CITYSTATE SAVINGS BANK, INC.
FOREIGN CURRENCY DEPOSIT UNIT
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017
(Amounts in United States Dollars)

	Notes	2018	2017
DUE FROM OTHER BANKS	5	**$ 5,130,568**	$ 5,818,569
OTHER RESOURCES	6	**52,493**	29,411
TOTAL RESOURCES		**$ 5,183,061**	$ 5,847,980
DEPOSIT LIABILITIES	7		
Savings		**$ 382,415**	$ 385,248
Time		**4,792,805**	5,457,491
Total Deposit Liabilities		**5,175,220**	5,842,739
OTHER LIABILITIES		**7,877**	5,222
DUE TO (FROM) REGULAR BANKING UNIT	8	(36)	19
TOTAL LIABILITIES		**$ 5,183,061**	$ 5,847,980

See Notes to Financial Statements.

CITYSTATE SAVINGS BANK, INC.
FOREIGN CURRENCY DEPOSIT UNIT
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Amounts in United States Dollars)

	Notes	2018	2017
INTEREST INCOME ON DUE FROM OTHER BANKS	5	**$ 121,930**	$ 34,667
INTEREST EXPENSE ON DEPOSIT LIABILITIES	7	**70,377**	19,345
NET INTEREST INCOME		**51,553**	15,322
OTHER INCOME			
Service charges and fees		**98**	101
Miscellaneous		**25**	-
		123	101
OTHER EXPENSES		**94**	-
PROFIT BEFORE TAX		**51,582**	15,423
TAX EXPENSE	9	**16,935**	550
NET PROFIT	8	**34,647**	14,873
OTHER COMPREHENSIVE INCOME		**-**	-
TOTAL COMPREHENSIVE INCOME		**$ 34,647**	$ 14,873

See Notes to Financial Statements.

CITYSTATE SAVINGS BANK, INC.
FOREIGN CURRENCY DEPOSIT UNIT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Amounts in United States Dollars)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 51,582	$ 15,423
Adjustments for:			
Interest income	5	(121,930)	(34,667)
Interest received		120,523	31,004
Interest expense	7	70,377	19,345
Interest paid		(68,432)	(17,016)
Operating profit before changes in resources and liabilities		52,120	14,089
Increase (decrease) in deposit liabilities		(667,519)	3,752,843
Increase in other liabilities		666	76
Cash generated from (used in) operations		(614,733)	3,767,008
Cash paid for final income taxes	9	(16,929)	(520)
Net Cash From (Used in) Operating Activities		(631,662)	3,766,488
CASH FLOW FROM FINANCING ACTIVITY			
Transfers made to Regular Banking Unit	8	(34,664)	(14,767)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(666,326)	3,751,721
CASH AND CASH EQUIVALENTS AT BEGINNING 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
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Due from other banks	5	5,130,568	5,818,569
Foreign currency notes and coins on hand	6	41,182	19,507
		$ 5,171,750	$ 5,838,076

See Notes to Financial Statements.

CITYSTATE SAVINGS BANK, INC.
FOREIGN CURRENCY DEPOSIT UNIT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(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. FCDU started operations on November 8, 2006 while its trust operations started in February 2007. As of December 31, 2018, the Bank has 30 branches and 31 on-site and 6 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 FCDU as of and for the year ended December 31, 2018 (including the comparative financial statements as of and for the year ended December 31, 2017) were authorized for issue by the Bank's Board of Directors on April 30, 2019.

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 FCDU have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) from the books of accounts maintained by the Bank for the FDCU. 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 (BOA).

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*. 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.

In 2018, the FCDU adopted PFRS 9, *Financial Instruments*, which was applied using the transitional relief allowed by the standard. This allows the FCDU not to restate its prior periods' financial statements. However, no significant impact was noted by the Bank, both in relation to the classification and measurement and impairment of its financial asset as of December 31, 2018 and January 1, 2018. FCDU's financial assets only pertain to due from other banks, foreign currency notes and coins and interest receivables, which are accounted for at amortized cost and for which no material amount of impairment is required to be recognized.

Also, FCDU adopted PFRS 15, *Revenue from Contracts with Customers*, as of January 1, 2018. Management assessed that this did not have significant impact on FCDU's financial statements [see Note 2.2(a)(ii)].

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS

(a) Effective in 2018 that are Relevant to FCDU

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, 2018:

PFRS 9	:	Financial Instruments
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15
International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration

Discussed below are the relevant information about these pronouncements.

(i) PFRS 9, *Financial Instruments* (issued in 2014). This new standard on financial instruments replaced PAS 39, *Financial Instruments: Recognition and Measurement,* and PFRS 9 issued in 2009, 2010 and 2013. This standard contains, among others, the following:

(a) three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments, i.e., financial assets at amortized costs, fair value through profit and loss (FVPL), and fair value through other comprehensive income (FVOCI);

(b) an expected credit loss (ECL) model in determining impairment of all debt financial assets that are not measured at FVPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of such financial assets; and,

(c) 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.

The adoption of PFRS 9 (2014) did not result in material adjustment to the financial statements because FCDU's financial assets pertain only to Due from Banks and Other resources with respect to Foreign currency notes and coins on hand, which remained to be carried at amortized cost; and the application of the ECL model did not result in any significant difference. In the same manner, the classification and measurement of its financial liabilities did not also change. Nevertheless, the relevant accounting policies have been updated to conform well with the provisions of PFRS 9 (see Notes 2.3 and 2.7).

(ii) PFRS 15, *Revenue from Contract with Customers*, together with the *Clarifications to PFRS 15* (herein referred to as PFRS 15). This standard replaced PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: 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.

FCDU's revenue pertains to interest income on due from banks, which is out of the scope of PFRS 15. Accordingly, the adoption of the new standard, which was applied retrospectively, had no material impact on FCDU's financial statements.

(iii) IFRIC 22, *Foreign Currency Transactions and Advance Consideration.* The Interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The adoption of this Interpretation did not have an impact on FCDU's financial statements as FCDU has been accounting for its foreign currency-denominated transactions involving advance consideration consistent with this Interpretation.

(b) Effective in 2018 that are not Relevant to FCDU

The following amendments to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to FCDU's financial statements:

PAS 40 (Amendments)	:	Investment Property – Reclassification to and from Investment Property
PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9 with PFRS 4
Annual Improvements to PFRS (2014-2016 Cycle)		
PAS 28 (Amendments)	:	Investment in Associates – Clarification on Fair Value Through Profit or Loss Classification
PFRS 1 (Amendments)	:	First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions

(c) Effective Subsequent to 2018 but not Adopted Early

There are new PFRS, amendments, interpretations and annual improvements effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on FCDU's financial statements:

(i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset).

(ii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the "solely payments of principal and interests" (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI.

(iii) PFRS 16, *Leases* (effective January 1, 2019). The new standard will eventually replace PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The management plans to adopt the modified retrospective application of PFRS 16 where the cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of Due to RBU account at the date of initial application. FCDU will elect to apply the standard to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application. Management is currently assessing the financial impact of this new standard on FCDU's financial statements.

(iv) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective 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 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, 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.

(v) Annual Improvements to PFRS 2015-2017 Cycle (effective January 1, 2019). Among the improvements, PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*, which clarify that all income tax consequence of dividend payments should be recognized in profit or loss, is relevant to FCDU but had no material impact on FCDU's financial statements as this amendment merely clarifies existing requirements.

(vi) PAS 1 (Amendments), *Presentation of Financial Statements*, and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors* (effective January 1, 2020). The amendments refine the definition of 'material' in PAS 1 and align the definitions used across all PFRS and other pronouncements. These are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgments. As of December 31, 2018, these amendments are still subject to BOA's approval.

2.3 Financial Assets

Financial assets are recognized when the entity becomes a party to the contractual provisions of the instrument. At initial recognition, FCDU measures a financial asset at its fair value plus or minus, in the case of a financial asset not at FVPL, transaction costs that are incremental or directly attributable to the acquisition or issue of the financial asset, such as fees and commissions. Transaction costs of financial assets carried at FVPL are expensed outright in profit or loss. Unless specifically indicated to apply to either year, the policies that follow apply to both years.

(a) Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9 (Applicable to 2018)

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at amortized cost, financial assets at FVOCI, and financial assets at FVPL. Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets relevant to the FCDU are described as follows.

Financial assets are measured at amortized cost if both of the following conditions are met:

- the financial asset is held within FCDU's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any allowance for ECL.

FCDU's financial assets at amortized cost are presented as Due from Other Banks and Other Resources, with respect to the foreign currency notes and coins and interest receivables, 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 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.

The Company can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Company is required to reclassify financial assets: (i) from amortized cost to FVPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the FCDU's business model will take effect only at the beginning of the next reporting period following the change in the business model.

(b) Classification, Measurement and Reclassification of Financial Assets in Accordance with PAS 39 (Applicable to 2017 and prior years)

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVPL, 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 FVPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVPL 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 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 FCDU provides money or services directly to a debtor with no intention of trading the receivables.

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 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.

(c) *Effective Interest Rate Method and Interest Income*

Under both PFRS 9 and PAS 39, interest income is recorded using the effective interest rate (EIR) method for all financial instrument measured at amortized cost.

The EIR is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of EIR. FCDU recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive (negative) adjustment to the carrying amount of the asset in the statement of financial position with an increase (a reduction) in Interest income. The adjustment is subsequently amortized through interest and similar income in the statement of income and expenses.

FCDU calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

(d) *Impairment of Financial Assets Under PFRS 9 (Applicable to 2018)*

Starting January 1, 2018, FCDU assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost. Recognition of credit losses is no longer dependent on FCDU's identification of a credit loss event. Instead, FCDU considers a broader range of information in assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

As allowed under PFRS 9 for financial asset with no significant financing component, FCDU applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for financial assets at amortized cost. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. The FCDU's adoption of PFRS 9 did not result in significant adjustments to the financial statements of the Bank because its financial assets, which pertain solely to Due from Other Banks and Other Resources with respect to Foreign currency notes and coins on hand and Interest receivables are still carried at amortized cost for which no ECL is required to be recognized.

(e) Impairment of Financial Assets Under PAS 39 (Applicable to 2017 and prior years)

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.

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.

(f) 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 FCDU neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, FCDU recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If FCDU retains substantially all the risks and rewards of ownership of a transferred financial asset, 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 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 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 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

Prior to January 1, 2018, revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the FCDU; and the expenses and costs incurred and to be incurred can be measured reliably.

In 2018, revenue is recognized only when (or as) FCDU satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the FCDU's financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the FCDU first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

The FCDU also earns service fees on various banking services and gains on sale of properties which are supported by contracts approved by the parties involved. These revenues are accounted for by the FCDU in accordance with PFRS 15. Service Charges and Fees and Miscellaneous Income are generally recognized when the service has been provided. These include commissions and fees arising from deposits and other banking transactions and are taken up as income based on agreed terms and conditions.

2.8 Foreign Currency Transactions and Translation

The accounting records of 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.

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 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 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.

2.10 Events after the End of the Reporting Period

Any post-year-end event that provides additional information about the financial position of 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 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 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 FCDU's financial statements. Actual results could differ from those estimates. The relevant estimates applied by management on the preparation of 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 FCDU's financial assets and financial liabilities:

	2018		2017	
	Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values
Due from other banks	**$ 5,130,568**	**$ 5,130,568**	$ 5,818,569	$ 5,818,569
Other resources	**52,493**	**52,493**	29,411	29,411
	$ 5,183,061	**$ 5,183,061**	$ 5,847,980	$ 5,847,980
Deposit liabilities	**$ 5,175,220**	**$ 5,175,220**	$ 5,842,739	$ 5,842,739
Other liabilities	**7,877**	**7,877**	5,222	5,222
	$ 5,183,097	**$ 5,183,097**	$ 5,847,961	$ 5,847,961

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, FCDU's activities are principally related to the use of financial instruments. 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. 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 FCDU's risk management systems and sets risks management policies across the full range of risks to which 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 FCDU. 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 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 FCDU's maximum exposure to credit risk without taking into account the value of any collateral obtained.

The carrying amounts of FCDU's financial assets as of December 31, 2018 and 2017 are as follows:

	Notes	**2018**	2017
Due from other banks	5	**$ 5,130,568**	$ 5,818,569
Other resources	6	**52,493**	29,411
		$ 5,183,061	$ 5,847,980

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 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 FCDU's customers and repay deposits on maturity. FCDU manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met. In addition, 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 FCDU's financial liabilities, stated at their settlement amounts as of December 31, 2018 and 2017, are presented below.

	Within one month	More than one month to three months	More than three months to one year	Total
December 31, 2018				
Deposit liabilities	$ 1,532,198	$3,526,197	$ 127,122	$ 5,185,517
Other liabilities	7,600	24	218	7,842
	$ 1,539,798	**$3,526,221**	**$ 127,340**	**$ 5,193,359**
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

4.3 Interest Rate Risk

FCDU's policy is to minimize interest rate cash flow risk exposures. 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 FCDU's interest spread, and consequently will affect its financial performance. All other financial assets and financial liabilities have fixed rates.

The table below illustrates the sensitivity of FCDU's profit or loss before tax and Due to (from) Regular Banking Unit (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 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, 2018	**3.71 %**	**$ 51,582**	**($ 19)**
December 31, 2017	0.90%	$ 15,423	($ 42,126)

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 2.25% in 2018 and from 0.25% to 2.35% in 2017. Time deposits have average maturities of one month.

Interest earned amounted to $121,930 in 2018 and $34,667 in 2017, 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:

	2018	2017
Foreign currency notes and coins on hand	**$ 41,182**	$ 19,507
Interest receivables	**11,311**	9,904
	$ 52,493	$ 29,411

7. DEPOSIT LIABILITIES

FCDU's deposit liabilities have maturities of within one year and bear annual interest rates ranging from 0.60% to 1.25% in 2018 and from 0.13% to 1.75% in 2017.

Interest expense on deposit liabilities amounted to $70,377 in 2018 and $19,345 in 2017, and is presented as Interest Expense on Deposit Liabilities account in the statements of comprehensive income.

8. DUE TO (FROM) REGULAR BANKING UNIT

The balance of this account is shown below.

	2018	2017
Balance at beginning of year	**$ 19**	($ 87)
Transfer and remittances to RBU	**(34,702)**	(14,767)
Net profit	**34,647**	14,873
Balance at end of year	**($ 36)**	$ 19

9. TAXES

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

	2018	2017
Final tax	**$ 16,899**	$ 520
Regular corporate income tax (RCIT)	**36**	30
	$ 16,935	$ 550

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.

	2018	2017
Tax on pretax profit at 30%	**$ 15,475**	$ 4,627
Interest income subject to lower tax rates	**(17,913)**	(1,567)
Tax effects of:		
Interest income exempt from tax	**(1,715)**	(8,296)
Non-deductible interest expense	**21,088**	5,786
	$ 16,935	$ 550

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

(a) 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.

Interest income from foreign currency loans granted to residents other than offshore units in the Philippines or other depository banks under the expanded system are subject to final tax at 10%.

(b) For all other income:

(i) These are taxable at regular corporate income tax rates at 30%. Minimum corporate income tax (MCIT) of 2% on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against future regular income tax liability for the next three consecutive years.

(ii) As deduction from gross income, interest paid or incurred within a taxable year shall be reduced by an amount equal to 33% and 75% if final tax is 20% and 15%, respectively, of the interest income subjected to final tax; and

(iii) Net operating loss carryover may be claimed as a deduction from the taxable income for the next three consecutive years.

(c) Withholding taxes are imposed in the following manner:

(i) 15% (2018) and 7.5% (2017 and prior periods) on interest earned by residents under the expanded foreign currency deposit system;

(ii) Fringe benefits tax (at 35%) 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

(iii) Interest from long-term (five years or more) deposits or investments of individuals are exempt from tax but taxable if pre-terminated.

10. COMMITMENTS AND CONTINGENCIES

FCDU enters and incurs commitments and contingent liabilities arising from its operations, which are not reflected in the financial statements. 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, 2018, losses, if any, which may arise from these commitments and contingencies, will not have a material effect on the financial statements of FCDU.

11. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Following is the supplementary information on taxes, duties and license fees paid or accrued during the taxable year which is required by the Bureau of Internal Revenue under its existing Revenue Regulation No. 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

(a) *Gross Receipts Tax (GRT)*

In lieu of value-added taxes, 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 2018, FCDU has no reported GRT since it was remitted and recorded by the RBU.

(b) *Other Required Tax Information*

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, 2018, 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.