CITYSTATE SAVINGS BANK, INC.
FOREIGN CURRENCY DEPOSIT UNIT
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019
(Amounts in United States Dollars)

	Notes	2020	2019
DUE FROM OTHER BANKS	5	**$ 1,913,273**	$ 4,916,745
OTHER RESOURCES	6	**13,152**	58,451
TOTAL RESOURCES		**$ 1,926,425**	$ 4,975,196
DEPOSIT LIABILITIES	7		
Savings		**$ 844,481**	$ 351,652
Time		**1,081,463**	4,617,610
Total Deposit Liabilities		**1,925,944**	4,969,262
OTHER LIABILITIES		**516**	5,964
DUE TO REGULAR BANKING UNIT	9	**(35)**	(30)
TOTAL LIABILITIES		**$ 1,926,425**	$ 4,975,196

See Notes to Financial Statements.

CITYSTATE SAVINGS BANK, INC.
FOREIGN CURRENCY DEPOSIT UNIT
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in United States Dollars)

	Notes	2020	2019
INTEREST INCOME ON DUE FROM OTHER BANKS	5	**$ 45,097**	$ 113,077
INTEREST EXPENSE ON DEPOSIT LIABILITIES	7	**22,513**	67,487
NET INTEREST INCOME		**22,584**	45,590
OTHER INCOME			
Service charges and fees		**111**	99
Miscellaneous		**40**	-
		151	99
OTHER EXPENSES		**60**	143
PROFIT BEFORE TAX		**22,675**	45,546
TAX EXPENSE	10	**6,799**	17,007
NET PROFIT		**15,876**	28,539
OTHER COMPREHENSIVE INCOME		**-**	-
TOTAL COMPREHENSIVE INCOME		**$ 15,876**	$ 28,539

See Notes to Financial Statements.

CITYSTATE SAVINGS BANK, INC.
FOREIGN CURRENCY DEPOSIT UNIT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in United States Dollars)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 22,675	$ 45,546
Adjustments for:			
Interest received		52,386	115,798
Interest income- due from other Banks	5	(45,097)	(113,077)
Interest expense- deposit liabilities	7	22,513	67,487
Interest paid		(17,589)	(65,974)
Operating profit before changes in liabilities		34,888	49,780
Decrease in deposit liabilities		(3,043,318)	(205,958)
Decrease in other liabilities		(10,407)	(3,456)
Cash used in operations		(3,018,837)	(159,634)
Cash paid for income taxes	10	(6,764)	(16,977)
Net Cash Used in Operating Activities		(3,025,601)	(176,611)
CASH FLOW FROM FINANCING ACTIVITY			
Transfers made to regular banking unit	9	(15,881)	(28,533)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(3,041,482)	(205,144)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Due from other banks	5	4,916,745	5,130,568
Foreign currency notes and coins on hand	6	49,861	41,182
		4,966,606	5,171,750
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Due from other banks	5	1,913,273	4,916,745
Foreign currency notes and coins on hand	6	11,851	49,861
		$ 1,925,124	$ 4,966,606

See Notes to Financial Statements.

CITYSTATE SAVINGS BANK, INC.
FOREIGN CURRENCY DEPOSIT UNIT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(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. At the end of 2020, the Bank has 30 branches, and 31 on-site and six off-site automated teller machines (ATMs) strategically located in key cities and municipalities within Metro Manila and 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, 2020 (including the comparative financial statements as of and for the year ended December 31, 2019) were authorized for issue by the Bank's Board of Directors on May 14, 2021.

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.

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 that follow.

(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.

(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 2020 that are Relevant to FCDU

FCDU adopted for the first time the following amendments and improvements to existing standards, which are mandatorily effective for annual periods beginning on or after January 1, 2020:

Conceptual Framework	:	Revised Conceptual Framework for Financial Reporting
PAS 1 and PAS 8 (Amendments)	:	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material
PFRS 7 and PFRS 9 (Amendments)	:	Financial Instruments: Disclosures and Financial Instruments – Interest Rate Benchmark Reform

Discussed below are the relevant information about these pronouncements.

(i) *Revised Conceptual Framework for Financial Reporting.* The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements. The application of the revised conceptual framework had no significant impact on the FCDU's financial statements because the amendments merely clarified existing provisions of PFRS.

(ii) PAS 1 (Amendments), *Presentation of Financial Statements,* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material.* The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other standards that contain definition of material or refer to the term 'material' to ensure consistency. The application of these amendments had no significant impact on the FCDU's financial statements because said amendment merely clarified the definition of materiality.

(iii) PFRS 7 (Amendments), *Financial Instruments: Disclosures*, and PFRS 9 (Amendments), *Financial Instruments – Interest Rate Benchmark Reform*. The amendments clarify that an entity would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The application of these amendments had no significant impact on the FCDU's financial statements because the FCDU has no hedging transactions.

(b) Effective in 2020 that are not Relevant to FCDU

Among the amendments to existing standards which are mandatorily effective for annual periods beginning on or after January 1, 2020, only the amendments to PFRS 3, *Business Combinations – Definition of a Business*, are not relevant to the FCDU's financial statements.

(c) Effective Subsequent to 2020 that are not Adopted Early

There are amendments and annual improvements to existing standards effective for annual periods subsequent to 2020, 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 the FCDU's financial statements:

(i) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective January 1, 2022). The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

(ii) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, which are effective from January 1, 2022, only the amendments to PFRS 9, *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities*, is relevant to the FCDU. The improvements clarify the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

(iii) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective January 1, 2023). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

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 fair value through profit or loss (FVTPL), 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 FVTPL 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

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 solely payments of principal and interest 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 expected credit losses (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 FCDU can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the FCDU is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL 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) Effective Interest Rate Method and Interest Income

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.

(c) *Impairment of Financial Assets*

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.

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.

(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 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

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, *Revenue from Contracts with Customers*. 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 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 11.

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 table in the succeeding page presents the comparison of the carrying amounts and estimated fair values of FCDU's financial assets and financial liabilities.

	2020		2019	
	Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values
Due from other banks	**$ 1,913,273**	**$ 1,913,273**	$ 4,916,745	$ 4,916,745
Other resources	**13,152**	**13,152**	58,451	58,451
	$ 1,926,425	**$ 1,926,425**	$ 4,975,196	$ 4,975,196
Deposit liabilities	**$ 1,925,944**	**$ 1,925,944**	$ 4,969,262	$ 4,969,262
Other liabilities	**423**	**423**	5,344	5,344
	$ 1,926,367	**$ 1,926,367**	$ 4,974,606	$ 4,974,606

Management considers that the carrying amounts of financial assets and 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, 2020 and 2019 are as follows:

	Notes	2020	2019
Due from other banks	5	$ 1,913,273	$ 4,916,745
Other resources	6	13,152	58,451
		$ 1,926,425	$ 4,975,196

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, 2020 and 2019, are presented below.

	Within one month	More than one month to three months	More than three months to one year	Total
December 31, 2020				
Deposit liabilities	$ 1,780,853	$ 107,239	$ 37,852	$ 1,925,944
Other liabilities	256	82	85	423
	$ 1,781,109	**$ 107,321**	**$ 37,937**	**$ 1,926,367**
December 31, 2019				
Deposit liabilities	$ 1,285,180	$3,578,577	$ 105,505	$ 4,969,262
Other liabilities	5,124	3	217	5,344
	$ 1,290,304	$3,578,580	$ 105,722	$ 4,974,606

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 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 from RBU
December 31, 2020	**2.37%**	**$ 22,675**	**($ 30)**
December 31, 2019	1.40%	$ 45,546	($ 36)

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 0.05% to 2.35% in 2020 and from 0.25% to 2.75% in 2019. Time deposits have average maturities of one month.

Interest earned amounted to $45,097 in 2020 and $113,077 in 2019, 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.

	2020	2019
Foreign currency notes and coins on hand	**$ 11,851**	$ 49,861
Interest receivables	**1,301**	8,590
	$ 13,152	$ 58,451

7. DEPOSIT LIABILITIES

FCDU's deposit liabilities have maturities of within one year and bear annual interest rates ranging from 0.13% to 1.31% in 2020 and from 0.13% to 1.75% in 2019.

Interest expense on deposit liabilities amounted to $22,513 in 2020 and $67,487 in 2019, and is presented as Interest Expense on Deposit Liabilities account in the statements of comprehensive income.

8. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

	2020			2019		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Resources:						
Due from other banks	$ 1,913,273	$ -	$ 1,913,273	$ 4,916,745	$ -	$ 4,916,745
Other resources	13,152	-	13,152	58,451	-	58,451
	$ 1,926,425	$ -	$ 1,926,425	$ 4,975,196	$ -	$ 4,975,196
Financial Liabilities:						
Deposit liabilities	$ 1,925,944	$ -	$ 1,925,944	$ 4,969,262	$ -	$ 4,969,262
Other liabilities	423	-	423	5,344	-	5,344
	1,926,367	-	1,926,367	4,974,606	-	4,974,606
Non-financial Liabilities:						
Due from RBU	-	(35)	(35)	-	(30)	(30)
Other liabilities	93	-	93	620	-	620
	93	(35)	58	620	(30)	590
	$ 1,926,460	($ 35)	$ 1,926,425	$ 4,975,226	($ 30)	$ 4,975,196

9. DUE TO REGULAR BANKING UNIT

The balance of this account is shown below.

	2020	2019
Balance at beginning of year	($ 30)	($ 36)
Transfer and remittances to RBU	(15,881)	(28,533)
Net profit	15,876	28,539
Balance at end of year	($ 35)	($ 30)

10. TAXES

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

	2020	2019
Final tax	$ 6,764	$ 16,977
Regular corporate income tax (RCIT)	35	30
	$ 6,799	$ 17,007

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.

	2020	2019
Tax on pretax profit at 30%	$ 6,803	$ 13,664
Interest income subject to lower tax rates	(7,050)	(17,248)
Tax effect of non-deductible interest expense	7,046	20,591
	$ 6,799	$ 17,007

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% 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.

11. 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, 2020, losses, if any, which may arise from these commitments and contingencies, will not have a material effect on the financial statements of FCDU.

12. OTHER MATTERS

12.1 Continuing Impact of COVID-19 Pandemic

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020. The measures taken by the government to contain the virus have affected economic conditions and the Bank's business operations.

The following are the impact of the COVID-19 pandemic on the Bank's business:

- scaled-down branch operations and business units operating at less than full capacity due to mobility/quarantine restrictions;

- limited sales and marketing activity for businesses requiring face-to-face interaction due to social distancing; and,

- decline in interest income in 2020 by 60% compared to that of 2019.

The following were the actions undertaken by the Bank to mitigate such impact:

- adopted and implemented precautionary measures to ensure the safety of its employees and clients. Shuttle services and accommodations were provided to employees with critical functions. In addition, the Bank has allowed work-from-home arrangements and meetings online via digital platforms to minimize unnecessary physical contact;

- implemented new occupational safety and health standards to provide a safe and sanitized environment for both customers and employees through the strict observance of health and safety protocols, retrofitting of workspaces, and periodic testing for employees to minimize infection within the workplace;

- created a roadmap for bank digitalization/automation activities; and,

- activated business continuity plan and implemented succession planning.

Based on the above actions and measures taken by management to mitigate the adverse effect of the COVID-19 pandemic, the Bank believes that it would continue to report positive results of operations and would remain liquid to meet current obligations as it falls due.

12.2 Corporate Recovery and Tax Incentives for Enterprises Law

On March 26, 2021, Republic Act No. 11534, *Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*, amending certain provisions of the National Internal Revenue Code of 1997, as amended, was signed into law with veto on certain provisions and shall be effective 15 days after its publication. The CREATE Act has certain provisions with retroactive effect beginning July 1, 2020. The CREATE Act aims to lower certain corporate taxes and rationalize tax incentives given to certain taxpayers. Given that the CREATE Act was signed after the end of the current reporting period, the Bank determined that this event is a non-adjusting subsequent event. Also, the Bank has determined that the changes brought about by the CREATE Act do not have significant impact on the FCDU's financial statements.

13. 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 (BIR) under its existing Revenue Regulations 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 2020, 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, 2020, 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.