF under the 11th General Review of Quotas. This was granted by the BSP in February 1999 to cover for the SDR246.5 million increase in quota subscription, pursuant to Republic Act No. 2052, as amended. The note matured in February 2004 and was rolled-over for another five years to mature on 26 February 2009. The outstanding balance is net of collection of PHP6.5 billion from the NG on 22 December 2008.

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 31.15 per cent of the local currency loan portfolio increased by a hefty PHP27.753 billion or more than twice from last year-end balance of PHP11.788 due mainly to the net grants made to commercial banks of PHP29.172 billion. The average interest rate for the year is estimated at 6.00 per cent.

e. Allowance for probable losses

Outstanding loans and advances of PHP128.552 billion represent 5.48 per cent of total assets. Past due accounts of PHP8.184 billion represent 6.37 per cent of outstanding loans and advances; 95.06 per cent of past due accounts are covered by allowance for probable losses. Total probable loan losses booked in 2008 amounted to PHP.215 billion, net of recoveries.

## 10. OTHER RECEIVABLES

| | Note | 2008 | 2007 |
|---|---|---|---|
| Foreign currency receivables | | | |
| Accrued interest | | 703,934 | 742 |
| Due from foreign banks/branches | a | 430,249 | 730,295 |
| Non-IR foreign exchange assets | b | 26,228,135 | 3,682,129 |
| | | **27,362,318** | **4,413,166** |

| | Note | 2008 | 2007 |
|---|---|---|---|
| Local currency receivables | | | |
| Accounts receivable –Treasurer of the Philippines (TOP) | c | 11,432,631 | 14,610,800 |
| Accounts receivable (net of allowance of PHP1,515,370) | d | 2,971,236 | 2,188,473 |
| Notes receivable | | 1,366,731 | 1,366,731 |
| Due from local banks | | 37,722 | 323,891 |
| Receivables from staff/others | e | 597,824 | 504,882 |
| Lease receivable | f | 91,876 | 118,561 |
| Sales contracts receivable | g | 1,624,158 | 1,415,076 |
| Accrued interest-Sales contracts receivable | | 2,817 | - |
| Items under litigation | | 14,500 | 14,500 |
| | | **18,139,495** | **20,542,914** |

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

b. Non-IR FX assets – the account represents investments in ROP Bonds issued by the National Government. The amount also include BSP's 25 per cent subscription to the offering of 3,000 shares of the third tranche of the Bank for International Settlement's (BIS) capital and investment in BSP "Yankee" bonds issued on 24 June 1997 to mature in 2027 worth USD5.954 million or PHP0.292 billion acquired by BSP in the open market. The increase was primarily due to the accumulated purchase of USD.058 billion or PHP2.423 billion ROP bonds at par for use as collateral for domestic borrowings.

c. Accounts receivable-TOP – a special receivable account to record the NG's share in the annual revaluation of the IMF holdings of Philippine Peso with the BSP based on change in PHP/SDR exchange rate. On 30 May 2008 the account was reduced by PHP3.178 billion representing share of the National Government for CY2008 revaluation gain.

d. Accounts receivable - includes cash shortage of PHP.033 billion found in the cash accountability of accountable officer in BSP Cotabato Branch in December 2005.

e. Receivable from staff/others – includes the PHP.183 billion advances to PICCI for operating expenses in accordance with the requirements of PAS 27.

f. Lease receivable - in the terms and conditions agreed under Memorandum of Agreement between Bangko Sentral ng Pilipinas (BSP) and Banco Filipino Savings and Mortgage Bank (BFSMB) signed on 20 December 1999 stated that Banco Filipino relative to its rehabilitation on 01 July 1994 shall fully settle its obligation to the BSP by dacion en pago with option to buy back or repurchase. Any properties conveyed but still remains in possession of Banco Filipino for its use and benefit shall be subject to the payment to the BSP of reasonable rental in the amount to be agreed upon by both parties.

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

| | Total 2008 | Current | Non–current |
|---|---|---|---|
| BSP personnel | 3,959 | 729 | 3,230 |
| Non-BSP personnel | 1,201,872 | 233,790 | 968,082 |
| Other government bureaus and offices | 224,482 | 224,482 | - |
| Housing Program III | 193,845 | 6,400 | 187,445 |
| | **1,624,158** | **465,401** | **1,158,757** |

## 11. INVESTMENTS SECURITIES-AVAILABLE FOR SALE

| | Note | Face Value 2008 | Market Value 2008 | Face Value 2007 | Market Value 2007 |
|---|---|---|---|---|---|
| BSP-Head Office | a | | | | |
| Fixed rate treasury bonds | | 2,535,738 | 2,641,031 | 6,419,538 | 6,651,433 |
| Fixed rate treasury notes | | 91,900 | 100,393 | 91,900 | 106,278 |
| Treasury bonds | | 39,285 | 38,966 | 151,694 | 150,205 |
| LBP bond | | 201 | 201 | - | - |
| Semi-annual FLT-T-bond | | 50,000,000 | 47,723,307 | 50,000,000 | 41,979,029 |
| Treasury bills | | 273,485,940 | 264,682,487 | 284,859,250 | 280,017,875 |
| | | 326,153,064 | 315,186,385 | 341,522,382 | 328,904,820 |
| PICC-Investments | b | | 364,449 | | 94,125 |
| Accrued interest | | | 180,061 | | 291,374 |
| | | | **315,730,895** | | **329,290,319** |

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

| | 2008 | 2007 |
|---|---|---|
| Beginning balance | 328,904,820 | 221,708,923 |
| Purchases | 603,773,547 | 716,254,853 |
| Sales | (121,524,155) | (90,484,498) |
| Redemption | (501,466,380) | (515,116,225) |
| Accrual/reversal of discount | 3,055,390 | 2,742,888 |
| Marking to market | 2,448,199 | (4,435,706) |
| Net premium amortization | (5,036) | (1,765,415) |
| Ending balance | **315,186,385** | **328,904,820** |

b. PICC investments for the year 2008 includes balances of special deposit account and time deposit, amounting to PHP353 million and PHP8.500 million, respectively.

## 12. DUE FROM ADMINISTRATOR OF FUNDS

| | Note | 2008 | 2007 |
|---|---|---|---|
| Comptrollership | | | |
| Fidelity insurance | a | 22,040,864 | 21,491,968 |
| Currency insurance | | 2,759,456 | 2,678,348 |
| Medical benefit | | 786,499 | 811,243 |
| Post retirement benefit | | 229,823 | 175,561 |
| Gold insurance | | 2,635 | 1,631 |
| | | 25,819,277 | 25,158,751 |
| Provident fund office | | | |
| Post retirement benefit | | 993,687 | 1,001,237 |
| Directors' and officers' liability Insurance (DOLI) fund | | 774,621 | 735,191 |
| Car plan fund | | 505,456 | 505,456 |
| Provident fund | | 150,012 | 147,784 |
| | | 2,423,776 | 2,389,668 |
| Department of Loans and Credit | | | |
| Industrial Fund | | 2,515 | 2,515 |
| Apex | b | - | 7,292,670 |
| Sub-total | | 2,515 | 7,295,185 |
| | | **28,245,568** | **34,843,604** |

a. The booking of PHP549 million in accumulated earnings increased the balance of the Fund in CY2008.

b. The decrease in the balance is attributed to closure of APEX-AAAF on 28 November 2008 as recommended by DLC and approved under MB Res. No. 632 dated 18 May 2006.

## 13. ACQUIRED ASSETS HELD FOR SALE

| | 2008 | 2007 |
|---|---|---|
| Acquired assets held for sale | 773,793 | 1,445,690 |
| Less: Allowance for market decline | 397,856 | 795,826 |
| | **375,937** | **649,864** |

Below is the composition of the acquired assets portfolio as at 31 December 2008 and disposals during the year.

| | **Acquisition/Foreclosure** | | | **Disposal** | | |
|---|---|---|---|---|---|---|
| | **Particulars** | **TCT's** | **Book Value** | **Particulars** | **TCT's** | **Book Value** |
| 1 | Dacion en Pago with option to repurchase waived/defaulted | 60 | 142,723 | Auction | 4 | 4,036 |
| 2 | Foreclosure | 1,110 | 631,070 | Negotiation | 1,305 | 811,680 |
| 3 | | | | Housing Program III | 61 | 46,080 |
| | **Total** | **1,170** | **773,793** | **Total** | **1,370** | **861,796** |

In compliance to the requirements of PFRS 5 and PAS 40, the acquired assets account was reclassified into acquired asset held for sale and investment property as at 31 December 2007.

## 14. INVESTMENT PROPERTY

| | 2008 | 2007 |
|---|---|---|
| Investment property | 11,987,425 | 12,347,893 |
| Less: Allowance for market decline | 2,021,547 | 1,983,784 |
| Net | **9,965,878** | **10,364,109** |

Below is the composition of the investment property portfolio as at 31 December 2008 and disposals during the year.

| | Acquisition/Foreclosure | | | Disposal | | |
|---|---|---|---|---|---|---|
| | **Particulars** | **TCT's** | **Book Value** | **Particulars** | **TCT's** | **Book Value** |
| 1 | Dacion en Pago with option to repurchase | 2,067 | 4,128,071 | Redemption/ Repurchase | 19 | 15,159 |
| 2 | Dacion en Pago with option to repurchase waived/defaulted | 683 | 1,975,977 | | | |
| 3 | Foreclosure | 30,729 | 5,883,377 | | | |
| | **Total** | **33,479** | **11,987,425** | **Total** | **19** | **15,159** |

## 15. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

| | Land and Bldgs. | Property Improve-ment | Computer Hardware | Plant and Equipment | In-Transit Items | In-Process/ Progress/ under Construc tion Items | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| 01 January 2008 | 9,828,772 | 2,439,282 | 848,518 | 4,397,084 | 3,067 | 832,691 | 18,349,414 |
| Additions | 39,013 | 438,578 | 42,545 | 390,792 | 2,373 | 280,130 | 1,193,431 |
| Disposals | | (168) | (205) | (2,798) | - | (197,226) | (200,397) |
| Reclassifications/adjustments | | (16,997) | 777 | 13,192 | (1,244) | 10,695 | 6,423 |
| 31 December 2008 | 9,867,785 | 2,860,695 | 891,635 | 4,798,270 | 4,196 | 926,290 | 19,348,871 |
| Accumulated depreciation | | | | | | | |
| 01 January 2008 | 1,603,379 | 1,211,634 | 509,293 | 3,077,097 | - | - | 6,401,403 |
| Depreciation | 122,994 | 169,147 | 84,077 | 294,240 | - | - | 670,458 |
| 31 December 2008 | 1,726,373 | 1,380,781 | 593,370 | 3,371,337 | - | - | 7,071,861 |
| **Net book value 31 December 2008** | **8,141,412** | **1,479,914** | **298,265** | **1,426,933** | **4,196** | **926,290** | **12,277,010** |
| **Net book value 31 December 2007** | **8,225,393** | **1,227,648** | **339,225** | **1,319,987** | **3,067** | **832,691** | **11,948,011** |

The BSP Administrative Department hired an insurance consultant who undertook risk-based analysis and appraisal update of all BSP properties except for paintings and antiquities. The results of the appraisal report submitted will be the basis for the Bank to implement the provisions of PAS 16, 21 and 36.

## 16. INTANGIBLE ASSETS

| | Computer Network and Application System | Computer Network and Application System in Process | Total |
|---|---|---|---|
| Cost | | | |
| 01 January 2008 | 1,623,014 | 4,494 | 1,627,510 |
| Additions | 134,372 | - | 134,372 |
| Disposals/retirement at book amount | - | - | - |
| Reclassifications/adjustments | (28,402) | (2,010) | (30,413) |
| 31 December 2008 | 1,728,985 | 2,484 | 1,731,469 |
| Accumulated amortization | | | |
| 01 January 2008 | 1,273,361 | - | 1,273,361 |
| Amortization | 71,038 | - | 71,038 |
| 31 December 2008 | 1,344,399 | - | 1,344,399 |
| **Net book value** | | | |
| **31 December 2008** | **384,586** | **2,484** | **387,070** |
| **Net book amount** | | | |
| **31 December 2007** | **349,653** | **4,494** | **354,147** |

## 17. INVENTORIES

| | Note | 2008 | 2007 |
|---|---|---|---|
| Gold for domestic sale | | 14,946 | 12,312 |
| Gold for refining | a | 4,739,050 | 11,747,802 |
| Silver for refining | | 1,008 | 1,065 |
| Currency inventory | | 1,183,067 | 2,299,390 |
| SPC inventories | | 1,876,705 | 2,216,927 |
| Work-in-process | | 1,431,944 | 1,369,386 |
| Other supplies | b | - | 78,668 |
| | | **9,246,720** | **17,725,550** |

a. The increased production of gold bullion transferred to bullion vault and fluctuating prices of raw gold from USD836.35/FTO as at end 2007 to as low as USD736.15/FTO in October 2008 contributed to the decline in the outstanding balance of Gold for Refining.

b. The account was classified to Item 18 under “Miscellaneous Assets” in CY2008.

## 18. MISCELLANEOUS ASSETS

| | Note | 2008 | 2007 |
|---|---|---|---|
| Withholding tax at source | a | 148,326 | 43,522 |
| Other supplies | | 95,690 | - |
| Deposits – utilities and services | | 23,966 | 24,002 |
| Input tax | | 17,249 | 11,795 |
| Prepaid expenses | | 1,818 | - |
| Deferred charges | | 863 | 863 |
| Miscellaneous assets | b | - | 20,104 |
| | | 287,912 | 100,286 |
| Paintings and sculptures | | 54,876 | 53,447 |
| Numismatic collections on hand | | 21,007 | 21,007 |
| Commemorative notes and coins | | 195 | 719 |
| Items for exhibit | | 167 | 167 |
| Demonetized commemorative coins | | 19 | 20 |
| | | 76,264 | 75,360 |
| Stocks and other securities | | 10,715 | 10,715 |
| Checks and other cash items | | 1,240 | 1,023 |
| Checks and other collection items in-transit | | 148 | 1 |
| Due from PICC | | - | 144 |
| | | **376,279** | **187,529** |

a. The increase in the account level was due to the recognition of two per cent withholding tax on supervisory fees of banks effective CY 2008.

b. The decrease was due to the full settlement by Philippine National Bank of the outstanding final tax differential of PHP.024 billion.

## 19. SHORT-TERM FOREIGN CURRENCY DEPOSITS

| Note | | 2008 | 2007 |
|---|---|---|---|
| Small and medium scale entities | | - | 5,770,363 |
| National Government | | 5,354,710 | 4,272,977 |
| Regular foreign currency deposits | | 1,191,175 | - |
| Other entities | a | 1,871,602 | 22,297,423 |
| | | 8,417,487 | 32,340,763 |
| Accrued interest | | 3,208 | 64,423 |
| | | **8,420,695** | **32,405,186** |

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

| | 2008 | 2007 |
|---|---|---|
| Power Sale Assets and Liabilities Management | 1,263,660 | 20,770,581 |
| Manila Waterworks and Sewerage System | 389,336 | 331,876 |
| National Power Corporation | 138,326 | 230,102 |
| Philippine National Oil Company | 78,602 | 963,405 |
| North Luzon Railways | 1,678 | 1,459 |
| | **1,871,602** | **22,297,423** |

## 20. LOANS PAYABLE

| | Note | 2008 | 2007 |
|---|---|---|---|
| Maturing in 1-5 years | | | |
| Securities–backed loan | a | 23,823,500 | - |
| Gold repo deposit | b | 47,647,000 | - |
| | | 71,470,500 | - |
| Maturing in more than 5 years | | | |
| Blocked peso deposit (Circular 1139/1202) | c | 72,655 | 67,726 |
| Blocked peso deposit (Circular 1298) | c | 5,951,907 | 5,708,747 |
| Letter of inst. 1442- at original cost (PHP49.99) | | 3,846 | 3,846 |
| | | 6,028,408 | 5,780,319 |
| | | 77,498,908 | 5,780,319 |
| Accrued interest | | 536,879 | 75,683 |
| | | **78,035,787** | **5,856,002** |

Availment of the following Foreign Loans:

| USD | PHP | Acquisition Date | Facility Agent |
|---|---|---|---|
| Securities Backed Loan | | | |
| **500,000** | **22,931,000** | **28 August 2008** | **BIS-Switzerland** |
| Gold Repo Deposit | | | |
| 200,000 Chase | 8,979,200 | 26 September 2008 | JPM |
| 200,000 Chase | 9,299,800 | 26 September 2008 | JPM |
| 200,000 Chase | 9,783,200 | 27 October 2008 | JPM |
| 200,000 Chase | 9,802,200 | 30 October 2008 | JPM |
| 200,000 Chase | 9,749,200 | 31 October 2008 | JPM |

a. These are loans from the Bank for International Settlement (BIS) collateralized by BSP's holdings of Fixed Rate Investments (FIXBIS) or Medium Term Instruments (MTIs) issued by the BIS.

b. These are liability accounts for gold under swap agreement whereby there is a firm commitment to repurchase the quantity of gold exchanged.

c. These are local currency deposits of original public sector borrowers (National Government owned or controlled corporations and government financial institutions) transferred to the then Central Bank of the Philippines (CBP) on the date the loan amortizations fell due. These deposits were later registered with the BSP under various foreign loan restructuring arrangements.

## 21. BONDS PAYABLE

| | Note | 2008 | 2007 |
|---|---|---|---|
| Bonds due 2027 | a | 19,058,800 | 16,564,400 |
| Bonds due 2097 | | 4,764,700 | 4,141,100 |
| BSP floating rate note | b | 9,529,400 | 11,802,135 |
| | | 33,352,900 | 32,507,635 |
| Add/(deduct): Discount on bonds | | (88,450) | (67,019) |
| | | 33,264,450 | 32,440,616 |
| Accrued interest | | 135,354 | 162,265 |
| | | **33,399,804** | **32,602,881** |

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

b. The decrease in the account level was brought about mainly by pre-termination of the USD85.0 million BSP Floating Rate Note of Standard Chartered on 24 November 2008.

## 22. ALLOCATION OF INTERNATIONAL MONETARY FUND SPECIAL DRAWING RIGHTS (SDRS)

| | 2008 | 2007 |
|---|---|---|
| Allocation of SDRs | 8,556,819 | 7,621,399 |
| Accrued interest | 27,314 | 49,293 |
| | **8,584,133** | **7,670,692** |

## 23. DEPOSITS

| | Note | 2008 | 2007 |
|---|---|---|---|
| Government deposits | | | |
| Short –term | a | 115,384,011 | 131,608,212 |
| Long – term | b | 30,000,000 | 30,000,000 |
| | | 145,384,011 | 161,608,212 |
| Accrued interest | | 3,304,140 | 1,491,309 |
| | | **148,688,151** | **163,099,521** |
| Demand deposits | | | |
| Banks/NBQBs-reserve deposits | c | 136,119,939 | 172,485,175 |
| Banks/NBQBs-liquidity reserves | d | 278,792,220 | 241,027,360 |
| Others | | 5,476,552 | 12,121,971 |
| | | 420,388,711 | 425,634,506 |
| Accrued interest | | 1,458,870 | 1,417,032 |
| | | **421,847,581** | **427,051,538** |
| International monetary fund and other financial institutions | e | **48,232,401** | **51,956,351** |
| | | **470,079,982** | **479,007,889** |

Government deposits

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

b. The long-term deposit is backed by the PHP50 billion 1993 25-Year Treasury Bond. This deposit earns the same interest rate as the Treasury Bonds.

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

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

d. In its Resolution dated 16 March 2006, the Monetary Board approved the revised mode of compliance for liquidity reserves from holdings in government securities purchased from Bangko Sentral issued specifically for the purpose of placing term deposits in the reserve deposit account (RDA). The interest rates applied to the RDA was set at one-half per cent below the prevailing market rate for comparable government securities.

e. International Monetary Fund currency holdings and other financial institutions

The Republic of the Philippines (RP) has been a member of the International Monetary Fund (IMF) since 1945. BSP is the designated depository for the IMF's holdings of local currency. The IMF's holdings of local currency amounted to the equivalent of SDR696 million at 31 December 2008.

The balance of IMF's currency holdings (SDR96.418 million) represented by 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 CY2008, the depreciation of SDR against the peso by PHP4.011, from PHP72.454/SDR as at 30 April 2007 to PHP68.443/SDR as at 30 April 2008, resulted to a revaluation gain of PHP2.911 billion in the IMF local currency holdings with BSP. The revaluation is fully attributable to the National Government (NG) since BSP has already fully paid its credit availments from Standby Credit Facility (SCF) and Extended Fund Facility (EFF) as at December 2006. The revaluation was recognized as "Accounts Receivable-Treasurer of the Philippines".

## 24. CURRENCY IN CIRCULATION

| | **Denomination** | **Quantity** | | **Amount** | |
|---|---|---|---|---|---|
| | | **2008** | **2007** | **2008** | **2007** |
| Notes | 100,000 | 117 | 118 | 11,700 | 11,800 |
| | 2,000 | 21,660 | 15,533 | 43,320 | 31,066 |
| | 1,000 | 229,565,863 | 176,579,315 | 229,565,863 | 176,579,315 |
| | 500 | 441,481,228 | 336,245,302 | 220,740,614 | 168,122,651 |
| | 200 | 47,560,681 | 58,590,428 | 9,512,136 | 11,718,086 |
| | 100 | 402,519,818 | 416,622,560 | 40,251,982 | 41,662,256 |
| | 50 | 358,686,738 | 204,545,585 | 17,934,337 | 10,227,279 |
| | 20 | 523,300,061 | 520,672,772 | 10,466,001 | 10,413,455 |
| | 10 | 72,501,741 | 74,331,487 | 725,017 | 743,315 |
| | 5 | 30,915,284 | 31,044,485 | 154,577 | 155,222 |
| | | | | 529,405,547 | 419,664,445 |
| Coins | 10 Piso | 372,893,729 | 340,385,428 | 3,728,937 | 3,403,854 |
| | 5 Piso | 1,246,370,073 | 1,111,564,548 | 6,231,850 | 5,557,823 |
| | 1 Piso | 4,030,754,908 | 3,598,904,716 | 4,030,755 | 3,598,905 |
| | 25 Sentimo | 4,873,019,877 | 4,791,093,721 | 1,218,255 | 1,197,774 |
| | 10 Sentimo | 2,272,446,051 | 1,899,912,156 | 227,245 | 189,991 |
| | 5 Sentimo | 1,495,184,177 | 1,298,636,789 | 74,759 | 64,932 |
| | 1 Sentimo | 16,575,969 | 15,529,261 | 166 | 155 |
| | | | | 15,511,967 | 14,013,434 |
| BSP commemorative coins | | 2,985,735 | 2,919,079 | 177,416 | 176,533 |
| | | | | 15,689,383 | 14,189,967 |
| | | | | **545,094,930** | **433,854,412** |

## 25. OTHER LIABILITIES

| | Note | 2008 | 2007 |
|---|---|---|---|
| **Foreign currency** | | | |
| Derivative instruments in a loss position | a | 448,447 | 18,287,127 |
| Other liabilities | | 1,215,469 | 1,613,060 |
| Accounts payable | b | 870,106 | 1,523,237 |
| Accrued expenses | | 114,246 | 82,940 |
| Other liabilities | c | 231,117 | 6,883 |
| Total foreign currency liabilities | | **1,663,916** | **19,900,187** |
| | | | |
| **Local currency** | | | |
| Retirement benefit obligations | | 1,715,566 | 1,697,890 |
| Miscellaneous liabilities | | 3,449,873 | 3,846,536 |
| Accounts payable | | 1,707,084 | 2,030,088 |
| Accrued expenses | | 79,638 | 61,138 |
| Taxes payable | | 532,899 | 533,047 |
| Miscellaneous liabilities | | 1,130,252 | 1,222,263 |
| Total local currency liabilities | | **5,165,439** | **5,544,426** |

a. The account was reclassified in 2008 to present separately the amount corresponding to the unrealized loss due to change in fair value and exchange rate in accordance with the requirements of PAS 39.

b. The amount represents the outstanding balance of the BSP's subscription to the offering of 3,000 shares of the third tranche of the Bank of International Settlement (BIS) capital in the amount of SDR11.25 billion pursuant to the MB Resolution No. 1304 approved on 10 September 2003.

c. The increase was due to the opening of the following LCs in CY2008:

| Date | LC No. | Beneficiary |
|---|---|---|
| 05/15/2008 | LCIOD08-017 JPM | Inductotherm PTY. Ltd. |
| 10/24/2008 | LCIOD08-023 JPM | Saxonia Eurocoin Gmbh, Germany |
| 10/29/2008 | LCIOD08-025 JPM | Vacuumatic Limited |
| 11/05/2008 | LCIOD08-027 JPM | Royal Canadian |
| 12/08/2008 | LCIOD08-029 JPM | De la Rue Security Papers |
| 07/15/2008 | LCIOD08-020UBSZ | KBA Giori |
| 08/27/2008 | LCIOD08-021 DB | Francois Charles Oberthur Fiduciare |

## 26. REVALUATION OF FOREIGN CURRENCY ACCOUNTS

| | 2008 | 2007 |
|---|---|---|
| Unrealized loss on FX rate fluctuations – beginning balance | (181,956,836) | (45,619,694) |
| Unrealized gain/(loss) transactions for the year | 211,647,343 | (222,921,248) |
| | 29,690,507 | (268,540,942) |
| Less: realized gain/(loss) | 18,508,433 | (86,584,106) |
| Total unrealized gain/(loss) on FX rate | 11,182,074 | (181,956,836) |
| | | |
| Unrealized gain on price fluctuation – beginning balance | 79,073,816 | 54,716,698 |
| Unrealized gain transactions for the year | 76,082,860 | 49,696,084 |
| | 155,156,676 | 104,412,782 |
| Less: realized gain | 16,538,021 | 25,338,966 |
| | 138,618,655 | 79,073,816 |
| | **149,800,729** | **(102,883,020)** |
| | | |
| Realized gain/loss on FX rate fluctuations | | |
| Realized gain on FX rate fluctuations | 7,326,852 | 9,173,552 |
| Realized loss on FX rate fluctuations | (6,799,509) | (122,883,106) |
| | **527,343** | **(113,709,554)** |

## 27. CAPITAL

| | Note | 2008 | 2007 |
|---|---|---|---|
| Capital | a | 10,000,000 | 10,000,000 |
| | | | |
| Surplus | | 61,291,109 | 54,104,823 |
| Reserve for Unrealized Losses on Investments | b | (7,372,587) | (10,156,425) |
| | | | |
| Capital Reserves | | | |
| Managed funds | | | |
| Fidelity insurance fund | | 22,040,864 | 21,491,968 |
| Currency insurance fund | | 2,759,456 | 2,678,348 |
| Retirement benefit fund | | 1,223,509 | 1,176,798 |
| Directors'/officers' liability | | 874,621 | 735,191 |
| Medical benefit fund | | 786,499 | 811,243 |
| Gold insurance fund | | 2,635 | 1,631 |
| | | 27,687,584 | 26,895,179 |
| Fluctuations in FX rates | c | 81,683,953 | 22,994,973 |
| Fluctuations in price of gold | | 54,906,136 | 54,906,136 |
| Property insurance | | 1,600,000 | 1,600,000 |
| SPC rehabilitation | | 1,614,290 | 1,984,993 |
| Contingencies | | 9,551,232 | 12,051,232 |
| Sale of franchise of closed bank | d | 38,640 | 38,640 |
| | | 149,394,251 | 93,575,974 |
| | | 177,081,835 | 120,471,153 |
| | | **241,000,357** | **174,419,551** |

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

b. Represent unrealized gains/losses from investment in domestic securities classified as available for sale. This account was created to recognize the re-measurement of the investments in domestic securities.

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

| | 2008 | 2007 |
|---|---|---|
| Beginning balance | (10,156,425) | (5,933,932) |
| Increase/(decrease) in domestic securities | 2,448,199 | (4,435,706) |
| Unrealized trading gain on price fluctuation – domestic securities | 335,639 | 213,213 |
| **Ending balance** | **(7,372,587)** | **(10,156,425)** |

c. Total additional provision for capital reserve – fluctuation in foreign exchange rate of PHP58.689 billion charged against operations as deduction from net realized gain from fluctuation on FX rate as per MBR Nos. 1589 and 347, dated 27 November 2008 and 26 February 2009, respectively.

d. This represents proceeds from the sale of the three branch franchises of the closed First Savings Bank credited to reserve for sale of franchise of closed bank on 28 December 2007 per item No. 5 of Monetary Board Resolution No. 862 dated 02 August 2007 subject to the appropriate exclusive disposition of the Monetary Board in accordance with Section 33 of RA 7653.

## 28. INTEREST INCOME AND INTEREST EXPENSES

| | 2008 | 2007 |
|---|---|---|
| **Interest income from financial assets** | | |
| Interest income from foreign currency financial assets | | |
| Investment securities – available for sale | 41,990,548 | 31,068,607 |
| Deposit with foreign banks | 7,077,879 | 18,132,876 |
| Other foreign currency receivables | 1,217,642 | 117,797 |
| Gold with foreign financial institutions | 54,894 | 289 |
| Loans and advances | 24,198 | 26,277 |
| IMF special drawings rights | 11,391 | 2,118 |
| | 50,376,552 | 49,347,964 |
| Interest income from local currency financial assets | | |
| Investment securities- available for sale | 14,591,845 | 10,504,594 |
| Loans and advances | 3,138,383 | 3,484,494 |
| Other receivables | 120,181 | 81,708 |
| | 17,850,409 | 14,070,796 |
| | **68,226,961** | **63,418,760** |

| | 2008 | 2007 |
|---|---|---|
| **Interest expense from financial liabilities** | | |
| Interest expense on foreign currency financial liabilities | | |
| Bonds payable | 2,764,237 | 2,852,162 |
| Other liabilities | 628,332 | 206,203 |
| Short term deposits | 536,202 | 973,860 |
| Loans payable | 272,211 | 704,509 |
| Allocation of IMF special drawing rights | 219,188 | 333,170 |
| | 4,420,170 | 5,069,904 |
| Interest expense on local currency financial liabilities | | |
| Government deposits | 39,536,724 | 22,645,200 |
| Securities sold under agreements to repurchase | 14,030,841 | 14,800,109 |
| Deposits of banks and other financial institutions | 13,891,116 | 10,932,824 |
| | 67,458,681 | 48,378,133 |
| | **71,878,851** | **53,448,037** |

## 29. OTHER OPERATING INCOME

| | 2008 | 2007 |
|---|---|---|
| Printing, minting and refinery | 361,563 | 385,593 |
| Fees – local | | |
| Banking supervision/clearing/license fees | 1,866,597 | 1,831,816 |
| Transaction fee – *PhilPaSS* | 113,901 | 51,486 |
| Penalties and late charges | 167,414 | 215,759 |
| Processing and filing fees | 42,640 | 48,601 |
| Others | 273 | 505 |
| | 2,190,825 | 2,148,167 |
| Other income | | |
| Rental on acquired assets | 63,796 | 27,568 |
| Building rental | 12,073 | 14,877 |
| Gain on sale of acquired assets | 20,475 | 62,341 |
| Other miscellaneous income | 155,600 | 249,620 |
| | 251,944 | 354,406 |
| | **2,804,332** | **2,888,166** |

## 30. CURRENCY PRINTING AND MINTING COST

| | 2008 | 2007 |
|---|---|---|
| Notes | 2,110,863 | 1,863,032 |
| Coins | 1,456,207 | 1,267,901 |
| | **3,567,070** | **3,130,933** |

## 31. OPERATING EXPENSES

| | 2008 | 2007 |
|---|---|---|
| Personnel services, development and training | 7,105,366 | 6,365,835 |
| Administrative expenses | 2,026,853 | 2,018,785 |
| Depreciation | 499,737 | 486,494 |
| | **9,631,956** | **8,871,114** |

## 32. PERSONNEL SERVICES

| | 2008 | 2007 |
|---|---|---|
| Salaries and wages | 5,082,306 | 4,233,104 |
| Defined contribution plans | 1,196,524 | 1,144,203 |
| Social security contribution | 316,098 | 300,290 |
| Sickness and death benefits | 231,838 | 198,640 |
| Post-retirement benefits | 155,559 | 181,996 |
| Personnel development and training | 101,511 | 290,466 |
| Medical and dental benefits | 21,530 | 17,136 |
| | **7,105,366** | **6,365,835** |

## 33. ADMINISTRATIVE EXPENSES

| | Note | 2008 | 2007 |
|---|---|---|---|
| Repairs and maintenance | | 276,084 | 253,552 |
| Traveling expenses | | 266,152 | 276,036 |
| Water, illumination and power services | | 217,480 | 215,815 |
| Grants, subsidies and contributions | | 170,684 | 118,801 |
| Taxes and licenses | a | 160,735 | 258,659 |
| Communication services | | 146,409 | 109,473 |
| Currency and gold operations expenses | | 134,832 | 155,921 |
| Consultants and specialist services | | 79,769 | 81,756 |
| Fidelity and property insurance | | 72,828 | 63,208 |
| Supplies and materials | | 51,958 | 45,493 |
| Auditing services | | 40,507 | 32,067 |
| Acquired assets expenses | | 38,321 | 61,660 |
| Rentals | | 33,981 | 28,770 |
| Ammunitions | | 6,439 | 5,190 |
| Discretionary expenses | | 5,775 | 6,568 |
| Losses due to market decline | | (153,962) | 213,661 |
| Others | | 478,861 | 92,115 |
| | | **2,026,853** | **2,018,785** |

a. Includes tax deficiency of PHP70.982 million for taxable year 2005 settled in 2007.

## 34. PROFIT FOR DISTRIBUTION

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

| | 2008 | 2007 |
|---|---|---|
| **Profit/(loss) for the year** | **8,927,116** | **(86,943,290)** |

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

| | 2008 | 2007 |
|---|---|---|
| Reported operating surplus | 8,927,116 | (86,943,290) |
| Operating cash flows from changes in asset and liability balances | (171,756,346) | 75,249,671 |
| Add (subtract) non-cash items | | |
| Depreciation | 499,737 | 486,494 |
| Amortization of premium/discount on bonds payable | 21,431 | 13,712 |
| Provision for probable loss | 241,998 | 561,707 |
| Recovery for provision for market decline | (153,962) | 213,661 |
| Non-cash interest income | - | (545,925) |
| | 609,204 | 729,649 |
| Add (subtract) movements in other working capital items | | |
| (Increase) decrease in accounts receivable | (782,748) | 1,405,658 |
| Increase (decrease) in miscellaneous liabilities | (920,018) | (13,441,415) |
| (Increase) decrease in interest receivable | (2,286,185) | (3,630,021) |
| Increase (decrease) in interest payable | (1,118,653) | 17,130,822 |
| | (5,107,604) | 1,465,044 |
| Add (subtract) investing and financing activities | | |
| Reserve for price fluctuation of gold holdings | - | (286,260) |
| Net realized foreign exchange (gain)/loss | (527,343) | 113,709,554 |
| | (527,343) | 113,423,294 |
| **Net cash (used in) provided by operating activities** | **(167,854,973)** | **103,924,368** |

## 36. CONSOLIDATED CASH BALANCES

| | 2008 | 2007 |
|---|---|---|
| Foreign currency assets | | |
| Deposit with foreign banks | 37,250,461 | 399,875,155 |
| Other cash balances (foreign currency on hand) | 308,715 | 301,150 |
| Foreign Investments - readily convertible to cash | 1,312,612,603 | 703,573,351 |
| Other FX receivable – due from FX banks – special Account | 430,249 | 730,295 |
| Local currency assets | | |
| Government securities | 315,550,834 | 328,998,945 |
| Other receivables – due from local banks | 37,722 | 323,891 |
| Other receivables – revolving fund | 375,554 | 479,831 |
| Miscellaneous assets – checks and other cash Items (COCI) | 1,240 | 1,023 |
| Miscellaneous assets – COCI in-transit | 148 | 1 |
| Demand liabilities | | |
| Treasurer of the Philippines – short term deposits | (115,348,471) | (131,608,212) |
| Deposit of banks and other financial institutions | (870,235,112) | (858,868,856) |
| **Closing cash balance** | **680,948,403** | **443,806,574** |

## 37. TRUST FUNDS

| | Note | 2008 | 2007 |
|---|---|---|---|
| Comptrollership | | 26,061,362 | 25,331,837 |
| Department of Loans and Credit - Accounting | a & b | 2,587,280 | 9,705,952 |
| Department of Loans and Credit – Industrial Fund | | 7,519 | 7,519 |
| Supervision and Examination Department – Rural Banks | | 2,011,377 | 1,954,499 |
| Treasury Department – Domestic | | 5,632,606 | 5,460,378 |
| | | **36,300,144** | **42,460,185** |

a. It includes the PHP7,292,669 million outstanding balance of Apex Amortization Adjustment Facility (AAAF) created on 4 February 1983 by virtue of Monetary Board Resolution No. 221 to provide liquidity assistance mechanism for Apex Fund borrowers. The Fund has ceased its purpose since February 2000, and through Monetary Board Resolution No. 632 dated 18 May 2006, it was finally closed on 28 November 2008.

b. The escrow account of The Manila Banking Corporation (TMBC) (now China Savings Bank) represents the installment payments of Penta Capital Realty Corporation (PRC) pursuant to the Contract to Buy and Sell executed between PRC and TMBC which TMBC irrevocably assigned to BSP and subsequently invested in government securities. On 26 November 2008, the resulting maturity value of the government securities lodged to "Demand Deposit – Others" account: China Bank Savings, Inc. was applied against the outstanding loan obligation of TMBC.