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

1. GENERAL INFORMATION

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

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

The BSP in Quezon City (formerly the Security Plant Complex or SPC), Philippines, houses the banknote and security printing plant, and mint and gold refinery (under the Currency Production Sub-Sector [CPSS]); Cash Department (CD) and Currency Issue and Integrity Office (CIIO), both under the Metro Manila Currency Operations Sub-Sector (MMCOSS), and the Regional Operations Sub-Sector (ROSS) which supervises the Bank's regional offices/branches (ROs/RBs).

The BSP has three (3) ROs sited in San Fernando City, La Union; Cebu City and Davao City, and RBs in nineteen (19) locations. These offices/branches perform cash operations and gold buying operations (in 2 ROs and 2 RBs).

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

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

The Governor is the chief executive officer of the BSP and is required to direct and supervise the operations and internal administration of the Bank. Under its new organizational structure approved pursuant to MB Resolution (MBR) No. 520 dated 26

March 2018, the deputy governor heads each of the three existing operating sectors while the Currency Management Sector (additional created sector) is headed by a Senior Assistant Governor, with the following functions:

a. Monetary and Economics Sector (MES) takes charge of the operations/activities related to monetary policy formulation, implementation and assessment.

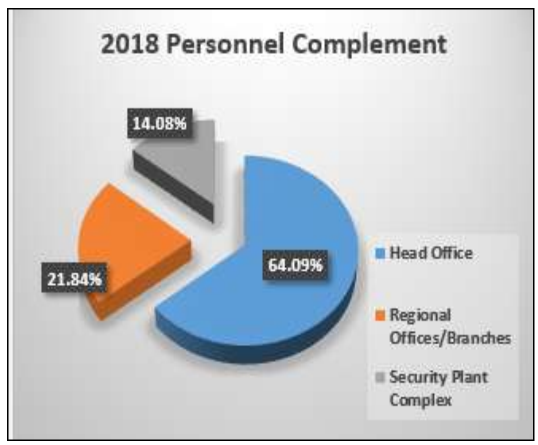
b. Financial Supervision Sector (FSS) regulates the banks and other BSP supervised financial institutions, as well as the oversight and supervision of financial technology and payment systems.

c. Corporate Services Sector (CSS) oversees the effective management of corporate strategy and communications, as well as the human, financial, technological, and physical resources to support the BSP's core functions.

d. Currency Management Sector (CMS) handles the forecasting, production, distribution and retirement of Philippine currency; production of security documents, commemorative medals and medallion; and the mint and gold refinery.

As at 31 December 2018, the BSP has a total personnel complement of 5,527 employees consisting of 5,191 regular and 336 contractual, distributed according to location, as follows:

Location	CY 2018	CY 2017	Change
Head Office	3,542	3,670	(128)
Regional Offices/ Branches	1,207	1,044	163
Security Plant Complex	778	540	238
Total	**5,527**	**5,254**	**273**



In these financial statements, the BSP is also referred to as the "Bank". The MB has approved the release of the financial statements on 21 June 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

Under Section 3 of the New Central Bank Act (RA 7653), the primary objective of the Bangko Sentral is to maintain price stability conducive to a balanced and sustainable growth of the economy. In line with this objective, the Bank's financial statements have been prepared in compliance with the provisions of RA 7653 and applicable Philippine Financial Reporting Standards (PFRSs) and Philippine Accounting Standards (PASs) as aligned with the provisions of International Financial Reporting Standards (IFRSs) and

International Accounting Standards (IASs). It is the Bank's position that having considered its responsibilities in the formulation and conduct of effective monetary policy, it is appropriate to differ, in some aspects, from the adoption of relevant PASs.

In accordance with PAS 1 (Revised 2009), *Presentation of Financial Statements,* effective 1 January 2009, an entity is required to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two (2) statements: a separate income statement and a statement of comprehensive income. The income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit or loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operation). Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g., dividends and capital increase). An entity would also be required to include in its set of financial statements, a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement.

Unless otherwise stated, the balances for calendar year (CY) 2018 are prepared under the historical cost convention and/or applicable PFRS/PAS.

2.2 Cash flows

Cash and cash equivalents (CCE) are financial instruments that are highly liquid and are used in the day-to-day cash management operations of the Bank. This includes the highly liquid foreign currency financial reserve assets of the BSP and local currency financial assets that arise from the BSP's management of the National Government (NG) 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. The CCE include government short-term deposits, deposits of banks and other financial institutions which are cash liabilities of BSP, hence, are deducted therefrom.

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

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

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

2.3 Consolidation

The BSP's financial statements include the accounts of the Bank and the PICCI as of 31 December 2018. Due to immateriality of the balances of the accounts of PICCI, "consolidated" was omitted from the heading of the statement. All inter-company balances are eliminated prior to consolidation.

2.4 Subsidiary

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

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

In accordance with the provisions of PAS 27, the "Investment in PICCI" account was created to record the PHP50.000 million investment of the BSP in PICCI consisting of 500 shares of stock with par value of PHP100 thousand. The balance sheet and income statement accounts of PICCI are consolidated line by line of like items with BSP. Income and expense accounts of dissimilar nature with BSP's are consolidated under two summary accounts, namely: "Miscellaneous Income-PICCI" and "Miscellaneous Expenses-PICCI", respectively.

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 presented in Philippine Peso (PHP), the functional 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 PHP 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 (WAER) at reporting date. Third currency assets and liabilities are first converted to United States dollars (USD) then translated to local currency equivalent.

The WAER at reporting date was used by BSP in translating foreign currency denominated assets and liabilities, instead of the closing rate as prescribed in paragraph 23 of PAS 21, since the WAER is a more representative rate as it captures the results of all done transactions for the day in the Philippine Dealing System (PDS) rather than a closing rate which is based on a single/last transaction. The use of WAER increased the foreign denominated assets and liabilities by PHP85.190 billion and PHP80.459 billion, respectively.

Exchange rates used are based on the published BSP Reference Exchange Rate Bulletin (RERB). The PHP versus the USD depreciated by PHP2.605 or 5.21%, from PHP49.958 as of end December 2017 to PHP52.563 as of end December 2018. The end-December 2018 rate of PHP52.563 was used in the financial statements. Following are the prevailing month-end WAERs in 2018.

For the Month Ended	Exchange Rate USD-PHP	Change
2018		
December	52.563	0.174
November	52.389	(1.138)
October	53.527	(0.575)
September	54.102	0.627
August	53.475	0.315
July	53.160	(0.244)
June	53.404	0.850
May	52.554	0.820
April	51.734	(0.516)
March	52.250	0.180
February	52.070	0.729
January	51.341	1.383
2017		
December	49.958	
AVERAGE	**52.714**	

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 monthly. Likewise, discounts/premiums are amortized monthly using the effective interest rate method. The accrued interests are booked contra a receivable (income)/ payable (expense) account while the amortized discounts/premiums are capitalized. Reversal of the previous month's accruals and amortization of discounts/premiums is done simultaneously with the setting up of accruals and amortization of discounts/premiums as of the current month, except for the Department of Loans and Credit (DLC) and Asset Management Department (AMD), where only the adjustments to the previous month's accruals and amortizations are booked for the current month.

Payment of interest due on demand deposits of banks and other financial institutions maintained with the Bank was discontinued effective 6 April 2012, pursuant to MB Resolution (MBR) No. 1924 dated 27 December 2011 and Circular No. 753 dated 29 March 2012. Interests on deposit accounts of the NG (Regular and Other-Special accounts) with the BSP are credited quarterly to the regular demand deposit account (DDA) of the Treasurer of the Philippines-Treasury Single Account (TOP-TSA), except for TOP-Special Account No. 2 under MBR No. 560, interests of which are also credited semi-annually to the regular DDA of TOP-TSA. On the other hand, interests on foreign currency deposits (FCDs) of the NG are credited to the FCD-TOP account of the TOP upon maturity of the funds that were placed in repurchase agreements and/or time deposits. In case of negative interest, the negative interest received from the counterparty/nostro banks will be pro-rated among the outstanding deposits of BSP, TOP and other Government-Owned and Controlled Corporations (GOCCs). The shares of the NG and other GOCCs will be subsequently debited to the FCD account of TOP and other GOCCs.

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. The ASF shall be collected through the Philippine Payment Settlement System (PhilPaSS) on the specified date referred to in the billing notice sent by the Supervisory Data Center (SDC). On the other hand, Offshore Banking Unit's annual fees are collected by way of wire transfer through the Financial Market Operations Sub-Sector (FMOSS). 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, trust activities and similar services. The collection of penalties shall be fifteen (15) days from the date of receipt of the billing notice, by debiting the bank's demand deposit account (DDA) maintained with the BSP while processing fees, registration fees and other similar fees shall be debited directly against bank's DDA upon approval.

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

2.8.3 Gains or losses due to changes in price and exchange rates

BSP complies with the requirements of PASs 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 changes in price and exchange rates.

BSP's practice recognizes unrealized gains or losses in accordance with Section 45 of RA 7653 where changes in price and exchange rates of financial assets, liabilities and derivative instruments are booked under "Revaluation of International Reserves" (RIR) account, and presented 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 a foreign exchange (FX) forward or option contract involving the PHP. 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 because the BSP is still exposed to FX rate fluctuations. This practice of recognizing realized gains/losses on FX rate fluctuations is generally the industry practice of other central banks.

The realized gains or losses arising from changes 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 under MBR 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. The domestic securities portfolio is mainly classified as AFS as they may be sold in response to the needs for liquidity in the exercise of its functions under the Act. This, however, excludes the PHP50 billion Floating Rate Treasury Bonds which are classified as Held-to-Maturity (HTM), as the primary intention for BSP's acquisition of the bonds was to assist the Central Bank Board of Liquidators (CB-BOL) in servicing/liquidating its liabilities. When the bonds matured on 20 December 2018, they were renewed for another 25 years or until December 2043. Subsequent renewals of the bonds shall be at the option of the NG. On this basis, the classification of the bonds was maintained as HTM.

AFS financial assets (except gold) are initially recognized at cost in USD and subsequently carried at fair values. The fair values of the internally and externally managed portfolios and investments in Asian Bond Fund (ABF) and Inflation Linked Fund (ILF) are based on current market prices provided by the custodians at balance sheet date. Change in price is computed as the difference between the current market price and the amortized price (weighted average price +/- amortized discount/premium) while the change in exchange rate is the difference between the current exchange rate and the historical moving average exchange rate. For domestic securities, the source of market prices is Bloomberg. However, if not available, interpolated prices are used.

Gold is initially recognized at cost in USD and translated to the local currency using the WAER 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 RA 7653), unrealized gains or losses arising from changes in market values of foreign currency denominated financial assets are also recognized in the corresponding revaluation account in the balance sheet. For domestic securities, changes in prices are recognized in the equity section. Financial assets are derecognized when the right to receive cash flows from the investments have expired or have been transferred and the BSP has relinquished all the risks and rewards of ownership. Gains or losses arising from de-recognition or impairment is recognized in the income statement.

2.9.2 Held-to-maturity

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

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

2.9.3 Loans and receivables

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

Loans and receivables at outstanding balance are 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, discrete 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 uncollectable, it is written-off against the related allowance for loan impairment. A loan is written-off when a one hundred per cent (100%) allowance had been set up, no repayments were made and all the required collection procedures had been undertaken. All write-offs are authorized by the MB. Subsequent recoveries of amounts previously written-off are recognized directly as income.

Past due banking fees and penalties of more than twelve (12) and twenty-four (24) months are provided with an allowance for doubtful accounts of fifty per cent (50%) and one hundred per cent (100%), respectively.

2.10 Adoption of the applicable provisions of Philippine Financial Reporting Standards (PFRS) 9 - Financial Instruments by the BSP

Effective 1 January 2019, the BSP shall adopt the applicable provisions of the Philippine Financial Reporting Standard (PFRS) 9 - Financial Instruments, with regard to the classification and measurement as well as the impairment of the financial assets as aligned with the provisions of Republic Act (R.A.) 7653, as amended by R.A. 11211 (BSP Charter). The PFRS 9 replaces the Philippine Accounting Standard (PAS) 39 - Financial Instruments: Recognition and Measurement. The new standard introduced changes in the way financial instruments are classified and measured and a new impairment model that is better aligned with risk management practices.

The BSP defers the adoption of PFRS 9 the following year instead of the mandatory adoption on 01 January 2018, as it deems necessary to seek the opinion of the Philippine Interpretation Council regarding the Bank’s partial adoption of PFRS 9 particularly in the recognition of expected credit losses (ECL) on foreign currency financial assets due to the restrictions stipulated in Section 45[1] of RA 7653. Considering that the RIR merely pertains to the changes in price and foreign exchange fluctuations of the foreign currency denominated financial assets, it is essential to have a valid basis to book the corresponding ECL under the RIR account instead of presenting it in Other Comprehensive Income or Profit or Loss, as the case, maybe.

2.10.1 Classification and measurement

Under PFRS 9, an entity shall classify financial assets as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL) on the basis of both:

a) the entity’s business model for managing the financial assets and

[1] *Section 25 in the amended BSP Charter*.

b) the contractual cash flow characteristics of the financial asset.

Table 1: Classification of debt instruments

	Criteria 1: Business model	Criteria 2: Contractual cash flow characteristics
Amortized cost	Hold financial assets to collect contractual cash flows	Solely payments of principal and interest on the principal amount outstanding
FVOCI	Hold financial assets to collect contractual cash flows and for sale	
FVPL	Effectively a residual category for bonds that cannot be classified as either amortized cost or FVOCI, but an entity can also make an irrevocable election to classify a bond as FVTPL to reduce accounting mismatches.	

Change in fair value of financial assets classified as FVOCI is recognized in the Other Comprehensive Income (OCI)/equity section of the Balance Sheet (BS), except for impairment gains/losses, until the financial asset is derecognized or reclassified. Whereas, change in the fair value of financial assets classified as FVPL is recognized in the IS.

On the basis of the BSP's business model, which was analyzed on a per account basis, for managing financial assets and the instrument's contractual cash flow characteristics, the BSP's financial assets will be reclassified into a more appropriate classification in accordance with the requirement of PFRS 9 as aligned with the provisions of Section 45 of R.A. 7653, as amended by R.A. 11211, as follows:

Present classification	Proposed classification based on business model	Booking of unrealized gains/(losses) due to change in price
Loans & receivables (L&R)	Amortized cost	Not applicable
Held to maturity (HTM)	Amortized cost	Not applicable
Available for sale (AFS)		
- Foreign financial assets	Fair value through revaluation reserves (FVRR)	Change in fair value is booked under the "RIR" account in the BS (asset if loss and liability if gain) in accordance with the BSP Charter
- Domestic financial assets	Fair value through other comprehensive income (FVOCI)	Change in fair value is booked under the "Unrealized gain/(loss) on domestic investments" account in the BS (equity) in compliance with PAS 39/PFRS 9

The adoption of PFRS 9 will result in the classification and measurement of financial assets essentially unchanged except for the following:

a) gold portfolio under AFS which will be reclassified from Fair Value to AC in order to conform with the MB's directive under MB Resolution No. 969 dated 14 June 2018, to adopt a passive strategy for BSP's gold holdings consistent with the rationale of holding gold for insurance and security. The recorded unrealized price gains/(losses) will be reversed contra the principal account, thus, the gold portfolio is measured at reclassification date as if it had always been measured at amortized cost; and

b) equity investments with the Bank of International Settlements (BIS) under L&R which will be reclassified from AC to FVRR, however, there will be no impact in the financial statements as the cost of these financial assets represents the best estimate of fair value.

Moreover, the following policies and procedures will be adopted whenever subsequent reclassification to another warrants due to changes in business model:

a) Financial asset is reclassified out of the AC measurement category into the FVRR, its fair value is measured at the reclassification date. Any unrealized gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value shall be recognized under the RIR account in the BS contra the financial asset account.

b) Financial asset is reclassified out of the FVRR measurement category into the AC measurement category, the financial asset is reclassified at its fair value at the reclassification date. The cumulative unrealized gain or loss previously recognized under the RIR in the BS is reversed contra the financial asset account. As a result, the financial asset is measured at the reclassification date as if it has always been measured at amortized cost.

Notwithstanding the change in the classification name, the current accounting policies and procedures adopted in booking realized and unrealized gains/(losses) due to change in price will still be the same due to restrictions set under the BSP Charter. The change in fair value of financial assets classified as FVRR is computed as the difference between the Fair Value and Amortized Cost. As defined by PFRS 9 Appendix A Defined Terms, "Amortized Cost" is the amount at which the financial asset or financial liability is measured at initial recognition, minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. For financial assets, the amortized cost is adjusted further for any impairment loss allowance.

2.10.2 Impairment

Pursuant to PFRS 9, an entity shall apply the impairment requirements for the recognition and measurement of a loss allowance for financial assets that are measured at amortized cost or at FVOCI. Under the impairment approach in PFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses (ECL) and changes in those ECL. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely and forward looking information is provided about ECL.

The PFRS 9 contains a 'three stage' approach to recognize credit impairment, which is based on the changes observed in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate the level of impairment losses to be recognized.

Stage 1	Stage 2	Stage 3
12-month ECL Financial assets that have low credit risk at the reporting date	Lifetime ECL Financial assets that have had a significant increase in credit risk at the reporting date	Lifetime ECL Financial assets that have objective evidence of impairment at the reporting date

If at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. The interest income on the financial asset is computed using the gross carrying amount of assets.

Otherwise, if at the reporting date, the credit risk on that financial instrument has increased significantly since initial recognition, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL. In this case, the interest income is computed using the carrying amount of assets net of impairment provision.

In compliance with the provisions on impairment of PFRS 9, the BSP shall compute and recognize in the books the probable impairment losses using the ECL approach, for those financial assets classified as FVRR and Amortized Cost except for the demand deposits, gold, bonds issued by the BSP and the National Government (NG), loans to NG, IMF related transactions and equity investments with the BIS, as credit risks to these financial assets are assumed to be close or almost equal to zero.

The ECL will be adjusted on a periodic basis to reflect the credit risk at each reporting period. The computed ECL for financial assets classified as FVRR and AC will be booked under the RIR account and Income Statement, respectively.

2.10.3 Impact in the financial statements

Using the outstanding balances as of 31 December 2018 of the financial assets, the effects of the adoption of the classification and measurement; and impairment provisions of PFRS 9 will not materially impact the BSP's financial statements, as follows:

a) The change in the business model of gold portfolio from fair value (AFS) to amortized cost will not impact the BSP's net assets, however, analysis on a per account basis revealed that the Gold (asset account) will decrease by PHP7,238.20 million (USD 137.70 million) with a corresponding decrease in previously recorded price gains under the RIR (liability account) by the same amount.

b) The total computed ECL amounted to PHP3,796.82 million or 0.079% of the total BSP's financial assets of PHP4,798,136.85 million. Out of the PHP3,796.82 million, PHP3,487.90 million has already been provided for allowance for doubtful accounts (ADA), broken down as follows:

Department	Total ECL	Lifetime ECL (ADA)	12-month ECL
Financial Market Operations Sub-Sector (formerly Treasury Department)	280.465	0.000	280.465
Department of Loans and Credit	2,155.245	2,153.530	1.715
Asset Management Department	210.339	210.339	0.000
Financial Accounting Department and other departments	1,150.776	1,150.552	0.224
Total	**3,796.825**	**3,514.421**	**282.404**

Out of the computed 12-month ECL of PHP282.40 million, PHP54.28 million which represents ECL of financial assets classified as AC, will reduce the reported Income

Statement by the said amount. On the other hand, computed ECL of financial assets classified as FVRR of PHP228.12 million which will be recorded under the RIR account will have no net impact in the BS, as the said amount will only result to a reclassification impact in the RIR account (reclassification from RIR-Price to RIR-Impairment Loss).

2.11 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 2.12.

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

2.12 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 assignment by PDIC of assets of closed banks based on the Final Project of Distribution of Final Asset Distribution Plan approved by the Liquidation Court, 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 acquired through foreclosure are booked at the amount indicated in the Certificate of Sale. The amount recovered (equivalent to the BSP bid price) is applied first to foreclosure expenses then to liquidated damages, accrued interest, interest income and principal, in that order of priority. After exhaustion of the principal and, if there may be any remaining balance from the proceeds of the foreclosure sale, said balance is applied to other obligations incurred by the BSP (e.g., consolidation expenses) as stipulated and agreed upon in the loan documents executed by the borrower-banks in favor of the BSP.

Investment properties are not depreciated. However, periodic appraisal of properties available for sale 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.

2.13 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 related accumulated depreciation are derecognized, 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 ten per cent (10%) residual value:

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

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

2.14 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" account is carried at cost less any accumulated amortization computed using the straight line method based on estimated useful life of five (5) years.

2.15 Leases

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

2.16 Inventories

Under PAS 2, inventories are assets in the form of materials or supplies to be consumed in the production process or in the rendering of services. Raw materials acquired by the BSP through import LCs are recognized as "Asset in transit" account upon receipt of notice of loading/shipment from the suppliers. The raw materials are booked based on prevailing exchange rate at the time of shipment/loading if Incoterms is Cost and Freight/Cost Paid To (CFR/CPT) and based on prevailing exchange rate at the time of acceptance by end-user department if Incoterms is Delivered at Place/Delivered Duty Paid (DAP/DDP). 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 CPSS to Currency Issue and Integrity Office (CIIO) of Currency Management Sub-Sector (CMSS). Currency production expenses for imported and in-house produced notes and in-house produced coins are recognized in the BSP income statement only upon issuance of notes and coins from CIIO to CD, and Regional Operations Sub-Sector (ROSS), for circulation to the banks and public. BSP values the currency inventory and issuances based on moving average method.

2.17 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.

2.18 Financial liabilities

Financial liabilities denominated in foreign currency comprise short-term FCDs of banks, the 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 WAER at reporting date. The difference is recognized in the balance sheet as unrealized gains or losses due to change in exchange rates. Interest is accrued monthly and recognized in the income statement.

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. See Note 2.8.1.

On 3 June 2016, the BSP formally adopted an interest rate corridor (IRC) system as a framework for conducting its monetary operations. The IRC is a system for guiding short-term market interest rates towards the central bank (CB) target/policy rate. It consists of a rate at which the CB lends to banks (typically an overnight lending rate) and a rate at which it takes deposits from them (deposit rate). In a standard corridor, the lending rate will be above the CB target/policy rate (thereby forming an upper bound for short-term market rates), and the deposit rate will be below the CB rate, thereby forming the lower bound. The IRC system is intended to help ensure that the money market interest rates move within a reasonably close range around the BSP's policy rate.

With the adoption of the IRC, the Repurchase facility was replaced by a standing overnight lending facility; the Reverse Repurchase facility was transformed into an overnight Reverse Repurchase which was offered at a fixed rate equivalent to the policy rate; and the Special Deposit Account term (SDA) facility was replaced by a standing overnight deposit facility and the auction-based Term Deposit Facility.

2.19 Derivative instruments

The BSP engages in forwards, swaps, gold options and futures. Derivatives are not designated as hedges. In line with PAS 39, derivative instruments are recognized at fair value on the date at which the derivative contract is entered into and are subsequently re-measured at their current fair values. Fair values are obtained from Bloomberg and from broker.

For forwards, a contingent asset/liability is recognized at spot date. At month-end, the forward contract is marked-to-market and the unrealized gains or losses due to change in exchange rates are booked under the RIR account. At maturity date, the contingent asset/liability is reversed and the purchase/sale of the currency is recorded. Realized gains or losses due to change in exchange rates are recognized in the income statement and accounted for as the difference between the spot rate on forward date and historical moving average rate. The RIR account is reversed at month-end.

For swaps, a purchase/sale of the currency (USD for PHP or vice versa) is recorded together with the contingent asset/liability at spot date. Realized gains or losses due to change in exchange 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 gains or losses due to change in exchange rates, which is 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. The derivative asset or liability is revalued and marked to market at month-end and the unrealized gains or losses due to change in exchange rate and price are booked under the RIR account. 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 "Premium Received/(Paid) on Call/Put Option" account and recognized in the income statement. Further, if the option is exercised, trading gains or losses from the sale of the underlying asset are also recorded in the Income Statement. The RIR account is reversed at month-end.

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

2.20 Overnight lending facility, overnight reverse repurchase, overnight deposit facility, term deposit facility, and securities lending agreements

2.20.1 Overnight lending facility (OLF)

The OLF is a BSP standing facility which allows counterparties to obtain overnight liquidity from the BSP on an open-volume basis against eligible collateral in order to cover short-term liquidity requirements. The OLF is open to banks (universal, commercial, specialized and thrift) and non-banks performing quasi-banking functions (NBQBs).

2.20.2 Overnight reverse repurchase agreement (RRP)

RRP refers to the BSP's monetary instrument where the BSP sells government securities with a commitment to buy them back at a later date. RRPs are open to banks (universal, commercial, specialized and thrift) and NBQBs. These counterparties may enter into RRP transactions with the BSP by participating in the RRP auction operation. The BSP withholds twenty per cent (20%) final withholding tax (FWT) and five per cent (5%) gross receipts tax (GRT) on RRP transactions.

2.20.3 Overnight deposit facility (ODF)

The ODF is a BSP standing facility which allows banks (universal, commercial, specialized and thrift) and NBQBs, and trust entities to place overnight deposits with the BSP. Beginning 01 July 2017, however, placements of trust entities in the ODF were discontinued in compliance with MBR No. 1945 dated 27 October 2016.

The ODF is offered using a fixed-rate and full-allotment method, where individual bidders are awarded a portion of the total offer depending on their bid size. Fixed-rate and full allotment allocation helps ensure that the overnight rate sits close to the BSP policy rate.

ODF transactions are subject to the twenty per cent (20%) FWT and five per cent (5%) GRT.

2.20.4 Term deposit facility (TDF)

The TDF is a liquidity absorption facility used by the BSP for liquidity management. It is used to withdraw a large part of the structural liquidity from the financial system to bring market rates closer to the BSP policy rate. The BSP initially offers two tenors: seven (7) days and twenty-eight (28) days, in its term deposit auction. Starting with the auction on 14 February 2018, however, the BSP introduced the 14-day tenor in response to the strong interest of BSP's various counterparties for a tenor longer than 7 days but shorter than 28 days following a series of BSP consultations. This further refined the BSP's instruments and operations under the IRC. Pre-termination is prohibited for the 7-day tenor but is allowed for the 14 and 28-day tenors after the 7-day holding period at the appropriate pre-termination rate. The TDF auction is operated using a variable-rate, multiple-price tender (English auction) in order to bring short-term interest rates within a reasonable close range to the policy rate. Banks, NBQBs and Trust entities can participate in the TDF facility. However, beginning 01 July 2017, placements of trust entities in the TDF were discontinued in compliance with MBR No.1945 dated 27 October 2016.

TDF transactions are subject to the twenty per cent (20%) FWT and five per cent (5%) GRT.

2.20.5 Securities lending agreements

To maximize the Bank's returns from its investments in foreign securities and to offset custody fees, the 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.

2.21 Currency in circulation

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

In accordance with Section 51 of the New Central Bank Act, notes and coins issued by the Bangko Sentral shall be liabilities of the Bangko Sentral and may be issued only against, and in amounts not exceeding, the assets of the Bangko Sentral. Said notes and coins shall be a first and paramount lien on all assets of the Bangko Sentral. Also, notes and coins held in the vaults of the CD and ROSS 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 books maintained by the fund administrators for each fund, as addition in the Fund balance except for Provident fund wherein the Board of Trustees shall set aside a portion of the earnings as General Reserve Fund (GRF) for Provident sub-account when the balance fall below an amount equivalent to one-half of one per cent (1/2 of 1%) of the total members' equity as of the end December of each year. The balance of the unappropriated earnings of the Provident fund is declared as the fund members' share in the earnings of the Fund 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 PASs.

2.22.1 Provident funds

The Provident Fund was established in accordance with RA 4537 dated 9 June 1965 which authorized such fund to be set-up by government-owned or controlled banking institutions. This is a defined contribution plan wherein the Bank's monthly contribution is equivalent to twenty per cent (20%) of the basic salary of each employee while the employee contributes 2.5 per cent. As approved by the MB on 19 December 2008, the Bank's monthly contribution was increased from twenty per cent (20%) to 22.5 per cent while the employees are given the option to increase their personal contribution from 2.5 per cent to five per cent (5%) which took effect in February 2009.

Another defined contribution plan is the Housing Fund established in CY 1978, wherein the contribution is similar to the Provident Fund.

All regular employees automatically become members of the Funds. The Bank's contributions are recognized in the income statement as operating expenses. The Funds are administered by the Provident Fund Office (PFO), a separate legal entity staffed by Bank personnel, established for the purpose of managing the Funds.

On 1 November 2017, the Bank implemented the consolidation of the Provident and Housing Funds as approved per BSP PF Resolution No. 186 dated 24 May 2017. This is in line with MBR No. 488 dated 19 April 2006 which approved the revised rules and regulations governing the Provident Fund.

2.22.2 Longevity trust fund

This Fund was created in CY 1991 for the exclusive purpose of paying longevity benefits to seceding members of the provident fund based on the length of service, the minimum of which is five (5) years. The Bank contributes an equivalent of twelve per cent (12%) of the member's annual basic salary. The Bank's contributions are recognized in the income statement as operating expenses. The Fund is administered by the PFO.

2.22.3 Car plan fund

BSP implemented the car plan program in CY 1993 in line with the approval of the motor vehicle lease purchase plan (MVLPP) for government financial institutions by the Office of the President on 20 July 1992. Effective 21 December 2017, Bank Officer IV and equivalent positions (JG 6) and up are entitled to avail under the BSP's MVLPP (or "Car Plan") pursuant to MBR No. 2062 dated 7 December 2017. 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.

2.22.4 Retirement benefit fund

This Fund was set-up in CY 1997 for employees who will be eligible to retire under RA 1616. Based on a study made by Human Resource Management Department (HRMD) in CY 2005, the outstanding balance of the fund plus projected earnings up to CY 2023 would be sufficient to cover the benefits of the employees who will be qualified to retire under the plan. Actual charges include (a) retirement gratuity pay and (b) financial assistance to beneficiaries of departed members. The balance of the Fund is reported in the balance sheet under "Capital Reserves" account and as a receivable from the PFO, as administrator, under the "Due from Administrator of Funds" account. The Fund resources are invested in government securities and all income accrues to the Fund, net of fifteen per cent (15%) management fee to PFO.

2.23 Capital reserves

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

Managed funds

2.23.1 Fidelity insurance fund

This Fund was set-up in CY 1997 as self-insurance for the fidelity bond of bank officers and staff with cash and gold accountabilities in excess of PHP100 million.

Accountabilities up to PHP100 million are covered by fidelity bonds issued by the Bureau of the Treasury (BTr). Annual charges against surplus are computed at one per cent of seventy-five per cent (1% of 75%) of the maximum amount of accountabilities (net of PHP100 million) of each group/ individual covered by the Fund. The Fund is an internally managed fund with the BSP Comptrollership Sub-Sector (CoSS) as administrator. It is accounted separately from the bank proper resources through the "Due from Administrator of Funds" account. There was no additional provision to the Fund since CY 2006 as it was determined that the balance of the fund is sufficient to cover the highest single amount of accountability covered by the Fund. Since the establishment of the Fund, no claims have been charged thereon.

2.23.2 Currency insurance fund

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

2.23.3 BSP properties self-insurance fund

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

2.23.4 Retirement benefit fund

This Fund was set-up in CY 1997 for employees who will be eligible to retire under RA 1616. See Note 2.22.4.

2.23.5 Directors and officers liability insurance (DOLI) fund

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

Other funds

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

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

2.23.7 Reserve for contingencies

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

2.23.8 Property insurance (artworks, paintings and sculptures)

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

2.23.9 Reserve for the rehabilitation of the SPC

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

2.23.10 Cultural properties acquisition

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

2.23.11 Gold insurance

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

2.24 Commitments and contingent liabilities

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

	2018	2017
FX commitment receivable/sales	0	21,227,225,000
FX commitment receivable/payable	474,693,495,816	463,552,390,085
Currency unissued	154,613,370,000	195,910,619,700
LCs held/received in process	9,011,940,801	3,929,164,518
Equity investment receivable/payable	861,173,900	861,173,900

Below is the FX commitment receivable/payable as of 31 December 2018:

a. With no maturity

	USD	PHP
FX commitment receivable/payable		
New arrangements to borrow (NAB)	480,016,933	21,086,183,816
Chiang Mai initiative multi-lateralization agreement (CMIM)	9,104,000,000	399,920,512,000
Note purchase agreement (NPA)	1,000,000,000	43,142,000,000
Total	**10,584,016,933**	**464,148,695,816**

b. With one (1) to three (3) months maturity

	USD	PHP
Foreign currency forward	**200,000,000**	**10,544,800,000**

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

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

2.24.2 FX commitment receivable/payable represents foreign currency forward

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

2.24.3 FX commitment receivable/payable of futures

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

2.24.4 FX commitment receivable/payable of BSP under various International Monetary Fund (IMF) facilities (FTP, NAB, NPA and CLIFF-LICs)

a. 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. As of 31 December 2018, total IMF drawdowns amounted to SDR235.100 million (USD362.475 million), where payments received totaled SDR84.500 million (USD116.358 million) leaving an outstanding balance of SDR150.600 million (USD246.117 million).

b. New arrangements to borrow (NAB)

The NAB facility of the IMF is a credit arrangement between the Fund, and a group of forty (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 (USD524.474 million).

As of end December 2018, out of total commitment of SDR340.000 million (USD524.474 million), total loans granted amounted to SDR89.920 million (USD133.156 million). Repayments received from the IMF reached SDR61.100 million (USD86.920 million), leaving an outstanding loan balance of SDR28.820 million (USD46.236 million). The amount of SDR311.180 million (USD480.02 million) is available for drawdown under the BSP's commitment.

c. Note purchase agreement (NPA) between the BSP 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 billion. The commitment under the NPA was booked in 2013. As of end 2018 no transactions were made under the agreement.

d. Concessional lending instrument and financing framework for low-income countries (CLIFF-LICs)

The Philippines, through the BSP, provided subsidy contribution to the Poverty Reduction and Growth Trust (PRGT), which is the Fund's concessional lending facility for LICs. The BSP's strong external position allowed it to provide subsidy contribution to the Fund in the amount of SDR1.900 million (USD2.700 million) to be disbursed in five (5) equal annual installments subject to prevailing exchange rates at the time of transactions for the fiscal years 2011 to 2015. With the fifth and final payment made on 9 December 2015, the BSP has fulfilled its pledge in 2010 and the Fund has expressed gratitude for the Philippines' generous support to the PRGT of the IMF.

2.24.5 Currency swap arrangements with central banks

a. Chiang Mai initiative multilateralization (CMIM) arrangement

The Philippines is a member of the CMIM. It is a USD240 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) plus three (3) member countries (China, Japan and Korea) and the Hong Kong Monetary Authority, aimed at providing financial support in the event of balance of payment difficulty. The contribution to the CMIM does not involve outright transfer of the committed amount but is instead in the form of a commitment letter, whereby the central banks/monetary authority of ASEAN + 3 countries as well as the Hong Kong 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. USD22.760 billion from the CMIM. As of end 2018, no transactions were made.

b. Bilateral swap arrangement (BSA) with the Bank of Japan (BOJ)

The BSA with BOJ, acting as the agent for the Minister of Finance of Japan, would allow the BSP to swap up to USD12 billion in the event of a potential or an actual liquidity need. The BSP has a commitment to provide up to USD500.000 million to the BOJ in the event of a potential or an actual liquidity need.

c. ASEAN swap arrangement (ASA)

The ASA is a USD2 billion facility of the ten (10) ASEAN member central banks that allows them to swap their local currencies with major international currencies, i.e., USD, Japanese Yen (JPY) and Euro, for an amount up to twice their committed amount under the facility. The Philippines committed to contribute up to USD300 million and could request swap of up to USD600 million worth of PHP.

2.24.6 Bank for international settlements (BIS)

The commitment amounted to SDR12 million (USD18.500 million), which represents the uncalled portion or seventy-five per cent (75%) of the BSP shareholdings in the BIS.

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

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

2.25 Trust accounts

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

2.26 Prior period adjustments

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

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

2.27 Comparatives

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

2.28 Dividend distribution

In accordance with transitory provisions of RA 7653, Section 132 (b), the BSP remits seventy-five per cent (75%) of its net profits to a sinking fund until such time as the net liabilities of the old central bank shall have been liquidated through generally accepted finance mechanisms or to the NG as dividends with the remaining twenty-five per cent (25%) as residual to BSP surplus. Beginning CY 2016, the MB approved the declaration and remittance to NG of fifty per cent (50%) of the earnings of the BSP as dividends, computed pursuant to RA 7656 (The Dividend Law) and its Revised Implementing Rules and Regulations (IRR) without prejudice to the final resolution of the case on BSP dividend declaration pending with the Supreme Court.

2.29 Taxes

The BSP is liable for all national, provincial, municipal and city taxes, fees, charges and assessments. However, as clarified under Revenue Memorandum Circular No. 65-2008, BSP is exempt from business taxes for its revenues and receipts derived from the exercise of essential governmental functions but subject to business taxes in the exercise of purely proprietary functions.

Except for value-added tax (VAT), BSP also continues to be 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 RA 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. Insofar as VAT exemption is concerned, Section 126 of RA 7653 was repealed by RA 10963, otherwise known as the Tax Reform for Acceleration and Inclusion (TRAIN) Law.

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

On 14 February 2019, RA No. 11211, amending RA No. 7653 was signed into law and one of the amendments include the exemption of BSP's income from governmental functions from all taxes.

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

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

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

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

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

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

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

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

3. RISK MANAGEMENT

The BSP has adopted a modified centralized enterprise-wide risk management (ERM) 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 composed of a MB level Risk Oversight Committee responsible for ensuring the effectiveness of the ERM Framework in the Bank, a centralized Risk Management Office (RMO) that acts as a coordinating body and process oversight on risk management, and decentralized Risk Management Units (RMUs) responsible for promoting and coordinating the implementation of the ERM in the operating units.

The BSP is exposed to financial risks associated with its foreign and local currency activities. In managing the risks, the FMOSS, DLC and AMD are guided by policies approved by the MB.

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

The risk factors considered are as follows:

3.1 Market risk

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

The BSP measures the market risk of the reserve portfolios primarily using duration, PVO1 and CR01 metrics, which measures the sensitivity of the portfolios to changes in interest rate factors. In addition, the Bank uses Value-at-Risk (VaR) to aggregate the risks of all actively-managed portfolios under normal market condition. As a supplement to these risk metrics, the Bank uses stress testing and scenario analyses to assess the impact of adverse market movement to its portfolios.

For portfolios which are managed against benchmarks, the Bank uses ex-ante tracking error to measure active risk.

3.1.1 Currency risk

The Bank considers the effects of fluctuations in the prevailing currency exchange rates on its financial position and cash flows. The following table summarizes the Bank's exposure to foreign currency exchange rate risk as at 31 December 2018 grouped into assets and liabilities at carrying amounts:

Currency	Original Currency	USD Equivalent
Assets		
USD	243,293,923,185	243,293,923,185
GBP	1,410,306,202	1,993,916,638
AUD	2,469,926,031	1,745,237,210
JPY	188,219,564,782	1,714,963,057
SDR	926,339,710	1,288,344,005
CNY	6,703,808,834	975,348,946
CNH	4,789,117,698	697,430,707
CNH	3,591,667,730	552,556,556
SAR	15,829,003	4,206,005
EUR	1,950,093	2,204,838
CAD	2,636,631	1,950,955
AED	3,333,655	905,973
HKD	4,237,780	540,566
CHF	524,910	525,792
SGD	679,090	493,726
BND	584,734	425,486
KRW	431,817,000	383,930
THB	1,613,980	48,685
BHD	18,031	47,679
IDR	116,372,000	8,086
Liabilities		
USD	2,117,670,591	2,117,670,591
SDR	859,781,228	1,195,775,134
CNY	1,429,044,697	208,088,447
EUR	32,404,168	37,031,483
JPY	1,505,070,050	13,714,198
CAD	1,252,665	918,454
GBP	9,641	12,303

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

3.1.2 Interest rate risk

The risk that the value of an investment will fluctuate due to changes in interest rates. The investment guidelines also specify duration limits to manage interest rate risk exposures from investments in fixed income securities. Adherence to duration limits is monitored daily.

3.1.3 Commodity risk

The risk that the value of an investment will fluctuate due to changes in commodity prices. Currently, the only commodity held by the BSP as part of its reserves is gold. Exposure to commodity risk associated with the gold holdings is managed by placing a limit on the level of the gold holdings; and by monitoring gold price volatility.

3.2 Credit risk

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

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

a. Counterparty Accreditation and Eligibility of Investments - the Bank only deals with accredited counterparties and invests in instruments allowed under the guidelines. Due diligence is observed in evaluating the creditworthiness of its counterparties by monitoring the key financial ratios and other market monitoring tools.

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

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

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

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

Credit risks associated with repurchase agreements of the BSP with local banks are collateralized by government securities from the borrowing bank. To ensure that the

BSP is adequately covered from potential loss, it assesses the collateral based on its existing market value, adjusted for haircuts. The haircuts, which are based on price and exchange rate volatilities, are designed to protect the BSP (under both normal and extreme market conditions) against collateral value shortfall in the event of borrower's default.

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

3.3 Liquidity risk

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

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

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

3.4 Operational, legal and reputational risks

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

To ensure the continuity of business operations in emergency situations, onsite and offsite back-up facilities are in place for mission-critical units. These facilities are periodically tested to minimize business disruptions in the event that the primary installations become unavailable.

In FMOSS, enhancement and automation of processes are continuously being made in order to mitigate operational risks. FMOSS is in the process of developing a straight-through processing system, which entails the automation of the processing of deal transactions from the front office to the settlement of the transactions by the back office, to eliminate redundant manual encoding.

FMOSS also coordinates with relevant BSP departments, external stakeholders and other institutions to facilitate compliance with regulations affecting its investment activities. All agreements, contracts, and other documents which may contractually bind the BSP to FMOSS' counterparties, custodians, securities lending agents, and other entities, are referred to the BSP's General Counsel for review and clearance, before they are signed.

Furthermore, the DLC engages the services of external lawyers to fast track collection on delinquent accounts 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.

In managing BSP's risks associated with the decline in market values of its acquired assets, the AMD engages the services of appraisal companies acceptable to the BSP's Management Services Sub-Sector (MSSS) to conduct periodic appraisal of the acquired assets in accordance with established appraisal valuation principles and practices.

4. SIGNIFICANT EVENTS

The MB approved on –

a. 5 January 2018 the award of the contracts to Arjowiggins Security S.A.S., through ICV Enterprise; and De La Rue International Limited, through Fil-Anglo Management & Promotional Consultants, the supply and delivery of New Generation Currency (NGC) banknote papers (50-outs) as per BSP technical specifications and terms of reference, in the total amount of EUR31.121 million equivalent to PHP1,856.296 million.

b. 18 January 2018 the award to KBA-NotaSys SA through F.E. Zuellig (M) Inc., of the contract for one lot-supply, delivery, installation, and commissioning of Wiping Solution Treatment Plant and Complete Effluent (Discharge) Treatment Facility, inclusive of dismantling of existing WSTP, one year supply of consumables and one set of wear-and-tear spare parts, as per BSP technical specifications and terms of reference, in the total amount of EUR2.681 million, delivery at place at BSP-SPC.

c. 18 January 2018 the award to Grabener Pressensysteme GmbH & Co. KG, through Machinebanks' Corporation, the contract for one lot supply, delivery, installation, and commissioning of five units compress machine, including ancillary arts, logistical materials, supply and delivery of initial consumables for testing and commissioning of each machine, inclusive of two sets wear-and-tear spare parts, as per BSP technical specifications and terms of reference in the total amount of USD4.996 million, cost and freight Manila.

d. 8 March 2018 the award to Royal Canadian Mint, through FMC Research Solutions, Inc., Jarden Zinc Products, LLC, through Fil-Anglo Management and Promotional Consultants, the contract for the supply and delivery of NGC coin metals, as per BSP technical specifications and terms of reference, in the total amount of USD72.811 million, delivery at place BSP-SPC, equivalent to PHP3,673.614 million.

e. 30 April 2018 the approval of the execution of a Deed of Conveyance between the BSP and the BTr to document the conveyance, by way of property dividends to the NG, of 14 properties located in various areas with a total value of PHP451 million based on the Commission on Audit's Evaluation Report dated 16 July 2012, as part of the total BSP dividend due to the NG for the calendar year 2009, and the assumption by BSP of the necessary taxes, notarial expenses, and other fees and charges incidental to the transfer of the title to the properties in the name of the NG.

f. 24 May 2018 the award to Royal Canadian Mint, through FMC Research Solutions, Inc; Mint of Finland Ltd., through Stan Chem Philippines, Inc; and The Royal Mint Limited, through Fil-Anglo Management and Promotional Consultants, the contract for the supply and delivery of NGC outsourced finished coins, as per BSP technical specifications and terms of reference in the total amount of USD52.689 million, cost and freight Manila, equivalent to PHP2,742.456 million.

g. 28 June 2018 the payment of PHP2.000 billion as compromise settlement of the BSP's alleged tax liabilities covering taxable year 2011, to settle the tax assessment issue from the BIR, and which is not an admission of any tax liability.

h. 19 July 2018 the award to Giesecke & Devrient Asia Pacific Limited, through Coquillage Research and Consultancy Corporation, for the supply, delivery, installation, testing, and commissioning of various automated banknote processing machines as per BSP terms of reference and technical specifications in the total amount of USD7.920 million, delivery at place BSP ROs and RBs, equivalent to PHP421.740 million.

i. 20 September 2018 the award to Giesecke & Devrient Asia Pacific Limited, through Coquillage Research and Consultancy Corporation, the contract for one lot supply, delivery, installation, testing, and commissioning of three units high speed fully automated banknote processing machines, including supply and delivery of consumables and spare parts good for three-year operation sufficient to verify at least two billion pieces of banknotes, as per BSP terms of reference and technical specifications in the total amount of USD2.664 million or PHP141.458 million, delivery at place BSP-SPC.

j. 6 December 2018 the award to Dacworks United Inc., the contract for one lot supply, delivery, and installation of two units 1,000TR Magnetic Bearing Chiller of the Centralized Air Conditioning System at the BSP Head Office, as per BSP terms of reference and approved drawings in the total amount of PHP80.000 million, value added tax inclusive.

k. 20 December 2018 the award to Gleitsman Security Inks GmbH, through Fil-Anglo Management and Promotional Consultants, the contract for the supply and delivery of NGC banknote inks as per BSP technical specifications and terms of reference in the total amount of EUR1.418 million, delivery at place, BSP-Quezon City, equivalent to PHP84.826 million.

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. DEPOSITS WITH FOREIGN BANKS

Due from Foreign Banks (DFFB) account represents demand and time deposits of BSP with foreign depository banks.

	Note	2018	2017
DFFB-Demand Deposit	a	127,204,683,639	277,425,829,163
DFFB-Time Deposit	b	993,130,630,500	553,035,060,000
		1,120,335,314,139	830,460,889,163
Accrued interest		2,912,848,401	1,314,041,526
Total		**1,123,248,162,540**	**831,774,930,689**

a. **Due from foreign banks - demand deposits (DFFB-DD)** represents BSP's foreign currency deposits with foreign banks and are considered to be the most liquid among the international assets since they are already in the form of cash and may be withdrawn without restrictions.

b. **Due from foreign banks - time deposits (DFFB-TD)** represents placements of BSP with accredited foreign banks. Foreign exchange holdings of the BSP not otherwise needed for operation in the near term, are invested as time deposits with foreign correspondent banks with terms up to one year at varying interest rates.

7. OTHER CASH BALANCES

This represents fit foreign currency notes purchased from Authorized Agent Banks (AABs) held by the CD and BSP Regional Currency Operation Units. All foreign currencies are recorded at their peso and/or dollar equivalent based on the BSP Reference Exchange Rate Bulletin.

Month-end revaluation of foreign currencies arising from fluctuations in exchange rates is debited/credited to the Revaluation of Foreign Currency - Unrealized account.

8. INVESTMENT SECURITIES

	2018	2017
Marketable securities	1,498,825,089,209	1,973,881,080,636
Other investments	627,390,352,581	735,568,034,478
	2,126,215,441,790	2,709,449,115,114
Accrued interest	8,180,653,264	9,859,596,376
Total	**2,134,396,095,054**	**2,719,308,711,490**

Marketable securities consist of foreign securities (free) and repurchase agreements. The former primarily includes commercial papers in USD, JPY, CNH, CNY, GBP and AUD currencies. Other investments include externally managed funds (PHP573.473 billion), Asian bond fund (PHP37.750 billion) and BISIP (Bank for International Settlement and Investment Pool - PHP16.168 billion).

9. FOREIGN SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

This represents excess funds of BSP's daily requirements held and invested automatically by Nostro banks in an overnight facility. See Note 2.20.1.

10. LOAN TO INTERNATIONAL MONETARY FUND

This represents calls on the new arrangements to borrow (NAB) facility of the International Monetary Fund (IMF). The NAB facility credit arrangement between the IMF and a group of forty (40) member countries and institutions to provide supplementary resources to the IMF in coping with an impairment of the international monetary system or dealing with an exceptional situation that poses a threat in the stability of that system. The claims arising from calls under the NAB will be in the form of loan to IMF.

	2018	2017
Beginning balance-January 1	2,684,037,234	3,942,099,150
Add/(deduct):		
Repayment	(646,452,346)	(1,512,246,305)
Revaluation adjustments	(23,429,603)	71,825,185
Moving average cost (MAC) adjustments	92,704,726	182,359,204
	(577,177,223)	(1,258,061,916)
Total	2,106,860,011	2,684,037,234
Accrued interest	4,232,653	3,527,275
Ending balance-December 31	**2,111,092,664**	**2,687,564,509**

11. GOLD

	Note	2018	2017
In bullion vault	a	174,494,554,003	170,927,051,012
With foreign financial institutions	b	254,080,724,984	245,582,747,545
Ending balance-December 31		**428,575,278,987**	**416,509,798,557**

a. Gold in bullion vaults

	2018		2017	
	FTO	**PHP**	**FTO**	**PHP**
Opening balance-January 1	**2,590,901.525**	**170,927,051,012**	**2,590,901.525**	**148,282,117,369**
Addition during the year:				
Net increase due to price/rate revaluation	0	3,567,502,991	0	22,644,933,643
Ending balance-December 31	**2,590,901.525**	**174,494,554,003**	**2,590,901.525**	**170,927,051,012**

	USD/FTO	**USD/FTO**
Revaluation Rate	1,281.30	1,320.55
Moving Average Rate	1,036.11	1,036.11

b. Gold with foreign financial institutions

	2018		2017	
	FTO	**PHP**	**FTO**	**PHP**
Opening balance-January 1	**3,722,278.015**	**245,566,262,558**	**3,721,625.304**	**212,995,544,139**
Additions during the year:				
Purchases	50,279.033	2,858,673,435	652.711	39,965,065
Net increase due to price/rate revaluation		5,652,902,624		32,530,753,354
	50,279.033	8,511,576,059	652.711	32,570,718,419
Total	3,772,557.048	254,077,838,617	3,722,278.015	245,566,262,558
Accrued interest	0	2,886,367	0	16,484,987
Ending balance-December 31	**3,772,557.048**	**254,080,724,984**	**3,722,278.015**	**245,582,747,545**

	USD/FTO	**USD/FTO**
Revaluation Rate	1,281.30	1,320.55
Moving Average Rate	1,413.19	1,415.74

12. INTERNATIONAL MONETARY FUND SPECIAL DRAWING RIGHTS

The Special Drawing Rights (SDR) is an international reserve asset created by the IMF in 1969 to supplement its member countries' official reserves. SDR value is based on a basket of five key international currencies. It can be exchanged for freely usable currencies.

	2018	**2017**
Beginning balance-January 1	60,487,894,019	56,638,983,258
Add/(deduct):		
Income accruing to the fund	793,865,597	351,464,479
Revaluation	1,491,306,835	3,768,907,623
Payment of interest and assessment	(546,691,115)	(262,369,176)
Adjustment due to moving average computations/change in policy	(5,940,339)	(9,092,165)
	1,732,540,978	3,848,910,761
Total	62,220,434,997	60,487,894,019

	2018	2017
Accrued interest	111,618,329	72,323,601
Ending balance-December 31	**62,332,053,326**	**60,560,217,620**

13. LOANS AND ADVANCES

	Note	Per cent to Total	2018	2017 (as restated)
Foreign currency loans and advances				
Special purpose				
IBRD 2469	a	100.00	0	20,955,142
Total		100.00		20,955,142
Allowance for probable losses		(100.00)	0	(20,955,142)
Net		**0**	**0**	**0**
Local currency loans and advances				
Philippine Deposit Insurance Corp.	b	20.54	53,288,124,650	52,988,366,691
National Government- Assumed Obligations of:				
Philippine National Bank	c.1		350,000,000	350,000,000
Development Bank of the Phil.	c.1		442,499,511	442,499,511
IMF quota subscription	c.2		77,921,409,740	77,921,409,740
		30.35	78,713,909,251	78,713,909,251
Special purpose				
Thrift banks			4,077,768	4,077,768
Specialized banks			12,811,512	12,811,512
Rural banks			87,937,240	88,199,956
		0.04	104,826,520	105,089,236
Allowance for probable losses			(104,684,970)	(92,277,724)
			141,550	12,811,512
Emergency	d			
Commercial banks			1,578,259,754	1,578,259,754
Thrift banks			67,689,650	128,496,998
Rural banks			214,561,694	264,776,522
NBQBs			3	3
		0.72	1,860,511,101	1,971,533,277
Allowance for probable losses			(1,833,139,842)	(1,946,633,223)
			27,371,259	24,900,054
Rediscounting	e			
Commercial banks			53,723,162,207	0
Thrift banks			660,901,367	942,427,770
Specialized banks			153	154
Rural banks			199,341,009	250,224,550
		21.04	54,583,404,736	1,192,652,474
Allowance for probable losses			(142,357,845)	(211,550,470)
			54,441,046,891	981,102,004
Overdrafts/overnight clearing line		0.68	1,762,681,567	1,783,895,273
Allowance for probable losses			(1,751,667,003)	(1,757,217,454)
			11,014,564	26,677,819
Overnight Lending Account		26.63	69,070,000,000	34,425,000,000
Total		100.00	259,383,457,825	171,180,446,202
Allowance for probable losses			(3,831,849,660)	(4,007,678,871)
Net			255,551,608,165	167,172,767,331
Accrued interest			21,973,376,614	20,294,782,746
Allowance for doubtful accts-AIR-L&A			(19,330,411)	(49,402,901)

	Note	Per cent to Total	2018	2017 (as restated)
Net			21,954,046,203	20,245,379,845
Total			**277,505,654,368**	**187,418,147,176**
Total foreign and local currency - loans and advances		**100.00**	**259,383,457,825**	**171,201,401,344**
Allowance for probable losses	f	**(1.48)**	**(3,831,849,660)**	**(4,028,634,013)**
Net		**98.52**	**255,551,608,165**	**167,172,767,331**
Amount past due (*Annex B*)			**1,684,317,604**	**7,895,239,129**
Per cent to total loans and advances			**0.65**	**4.61**

Overnight Clearing Line, 31 December 2017, before adjustment	1,783,867,208
Add:	
Reapplication/adjustment of payment	28,065
Overnight Clearing Line, 31 December 2017, as restated	**1,783,895,273**

Accrued interest - L&A, 31 December 2017, before adjustment	20,294,767,075
Add:	
Reapplication/adjustment of payment and reversal of AR dacioned	15,671
Accrued interest – L&A, 31 December 2017, as restated	**20,294,782,746**

a. Special purpose-IBRD 2469 Account was settled, and all related accounts were closed in the books of the Financial Market Operations Sub-Sector (FMOSS) on 27 June 2018.

b. Loans and advances to PDIC intended as Financial Assistance (FA) to banks increased to PHP53.288 billion compared to last year's level of PHP52.988 billion largely due to the releases during the year aggregating PHP0.307 billion to cover fifty per cent (50%) of PDIC's FA extended to three banks under the Strengthening Program for Rural Bank Plus. This constituted 20.54 per cent of the total local currency loan portfolio.

The loans and advances to PDIC of PHP2.998 billion used as FA to the Philippine National Bank (PNB), which matured in October 2011, are covered by restructuring terms approved under MBR No. 1618 dated 27 October 2011. This was subject to certain conditions which PDIC partially complied on 03 November 2011 by paying PHP2.800 billion, wherein PHP1.440 billion was applied to interest while the remaining PHP1.360 billion to principal.

The restructuring terms, as well as the conditions under MBR No. 1618, are yet to be implemented pending the issuance by the Department of Justice (DOJ) of a resolution relative to the controverted interpretation by the PDIC on certain provisions of the Loan Agreement (LA) covering the loan to PDIC used as FA to PNB.

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

c.2 IMF quota subscription represents non-interest bearing loan extended to the ROP to cover the increase in the IMF quota subscription from SDR1,019.300 million to SDR2,042.900 million or an increase of SDR1,023.600 million pursuant to Section 2 of RA No. 2052 and MBR No. 1752 dated 9 December 2010. The loan is covered by a five (5) year non-negotiable, non-interest bearing promissory note that will mature on 17 February 2021 and is renewable for another period of five (5) years.

d. Emergency loans are forms of financial assistance, secured by assets, extended to banks.

e. Rediscounting window which accounts for 21.04% of the local currency loan portfolio rose by PHP53.390 billion or 4,379.03% from last year-end balance of PHP1.192 billion due to increased availments of commercial/universal banks. It is a standing credit facility provided by BSP to help banks liquefy their position by refinancing the loans extended to their clients.

f. Allowance for probable losses of the total outstanding loans and advances which amounted to PHP259.383 billion exclusive of accrued interest receivable, 1.48 per cent or PHP3.832 billion is provided for as Allowance for Probable Losses.

14. OTHER RECEIVABLES

	Note	2018	2017 (as restated)
Foreign currency receivables			
Non-IR foreign exchange assets	a	91,710,652,339	90,165,053,870
Accrued interest - Non-IR		1,667,225,344	1,546,324,985
Accrued income receivable		2,014,447	0
Due from foreign banks/branches	b	27,724,207	26,194,879
Total		**93,407,616,337**	**91,737,573,734**
Local currency receivables			
Accounts receivable -TOP	c	24,622,473,422	12,900,960,772
Sales contracts receivable	d	4,634,213,127	3,487,085,063
Accounts receivable		3,103,562,938	3,302,324,547
Allowance for doubtful accounts – AR		(1,997,421,029)	(1,747,034,445)
		1,106,141,909	1,555,290,102
Notes receivable	e	1,366,730,850	1,366,730,850
Due from local banks		764,337,638	599,998,306
Receivables from staff/others		547,143,544	523,141,633
Accrued interest - sales contracts receivable		17,857,332	23,953,012
Lease receivable	f	83,635,739	70,235,681
Allowance for uncollectible rental/receivable		(64,217,336)	(46,871,157)
		19,418,403	23,364,524
Items under litigation	g	14,500,000	14,500,000
Total		**33,092,816,225**	**20,495,024,262**

	Balance, 31 December 2017, before adjustments	Adjustments	Balance, 31 December 2017, as restated
Sales contracts receivable	3,484,964,611	2,120,452	3,487,085,063
Accounts receivable	3,291,469,327	10,855,220	3,302,324,547
Allowance for doubtful accounts - AR	(1,747,301,303)	266,858	(1,747,034,445)
	1,544,168,024	11,122,078	1,555,290,102
Receivables from staff/others	531,119,721	(7,978,088)	523,141,633
Accrued interest - sales contracts receivable	23,441,609	511,403	23,953,012
Lease receivable	69,503,585	732,096	70,235,681
	5,653,197,550	**6,507,941**	**5,659,705,491**

Sales contracts receivable, 31 December 2017, before adjustments	3,484,964,611
Add:	
Prior year's sale of acquired assets	2,120,452
Sales contracts receivable, 31 December 2017, as restated	**3,487,085,063**

Accounts receivable, 31 December 2017, before adjustments	3,291,469,327
Add/(deduct):	
Overpayment of personnel services	6,596,155
DOF's share in total cost of EDPC Bldg. repairs and maintenance	3,486,652
Shares of lessee/borrowers/buyers on electricity, foreclosure expenses, real estate tax and other expenses advanced by BSP	702,236
Rental charges on vault/space, lost properties, penalties and supervisory fees	105,853
Disallowances on medical/hospitalization claims	273,302
Over/understated accounts receivable dacioned	(308,978)
	10,855,220
Accounts receivable, 31 December 2017, as restated	**3,302,324,547**

Allowance for doubtful accounts - AR, 31 December 2017, before adjustments	1,747,301,303
Deduct:	
Over/understated accounts receivable and adjustments on related allowance for doubtful accounts	266,858
Allowance for doubtful accounts - AR, 31 December 2017, as restated	**1,747,034,445**

Receivables from staff/others, 31 December 2017, before adjustments	531,119,721
Deduct:	
Liquidation of prior year's cash advances of BSP personnel	7,978,088
Receivables from staff/others, 31 December 2017, as restated	**523,141,633**

Accrued interest - sales contracts receivable, 31 December 2017, before adjustments	23,441,609
Add:	
Collection of prior year's income on sale of acquired assets	511,403
Accrued interest - sales contracts receivable, 31 December 2017, as restated	**23,953,012**

Lease receivable, 31 December 2017, before adjustments	69,503,585
Add:	
Collection of prior year's income on lease properties	732,096
Lease receivable, 31 December 2017, as restated	**70,235,681**

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

The increase was primarily due to net purchase of ROP bonds of PHP2.342 billion.

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

c. Accounts receivable – TOP is a special receivable account used to record the NG's share in the annual revaluation of the IMF holdings of Philippine Peso maintained with the BSP based on change in PHP/SDR exchange rate. On 31 May 2018, the account increased by PHP11.721 billion representing the revaluation of the IMF holdings as at the end of its financial year of 30 April 2018.

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

	Total 2018	Current	Non-Current
I. Auction /negotiated sales			
a. BSP personnel	7,066,803	1,195,717	5,871,086
b. Non-BSP personnel/others	4,328,774,116	763,023,629	3,565,750,487
c. Restructured principal - Non-BSP	11,778,593	2,088,299	9,690,294
d. Restructured interest - Non-BSP	1,983,862	352,394	1,631,468
	4,349,603,374	766,660,039	3,582,943,335
II. Sales under AMD - PFO housing program			
a. BSP personnel	198,721,980	9,258,992	189,462,988
b. Non-BSP personnel/others	85,887,773	4,600,131	81,287,642
	284,609,753	13,859,123	270,750,630
Total	**4,634,213,127**	**780,519,162**	**3,853,693,965**

e. Notes receivable is a claim of BSP against First Philippine International Bank (now First Producers Holdings) guaranteed by a 28.5 year scripless Treasury Bonds with PHP375.000 million cash flow back plus PHP15.000 million cash payment for three (3)-year amortization for 1996, 1997 and 1998 or a total of PHP390.000 million to be 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 MBR No. 1131 dated 27 September 1995 as amended by MBR Nos. 590 and 1069 dated 13 June and 16 October 1996, respectively. As of 31 December 2018, PHP488.998 million is now with the Escrow fund.

f. **Lease receivable** from dacioned properties acquired from the Banco Filipino Savings and Mortgage Bank (BFSMB) was reclassified to Accounts Receivable account in year 2016 due to the absence of a lease contract.

g. Items under litigation

	Note	2018	2017
CSS-FAD	a	14,500,000	14,500,000
BSRU-Tacloban	b	2,499,920	2,499,920
BSRU-Legazpi	c	1,758,500	1,758,500
Total		18,758,420	18,758,420
Less: Allowance for doubtful account		4,258,420	4,258,420
Net		**14,500,000**	**14,500,000**

a. The amount refers to the pilfered PHP4.500 million clearing items paid to Bank of Philippine Island (BPI) under Case No. 18793 and tampered PHP10.000 million denominated Treasury bills under Case No. 88-2389.

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

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

15. INVESTMENTS SECURITIES – DOMESTIC

		2018		2017	
	Note	Face Value	Market Value	Face Value	Market Value
BSP-Head Office	a				
Treasury bills		174,551,334,000	170,465,119,400	174,296,810,350	171,869,868,711
Semi-annual FLT treasury bond		50,000,000,000	50,000,000,000	50,000,000,000	49,809,969,886
Fixed rate treasury bonds		2,721,166,023	2,694,306,795	2,723,656,023	2,819,496,629
LBP Bond			0		3,576[2]
		227,272,500,023	223,159,426,195	227,020,466,373	224,499,338,802
Accrued interest			139,330,629		116,714,173
Total			**223,298,756,824**		**224,616,052,975**

a. The movement in investment securities is summarized as follows:

	2018	2017
Beginning balance, January 1	**224,499,338,802**	**223,132,314,945**
Add/(Deduct):		
Purchases	473,089,963,472	430,739,135,919
Accrual/reversal of discount	683,493,576	496,056,668
Redemption	(474,263,070,748)	(425,273,744,761)
Marking to market	(483,685,188)	1,170,970,534
Sales	(365,638,787)	(5,764,606,721)
Net premium amortization	(974,932)	(787,782)

[2] At *redeemed value, representing BSP share on claims against closed banks*

	2018	2017
	(1,339,912,607)	1,367,023,857
Ending balance, December 31	**223,159,426,195**	**224,499,338,802**

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

	90-180 days	181-365 days	More than 1 year	Total
Treasury bills	64,384,815,820	106,080,303,580		170,465,119,400
Semi-annual FLT treasury bond			50,000,000,000	50,000,000,000
Fixed rate treasury bonds			2,694,306,795	2,694,306,795
LBP bond				0
Total	**64,384,815,820**	**106,080,303,580**	**52,694,306,795**	**223,159,426,195**

16. DUE FROM ADMINISTRATOR OF FUNDS

	Note	2018	2017
Financial Accounting Department (FAD)			
Fidelity insurance		22,247,379,248	22,247,379,248
Currency insurance		2,798,665,272	2,798,665,272
Gold insurance		9,333,617	9,333,617
Post-retirement benefit	a	3,402,370	5,338,370
Industrial fund		2,515,220	2,515,220
		25,061,295,727	25,063,231,727
Provident Fund Office (PFO)			
BSP Properties self-insurance fund		1,950,000,000	1,950,000,000
Car plan fund		1,246,825,228	1,246,825,228
Directors' and officers' liability insurance (DOLI) fund		1,092,289,420	1,092,289,420
Post-retirement benefit		1,091,565,879	1,091,565,879
Provident fund		141,527,187	185,167,931
		5,522,207,714	5,565,848,458
Total		**30,583,503,441**	**30,629,080,185**

a. The balance of post-retirement benefit decreased resulting from the grant of financial assistance to the beneficiaries of deceased BSP personnel totaling PHP1.936 million.

17. ACQUIRED ASSETS HELD FOR SALE

	2018	2017 (as restated)
Acquired assets held for sale	158,285,434	51,295,022
Less: Allowance for market decline	5,373,592	24,632
Net	**152,911,842**	**51,270,390**

	TCTs	Book Value
Acquired assets held for sale, 31 December 2017, before adjustments	134	59,581,036
Add/(deduct):		
Effect of restatement of prior period adjustments:		
Transfer from investment property	21	41,236,767
Sale of acquired asset	(49)	(49,522,781)
	(28)	(8,286,014)
Acquired assets held for sale, 31 December 2017, as restated	**106**	**51,295,022**

	TCTs
Acquired assets held for sale, 31 December 2017, before adjustments	128
Add/(deduct):	
Net increase due to correction in the count of titles	7
Net decrease in the counts of title transferred to investment property	(1)
	6
Acquired assets held for sale, 31 December 2017, as restated	**134**

	Book Value
Allowance for Market Decline- acquired assets held for sale, 31 December 2017, before adjustments	24,632
Add/(deduct):	
Effect of restatement of prior period adjustments:	
Transfer from investment property	13,086,117
Sale of acquired asset	(13,086,117)
	0
Allowance for Market Decline-acquired assets held for sale, 31 December 2017,as restated	**24,632**

Below is the movement of the acquired assets held for sale for the year 2018:

	TCTs	Book Value
Balance, 01 January 2018	106	51,295,022
Additions:		
Transfer from investment property	1,097	1,726,615,681
Net reclassification/adjustments	201	20,269,094
	1,298	1,746,884,775
Deductions:		
Sale/negotiation	722	1,616,024,063
Revert to investment property	240	23,870,300
	962	1,639,894,363
Balance, 31 December 2018	**442**	**158,285,434**

18. INVESTMENT PROPERTY

	2018	2017 (as restated)
Investment property	14,529,529,312	15,956,595,162
Less: Allowance for market decline	654,814,551	792,376,497
Net	**13,874,714,761**	**15,164,218,665**

	TCTs	Book Value
Investment property, 31 December 2017, before adjustments	26,204	16,005,546,325
Add/(deduct):		
Effect of restatement of prior period adjustments:		
Capitalization of foreclosure expenses	0	95,906
Investment property-dacioned	1	39,040
Transfer to acquired asset	(21)	(41,236,766)
Sale and redemption of acquired assets	(9)	(7,849,343)
	(29)	(48,951,163)
Investment property, 31 December 2017, as restated	**26,175**	**15,956,595,162**

	TCTs
Investment property, 31 December 2017, before adjustments	26,164
Add:	
Net increase due to correction in title count	32
Increase in count due to title partitioning	7
Net increase due to correction in the count of titles transferred from acquired assets	1
	40
Investment property, 31 December 2017, as restated	26,204

	Book Value
Allowance for market decline, 31 December 2017, before adjustments	805,462,614
Deduct:	
Prior year's sale of acquired assets	13,086,117
Allowance for market decline, 31 December 2017, as restated	**792,376,497**

Below is the movement of the investment property for the year 2018:

	TCTs	Book Value
Balance, 01 January 2018	26,175	15,956,595,162
Additions:		
Foreclosure	478	256,729,697
Dacion en pago	127	21,730,045
Reverted from acquired assets	240	23,870,300
Net reclassification/adjustments	72	5,984,789
	917	308,314,831
Deductions:		
Sale/negotiation	7	8,765,000
Transferred to acquired assets	1,097	1,726,615,681
	1,104	1,735,380,681
Balance, 31 December 2018	**25,988**	**14,529,529,312**

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

	Land and building	Property improvement	Computer hardware	Plant and equipment	In-transit items	In progress/ under construction items	Total
Cost							
01 January 2018, as restated	13,806,606,623	5,942,237,060	1,287,795,287	9,184,656,541	4,321,687,405	1,829,679,514	36,372,662,430
Additions	58,433,869	242,677,177	242,581,904	443,490,118	866,965,407	432,532,646	2,286,681,121
Disposals			(10,959,593)	(18,517,933)	(2,310,689)		(31,788,215)
Reclassification		(24,232,327)	(12,928,385)	(13,827,965)	(164,941,824)	(68,162,676)	(284,093,177)

	Land and building	Property improvement	Computer hardware	Plant and equipment	In-transit items	In progress/ under construction items	Total
Adjustments						667,275	667,275
31 December 2018	**13,865,040,492**	**6,160,681,910**	**1,506,489,213**	**9,595,800,761**	**5,021,400,299**	**2,194,716,759**	**38,344,129,434**
Accumulated depreciation							
01 January 2018, as restated	(3,412,181,481)	(3,831,240,459)	(762,137,876)	(5,277,598,006)	0	0	(13,283,157,822)
Depreciation	(218,505,886)	(313,230,635)	(155,713,582)	(628,091,520)	0	0	(1,315,541,623)
Disposals			10,550,284	14,078,326	0	0	24,628,610
Reclassification		1,769,253	8,541,438	4,459,558	0	0	14,770,249
Adjustments	(51,108)		(24,041)	(59,714,263)	0	0	(59,789,412)
31 December 2018	(3,630,738,475)	(4,142,701,841)	(898,783,777)	(5,946,865,905)	0	0	(14,619,089,998)
Net book value, 31 December 2018	**10,234,302,017**	**2,017,980,069**	**607,705,436**	**3,648,934,856**	**5,021,400,299**	**2,194,716,759**	**23,725,039,436**
Net book value, 31 December 2017	**10,394,425,142**	**2,110,996,601**	**525,657,411**	**3,907,058,535**	**4,321,687,405**	**1,829,679,514**	**23,089,504,608**

The BPFFE costs and accumulated depreciation balances as at 31 December 2017 are restated, as follows:

	Property Improvement	Computer Hardware	Plant and Equipment	In-Transit Items	In Progress/ Under Construction Items	Total
Cost						
31 December 2017, before adjustments	**5,907,114,228**	**1,252,987,534**	**9,305,816,940**	**4,296,434,584**	**1,865,816,308**	**22,628,169,594**
Add/(deduct):						
Effect of restatement of prior period adjustments:						
Reclassification to/from BPFFE, other assets & expense account	35,207,797	37,783,807	(118,150,697)		(36,136,794)	(81,295,887)
Non/(de)-recognition of properties acquired, disposed/donated	(84,965)	(2,976,054)	(3,009,702)			(6,070,721)
Foreign exchange adjustment				25,252,821		25,252,821
	35,122,832	34,807,753	(121,160,399)	25,252,821	(36,136,794)	(62,113,787)
31 December 2017, as restated	**5,942,237,060**	**1,287,795,287**	**9,184,656,541**	**4,321,687,405**	**1,829,679,514**	**22,566,055,807**
Accumulated depreciation						
31 December 2017, before adjustments	**(3,817,715,563)**	**(760,740,815)**	**(5,379,093,577)**			**(9,957,549,955)**
(Add)/deduct:						
Effect of restatement of prior period adjustments:						
Reclassification to/from BPFFE, other assets & expense account	(13,579,699)	(4,046,317)	98,848,371			81,222,355
Non/(de)-recognition of properties acquired, disposed/donated	54,803	2,649,256	2,647,200			5,351,259
	(13,524,896)	(1,397,061)	101,495,571	0	0	86,573,614
31 December 2017, as restated	**(3,831,240,459)**	**(762,137,876)**	**(5,277,598,006)**	**0**	**0**	**(9,870,976,341)**
Net book value, 31 December 2017, as restated	**2,110,996,601**	**525,657,411**	**3,907,058,535**	**4,321,687,405**	**1,829,679,514**	**12,695,079,466**

As of 31 December 2018, the total amount of PHP297.141 million charged against the PHP317.000 million Asia-Pacific Economic Cooperation (APEC) Fund for the PICC rehabilitation projects was booked under the BPFFE, and the total depreciation expense of PHP115.480 million was recognized at year-end, broken down as follows:

Account	Amount	Depreciation
Building improvement	198,642,264	62,495,345
Furniture and equipment	97,099,656	52,543,626
Land improvements	1,399,000	440,685
Total	**297,140,920**	**115,479,656**

20. INTANGIBLES

	Computer network and application system	Computer network and application system in process	Total
Cost			
01 January 2018	2,537,183,175	94,544,208	2,631,727,383
Additions	96,168,083	4,312,800	100,480,883
Reclassifications		(8,695,466)	(8,695,466)
31 December 2018	**2,633,351,258**	**90,161,542**	**2,723,512,800**
Accumulated amortization			
01 January 2018	(2,414,710,678)		(2,414,710,678)
Amortization - CY 2018	(75,212,768)		(75,212,768)
Reclassifications	665,950		665,950
31 December 2018	**(2,489,257,496)**	**0**	**(2,489,257,496)**
Net book value, 31 December 2018	**144,093,762**	**90,161,542**	**234,255,304**
Net book value, 31 December 2017, as restated	**122,472,497**	**94,544,208**	**217,016,705**

	Computer network and application system	Computer network and application system in process	Total
Cost			
31 December 2017, before adjustment	2,571,487,291	100,196,623	2,671,683,914
Deduct:			
Reclassification from/to PPE account	34,304,116	5,652,415	39,956,531
31 December 2017, as restated	**2,537,183,175**	**94,544,208**	**2,631,727,383**
Accumulated amortization			
31 December 2017, before adjustment	2,418,598,426		2,418,598,426
Deduct:			
Reclassification from/to PPE account	3,887,748		3,887,748
31 December 2017, as restated	**2,414,710,678**	**0**	**2,414,710,678**
Net book value, 31 December 2017, as restated	**122,472,497**	**94,544,208**	**217,016,705**

21. INVENTORIES

	Note	2018	2017 (as restated)
SPC inventories	a	6,070,653,013	4,869,268,571
Gold for refining	b	1,996,578,765	1,287,798,989
Allowance for refining gains/(losses) - gold		(4,659,958)	0
Work-in-process	c	1,352,692,648	556,162,194
Currency inventory	d	1,235,045,254	1,290,874,356

	Note	2018	2017 (as restated)
Gold for domestic sale	e	37,357,855	41,377,978
Silver for refining	b	1,183,187	900,482
Allowance for refining gains/(losses) - silver		(11,067)	0
Silver for domestic sale		388,052	388,052
Total		**10,689,227,749**	**8,046,770,622**

Currency inventory, 31 December 2017, before adjustment	1,293,124,356
Deduct:	
Cost of commemorative coins issued in prior years	2,250,000
Currency inventory, 31 December 2017, as restated	**1,290,874,356**

a. The increase in SPC Inventories is attributed to the procured outsourced finished coins which are still in-transit as of year-end.

b. The accumulation of gold and silver for refining inventory was brought about by the disrupted gold refinery operations due to the rehabilitation of the whole gold refinery plant.

c. Work-In-Process Inventories account rose by PHP796.530 million resulting mainly from banknotes with denominations of 1000, 100 and 50 PISO which are still in the middle of production as of year-end.

d. Currency Inventory decreased by PHP55.829 million caused by the higher-than-anticipated demand for the 1,000-PISO banknotes.

e. The decrease came from the sale of gold grains/sheets by the Department of General Services (DGS) with the total gold contents of 65.658 tr.oz. amounting PHP4.02 million.

22. MISCELLANEOUS ASSETS

	Note	2018	2017 (as restated)
Prepaid expenses	a	471,908,436	335,854,188
Other supplies		452,266,231	328,391,987
Stocks and other securities	b	165,610,500	20,610,500
Paintings and sculptures		134,920,575	134,844,929
Withholding tax at source	c	119,052,865	1,191,623,472
Assets for disposal		75,343,433	75,409,015
Deposits - utilities and services	d	49,758,792	52,082,802
Numismatic collections on hand		21,800,932	21,800,932
Miscellaneous assets		15,229,367	14,705,270
Input tax		13,767,313	14,655,107
Semi-expendable property		8,396,228	14,018,565
Creditable tax certificates	e	4,835,087	4,835,087
Due from PICC	f	2,909,235	58,101,975
Items for exhibit		1,040,681	1,040,680
Commemorative notes and coins		364,756	34,170
Land under usufruct	g	82,275	82,275
Checks and other cash items		24,941	2,839,333
Checks and other cash items in-transit		2,497	16,000

	Note	2018	2017 (as restated)
Demonetized commemorative coins		97	164
Total		**1,537,314,241**	**2,270,946,451**

	Balance, 31 December 2017 before adjustments	Adjustments	Balance, 31 December 2017, as restated
Prepaid Expenses			
- Net adjustment on prepayments relative to periodicals/news services and agency fees	**340,236,185**	**(4,381,997)**	**335,854,188**
Other supplies	**329,777,255**	**(1,385,268)**	**328,391,987**
- Utilization and unreturned ammunition		(80,875)	
- Utilization of supplies & material-in-Stock, computer supplies in stock & medical-dental supplies in-stock		(1,304,393)	
Paintings and Sculptures			
- Reclassification to PPE account	**134,899,929**	**(55,000)**	**134,844,929**
Withholding tax at source			
- Adjustment of withholding tax at source on supervisory fees net of rental payment	**1,191,603,185**	**20,287**	**1,191,623,472**
Assets for disposal			
- Derecognition of PPE sold/donated	**78,066,840**	**(2,657,825)**	**75,409,015**
Miscellaneous Assets			
- Reversal of miscellaneous assets-capitalizable foreclosure expense	**14,749,562**	**(44,292)**	**14,705,270**
Semi-expendable property			
- Adjustment of prior-year's issuance	**14,879,637**	**(861,072)**	**14,018,565**

a. The account includes taxes withheld from purchases of short term government securities which are later recognized as expense upon maturity. The increment of 136.054 million or 40.51 per cent was principally due to the increase in taxes withheld from purchases of government securities-Treasury bills and increase in foreign periodicals/news services.

b. Breakdown includes the following:

Particulars	Amount
PICCI investments	165,000,000
Proprietary membership share	601,000
Telephone companies stocks	9,500
Total	**165,610,500**

The PICCI investments rose by PHP145.000 million representing additional placement in Treasury bonds maturing on 17 June 2021.

c. The taxes withheld were largely from interest income from loans, service fees on deposit of notes, supervisory and other bank fees, income from payments and settlements transactions. The significant decrease of PHP1.072

billion or 90.0% was principally attributed to the utilization of the balance of withholding tax at source in the amount of PHP1.000 billion upon payment of the corporate income tax recognized on 28 August 2018.

d. The account balance was reduced by the partial refund of deposits with the Manila Electric Company (MERALCO).

e. 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 CD evidenced by tax credit certificates issued by the Bureau of Customs on 23 December 2008 in favor of the BSP. It also includes input taxes claimed by the MROD from the suppliers of blister packaging, wooden medal boxes and clear plastic capsules for Papal coins.

f. The account refers to the approved budget of the PICCI for capital expenditures (CAPEX) advanced by the BSP subject to liquidation. The account is credited for the liquidation of disbursements for CAPEX and remittance of unutilized budget.

g. Survey fee and other incidental expenses incurred for the subject lot reserved for BSP to which it acquired the right to construct its building complex 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.

23. SHORT-TERM FOREIGN CURRENCY DEPOSITS

	Note	2018	2017
National Government	a	93,417,574,062	15,087,485,587
Other entities	b	1,053,127,035	1,012,495,877
		94,470,701,097	16,099,981,464
Accrued interest		22,068,642	1,768,791
Total		**94,492,769,739**	**16,101,750,255**

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

	2018	2017
National Government		
TOP-Time Deposits	13,717,079,642	2,098,236,000
TOP-Special Accounts	79,700,494,420	12,989,249,587
Total	**93,417,574,062**	**15,087,485,587**

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

	2018	2017
Financial Institution		
Bank of America S.A. Manila-Regular	262,815,000	999,160,000
Bank of America S.A. Manila-Time	788,445,000	0
Other Entities		
PSALM	0	11,561,370
North Luzon Railways	1,851,543	1,759,782
MWSS	15,492	14,725
Total	**1,053,127,035**	**1,012,495,877**

24. LOANS PAYABLE

	Note	2018	2017
Maturing in more than 5 years			
Blocked peso deposit (Circular 1202)	**a**	28,291,614	28,381,263
CB memorandum circular (at original cost PHP14.00)	**b**	2,067,204	2,067,205
Total		**30,358,818**	**30,448,468**

a. 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. The deposits were later registered with the BSP under foreign loan restructuring arrangements.

b. This pertains to Term Loan Facility representing forward exchange cover granted by the then CBP for the Philippine Sugar Commission (now Sugar Regulatory Administration) through Republic Planters Bank (RPB) pursuant to Memorandum Circular dated 05 December 1983.

25. BONDS PAYABLE

	Note	2018	2017
Bonds due 2027	a	21,025,200,000	19,983,200,000
Bonds due 2097		5,256,300,000	4,995,800,000
		26,281,500,000	24,979,000,000
Less: Discount on bonds		91,728,893	87,982,072
		26,189,771,107	24,891,017,928
Accrued interest		100,453,733	95,475,288
Total		**26,290,224,840**	**24,986,493,216**

a. These are “Yankee Bonds” issued by BSP on 24 June 1997. However, bonds worth USD5.950 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.

26. ALLOCATION OF SPECIAL DRAWING RIGHTS

	2018	2017
Allocation of SDRs	61,258,650,769	59,785,445,303
Accrued interest	109,893,074	71,483,717
Total	**61,368,543,843**	**59,856,929,020**

SDR Allocation is a low cost way of adding to members' international reserves, allowing members to reduce their reliance on more expensive domestic or external debt for building reserves. This is a long term liability with no maturity date. This account will only become due upon demand by the IMF or when the Philippines ceases to be a member of the IMF.

27. OTHER LIABILITIES

	Note	2018	2017 (as restated)
Foreign currency financial liabilities			
Accounts payable		1,569,726,647	1,568,467,337
Accrued expenses		183,675,693	232,830,755
Derivatives liability		0	98,292,324
Other financial liabilities		3,891,360,710	4,488,368,988
Total		**5,644,763,050**	**6,387,959,404**
Local currency non-financial liabilities			
Retirement benefit obligations		2,962,060,302	2,998,141,788
Dividends payable	a	449,345,216	449,345,216
Miscellaneous liabilities		7,818,029,509	6,231,040,535
Accounts payable		3,278,296,520	3,082,621,320
Taxes payable		1,620,683,418	1,088,775,433
Accrued expenses		67,206,263	62,466,484
Other local currency liabilities	b	2,851,843,308	1,997,177,298
Total		**11,229,435,027**	**9,678,527,539**

	Balance, 31 December 2017, before adjustments	Adjustments	Balance, 31 December 2017, as restated
Foreign currency financial liabilities			
Accounts payable			
- Payment of various expenses incurred in 2017	1,568,188,651	278,686	1,568,467,337
Accrued Expenses	233,315,588	(484,833)	232,830,755
- Payment of various expenses incurred in 2017		135,491	
- Over-accrual of handling charges, custodian and management fees		(620,324)	
Local currency non-financial liabilities			
Miscellaneous liabilities			
Accounts payable	2,942,866,537	139,754,783	3,082,621,320
- Reapplication/adjustment of payment		(84,408)	
- Collection of prior year's income on sale, redemption of acquired assets & leased properties		(95,437,932)	
- Prior years' expenses (personal, travel, consultancy and other services)		235,289,333	

	Balance, 31 December 2017, before adjustments	Adjustments	Balance, 31 December 2017, as restated
- Under/(over) payment of supervisory fees, penalty and personal services		(12,210)	
Taxes payable	1,077,510,060	11,265,373	1,088,775,433
Related to prior years' transaction affecting (personal, travel and other services)		11,564,482	
- Collection from rental income of prior years to error		60,503	
- Payment of various expenses incurred in 2017		101,324	
- Adjustment to correct the entries made on treasury bonds purchased in prior years		(460,936)	
Other local currency liabilities	2,000,028,942	(2,851,644)	1,997,177,298
Deferred income			
- Income realized from amortization and advance rental payment		(958,227)	
- Realized income from the funds received from NG for 2015 APEC meeting		(2,291,739)	
Unrealized profit on assets sold			
- Booking of prior year's sale of acquired assets		406,786	
- Collection of prior year's income on sale of acquired assets		(13,020)	
Deferred VAT			
- Deferred VAT on income realized from rental of BSP leased properties		7,592	
Reserve fund for stale checks			
- Cancellation of staled check		(3,036)	

a. The amount refers to the total assigned value of the Pamintuan Mansion in Angeles City together with thirteen (13) other properties for conveyance to the NG as property dividend for CY 2009 per MBR No. 761 dated 4 June 2010. This was decreased by the dividend deficiency for CY 1995 remitted to the NG in February 2014 through credit to the TOP-TSA maintained with the BSP. The Revised Deed of Conveyance is still with the NG for signature.

b. The PHP317.000 million APEC funds received from the NG per SARO No. F-13-01344 dated 27 December 2013, for the implementation of various PICC building and facilities rehabilitation projects was reclassified from "Donated Surplus Account" to "Deferred Income Account" on 29 December 2016 pursuant to PAS 20, Accounting for Government Grants and Disclosures of Government Assistance. The deferred income is recognized in profit and loss on a systematic basis over the useful lives of the assets.

28. DEPOSITS

	Note	2018	2017
Government deposits			
Short-term	a.1	74,788,090,131	282,090,448,559
Long-term	a.2	0	28,265,953,299
		74,788,090,131	310,356,401,858

	Note	2018	2017
Accrued interest		1,916,097,918	1,352,036,773
Total		**76,704,188,049**	**311,708,438,631**

	Note	2018	2017
Demand Deposits			
Banks/NBQBs-reserve deposits	b.1	1,845,106,163,398	1,868,885,238,058
Fixed term deposit		4,678,000,000	3,100,000,000
Secured settlement account		2,681,579,887	0
Others		29,743,889,146	29,748,382,425
		1,882,209,632,431	1,901,733,620,483
Accrued interest		2,946,903	354,295,689
Total		**1,882,212,579,334**	**1,902,087,916,172**
IMF and other financial institutions	c.1		
Due to IMF		122,738,736,482	114,950,615,638
International financial institutions		91,787,979	99,822,109
Due to other foreign banks		2,391,323	2,391,323
Total		**122,832,915,784**	**115,052,829,070**

a. Government deposits

a.1 Short-term deposits include NG's peso regular and special deposit accounts (except Special Account No. 2) that are paid four per cent (4%) interest rate per annum up to 4 August 2013. The interest rate was reduced from four per cent (4%) to two per cent (2%) effective on 05 August 2013 up to 11 August 2013 as per MBR No. 1250.A dated 01 August 2013. Effective 12 August 2013 and onward, the interest rate used is "One minus the Reserve Requirement (RR) rate multiplied by the Special Deposit Account (SDA) rate (1-RR rate x SDA rate) as approved under MBR Nos. 1301 and 1308 both dated 08 August 2013. Effective 3 June 2016, the Overnight Deposit Facilities (ODF) replaced the SDA per MBR No. 961 dated 2 June 2016, and thus, as the factor in the computation of the interest rate.

As approved by the MB in its MBR Nos. 1934 and 1972.A dated 23 November 2017 and 28 November 2017, respectively, the new remuneration formula for the NG's Treasury Single Account (TSA) starting 01 December 2017, is as follows:

Basis	Rate
Working Balance	ODF rate
Excess of Working Balance	Weighted average of Term Deposit Facility and Reverse Repurchase rates

The TSA working balance as approved under MBR No. 1047 dated 28 June 2018, is initially set at PHP250 billion, subject to annual review as agreed upon between the BTr and the BSP.

a.2 Long-term deposit pertained to the balance of the TOP Special Account No. 2 transferred to the TOP TSA per BTr's debit/credit advice with reference GF-2018-12-1346 dated 20 December 2018, inasmuch as the existence of the CB-BOL has concluded.

b. Demand deposits of banks/ NBQBs

b.1 Effective 6 April 2012, deposits maintained by banks/NBQBs with the BSP in compliance with the reserve requirements was no longer paid interest as per MBR No. 1924 dated 27 December 2011 and BSP Circular No. 753 dated 29 March 2012. Before its implementation, forty per cent (40%) of the required reserves (excluding liquidity reserve) or demand deposit balance maintained with the BSP, whichever is lower, was paid interest at four per cent (4%) per annum. The interest was previously credited to the demand deposit accounts on a quarterly basis.

c. IMF currency holdings and other financial institutions

c.1 The ROP 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 SDR1.683 billion as at 31 December 2018.

The balance of IMF's security holdings (SDR90.494 million) that includes non-negotiable, non-interest bearing security, encashable on demand and issued in 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 2018, the Peso depreciated by PHP6.590 against the SDR, from the peso/SDR exchange rate of PHP68.138/SDR as at 30 April 2017 to PHP74.728/SDR as at 30 April 2018. The peso depreciation resulted in a revaluation loss of PHP11.721 billion. The revaluation is solely attributable to the NG since BSP has already fully paid its credit availments from Standby Credit Facility (SCF) and Extended Fund Facility (EFF) since December 2006. BSP booked the revaluation loss as addition to its receivable from NG under the "Accounts Receivable-TOP" account.

As at 31 December 2018, the IMF Summary Statement of Position showed that the total IMF currency holdings aggregated to PHP126.233 billion consisting of the balances of "Account Nos. 1 and 2" of PHP122.738 billion, security holdings of PHP6.599 billion and accrued revaluation gain of PHP3.104 billion (covering the period May 2018 to December 2018). The valuation adjustments shall be booked in May 2019 to coincide with the IMF's records.

29. CURRENCY IN CIRCULATION

	2018	2017 (as restated)
Currency notes issued	1,677,594,368,830	1,546,432,392,140
Cash on hand - notes	(225,300,687,210)	(311,452,785,345)
Net notes in circulation	**1,452,293,681,620**	**1,234,979,606,795**
Currency coins issued	38,126,598,225	32,439,026,669
Cash on hand / in transit - coins	(179,993,885)	(148,896,566)
Net coins in circulation	**37,946,604,340**	**32,290,130,103**
Currency in circulation, 31 December	**1,490,240,285,960**	**1,267,269,736,898**

Currency in circulation, 31 December 2017, before adjustment	1,546,644,971,815
Deduct:	
Additional demonetization of new design series (NDS)	212,579,675
Currency in circulation, 31 December 2017, as restated	**1,546,432,392,140**

Inventory of Currency Issued

	January 1 2018	Requisitions from CID	Retirement	December 31 2018
Currency issued				
Notes	1,546,644,971,815	1,257,602,360,000	(1,126,652,962,985)	1,677,594,368,830
Coins	32,439,026,669	5,695,757,456	(8,185,900)	38,126,598,225
	1,579,083,998,484	**1,263,298,117,456**	**(1,126,661,148,885)**	**1,715,720,967,055**
Cash on hand				
Notes				225,300,687,210
Coins				179,993,885
Total Held in BSP-CMSS and ROSS				225,480,681,095
Total currency in circulation				**1,490,240,285,960**

Details of currency in circulation are as follows:

		Quantity (No. of Pcs)		Amount	
	Denomination	**2018**	**2017**	**2018**	**2017**
Notes	100,000	0	253	0	25,300,000
	2,000	0	36,304	0	72,608,000
	1,000	1,051,964,837	864,663,360	1,051,964,837,000	864,663,360,000
	500	493,152,127	470,716,385	246,576,063,500	235,358,192,500
	200	34,546,190	27,404,387	6,909,238,000	5,480,877,400
	100	901,375,191	764,761,088	90,137,519,100	76,476,108,800
	50	637,427,698	549,354,539	31,871,384,900	27,467,726,950
	20	1,241,731,956	1,271,771,266	24,834,639,120	25,435,425,320
	10	0	572	0	5,720
	5	0	421	0	2,105
				1,452,293,681,620	1,234,979,606,795
Coins	10 - Piso	991,629,955	831,827,526	9,916,299,550	8,318,275,260
	5 - Piso	2,933,233,835	2,314,301,862	14,666,169,175	11,571,509,310
	1 - Piso	10,068,130,966	9,332,091,147	10,068,130,966	9,332,091,147
	25 - Sentimo	10,037,165,151	9,214,292,069	2,509,291,288	2,303,573,017
	10 - Sentimo	3,793,030,510	3,771,223,550	379,303,051	377,122,355
	5 - Sentimo	3,055,697,577	2,822,898,082	152,784,879	141,144,904
	1 - Sentimo	57,582,990	36,023,903	575,830	360,239
				37,692,554,739	32,044,076,232

	Quantity (No. of Pcs)		Amount	
Denomination	2018	2017	2018	2017
Commemorative coins	4,508,490	4,286,467	254,049,601	246,053,871
			37,946,604,340	32,290,130,103
Total currency in circulation, 31 December			**1,490,240,285,960**	**1,267,269,736,898**

30. REVALUATION OF FOREIGN CURRENCY ACCOUNTS

	2018	2017
Unrealized gains on FX rate fluctuations		
Beginning balance, January 1	355,245,142,122	324,395,410,766
Add:		
Unrealized gains for the year (net of realized transactions)	165,049,217,533	30,849,731,356
Ending balance, December 31	520,294,359,655	355,245,142,122
Unrealized gains(losses) on price fluctuations		
Beginning balance, January 1	26,299,685,448	(24,868,210,069)
Add:		
Unrealized gains/(losses) for the year (net of realized transactions)	(11,617,657,047)	51,167,895,517
Ending balance, December 31	14,682,028,401	26,299,685,448
Unrealized gains on FX rate and price fluctuations, December 31	**534,976,388,056**	**381,544,827,570**

31. CAPITAL ACCOUNTS

	Note	2018	2017 (as restated)
Capital	a	50,000,000,000	50,000,000,000
Surplus/(deficit)	b	(9,276,999,393)	(45,604,257,360)
Unrealized losses on investments in government securities	c	(1,807,783,041)	(1,324,097,853)
Capital Reserves		77,519,185,247	77,620,662,962
Managed Funds			
Fidelity insurance fund		22,247,379,248	22,247,379,248
Currency insurance fund		2,798,665,272	2,798,665,272
BSP Properties self-insurance fund		1,950,000,000	1,950,000,000
Retirement benefit fund		1,094,968,248	1,096,904,249
Directors'/officers' liability		1,092,289,420	1,092,289,420
		29,183,302,188	29,185,238,189
Other Fund			
Fluctuations in price of gold		42,582,587,455	42,582,587,455
Contingencies		3,644,871,739	3,644,871,739
Property insurance		1,600,000,000	1,600,000,000
SPC rehabilitation		458,140,817	556,967,755
Cultural properties acquisition fund		40,949,431	41,664,207
Gold insurance fund		9,333,617	9,333,617
		48,335,883,059	48,435,424,773
Total		**116,434,402,813**	**80,692,307,749**

a. The required capitalization of the BSP in the amount of PHP50.000 billion pursuant to Section 2, paragraph 2 of RA No. 7653, was fully subscribed and paid by the Government of the ROP.

The PHP10.000 billion initial capitalization had been paid for by the Government upon effectivity of RA No. 7653 in 1993. An additional capital of PHP10.000 billion from the NG was credited on 04 November 2011 as per the BTr Debit Authority No. A.a 2011-11-2179 dated 04 November 2011, as equity infusion to ensure monetary and financial stability. Subsequently, the BSP received another PHP20 billion capital from the NG in the form of LBP checks dated 28 December 2012 issued by the BTr, in accordance with Special Allotment Release Order (SARO) Nos. F-12-01423 and F-12-01424 issued by the DBM. As indicated in the Debit Authority and SAROs, the releases form part of the fiscal years 2011 and 2012 Disbursement Acceleration Program (DAP) approved by the President on 12 October 2011 and 21 December 2012, respectively. The balance of PHP10.000 billion representing full payment of BSP capitalization was credited on 02 January 2014 per BTr Debit Authority No. GF-2014-01-0013 dated 02 January 2014.

b. In accordance with PAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", the Surplus/(deficit) for calendar year 2017 is restated as follows:

Surplus/(deficit), 1 January 2017, before adjustments	(67,191,015,620)
Add:	
Restatement of adjustments on income and expenses prior to CY 2017	(26,918,105)
Surplus/(deficit), 1 January 2017, as restated	(67,217,933,725)
Add:	
Transactions for CY 2017	(1,922,871,029)
Surplus/(deficit), 31 December 2017, before net income	(69,140,804,754)
Net income for the period, before adjustments	23,505,835,485
Add:	
Restatement on income and expenses for CY 2017	30,711,909
Net income for the period, as restated	23,536,547,394
Surplus/(deficit), 31 December 2017, as restated	**(45,604,257,360)**

The details of restated prior period adjustments on income and expenses and transactions for CY 2017 are presented in the Statement of Changes in Equity.

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

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

	2018	2017
Beginning balance	(1,324,097,853)	(2,495,068,387)
Effect of marking to market of gov't securities - Increase in government securities	(483,685,188)	1,170,970,534
Ending balance	**(1,807,783,041)**	**(1,324,097,853)**

32. INTEREST INCOME AND INTEREST EXPENSES

	2018	2017 (as restated)
Interest income from financial assets		
Interest income from foreign currency financial assets		
Investment securities	47,014,898,290	39,082,998,343
Deposits with foreign banks	16,476,305,508	8,280,763,175
Other foreign currency receivables	3,413,511,764	3,422,945,805
IMF special drawings rights	616,674,382	334,535,745
Gold Deposits	46,721,084	90,455,871
Due from/(to) broker	813,005	35,651
	67,568,924,033	51,211,734,590
Interest income from local currency financial assets		
Investment securities	7,853,267,335	5,198,264,221
Loans and advances	2,335,628,505	1,617,496,697
Other receivables	393,633,650	248,924,925
	10,582,529,490	7,064,685,843
Total	**78,151,453,523**	**58,276,420,433**

	Balance, 31 December 2017 before adjustments	Adjustments	Balance, 31 December 2017, as restated
Interest income from local financial assets			
Investment securities	**5,198,005,600**	**258,621**	**5,198,264,221**
- Reclassification to proper account		258,621	
Loans and advances	**1,616,248,242**	**1,248,455**	**1,617,496,697**
- Reclassification to proper account		1,245,904	
- Booking of prior year's interest		2,551	
Other receivables	**244,187,867**	**4,737,058**	**248,924,925**
- Collection of prior period income		2,243,698	
- Prior year's sale of acquired asset		2,493,360	

	2018	2017
Interest expense from financial liabilities		
Interest expense on foreign currency financial liabilities		
Bonds payable	2,514,907,664	2,151,804,301
Short term deposits	1,214,602,229	185,301,346
Allocation of IMF special drawing rights	584,063,050	312,109,554
	4,313,572,943	2,649,215,201
Interest expense on local currency financial liabilities		
Securities sold under agreements to repurchase	10,112,537,284	8,075,284,334
Government deposits	8,197,645,856	6,582,973,124
Deposits of banks and other financial institutions	7,303,486,363	18,197,309,844
	25,613,669,503	32,855,567,302
Total	**29,927,242,446**	**35,504,782,503**

33. OTHER INCOME

	Note	2018	2017 (as restated)
Printing, minting and refinery		165,471,724	239,482,818
Fees – local			
Banking supervision/clearing/license fees		5,051,685,833	4,503,854,809
Penalties and late charges		535,973,219	587,785,717
Transaction fee – PhilPaSS		152,662,047	142,334,446
Processing and filing fees		90,089,868	63,625,538
Others		121,433,451	128,366,827
		5,951,844,418	5,425,967,337
Other income			
Income on acquired assets		1,257,822,476	580,271,557
Rental on building and facilities		441,730,831	736,891,392
Rental on acquired assets		20,594,861	21,768,527
Other miscellaneous income	a	462,185,969	12,261,947,963
		2,182,334,137	13,600,879,439
Other operating income		**8,299,650,279**	**19,266,329,594**
Net gain on FX rates fluctuation		**53,107,589,860**	**15,503,406,950**

a. Miscellaneous income for 2017 includes the income from demonetized new design series (NDS) currency notes that were not redeemed after 29 December 2017 aggregating PHP11,603,788,630.

	Balance, 31 December 2017 before adjustments	Adjustments	Balance, 31 December 2017, as restated
Banking supervision/clearing/ license fees	**4,503,670,778**	**184,031**	**4,503,854,809**
- Recomputation of supervisory fees		(6,445)	
- Reclassification to proper account		190,476	
Penalties and late charges	**585,736,556**	**2,049,161**	**587,785,717**
- Collection of prior period income		1,861,678	
- Adjustment on penalties (i.e. liquidated damages, violation of BSP issuances, late delivery of purchases		1,643,215	
- Reclassification to proper account		(1,455,732)	
Income on acquired assets	**537,205,699**	**43,065,858**	**580,271,557**
- Prior year's sale of acquired asset		42,461,293	
- Application/adjustment of sale of acquired asset		604,565	
Rental of building and facilities			
- Booking of prior year's rental income	**736,828,130**	**63,262**	**736,891,392**
Rental on acquired assets			
- Application/adjustment of rental payments	**21,116,361**	**652,166**	**21,768,527**
Other miscellaneous income	**12,049,258,393**	**212,689,570**	**12,261,947,963**
- Adjustment of income from Demonetized NDS		212,579,675	
- Buyer's share in real estate tax, insurance and other expenses		123,925	
- Collection of prior period income		15,749	
- Disposal of various properties		1,168	
- Adjustment in collection of income		(30,947)	

Net gain on FX rates fluctuation - Adjustment between set-up exchange rate and upon actual acknowledgment of receipt	**15,478,154,129**	**25,252,821**	**15,503,406,950**

34. CURRENCY PRINTING AND MINTING COST

	2018	**2017 (as restated)**
Notes	6,819,454,828	5,710,883,304
Coins	4,440,255,816	2,350,404,600
Total	**11,259,710,644**	**8,061,287,904**

Coins minting cost, 31 December 2017, before adjustments	2,350,054,600
Add: Recording of prior year's commemorative non-circulation legal tender coins	350,000
Coins minting cost, 31 December 2017,as restated	**2,350,404,600**

35. OPERATING EXPENSES

	2018	**2017 (as restated)**
Personnel services, development and training	13,992,070,326	13,475,795,693
Administrative expenses	7,460,217,808	6,197,269,125
Depreciation/amortization	857,138,667	827,601,634
Loss/(recovery) due to/from market decline	(127,948,807)	514,813,200
Total	**22,181,477,994**	**21,015,479,652**

Effective January 2015, the PICCI expenses with similar accounts to BSP are consolidated on a line-by-line basis while dissimilar items are lodged under the summary account "Miscellaneous Expense-PICCI".

a. PERSONNEL SERVICES

	2018	**2017 (as restated)**
Salaries and wages	10,458,793,968	9,410,881,382
Defined contribution plans	2,251,593,317	2,237,601,207
Social security contribution	508,783,115	500,303,077
Sickness and death benefits	346,518,197	287,648,469
Post-retirement benefits	252,511,500	859,126,800
Personnel development and training	169,029,388	171,553,953
Medical and dental benefits	4,840,841	8,680,805
Total	**13,992,070,326**	**13,475,795,693**

The following personnel services account balances for the year ended 31 December 2017 are restated as follows:

	Balance, 31 December 2017 before adjustments	**Adjustments**	**Balance, 31 December 2017, as restated**
Salaries and wages	9,404,363,130	6,518,252	9,410,881,382
Defined contribution plans	2,238,331,495	(730,288)	2,237,601,207
Social security contribution	500,514,543	(211,466)	500,303,077

	Balance, 31 December 2017 before adjustments	Adjustments	Balance, 31 December 2017, as restated
Sickness and death benefits	267,326,812	20,321,657	287,648,469
Personnel development and training	164,815,694	6,738,259	171,553,953
Total	**12,575,351,674**	**32,636,414**	**12,607,988,088**

b. ADMINISTRATIVE EXPENSES

	2018	2017 (as restated)
Taxes and licenses	3,826,923,395	2,887,949,805
Repairs and maintenance	574,081,834	647,678,296
Traveling expenses	403,379,628	395,824,694
Currency and gold operations expenses	381,775,038	330,413,390
Water, illumination and power services	339,564,585	312,514,357
Communication services	307,547,087	274,825,620
Acquired assets expenses	237,566,168	212,490,472
Consultants and specialist services	184,306,712	151,572,195
Fidelity and property insurance	77,417,743	67,740,635
Conference, workshop and convention expenses	63,347,369	47,400,846
Auditing services	59,054,595	50,374,361
Supplies and materials	49,230,716	63,726,072
Grants, subsidies and contributions	32,511,313	18,467,986
Rentals	29,460,661	28,805,756
Bad debts	19,630,623	9,376,925
Ammunitions	7,675,218	6,741,638
Discretionary expenses	2,922,065	3,381,149
Others	863,823,058	687,984,928
Total	**7,460,217,808**	**6,197,269,125**

The following administrative expense account balances for the year ended 31 December 2017 are restated as follows:

	Balance, 31 December 2017 before adjustments	Adjustments	Balance, 31 December 2017, as restated
Taxes and licenses	2,887,863,853	85,952	2,887,949,805
Repairs and maintenance	547,800,262	99,878,034	647,678,296
Travelling expenses	391,241,683	4,583,011	395,824,694
Currency and gold operations expenses	320,608,979	9,804,411	330,413,390
Water, illumination and power services	302,462,726	10,051,631	312,514,357
Communication services	264,040,777	10,784,843	274,825,620
Acquired asset expenses	212,336,705	153,767	212,490,472
Consultants and specialist services	117,855,649	33,716,546	151,572,195
Fidelity and property insurance	67,053,625	687,010	67,740,635
Supplies and materials	62,936,723	789,349	63,726,072
Auditing services	50,216,548	157,813	50,374,361
Conference, workshop and convention expenses	46,340,402	1,060,444	47,400,846
Rentals	27,208,582	1,597,174	28,805,756
Grants, subsidies and contributions	18,376,868	91,118	18,467,986
Ammunitions	6,655,863	85,775	6,741,638
Discretionary expenses	3,288,773	92,376	3,381,149
Others	629,087,327	58,897,601	687,984,928
Total	**5,955,375,345**	**232,516,855**	**6,187,892,200**

Taxes and licenses account balances for CYs 2018 and 2017 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:

	2018	2017 (as restated)
Taxes and licenses	136,723,629	135,273,528
Security services	44,506,025	48,066,240
External professional services	35,588,153	16,864,237
Association/condominium fees	17,327,300	9,412,851
Fidelity insurance	2,672,384	2,300,053
Legal fees	335,191	878,458
Repairs and maintenance	322,939	7,390
Light, fuel and water	90,547	490
Foreclosure expenses	0	(312,775)
Total	**237,566,168**	**212,490,472**

	Foreclosure expenses	Association/ condominium dues
Cost		
31 December 2017, before adjustment	(317,372)	9,263,681
Add/(deduct):		
Various reapplication/adjustment of payments	7,034	
Capitalization of foreclosure expenses to investment property	(923)	
Expenses reimbursed from borrowers	(1,514)	
Booking of previous years' expenses		149,170
	4,597	149,170
31 December 2017, as restated	**(312,775)**	**9,412,851**

c. DEPRECIATION/AMORTIZATION

Depreciation of BPFFE and amortization of CNAS for the year ended 31 December 2017 are restated as follows:

	Depreciation	Amortization	Total
Depreciation/amortization, 31 December 2017, before adjustments	747,986,680	85,039,836	833,026,516
Add/(deduct):			
Change in capitalization threshold per COA Circular	(9,492,570)		(9,492,570)
Reclassification to/(from) BPFFE, other assets and expense	8,731,257	(4,663,569)	4,067,688
	(761,313)	(4,663,569)	(5,424,882)
Depreciation/amortization, 31 December 2017, as restated	**747,225,367**	**80,376,267**	**827,601,634**

36. PROFIT FOR DISTRIBUTION

The BSP shall remit fifty per cent (50%) of its net profits to the NG as dividend to be computed pursuant to RA 7656 (The Dividend Law) and its Revised IRR.

	2018	2017 (as restated)
Net income for the year	**39,845,224,410**	**23,536,547,394**

In accordance with PAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", the Net Income for calendar year 2017 was restated as shown in Note 31(b). The details of restated prior period adjustments on income and expenses are presented in the Statement of Changes in Equity.

37. TRUST FUNDS

Org Unit in cFAS	Note	2018	2017
Comptrollership – Trust Fund Accounting System	a	25,050,795,534	25,052,210,222
DLC -Accounting	b	2,616,622,001	500,750,431
Treasury Department-Domestic	c	1,583,933,663	1,820,697,113
Central Administrative Services Group – Closed Banks (formerly Supervision & Examination Department-Rural Banks)	d	140,590,538	2,217,870,300
Total		**29,391,941,736**	**29,591,528,066**

a. This consists of BSP self-insurance fund established for retirement benefits under RA 1616, shipment of currency and additional fidelity insurance bond for accountabilities in excess of PHP100.000 million.

b. This refers to Educational Loan Guarantee Fund (ELGF) and other funds for the account of various banks. The increase was due to the transfer of all Local Counterpart Funds (LCFs) under the administration of the then Supervision and Examination Sector-Central Administrative Services Group (SES-CASG), now Financial Supervision Sector-Sectoral Operations Management Department (FSS-SOMD) to the DLC on 10 July 2018 pursuant to MBR No. 23 dated 05 January 2018.

c. This pertains to Keppel Monte fund created to implement rehabilitation of Monte de Piedad Savings Bank; Comprehensive Agricultural Loan Fund (CALF) and Agro Industry Modernization Credit and Financing Program (AMCFP) of the Agricultural Credit Policy Council (ACPC) for various financing programs.

d. These are special agricultural rehabilitation funds and rural bank trust funds for various lending programs of the government and capital assistance to rural banks. The account balance was reduced by the amount of all LCFs transferred from the then SES-CASG to DLC pursuant to MBR No. 23 dated 05 January 2018.

38. CASH AND CASH EQUIVALENTS

	Note	2018	2017 (as restated)
Foreign currency assets			
Foreign investments - readily convertible to cash		1,498,825,089,209	1,973,881,080,636
Deposits with foreign banks		1,120,335,314,139	830,460,889,163
Other cash balances (foreign currency on hand)		1,131,822,894	233,178,717
Non-IR foreign currency on hand	a	33,255,679	32,471,204
Other FX receivable - due from FX banks - special account		27,724,207	26,194,879
		2,620,353,206,128	2,804,633,814,599
Local currency assets			
Government securities		223,159,426,195	224,499,338,802
Other receivables - due from local banks		764,337,638	599,998,306
Other receivables - revolving fund		255,719,980	259,295,342
Miscellaneous assets - checks and other cash Items		(2,595,379)	219,012
		224,176,888,434	225,358,851,462
Demand liabilities			
Deposit of banks and other financial institutions		(2,053,481,031,977)	(2,160,026,933,314)
Government demand deposits		(47,937,472,655)	(281,927,784,383)
		(2,101,418,504,632)	(2,441,954,717,697)
Cash and cash equivalents, 31 December		**743,111,589,930**	**588,037,948,364**

a. This represents foreign currency holdings under the Currency Exchange Facility for Overseas Filipino Workers (OFWs) under MB Res No. 283 dated 27 February 2003.

39. RECONCILIATION OF OPERATING CASH FLOW WITH REPORTED NET INCOME

	2018	2017 (as restated)
Reported operating surplus	39,845,224,410	23,536,547,394
Operating cash flows from changes in asset and liability balances	(204,590,660,950)	(11,131,012,933)
Add/(deduct) non-cash items		
Depreciation/amortization	857,138,667	827,601,634
Provision for probable loss	58,378,993	65,872,850
Income tax expense due to movement in deferred income tax (DIT)	15,353,831,211	1,140,561,882
Recovery from provision for market decline	(127,948,807)	514,813,200
Amortization of discount/premium on bonds payable	(3,746,821)	397,890
	16,137,653,243	2,549,247,456
Add/(deduct) movements in other working capital items:		
Increase/(decrease) in miscellaneous liabilities	(20,260,415)	946,071,708
Increase in interest payable	568,762,807	41,137,407
Increase in interest receivable	(1,821,979,312)	(1,269,649,836)
Decrease in accounts receivable	446,866,888	274,593,710
	(826,610,032)	(7,847,011)
Add/(deduct) investing and financing activities		
Net realized gain on FX rates fluctuation	(53,107,589,860)	(15,503,406,950)
Net cash used in operating activities	**(202,541,983,189)**	**(556,472,044)**

40. TAXES

40.1 Income taxes

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

	2018		2017 (as restated)	
	Amount	**Percent**	**Amount**	**Percent**
Provision for income tax computed at the statutory income tax rate, before adjustments	16,559,716,686		7,393,919,210	
Add:				
Restatements to financial statements computed at statutory rate	0		9,213,573	
Provision for income tax computed at the statutory income tax rate, as restated	16,559,716,686	30.00	7,403,132,783	30.00
Additions to/(reductions in) income tax resulting from the tax effects of:				
Non-deductible national taxes	1,466,468,566	2.66	1,155,001,080	4.68
Provision for allowance for doubtful accounts	53,337,170	0.10	57,758,552	0.23
Provision for unused leave credits	89,023,573	0.16	275,562,025	1.12
Interest income subject to final tax	(2,355,980,200)	(4.27)	(1,559,479,266)	(6.32)
Prior year reversal of allowance for doubtful accounts	21,434,659	0.04	(21,810,676)	(0.09)
Actual leave credits paid	(101,197,286)	(0.18)	(127,330,264)	(0.52)
Income related to the sale of acquired assets	(373,402,943)	(0.68)	(163,118,265)	(0.66)
Provision for loss on market decline	(38,384,642)	(0.07)	154,443,960	0.63
PICCI income and expenses	(33,426,580)	(0.06)	(127,825,849)	(0.52)
Debits on valuation allowance credited to Miscellaneous Income	(393,563)	0	(928,861)	0
Written-off accounts	(64,025,594)	(0.12)	(46,790,414)	(0.19)
Net operating loss carry-over applied in current year	0	0	(5,851,403,643)	(23.71)
	(1,336,546,840)	(2.42)	(6,255,921,621)	(25.35)
Actual provision for corporate income tax	**15,223,169,846**	**27.58**	**1,147,211,162**	**4.65**

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

40.2 Deferred income taxes

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

	2018	2017
Deferred tax asset		
Allowance for doubtful accounts	1,767,615,405	1,756,087,594
Unused leave credits	881,495,413	893,669,125
Tax overpayments	0	3,489,790,111
PICCI unused tax credit (for consolidation purposes)	6,732,019	8,256,573
Total deferred income tax assets	**2,655,842,837**	**6,147,803,403**

The movement in DTA account is summarized as follows:

	2018	2017
Net balance at the beginning of the year, before adjustments	6,147,803,403	7,194,170,890
Add/(deduct):		
Tax overpayments utilized to pay tax due	(3,489,790,111)	(773,065,117)
Excess MCIT carried forward and credited against normal income tax	0	(377,265,517)
Temporary differences charged to income tax expense	(645,901)	136,460,371
PICCI unused tax credits (for consolidation purposes)	(1,524,554)	(32,497,224)
Sub-total	(3,491,960,566)	(1,046,367,487)
Net balance at the end of the year	**2,655,842,837**	**6,147,803,403**

Income tax overpayments recorded under the DTA account comprise the excess of BSP's quarterly payments of income taxes under regular rate over the regular income tax computed in its annual adjusted return.

Excess MCIT, on the other hand, is the excess of the MCIT over the RCIT, which can be carried forward and credited against the computed RCIT for the three (3) immediately succeeding taxable years.

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

	2018	2017
Provision for allowance for doubtful accounts	53,337,170	57,758,552
Provision for unused leave credits	89,023,573	275,562,025
Adjustment of account valuations	22,216,236	(22,739,528)
Actual leave credits paid	(101,197,286)	(127,330,264)
Written-off accounts	(64,025,594)	(46,790,414)
Temporary differences charged to income tax expense	**(645,901)**	**136,460,371**

PAS 12 provides that DTA shall be recognized for the carry forward of unused tax losses to the extent that it is probable that the future taxable profit will be available against which the unused tax losses can be utilized. In this regard, the marked-to-market valuation of domestic securities booked directly to equity under the account "Unrealized Losses on Investments in Government Securities" are not considered as DTA 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 marked-to-market account is PHP0.542 billion in 2018 and PHP0.397 billion in 2017.

RIR account amounting to PHP534.976 billion is not included as a DTA component pursuant to Section 45 of RA 7653 which states that "profits or losses arising from any revaluation of the Bangko Sentral's net assets or liabilities in gold or foreign currencies with respect to the Philippine peso shall not be included in the computation of the annual profits and losses of the Bangko Sentral".

40.3 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 2018.

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 PHP0.024 billion based on the rental of owned/acquired properties, sale of printing and other services, and other income from proprietary activities reflected in the Miscellaneous Income account of PHP0.197 billion.

b. The BSP has exempt sales corresponding to the sale of its 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 PHP0.292 million recognized from local purchases of various goods and services.

d. All other taxes, local and national included in the Taxes and Licenses account under Operating Expenses in the Income Statement, excluding taxes and licenses paid by the PICCI, are as follows:

	2018	2017 (as restated)
Local taxes		
Real estate tax	219,524,991	162,844,734
Taxes and licenses related to acquired assets	37,349,446	46,706,599
Others (registration fees, licenses, permits)	1,249,636	1,701,917
Total	**258,124,073**	**211,253,250**
National taxes		
Capital gains tax on sale of acquired assets	99,374,182	88,566,929
Total	**99,374,182**	**88,566,929**
Compromise settlement of tax assessments		
Final Withholding of Percentage Tax	0	2,226,508,050
Final Withholding Tax	2,397,131,642	440,380,578
Expanded Withholding Tax	465,225,968	42,672,517
Value-Added Tax (VAT)	381,113,515	10,886,235
Final Withholding of VAT	356,528,875	618,509
Total	**3,600,000,000**	**2,721,065,889**

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

	2018	2017
Final withholding tax on income	5,695,128,436	6,692,201,682
Withholding tax on compensation and benefits	2,317,196,336	2,425,676,311
VAT and other percentage tax withheld	1,038,214,008	1,484,338,396
Expanded withholding tax	73,508,827	108,403,015
Excise tax collected	26,453,457	17,067,424
Total	**9,150,501,064**	**10,727,686,828**

f. As of 31 December 2018, the tax cases pertaining to deficiency taxes for taxable years 2009 and 2010 remains pending cases with the Court of Tax Appeals (CTA):

(1) In 2013, the BSP was issued a Final Assessment Notice (FAN) for internal revenue taxes for taxable year 2009. The BSP partially resolved the tax audit for taxable year 2009 with payments for deficiency internal revenue taxes in the amount of PHP3.838 billion. The 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 is subject of the case pending with the CTA En Banc.

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

The unresolved items in the tax audits for taxable years 2009 and 2010 which became subject of the tax cases were covered by settlements with the BIR, under the primary consideration of assisting the national government in its collection efforts, without admission of liability on the part of BSP. The settlements amounted to PHP0.667 billion and PHP2.054 billion for taxable years 2009 and 2010, respectively. Consequently, the BIR issued Certificates of Availment approving the BSP’s applications for compromise for taxable years 2009 and 2010.

The BIR is also currently conducting its audit and examination of BSP books and other accounting records covering taxable year 2016 pursuant to a Letter of Authority issued in June 2018.