CITYSTATE SAVINGS BANK, INC.
FOREIGN CURRENCY DEPOSIT UNIT
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016
(Amounts in United States Dollars)

FOR APPROVAL
Signature: ________________
Position: ________________
Date: ____________________

	Notes	2017	2016
RESOURCES			
DUE FROM OTHER BANKS	5	$ 5,818,569	$ 2,067,203
OTHER RESOURCES	6	29,411	25,392
TOTAL RESOURCES		$ 5,847,980	$ 2,092,595
LIABILITIES			
DEPOSIT LIABILITIES	7		
Savings		$ 385,248	$ 413,572
Time		5,457,491	1,676,324
Total Deposit Liabilities		5,842,739	2,089,896
OTHER LIABILITIES		5,222	2,786
DUE TO (FROM) REGULAR BANKING UNIT	8	19	(87)
TOTAL LIABILITIES		$ 5,847,980	$ 2,092,595

See Notes to Financial Statements.

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

CITYSTATE SAVINGS BANK, INC.
FOREIGN CURRENCY DEPOSIT UNIT
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in United States Dollars)

	Notes	2017	2016
INTEREST INCOME ON DUE FROM OTHER BANKS	5	**$ 34,667**	$ 26,505
INTEREST EXPENSE ON DEPOSIT LIABILITIES	7	**19,345**	14,862
NET INTEREST INCOME		**15,322**	11,643
OTHER INCOME			
Service charges and fees		**101**	217
Miscellaneous		-	101
		101	318
OTHER EXPENSES		-	91
PROFIT BEFORE TAX		**15,423**	11,870
TAX EXPENSE	9	**550**	733
NET PROFIT	8	**14,873**	11,137
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME		**$ 14,873**	$ 11,137

See Notes to Financial Statements.

CITYSTATE SAVINGS BANK, INC.
FOREIGN CURRENCY DEPOSIT UNIT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in United States Dollars)

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 15,423	$ 11,870
Adjustments for:			
Interest income	5	(34,667)	(26,505)
Interest received		31,004	27,110
Interest expense	7	19,345	14,862
Interest paid		(17,016)	(4,352)
Operating profit before changes in resources and liabilities		14,088	22,985
Increase in deposit liabilities		3,752,843	272,078
Increase (decrease) in other liabilities		76	(9,883)
Cash generated from operations		3,767,008	285,180
Cash paid for final income taxes	9	(520)	(646)
Net Cash From Operating Activities		3,766,488	284,534
CASH FLOW FROM FINANCING ACTIVITY			
Transfers made to Regular Banking Unit	8	(14,767)	(11,011)
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,751,721	273,523
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Due from other banks	5	2,067,203	1,800,220
Foreign currency notes and coins on hand	6	19,152	12,612
		2,086,355	1,812,832
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Due from other banks	5	5,818,569	2,067,203
Foreign currency notes and coins on hand	6	19,507	19,152
		$ 5,838,076	$ 2,086,355

See Notes to Financial Statements.

FOR APPROVAL
Signature: _______________
Position: ________________
Date: ___________________

CITYSTATE SAVINGS BANK, INC.
FOREIGN CURRENCY DEPOSIT UNIT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Amounts in United States Dollars)

1. CORPORATE INFORMATION

Citystate Savings Bank, Inc. (the Bank) was incorporated in the Philippines on May 20, 1997. The Bank obtained a thrift bank license from the Bangko Sentral ng Pilipinas (BSP) on August 7, 1997 and started operations on August 8, 1997. The Bank's common shares were listed in the Philippine Stock Exchange on November 14, 2001. On March 4, 2004, the Bank was authorized by the BSP to engage in quasi-banking functions. On July 13, 2006, the Bank was granted license to operate a foreign currency deposit unit (FCDU) and trust function. The FCDU started operations on November 8, 2006 while its trust operations started in February 2007. As of December 31, 2017, the Bank has 30 branches and 31 on-site and six off-site automated teller machines strategically located in key cities and municipalities within Metro Manila and certain provincial areas.

The Bank's registered address, which is also its principal place of business, is located at 2nd Floor, Citystate Centre, 709 Shaw Boulevard, Pasig City.

The financial statements of the FCDU as of and for the year ended December 31, 2017 (including the comparative financial statements as of and for the year ended December 31, 2016) were authorized for issue by the Bank's Board of Directors on April 3, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. The policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the FCDU have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies in the succeeding pages.

(b) *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The FCDU presents all items of income and expenses in a single statement of comprehensive income.

The FCDU presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

These financial statements are presented in United States (US) dollars, the FCDU's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the FCDU are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the FCDU operates.

2.2 Adoption of New and Amended PFRS

(a) *Effective in 2017 that are Relevant to the FCDU*

The FCDU adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments)	:	Income taxes – Recognition of Deferred Tax Assets for Unrealized Losses

Discussed below and in the succeeding page are the relevant information about these amendments.

(i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative*. The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows. They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

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This amendment has no significant impact to the FCDU as it has no debt arising from financing activities during the years presented, except for the transfers and remittances to regular banking unit (RBU) in 2017 and 2016 (see Note 8).

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of this amendment has had no impact on the FCDU's financial statements since no deferred tax asset was recognized by the FCDU.

(b) Effective in 2017 that are not Relevant to the FCDU

The only improvement to existing standards effective for annual periods beginning on or after January 1, 2017, is the annual improvement to PFRS (2014-2016 Cycle) – PFRS 12 (Amendment), *Disclosure of Interest in Other Entities*, in relation to scope clarification on disclosure of summarized financial information for interests classified as held for sale, which is not relevant to the FCDU.

(c) Effective Subsequent to 2017 but not Adopted Early

There are new PFRS and interpretation to existing standards effective for annual periods subsequent to 2017, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions.

(i) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39, *Financial Instruments: Classification and Measurement,* and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

- an expected credit loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

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In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding.

Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Based on an assessment of the FCDU's financial assets and financial liabilities as of December 31, 2017, which has been limited to the facts and circumstances existing at that date, management has identified that the FCDU's financial assets and financial liabilities measured at amortized cost are expected to be most impacted by the application of PFRS 9 (2014). Upon application of PFRS 9 (2014), management has assessed that the amortized cost classification for most of the financial assets and financial liabilities will be retained.

(iii) PFRS 15, *Revenue from Contract with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Management initially assessed that this new standard has no material impact on the FCDU's financial statements.

(iv) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the FCDU to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the FCDU has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this new interpretation on the FCDU's financial statements.

2.3 Financial Assets

Financial assets are recognized when the FCDU becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(a) Classification and Measurement of Financial Assets

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss.

The financial assets category that is currently relevant to the FCDU is loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the FCDU provides money or services directly to a debtor with no intention of trading the receivables.

The FCDU's loans and receivables are presented as Due from Other Banks and Other Resources in the statement of financial position. Due from Other Banks represent deposits maintained in other banks that are unrestricted and readily available for use in the FCDU's operations. For statement of cash flow presentation purposes, cash and cash equivalents include foreign currency notes and coins on hand presented under Other Resources.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any.

FOR APPROVAL
Signature: _______________
Position: _________________
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(b) *Impairment of Financial Assets*

The FCDU assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

The FCDU recognizes impairment loss if there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in profit or loss.

(c) *Items of Income and Expense Related to Financial Assets*

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Interest Income and Interest Expense accounts, respectively, in the statement of comprehensive income.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

(d) *Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the FCDU neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the FCDU recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the FCDU retains substantially all the risks and rewards of ownership of a transferred financial asset, the FCDU continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.4 Financial Liabilities

Financial liabilities, which include deposit liabilities and other liabilities (except tax-related payables) are recognized when the FCDU becomes a party to the contractual terms of the instrument.

Deposit liabilities and other liabilities are recognized initially at their fair values and subsequently measured at their amortized cost using effective interest method for maturities beyond one year, less settlement payments. All interest-related charges on these financial liabilities are recognized and reported as Interest Expense on Deposit Liabilities account in the statement of comprehensive income.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.5 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the resources and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entity and all counterparties to the financial instruments.

2.6 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events, for example, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the FCDU that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the FCDU can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.7 Revenue and Expense Recognition

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the FCDU; and, the cost incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before a revenue and expense is recognized:

(a) *Interest* – Interest income and expenses are recognized in profit or loss for all financial instruments using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the FCDU estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a similar financial asset has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) *Service charges and fees* – Revenue is recognized on an accrual basis when the service has been provided. Other service fees are recognized based on the applicable service contracts, usually on a time-appropriate basis.

Costs and expenses are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. Finance costs are reported on an accrual basis.

2.8 Foreign Currency Transactions and Translation

The accounting records of the FCDU are maintained in US dollars. Foreign currency transactions during the year, if any, are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

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Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income as part of income or loss from operations.

2.9 Income Taxes

Tax expense recognized in profit or loss pertains to current taxes not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the FCDU expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the FCDU has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

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2.10 Events after the End of the Reporting Period

Any post-year-end event that provides additional information about the financial position of the FCDU at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the FCDU's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the FCDU's accounting policies, management has made judgment relating to provisions and contingencies, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements. Judgment is exercised by management to distinguish between provisions and contingencies. Accounting policies on recognition of provisions and contingencies are discussed in Note 2.6 and the relevant disclosures are presented in Note 10.

3.2 Key Sources of Estimation Uncertainty

The estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances of the FCDU's financial statements. Actual results could differ from those estimates. The relevant estimates applied by management on the preparation of the FCDU's financial statements pertain to the fair value measurement and disclosures of its financial assets and financial liabilities.

The following table presents the comparison of the carrying amounts and estimated fair values of the FCDU's financial assets and financial liabilities:

	2017		2016	
	Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values
Due from other banks	**$ 5,818,569**	**$ 5,818,569**	$ 2,067,203	$ 2,067,203
Other resources	**29,411**	**29,411**	25,392	25,392
	$ 5,847,980	**$ 5,847,980**	$ 2,092,595	$ 2,092,595
Deposit liabilities	**$ 5,842,739**	**$ 5,842,739**	$ 2,089,896	$ 2,089,896
Other liabilities	**4,896**	**4,896**	2,586	2,586
	$ 5,847,635	**$ 5,847,635**	$ 2,092,482	$ 2,092,482

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Management considers that the carrying amounts of loans and receivables and all financial liabilities which are measured at amortized cost approximate their fair values because these instruments are short-term in nature.

In accordance with the fair value hierarchy of assets and financial liabilities under PFRS 13, *Fair Value Measurement*, except for due from other banks, foreign currency notes and coins and deposit liabilities which are categorized as Level 1, the fair values disclosed for the above financial assets and financial liabilities are categorized under Level 3 (i.e., based on transacted price and unobservable inputs) as those instruments neither have quoted price in active market nor do they have prices directly or indirectly derived from observable market data.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

By their nature, the FCDU's activities are principally related to the use of financial instruments. The FCDU accepts deposits from customers at fixed rates and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The FCDU seeks to increase these margins by consolidating short-term funds and lending or investing for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank's Risk Management Committee (RMC) has overall responsibility for the FCDU's risk management systems and sets risks management policies across the full range of risks to which the FCDU is exposed. The Bank's RMC places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

4.1 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default in settlement, and it arises from treasury and other activities undertaken by the FCDU. The FCDU manages its credit risk through the Account Management Department of the Bank, which undertakes several functions with respect to credit risk management. Impairment losses are provided for losses that have been incurred at the end of the reporting period. Significant changes in the economy, or in the health of a particular industry segments that represents a concentration in the FCDU's financial instruments, could result in losses that are different from those provided for at the end of the reporting period. Management, therefore, carefully manages its exposure to credit risk.

The carrying amount of financial assets recognized in the financial statements represents the FCDU's maximum exposure to credit risk without taking into account the value of any collateral obtained.

The carrying amounts of the FCDU's financial assets as of December 31, 2017 and 2016 are as follows:

	Notes	**2017**	2016
Due from other banks	5	**$ 5,818,569**	$ 2,067,203
Other resources	6	**29,411**	25,392
		$ 5,847,980	$ 2,092,595

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The FCDU is able to manage the credit risk arising from due from other banks since the banks where these deposits are made have high reputation and good credit standing. All financial assets of the FCDU are classified as high grade with concentration of credit risk in financial institution. In addition, deposit with banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P500,000 for every depositor per banking institution. The credit risk for Other Resources is considered negligible since it mainly includes cash and other cash items.

4.2 Liquidity Risk

Liquidity risk is the risk that there may be insufficient funds available to adequately meet the credit demands of the FCDU's customers and repay deposits on maturity. The FCDU manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met. In addition, the FCDU seeks to maintain sufficient liquidity to take advantage of interest rate and exchange rate opportunities when they arise.

Under the current BSP circular, the liquidity reserve of the Bank is required to be in the form of three to twelve months reserve deposits with the BSP. The BSP also requires the Bank to maintain asset cover of 100% for foreign currency liabilities of their foreign currency deposit units.

The contractual maturities of the FCDU's financial liabilities, stated at their settlement amounts as of December 31, 2017 and 2016, are presented below.

	Within one month	More than one month to three months	More than three months to one year	Total
December 31, 2017				
Deposit liabilities	$ 1,722,023	$3,992,655	$ 128,061	$ 5,842,739
Other liabilities	4,749	47	100	4,896
	$ 1,726,772	**$3,992,702**	**$ 128,161**	**$ 5,847,635**
December 31, 2016				
Deposit liabilities	$ 1,392,261	$ 600,339	$ 97,296	$ 2,089,896
Other liabilities	1,298	701	587	2,586
	$ 1,393,559	$ 601,040	$ 97,883	$ 2,092,482

4.3 Interest Rate Risk

The FCDU's policy is to minimize interest rate cash flow risk exposures. The FCDU's cash flow interest rate risk relates primarily to the possible changes in the prevailing interest rates of due from other banks. The volatility in the interest rates of these financial instruments will result to an increase or decrease of the FCDU's interest spread, and consequently will affect its financial performance. All other financial assets and financial liabilities have fixed rates.

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

The table below illustrates the sensitivity of the FCDU's profit or loss before tax and Due to (from) RBU to a reasonably possible change in interest rates of due from other banks. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the FCDU's due from other banks held at the end of each reporting period. All other variables are held constant.

	Sensitivity Rate +/- %	Profit Before Tax	Due to (from) RBU
December 31, 2017	**0.90%**	**$ 52,657**	**$ 42,126**
December 31, 2016	0.58%	11,907	(9,526)

5. DUE FROM OTHER BANKS

The balance of this account is composed of savings and time deposits maintained with the foreign currency deposit units of local banks. Annual interest rates on these deposits range from 0.25% to 2.35% in 2017 and from 0.25% to 2.0% in 2016. Time deposits have average maturities of one month.

Interest earned amounted to $34,667 in 2017 and $26,505 in 2016, and is presented as Interest Income on Due from Other Banks account in the statements of comprehensive income.

6. OTHER RESOURCES

The details of this account are shown below:

	2017	2016
Foreign currency notes and coins on hand	**$ 19,507**	$ 19,152
Interest receivables	**9,904**	6,240
	$ 29,411	$ 25,392

7. DEPOSIT LIABILITIES

The FCDU's deposit liabilities have maturities of within one year and bear annual interest rates ranging from 0.125% to 1.75% in 2017 and from 0.125% to 1.25% in 2016.

Interest expense on deposit liabilities amounted to $19,345 in 2017 and $14,862 in 2016, and is presented as Interest Expense on Deposit Liabilities account in the statements of comprehensive income

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

8. DUE TO (FROM) REGULAR BANKING UNIT

The balance of this account is shown below.

	2017	2016
Balance at beginning of year	**($ 87)**	($ 213)
Transfer and remittances to RBU	**(14,767)**	(11,011)
Net profit	**14,873**	11,137
Balance at end of year	**$ 19**	($ 87)

9. TAXES

The components of tax expense relating to profit or loss follow:

	2017	2016
Final tax	**$ 520**	$ 646
Regular corporate income tax (RCIT)	**30**	87
	$ 550	$ 733

The reconciliation of tax on pretax profit computed at the applicable statutory tax rates to tax expense reported in profit or loss are shown below.

	2017	2016
Tax on pretax profit at 30%	**$ 4,627**	$ 3,561
Interest income subject to lower tax rates	**(1,567)**	(1,841)
Tax effects of:		
Interest income exempt from tax	**(8,296)**	(5,182)
Non-deductible interest expense	**5,786**	4,195
	$ 550	$ 733

Under current tax laws and regulations covering income earned and expenses of banks, the FCDU is taxed as follows:

(a) Income from foreign currency transactions with non-residents of the Philippines, other offshore banking units (offshore income), foreign currency deposit units of local commercial banks and branches of foreign banks are tax-exempt;

(b) Income from foreign currency loans granted to residents other than offshore units in the Philippines or other depository banks under the expanded system is subject to final tax rate of 10%;

(c) For all other income:

- these are taxable at RCIT rate of 30%;
- as deduction from gross income subject to RCIT, interest paid or incurred within the taxable year shall be reduced by an amount equal to 33% of the interest income subjected to final tax; and,
- net operating loss carryover is available for the next three years.

(d) Final taxes are imposed in the following manner:

- 7.5% on interest income paid to individual residents and domestic corporations;
- fringe benefits tax (same rate as the highest rate of the individual income tax which is 32% or 15%) on the grossed-up value of the benefits given by employers to their managerial and supervisory employees; this is a final tax to be shouldered by the employer; and,
- interest from long-term (five years or more) deposits or investments paid to individuals are exempt from tax but taxable if preterminated.

10. COMMITMENTS AND CONTINGENCIES

The FCDU enters and incurs commitments and contingent liabilities arising from its operations, which are not reflected in the financial statements. The FCDU recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that as of December 31, 2017, losses, if any, which may arise from these commitments and contingencies, will not have a material effect on the financial statements of the FCDU.

11. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented in the succeeding page is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations to be disclosed as part of the notes to financial statements. This supplementary information with amounts presented in Philippine pesos, is not a required disclosure under PFRS.

11.1 Requirements Under Revenue Regulations (RR) No. 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR No. 15-2010 are as follows:

(a) Gross Receipts Tax (GRT)

In lieu of value-added taxes, the FCDU is subject to the GRT imposed on all banks and non-bank financial intermediaries performing quasi-banking functions pursuant to Section 121 of the Tax Code, as amended.

In 2017, the FCDU has no reported GRT since it was remitted and recorded by the RBU.

(b) Other Required Tax Information

The FCDU has no transactions that are subject to documentary stamp taxes, withholding taxes, excise taxes or customs' duties and tariff fees. Moreover, as of December 31, 2017, the FCDU does not have any final deficiency tax assessments with the BIR nor does it have tax cases outstanding or pending in courts or bodies outside the BIR in any of the open taxable years.

11.2 Requirements Under RR No. 19-2011

RR No. 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and services, and itemized deductions and other significant tax information, to be disclosed in the notes to financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR; hence, may not be the same as the amounts reflected in the 2017 statement of comprehensive income.

(a) Taxable Revenue

The FCDU has no taxable revenue for the year ended December 31, 2017.

(b) Deductible Cost of Services

There is no deductible cost of services for 2017.

(c) Taxable Non-operating and Other Income

Taxable non-operating and other income pertains to service charges and miscellaneous income amounting to P5,096 ($101), which were subject to the regular tax rate.

The FCDU incurred P16 ($0.32) expenses, which was claimed as deduction against its taxable non-operating and other income.

(d) Itemized Deduction

The FCDU did not claim any itemized deductions related to its exempt revenue.