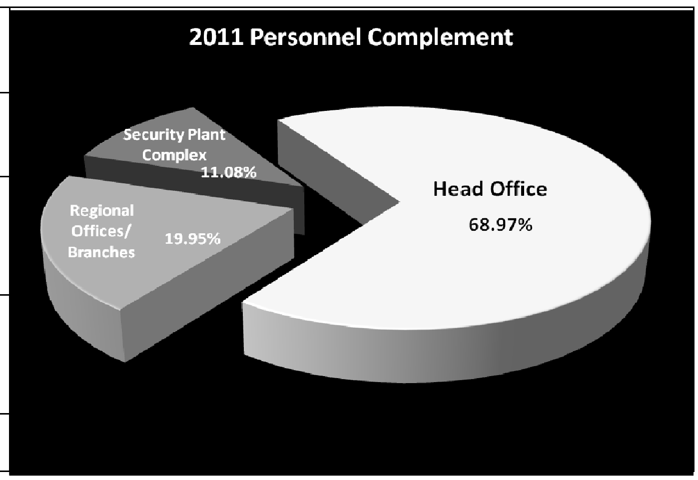
(All amounts in thousand unless otherwise stated)

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 Philippine International Convention Center, Inc. (PICCI), a wholly owned subsidiary that manages and operates the Philippine International Convention Center. The filled personnel complement of BSP based on location increased by 4.23 per cent and are distributed as follows:

Location	CY 2011	CY 2010	Change
Head Office	3,418	3,159	259
Regional Offices/ Branches	989	989	0
Security Plant Complex	549	607	(58)
Total	**4,956**	**4,755**	**201**



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 24 May 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

BSP's primary objective as a central monetary authority is price stability, and not profit, as mandated by law under Section 3 of the New Central Bank Act (RA No. 7653) which states that "The primary objective of the Bangko Sentral is to maintain price stability conducive to a balanced and sustainable growth of the economy." In line with this objective, the Bank's financial statements have been prepared in compliance with the provisions of RA No. 7653 and applicable Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) as aligned with the provisions of International Financial Reporting Standards (IFRS). It is the Bank's position that having considered its responsibilities in the formulation and conduct of effective monetary policy, it is appropriate to differ, in some aspects, from the adoption of relevant PAS.

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 operation). Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g. dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement.

Unless otherwise stated, the CY 2011 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 2011. 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 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

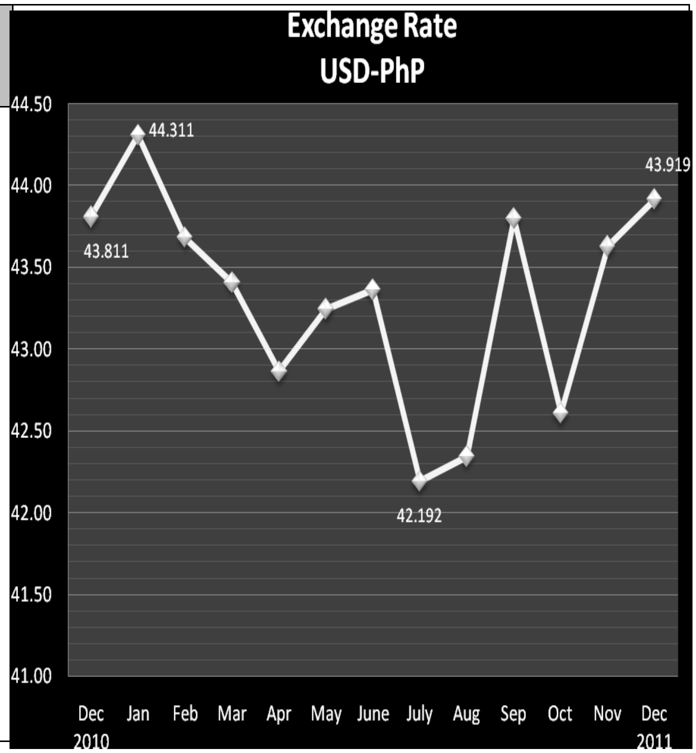
All amounts are expressed in Philippine Pesos (PHP), the domestic currency, unless specifically disclosed. The currency symbol "PHP" is used in the financial statements to conform to universal currency symbols.

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 weighted average 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 depreciated by 0.25 per cent, from 01 January 2011 of PHP43.811 to 31 December 2011 of PHP43.919. The end-December 2011 rate of PHP43.919 was used in the financial statements. Following were the prevailing end-month exchange rates in 2011.

For the Month Ended	Exchange Rate USD-PHP	Change
2011		
December	43.919	0.289
November	43.630	1.022
October	42.608	(1.191)
September	43.799	1.455
August	42.344	0.152
July	42.192	(1.172)
June	43.364	0.119
May	43.245	0.382
April	42.863	(0.545)
March	43.408	(0.276)
February	43.684	(0.627)
January	44.311	0.500
2010		
December	43.811	
AVERAGE	43.281	



2.7 Price and Foreign exchange gains and losses

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

BSP's practice recognized unrealized gains and losses in accordance with Section 45 of RA No. 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). Reversal of the previous month's marking to market and revaluation is done simultaneously with the setting up of the current month's marking to market and revaluation.

For change in price, gains and losses are recognized upon sale of gold and foreign or domestic securities. On the other hand, as approved by the Monetary Board effective CY2010, 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 and reinvestments shall continue to be treated as unrealized FX gains/(losses) since the BSP is still exposed to exchange rate fluctuations.

The realized gains or losses arising from change in price and "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 accounts "Trading Gain/(Loss)" and "Gain/loss on fluctuation in FX rates", respectively.

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 (Regular and Other-Special accounts) with the BSP are accrued monthly and credited to the respective accounts quarterly except for TOP-Special Account No. 2 (MBR560), interests of which are credited semi-annually.

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 net assessable assets (AAA) and collection thereof shall be within the current year by directly debiting the bank's demand deposit account (DDA) maintained with the BSP on the specified date in the billing notice. 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 (AFS), held-to-maturity (HTM), 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.

2.10.1 Available-for-sale

Available-for-sale (AFS) financial assets include gold and foreign and local investments denominated in foreign currency. Domestic securities held by the BSP are also classified as AFS as they may be sold in response to the needs of liquidity in the exercise of its functions under the Act.

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 portfolios and investments in Asian Bond Fund (ABF) and Inflation Linked Fund 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 weighted average 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.

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 right to receive cash flows from the investments have expired or have been transferred and the BSP has relinquished all the risks and rewards of ownership. Gains and losses arising from de-recognition or impairment is recognized in the income statement.

2.10.2 Held-to-maturity

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

These HTM securities are revalued at month-end to its current exchange rate and the unrealized gains/(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.

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

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

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

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

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

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.

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

2.12 Bank premises, furniture, fixtures, and equipment

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

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

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

Construction-in-progress, which covers BSP-owned buildings and property improvements under construction, is valued at cost. This includes site preparation, materials, labor, professional/consultancy fees and other cost directly attributable to the construction of properties. Transfer of balances from “Building Construction” account to “Building” account is made upon 95 per cent completion of the project or issuance of certificate of occupancy or actual transfer to the building, whichever comes first. Depreciation starts one month after the property was reclassified to “Building” account. The unpaid balance of the transferred property is directly booked to the proper account upon full settlement of the amount.

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, or assets acquired through the implementation of an execution of attachment of real properties in settlement of the BSP's deficiency claims against defaulting banks (legal proceedings initiated by the Bank in case there are still deficiency claims after all the underlying collaterals of the borrower-bank were judicially/extrajudicially acquired by the BSP). These assets are being held until such time that these are readily available for disposition and are reclassified to acquired assets held for sale.

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 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 weighted average exchange rate at reporting date. Interest is accrued monthly and recognized in the income statement. Some foreign currency borrowings contracted after the creation of Bangko Sentral in CY1993 are collateralized either by securities or gold. As of end CY2011, 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 deducted from the total currency issued, and accordingly, do not form part of the assets 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 accounts where tax implications may require recognition of deferred taxes in the books of accounts. Deferred tax assets are expected future benefits arising from temporary differences existing at the end of the accounting period that will reduce the taxable income relative to pretax accounting income in the future period. It is the amount of income tax recoverable in the future period with respect to: a) deductible temporary differences; b) carry-forward of excess minimum corporate income tax over regular income tax; c) carry-forward of net operating loss; and, e) carry forward of unused tax credits. Deferred tax liabilities are amounts of income taxes payable in respect of taxable temporary differences.

Pursuant to 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. The monthly VAT declaration and returns are filed with the BIR and the corresponding VAT outputs are paid. VAT rate remains at 12 per cent since 01 February 2006 (NIRC of 1997, as amended).

Discount on Treasury Bills purchased from the secondary market are subject to 20 per cent final withholding tax. However, the taxes paid in the secondary market are not remitted to BIR, but imposed to recoup the taxes paid on the original sale in the primary market by the original buyer (from Bureau of the Treasury (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 the Treasurer, BTr, signed by BIR Commissioner 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 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 per cent of the total members' equity as of the end December of each year. The balance of the unappropriated earnings of the Provident Fund and Housing Fund are declared as the fund members' share in the earnings of both funds for the year. The assets of the Fund are reported at either cost or fair market value depending on the asset classification, following the International Accounting Standards.

2.22.1 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 CY1978 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 CY1991 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 CY1993 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 entitled officers have not yet availed of the car plan program.

2.22.5 Retirement benefit fund

This fund was set-up in CY1997 for employees who will be eligible to retire under R.A. 1616. Based on a study made by Human Resource Management Department (HRMD) in CY2005, the outstanding balance of the fund plus projected earnings up to CY2023 would be sufficient to cover the benefits of the employees who will be qualified to retire under the plan. Actual charges include (a) retirement gratuity pay and (b) financial assistance to beneficiaries of departed members. The balance of the Fund is reported in the balance sheet under capital reserves account and as a receivable from the Provident Fund Office, as administrator, under the "Due from Administrator" account. The Fund resources are invested in government securities and all income accrues to the Fund, net of 15 per cent management fee to PFO.

2.23 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 CY1955 and rationalized in CY1996 was established as a self-insurance scheme to cover for any loss that may arise from its currency shipments. At the start of the year, annual transfers to the reserve account are made from the surplus account and are computed based on one-tenth of one per cent of the highest recorded value of currency shipment for the previous year. The Fund is an internally managed fund that is accounted separately from the bank proper resources through the "Due from Administrator" account. Investments of the Fund are in government securities and all income accrues to the Fund. Since CY2010, no additional set-up was made as the balance of the fund had exceeded the estimated maximum risk exposure at any given time.

2.23.2 Fidelity insurance fund

This Fund was set-up in CY1997 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 CY2006 as it was determined that the balance of the fund is sufficient to cover the highest single amount of accountability covered by the fund. Since the establishment of the Fund, no claims have been charged thereon.

2.23.3 Property insurance (artworks, paintings and sculptures)

A self-insurance fund set-up in CY2003 to cover for the amount of potential loss 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 CY2004.

2.23.4 Reserve for the rehabilitation of the Security Plant Complex

The reserve account was set-up in CY2003 to partially fund the rehabilitation and upgrading of the facilities of the SPC constructed/installed in CY1979. 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 Reserve for fluctuation in foreign exchange rates

This reserve was initially set-up in CY1998 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. In January 2011, the remaining balance of the reserve for FX fluctuations had been applied to losses incurred from exchange rates in CY 2010.

2.23.6 Directors and officers liability insurance (DOLI) fund

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

2.23.7 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 CY2006 to cover for any loss that may arise from gold shipments. It is an internally managed fund by the Comptrollership Sub-Sector (CoSS) similar to the self-insurance scheme for currency shipments. Transfers to the reserve account are charged against surplus account. Balance of the Fund is not currently invested.

2.23.9 BSP properties self-insurance fund

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

2.24 Derivative instruments

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

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

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

For swaps at spot date, a purchase/sale of the currency (USD for PHP or vice versa) is recorded together with the contingent asset/liability. Gains or losses due to fluctuation in FX rates, which is the difference between the 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 RIR account is reversed at month-end.

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

	2011 PHP000	**2010 PHP000**
FX commitment receivable	334,044,449	787,570,301
Currency unissued	118,944,587	208,729,942
L/C held/received in process	2,776,649	7,746,339
Equity investment receivable	861,174	861,174

2.29.1 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.

Maturity Schedule of FX Commitment Receivable
As at 31 December 2011
(In Thousands)

	1-3 months		**4 months to 1 yr.**		**Total**	
	USD	**PHP**	**USD**	**PHP**	**USD**	**PHP**
Foreign Currency Swap-	6,704,000	292,544,214	421,000	18,461,150	7,125,000	311,005,364

Peso/ US Dollar			
New Arrange-ment of Borrowing			23,039,085
Total			334,044,449

2.29.2 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.

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

2.29.4 Bank for International Settlements (BIS)

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

2.29.5 International Monetary Fund

a) The Philippines has participated in the Financial Transactions Plan (FTP), a mechanism through which the International Monetary Fund (IMF) finances its lending and repayment operations by drawing on its own funds (the local currency component of the Philippines’ quota subscription in the IMF) held by the fiscal agent (BSP) and converted into freely usable currency. Participation in the FTP is based on the strength of the member’s reserve position and is remunerated by the IMF based on the Special Drawing Rights (SDR) interest rate. The Philippines has participated in the FTP since August 2010 where the IMF has drawn a total of SDR75 million (USD116.9 million) as at end December 2010. In 2011, the Philippines continued its participation in the FTP with IMF drawdowns amounting to SDR109.8 million (USD169.5 million) as at end December 2011. More than half of the funds were disbursed to European countries such as Portugal, Ireland, and Greece in an effort to address the financial crisis impacting the European economic zone.

b) The New Arrangement of Borrowing (NAB) facility of the IMF is a credit arrangement between the Fund and a group of 40 members and institutions to provide supplementary resources to the IMF to cope with an impairment of the international monetary system or to deal with an exceptional situation that poses a threat to the stability of that system. As participant in the IMF’s NAB, the Philippines undertakes to provide a credit line of up to SDR340 million (USD524.5 million) as at 31 December 2011 in the event of a financial emergency as specified by the NAB. For CY2011, no loans were granted under the NAB.

2.29.6 Currency Swap Arrangements with Central Banks

The Philippines is a member of the Chiang Mai Initiative Multilateralization Agreement (CMIM). The CMIM is a US$120 billion multilateral arrangement among the finance ministries and central banks of the ASEAN (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam) +3 member countries (China, Japan, and Korea) and the Hongkong Monetary Authority aimed at providing financial support in the event of balance of payment difficulty. The contribution to the CMIM does not involve outright transfer of the committed amount but is instead in the form of a commitment letter, whereby the central banks/monetary authority of ASEAN +3 countries as well as Hongkong Monetary Authority issues a promissory note in the amount equivalent to their committed contribution. Under this arrangement, the management and custody of committed reserves remain with the central banks until a swap request has been approved. The Philippines, through the BSP has an outstanding contribution commitment of USD9.104 billion to the CMIM. The BSP may be able to borrow up to 2.5 times its contribution, i.e. USD22.76 billion from the CMIM. Commitment under the CMIM is not yet recorded awaiting final documentation.

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 the 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 Investment Risk and Analytics 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 2011 grouped into assets and liabilities at carrying amounts:

In Thousands

Assets	Original Currency	USD Equivalent
USD	51,864,105	51,864,105
JPY	790,786,161	10,277,930
EUR	1,990,172	2,582,975
AUD	2,033,626	2,084,739
SDR	773,165	1,187,017
GBP	1,882	2,925
CAD	855	839
CHF	559	596
SGD	759	586
SAR	1,731	461
AED	1,159	315
HKD	2,300	293
BND	85	65
THB	1,959	62
CNY	199	32

Assets	Original Currency	USD Equivalent
KRW	28,743	25
BHD	6	16
IDR	68,019	7
Liabilities		
USD	6,340,926	6,340,926
SDR	838,220	1,286,894
EUR	43,283	56,021
JPY	2,684,859	34,895
DKK	2,555	445
CHF	275	293
GBP	44	68

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 (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 risks

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

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

4. SIGNIFICANT EVENTS

4.1 The Monetary Board approved on -

a. 27 January 2011 the remittance to the NG of the additional dividends of PHP9.312 billion for CY2003-2006.

b. 7 April 2011 the settlement through a compromise agreement, the BSP's deficiency income tax assessments for taxable years (TYs) 2005 and 2006 in the amount of PHP5.850 billion valued dated 31 March 2011 per MB Resolution No. 549.

c. 17 June 2011 the remittance to the Bureau of Internal Revenue of PHP2.639 billion representing 50 per cent of the excise tax liabilities of the Bangko Sentral ng Pilipinas for TY 2001 to 2010 on the collection of excise taxes on BSP's gold purchases per MB Resolution No. 896.

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

	2011	2010
Marketable securities	2,111,001,223	1,456,601,302
Other investments	513,246,532	459,540,605
	2,624,247,755	1,916,141,907
Accrued interest	9,717,560	7,333,820
	2,633,965,315	**1,923,475,727**

Marketable securities consist of foreign securities (free) and repurchase agreements. The former primarily includes commercial papers in USD, JPY and EUR currencies. Other investments include externally managed funds, Asian bond fund, BISIP and securities under the Securities Lending Agreement amounting to PHP480.919 billion, PHP20.271 billion, PHP9.246 billion and PHP2.811 billion, respectively.

7. GOLD

	Note	2011	2010
In bullion vault	a	167,543,286	175,436,873
With foreign financial institutions	b	184,368,597	131,690,449
		351,911,883	**307,127,322**

a. Gold in bullion vault

	2011		2010	
	PHP	**FTO**	**PHP**	**FTO**
Opening balance- Jan 1	175,436,873	2,830,066.357	128,870,729	2,535,407.382
Additions during the year	37,993,448	606,010.088	48,904,196	894,686.896
	213,430,321	3,436,076.445	177,774,925	3,430,094.278
Transfers to foreign financial institutions	(45,227,168)	(1,000,123.129)	(24,787,486)	(600,027.921)
Net increase due to price/rate revaluation	(659,867)	-	22,449,434	-
Ending balance-December 31	**167,543,286**	**2,435,953.316**	**175,436,873**	**2,830,066.357**

	USD/FTO	USD/FTO
Revaluation Rate	1,566.050	1,414.950
Moving Average Rate	999.649	900.889

b. Gold with foreign financial institutions

	2011		2010	
	PHP	**FTO**	**PHP**	**FTO**

Opening balance – Jan 1	131,690,449	2,124,369.305	124,598,040	2,451,346.331
Additions during the year:				
Transfer from bullion vault	45,250,880	1,000,123.129	24,787,486	600,027.921
Purchases	102,729,091	1,461,732.253	54,867,081	1,003,364.169
	147,979,971	2,461,855.382	79,654,567	1,603,392.090
Sub-total	279,670,420	4,586,224.687	204,252,607	4,054,738.421
Net sales during the year	(82,941,474)	(1,905,644.001)	(73,168,822)	(1,930,369.116)
Net increase/(decrease) due to price/rate revaluation	(12,360,349)	-	606,664	-
Ending Balance-December 31	**184,368,597**	**2,680,580.686**	**131,690,449**	**2,124,369.305**

	USD/FTO	USD/FTO
Revaluation Rate	1,566.050	1,414.950
Moving Average Rate	1,262.670	863.334

8. INTERNATIONAL MONETARY FUND SPECIAL DRAWING RIGHTS

	2011	2010
Beginning balance – Jan 1	49,103,339	52,979,038
Income accruing to the fund	272,182	136,014
Revaluation	(4,247)	(3,849,037)
Payment of charges-interest and remuneration	(248,147)	(146,847)
Adjustment due to change in policy	(27,199)	(15,829)
	(7,411)	(3,875,699)
Ending balance – December 31	49,095,928	49,103,339
Accrued interest	14,971	32,825
	49,110,899	**49,136,164**

9. LOANS AND ADVANCES

Foreign currency loans and advances	% to Total	2011	2010
Special purpose			
IBRD 2469	1.53	20,955	20,955
Rediscounting			
Exporters dollar facility	98.47	1,351,120	1,049,993
	100.00	1,372,075	1,070,948
Allowance for probable losses	1.53	20,955	20,955
		1,351,120	1,049,993
Accrued interest		331	178
	98.47	**1,351,451**	**1,050,171**

Local currency loans and advances	% to Total	Note	2011	2010
Philippine Deposit Insurance Corp.	64.45	a	66,657,752	72,606,203
National Government- Assumed				
Obligations of :		b.1		
Philippine National Bank			350,000	350,000
Development Bank of the Phil.			442,500	442,500
IMF Quota Subscription		b.2	9,569,312	
	10.02		10,361,812	792,500
Special purpose				
Rural Bank			131,213	131,546
	0.12		131,213	131,546
Emergency				
Commercial banks			1,578,260	435,239
Thrift banks			3,011,907	3,025,706
Rural banks			556,495	635,949
	4.98	c	5,146,662	4,096,894

Local currency loans and advances	% to Total	Note	2011	2010
Rediscounting				
Commercial banks			13,354,050	16,272,703
Thrift banks			4,635,343	5,181,333
Specialized banks			62,226	98,368
Rural banks			1,285,983	1,759,895
	18.70		19,337,602	23,312,299
Overdrafts/overnight clearing line	1.73		1,789,983	1,768,987
	100.00		103,425,024	102,708,429
Allowance for probable losses			4,666,913	5,315,423
			98,758,111	97,393,006
Accrued interest			14,027,351	13,476,459
			112,785,462	**110,869,465**
Total foreign and local currency	100.00		104,797,099	103,779,377
Allowance for probable losses	4.47	d	4,687,868	5,336,378
	95.53		**100,109,231**	**98,442,999**
Amount past due			**7,750,182**	**6,703,340**
Rate			**7.40**	**6.46**

a. Loans and advances to Philippine Deposit Insurance Corporation (PDIC) intended for ailing banks slightly decreased due to pre-termination of PHP4.584 billion account of a closed commercial bank and the settlement of PHP1.365 billion matured account of a universal bank. The loans to PDIC are collateralized and interest-bearing. This constituted 64.45 per cent of the total local currency loan portfolio.

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

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

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

d. Allowance for probable losses - total past due accounts amounted to PHP7.750 billion or 7.40 per cent of total outstanding loans and advances of PHP104.797 billion exclusive of accrued interest receivable. PHP28.546 billion or 27.24 per cent of said outstanding loans and advances are covered by the Allowance for Probable Losses amounting to PHP4.688 billion.

10. OTHER RECEIVABLES

	Note	2011	2010
Foreign currency receivables			
Accrued interest		1,031,950	665,934
Due from foreign banks/branches	a	22,727	66,482
Non-IR foreign exchange assets	b	49,271,246	28,538,694
		50,325,923	**29,271,110**
Local currency receivables			
Accounts receivable –Treasurer of the Philippines (TOP)	c	12,064,078	10,663,556
Accounts receivable (net of allowance of PHP1.667 billion)	d	4,461,476	2,540,341
Notes receivable	e	1,366,731	1,366,731
Due from local banks		63,870	51,489
Receivables from staff/others		332,257	369,744
Lease receivable	f	130,373	127,054
Sales contracts receivable	g	1,671,272	1,645,487
Accrued interest-Sales contracts receivable		15,665	4,767
Items under litigation	h	14,500	14,500
		20,120,222	**16,783,669**

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 and investment in BSP "Yankee" bonds acquired by the BSP in the open market to mature in CY2027. It also includes 25 per cent of the BSP's subscription to the offering of 3,000 shares of the third tranche capital of the Bank for International Settlements' (BIS) authorized under MB Resolution No. 1304 dated 10 September 2003.

The account increased primarily from purchase of ROP bonds amounting to USD458.460 million or PHP20.007 billion. ROP Bonds of USD1.047 billion or PHP45.964 billion was used as collateral for domestic borrowings as at 31 December 2011.

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 2011 the account increased by PHP1.401 billion representing the NG share in the CY2011 revaluation loss.

d. Accounts receivable – the increase was partly due to the advance payment made to several contractors for the construction of buildings of various BSP Branches including the project at PICC. The increase also includes the Accounts Receivable from Penta Capital Realty Corporation (PCRC) for its obligation arising from the irrevocable assignment by The Manila Banking Corporation (TMBC) of its Contract to Buy and Sell (CBCS) with PCRC to the BSP but was cancelled. The account was then assigned and reclassified as receivable from First Sovereign Asset Management of TMBC.

e. Notes Receivable – claim of BSP against First Philippine International Bank (now First Producers Holdings) guaranteed by a 28.5 year scripless Treasury Bonds with PHP375 million cash flow back plus PHP15 million cash payment for three-year amortization for 1996, 1997 & 1998 placed in an Escrow fund to be administered by DLC until the fund reaches PHP1.367 billion. It shall be applied against BSP claim, per MB Res. No. 1131 dated 27 September 1995 as amended by Res. Nos. 590 and 1069 dated 13 June and 16 October 1996, respectively. PHP272.024 million is now with the Escrow fund as of 31 December 2011.

f. Lease receivable - rental receivable from Banco Filipino Savings and Mortgage Bank (BFSMB) on properties conveyed to Bangko Sentral ng Pilipinas (BSP). The Memorandum of Agreement between BSP and BFSMB signed on 20 December 1999 provides that "xxx, all fruits of the property conveyed shall pertain to Bangko Sentral. If any of the properties conveyed remains in the possession of Banco Filipino for its use and benefit, they shall be subject to the payment to Bangko Sentral of reasonable rental in such amount as may be agreed upon by the parties, xxx." At present, these properties are being managed and administered by Philippine Deposit Insurance Corporation.

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 2011	**Current**	**Non –current**
I. Auction /Negotiated Sales			
a. BSP personnel	7,873	524	7,349
b. Non-BSP personnel/Others	1,407,231	93,815	1,313,416
c. Banks	8,630	575	8,055
II. Sales under AMD-PFO Housing Program			
a. BSP personnel	181,920	6,064	175,856
b. Non-BSP personnel/Others	65,618	2,187	63,431
	1,671,272	**103,165**	**1,568,107**

h. **Items under litigation**

	Note	**2011**	**2010**
CSS-FAD	a	14,500	14,500

BSRU-Legaspi	b	1,758	1,758
BSRU-Tacloban	c	2,500	2,500
		18,758	18,758
Less: Allowance for doubtful account-Items under litigation		4,258	4,258
		14,500	**14,500**

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

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

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

11. INVESTMENTS SECURITIES - DOMESTIC

	Note	Face Value 2011	Market Value 2011	Face Value 2010	Market Value 2010
BSP-Head Office	a				
Fixed rate treasury bonds		2,174,513	2,309,471	1,976,499	2,139,498
Fixed rate treasury notes		-	-	31,900	32,031
LBP Bond		155	151	-	-
Semi-annual FLT-T-bond		50,000,000	43,227,878	50,000,000	39,457,383
Treasury bills		196,534,000	194,377,935	207,538,110	203,729,172
		248,708,668	239,915,435	259,546,509	245,358,084
PICC-Investments			364,000		210,902
Accrued interest			93,882		86,493
			240,373,317		**245,655,479**

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

	2011	2010
Beginning balance	245,358,084	248,956,374
Purchases	457,994,990	455,758,693
Sales	(11,174,848)	(5,278,640)
Redemption	(454,964,557)	(455,040,493)
Net premium amortization	8,152	31,056
Marking to market	4,315,464	1,049,479
Accrual/reversal of discount	(1,621,850)	(141,964)
Other Adjustment	-	23,579
	239,915,435	**245,358,084**

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

Schedule of Maturity Investment Securities

	91-180 days	181 – 364 days	More than 1 year	Total
Fixed rate treasury bonds	-	-	2,309,471	2,309,471
LBP Bond	-	-	151	151
Semi-annual FLT-T-bond	-	-	43,227,878	43,227,878

Treasury bills	64,570,876	129,807,059	-	194,377,935
	64,570,876	**129,807,059**	**45,537,500**	**239,915,435**

12. DUE FROM ADMINISTRATOR OF FUNDS

	Note	2011	2010
Comptrollership			
Currency insurance		2,798,645	2,798,462
Gold insurance		7,412	5,641
ıce		22,247,379	22,247,379
Post-retirement benefit		40,748	46,514
		25,094,184	25,097,996
Provident fund office			
Post-retirement benefit		1,197,334	1,247,334
BSP Properties Self-Insurance Fund	a	1,100,000	-
Car plan fund		505,456	505,456
Provident fund		147,344	138,712
Directors' and officers' liability Insurance (DOLI) fund		1,092,289	1,092,289
		4,042,423	2,983,791
Department of Loans and Credit Industrial Fund		2,515	2,515
		29,139,122	**28,084,302**

a. Initial set-up of the properties self-insurance fund on 09 March 2011 to cover the difference between the estimated replacement cost and sound/net book value of the BSP properties per MB. Resolution No. 1851 dated 23 December 2010.

13. ACQUIRED ASSETS HELD FOR SALE

	2011	2010
Acquired assets held for sale	1,217,407	130,492
Less: Allowance for market decline	5,575	6,244
	1,211,832	**124,248**

Below is the composition of the acquired assets portfolio as at 31 December 2011 and disposals during the year.

Additions			**Deductions**		
Particulars	**TCT's**	**Book Value**	**Particulars**	**TCT's**	**Book Value**
Transferred from Investment Property	4,051	1,217,407	Negotiation	103	18,571

	Revert to Investment Property	465	111,921
1,217,407		**568**	**130,492**

14. INVESTMENT PROPERTY

	2011	2010
Investment property	11,298,584	11,451,407
Less: Allowance for market decline	1,553,314	1,567,382
	9,745,270	**9,884,025**

Below is the composition of the investment property portfolio as at 31 December 2011 and disposals during the year.

Additions			**Deductions**		
Particulars	**TCT's**	**Book Value**	**Particulars**	**TCT's**	**Book Value**
Dacion en Pago	47	36,229	Negotiation	1,611	308,843
Foreclosure	179	1,180,952	Reclassification/ Adjustment	3,586	1,061,161
	226	**1,217,181**		**5,197**	**1,370,004**

15. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

	Land and Bldg.	**Property Improve-ment**	**Computer Hardware**	**Plant and Equipment**	**In-Transit Items**	**In-Process / Progress/ under Construction Items**	**Total**
Cost							
01 January 2011	10,445,382	3,727,115	1,109,666	5,291,954	-	687,158	21,261,275
Additions	119,359	74,692	130,141	206,110	1,855,635	995,224	3,381,161
Disposals	-	-	(2,758)	(207,577)	-	-	(210,335)
Reclassifications / adjustments	976,809	34,685	(198,453)	9,725	(52,271)	(992,271)	(221,776)
31 December 2011	**11,541,550**	**3,836,492**	**1,038,596**	**5,300,212**	**1,803,364**	**690,111**	**24,210,325**
Accumulated depreciation							
01 January 2011	(2,051,408)	(1,751,352)	(732,700)	(3,844,530)	**-**	**-**	(8,379,990)
Depreciation CY2011	(154,013)	(259,293)	(92,828)	(153,402)	-	-	(659,536)
Disposals			2,621	85,542			88,163
Reclass/adjustments		(2,940)	112,155	7,170			116,385
31 December 2011	(2,205,421)	(2,013,585)	(710,752)	(3,905,220)	-	-	(8,834,978)
Net book value 31 December 2011	**9,336,129**	**1,822,907**	**327,844**	**1,394,992**	**1,803,364**	**690,111**	**15,375,347**

Net book value							
31 December 2010	**8,393,974**	**1,975,763**	**376,966**	**1,447,424**	**-**	**687,158**	**12,881,285**

The BSP Administrative Department hired an insurance consultant who undertook risk-based analysis and appraisal update of all BSP properties except for paintings and antiquities. The results of the appraisal report was submitted to ASD on November 2011 to be used as reference in the formulation of the policy guidelines on the establishment of the fair value of Bank's PPE.

16. INTANGIBLES

	Computer Network and Application System	Computer Network and Application System in Process	Total
Cost			
01 January 2011	1,802,098	51,853	1,853,951
Additions	71,344	-	71,344
Disposals/retirement			
Reclassifications/adjustment	198,922	-	198,922
31 December 2011	2,072,364	51,853	2,124,217
Accumulated amortization			
01 January 2011	(1,565,792)	-	(1,565,792)
Amortization	(107,251)	-	(107,251)
Reclassifications/adjustment	(112,151)	-	(112,151)
31 December 2011	(1,785,194)	-	(1,785,194)
Net book value 31 Dec 2011	**287,170**	**51,853**	**339,023**
Net book value 31 Dec 2010	**236,306**	**51,853**	**288,159**

17. INVENTORIES

	Note	2011	2010
Gold for domestic sale		24,004	14,110
Gold for refining	a	3,377,676	6,730,174
Silver for refining	b	8,838	813
Gold and silver for refining recovery		15,957	-
Currency inventory		1,356,023	1,787,029
SPC inventories		3,292,900	2,560,549
Work-in-process		1,821,782	1,083,070
Total		**9,897,180**	**12,175,745**

a. The decrease in the account was due to the drop in the volume of gold sold to BSP upon imposition by the BIR of the 2 per cent excise tax and 5 per cent creditable withholding tax on panners of gold effective 11 July 2011.

b. The gradual increase in the inventory of silver for refining for the period July-December was primarily due to the processing of silver anode and residue coming from the extraction of gold and silver in low grade panned gold by the Phil.-Japan Service Provider.

18. MISCELLANEOUS ASSETS

	Note	2011	2010
Deferred charges		863	863
Deposits – utilities & services		24,959	23,909
Input tax		37,281	26,897
Prepaid expenses	a	153,530	374,892
Withholding tax at source		347,577	225,185
Creditable tax certificates	b	4,835	5,512
Other supplies		114,668	130,742
Miscellaneous assets-SPC	c	2,243	2,243
		685,956	790,243
Commemorative notes & coins		7	11
Demonetized commemorative coins		13	16
Items for exhibit		242	167
Numismatic collections on hand		21,493	21,007
Paintings and sculptures	d	82,716	61,680
Assets for disposal		802	802
		105,273	83,683
Checks and other cash items		2	(1,672)
Checks and other cash items in-transit		5,004	4
Stocks and other securities	e	10,715	10,715
Philpass treasury account		-	(12)
		806,950	**882,961**

a. The account includes taxes withheld from purchases of short-term government securities which are later recognized as expense upon maturity. The decrease in CY2011 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 CY1996 to CY1998 for the importation of various spare parts by Cash Department evidenced by tax credit certificates issued by the Bureau of Customs on 23 December 2008 in favor of the Bangko Sentral. In CY2011, the account decreased by the application of customs duties and taxes on the importation of one unit Spectrometer acquired by BSP to identify the element content of a coin and ensure its genuiness against counterfeiters.

c. These are the 361 million undelivered BIR strip stamps of BSPD in the amount of PHP2.243 million.

d. The change in the account was brought about by the bank's acquisition of various paintings of renowned artists in CY2011.

e. Breakdown includes the following:

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

19. SHORT-TERM FOREIGN CURRENCY DEPOSITS

	Note	2011	2010
National Government	a	26,121,425	55,694,722
Regular FCD		14,405,432	-
Other entities	b	57,862	19,862,650
		40,584,719	75,557,372
Accrued interest		562	4,095
		40,585,281	**75,561,467**

a. The Treasurer of the Philippines (TOP) arising from receipts of loans from foreign creditors, as follows:

	2011	2010
TOP-Special Accounts	25,064,120	3,399,097
TOP-Time Deposits	1,057,305	52,295,625
	26,121,425	**55,694,722**

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

	2011	2010
NPC	46,151	44,419
PSALM	10,151	19,457,636
North Luzon Railways	1,547	1,543
MWSS	13	359,052
	57,862	**19,862,650**

20. LOANS PAYABLE

	Note	2011	2010
Maturing in more than 5 years			
Blocked peso deposit (Circular 1298)	a	918,854	2,604,310
Blocked peso deposit (Circular 1139/1202)		33,123	35,472

CB Memorandum Circular at original cost (PHP14.00)	3,846	3,846
	955,823	2,643,628
Accrued interest	12,142	32,179
	967,965	**2,675,807**

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 (CBP) on the date the amortizations fell due. These deposits were later registered with the BSP under various foreign loan restructuring arrangements. Partial settlement of FLP blocked peso deposits of PHP1.516 billion contributed mainly to the decrease in the balance of the outstanding account.

21. BONDS PAYABLE

		2011	**2010**
Bonds due 2027	a	17,567,600	17,524,400
Bonds due 2097		4,391,900	4,381,100
		21,959,500	21,905,500
Less: Discount on bonds		(80,504)	(80,690)
		21,878,996	21,824,810
Accrued interest		78,688	78,495
		21,957,684	**21,903,305**

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.

22. ALLOCATION OF SPECIAL DRAWING RIGHTS

	2011	**2010**
Allocation of SDRs	56,501,884	56,537,691
Accrued interest	17,229	37,795
	56,519,113	**56,575,486**

23. DEPOSITS

	Note	**2011**	**2010**
Government deposits			
Short –term	a.1	7,557,965	39,407,863
Long – term	a.2	28,265,953	28,265,953
		35,823,918	67,673,816
Accrued interest		133,945	380,700
		35,957,863	68,054,516

Demand deposits			
Banks/NBQBs-reserve deposits	b.1	284,344,270	238,501,245
Banks/NBQBs-liquidity reserves	b.2	389,178,460	279,895,530
Others		29,933,793	29,828,120
		703,456,523	548,224,895
Accrued interest		566,987	874,623
		704,023,510	549,099,518
International monetary fund and other financial institutions	b.3	42,962,614	41,838,136
		746,986,124	**590,937,654**

a. Government deposits

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

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

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

b.1. 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.

b.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 RDA was set at 0.58 per cent below the prevailing market rate for comparable government securities as at 31 December 2011.

b.3. International Monetary Fund (IMF) currency holdings and other financial institutions. The Republic of the Philippines (RP) has been a member of the International Monetary Fund (IMF) since 1945. BSP is the designated depository for the IMF's holdings of local currency. The IMF's (Account No. 1) holdings of local currency amounted to an equivalent of SDR613.886 million at 31 December 2011.

The balance of IMF's security holdings (SDR97.904 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 CY2011, the depreciation of peso against the SDR by PHP2.068, from PHP67.471/SDR as at 30 April 2010 to PHP69.539/SDR as at 30 April 2011, resulted to a revaluation loss of PHP1.401 billion in the IMF local currency holdings with BSP. The revaluation is solely attributable to the National Government (NG) since BSP has already fully paid its credit availments from Standby Credit Facility (SCF) and Extended Fund Facility (EFF) since December 2006. BSP booked the revaluation loss as additional receivable from NG under the account "Accounts Receivable-Treasurer of the Philippines".

24. CURRENCY IN CIRCULATION

	2011	**2010**
Currency issued - notes	769,079,151	746,624,336
Cash on hand - notes	139,830,436	163,741,651
Net notes in circulation	629,248,715	582,882,685
Currency issued - coins	20,298,497	18,955,949
Cash on hand - coins	636,279	563,806
Net coins in circulation	19,662,218	18,392,143
Net currency in circulation	**648,910,933**	**601,274,828**

Details of currency in circulation are as follows:

Denomination		**Quantity**		**Amount**	
		2011	**2010**	**2011**	**2010**
Notes	100,000	117	117	11,700	11,700
	2,000	28,594	24,336	57,188	48,672
	1,000	359,808,429	297,114,528	359,808,429	297,114,528
	500	345,789,521	388,407,975	172,894,761	194,203,987
	200	34,272,943	30,037,809	6,854,589	6,007,562
	100	510,571,571	488,941,861	51,057,157	48,894,186
	50	429,579,072	430,428,192	21,478,954	21,521,410
	20	812,435,954	711,750,125	16,248,719	14,235,002
	10	68,545,142	69,336,817	685,451	693,368
	5	30,353,456	30,454,053	151,767	152,270
				629,248,715	582,882,685

Denomination		**Quantity**		**Amount**	
		2011	**2010**	**2011**	**2010**
Coins	10 Piso	462,935,579	455,067,238	4,629,356	4,550,672
	5 Piso	1,498,059,741	1,436,378,050	7,490,299	7,181,890
	1 Piso	5,531,434,696	4,768,090,553	5,531,434	4,768,091
	25 Sentimo	5,917,437,738	5,538,531,234	1,479,359	1,384,633
	10 Sentimo	2,574,427,459	2,459,642,080	257,443	245,946

5 Sentimo	1,844,482,148	1,639,108,657	92,224	81,955
1 Sentimo	22,895,172	19,655,716	229	197
			19,480,344	18,213,384
BSP commemorative coins	3,196,633	3,103,176	181,874	178,759
			19,662,218	18,392,143
			648,910,933	**601,274,828**

25. OTHER LIABILITIES

	Note	2011	2010
Foreign currency			
Derivative instruments in a loss position	a	320,628	6,958,002
Other liabilities		3,670,925	2,985,537
Derivatives liability	b	151,417	13,217
Accounts payable		2,344,474	2,397,885
Accrued expenses		193,401	167,639
Other financial liabilities		981,633	406,796
		3,991,553	**9,943,539**
Local currency			
Retirement benefit obligations		1,514,816	1,542,087
Dividends payable	c	449,345	5,372,980
Miscellaneous liabilities		5,511,642	3,939,266
Accounts payable		1,969,918	1,963,527
Accrued expenses		77,565	66,628
Taxes payable	d	2,622,911	1,068,393
Other local currency liabilities		841,248	840,718
		7,475,803	**10,854,333**

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 2011, the outstanding amount represents unrealized losses from exchange rate differences in swap transactions.

b. The amount represents premium received from gold trading option transactions with foreign banks as at 31 December 2011.

c. The amount refers to the total assigned value of the Pamintuan Mansion in Angeles City together with 13 other properties for conveyance to the National Government as property dividend for CY2009 per MB Resolution No. 761 dated 4 June 2010. This was decreased by the PHP4.924 billion dividend to NG on 28 January 2011 through a credit to the regular demand deposit account of the Treasurer of the Philippines.

d. The increase was primarily due to the final tax withheld on interest payments by BSP on Special Deposit Accounts of banks.

26. REVALUATION OF FOREIGN CURRENCY ACCOUNTS

	2011	2010
Unrealized gain/(loss) on FX rate fluctuations – beginning balance	(66,442,509)	(48,532,624)
Unrealized gain/(loss) for the year (net of realized transactions)	76,321,445	(17,909,885)
Unrealized gain/(loss) on FX rate	9,878,936	(66,442,509)
Unrealized gain on price fluctuation – beginning balance	128,349,930	132,838,328
Unrealized gain/(loss) for the year (net of realized transactions)	7,564,576	(4,488,398)
Unrealized gain on price fluctuation	135,914,506	128,349,930
Unrealized gain/(loss) on FX rate & price fluctuation	**145,793,442**	**61,907,421**

27. CAPITAL

	Note	2011	2010 As restated
Capital	a	20,000,000	10,000,000
Surplus		50,235,579	9,464,857
Unrealized losses on Investments	b	(8,017,500)	(12,332,964)
Capital Reserves			
Managed Funds			
Currency insurance fund		2,798,645	2,798,462
Fidelity insurance fund		22,247,379	22,247,379
Directors'/officers' liability		1,092,289	1,092,289
Retirement benefit fund		1,238,082	1,293,849
BSP Properties Self-Insurance Fund	c	1,100,000	-
		28,476,395	27,431,979
Gold insurance fund		7,412	5,641
Fluctuations in FX rates	d	-	78,013,579
Fluctuations in price of gold	e	42,582,587	54,906,136

Property insurance	1,600,000	1,600,000
SPC rehabilitation	1,408,595	1,614,290
Contingencies	3,644,872	3,644,872
Cultural Properties Acquisition Fund	78,286	98,771
	49,321,752	139,883,289
	77,798,147	167,315,268
	140,016,226	**174,447,161**

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. Additional PHP10 billion capital from the National Government was credited on 04 November 2011 as per BTR A.a 2011-11-2179 dated 04 November 2011. The balance of PHP30 billion remains unpaid by the National Government to the BSP.

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

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

	2011	**2010**
Beginning balance	(12,332,964)	(13,382,443)
Effect of marking to market of gov't securities:		
Increase/(decrease) in government securities	4,315,464	1,049,479
Ending balance	**(8,017,500)**	**(12,332,964)**

c. Initial set-up of BSP Properties Self-Insurance Fund as per MB Resolution Nos. 1851 and 323 dated 23 December 2010 and 3 March 2011, respectively.

d. The balance of Reserve for Fluctuation in Exchange Rate was closed to "Surplus" account on 31 January 2011, as per application of MB Resolution No. 1702 dated 19 December 2008.

e. The decrease in Reserve for Price Fluctuation – Gold Holdings was attributed to (a) settlement of the deficiency income tax assessments on gold trading of the BSP for taxable years 2005 and 2006 amounting to PHP5.850 billion and (b) reclassification of the PHP6.474 billion to Reserve for Fluctuation in Exchange Rate account.

28. INTEREST INCOME AND INTEREST EXPENSE

	2011	**2010**
Interest income from financial assets		
Interest income from foreign currency financial assets		
Investment securities	32,834,620	25,941,938
Other foreign currency receivables	1,908,616	1,551,478
Deposit with foreign banks	808,866	879,886

IMF special drawings rights	197,008	144,934
Loans and advances	4,320	2,035
	35,753,430	28,520,271

	2011	**2010**
Interest income from local currency financial assets		
Investment securities	5,745,948	10,885,643
Loans and advances	3,983,746	3,896,667
Other receivables	138,278	146,371
	9,867,972	14,928,681
	45,621,402	**43,448,952**

	2011	**2010**
Interest Expense from financial liabilities		
Interest expense on foreign currency financial liabilities		
Bonds payable	1,881,182	2,194,172
Allocation of IMF special drawing rights	226,798	166,863
Short term deposits	79,496	139,443
Other liabilities	49,186	100,854
	2,236,662	2,601,332
Interest expense on local currency financial liabilities		
Special deposit account	70,155,779	37,503,007
Securities sold under agreements to repurchase	11,200,651	8,129,381
Government deposits	5,196,919	3,619,819
Deposits of banks and other financial institutions	6,843,848	14,219,027
	93,397,197	63,471,234
	95,633,858	**66,072,266**

29. OTHER OPERATING INCOME

	2011	**2010**
Printing, minting and refinery	356,595	232,587
Fees – local		
Banking supervision/clearing/license fees	3,528,298	1,669,034
Penalties and late charges	379,107	258,089
Transaction fee - *PhilPaSS*	152,554	150,682
Processing and filing fees	52,320	44,430
Others	35,439	4,691
	4,147,718	2,126,926
Other income		
Other miscellaneous income	767,371	1,037,598
Gain on sale of acquired assets	88,958	359,707
Rental on acquired assets	17,757	(339,088)
Building rental	13,269	14,753
	887,355	1,072,970
	5,391,668	**3,432,483**

30. CURRENCY PRINTING AND MINTING COST

	2011	2010
Notes	3,606,770	2,956,344
Coins	1,836,035	1,156,363
	5,442,805	**4,112,707**

31. OPERATING EXPENSES

	Note	2011	2010
Personnel services, development and training	a	8,934,954	8,230,739
Administrative expenses	b	3,121,634	707,994
Depreciation		613,340	564,551
		12,669,928	**9,503,284**

a. Personnel services

	2011	2010
Salaries and wages	6,336,457	5,762,633
Defined contribution plans	1,690,050	1,592,630
Social security contribution	385,360	367,804
Sickness and death benefits	218,125	193,908
Post-retirement benefits	208,961	211,381
Personnel development and training	74,642	80,589
Medical and dental benefits	21,359	21,794
	8,934,954	**8,230,739**

b. Administrative expenses

	2011	2010
Taxes and licenses	2,799,238	347,093
Traveling expenses	398,948	384,671
Repairs and maintenance	340,733	299,616
Water, illumination and power services	277,506	253,540
Currency and gold operations expenses	208,433	181,279
Communication services	153,401	133,140
Grants, subsidies and contributions	128,333	83,008
Consultants and specialist services	99,849	123,220
Fidelity and property insurance	62,469	63,720
Acquired assets expenses	59,849	26,753
Supplies and materials	59,039	51,055
Auditing services	38,922	36,232
Rentals	38,815	37,957
Ammunitions	9,167	4,298
Discretionary expenses	4,252	4,740

Losses due to market decline/recovery	(153)	495
Others	(1,557,167)	(1,322,823)
	3,121,634	**707,994**

32. PROFIT FOR DISTRIBUTION

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

	2011	2010
Profit/(loss) for the year	**(33,688,107)**	**(59,035,450)**

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

	2011	2010
Reported operating surplus(deficit)	(33,688,107)	(59,035,450)
Operating cash flows from changes in asset and liability balances	(50,808,087)	(164,243,465)
Add (subtract) non-cash items:		
Depreciation	613,340	564,551
Provision for probable loss	283,897	144,445
Income Tax expense due to movement in DIT	230,834	-
Amortization of premium/discount on bonds payable	186	5,174
Recovery from provision for market decline	(153)	495
	1,128,104	714,665
Add (subtract) movements in other working capital items:		
(Increase) decrease in interest receivable	(3,320,642)	152,873
(Increase) decrease in accounts receivable	(1,915,840)	(2,021,162)
Increase (decrease) in interest payable	943,928	428,413
Increase (decrease) in miscellaneous liabilities	46,219	485,254
	(4,246,335)	(954,622)
Add (subtract) investing and financing activity:		
Net realized loss on fluctuations in foreign exchange rates	36,223,621	90,117,835
Net cash used in operating activities	**(51,390,804)**	**(133,401,037)**

34. CONSOLIDATED CASH BALANCES

	2011	2010
Foreign currency assets		
Foreign investments - readily convertible to Cash	2,111,001,223	1,456,601,302
Deposit with foreign banks (net of derivatives liability from gold option sell)	251,036,383	441,458,332
Other cash balances (foreign currency on hand)	295,386	407,763
Other FX receivable – due from FX banks –	22,727	66,482

special account		
Non-IR foreign currency on hand	12,330	-
Local currency assets		
Government securities	240,279,435	245,568,986
Other receivables – revolving fund	279,114	307,465
Other receivables – due from local banks	63,870	51,489
Miscellaneous assets – checks and other cash items (COCI)	2	(1,672)
Demand liabilities:		
Deposit of banks and other financial institutions	(2,380,607,451)	(1,828,019,916)
Government demand deposits	(5,823,918)	(37,673,816)
	216,559,101	**278,766,415**

35. TRUST FUNDS

	2011	2010
Comptrollership	25,089,016	25,094,652
Department of Loans & Credit-Accounting	3,102,127	2,948,664
Supervision & Examination Department-Rural Banks	2,175,152	2,167,611
Treasury Department-Domestic	1,777,359	6,015,270
Department of Loans & Credit -Industrial Fund	7,519	7,519
	32,151,173	**36,233,716**

36. TAXES

a. Income Taxes

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

	2011		2010	
	Amount	**%**	**Amount**	**%**
Provision for income tax computed at the statutory income tax rate	(10,037,182)	(30.00)	(17,710,635)	(30.00)
Additions to/(reductions in) income tax resulting from the tax effects of:				
Nondeductible national taxes	351,768	1.05	653,402	1.11
Provision for allowance for doubtfu accounts	85,169	0.25	43,482	0.07
Provision for unused leave credits	56,525	0.17	53,429	0.09
Actual interest income earned	131	-	-	-
Deferred Interest Income	(44)	-	-	-
Provision for loss on market decline	(46)	-	-	-
PICC income and expenses	(825)	-	-	-

Realized losses from market decline	(4,375)	(0.01)	-	-
Written-off accounts	(6,401)	(0.02)	-	-
Actual leave credits paid	(64,707)	(0.19)	-	-
Reversal of account valuations	(297,087)	(0.89)	-	-
Interest Income subject to Final Tax	(1,723,780)	(5.15)	-	-
Actual provision for corporate income tax	**(11,640,854)**	**(34.79)**	**(16,960,322)**	**(28.73)**

b. Deferred Income Taxes

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

	2011	**2010**
Deferred income tax asset		
Allowance for Doubtful Accounts	1,924,224	2,142,543
Allowance for Market Decline	467,667	472,088
Unused Leave Credits	454,445	462,626
Excess Minimum Corporate Income Tax (MCIT)	171,458	171,458
Tax Overpayments	4,280,662	4,280,662
Total deferred income tax assets	**7,298,456**	**7,529,377**
Deferred income tax liability		
Unearned Interest Income	(43)	(130)
Net Deferred Income Taxes	**7,298,413**	**7,529,247**

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

	2011	**2010 As restated**
Net balance at the beginning of the year	7,529,247	4,452,120
Income Statement charge	(230,834)	-
Equity charge	-	3,077,127
Net balance at the end of the year	**7,298,413**	**7,529,247**

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

	2011	**2010**

Provision for allowance for doubtful accounts	85,169	-
Provision for unused leave credits	56,525	-
Actual interest income earned	131	-
Deferred Interest Income	(44)	-
Provision for loss on market decline	(46)	-
Realized losses from market decline	(4,375)	-
Written-off accounts	(6,400)	-
Actual leave credits paid	(64,707)	-
Reversal of account valuations	(297,087)	-
Total Income Statement Charges	**(230,834)**	-

Details of excess MCIT as at 31 December are as follows:

Date of Incurrence	Date of Expiration	2011	2010
December 31, 2009	**December 31, 2012**	**171,458**	**171,458**

Outstanding NOLCO as at 31 December consists of:

Date of Incurrence	Date of Expiration	2011	2010
December 31, 2008	December 31, 2011	6,288,314	6,288,314
December 31, 2010	December 31, 2013	71,470,030	71,470,030
December 31, 2011	December 31, 2014	38,802,845	-
		116,561,189	77,758,344
Expired Portion		6,288,314	-
Net		110,272,875	77,758,344
Tax Rate		30%	30%
Deferred income tax asset on NOLCO		**33,081,863**	**23,327,503**

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

Similarly, the mark-to-market valuation of domestic securities booked directly to equity under the account “Unrealized Losses on Domestic Investments” are not considered as deferred income tax (DIT) components as the future taxable profit will not be sufficient to absorb these deductible temporary differences. The deferred tax asset that should have been recognized on the said mark-to-market account is PHP2.405 billion in 2011 and PHP3.7 billion in 2010.

Revaluation of International Reserve account amounting to PHP61 billion is not included as a DIT component pursuant to Section 45 of RA 7653 which states that “profits or losses arising from any revaluation of the Bangko Sentral's net assets or liabilities in gold or foreign currencies with respect to the Philippine peso shall not be included in the computation of the annual profits and losses of the Bangko Sentral".

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

In compliance with the requirements set forth by RR 15-2010 hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year 2011.

c.1 The BSP is a VAT-registered company with respect to its proprietary activities, with VAT output declared on these activities for the year amounting to PHP0.195 billion based on the rental of owned/acquired properties and sale of printing and other services reflected in the Miscellaneous Income account of PHP1.621 billion.

c.2 The company has exempt sales corresponding to the sale of BSP's real and other properties acquired (ROPA), classified as governmental functions exempt from VAT, pursuant to Revenue Memorandum Circular No. 65-2008 dated 5 September 2008. These properties are treated as capital assets and the sales were subjected to Capital Gains Tax.

c.3 Input VAT claimed during the year amounted to PHP0.117 billion recognized from local purchases and importations of various goods and services.

c.4 The BSP is fully exempt from all customs duties and consular fees on the importation and exportation by the BSP of notes and coins, gold and other metals to be used for purposes authorized under the BSP Charter and importation of all equipment needed for bank note production, minting of coins, metal refining and other security printing operations, pursuant to Section 126 of Republic Act 7653 or the Central Banking Act. The exemption also includes importation of supplies, raw materials and spare parts of equipment needed for bank note production, minting of coins, and metal refining.

The landed cost of the BSP's importations not related to activities mentioned above amounted to PHP0.974 billion for the year, with paid/accrued amount of PHP0.018 billion as customs duties tariff fees.

c.5 The BSP paid PHP2.639 billion deficiency excise tax for the years 2001 to 2010 in accordance with the Memorandum of Agreement between the BSP and the BIR. In addition, the BSP paid excise tax on mineral products amounting to PHP42.224 million for the year 2011.

c.6 The BSP is exempt from documentary stamp taxes, pursuant to Section 199 of the NIRC (1997) as amended by Republic Act No. 9243 implemented under RR No. 13-2004 dated December 23, 2004.

c.7 All other taxes, local and national shown under the Taxes and Licenses account in the Operating expenses account in the statements of revenue and expenses are as follows:

	2011	**2010**
Local Taxes		
Real Estate Tax	129,077	247,530
Others (registration fees, licenses, permits)	3,500	6,129

	132,577	**253,659**
National Taxes		
Deficiency excise tax	2,639,414	-
Final Tax on interest income/discounts	1,147,089	2,178,008
Capital gains tax on sale of ROPA	27,248	93,434
	3,813,751	**2,271,442**

c.8 The amount of withholding taxes paid/accrued for the year amounted to:

	2011	**2010**
Withholding Taxes		
Tax on compensation and benefits	1,686,161	1,461,596
Expanded withholding tax	162,602	42,241
Final withholding tax	17,496,820	11,305,251
	19,345,583	**12,809,088**

c.9 The BIR classified the BSP as Large Taxpayer under the jurisdiction of Revenue District Office (RDO) No. 125, Large Taxpayers Services, effective 1 January 2012. Consequently, the BSP's pending tax audit with BIR RDO No. 33, Manila, covering taxable years 2008 and 2009 were also transferred to RDO No. 125 under the Large Taxpayers Regular Audit Division (LTRAD). As such, BSP has received notices of Continuance of Audit/Investigation from LTRAD 2 for the taxable years 2008 and 2009. Moreover, the BSP does not have any outstanding deficiency tax assessment with the BIR or tax case pending in any court or body outside of the BIR.