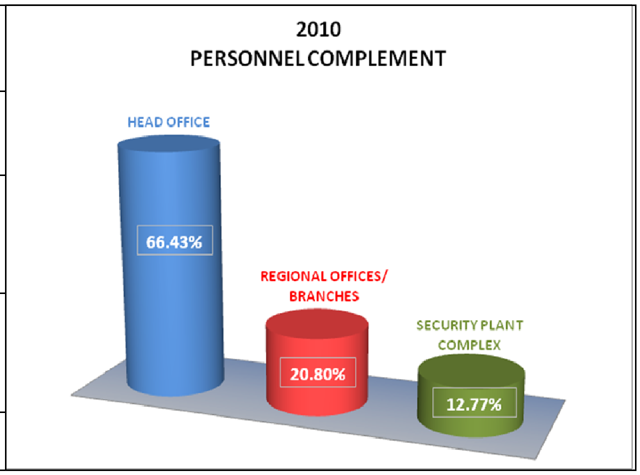
(All amounts in thousand unless otherwise stated)

1. GENERAL INFORMATION

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

The Bangko Sentral ng Pilipinas has its principal office at A. Mabini and P. Ocampo Streets, Manila, Philippines. It has regional offices and branches in 21 locations, and a security printing facility (Security Printing Complex or SPC) at Quezon City, Philippines. It likewise owns the PICC Inc., a wholly owned subsidiary that manages and operates the Philippine International Convention Center. The filled personnel complement of BSP based on location increased by 3.21 per cent and are distributed as follows:

Location	2010	2009	Change
Head Office	3,159	3,031	128
Regional Offices/ Branches	989	1,025	-36
Security Plant Complex	607	551	56
Total	**4,755**	**4,607**	**148**



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 4 August 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

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

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

PAS 21 provides that realization of foreign exchange gain and loss in the income statement arising from the settlement of monetary items at rates different from those at which they were translated on initial recognition. BSP's practice recognized unrealized gains and losses in accordance with Section 45 of R. A. 7653 where change in price and exchange rates of financial assets, liabilities, and derivative instruments are booked under "Revaluation of International Reserves" (RIR) account, either asset (if loss) or liabilities (if gain) while the realized gains and losses are recognized in the income statement under PAS 21. For change in price, gains and losses are recognized upon sale of gold, foreign and domestic securities and for change in exchange rates, upon repatriation of foreign currency to the local currency or the foreign currency to pay foreign obligations.

Unless otherwise stated, the 2010 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 31 December 2010. 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, the party controls, is controlled by, or is under common control with, the entity.”

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

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

2.4 Presentation and recognition

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

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

2.5 Currency of presentation

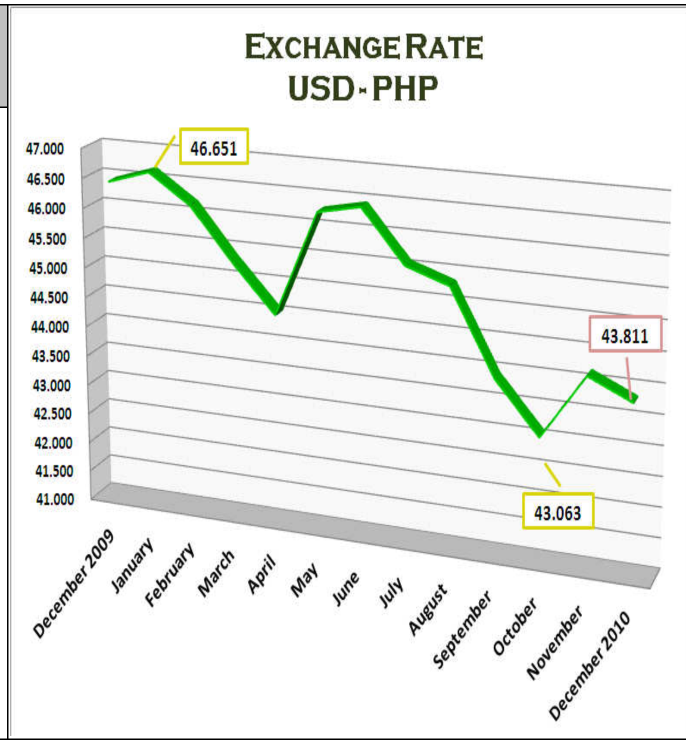
All amounts are expressed in Philippine Pesos (PHP), the domestic currency, unless specifically disclosed. The currency symbol “PHP” is used in the financial statements to conform with universal currency symbols.

2.6 Foreign currency translation

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

Exchange rates used are based on the published BSP Reference Rate Bulletin. Philippine peso versus the US dollar appreciated by 5.63 per cent, from 01 January 2010 of PHP46.425 to 31 December 2010 of PHP43.811. The end-December 2010 rate of PHP43.811 was used in the financial statements. Following were the prevailing end-month exchange rates in 2010.

For the Month Ended	Exchange Rate USD-PHP	Change
2010		
December	43.811	(0.335)
November	44.146	1.083
October	43.063	(0.858)
September	43.921	(1.393)
August	45.314	(0.243)
July	45.557	(0.867)
June	46.424	0.153
May	46.271	1.762
April	44.509	(0.782)
March	45.291	(0.872)
February	46.163	(0.488)
January	46.651	0.226
2009		
December	46.425	
AVERAGE	45.093	



2.7 Foreign exchange gains and losses

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

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

Starting 2010, as approved by the Monetary Board, gains/(losses) due to changes in exchange rates are realized only when the foreign currency is repatriated to local currency or the foreign currency is used to pay foreign obligations, or upon maturity of an FX forward or option contract involving the Philippine peso. FX gains/(losses) arising from sale of third currencies to USD or vice versa shall continue to be treated as unrealized FX gains/(losses) since the BSP is still exposed to exchange rate fluctuations.

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

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

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

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

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

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

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

The BSP booked the application of capital reserves on realized losses incurred from fluctuation of foreign exchange rate in 2010 consistent with the previous year pending amendment/revision of the existing guidelines on the application of the reserve provision.

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. Interests are accrued and discounts/premiums are amortized monthly. The accrued interests are booked contra a receivable (income)/payable (expense) account while the amortized discounts/premiums are capitalized. Reversal of the previous month's accruals and amortization of discounts/premiums is done simultaneously with the setting up of accruals and amortization of discounts/premiums for the current month.

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

2.9 Fee income

Entities, which are subject to examination by the BSP, pay an annual supervisory fee (ASF) in an amount equivalent to a percentage of their preceding year's average assessable assets (AAA) and collection thereof shall be within the current year. 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, held-to-maturity, and loans and other receivables, in compliance with PAS 39 (Recognition and Measurement) as approved by the Monetary Board under MB Resolution No. 122 dated 29 January 2010. The new accounting policies and procedures in booking unrealized and realized gains/(losses) due to change in foreign exchange rates was adopted in CY2010. However, the account balances of the 2009 financial statements were not restated due to the impracticability of applying the new accounting policies and procedures retrospectively in accordance with IAS 8.25.

2.10.1 Available-for-sale (AFS)

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

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

Gold is initially recognized at cost in USD and translated to the local currency using the closing exchange rate at reporting date. Change in price is calculated as the difference between the current market price against the moving average price while change in exchange rate is the difference between current exchange rate and moving average exchange rate. Gold swaps with non-central banks are treated as collateralized loans in which the foreign currency proceeds are added to international reserves with a corresponding foreign currency liability recognized. Location swap costs on the transfer of gold in bullion vault to foreign financial institutions (FFI) are capitalized and form part of the cost of gold with foreign financial institutions. There were no gold swap transactions negotiated with non-central banks in 2010.

Consistent with the recognition of unrealized gains and losses arising from the 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 in the balance sheet. 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 Held-to-maturity (HTM)

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

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

2.10.3 Loans and receivables

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

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

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

Effective 31 December 2009, policy on loan impairment provisioning (aligned with PAS/IAS 39) was adopted where "the amount of loss is measured by computing the difference between original or carrying amount and estimated recoverable amount."

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

Borrower's Bank Status	**Percentage of collection**
Recently closed banks	78% of total collectibles
BSP claims filed with PDIC	39% based on collection experience less allowance of 25%
Closed banks with pending cases	0% recovery rate
With collaterals still in process of registration	50% recovery rate
Past due loans with collaterals	65% recovery rate based on collection experience
Past due loans restructured under MBR No. 1366 with objective evidence that will be collectible	Based on the payment record of the borrowers discounted using the current effective rate (current rate plus add on rate)
Past due loans restructured under MBR No. 1366 with remote chance of collection & foreclosure of the property as the remaining recourse	65% net recovery rate (90% recovery rate used to arrive at a more conservative estimate less 25% margin for possible failure to foreclose)

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 per cent (%) 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 at year-end comprise 94.48 per cent current and 5.52 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 Repurchase, reverse repurchase and securities lending agreements

Repurchase (RP) 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. Repurchase agreements are presented in the balance sheet under the account “Government securities purchased under agreements to re-sell.” Income earned from the transaction is reflected in the income statement as local currency interest income.

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

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

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

2.12 Bank premises, furniture, fixtures, and equipment

Land and buildings acquired from the then Central Bank 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:

	Estimated Useful Life (No of Years)
Asset Group	**2010**
Buildings-BSP Constructed	**30**
Buildings-BSP-Acquired or Purchased	**25**
Property Improvements (building, land, leasehold and office)	**10**
Computer Hardware and Software	**5**
Plant Machinery and Equipment–Minting	**10**
Furniture and Equipment	**5**
Motor Vehicles	**7**
Armored Vehicles	**10**

Construction-in-progress, which covers BSP-owned buildings and property improvements under construction, is valued at cost. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated but reclassified to “Buildings” and appropriate “property improvements” account upon payment of at least 95% 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 completion.

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

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

2.15 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 when it arises from contractual or other legal rights.

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

2.16 Leases

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

2.17 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 booked based on prevailing exchange rate at the time of shipment/loading. Booking to inventory account is made upon actual receipt of shipment including costs incurred in bringing the inventory to BSP premises. Issuances are valued based on moving average method.

Finished currency notes and coins are recognized as finished goods once these are packed and ready for delivery and as currency inventory upon physical transfer from SPC to Currency Issue and Retirement Office (CIRO) of Cash Management Sub-Sector (CMSS). Only upon issuance of notes and coins from CIRO to Cash Department, CMSS and Regional Monetary Affairs Sub-Sector (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 current value using closing exchange rates at reporting date. Interest is accrued monthly and recognized in the income statement. Some foreign currency borrowings contracted after the creation of Bangko Sentral in CY1993 are collateralized either by securities or gold. As of end 2010, there are no outstanding foreign currency borrowings collateralized by gold.

Financial liabilities denominated in local currency refer to deposits of the National Government, banks and other financial institutions. All banks and quasi-banks operating in the country are required to maintain reserves against their deposit and/or deposit substitute liabilities. The reserve position of each bank or quasi-bank is calculated daily on the basis of the amount of the institution's reserves at the close of business for the day and the amount of its liability accounts against which reserves are required to be maintained. A portion of these deposits is paid interest at rates approved by the 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 the BSP mandate to siphon excess liquidity and slow down growth of money supply, the BSP encouraged government-owned and controlled corporations and trust departments of banks to deposit their funds with the BSP.

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 the Bangko Sentral and may be issued only against, and in amounts not exceeding, the assets of the Bangko Sentral. Said notes and coins shall be a first and paramount lien on all assets of the Bangko Sentral.

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 Taxes

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

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

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

Pursuant to R.A. 9337, "National Internal Revenue Code" (NIRC), as amended, the Bank computes its income tax obligation based on (a) Regular Corporate Income Tax (RCIT) computed at 30 per cent of net income or (b) Minimum Corporate Income Tax (MCIT) computed at two per cent based on gross income, whichever is higher. Taxable amount computed under RCIT is booked as an expense. Amount computed under MCIT in excess of the normal income tax/RCIT is recognized as deferred charges which will be carried forward and credited against the normal income tax for three immediately succeeding taxable years as provided under Section 27.E(2) of the NIRC, as amended.

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

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

Interest income on government securities collected on every coupon date are likewise subject to 20 per cent final withholding tax and are withheld and remitted by the BTr to BIR.

2.22 Employee benefit plans

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

2.22.1 Provident fund

This fund was established in accordance with Republic Act 4537 dated June 9, 1965 which authorized such fund to be set-up by government owned or controlled banking institutions. This is a defined contribution plan wherein the Bank's monthly contribution is equivalent to 20 per cent of the basic salary of each employee while the employee contributes 2.5 per cent. As approved by the

Monetary Board on 19 December 2008, the Bank's monthly contribution was increased from 20 per cent to 22.5 per cent while the employees are given the option to increase their personal contribution from 2.5 per cent up to five per cent which took effect in February 2009. All regular employees automatically become members of the Fund. The Bank's contributions are recognized in the income statement as operating expenses. The Fund is administered by the Provident Fund Office, a separate legal entity established for the purpose of managing the Fund and staffed by Bank personnel.

2.22.2 Housing fund

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

2.22.3 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 ten 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.

2.22.4 Car plan fund

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

2.22.5 Retirement benefit fund

This fund was set-up in 1997 for employees who will be eligible to retire under R.A. 1616. Based on a study 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 the 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.

2.22.6 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.

However, the Monetary Board approved the closure of the Fund under Resolution No. 1565 dated 29 October 2009. The Fund was finally closed on 13 January 2010.

2.23 Capital reserves

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

2.23.1 Currency insurance fund

The currency insurance fund adopted in 1955 and was rationalized in 1996, funds the Bank's self-insurance scheme for any losses that may arise from its currency shipments. At the start of the year, annual transfers to the reserve account are made from the surplus account and are computed based on one-tenth (1/10) of one per cent of the highest recorded value of currency shipment for the previous year. The Fund is an internally managed fund that is accounted separately from the bank proper resources through the "Due from Administrator" account. Investments of the Fund are in government securities and all income accrues to the Fund.

2.23.2 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 one per cent of 75 per cent of the maximum amount of accountabilities (net of PHP100 million) of each group/individual covered by the Fund. The Fund is an internally managed fund with the BSP Comptrollership Sub-Sector as administrator. It is accounted separately from the bank proper resources through the "Due from Administrator" account. There was no additional provision to the Fund since 2006 as it was determined that the balance of the fund is sufficient to cover the highest single amount of accountability covered by the fund. Since the establishment of the Fund, no claims have been charged thereon.

2.23.3 Property insurance

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

2.23.4 Reserve for the rehabilitation of the Security Plant Complex (SPC)

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

2.23.5 Reserves for fluctuation in foreign exchange (FX) rates

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. The additional provisions are set aside from net realized gains from FX rate fluctuations, as necessary.

2.23.6 Directors and officers liability insurance (DOLI) fund

The self-insurance fund was set up in 2005 in order to provide an additional insurance for those officers already covered under the Government Service Insurance System (GSIS). The initial amount set up was PHP500 million with additional annual provision of PHP100 million until the total fund reaches PHP1.00 billion. GSIS is the claims administrator of the self-insurance program. The Fund is an internally managed fund with the Provident Fund Office (PFO) as administrator. It is accounted separately from the bank proper resources through the “Due from Administrator” account. Investible funds (net of amount as may be necessary for liquidity and reinvestment purposes) are invested in the form of government securities where income earned accrues to the fund, net of 15 per cent management fee payable to the PFO.

2.23.7 Reserve for contingencies

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

2.23.8 Gold insurance

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

2.24 Derivative instruments

The BSP engages in foreign currency forwards which includes non-deliverable forwards, currency swaps and currency/securities/gold options. Derivatives are not designated as hedges.

For forwards and non-deliverable contracts, a contingent asset/liability is recognized at spot date. At maturity date, the contingent asset/liability is reversed and the purchase/sale of the currency is recorded.

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

For options, a derivative liability is recognized on spot date when premium is received. At maturity date or once the option is exercised, the derivative liability is reversed and the premium received from the options is closed to “Trading Gain/Loss” account. Gains or losses 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.

2.25 Cash flows

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

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

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

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

2.26 Comparatives

Where necessary and practicable, 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. The correction of prior years' errors are lodged in the capital accounts.

2.28 Dividend distribution

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

2.29 Commitments and contingent liabilities

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

	2010	**2009**
FX commitment receivable	787,570,301	640,272,670
Currency unissued	208,729,942	270,339,762
L/C held/received in process	7,746,339	5,655,616

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

L/Cs held/received in process 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 yet been made by the supplier.

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

Maturity Schedule of FX Commitment Receivable
As at 31 December 2010
(In Thousands)

	1-3 months		**4 months to 1 yr.**		**Total**	
	USD	**PHP**	**USD**	**PHP**	**USD**	**PHP**
FX Exchange Forward Contract	**7,277,500**	320,928,053	**10,550,000**	466,642,248	**17,827,500**	787,570,301

The BSP is contingently liable for lawsuits or claims filed by third parties which are either pending decision by the courts or under negotiation, the outcome of which is not presently determinable. However, Management believes that the eventual liability under these lawsuits or claims, if any, will not have a material effect on the BSP's financial statements.

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. Conduits for the funds provided by the National Government and other foreign financial lending institutions are qualified rural banks and the final beneficiaries are accredited individual borrowers and/or associations for supervised agricultural credits. The funds held in escrow are mostly for account of closed banks that the Bangko Sentral manages.

3. FINANCIAL RISK MANAGEMENT

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

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

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

3.1 Market risk

Market risk is the risk that the value of an investment will decrease due to change in market factors, i.e., 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 2010 grouped into assets and liabilities at carrying amounts:

	In Thousands	
Assets	**Original Currency**	**USD Equivalent**
USD	44,622,563	44,622,563
JPY	688,574,532	8,488,180
EUR	1,999,319	2,680,836
AUD	1,762,306	1,806,207
SDR	773,079	1,190,563
GBP	3,915	6,108
CAD	855	854
SGD	825	635
CHF	573	609
HKD	3,418	435
SAR	1,530	404

Assets	Original Currency	USD Equivalent
AED	1,193	325
THB	2,183	72
BND	83	64
BHD	11	29
KRW	14,504	13
CNY	51	8
IDR	59,808	7
Liabilities		
USD	5,801,160	5,801,160
SDR	838,525	1,291,354
JPY	32,520,236	400,584
EUR	186,315	249,328
DKK	2,555	459
GBP	132	206

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

3.1.2 Interest rate risk

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

3.1.3 Commodity risk

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

Market Risk Measurement

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

3.2 Credit risk

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

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

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

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

Credit risks associated with repurchase agreements of the BSP with local banks are collateralized by government securities from the borrowing bank. To ensure that the BSP is adequately covered from potential loss, it assesses the collateral based on its existing market value and adjusted upwards for haircuts. The haircuts, which are based on price and exchange rate volatilities, are designed to protect the BSP (under both normal and extreme market conditions) against collateral value shortfall in the event of borrower's default. The BSP Department of Loans and Credit (DLC) is exposed to credit risk associated with rediscounting, overnight clearing line and emergency loans to distressed banks and the Philippine Deposit Insurance Corporation. To manage and minimize the risk, the Department observes the credit policy measures approved by the Monetary Board. These measures include the adoption of the following: (a) strict qualification standards for access to the lending window of the BSP; (b) aligning the interest rates with policy rates; (c) integrated off-site credit analysis and on-site credit verification of debtor banks; (d) loan confirmation and project verification; (e) strict credit and collateral documentation requirements; and (f) "total responsibility" approach in the management of loans.

Credit Risk Management

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

3.3 Liquidity risk

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

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

3.4 Operational, legal and reputational risk

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

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

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

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

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

4. SIGNIFICANT EVENTS

4.1 The Monetary Board approved on -

4.1.1 7 January 2010 the adoption of the policy on setting up the maximum level (ceiling) of the balances and of how and when to charge the various BSP internally-managed funds.

4.1.2 29 January 2010 the adoption of the proposed changes in accounting policies and procedures of the Bangko Sentral Ng Pilipinas in booking realized and unrealized gains/(losses) due to change in price and exchange rates per recommendation of the World Bank and as confirmed by the Philippine Interpretations Committee.

4.1.3 18 March 2010 the change in the logo of the Bangko Sentral Ng Pilipinas adopted in 1993 and adoption of a new round logo featuring three gold stars and a stylized eagle rendered in white strokes.

4.2 Included for the first time in the 2010 budget is the amount of PHP49.543 billion projected cash disbursement for the acquisition of gold for refining lodged under "RM-Gold for Refining" account approved per MB Resolution No. 1900 dated 29 December 2009.

4.3 The initial release of the 116 boxes of **20-Piso New Generation Currency** on 17 December 2010 marked the launching of the New Generation Currency approved on 22 October 2009 per MB Resolution No. 1504.

4.4 The new buildings of BSP-Pampanga and BSP-Legazpi Branches were inaugurated on 17 June and 13 August 2010, respectively.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

6. INVESTMENT SECURITIES

	2010	2009
Marketable securities	1,456,601,302	1,187,931,418
Other investments	459,540,605	269,665,764
	1,916,141,907	1,457,597,182
Accrued interest	7,333,820	8,617,095
	1,923,475,727	**1,466,214,277**

Marketable securities consist of foreign securities (free) and repurchase agreements. The former primarily includes commercial papers in USD and JPY currencies aggregating USD29.399 billion or PHP1,288.000 billion. Other investments includes externally managed funds, Asian bond fund and those securities under the Securities Lending Agreement amounting to PHP387.442 billion, PHP12.906 billion and PHP59.192 billion, respectively.

7. GOLD

	Note	2010	2009
In bullion vault	a	175,436,873	128,870,729
With foreign financial institutions	b	131,690,449	124,598,040
		307,127,322	**253,468,769**

a. Gold in bullion vault

	2010		2009	
	PHP	**FTO**	**PHP**	**FTO**
Opening balance- January 1	128,870,729	2,535,407.382	88,409,475	2,107,336.514
Additions during the year	48,904,196	894,686.896	41,717,471	928,143.890
Sub-Total	177,774,925	3,430,094.278	130,126,946	3,035,480.404
Transfers to foreign financial institutions	(24,787,486)	(600,027.921)	(16,453,373)	(500,073.022)
Net increase due to price/rate revaluation	22,449,434	-	15,197,156	-
Ending balance-December 31	**175,436,873**	**2,830,066.357**	128,870,729	2,535,407.382

Price of Gold in USD per FTO	**2010**	**2009**
Revaluation Rate	**1,414.950**	1,094.850
Moving Average Rate	**900.889**	789.838

b. Gold with foreign financial institutions

	2010		2009	
	PHP	**FTO**	**PHP**	**FTO**
Opening balance – January 1	124,598,040	2,451,346.331	119,232,972	2,842,048.249
Additions during the year:				
Transfer from bullion vault	24,787,486	600,027.921	16,453,373	500,073.022
Purchases	54,867,081	1,003,364.169	25,444,364	501,074.821
Total additions	79,654,567	1,603,392.090	41,897,737	1,001,147.843
Sub-total	204,252,607	4,054,738.421	161,130,709	3,843,196.092
Net sales during the year	(73,168,822)	(1,930,369.116)	(66,974,073)	(1,391,849.761)
Net increase due to price/rate revaluation	606,664	-	30,441,404	-
Ending Balance-December 31	**131,690,449**	**2,124,369.305**	124,598,040	2,451,346.331

Price of Gold in USD per FTO	**2010**	**2009**
Revaluation Rate	**1,414.950**	1,094.850
Moving Average Rate	**863.334**	682.202

8. INTERNATIONAL MONETARY FUND SPECIAL DRAWING RIGHTS

	2010	**2009**
Beginning balance – January 1	52,979,038	507,228
SDR acquisition	-	54,998,278
Income accruing to the fund	136,014	46,562
Revaluation	(3,849,037)	(2,501,238)
Payment of charges-interest and remuneration	(146,847)	(71,792)
Adjustment due to change in policy	(15,829)	-
	(3,875,699)	52,471,810
Ending balance – December 31	49,103,339	52,979,038
Accrued interest	32,825	23,905
	49,136,164	**53,002,943**

9. LOANS AND ADVANCES

Foreign currency loans and advances	% to Total	2010	2009
Special purpose			
IBRD 2469	1.96	20,955	20,955
Rediscounting			
Exporters dollar facility	98.04	1,049,993	570,862
	100.00	1,070,948	591,817
Allowance for probable losses	1.96	20,955	20,955
Net		1,049,993	570,862
Accrued interest		178	201
	98.04	**1,050,171**	**571,063**

Local currency loans and advances	% to Total	Note	2010	2009
Philippine Deposit Insurance Corp.	70.69	a	72,606,203	72,629,408
National Government		b		
Assumed obligations of PNB & DBP	0.77		792,500	792,500
	0.77		792,500	792,500
Special purpose				
Rural Bank	0.13		131,546	133,978
	0.13		131,546	133,978
Emergency		c		
Commercial banks			435,239	446,846
Thrift banks			3,025,706	3,075,102
Rural banks			635,949	631,867
	3.99		4,096,894	4,153,815
Rediscounting		d		
Commercial banks			16,272,703	53,394,011
Thrift banks			5,181,333	6,937,469
Specialized banks			98,368	102,005
Rural banks			1,759,895	2,439,731
	22.70		23,312,299	62,873,216
Overdrafts/overnight clearing line	1.72		1,768,987	1,777,335
	100.00		102,708,429	142,360,252
Allowance for probable losses			5,315,423	7,268,241
			97,393,006	135,092,011
Accrued interest			13,476,459	12,140,397
			110,869,465	**147,232,408**
Total foreign and local currency	100.00		103,779,377	142,952,069
Allowance for probable losses	5.14	e	5,336,378	7,289,196
	94.86		**98,442,999**	**135,662,873**
Amount past due			**6,703,340**	**6,759,700**
Rate			**6.46**	**4.73**

a. **Loans and advances to the Philippine Deposit Insurance Corporation (PDIC*)*** intended for ailing banks slightly decreased to PHP72.606 billion compared to the last year's level of PHP72.629 billion. The loans to PDIC are collateralized and interest-bearing. This constituted 70.69 per cent of the total local currency loan portfolio.

b. **Loans and advances to the National Government (NG)** represents loans originally granted to the Development Bank of the Philippines and the Philippine National Bank. The NG absorbed the loans and advances during the financial restructuring of these institutions.

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 22.70 per cent of the local currency loan portfolio decreased by PHP39.561 billion from last year-end balance of PHP62.873 billion due to improved bank collection and reduced budget for loan extended to banks from PHP40 billion to PHP20 billion.

e. **Allowance for probable losses** - total past due accounts amounted to PHP6.703 billion or 6.46 per cent of total outstanding loans and advances of PHP103.779 billion exclusive of accrued interest receivable. PHP31.173 billion or 30.04 per cent of said outstanding loans and advances are covered by the Allowance for Probable Losses amounting to PHP5.336 billion.

10. FOREIGN AND LOCAL RECEIVABLES

	Note	2010	2009
Other Foreign currency receivables			
Accrued interest		665,934	838,987
Due from foreign banks/branches	a	66,482	47,234
Non-IR foreign exchange assets	b	28,538,694	35,394,878
		29,271,110	**36,281,099**
Other receivables			
Accounts receivable –Treasurer of the Philippines (TOP)	c	10,663,556	14,999,117
Accounts receivable (net of allowance of PHP1.671 billion)	d	2,540,341	519,173
Notes receivable	e	1,366,731	1,366,731
Due from local banks		51,489	25,962
Receivables from staff/others		369,744	375,166
Lease receivable	f	127,054	78,854
Sales contracts receivable	g	1,645,487	1,644,296
Accrued interest-Sales contracts receivable		4,767	4,630
Items under litigation	h	14,500	273,437
		16,783,669	**19,287,366**

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

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

The account decreased primarily from sale of ROP bonds amounting to USD666.710 million or PHP30.559 billion less purchases made during the year in the aggregate amount of USD604.060 million or PHP26.805 billion plus revaluation of PHP1.549 billion in 2010. ROP Bonds of USD560.00 million or PHP24.965 billion was used as collateral for domestic borrowings as at 31 December 2010.

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 31 May 2010, the account was decreased by PHP4.336 billion representing the NG share in the 2010 revaluation gain.

d. Account receivable – the increase was due mainly to the reclassification from "Loans and Advances-China Bank Savings, Inc. (previously The Manila Banking Corporation {TMBCI}) to "Accounts Receivable-Penta Capital Realty Corporation (PCRC) in order to reflect the obligation of PCRC arising from the irrevocable assignment by TMBC of its Contract to Buy and Sell with PCRC to the BSP.

e. Notes Receivable – claim of BSP against First Philippine International Bank (now First Producers Holdings) guaranteed by a 28.5 year scripless Treasury Bonds with PHP375 million cash flow back plus PHP15 million cash payment for three-year amortization for 1996, 1997 and 1998 placed in an Escrow fund to be administered by DLC until the fund reaches PHP1.367 billion. It shall be applied against BSP claim, per MB Resolution No. 1131 dated 27 September 1995 as amended by MB Resolution Nos. 590 and 1069 dated 13 June and 16 October 1996, respectively. PHP249.004 million is now with the Escrow fund as at 30 November 2010.

f. Lease receivable - rental receivable from Banco Filipino Savings and Mortgage Bank (BFSMB) on properties conveyed to BSP but still in the possession of BFSMB for its use and benefit and as administrator of the assets. The arrangement is in accordance with the terms and conditions agreed upon under the Memorandum of Agreement between BSP and BFSMB signed on 20 December 1999 which states that "xxx, all fruits of the property conveyed shall pertain to Bangko Sentral. If any of the properties conveyed remains in the possession of Banco Filipino for its use and benefit, they shall be subject to the payment to Bangko Sentral of reasonable rental in such amount as may be agreed upon by the parties, xxx."

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

	Total 2010	Current	Non – Current
BSP personnel	8,145	543	7,602
Non-BSP personnel	1,426,764	95,118	1,331,646
AMD-PFO housing program	30,916	1,030	29,886
Housing program III	179,662	5,989	173,673
	1,645,487	**102,680**	**1,542,807**

Items under litigation

	Note	2010	2009
CSS-FAD	a	14,500	14,500
Security plant complex	b	-	258,937
BSRU-Legaspi	c	1,758	1,758
BSRU-Tacloban	d	2,500	2,500
		18,758	277,695
Less: Allowance for doubtful account-Items under litigation		4,258	4,258
		14,500	**273,437**

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

b. Fabrica de Moneda y Timbre-Real Casa de la Moneda (FNMT-RCM) completely replaced in 2010 the 100-piso and 1,000-piso banknote paper discrepancies which were subject of an amicable settlement between FNMT-RCM and the Bangko Sentral ng Pilipinas (BSP) with respect to the supply of said currency banknote paper. The destruction for rejected banknote papers from FNMT-RCM was completed in 2010.

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

d. This pertains to the uncollected claims from BSP officers and employees of BSRU-Tacloban.

11. INVESTMENTS SECURITIES

	Note	Face Value 2010	Market Value 2010	Face Value 2009	Market Value 2009
BSP-Head Office	a				
Fixed rate treasury bonds		1,976,499	2,139,498	2,591,094	2,656,412
Fixed rate treasury notes		31,900	32,031	91,900	96,677
Semi-annual FLT-T-bond		50,000,000	39,457,383	50,000,000	39,318,824
Treasury bills		207,538,110	203,729,172	212,215,010	206,884,461
		259,546,509	245,358,084	264,898,004	248,956,374
PICC-Investments			210,902		300,835
Accrued interest			86,493		140,664
			245,655,479		**249,397,873**

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

	2010	2009
Beginning balance	248,956,374	315,186,385
Purchases	455,758,693	467,002,816
Sales	(5,278,640)	(6,651,451)
Redemption	(455,040,493)	(517,452,079)
Net premium amortization	31,056	(10,873)
Marking to market	1,049,479	(6,190,405)
Accrual/reversal of discount	(141,964)	(2,928,019)
Other adjustment	23,579	-
Ending balance	**245,358,084**	**248,956,374**

Schedule of Maturity
Investment Securities

	91-180 days	181 – 364 days	More than 1 year	Total
Fixed rate treasury bonds	-	-	2,139,498	2,139,498
Fixed rate treasury notes	-	-	32,031	32,031
Semi-annual FLT-T-bond	-	-	39,457,383	39,457,383
Treasury bills	63,456,810	140,272,362	-	203,729,172
	63,456,810	**140,272,362**	**41,628,912**	**245,358,084**

12. DUE FROM ADMINISTRATOR OF FUNDS

	Note	2010	2009
Comptrollership			
Currency insurance		2,798,462	2,798,110
Gold insurance		5,641	3,964
Fidelity insurance		22,247,379	22,247,379
Medical benefit	a	-	622,343
Post retirement benefit	b	46,514	71,102
		25,097,996	25,742,898
Provident fund office			
Post retirement benefit		1,247,334	1,170,103
Car plan fund		505,456	505,456
Provident fund	c	138,712	187,099
Directors' and officers' liability Insurance (DOLI) fund		1,092,289	1,030,101
		2,983,791	2,892,759
Department of Loans and Credit			
Industrial Fund		2,515	2,515
		2,515	2,515
		28,084,302	**28,638,172**

a. Fund balance closed to surplus account on 13 January 2010 per Monetary Board Resolution No. 1565 dated 29 October 2009.

b. The decline was due to the financial assistance and retirement benefits paid in 2010.

c. Amount allocated to Longevity Trust Fund, Housing Fund and Provident Fund accounts.

13. ACQUIRED ASSETS HELD FOR SALE

	2010	2009
Acquired assets held for sale	130,492	801,785
Less: Allowance for market decline	6,244	389,534
	124,248	**412,251**

Below is the composition of the acquired assets portfolio as at 31 December 2010 and disposals during the year.

Acquisition / Foreclosure			Disposal		
Particulars	**TCT's**	**Book Value PHP**	**Particulars**	**TCT's**	**Net Book Value PHP**
Foreclosure	568	130,492	Negotiation	1023	284'999
		130,492			**284,999**

14. INVESTMENT PROPERTY

	2010	2009
Investment property	11,451,407	11,516,466
Less: Allowance for market decline	1,567,382	1,585,194
	9,884,025	**9,931,272**

Below is the composition of the investment property portfolio as at 31 December 2010 and disposals during the year.

Acquisition / Foreclosure			Disposal		
Particulars	**TCT's**	**Book Value PHP**	**Particulars**	**TCT's**	**Book Value PHP**
Dacion en Pago	2,331	4,487,315	Redemption / Repurchase	6	24,465
Foreclosure	29,650	6,964,092	Negotiation	1,986	423,366
			Housing Program III	77	30,302
	31,981	**11,451,407**		**2,069**	**478,133**

15. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

	Land and Building	Property Improvement	Computer Hardware	Plant and Equipment	In-Transit Items	In-Process / Progress/ under Construction Items	Total
Cost							
01 January 2010	10,188,563	3,448,351	980,795	4,991,612	186	565,003	20,174,510
Additions	256,819	1,232,931	248,738	1,555,218	226,392	783,698	4,303,796
Disposals	-	(8,323)	(1,164)	(47,330)	-	-	(56,817)
Reclassifications / adjustments		(945,843)	(118,703)	(1,207,548)	(226,578)	(661,543)	(3,160,215)
31 December 2010	10,445,382	3,727,116	1,109,666	5,291,952	-	687,158	21,261,274
Accumulated depreciation							
01 January 2010	(1,906,479)	(1,599,433)	(670,666)	(3,586,407)	-	-	(7,762,985)
Depreciation CY2010	(144,929)	(151,919)	(62,034)	(258,122)	-	-	(617,004)
31 December 2010	(2,051,408)	(1,751,352)	(732,700)	(3,844,529)	-	-	(8,379,989)
Net book value 31 December 2010	**8,393,974**	**1,975,764**	**376,966**	**1,447,423**	**-**	**687,158**	**12,881,285**
Net book value 31 December 2009	**8,282,084**	**1,848,918**	**310,129**	**1,405,205**	**186**	**565,003**	**12,411,525**

The BSP Administrative Department hired an insurance consultant who undertook risk-based analysis and appraisal update of all BSP properties except for paintings and antiquities. However, the results of the appraisal report submitted to ASD only indicates the total sound value of the property as a whole, as such cannot be used in the establishment of the fair value of Bank's PPE.

16. INTANGIBLE ASSETS

	Computer Network and Application System	Computer Network and Application System in Process	Total
Cost			
01 January 2010	1,739,814	54,336	1,794,150
Additions	90,325		90,325
Reclassifications/adjustments	(28,041)	(2,483)	(30,524)
31 December 2010	1,802,098	51,853	1,853,951
Accumulated amortization			
01 January 2010	(1,484,629)		(1,484,629)
Amortization	(81,163)		(81,163)
31 December 2010	(1,565,792)		(1,565,792)
Net book value 31 Dec 2010	**236,306**	**51,853**	**288,159**
Net book value 31 Dec 2009	**255,185**	**54,336**	**309,521**

17. INVENTORIES

	Note	2010	2009
Gold for domestic sale		14,110	13,219
Gold for refining	a	6,730,174	4,026,542
Silver for refining		813	1,038
Currency inventory		1,787,029	1,700,851
SPC inventories	b	2,560,549	1,860,313
Work-in-process		1,083,070	1,503,998
		12,175,745	**9,105,961**

a. The increment was due to the improved rate in the price of gold ranging from USD1,094.85/FTO to as high as USD1,414.95/FTO in the international market as well as increase in the volume of raw gold purchased.

b. The sharp increase in the inventory of raw materials was brought about by increase in deliveries at the beginning of the second semester and resumption of operation during the latter part of the year after the stoppage of production in June 2010.

18. MISCELLANEOUS ASSETS

	Note	2010	2009
Deferred charges		863	863
Deposits – utilities and services		23,909	23,902
Input tax		26,897	35,144
Prepaid expenses	a	374,892	516,353
Withholding tax at source		225,185	219,173
Creditable tax certificates	b	5,512	5,512
Other supplies		130,742	117,124
Miscellaneous assets-SPC	c	2,243	11,094
		790,243	929,165
Commemorative notes & coins		11	309
Demonetized commemorative coins		16	18
Items for exhibit		167	167
Numismatic collections on hand		21,007	21,007
Paintings and sculptures		61,680	58,061
Assets for disposal		802	-
		83,683	79,562
Checks and other cash items		(1,672)	1,186
Checks and other cash items in-transit		4	-
Stocks and other securities	d	10,715	10,715
Philpass treasury account		(12)	-
		882,961	**1,020,628**

a. The account includes taxes withheld from purchases of short-term government securities which are later recognized as expense upon maturity. The decrease in 2010 was primarily due to the low exposure of banks in government securities attributed to lower interest rates.

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

c. These are the 361 million undelivered BIR strip stamps of Banknote Security and Printing Department in the amount of PHP2.243 million.

d. Breakdown includes the following:

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

19. SHORT-TERM FOREIGN CURRENCY DEPOSITS

	Note	2010	2009
National Government	a	55,694,722	58,490,653
Regular FCD		-	7,428,000
Other entities	b	19,862,650	26,941,750
		75,557,372	92,860,403
Accrued interest		4,095	5,198
		75,561,467	**92,865,601**

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

	2010	2009
National Government		
TOP-Time deposits	52,295,625	46,437,177
TOP-Special accounts	3,399,097	12,053,476
	55,694,722	**58,490,653**

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

	2010	2009
NPC	44,419	43,097
MWSS	359,052	379,880
PSALM	19,457,636	26,517,138
North Luzon Railways	1,543	1,635
	19,862,650	**26,941,750**

20. LOANS PAYABLE

	Note	2010	2009
Maturing in more than 5 years			
Blocked peso deposit (Circular 1139/1202)		35,472	40,249
Blocked peso deposit (Circular 1298)	a	2,604,310	4,115,301
CB Memorandum Circular at original cost (PHP14.00)		3,846	3,846
		2,643,628	4,159,396
Accrued interest		32,179	54,522
		2,675,807	**4,213,918**

a. These are local currency deposits of original public sector borrowers (National Government, government owned or controlled corporations and government financial institutions) used to cover for their FX loan amortizations that were transferred to the then Central Bank of the Philippines on the date the amortizations fell due. These deposits were later registered with the BSP under various foreign loan restructuring arrangements. Partial settlement of Foreign loans payable blocked peso deposits of PHP1.516 billion contributed mainly to the decrease in the balance of the outstanding account.

21. BONDS PAYABLE

	Note	2010	2009
Bonds due 2027	a	17,524,400	18,570,000
Bonds due 2097		4,381,100	4,642,500
BSP floating rate note	b	-	9,285,000
		21,905,500	32,497,500
Less: Discount on bonds		(80,690)	(85,863)
		21,824,810	32,411,637
Accrued interest		78,495	113,110
		21,903,305	**32,524,747**

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

b. The decrease in the balance is attributed to pre-termination of BSP Floating Rate Note-Standard Chartered amounting to USD200 million or PHP8.612 billion on 22 November 2010 and the related outstanding accumulated net revaluation.

22. ALLOCATION OF INTERNATIONAL MONETARY FUND SPECIAL DRAWING RIGHTS

	2010	2009
Allocation of SDRs	56,537,691	60,987,078
Accrued interest	37,795	27,519
	56,575,486	**61,014,597**

23. DEPOSITS

	Note	2010	2009
Government deposits			
Short –term	a.1	39,407,863	61,451,181
Long – term	a.2	28,265,953	28,265,953
		67,673,816	89,717,134
Accrued interest		380,700	243,889
		68,054,516	89,961,023
Demand deposits			
Banks/NBQBs-reserve deposits	b.1	238,501,245	154,137,083
Banks/NBQBs-liquidity reserves	b.2	279,895,530	310,134,790
Others		29,828,120	29,902,955
		548,224,895	494,174,828
Accrued interest		874,623	1,123,384
		549,099,518	495,298,212
International monetary fund and other financial institutions	b.3	41,838,136	51,493,209
		590,937,654	**546,791,421**

a. Government deposits

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

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

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

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

2. Term deposits of banks/NBQBs placed in reserve deposit account with BSP as mode of compliance for liquidity reserves from holdings in government securities purchased from Bangko Sentral issued specifically for the purpose as approved by the Monetary Board per its Resolution dated 16 March 2006. The

interest rates applied to the reserve deposit account was set at 3.14 per cent below the prevailing market rate for comparable government securities as at 31 December 2010.

3. International Monetary Fund (IMF) currency holdings and other financial institutions. The Republic of the Philippines has been a member of the IMF since 1945. BSP is the designated depository for the IMF's holdings of local currency. The IMF's holdings of local currency amounted to an equivalent of SDR694.381 million at 31 December 2010.

The balance of IMF's currency holdings (SDR97.805 million) that includes a non-negotiable, non-interest bearing security encashable on demand and issued in the favor of the IMF, is held by the BSP on a custodial basis in its capacity as the IMF's depository. The IMF revalues its local currency holdings on 30 April of each year at which time a currency valuation adjustment arises.

For 2010, the depreciation of peso against the SDR by PHP5.473, from PHP72.944/SDR as at 30 April 2009 to PHP67.471/SDR as at 30 April 2010, resulted in a revaluation gain of PHP4.336 billion in the IMF local currency holdings with BSP. The revaluation is solely attributable to the National Government (NG) since BSP has already fully paid its credit availments from Standby Credit Facility and Extended Fund Facility since December 2006. BSP booked the revaluation gain as additional receivable from NG under the account "Accounts Receivable-Treasurer of the Philippines".

24. CURRENCY IN CIRCULATION

		Quantity		**Amount**	
	Denomination	**2010**	**2009**	**2010**	**2009**
Notes	100,000	117	117	11,700	11,700
	2,000	24,336	23,466	48,672	46,932
	1,000	297,114,528	258,040,363	297,114,528	258,040,363
	500	388,407,975	437,812,547	194,203,987	218,906,274
	200	30,037,809	32,034,317	6,007,562	6,407,063
	100	488,941,861	463,166,044	48,894,186	46,316,604
	50	430,428,192	398,055,328	21,521,410	19,902,767
	20	711,750,125	747,248,115	14,235,002	14,944,962
	10	69,336,817	71,525,223	693,368	715,252
	5	30,454,053	30,654,385	152,270	153,272
				582,882,685	**565,445,189**
Coins	10 Piso	455,067,238	419,881,378	4,550,672	4,198,814
	5 Piso	1,436,378,050	1,341,233,590	7,181,890	6,706,168
	1 Piso	4,768,090,553	4,301,783,477	4,768,091	4,301,784
	25 Sentimo	5,538,531,234	5,514,490,893	1,384,633	1,378,623
	10 Sentimo	2,459,462,080	2,430,344,280	245,946	243,034
	5 Sentimo	1,639,108,657	1,619,881,957	81,955	80,994
	1 Sentimo	19,655,716	18,718,592	197	187
				18,213,384	16,909,604
BSP commemorative coins		3,103,176	3,038,835	178,759	178,095
				18,392,143	**17,087,699**
				601,274,828	**582,532,888**

25. OTHER LIABILITIES

	Note	2010	2009
Foreign currency			
Derivative instruments in a loss position	a	6,958,002	10,174,438
Other liabilities		2,985,537	3,139,824
Derivatives liability	b	13,217	-
Accounts payable		2,397,885	2,538,161
Accrued expenses		167,639	118,991
Other financial liabilities		406,796	482,672
		9,943,539	**13,314,262**
Local currency			
Retirement benefit obligations		1,542,087	1,534,437
Dividends payable	c	5,372,980	695,337
Miscellaneous liabilities		3,939,266	3,611,047
Accounts payable		1,963,527	1,422,192
Accrued expenses		66,628	58,298
Taxes payable		1,068,393	1,048,778
Other local currency liabilities		840,718	1,081,779
		10,854,333	**5,840,821**

a. The account is used to book unrealized losses due to changes in fair value and exchange rate of derivative instruments. As at 31 December 2010, the outstanding amount represents unrealized losses from exchange rate differences in swap transactions.

b. The amount represents premium received from gold option transactions as at 31 December 2010.

c. The amount of dividend for 2009 net of the PHP4.475 billion remitted to the NG through credit to the regular demand deposit account of the Treasurer of the Philippines on 6 July 2010 per MB Resolution No. 776 dated 4 June 2010.

26. REVALUATION OF FOREIGN CURRENCY ACCOUNTS

	2010	2009
Unrealized gain/(loss) on FX rate fluctuations – beginning balance	(48,532,624)	11,182,074
Unrealized loss for the year (net of realized transactions)	(17,909,885)	(59,714,698)
Unrealized loss on FX rate	(66,442,509)	(48,532,624)
Unrealized gain on price fluctuation – beginning balance	132,838,328	138,618,655
Unrealized loss for the year (net of realized transactions)	(4,488,398)	(5,780,327)
Unrealized gain on price fluctuation	128,349,930	132,838,328
	61,907,421	**84,305,704**

	2010	2009
Realized gains/(loss) on FX rate fluctuations		
Realized gain on FX rate fluctuations	2,528,608	26,680,672
Realized loss on FX rate fluctuations	(92,646,443)	(36,351,046)
	(90,117,835)	**(9,670,374)**

27. CAPITAL

	Note	2010	2009
Capital	a	10,000,000	10,000,000
Surplus		6,387,730	64,798,861
Unrealized losses on Investments	b	(12,332,964)	(13,382,443)
Capital Reserves			
Managed Funds			
Currency insurance fund		2,798,462	2,798,109
Fidelity insurance fund		22,247,379	22,247,379
Medical benefit fund	c	-	622,343
Directors'/officers' liability		1,092,289	1,030,101
Retirement benefit fund		1,293,849	1,241,206
		27,431,979	27,939,138
Gold insurance fund		5,641	3,964
Fluctuations in FX rates	d	78,013,579	81,683,953
Fluctuations in price of gold		54,906,136	54,906,136
Property insurance		1,600,000	1,600,000
SPC rehabilitation		1,614,290	1,614,290
Contingencies	d	3,644,872	9,644,872
Cultural Properties Acquisition Fund	e	98,771	-
		139,883,289	149,453,215
		167,315,268	177,392,353
		171,370,034	**238,808,771**

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

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

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

	2010	2009
Beginning balance	(13,382,443)	(7,372,587)
Effect of marking to market of gov't securities:		
Increase/(decrease) in government securities	1,049,479	(6,190,405)
Unrealized trading gain/(loss) price fluctuation – government securities	-	(490,567)
Effect of prepaid tax adjustments on treasury bills	-	671,116
	(12,332,964)	**(13,382,443)**

c. MB Resolution No. 1565 dated 29 October 2009 approved the closure of the Medical Benefit Fund to "Surplus" account upon the maturity of the related government securities investments and retention of the existing practice of including the provision for hospitalization and medical expenses in the annual budget of the Bank. Final closure of the fund amounting to PHP0.627 billion was booked on 13 January 2010.

d. On 04 January 2010, the whole amount of the net realized loss from fluctuation in FX rates for 2009 was closed against the Reserve for Contingencies and Reserve for Fluctuation in FX Rates in the amounts of PHP6.000 billion and PHP3.670 billion respectively, as per application of MB Resolution No. 1702 dated 19 December 2008.

e. The establishment of a PHP0.100 billion Cultural Properties Acquisition Fund to acquire artworks and other cultural properties including those for the Money Museum was booked on 05 November 2010 as per MB Resolution No. 751 dated 21 May 2009. PHP0.001 billion was reclassified to Surplus account on 30 December 2010, representing various expenses incurred in connection with the acquisition of artworks.

28. INTEREST INCOME AND INTEREST EXPENSE

Interest income from financial assets	2010	2009
Interest income from foreign currency financial assets		
Investment securities	25,941,938	36,689,496
Deposit with foreign banks	879,886	424,931
Gold with foreign financial institutions	-	169,260
IMF special drawings rights	144,934	49,890
Loans and advances	2,035	5,292
Other foreign currency receivables	1,551,478	1,842,206
	28,520,271	39,181,075
Interest income from local currency financial assets		
Investment securities	10,885,643	15,531,719
Loans and advances	3,896,667	4,536,094
Other receivables	146,371	134,534
	14,928,681	20,202,347
	43,448,952	**59,383,422**

Interest expense from financial liabilities	2010	2009
Interest expense on foreign currency financial liabilities		
Bonds payable	2,194,172	2,421,903
Allocation of IMF special drawing rights	166,863	71,361
Short term deposits	139,443	73,775
Loans payable	-	80,565
Other liabilities	100,854	1,383,116
	2,601,332	4,030,720
Interest expense on local currency financial liabilities		
Securities sold under agreements to repurchase	45,632,388	37,107,810
Deposits of banks and other financial institutions	14,219,027	14,620,324
Government deposits	3,619,819	5,233,654
	63,471,234	56,961,788
	66,072,266	**60,992,508**

29. OTHER OPERATING INCOME

	2010	2009
Printing, minting and refinery	232,587	445,550
Fees – local		
Banking supervision/clearing/license fees	1,669,034	1,906,710
Penalties and late charges	258,089	231,504
Transaction fee - *PhilPaSS*	150,682	132,499
Processing and filing fees	44,430	31,676
Others	4,691	286
	2,126,926	2,302,675
Other income		
Gain on sale of acquired assets	359,707	42,412
Building rental	14,753	16,444
Rental on acquired assets	(339,088)	203,709
Other miscellaneous income	1,037,598	423,045
	1,072,970	685,610
	3,432,483	**3,433,835**

30. CURRENCY PRINTING AND MINTING COST

	2010	2009
Notes	2,956,344	2,452,635
Coins	1,156,363	1,879,645
	4,112,707	**4,332,280**

31. OPERATING EXPENSES

	2010	2009
Personnel services, development and training	8,230,739	7,818,351
Administrative expenses	707,994	2,101,100
Depreciation	564,551	536,831
	9,503,284	**10,456,282**

31.1 Personnel services

	2010	2009
Salaries and wages	5,762,633	4,921,840
Defined contribution plans	1,592,630	1,247,689
Social security contribution	367,804	303,186
Sickness and death benefits	193,908	217,273
Post-retirement benefits	211,381	1,022,089
Personnel development and training	80,589	84,347
Medical and dental benefits	21,794	21,927
	8,230,739	**7,818,351**

31.2 Administrative expenses

	2010	2009
Traveling expenses	384,671	276,722
Taxes and licenses	347,093	138,442
Repairs and maintenance	299,616	309,446
Water, illumination and power services	253,540	211,959
Currency and gold operations expenses	181,279	160,231
Communication services	133,140	135,663
Consultants and specialist services	123,220	101,315
Grants, subsidies and contributions	83,008	119,232
Fidelity and property insurance	63,720	64,384
Supplies and materials	51,055	30,391
Rentals	37,957	35,452
Auditing services	36,232	38,222
Acquired assets expenses	26,753	37,410
Ammunitions	4,298	5,563
Discretionary expenses	4,740	5,296
Losses due to market decline	495	77,900
Others	(1,322,823)	353,472
	707,994	**2,101,100**

32. PROFIT FOR DISTRIBUTION

Based on Sections 43 and 132 (b) of R.A. No. 7653, The New Central Bank Act the following was the profit for distribution. There was no provision for capital reserves set up in 2010.

	2010	2009
Profit/(loss) for the year	**(59,035,450)**	**13,130,640**

33. RECONCILIATION OF OPERATING CASH FLOW WITH REPORTED NET INCOME

	2010	2009
Reported operating surplus(deficit)	(59,035,450)	13,130,640
Operating cash flows from changes in asset and liability balances	(164,243,465)	4,832,949
Add non-cash items		
Depreciation	564,551	536,831
Amortization of premium/discount on bonds payable	5,174	2,587
Provision for probable loss	144,445	987,453
Recovery from provision for market decline	495	77,900
	714,665	1,604,771
Add (less) movements in other working capital items		
(Increase) decrease in accounts receivable	(2,021,162)	2,490,356
Increase (decrease) in miscellaneous liabilities	485,254	(655,289)
(Increase) decrease in interest receivable	152,873	(1,160,101)
Increase (decrease) in interest payable	428,413	(4,256,682)
	(954,622)	(3,581,716)
Add investing and financing activities		
Net realized loss on fluctuations in foreign exchange rates	90,117,835	9,670,374
	90,117,835	9,670,374
Net cash provided by (used in) operating activities	**(133,401,037)**	**25,657,018**

34. CONSOLIDATED CASH BALANCES

	2010	2009
Foreign currency assets		
Deposit with foreign banks (net of derivatives liability from gold option sell)	441,458,332	274,522,542
Other cash balances (foreign currency on hand)	407,763	359,288
Foreign investments - readily convertible to Cash	1,456,601,302	1,187,931,419
Other FX receivable – due from FX banks – special account	66,482	47,234

	2010	2009
Local currency assets		
Government securities	245,568,986	249,257,209
Other receivables – due from local banks	51,489	25,962
Other receivables – revolving fund	307,465	298,886
Miscellaneous assets – checks and other cash Items (COCI)	(1,672)	1,186
Demand liabilities		
Government demand deposits	(37,673,816)	(59,717,134)
Deposit of banks and other financial institutions	(1,828,019,916)	(1,094,192,964)
	278,766,415	**558,533,628**

35. TRUST FUNDS

	2010	2009
Comptrollership	25,094,652	25,745,956
Department of Loans and Credit-Accounting	2,948,664	2,781,542
Department of Loans and Credit -Industrial Fund	7,519	7,519
Supervision and Examination Department-Rural Banks	2,167,611	2,032,739
Treasury Department-Domestic	6,015,270	5,831,199
	36,233,716	**36,398,955**

36. ADDITIONAL INFORMATION ON TAXES AND LICENSES

In compliance with the requirements set forth by BIR Revenue Regulation No. 15-2010, the following are the information on taxes, duties, licenses and fees paid or accrued during the taxable year 2010:

36.1 The BSP is a VAT-registered company with respect to its proprietary activities. VAT output declared on BSP proprietary activities for the year amounted to PHP0.130 billion based on rental of owned/acquired properties and sale of printing and other services totaling PHP1.084 billion.

36.2 VAT is not recognized on the sale of BSP's real and other properties acquired (ROPA) as these properties are treated as capital assets. Sales were subjected to capital gains tax (See item 7.b)

36.3 Input VAT claimed during the year amounted to PHP0.040 billion recognized from local purchase and importation of various goods and services.

36.4 The landed cost of BSP's importations for the year amounted to PHP0.444 billion with paid/accrued amount of PHP0.048 billion as customs duties and tariff fees.

36.5 The BIR assessed the BSP for basic excise tax amounting to PHP2.361 billion on its gold purchases based on the cost of acquisition of the semi-processed minerals covering taxable years 2001 to 2010. As of statement date, the assessment is being protested by BSP.

36.6 BSP is exempt from the Documentary Stamp Tax on all its transactions effective March 2004 pursuant to Republic Act No. 9243 as implemented under RR No. 13-2004 issued on 23 December 2004.

36.7 Other taxes and licenses incurred during the year are as follows:

36.7.1 Local taxes

	Amount
Real estate taxes	PHP 0.248 billion
Others (registration fees, licenses, permits)	0.006 billion
	PHP 0.253 billion

36.7.2 National taxes

	Amount
Final tax on interest income/discounts	PHP 2,178 billion
Capital gains tax/creditable withholding tax on sale of ROPA	0.093 billion
	PHP 2.271 billion

36.7.3 The withholding taxes paid/accrued for the year consisted of the following:

	Amount
Tax on compensation and benefits	PHP 1.462 billion
Creditable withholding taxes	0.042 billion
Final withholding taxes	11.305 billion
	PHP 12.809 billion

36.8 BSP has received Formal Letter of Demand on deficiency income tax from the BIR for taxable year 2005 and 2006 in the amount of PHP11.914 billion and PHP7.077 billion, respectively, inclusive of penalties for deficiency income tax. Management has been constantly coordinating with BIR officials on the possible settlement of issues on the matter.

37. EVENTS AFTER BALANCE SHEET DATE

37.1 On 31 January 2011, the BSP remitted PHP9.312 billion to the National Government representing BSP's additional dividends for 2003 to 2006 in accordance with a Memorandum of Agreement (MOA) executed between the Department of Finance and the BSP per MB Resolution No. 142 dated 27 January 2011. Under the said MOA, the BSP's remittance of said additional dividends finally closed and fully settled all obligations of the BSP to remit dividends for the said years.

37.2 In accordance with MB Resolution No. 549 dated 7 April 2011, the BSP remitted PHP5.850 billion to the Bureau of Internal Revenue (BIR) value dated 31 March 2011. The amount represents BSP's compromise settlement for the deficiency income tax assessments for the taxable years (TY) 2005 and 2006. In return, BIR shall issue a final decision on disputed assessments resolving BSP's protests where assessments pertaining to interests and surcharges, interest arbitrage, provisioning for realized gain from foreign exchange rate fluctuations and unreported income from other capital reserves which have been subjected to final tax will be dropped. Likewise, BIR shall issue the necessary termination letter stating that all income tax liabilities of the BSP for TYs 2005 and 2006 will be closed and terminated.

37.3 On 22 March 2011, the BSP requested for the issuance of tax credit certificate for the BSP's overpayment of income tax amounting to PHP4.794 billion as reflected in the 2009 annual income tax return. The request is in accordance with the provisions of Section 204(c) of the National Internal Revenue Code, as amended.