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

1. GENERAL INFORMATION

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

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

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

The BSP has three regional offices (ROs) sited in San Fernando City, La Union; Cebu City and Davao City, and branches in 18 locations. The ROs and branches perform cash operations and gold buying operations (in two ROs and two branches).

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

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

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

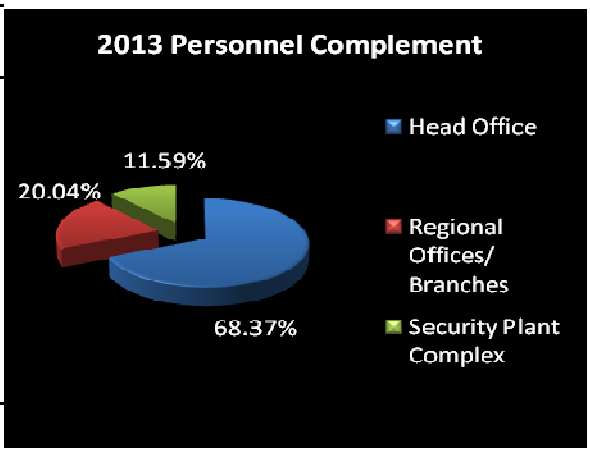
a. Monetary Stability Sector takes charge of the formulation and implementation of the BSP's monetary policy, including serving the banking needs of all banks through accepting deposits, servicing withdrawals and extending credit through the rediscounting facility.

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

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

As at 31 December 2013, the BSP has total personnel complement of 5,403 consisting of 5,033 regular employees and 370 contractual, distributed as to location as follows:

Location	CY 2013	CY 2012	Change
Head Office	3,694	3,530	164
Regional Offices/ Branches	1,083	1,085	(2)
Security Plant Complex	626	762	(136)
Total	**5,403**	**5,377**	**26**



In these financial statements, the BSP is also referred to as the "Bank". The MB has approved the release of the financial statements on 26 June 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

Under Section 3 of the New Central Bank Act (R.A. No. 7653), the primary objective of the Bangko Sentral is to maintain price stability conducive to a balanced and sustainable growth of the economy. In line with this objective, the Bank's financial statements have been prepared in compliance with the provisions of R.A. No. 7653 and applicable Philippine Financial Reporting Standards (PFRSs) and Philippine Accounting Standards (PASs) as aligned with the provisions of International Financial Reporting Standards (IFRSs). It is the Bank's position that having considered its responsibilities in the formulation and conduct of effective monetary policy, it is appropriate to differ, in some aspects, from the adoption of relevant PASs.

In accordance with PAS 1 (Revised 2009), *Presentation of Financial Statements,* effective 1 January 2009, an entity is required to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two 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 2013 balances are prepared under the historical cost convention and/or applicable PFRS/PAS.

2.2 Cash flows

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

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

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

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

2.3 Consolidation

The BSP's financial statements include the accounts of the Bank and the PICCI as at 31 December 2013. Due to immateriality of the balances of the accounts of PICCI, "consolidated" was omitted from the heading of the statement. All inter-company balances are eliminated prior to consolidation.

2.4 Subsidiary

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

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

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

2.5 Presentation and recognition

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

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

2.6 Currency of presentation

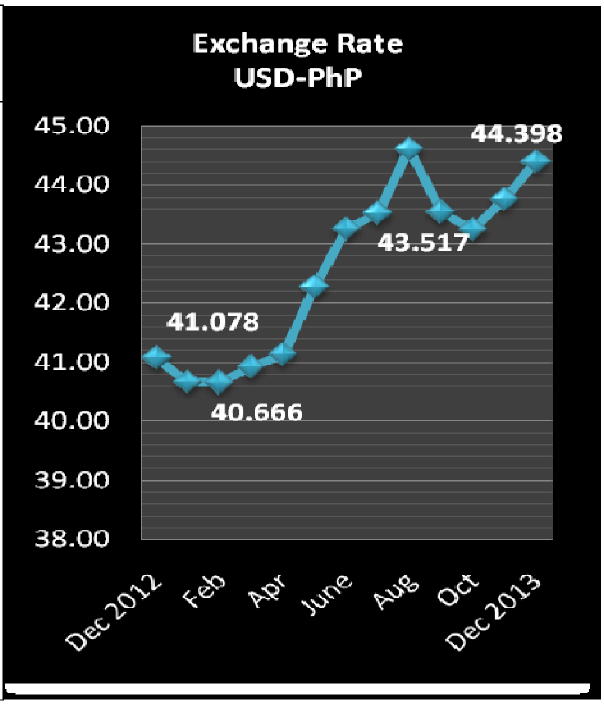
All amounts are expressed in Philippine Peso (PHP), the domestic currency, unless specifically disclosed. The currency symbol "PHP" is used in the financial statements to conform to universal currency symbols.

2.7 Foreign currency translation

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

Exchange rates used are based on the published BSP Reference Exchange Rate Bulletin. The Philippine peso versus the USD depreciated by PHP3.32 or 8.08 per cent, from PhP41.078 as of end December 2012 to PHP44.398 as of end December 2013. The end-December 2013 rate of PHP44.398 was used in the financial statements. Following are the prevailing month-end weighted average exchange rates in 2013.

For the Month Ended	Exchange Rate USD-PHP	Change
2013		
December	44.398	0.641
November	43.757	0.512
October	43.245	(0.297)
September	43.542	(1.058)
August	44.600	1.083
July	43.517	0.260
June	43.257	0.983
May	42.274	1.143
April	41.131	0.213
March	40.918	0.256
February	40.662	(0.004)
January	40.666	(0.412)
2012		
December	41.078	
AVERAGE	42.664	



2.8 Recognition of income and expenses

2.8.1 Interest income and expenses

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

Payment of interest due on demand deposits of banks maintained with the Bank was discontinued effective 6 April 2012 per MB approval. Interests on deposit accounts of the National Government (Regular and Other-Special accounts) with the BSP are accrued monthly and credited quarterly to the respective accounts except for Treasurer of the Philippines - Special Account No. 2 (MB Resolution 560), interests of which are credited semi-annually.

2.8.2 Fee income

Banks and non-banks institutions, which are subject to supervision and examination by the BSP, pay an annual supervisory fee (ASF) in an amount equivalent to a certain percentage of their preceding year's average net assessable assets. Likewise, these entities pay penalties in violation of BSP's directives under the Manual of Regulations for Banks and Non-Banks Financial Institutions (MORB/MORNBFI) as well as processing fees for the establishment of bank branches, registration fees of pawnshops, accreditation of banks to engage in capital markets and similar services. The ASF shall be collected through PhilPaSS on the specified date referred to in the billing notice sent by the Supervisory Data Center, while collection of penalties shall be 15 days from the date of receipt of the billing notice, by debiting the bank's demand deposit account (DDA) maintained with the BSP. On the other hand, processing fees, registration fees and other similar fees shall be debited directly from bank's DDA upon approval.

Further, transaction fees related to the use of the BSP's payments system, the Real Time Gross Settlement System (RTGS), are recognized on value date and directly charged against the bank's DDAs maintained with the BSP.

2.8.3 Price and foreign exchange gains and losses

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

BSP's practice recognizes unrealized gains or losses in accordance with Section 45 of R.A. 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 as asset (if loss) or liability (if gain). Reversal of the previous month's marking to market and revaluation is done simultaneously with the setting up of the current month's marking to market and revaluation as of the current month.

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

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

2.9 Financial assets

The Bank classifies its financial assets in the following categories: available-for-sale, held-to-maturity, and loans and other receivables, in compliance with PAS 39

(Recognition and Measurement) as approved by the MB under MB Resolution No. 122 dated 29 January 2010.

2.9.1 Available-for-sale

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

AFS financial assets (except gold) are initially recognized at cost in USD and subsequently carried at fair values. The fair values of the internally and externally managed portfolios and investments in Asian Bond Fund 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 amortized price while the change in exchange rates is the difference between the current exchange rates and the historical moving average exchange rates.

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

Consistent with the recognition of unrealized gains or losses arising from the changes in the exchange rates (as provided in Section 45 of R.A. No. 7653), unrealized gains or losses arising from changes in market values of foreign currency denominated financial assets are also recognized in the corresponding revaluation account in the balance sheet. For domestic securities, changes in prices are recognized in the equity section. Financial assets are derecognized when the right to receive cash flows from the investments have expired or have been transferred and the BSP has relinquished all the risks and rewards of ownership. Gains or losses arising from de-recognition or impairment is recognized in the income statement.

2.9.2 Held-to-maturity

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

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

2.9.3 Loans and receivables

Loans and receivables consist of receivables from banks and deposit insurer, Philippine Deposit Insurance Corporation, advances to the National Government, notes receivable from restructured loan accounts, sales contracts receivable, accrued interest receivable, and accounts receivable.

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

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

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

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

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

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

2.10 Acquired assets held for sale

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

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

2.11 Investment property

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

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

2.12 Bank premises, furniture, fixtures, and equipment

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

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

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

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

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

2.13 Intangible assets

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

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

2.14 Leases

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

2.15 Inventories

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

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

2.16 Numismatic collections, artworks, paintings and sculptures

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

2.17 Financial liabilities

Financial liabilities denominated in foreign currency comprise of short-term foreign currency deposits of banks, the National Government (NG) and other government entities, and short and long-term borrowings of the BSP. These liabilities are initially recognized at cost and subsequently converted at current value using weighted average exchange rate at reporting date The difference is recognized in the balance sheet as an unrealized exchange rate revaluation. Interest is accrued monthly and recognized in the income statement. Some foreign currency borrowings contracted after the creation of BSP in CY 1993 are collateralized either by securities or gold. As of end CY 2013, there are no outstanding foreign currency borrowings collateralized by securities or gold.

Financial liabilities denominated in local currency refer to deposits of the NG, banks and other financial institutions. All banks and quasi-banks operating in the country are required to maintain reserves against their deposit and/or deposit substitute liabilities. The reserve position of each bank or quasi-bank is calculated daily on the basis of the amount of the institution’s reserves at the close of business for the day and the amount of its liability accounts against which reserves are required to be maintained. A portion of these deposits is paid interest at rates approved by the Monetary Board until 05 April 2012. Interest is accrued monthly and credited quarterly to the respective demand deposit accounts. The fair value of deposits with no stated maturity is the amount repayable on demand.

As part of the BSP mandate to siphon excess liquidity and slow down growth of money supply, the BSP encouraged government-owned and controlled corporations and trust departments of banks to deposit their funds with the BSP through the “Special Deposit Account” facility.

2.18 Derivative instruments

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

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

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

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

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

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

2.19.1 Repurchase and reverse repurchase

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

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

2.19.2 Special Deposit Account

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

2.19.3 Securities Lending Agreements

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

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

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

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

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

2.21 Currency in Circulation

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

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

2.22 Employee benefit plans

The Funds listed below had been set-up for BSP employees. The BSP's contributions to the Funds are charged to operating expenses and recognized in the income statement. Contributions to and augmentation of the Funds are disbursed to the Fund administrators. All income accrue to the Funds and are recognized in the balance sheet as addition in the Fund balance except for Provident fund and Housing fund wherein the Board of Trustees shall set aside a portion of the earnings as General Reserve Fund 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 applicable International Accounting Standards (IAS).

2.22.1 Provident fund

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

2.22.2 Housing fund

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

2.22.3 Longevity trust fund

This Fund was created in CY 1991 for the exclusive purpose of paying longevity benefits to seceding members of the provident fund based on the length of service, the minimum of which is five years. The Bank contributes an equivalent of 12 per cent of the member's annual basic salary. The Bank's contributions are recognized in the income statement as operating expenses. The Fund is administered by the PFO.

2.22.4 Car plan fund

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

2.22.5 Retirement benefit fund

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

2.23 Capital reserves

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

Managed funds

2.23.1 Fidelity insurance fund

This Fund was set-up in CY 1997 as self-insurance for the fidelity bond of bank officers and staff with cash and gold accountabilities in excess of PHP100 million. Accountabilities up to PHP100 million are covered by fidelity bonds issued by the Bureau of the Treasury. Annual charges against surplus are computed at one per cent of 75 per cent of the maximum amount of accountabilities (net of PHP100 million) of each group/ individual covered by the Fund. The Fund is an internally managed fund with the BSP Comptrollership Sub-Sector as administrator. It is accounted separately from the bank proper resources through the "Due from Administrator of Funds" account. There was no additional provision to the Fund since CY 2006 as it was determined that the balance of the fund is sufficient to cover the highest single amount of accountability covered by the Fund. Since the establishment of the Fund, no claims have been charged thereon.

2.23.2 Currency insurance fund

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

2.23.3 BSP properties self-insurance fund

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

2.23.4 Directors and officers liability insurance (DOLI) fund

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

Other funds

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

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

2.23.6 Reserve for contingencies

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

2.23.7 Property insurance (artworks, paintings and sculptures)

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

2.23.8 Reserve for the rehabilitation of the Security Plant Complex

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

2.23.9 Cultural properties acquisition

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

2.23.10 Gold insurance

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

2.24 Commitments and contingent liabilities

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

	2013	2012
FX commitment receivable/payable/sales	477,078,196	555,149,680
Currency unissued	13,108,795	30,283,870
L/C held/received in process	5,069,340	5,174,481
Equity investment receivable/payable	861,174	861,174

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

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

Maturity Schedule of FX Commitment Receivable
As at 31 December 2013

	1-3 months		No Maturity		Total	
	USD	PHP	USD	PHP	USD	PHP
Foreign Currency Swap – *Peso/US Dollar*	324,000	14,009,800			324,000	14,009,800
New Arrangement of Borrowing (NAB)			454,287	19,955,913	454,287	19,955,913
Concessional Lending Instruments for Low Income Countries (CLI-LICS)			1,177	49,971	1,177	49,971
Chiang Mai Initiative Multi-Lateralization Agreement (CMIM)			9,104,000	399,920,512	9,104,000	399,920,512
Note Purchase Agreement (NPA)			1,000,000	43,142,000	1,000,000	43,142,000
	324,000	14,009,800	10,559,464	463,068,396	10,883,464	477,078,196

2.24.2 FX commitment payable represents foreign currency forward

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

2.24.3 FX commitment payable of BSP under various International Monetary Fund (IMF) facilities

a. New Arrangement of Borrowing (NAB)

The NAB facility of the IMF is a credit arrangement between the Fund, and a group of 40 members and institutions to provide supplementary resources to the IMF, to cope with an impairment of the international monetary system or to deal with an exceptional situation that poses a threat to the stability of that system. As participant in the IMF's NAB, the BSP undertakes to provide a credit line of up to SDR340 million (USD524.50 million). The Fund pays interest on outstanding NAB claims at SDR interest rate. In 2013, loans granted totaled SDR7.60 million (USD11.56 million) and payments received amounted to SDR3.70 million (USD5.63 million).

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

The CLI-LICS is an IMF Financing facility for low-income countries wherein the BSP shall provide the subsidy contribution on behalf of the Philippine Government in the amount of SDR1.90 million to be disbursed in five equal annual installments (approximately PHP25.10 million per year) subject to the prevailing exchange rate at the time of transactions for the fiscal years 2011 to 2015, as approved under MB Resolution No. 759 dated 4 June 2010. BSP has remitted the three equal installments of SDR0.38 million in 2011, 2012 and 2013.

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

The Philippines is a member of the CMIM. It is a USD120 billion multilateral arrangement among the finance ministries and central banks of the ASEAN (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam) + three member countries (China, Japan and Korea) and the Hongkong Monetary Authority, aimed at providing financial support in the event of balance of payment difficulty. The contribution to the CMIM does not involve outright transfer of the committed amount but is instead in the form of a commitment letter, whereby the central banks/monetary authority of ASEAN + three countries as well as the Hongkong Monetary Authority issues a promissory note in the amount equivalent to their committed contribution. Under this arrangement, the management and custody of committed reserves remain with the central banks until a swap request has been approved. The Philippines, through the BSP has an outstanding contribution commitment of USD9.104 billion to the CMIM. The BSP may be able to borrow up to 2.5 times its contribution, i.e. USD22.76 billion from the CMIM. As of end 2013, no transactions were made.

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

The NPA was entered into between the BSP and the IMF to enhance the resources available to the Fund for crisis prevention and resolution. Under said agreement, the BSP agreed to purchase from the Fund promissory notes in a total principal amount up to USD1.00 billion. The commitment under the NPA was booked in 2013.

2.24.4 Financial Transactions Plan (FTP) of the IMF

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

The Philippines has participated in the FTP since August 2010 with total IMF drawdowns amounting to SDR218.80 million (USD338.20 million). In terms of annual breakdown, about SDR75.00 million (USD116.90 million) were drawn in 2010; SDR109.80 million (USD169.53 million) in 2011; no transactions in 2012; and SDR34.00 million (USD51.80 million) in 2013. More than 60 per cent of the funds were disbursed to European countries in an effort to address the financial crisis impacting the European economic zone.

2.24.5 Bank for International Settlements (BIS)

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

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

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

2.25 Trust Accounts

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

2.26 Prior period adjustments

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

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

2.27 Comparatives

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

2.28 Dividend distribution

In accordance with transitory provisions of R.A. No. 7653, Section 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 NG as dividends with the remaining 25 per cent as residual to BSP surplus.

2.29 Taxes

The BSP is liable for all national, provincial, municipal and city taxes, fees, charges and assessments. However, it continues to be fully exempted from all customs duties and consular fees and all other taxes, assessments and charges in relation to the importation and exportation of notes and coins, and gold and other metals and all equipment needed for bank note production, minting of coins, metal refining and other security printing operations authorized under Section 126 of R.A. No. 7653. This exemption also includes importation of supplies, raw materials and spare parts of equipment needed for bank note production, minting of coins, and metal refining.

Further, the BSP is exempt from documentary stamp taxes, pursuant to Section 199 of R.A. No. 9337, "National Internal Revenue Code" (NIRC) of 1997, as amended by R.A. No. 9243, implemented under Revenue Regulation (RR) No. 13-2004 dated 23 December 2004.

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

BSP has identified the accounts where tax implications may require recognition of deferred taxes in the books of accounts. Deferred tax assets are expected future benefits arising from temporary differences existing at the end of the accounting period that will reduce the taxable income relative to pretax accounting income in the future period. It is the amount of income tax recoverable in the future period with respect to: a) deductible temporary differences; b) carry-forward of excess minimum corporate income tax over regular income tax; c) carry-forward of net operating loss; and, d) carry forward of unused tax credits. Deferred tax liabilities are amounts of income taxes payable in respect of taxable temporary differences.

Pursuant to the 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, which state that, "xxx twenty per cent (20%) final withholding tax (FWT) on discounts xxx shall be imposed only on every original sale in the primary market but shall no longer be collected in the secondary market trading of the said securities."

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

3. FINANCIAL RISK MANAGEMENT

The BSP is exposed to financial risks associated with its foreign and local currency activities. In managing the risks, Treasury Department (TD), Department of Loans and Credits (DLC) and Asset Management Department (AMD) are guided by policies approved by the MB.

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

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

The risk factors considered are as follows:

3.1 Market Risk

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

3.1.1 Currency risk

The Bank considers the effects of fluctuations in the prevailing currency exchange rates on its financial position and cash flows. The limits on the level of exposure by currency and in total for both overnight and intraday positions are monitored daily. The following table summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2013 grouped into assets and liabilities at carrying amounts:

Currency	Original Currency	USD Equivalent
Assets		
USD	69,016,306	69,016,306
JPY	798,933,006	7,599,349
EUR	2,743,580	3,777,276
AUD	2,736,179	2,440,278
SDR	935,047	1,439,970
CNH	3,191,589	527,056
CHF	739	829
CAD	819	769
SGD	578	457
GBP	227	377
HKD	2,172	279
SAR	1,042	278
AED	654	178
BND	95	75
THB	1,840	56
KRW	49,631	47
CNY	286	47
BHD	4	12
IDR	64,162	5
Liabilities		
SDR	838,111	1,290,690
USD	612,239	612,239
EUR	15,978	21,994
JPY	1,119,502	10,640
DKK	502,555	472

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

3.1.2 Interest Rate Risk

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

3.1.3 Commodity Risk

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

Market Risk Measurement

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

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

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

3.2 Credit Risk

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

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

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

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

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

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

3.3 Liquidity Risk

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

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

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

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

3.4 Operational, legal and reputational risks

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

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

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

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

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

4. SIGNIFICANT EVENTS

The MB approved on -

a. 28 February 2013 the amicable settlement of PHP25.884 million in Construction Industry Arbitration Commission (CIAC) Case No. 38-2012 and 38-A-2012 entitled "A.M. Oreta & Co., Inc. versus Bangko Sentral ng Pilipinas", pending before the CIAC;

b. 21 March 2013 various improvement works, project timetable and project cost of PHP12 million and supplemental budget of PHP12 million including 10 per cent contingency, for the BSP Batac Branch Building;

c. 14 June 2013 the amendment of Item No. 2 of Resolution dated 30 May 2013, to reflect De la Rue Cash Processing Solutions', through Fil-Anglo Management and Promotional Consultants', (1) reduced price from USD3.367 million to USD3.180 million, CPT Manila, for one lot supply, delivery, installation, and commissioning of an Automatic Single Note Inspection System (ASNIS) with Ancillary Equipment; and (2) inclusion in the ASNIS of a detector that shall authenticate the covert feature on the Philippine banknotes at no additional cost to the BSP;

d. 14 June 2013 to instruct Management to explore with BIR whether the 40 per cent rate in its offer for compromise relative to the PHP2,586.41 million without need to prove payment of GRT by banks, may be applied to those which BSP are unable to document;

e. 26 July 2013 the award of contract to J. D. Legaspi Construction for the procurement of the general contractor for the proposed construction of the BSP Butuan Branch Building, as the best and final offer amount of PHP253.092 million, inclusive of all applicable taxes;

f. 26 July 2013 the award of contract to Vinhar Construction & Marketing for the procurement of the general contractor for the proposed construction of the BSP Lucena Branch Building Expansion/Additional Building Ancillary Project, in the total amount of PHP129.622 million, value added tax inclusive;

g. 08 August 2013 the rationalization of the interest rate paid by the BSP on the Peso-denominated deposit accounts of the National Government (Regular Demand Deposit Account [RDDA] and Other Special Accounts, except Special Account No. 2) and subsequently on the Treasury Single Account using the following formula: One minus the Reserve Requirement multiplied by the Special Deposit Account rate, effective 12 August 2013;

h. 29 August 2013 the proposed priority projects in the total amount of PHP316.842 million at the Philippine International Convention Center for the 2015 Asia-Pacific Economic Cooperation Meeting;

i. 29 August 2013 the overprint of the National Year of Rice (NYR) logo on 10 million pieces 100-piso banknote (New Design Series) with year-mark 2013 based on the BSP-Department of Agriculture agreed proof/layout, including uncut sheets with the cost of overprinting to be shouldered by the BSP; and

j. 14 November 2013 the amendment of the acquisition guidelines for the BSP Artworks and Cultural Property collection to include cartography and related historical manuscripts.

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

	2013	2012
Marketable securities	2,244,909,870	2,231,762,814
Other investments	530,987,635	504,480,851
	2,775,897,505	2,736,243,665
Accrued interest	7,548,054	8,073,449
	2,783,445,559	2,744,317,114

Marketable securities consist of foreign securities (free) and repurchase agreements. The former primarily includes commercial papers in USD, JPY, EUR and AUD currencies. Other investments include externally managed funds (PHP493.679 billion), Asian bond fund (PHP28.186 billion) and BISIP (Bank for International Settlement and Investment Pool – PHP9.123 billion).

7. GOLD

	Note	2013	2012
In bullion vault	a	133,768,831	169,774,428
With foreign financial institutions	b	199,146,448	255,504,910
		332,915,279	425,279,338

a. Gold in bullion vault

	2013		2012	
	FTO	PHP	FTO	PHP
Opening balance-January 1	2,473,503.481	169,774,428	2,435,953.316	167,543,286
Additions during the year	26,349.017	1,971,611	37,550.165	2,684,206
Sub-Total	2,499,852.498	171,746,039	2,473,503.481	170,227,492
Net decrease due to price/ rate revaluation	0	(37,977,208)	0	(453,064)
Ending balance-December 31	2,499,852.498	133,768,831	2,473,503.481	169,774,428

	USD/FTO	USD/FTO
Revaluation Rate	1,205.250	1,670.900
Moving Average Rate	1,017.350	1,009.510

b. Gold with foreign financial institutions

	2013		2012	
	FTO	PHP	FTO	PHP
Opening balance-January 1	3,722,541.101	255,504,910	2,680,580.686	184,368,597
Additions during the year: Purchases	289,504.120	19,041,162	1,254,794.339	92,645,818
	289,504.120	19,041,162	1,254,794.339	92,645,818
Sub-Total	4,012,045.221	274,546,072	3,935,375.025	277,014,415

	2013		2012	
	FTO	PHP	FTO	PHP
Net sales during the year	(290,425.300)	(18,082,100)	(212,833.924)	(12,874,047)
Net decrease due to price/ rate revaluation	0	(57,317,524)	0	(8,635,458)
Ending balance-December 31	3,721,619.921	199,146,448	3,722,541.101	255,504,910

	USD/FTO	USD/FTO
Revaluation Rate	1,205.250	1,670.900
Moving Average Rate	1,415.770	1,404.077

8. INTERNATIONAL MONETARY FUND SPECIAL DRAWING RIGHTS

	2013	2012
Beginning balance-January 1	52,922,577	49,095,928
Add/(Deduct):		
Revaluation	4,413,512	(3,548,324)
Share IMF/Windfall	498,135	0
Income accruing to the fund	54,554	87,990
SDR acquisition	0	7,368,120
Payment of charges-interest and remuneration	(40,193)	(68,676)
Adjustment due to moving average computations/change in policy	(6,629)	(12,461)
	4,919,379	3,826,649
Ending balance – December 31	57,841,956	52,922,577
Accrued interest	10,047	6,047
	57,852,003	52,928,624

9. LOANS AND ADVANCES

	Note	% to Total	2013	2012 (As restated)
Foreign currency loans and advances				
Special purpose				
IBRD 2469		5.25	20,955	20,955
Rediscounting				
Exporters dollar facility		94.75	377,987	1,307,154
Total		100.00	398,942	1,328,109
Allowance for probable losses		5.25	20,955	20,955
Net		94.75	377,987	1,307,154
Accrued interest			68	349
			378,055	1,307,503
Local currency loans and advances				
Philippine Deposit Insurance Corp.	a	77.53	63,609,764	66,673,374
National Government- Assumed Obligations of :				
Philippine National Bank	b.1		350,000	350,000
Development Bank of the Phil.	b.1		442,500	442,500
IMF Quota Subscription	b.2		9,569,312	9,569,312
		12.63	10,361,812	10,361,812

	Note	% to Total	2013	2012 (As restated)
Special purpose				
Thrift banks			11,096	11,177
Specialized banks			14,503	14,503
Rural banks			101,023	106,769
		0.16	126,622	132,449
Emergency	c			
Commercial banks			1,578,260	1,578,260
Thrift banks			1,039,643	2,981,674
Rural banks			540,244	542,908
		3.85	3,158,147	5,102,842
Rediscounting	d			
Commercial banks			1,115,436	17,229,401
Thrift banks			849,501	4,185,115
Specialized banks			54,690	56,542
Rural banks			977,160	1,095,158
		3.65	2,996,787	22,566,216
Overdrafts/overnight clearing line		2.18	1,788,457	1,790,066
Total		100.00	82,041,589	106,626,759
Allowance for probable losses			4,362,996	4,758,234
Net			77,678,593	101,868,525
Accrued interest, (net of allowance)			16,434,772	15,363,071
			94,113,365	117,231,596
Total foreign and local currency		100.00	82,440,531	107,954,868
Allowance for probable losses	e	5.32	4,383,951	4,779,189
		94.68	78,056,580	103,175,679
Amount past due (Annex B)			9,556,733	11,578,630
Percent to total loans and advances			11.59	10.73

Allowance for probable losses, 31 December 2012, before adjustment	4,787,048
Add/(deduct):	
Overstatement of provision for impairment loss	(28,814)
Allowance for probable losses, 31 December 2012, as restated	4,758,234

a. Loans and advances to Philippine Deposit Insurance Corporation (PDIC*)* intended for ailing banks slightly decreased to PHP63.610 billion compared to last year's level of PHP66.673 billion. The loans to PDIC are collateralized and interest-bearing. This constituted 77.53 per cent of the total local currency loan portfolio.

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

b.2 IMF Quota Subscription represents loan extended to the Republic of the Philippines (ROP) covered by promissory note dated 11 July 2011, to cover the increase in the IMF quota subscription from SDR879.9 million to SDR1,019.3 million or an increase of SDR139.4 million or 15.84 per cent 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 R.A. No. 2052, as amended.

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

d. Rediscounting window which accounts for 3.65 per cent of the local currency loan portfolio decreased by PHP19.569 billion or 86.72 per cent from last year-end balance of PHP22.566 billion due mainly to the net payments made by commercial banks of PHP16.114 billion (total payments of PHP28.702 billion less total grants of PHP12.588 billion).

e. Allowance for probable losses - total past due accounts amounted to PHP9.557 billion or 11.59 per cent of total outstanding loans and advances of PHP82.441 billion exclusive of accrued interest receivable. PHP6.133 billion or 7.44 per cent of said outstanding loans and advances are covered by the Allowance for Probable Losses amounting to PHP4.384 billion.

10. OTHER RECEIVABLES

	Note	2013	2012 (As restated)
Foreign currency receivables			
Non-IR foreign exchange assets	a	69,492,885	54,572,149
Due from foreign banks - NIR		23,042,562	4,178,425
Accrued interest		1,554,909	1,046,923
Due from foreign banks/branches	b	538,060	70,204
		94,628,416	59,867,701
Local currency receivables			
Accounts receivable -Treasurer of the Philippines (TOP)	c	6,792,474	9,416,981
Sales contracts receivable	d	2,067,805	1,886,671
Accounts receivable (net of allowance)		1,043,104	1,827,635
Notes receivable	e	1,366,731	1,366,731
Receivables from staff/others		328,997	322,780
Due from local banks		312,782	50,880
Lease receivable (net of allowance)	f	131,959	180,093
Accrued interest-Sales contracts receivable		51,045	24,642
Items under litigation	g	14,500	14,500
Accrued interest -receivable from redemption of acquired assets		1,872	2,358
		12,111,269	15,093,271

Accounts Receivable (net of allowance), 31 December 2012, before adjustment	1,381,913
Add/(deduct):	
BSP's share on The Manila Bank Company's (TMBC) claim for 6% interest on its swap proceeds previously applied to BSP's receivable from TMBC (with pending court approval of compromise agreement)	445,722
Accounts Receivable (net of allowance), 31 December 2012, as restated	1,827,635

a. Non-IR FX assets - the account primarily consists of investments in Republic of the Philippines bonds issued by the NG and investment in BSP "Yankee" bonds acquired by the BSP in the open market to mature in CY 2027. It also includes 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 USD444.211 million or PHP18.508 billion. ROP Bonds of USD1.480 billion or PHP65.730 billion was used as collateral for domestic borrowings as at 31 December 2013.

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

c. Accounts receivable - TOP - a special receivable account to record the NG's share in the annual revaluation of the IMF holdings of Philippine Peso with the BSP based on change in PHP/SDR exchange rate. On 31 May 2013 the account decreased by PHP2.624 billion representing the NG share in the CY2013 revaluation gain.

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

	Total 2013	Current	Non-Current
I. Auction /Negotiated Sales			
a. BSP personnel	11,110	741	10,369
b. Non-BSP personnel/Others	1,770,541	118,036	1,652,505
c. Restructured principal – Non-BSP	3,648	243	3,405
d. Restructured interest – Non-BSP	1,095	73	1,022
II. Sales under Asset Management Department – Provident Fund Office Housing Program			
a. BSP personnel	211,570	14,105	197,465
b. Non-BSP personnel/Others	69,841	4,656	65,185
	2,067,805	137,854	1,929,951

e. Notes Receivable - claim of BSP against First Philippine International Bank (now First Producers Holdings) guaranteed by a 28.5 year scripless Treasury Bonds with PHP375 million cash flow back plus PHP15 million cash payment for three-year amortization for 1996, 1997 and 1998 placed in an Escrow fund to be administered by DLC until the fund reaches PHP1.367 billion. It shall be applied against BSP claim, per MB Res. No. 1131 dated 27 September 1995 as amended by Res. Nos. 590 and 1069 dated 13 June and 16 October 1996, respectively. PHP330.81 million is now with the Escrow fund as of 31 December 2013.

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

g. Items under litigation

	Note	2013	2012
CSS-FAD	a	14,500	14,500
BSRU-Tacloban	b	2,500	2,500
BSRU-Legaspi	c	1,758	1,758
Total		18,758	18,758
Less: Allowance for doubtful account		4,258	4,258
		14,500	14,500

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

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

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

11. INVESTMENTS SECURITIES – DOMESTIC

		2013		2012	
	Note	Face Value	Market Value	Face Value	Market Value
BSP-Head Office	a				
Treasury bills		174,343,527	173,745,394	174,341,501	173,091,516
Semi-annual FLT treasury bond		50,000,000	43,165,579	50,000,000	42,244,120
Fixed rate treasury bonds		2,080,992	2,379,877	2,072,139	2,344,657
LBP Bond		50	48	78	78
		226,424,569	219,290,898	226,413,718	217,680,371
PICCI-Investments			150,000		392,500
Accrued interest			65,085		69,850
			219,505,983		218,142,721

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

	2013	2012
Beginning balance, January 1	217,680,371	239,915,435
Add/(Deduct):		
Purchases	428,702,740	426,422,748
Marking to market	1,169,639	(38,203)
Redemption	(426,554,403)	(447,021,582)
Sales	(1,099,061)	(1,149,931)
Accrual/reversal of discount	(608,388)	(452,770)
Net premium amortization	0	4,674
Ending balance, December 31	219,290,898	217,680,371

Below is the schedule of maturity of investment securities:

Maturity Schedule of Investment Securities

	91-180 days	181 - 365 days	More than 1 year	Total
Treasury bills	148,931,928	24,813,466		173,745,394
Semi-annual FLT treasury bond			43,165,579	43,165,579
Fixed rate treasury bonds			2,379,877	2,379,877
LBP Bond			48	48
	148,931,928	24,813,466	45,545,504	219,290,898

12. DUE FROM ADMINISTRATOR OF FUNDS

	Note	2013	2012
Comptrollership			
Fidelity insurance		22,247,379	22,247,379
Currency insurance		2,798,665	2,798,665
Post retirement benefit		55,381	29,168
Gold insurance		9,334	9,334
		25,110,759	25,084,546
Provident fund office			
BSP Properties Self-Insurance Fund	a	1,950,000	1,960,158
Post retirement benefit	b	1,097,334	1,157,335
Directors' and officers' liability Insurance (DOLI) fund		1,092,289	1,092,289
Car plan fund		505,456	505,456
Provident fund		155,422	153,764
Longevity trust fund		0	149
		4,800,501	4,869,151
Department of Loans and Credit			
Industrial Fund		2,515	2,515
		29,913,775	29,956,212

a. Income earnings utilized for the payment of GSIS insurance premium.

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

13. ACQUIRED ASSETS HELD FOR SALE

	2013	2012
Acquired assets held for sale	16,094	469,913
Less: Allowance for market decline	8,342	2,380
	7,752	467,533

Below is the movement of the acquired assets held for sale for the year ended 31 December 2013:

Additions			Deduction		
Particulars	TCTs	Book Value	Particulars	TCTs	Book Value
Transferred from investment property	1,179	308,389	Sale/negotiation	1,738	246,056
			Reclassification/ adjustment	4	516,152
Total	1,179	308,389	Total	1,742	762,208

14. INVESTMENT PROPERTY

	2013	2012
Investment property	15,978,655	11,923,337
Less: Allowance for market decline	1,453,328	1,493,892
	14,525,327	10,429,445

Below is the movement of the investment property for the year ended 31 December 2013:

Additions			Deduction		
Particulars	TCTs	Book Value	Particulars	TCTs	Book Value
Dacion en Pago	354	2,618	Sale/negotiation	638	241,165
Foreclosure	606	4,238,711			
Reclassification/ adjustment	27	363,543	Transferred to acquired assets	1,179	308,389
Total	987	4,604,872	Total	1,817	549,554

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

	Land and Building	Property Improvement	Computer Hardware	Plant and Equipment	In-Transit Items	In-Process / Progress/under Construction Items	Total
Cost							
01 January 2013, as restated	12,925,624	4,057,814	1,171,834	7,367,769	0	670,734	26,193,775
Additions	141	196,557	189,575	1,575,405	20,511	263,853	2,246,042
Disposals	0	(814)	(42,495)	(80,486)	0	0	(123,795)
Adjustments	0	0	23,861	27,257	0	0	51,118
31 December 2013	12,925,765	4,253,557	1,342,775	8,889,945	20,511	934,587	28,367,140
Accumulated depreciation							
01 January 2013, as restated	(2,396,779)	(2,258,201)	(785,994)	(4,255,278)	0	0	(9,696,252)
Depreciation - CY 2013	(197,950)	(260,443)	(104,607)	(430,834)	0	0	(993,834)
Disposals	0	691	39,964	30,511	0	0	71,166
Adjustments	0	0	0	1,362	0	0	1,362
31 December 2013	(2,594,729)	(2,517,953)	(850,637)	(4,654,239)	0	0	(10,617,558)
Net book value, 31 December 2013	10,331,036	1,735,604	492,138	4,235,706	20,511	934,587	17,749,582
Net book value, 31 December 2012, as restated	10,528,845	1,799,613	385,840	3,112,491	0	670,734	16,497,523

The BPFFE cost and accumulated depreciation balances as at 31 December 2012 are restated, as follows:

	Land and Building	Property Improvement	Computer Hardware	Plant and Equipment	In-Process / Progress/under Construction Items	Total
Cost						
31December 2012, before adjustments	12,928,168	3,997,827	1,172,498	7,370,606	725,550	26,194,649
Add/(Deduct):						
Transfer to/from In-Process/ Progress/Under-Construction	2,584	57,360	0	0	(59,944)	0
Misclassifications to/from other BPFFE accounts	(5,128)	2,808	0	(2,808)	5,128	0
Misclassifications to/from expense accounts	0	(181)	(664)	(29)		(874)
	(2,544)	59,987	(664)	(2,837)	(54,816)	(874)
31 December 2012, as restated	12,925,624	4,057,814	1,171,834	7,367,769	670,734	26,193,775
Accumulated depreciation						
31December 2012, before adjustments	(2,396,640)	(2,258,662)	(786,450)	(4,254,365)	0	(9,696,117)
Add/(Deduct):						
Depreciation of items misclassified to/from other BPFFE accounts	71	919	0	(919)	0	71
Depreciation of items misclassified to/from expense accounts	(210)	(458)	456	6	0	(206)
	(139)	461	456	(913)	0	(135)
31 December 2012, as restated	(2,396,779)	(2,258,201)	(785,994)	(4,255,278)	0	(9,696,252)
Net book value, 31 December 2012, as restated	10,528,845	1,799,613	385,840	3,112,491	670,734	16,497,523

16. INTANGIBLES

	Computer Network and Application System	Computer Network and Application System in Process	Total
Cost			
01 January 2013, as restated	2,137,418	48,776	2,186,194
Additions	69,937	0	69,937
Disposals (donations)	(38)	0	(38)
31 December 2013	2,207,317	48,776	2,256,093
Accumulated amortization			
01 January 2013, as restated	(1,921,681)	0	(1,921,681)
Amortization – CY 2013	(96,645)	0	(96,645)
Disposals	38	0	38
31 December 2013	(2,018,288)	0	(2,018,288)
Net book value, 31 December 2013	189,029	48,776	237,805
Net book value, 31 December 2012, as restated	215,737	48,776	264,513

The Computer Network and Application System (CNAS) and CNAS In-Process cost and accumulated depreciation balances as at 31 December 2012 are restated, as shown below:

	Computer Network and Application System	Computer Network and Application System in Process	Total
Cost			
31 December 2012, before adjustments	2,135,180	51,853	2,187,033
Add/(deduct):			
a. Over set-up of accounts payable	(839)		(839)
b. Applications/software developed/ installed in prior years	67,095	(67,095)	0
c. Misclassified acquisitions	(64,018)	64,018	0
	2,238	(3,077)	(839)
31 December 2012, as restated	2,137,418	48,776	2,186,194
Accumulated depreciation			
31 December 2012, before adjustments	(1,899,591)	0	(1,899,591)
Add/(deduct):			
a. Depreciation of applications/ software developed/installed in prior years	(31,218)	0	(31,218)
b. Depreciation of misclassified acquisitions	9,128	0	9,128
	(22,090)	0	(22,090)
31 December 2012, as restated	(1,921,681)	0	(1,921,681)
Net book value, 31 December 2012, as restated	215,737	48,776	264,513

17. INVENTORIES

	Note	2013	2012
SPC inventories	a	3,208,189	2,780,398
Work-in-process		2,494,738	1,803,090
Gold for refining	b	1,628,241	3,074,295
Currency inventory	c	882,136	1,034,592
Gold for domestic sale		16,597	26,563
Silver for refining		3,316	10,219
Silver for domestic sale		386	386
		8,233,603	8,729,543

a. The increase was largely attributed to the procurement of raw materials for New Generation Currency (NGC) 1-piso and 0.25 centavo blank coins by PHP0.434 million and shipment to port of loading of outsourced NGC PHP1,000 and PHP50 notes denominations by PHP0.253 billion.

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

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

For CY 2013, the currency Inventory balance dropped by PHP0.152 billion due to lower delivery of banknote orders than as expected for the year, from the inventory of 205.917 million pieces (mpcs.) in 2012 to 62.232 mpcs. in 2013, a reduction of 143.685 mpcs. or 69.78 per cent.

18. REVALUATION OF FOREIGN CURRENCY ACCOUNTS

	2013	2012
Unrealized gains/(losses) on FX Rate Fluctuations		
Beginning balance, January 1	(222,975,858)	9,878,936
Unrealized gains/(losses) for the year (net of realized transactions)	205,740,052	(232,854,794)
Ending balance, December 31	(17,235,806)	(222,975,858)
Unrealized gains(losses) on Price Fluctuations		
Beginning balance, January 1	158,412,953	135,914,506
Unrealized gains/(losses) for the year (net of realized transactions)	(173,730,760)	22,498,447
Ending balance, December 31	(15,317,807)	158,412,953
Unrealized gains(losses) on FX Rate and Price Fluctuations, December 31	(32,553,613)	(64,562,905)

19. MISCELLANEOUS ASSETS

	Note	2013	2012
Withholding tax at source		590,750	460,154
Other supplies		119,107	115,035
Paintings and sculptures	a	112,612	91,461
Prepaid expenses	b	47,039	137,268
Deposits – utilities and services		28,966	24,984
Numismatic collections on hand		21,903	21,837
Stocks and other securities	c	10,276	10,715
Creditable tax certificates	d	4,835	4,835
Input tax	e	3,050	46,982
Checks and other cash items		1,606	3
Semi-expendable property		1,062	6,167
Items for exhibit		1,041	242
Assets for disposal		952	1,026
Commemorative notes and coins		85	168
Land under usufruct	f	82	82
Checks and other cash items in-transit		10	2
Demonetized commemorative coins		9	11
Philpass-RMASS account		(3,800)	0
BSP Inter-office reciprocal account		(44)	(738)
Due from PICC		(2)	0
Deferred charges		0	863
Philpass FAD account		0	(32)
		939,539	921,065

a. The change in the account was brought about by the Bank's acquisition of various paintings of renowned artists in CY 2013.

b. The account includes taxes withheld from purchases of short-term government securities which are later recognized as expense upon maturity. The decrease in CY 2013 was primarily due to low exposure of banks in government securities attributed to lower interest rates.

c. Breakdown includes the following:

Particulars	Amount
PICCI investments	9,520
Proprietary membership share	741
Telephone companies stocks	15
	10,276

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

e. The decrease in the account arose from lower deliveries of imported raw materials resulting to lower imposition of taxes.

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

20. SHORT-TERM FOREIGN CURRENCY DEPOSITS

	Note	2013	2012
National Government	a	1,924,111	12,054,344
Other entities	b	49,497	20,471,455
		1,973,608	32,525,799
Accrued interest		152	1,191
		1,973,760	32,526,990

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

	2013	2012
National Government		
TOP-Special Accounts	1,924,111	6,706,787
TOP-Time Deposits	0	5,347,557
	1,924,111	12,054,344

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:

	2013	2012
Other Entities		
PSALM	10,275	20,430,358
NPC	37,645	39,638
North Luzon Railways	1,564	1,447
MWSS	13	12
	49,497	20,471,455

21. LOANS PAYABLE

	Note	2013	2012
Maturing in more than 5 years			
Blocked peso deposit (Circular 1139/1202)		32,880	30,377
Blocked peso deposit (Circular 1298)	a	20,935	18,569
CB Memorandum Circular (at original cost PHP14.00)		3,846	3,846
		57,661	52,792
Accrued interest		0	0
		57,661	52,792

a. These are local currency deposits of original public sector borrowers (NG, government owned or controlled corporations and government financial institutions) used to cover for their FX loan amortizations that were transferred to the then Central Bank of the Philippines (CBP) on the date the amortizations fell due. These deposits were later registered with the BSP under various foreign loan restructuring arrangements. Recorded partial settlement of FLP blocked peso deposits is PHP0.001 billion for CY 2013 while revaluation marked at PHP0.006 billion which contributed mainly to the increase in the outstanding balance of the account.

22. BONDS PAYABLE

	Note	2013	2012
Bonds due 2027	a	17,759,200	16,431,200
Bonds due 2097		4,439,800	4,107,800
		22,199,000	20,539,000
Less: Discount on bonds		(80,495)	(74,903)
		22,118,505	20,464,097
Accrued interest		79,547	73,598
		22,198,052	20,537,695

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

23. ALLOCATION OF SPECIAL DRAWING RIGHTS

	2013	2012
Allocation of Special Drawing Rights	57,294,093	52,903,728
Accrued interest	9,952	6,044
	57,304,045	52,909,772

24. DEPOSITS

	Note	2013	2012 (As restated)
Government deposits			
Short –term	a.1	386,509,981	300,352,564
Long – term	a.2	28,265,952	28,265,952
		414,775,933	328,618,516
Accrued interest		263,813	160,166
		415,039,746	328,778,682
Demand Deposits			
Banks/NBQBs-reserve deposits	b.1	1,128,419,730	782,267,344
Special foreign deposit		3,167	-
Others		29,871,601	29,859,606
		1,158,294,498	812,126,950
Accrued interest		330,673	307,702

	Note	2013	2012 (As restated)
		1,158,625,171	812,434,652
IMF and other financial institutions	c.1	35,464,473	40,331,897
Demand Deposits Banks/NBQBs-reserve deposits, 31 December 2012, before adjustment			782,668,347
Add/(deduct): Reimbursement to BSP of interest on special deposit account paid to the Hongkong and Shanghai Bank Corporation (HSBC), which was found ineligible fund			(401,003)
Banks/NBQBs-reserve deposits, 31 December 2012, as restated			782,267,344

a. Government deposits

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

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

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

b.1 40 per cent of the required reserves (excluding liquidity reserve) or demand deposit balance maintained with the BSP, whichever is lower, is paid interest at four per cent per annum. The interest is credited to the demand deposit accounts on a quarterly basis. Effective 6 April 2012, deposits maintained by banks with the BSP in compliance with the reserve requirements shall no longer be paid interest as per MB Resolution No. 1924 dated 27 December 2011 and BSP Circular No. 753 dated 29 March 2012.

c. IMF currency holdings and other financial institutions.

c.1 The Republic of the Philippines has been a member of the IMF since 1945. BSP is the designated depository for the IMF's holdings of local currency. The IMF's (Account No. 1) holdings of local currency amounted to an equivalent of SDR578.020 million at 31 December 2013.

The balance of IMF's security holdings (SDR99.676 million) that includes a non-negotiable, non-interest bearing security encashable on demand and issued in the favor of the IMF, is held by the BSP on a custodial basis in its capacity as the IMF's depository.

The IMF revalues its local currency holdings on 30 April of each year at which time a currency valuation adjustment arises. For CY 2013 , the appreciation of peso against the SDR by PHP3.687, from PHP65.799/SDR as at 30 April 2012 to PHP62.112/SDR as at 30 April 2013, resulted to a revaluation gain of PHP2.624 billion in the IMF local currency holdings with BSP. The revaluation is solely attributable to the NG since BSP has already fully paid its credit availments from Standby Credit Facility (SCF) and Extended Fund Facility (EFF) since December 2006. BSP booked the revaluation gain as reduction in the receivable from NG under the account “Accounts Receivable-TOP”.

As at 31 December 2013, IMF Summary of Statement of Position showed that the total IMF currency holdings aggregated to PHP44.867 billion consisting of the balances of “Account Nos. 1 and 2” of PHP35.375 billion, security holdings of PHP6.599 billion and accrued revaluation of PHP2.893 billion (covering the period May 2013 to December 2013). The valuation adjustment shall be booked in May 2014 to coincide with the IMF’s records. .

25. CURRENCY IN CIRCULATION

	2013	2012
Currency notes issued	827,109,055	741,436,986
Cash on hand - notes	53,834,629	70,789,886
Net notes in circulation	773,274,426	670,647,100
Currency coins issued	24,959,966	22,626,346
Cash on hand - coins	782,455	616,369
Net coins in circulation	24,177,511	22,009,977
Total currency in circulation	797,451,937	692,657,077

Inventory of Currency Issued

	1 January 2013	Requisitions from UCSC	Retirement	31 December 2013
Currency issued				
Notes	741,436,986	472,266,100	386,594,031	827,109,055
Coins	22,626,346	2,335,165	1,545	24,959,966
	764,063,332	474,601,265	386,595,576	852,069,021
Cash on hand				
Notes				53,834,629
Coins				782,455
Total Held in BSP-Cash Department				54,617,084
Total currency in circulation				797,451,937

Details of currency in circulation are as follows:

	Denomination	Quantity (No. of Pcs)		Amount	
		2013	2012	2013	2012
Notes	100,000	127	122	12,700	12,200
	2,000	32,139	30,882	64,278	61,764
	1,000	402,712,977	357,208,764	402,712,977	357,208,764
	500	526,771,690	428,661,228	263,385,845	214,330,614
	200	46,484,431	36,739,177	9,296,886	7,347,836
	100	599,096,329	565,412,913	59,909,633	56,541,291

Denomination		Quantity (No. of Pcs)		Amount	
		2013	2012	2013	2012
	50	402,720,479	413,605,566	20,136,024	20,680,278
	20	846,379,575	681,631,519	16,927,591	13,632,630
	10	67,746,303	68,029,405	677,463	680,294
	5	30,205,819	30,285,697	151,029	151,429
				773,274,426	670,647,100
Coins	10 - Piso	617,562,301	554,327,359	6,175,623	5,543,273
	5 - Piso	1,811,486,684	1,644,619,551	9,057,433	8,223,098
	1 - Piso	6,704,589,959	6,145,911,809	6,704,590	6,145,912
	25 - Sentimo	6,612,356,670	6,157,221,807	1,653,089	1,539,305
	10 - Sentimo	2,934,524,742	2,734,758,713	293,453	273,476
	5 - Sentimo	2,207,033,786	2,046,369,034	110,352	102,318
	1 - Sentimo	26,714,401	24,680,206	267	247
				23,994,807	21,827,629
Commemorative coins		3,293,505	3,258,957	182,704	182,348
				24,177,511	22,009,977
Total currency in circulation				797,451,937	692,657,077

26. OTHER LIABILITIES

	Note	2013	2012 (As restated)
Foreign currency			
Derivative instruments in a loss position		0	634,857
Other liabilities		5,030,581	5,216,547
Accounts payable		3,470,865	3,343,552
Accrued expenses		233,148	202,010
Derivatives liability		0	117,935
Other financial liabilities		1,326,568	1,553,050
		5,030,581	5,851,404
Local currency			
Retirement benefit obligations		1,479,812	1,501,127
Dividends payable	a	449,700	449,700
Interest rebate		49	49
Miscellaneous liabilities		5,031,855	4,470,427
Taxes payable	b	1,541,606	2,014,894
Accounts payable		2,713,494	1,711,209
Accrued expenses		79,070	92,836
Other local currency liabilities		697,685	651,488
		6,961,416	6,421,303

Miscellaneous Liabilities	
Accounts Payable, 31 December 2012, before adjustment	1,712,048
Over set-up of accounts payable for intangibles	(839)
Accounts Payable, 31 December 2012, as restated	1,711,209
Other local currency liabilities, 31 December 2012, before adjustment	605,174
Restoration of deferred income previously recognized as miscellaneous income	46,314
Other local currency liabilities, 31 December 2012, as restated	651,488

a. The amount refers to the total assigned value of the Pamintuan Mansion in Angeles City together with 13 other properties for conveyance to the NG as property dividend for CY 2009 per MB Resolution No. 761 dated 4 June 2010. This was increased by dividend deficiency for CY 1995 due to the difference between the “should be” cash dividend and actual payment.

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

27. CAPITAL ACCOUNTS

	Note	2013	2012 (As restated)
Capital	a	40,000,000	40,000,000
Surplus	b	(70,713,262)	(45,138,905)
Unrealized losses on Investments	c	(6,886,064)	(8,055,703)
Capital Reserves		78,370,229	78,507,840
Managed Funds			
Fidelity insurance fund		22,247,379	22,247,379
Currency insurance fund		2,798,665	2,798,665
BSP Properties Self-Insurance Fund		1,950,000	1,950,000
Retirement benefit fund		1,152,716	1,186,503
Directors'/officers' liability		1,092,289	1,092,289
		29,241,049	29,274,836
Others Fund			
Fluctuations in price of gold		42,582,587	42,582,587
Contingencies		3,646,872	3,644,872
Property insurance		1,600,000	1,600,000
SPC rehabilitation		1,232,570	1,321,755
Cultural Properties Acquisition Fund		57,817	74,456
Gold insurance fund		9,334	9,334
		49,129,180	49,233,004
		40,770,903	**65,313,232**

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

The additional PHP10 billion capital from the NG was credited on 04 November 2011 as per Bureau of Treasury Debit Authority No. A.a 2011-11-2179 dated 04 November 2011, as equity infusion to ensure monetary and financial stability. Subsequently, the BSP received another PHP20 billion capital from the NG in the form of LBP checks dated 28 December 2012 issued by the BTr, in accordance with Special Allotment Release Order

(SARO) Nos. F-12-01423 and F-12-01424 issued by the DBM. As indicated in the Debit Authority and SAROs, the releases form part of the FYs 2011 and 2012 Disbursement Acceleration Program approved by the President on 12 October 2011 and 21 December 2012, respectively.

The balance of PHP10 billion remains unpaid by the NG to the BSP as at year-end. The amount representing full payment of BSP capitalization was credited on 02 January 2014 per BTr Debit Authority No. GF-2014-01-0013 dated 02 January 2014.

b. In accordance with PAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors”, the Surplus of calendar year 2012 is restated as follows:

Surplus, 1 January 2012, before adjustments	49,767,955
Add/(deduct):	
Adjustments on transactions prior to CY 2012	
Reversal of interest expense for CY 2007, representing BSP’s share on the 6% interest on The Manila Banking Corporation’s (TMBC) swap proceeds previously applied to BSP’s receivable from TMBC (with pending court approval of compromise agreement)	445,722
Understatement of prior years’ amortization of intangibles due to delayed reclassification of completed Computer Network and Application System (CNAS) in-process to CNAS account	(28,586)
Net understatement of prior years’ depreciation provided for building improvements	(633)
Reclassification of various computer hardware to expense	(209)
Reclassification of various tools and apparatus to expense	(19)
Reclassification of various books, furniture and equipment to expense	(4)
	416,271
Surplus, 1 January 2012, as restated	50,184,226
Net adjustments to Surplus for CY 2012 (see Statement of Changes in Equity)	(324,079)
Surplus, 31 December 2012, before net loss	49,860,147
Net loss for the period, before adjustments	(95,380,263)
Add/(deduct):	
Adjustments on transactions for CY 2012	
Reimbursement to BSP of interest on special deposit account paid to the HSBC, which was found ineligible fund	401,003
Overstatement of provision for impairment loss	28,814
Overstatement of amortization of intangibles	6,496
Restoration of deferred income previously recognized as miscellaneous income	(46,314)
Deferred income tax adjustment due to overstated impairment losses	(8,644)
Net understatement of depreciation provided for building, building improvements, land improvements and computer hardware	(144)
	381,211
Net loss for the period, as restated	(94,999,052)
Surplus, 31 December 2012, as restated	(45,138,905)

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

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

	2013	2012
Beginning balance	(8,055,703)	(8,017,500)
Effect of marking to market of gov't securities -		
Increase/(decrease) in government securities	1,169,639	(38,203)
Ending balance	(6,886,064)	(8,055,703)

28. INTEREST INCOME AND INTEREST EXPENSES

	2013	2012 (As restated)
Interest income from financial assets		
Interest income from foreign currency financial assets		
Investment securities	22,184,185	30,185,234
Deposit with foreign banks	1,178,711	569,264
IMF special drawings rights	46,173	58,300
Loans and advances	2,427	3,759
Other foreign currency receivables	3,013,561	2,251,091
	26,425,057	33,067,648
Interest income from local currency financial assets		
Loans and advances	3,959,124	3,206,926
Investment securities	1,891,102	4,497,375
Other receivables	151,200	144,010
	6,001,426	7,848,311
	32,426,483	40,915,959
Interest Expense from financial liabilities		
Interest expense on foreign currency financial liabilities		
Bonds payable	1,878,367	1,794,966
Allocation of IMF special drawing rights	43,793	56,853
Short term deposits	5,446	45,214
Other liabilities	0	3,399
	1,927,606	1,900,432
Interest expense on local currency financial liabilities		
Special deposit account	41,415,404	70,353,733
Securities sold under agreements to repurchase	10,204,111	10,019,934
Government deposits	5,959,312	5,738,088
Deposits of banks and other financial institutions	22,971	2,348,453
	57,601,798	88,460,208
	59,529,404	90,360,640

Interest expense on Special deposit account, 31 December 2012, before adjustment	70,754,736
Reimbursement to BSP of interest on special deposit account paid to the Hongkong and Shanghai Bank Corporation, which was found ineligible fund	(401,003)
Interest expense on Special deposit account, 31 December 2012, as restated	70,353,733

29. OTHER OPERATING INCOME

	2013	2012 (As restated)
Printing, minting and refinery	1,545,740	572,664
Fees – local		
Banking supervision/clearing/license fees	3,276,087	2,591,469
Penalties and late charges	896,430	269,784
Processing and filing fees	806,684	1,841,445
Transaction fee - PhilPaSS	154,119	163,695
Others	54,960	43,960
	5,188,280	4,910,353
Other income		
Income on sale of acquired assets	177,227	294,694
Rental on acquired assets	24,117	163,971
Building rental	10,998	12,449
Other miscellaneous income	331,552	327,198
	543,894	798,312
	7,277,914	6,281,329

Other miscellaneous income,31 December 2012, before adjustment	373,512
Restoration of deferred income previously recognized as miscellaneous income	(46,314)
Other miscellaneous income, 31 December 2012, as restated	327,198

30. CURRENCY PRINTING AND MINTING COST

	2013	2012
Notes	3,558,812	3,502,785
Coins	2,207,398	2,065,874
	5,766,210	5,568,659

31. OPERATING EXPENSES

	Note	2013	2012 (As restated)
Personnel services, development and training	a	10,246,244	9,364,820
Administrative expenses	b	7,308,553	2,163,487
Depreciation		625,318	640,103
Loss due to market decline		(41,760)[1]	38,514
		18,138,355	12,206,924

Depreciation, 31 December 2012, before adjustments	646,455
Add/(deduct):	
Overstatement of amortization of intangibles	(6,496)

[1] *With on-going reconciliation.*

	Note	2013	2012 (As restated)
Net understatement of depreciation provided for building, building improvements, land improvements and computer hardware			144
Depreciation, 31 December 2012, 31 December 2012, as restated			640,103

a. PERSONNEL SERVICES

	2013	2012
Salaries and wages	7,340,466	6,493,412
Defined contribution plans	1,812,473	1,774,006
Social security contribution	415,609	402,239
Sickness and death benefits	265,907	256,953
Post-retirement benefits	241,031	230,269
Personnel development and training	162,978	192,541
Medical and dental benefits	7,780	15,400
	10,246,244	9,364,820

b. ADMINISTRATIVE EXPENSES

	2013	2012 (As restated)
Taxes and licenses	5,520,117	120,808
Repairs and maintenance	405,422	353,416
Water, illumination and power services	294,624	301,320
Traveling expenses	276,655	309,295
Currency and gold operations expenses	202,163	209,070
Acquired assets expenses	161,500	243,256
Communication services	151,435	130,633
Grants, subsidies and contributions	126,500	143,915
Consultants and specialist services	91,574	85,217
Fidelity and property insurance	65,664	60,230
Auditing services	59,360	43,028
Supplies and materials	50,025	54,161
Rentals	43,139	26,751
Ammunitions	4,269	9,107
Discretionary expenses	2,996	3,963
Others	(146,890)	69,317
	7,308,553	2,163,487

The following administrative expense account balances as of 31 December 2012 are restated below:

	Taxes and Licenses	Water, Illumination and Power Services	Consultants and Specialist Services	Fidelity and Property Insurance	Acquired Asset Expenses
Balance, 31 December 2012, before adjustments	169,910	308,470	100,733	61,932	169,786
Add/(deduct):					
Expenses related to acquired assets	(49,102)	(7,150)	(15,516)	(1,702)	73,470
Balance, 31 December 2012, as restated	120,808	301,320	85,217	60,230	243,256

Taxes and licenses account balances for CYs 2013 and 2012 are reduced by the amounts of final taxes paid on interest income/discounts (presented as a separate line item in the Income Statement) and taxes and licenses paid on acquired assets (included in the total acquired assets expenses as shown in the succeeding table).

The acquired assets expenses consist of the following:

	2013	2012
Foreclosure expenses	47,162	125,337
Taxes and licenses	34,926	49,102
Security services	28,403	25,670
Legal fees	21,386	1,062
External professional services	18,603	15,516
Association condominium fees	3,933	2,943
Fidelity insurance	3,013	1,702
Repairs and maintenance	2,796	14,774
Light, fuel and water	1,278	7,150
	161,500	243,256

32. PROFIT FOR DISTRIBUTION

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

	2013	2012 (As restated)
Loss for the year	(25,052,280)	(94,999,052)

In accordance with PAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors”, the Net Loss for calendar year 2012 was restated as shown in Note 27b.

33. TRUST FUNDS

	2013	2012
Comptrollership	25,103,768	25,077,525
Supervision & Examination Department-Rural Banks	2,187,485	2,178,053
Treasury Department-Domestic	2,042,515	1,949,468
Department of Loans and Credit-Accounting	375,437	3,265,297
	29,709,205	32,470,343

34. CASH AND CASH EQUIVALENTS

	2013	2012 (As restated)
Foreign currency assets		
Foreign investments - readily convertible to Cash	2,244,909,869	2,231,762,814
Deposit with foreign banks	492,481,582	198,661,902
Due from foreign banks - NIR	23,042,563	4,178,425
Other FX receivable - due from FX banks - special account	538,060	70,204
Other cash balances (foreign currency on hand)	211,211	429,429

	2013	2012 (As restated)
Non-IR foreign currency on hand	6	19,309
	2,761,183,291	2,435,122,083
Local currency assets		
Government securities	219,440,898	218,072,870
Other receivables – due from local banks	312,782	50,880
Other receivables – revolving fund	279,262	278,501
Miscellaneous assets – checks and other cash Items	1,606	3
	220,034,548	218,402,254
Demand liabilities		
Deposit of banks and other financial institutions	(2,554,744,330)	(2,485,095,161)
Government demand deposits	(384,775,934)	(298,618,517)
	(2,939,520,264)	(2,783,713,678)
Cash and Cash Equivalents, 31 December	41,697,575	(130,189,341)

Cash and Cash Equivalents	
31 December 2012, before adjustment	130,590,344
Reimbursement to BSP of interest on special deposit account paid to the Hongkong and Shanghai Bank Corporation (HSBC), which was found ineligible fund	(401,003)
31 December 2012, as restated	130,189,341

35. RECONCILIATION OF OPERATING CASH FLOW WITH REPORTED NET LOSS

	2013	2012 (As restated)
Reported operating surplus (deficit)	(25,052,280)	(94,999,052)
Operating cash flows from changes in asset and liability balances	48,583,183	(192,411,813)
Add/(deduct) non-cash items		
Depreciation	625,318	640,103
Provision for probable loss	316,126	444,793
Income Tax expense due to movement in deferred income tax (DIT)	107,995	53,220
Provision for market decline	(41,760)	38,514
Amortization of premium/discount on bonds payable	(5,592)	5,600
Interest income - loans and advances - prior period	(739)	739
Miscellaneous income from sale of gold closed to Surplus account	0	3,565
	3,205,599	1,186,534
Add/(deduct) movements in other working capital items:		
Increase in miscellaneous liabilities	893,247	452,994
Decrease in accounts receivable	784,532	3,079,563
(Increase)/decrease in interest receivable	(1,148,593)	337,094
Increase/(decrease) in interest payable	(853,734)	(1,325,553)
	(324,548)	2,544,098
Add/(deduct) investing and financing activities		
Net realized (gain)/ loss on fluctuations in FX rates	(5,598,245)	50,375,851
Net cash provided by (used in) operating activities	18,609,458	(233,304,382)

36. TAXES

36.1 Income Taxes

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

	2013		2012	
	Amount	%	Amount (As restated)	%
Provision for income tax computed at the statutory income tax rate	(6,580,172)	(30.00)	(28,600,706)	(30.00)
Add/(deduct):				
Restatements to financial statements computed at statutory rates	(241,838)		116,956	
Provision for income tax computed at the statutory income tax rate, as restated	(6,822,010)	(30.00)	(28,483,750)	(30.00)
Additions to/(reductions in) income tax resulting from the tax effects of:				
Non-deductible national taxes	1,461,722	6.43	275,098	0.29
Provision for allowance for doubtful accounts	100,048	0.44	133,438	0.14
Provision for unused leave credits	76,173	0.33	71,796	0.08
Interest Income subject to Final Tax	(567,219)	(2.49)	(1,349,208)	(1.42)
Prior year reversal of allowance for doubtful accounts	(200,249)	(0.88)	(163,736)	(0.17)
Actual leave credits paid	(82,567)	(0.36)	(75,902)	(0.08)
Income related to the sale of acquired assets	(49,656)	(0.22)	(82,140)	(0.09)
Provision for loss on market decline	(12,528)	(0.06)	11,554	0.01
PICCI income and expenses	(8,028)	(0.04)	(3,163)	(0.00)
Debits on valuation allowance credited to Miscellaneous Income	(1,746)	(0.01)	(474)	(0.00)
Written-off accounts	(786)	(0.00)	(15,873)	(0.02)
Taxable adjustments to Surplus	0	0	1,416	0.00
	715,164	3.14	(1,197194)	(1.26)
Actual provision for corporate income tax	(6,106,846)	(26.86)	(29,680,944)	(31.26)

36.2 Deferred Income Taxes

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

	2013	2012 (As restated)
Deferred income tax asset		
Allowance for doubtful accounts	1,766,413	1,875,111
Unused leave credits	443,944	450,338
Tax overpayments	4,280,662	4,280,662
Excess minimum corporate income tax (MCIT)	0	171,458
PICCI unused tax credit (for consolidation purposes)	29,550	0
Total deferred income tax assets	6,520,569	6,777,569

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

	2013	2012 (As restated)
Net balance at the beginning of the year, before adjustments	6,777,569	6,830,789
Add/(deduct):		
Expired Excess MCIT	(171,458)	0
Temporary differences charged to income tax expense	(107,995)	(44,576)
PICC unused tax credits (for consolidation purposes)	29,550	0
	(249,903)	(44,576)
Net balance at the beginning of the year, before adjustments	6,527,666	6,786,213
Add/(deduct):		
Net adjustments due to de-recognition of allowance for doubtful accounts of PICCI	(7,097)	0
Overstatement of impairment losses	0	(8,644)
Net balance at the end of the year	6,520,569	6,777,569

The allowance for doubtful account balance of the Philippine International Convention Center, Inc. (PICCI) amounting to PHP0.023 billion was derecognized as deferred income tax (DIT) component in CY 2013. This refers to the provision for losses for bad debts on PICCI receivables. Changes in PICCI balances do not necessarily affect the Income Tax Return and are therefore neither assets nor liabilities as far as the BSP is concerned. These accounts are consolidated in the BSP financial statements for presentation purposes. The deferred tax asset that was derecognized on the said PICCI allowance for doubtful accounts is PHP0.007 billion for both CY 2013 and CY 2012. For comparative purposes, the affected figures for CY 2012 were restated, wherever appropriate.

The deferred tax charges/income tax expenses in the statement of income comprise of the following temporary differences:

	2013	2012 (As restated)
Provision for allowance for doubtful accounts	100,048	142,082
Provision for unused leave credits	76,173	71,795
Reversal of account valuations	(200,863)	(166,678)
Actual leave credits paid	(82,567)	(75,902)
Written-off accounts	(786)	(15,873)
Temporary differences charged to income tax expense, before adjustments	(107,995)	(44,576)
Add/(deduct):		
Overstatement of impairment losses	0	(8,644)
Income tax assessment paid for taxable year 2009	(2,204,251)	0
Income tax expenses	(2,312,246)	(53,220)

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

Date of Incurrence	Date of Expiration	2013	2012 (As restated)
Excess MCIT			
December 31, 2009	December 31, 2012	0	171,458
Outstanding NOLCO			
December 31, 2010	December 31, 2013	71,470,030	71,470,030
December 31, 2011	December 31, 2014	38,802,845	38,802,845
December 31, 2012	December 31,2015	99,297,526	99,297,526[2]
December 31, 2013	December 31, 2016	19,550,028	0
		229,120,429	209,570,401
Expired Portion		0	0
Net		229,120,429	209,570,401
Tax Rate		30%	30%
Deferred income tax asset on NOLCO		68,736,129	62,871,120

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

Similarly, the mark-to-market valuation of domestic securities booked directly to equity under the account “Unrealized Losses on Domestic Investments” are not considered as DIT components as the future taxable profit will not be sufficient to absorb these deductible temporary differences. The deferred tax asset that should have been recognized on the said mark-to-market account is PHP2.066 billion in 2013 and PHP2.417 billion in 2012.

Revaluation of International Reserve (RIR) account amounting to PHP32.554 billion is not included as a DIT component pursuant to Section 45 of R.A. No. 7653 which states that “profits or losses arising from any revaluation of the Bangko Sentral's net assets or liabilities in gold or foreign currencies with respect to the Philippine peso shall not be included in the computation of the annual profits and losses of the Bangko Sentral”.

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

In compliance with the requirements set forth by RR No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year 2013.

a. The BSP is a VAT-registered company with respect to its proprietary activities, with VAT output declared on these activities for the year amounting to PHP0.217 billion based on the rental of owned/acquired properties and sale of printing and other services reflected in the Miscellaneous Income account of PHP1.777 billion.

[2] *Restatement pertains to the inadvertent reporting of the 2012 Interest Income subjected to final tax as PHP4,973,586,634 instead of PHP4,497,358,664 in the initial income tax return filed with the BIR on 12 April 2013. An amended return was filed on 15 September 2013 to rectify the misreporting.*

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

c. Input VAT claimed during the year amounted to PHP0.035 billion recognized from local purchases and importations of various goods and services.

d. The landed cost of the BSP's importations not related to activities mentioned in Section 126 of R.A. No. 7653 (see Note 2.29) amounted to PHP0.291 billion for the year, with paid/accrued amount of PHP0.004 billion as customs duties tariff fees.

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

	2013	2012
Local Taxes[3]		
Real Estate Tax	106,103	101,616
Others (registration fees, licenses, permits)	3,729	965
	109,832	102,581
National Taxes		
Capital gains tax on sale of ROPA	136,077	18,227
	136,077	18,227
Deficiency Tax Assessment		
Expanded withholding tax	3,826,785	0
Excise tax	602,181	0
Final withholding tax	532,415	0
Value-added tax (VAT)	265,495	0
Final VAT withholding	39,943	0
Withholding tax on wages	7,389	0
	5,274,208	0

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

	2013	2012 (As restated)
Final withholding tax	11,700,147	17,405,854
Tax on compensation and benefits	1,901,938	1,617,997
VAT withheld	134,014	151,035
Expanded withholding tax	101,820	122,879
Excise tax collected	21,189	25,517
	13,859,108	19,323,282

[3] *Net of taxes related to acquired assets. See Note 31.b.*

	2013	2012 (As restated)
Total withholding taxes, 31 December 2012, before adjustments		19,146,730
Add/(deduct):		
VAT withheld		151,035
Excise tax collected		25,517
		176,552
Total withholding taxes, 31 December 2012, as restated		19,323,282

g. The BSP underwent tax audit for 2008 and 2009. To assist the national government in its collection efforts, the BSP completely resolved the audit for taxable year 2008 with payments for deficiency income tax and VAT in the amount of PHP0.593 billion.

The BSP partially resolved the tax audit for taxable year 2009 with payments for deficiency internal revenue taxes in the amount of PHP3.838 billion. The related BSP application for abatement/cancellation of interest amounting to PHP0.639 billion remains to be pending with the BIR. The 2009 BIR assessment for final withholding of percentage tax amounting to PHP1.335 billion basic tax, and PHP1.037 billion interest as of 29 November 2013 remain unresolved. After the Commissioner of Internal Revenue denied BSP's request for reconsideration, the BSP elevated the matter to the Court of Tax Appeals on 25 April 2014.

The BIR also issued on 27 December 2013 a Final Assessment Notice against BSP for deficiency taxes for 2010 amounting to PHP12.545 billion, and PHP7.235 billion interest and PHP1.496 billion surcharges. After the BSP filed a protest thereto, the BSP, received on 2 May 2014 a Final Decision on Disputed Assessment amounting to PHP9.399 billion with interest of PHP6.242 billion computed as of 30 June 2014 and surcharges of PHP1.496 billion. BSP shall avail of tax remedies available in the light of the assessment. On 30 May 2014, within the reglementary period to file the appeal, BSP filed a Petition for Review with the Court of Tax Appeals seeking to annul the said Final Decision on Disputed Assessment.

The BSP however settled, as collecting agent, the taxes on its gold purchases with compromise payments of PHP2.445 billion for deficiency expanded withholding tax on purchase of gold for 2010 and the corresponding application for abatement/cancellation of interest on deficiency excise taxes has been duly approved. For taxable year 2011, BSP also settled the amount of PHP0.602 billion for deficiency excise tax for the first semester of 2011 and the corresponding application for abatement/cancellation of related interest is still pending with the BIR.

The BSP is also currently under on-going audit of its tax liabilities covering taxable year 2011.