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Tonik Digital Bank Inc.

Financial Statements
As at December 31, 2020 and for the period from May 26, 2020 (incorporation date) to December 31, 2020

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Isla Lipana & Co.

Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholders of
Tonik Digital Bank Inc.
Unit 605B, 6/F West Wing
The Estancia Offices, Meralco Ave.
Pasig City 1605

Report on the Audit of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Tonik Digital Bank Inc. (the "Bank") as at December 31, 2020, and its financial performance and its cash flows for the period from May 26, 2020 (incorporation date) to December 31, 2020 in accordance with Philippine Financial Reporting Standards (PFRSs).

What we have audited

The financial statements of the Bank comprise:

- the statement of condition as at December 31, 2020;
- the statement of total comprehensive income for the period from May 26, 2020 (incorporation date) to December 31, 2020;
- the statement of changes in capital funds for the period from May 26, 2020 (incorporation date) to December 31, 2020;
- the statement of cash flows for the period from May 26, 2020 (incorporation date) to December 31, 2020; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and Code of Ethics.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Isla Lipana & Co.

Report on the Supplementary Information Required by the Bangko Sentral ng Pilipinas (BSP) and the Bureau of Internal Revenue (BIR)

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 17 and BIR Revenue Regulations Nos. 15-2010 and 34-2020 in Note 18 to the financial statements is presented for the purposes of filing with the BSP and the BIR, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of management of the Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

Ruth F. Blasco
Partner
CPA Cert. No. 112595
P.T.R. No. 0018519, issued on January 5, 2021, Makati City
SEC A.N. (individual) as general auditors 112595-SEC; Category A, valid to audit 2020 to 2024 financial statements
SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024 financial statements
TIN 235-725-236
BIR A.N. 08-000745-133-2020, issued on June 5, 2020; effective until June 4, 2023
BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
April 13, 2021

Tonik Digital Bank Inc.

Statement of Condition
December 31, 2020
(All amounts in Philippine Peso)

	Notes	Amount
ASSETS		
Cash on hand	2	50,000
Due from other banks	2	14,968,347
Due from Bangko Sentral ng Pilipinas	2	1,000,000
Premises, furniture, fixtures and equipment, net	3	55,686,174
Deferred tax asset	9	12,413,998
Other assets, net	4	20,781,907
Total assets		104,900,426
LIABILITIES AND CAPITAL FUNDS		
Deposit liabilities	5	3,315,640
Due to Parent Company	10	64,003,531
Lease liability	11	26,776,790
Other liabilities	6	11,141,083
Total liabilities		105,237,044
Share capital	7	50,000,000
Other reserves	7	5,004,864
Deficit	7	(55,341,482)
Capital deficiency		(336,618)
Total liabilities and capital deficiency		104,900,426

(The notes on pages 1 to 26 are an integral part of these financial statements.)

Tonik Digital Bank Inc.

Statement of Total Comprehensive Income
For the period from May 26, 2020 (incorporation date) to December 31, 2020
(All amounts in Philippine Peso)

	Notes	Amount
INTEREST INCOME	2	93,635
INTEREST EXPENSE	5	1,320
NET INTEREST INCOME		92,315
FOREIGN EXCHANGE GAIN, NET	7	400,881
NET OPERATING INCOME		493,196
OPERATING EXPENSES	8	68,248,676
NET LOSS BEFORE INCOME TAX BENEFIT		(67,755,480)
INCOME TAX BENEFIT	9	12,413,998
NET LOSS AFTER INCOME TAX BENEFIT		(55,341,482)
OTHER COMPREHENSIVE INCOME		-
TOTAL COMPREHENSIVE LOSS		(55,341,482)

(The notes on pages 1 to 26 are an integral part of these financial statements.)

Tonik Digital Bank Inc.

Statement of Changes in Capital Funds
For the period from May 26, 2020 (incorporation date) to December 31, 2020
(All amounts in Philippine Peso)

	Share capital (Note 7)	Deficit	Other reserves (Note 7)	Total
BALANCE AT MAY 26, 2020	-	-	-	-
TRANSACTIONS WITH SHAREHOLDERS				
Issuance of shares	50,000,000	-	-	50,000,000
Share-based compensation	-	-	5,004,864	5,004,864
Total transactions with shareholders	50,000,000		5,004,864	55,004,864
COMPREHENSIVE LOSS				
Net loss for the period	-	(55,341,482)	-	(55,341,482)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	(55,341,482)	-	(55,341,482)
BALANCE AT DECEMBER 31, 2020	50,000,000	(55,341,482)	5,004,864	(336,618)

(The notes on pages 1 to 26 are an integral part of these financial statements.)

Tonik Digital Bank Inc.

Statement of Cash Flows
For the period from May 26, 2020 (incorporation date) to December 31, 2020
(All amounts in Philippine Peso)

	Notes	Amount
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss before income tax benefit		(67,755,480)
Adjustments for:		
Share-based compensation expense	7	5,004,864
Depreciation	3	3,866,759
Interest income	2	(93,635)
Interest expense	5,11	469,259
Operating loss before changes in operating assets and liabilities		(58,508,233)
Changes in operating assets and liabilities		
Increases in:		
Other assets		(20,781,907)
Deposit liabilities		3,315,640
Due to Parent Company		38,705,910
Other liabilities		11,140,215
Net cash used in operations		(26,128,375)
Interest received	2	93,635
Interest paid	5	(452)
Net cash used in operating activities		(26,035,192)
CASH FLOWS USED IN INVESTING ACTIVITY		
Additions to premises, furniture, fixtures and equipment	3	(4,757,037)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the capital contribution of the Parent Company	7	50,000,000
Payments of lease liability	11	(3,189,424)
Net cash from financing activities		46,810,576
NET INCREASE IN CASH AND CASH EQUIVALENTS		16,018,347
CASH AND CASH EQUIVALENTS		
Beginning of period		-
End of period	2	16,018,347

(The notes on pages 1 to 26 are an integral part of these financial statements.)

Tonik Digital Bank Inc.

Notes to the Financial Statements
As at December 31, 2020 and for the period from
May 26, 2020 (incorporation date) to December 31, 2020
(In the notes, all amounts are shown in Philippine Peso unless otherwise stated)

Note 1 - General information

Corporate profile

On May 26, 2020, Tonik Digital Bank, Inc. (the "Bank") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) primarily to engage in, and carry on, the business of extending banking services to service the needs of agricultural and industrial enterprises, preferably for small and medium scale enterprises, through digital augmentation and use of financial technology to make such services available to the public, and to have and exercise all authority and powers, to do and perform all acts, and to transacts all business, necessary or incidental, which may legally be had or done by banks organized under and in accordance with Republic Act No. 7353 (the Rural Bank Act of 1992), as amended.

On September 3, 2020, the Bank obtained authority from the Bangko Sentral ng Pilipinas (BSP) to operate as a bank with a rural banking license in the Philippines.

On November 25, 2020, the Bank commenced its commercial operations.

The Bank is 60% owned by Tonik Financial Pte. Ltd. (the "Parent Company"), a company incorporated and domiciled in Singapore, 20% owned by Oak Drive Ventures, Inc. and 20% owned by Camerton, Inc. Both Oak Drive Ventures, Inc. and Camerton, Inc. are incorporated in the Philippines.

The Bank's registered office address is at Unit 605B, 6/F West Wing, The Estancia Offices, Meralco Ave., 1605 Pasig City, Philippines.

As at December 31, 2020, the Bank has 65 employees.

COVID-19 pandemic in the Philippines

The COVID-19 crisis is a developing situation that may have an impact to the performance of the Bank. There are still many unknowns surrounding the pandemic and the timing of its eradication remains uncertain. Critical to the Bank's business operations would be the government's continuing response to manage the health and economic effects of the pandemic.

Effective June 1, 2020, the National Capital Region shifted to a relaxed general community quarantine (GCQ), which allowed for the reopening of most businesses, although in reduced capacity and still under strict health protocols. The Bank continues to monitor subsequent developments on COVID-19 pandemic as continued spread and prolonged isolation may have an impact on the Bank's forward business strategies, operations and financial performance, following the commencement of its commercial operations in November 2020.

Despite the various changes in quarantine restrictions and classifications, the Bank's management has made adequate provisions to address the work-from-home arrangements and protect the welfare of its employees, thereby ensuring that business operations are not disrupted significantly by the existing limitations poised by the COVID-19 crisis.

Approval and authorization for issuance of the audited financial statements

These financial statements have been approved and authorized for issuance by the Board of Directors (BOD) on April 13, 2021.

Note 2 - Cash and cash equivalents

The account at December 31, 2020 consists of:

	Amount
Due from other banks	14,968,347
Due from BSP	1,000,000
Cash on hand	50,000
	16,018,347

Due from other banks

The account pertains to the deposits maintained with local and foreign banks as detailed below.

	Peso-denominated account	Dollar-denominated account	Total
Local banks	14,750,323	24,012	14,774,335
Foreign banks	170,000	24,012	194,012
	14,920,323	48,024	14,968,347

These deposits carry interest rates ranging from 0% to 0.25% in 2020. Interest income earned on due from other banks amounts to P93,635 in 2020.

Due from BSP

The account represents the balances maintained with the BSP to cover mandatory reserve requirements for deposit liabilities and to serve as clearing accounts for other interbank claims (Note 5). These are non-interest bearing and are not available for use in the Bank's day-to-day operations. As at December 31, 2020, the reserve requirement is set at 2% and the Bank is fully compliant with said requirement (Note 5).

Cash and cash equivalents are classified as current.

Note 3 - Premises, furniture, fixtures and equipment, net

The account at December 31, 2020 consists of:

	Office premises	Furniture and Fixtures	Total
Cost			
At May 26, 2020	-	-	-
Additions	26,537,488	3,517,170	30,054,658
Impact of adoption of PFRS 16 (Note 11)	29,498,275	-	29,498,275
At December 31, 2020	56,035,763	3,517,170	59,552,933
Accumulated depreciation			
At May 26, 2020	-	-	-
Depreciation for the period	3,797,572	69,187	3,866,759
At December 31, 2020	3,797,572	69,187	3,866,759
Net book value	52,238,191	3,447,983	55,686,174

Following the Bank's adoption of PFRS 16, *Leases,* the Bank has recognized a right-of-use (ROU) asset on its long-term lease of office premises (Note 11).

Under BSP's rules, investments in premises, furniture, fixtures and equipment should not exceed 50% of unimpaired capital. As at December 31, 2020, the Bank has complied with the requirement.

Depreciation is included as part of Occupancy and equipment-related expenses under Operating expenses in the statement of total comprehensive income (Note 8).

Premises, furniture, fixtures, and equipment are considered as non-current assets.

Note 4 - Other assets

The account at December 31, 2020 consists of:

	Notes	Amount
Prepaid expenses		12,111,643
Due from settlement partners		5,245,110
Accounts receivable		1,891,342
Security deposits	11	89,753
Miscellaneous assets		1,451,124
		20,788,972
Allowance for impairment loss	8	(7,065)
		20,781,907

Prepaid expenses represent advance payments made in relation to the Bank's outsourced services and lease arrangements.

Amounts due from settlement partners represent operational funds maintained by the Bank with its settlement partners. These operational funds are set up as virtual disbursement wallets that facilitate cash-in and cash-out transactions of the Bank's customers.

Miscellaneous assets include various sundry debits and balances from suspense/working accounts, which are expected to clear in one to two days.

Other assets are expected to be realized as follows:

	Note	Amount
Current		20,692,154
Non-current	11	89,753
		20,781,907

Note 5 - Deposit liabilities

The account at December 31, 2020 consists of:

	Amount
Savings	2,160,640
Time	1,155,000
	3,315,640

Deposit liabilities from retail customers are denominated in Philippine peso and carry an average interest rate which ranges from 2% to 5.25% in 2020. Interest expense on deposit liabilities amounts to P1,320 in 2020.

Under current and existing BSP regulations, the Bank should comply with the minimum reserve requirement on statutory/legal liquidity reserve. Further, all reserves are required to be kept by the BSP. As at December 31, 2020, mandatory reserves amount to P20,000 which is included under Due from BSP (Note 2). The Bank is compliant with the minimum reserve requirement of the BSP.

The maturity profile of the Bank's deposit liabilities is presented as follows:

	Amount
Less than one year	2,760,640
One to five years	555,000
	3,315,640

Note 6 - Other liabilities

The account at December 31, 2020 consists of:

	Amount
Accounts payable	7,120,215
Accrued expenses	4,019,260
Miscellaneous liabilities	1,608
	11,141,083

Accounts payable pertains to the outstanding liabilities to local suppliers for goods and services received by the Bank.

Accrued expenses include accruals for taxes, payments to regulatory agencies and interest.

Miscellaneous liabilities include sundry debits and certain balances in suspense/working accounts.

Other liabilities are classified as current.

Note 7 - Capital funds

Details of the Bank's share capital at December 31, 2020 follow:

	Number of shares	Amount
Authorized common shares (at P100 par value per share)	5,000,000	500,000,000
Issued common shares	500,000	50,000,000

Current capitalization requirements

As a registered rural bank with head office (no branches) located in the National Capital Region, the Bank is required to maintain a minimum capitalization of P50,000,000 pursuant to Section 121 of the BSP Manual of Regulation for Banks.

Future capitalization requirements for a digital bank

As at November 26, 2020, the Monetary Board of the BSP approved the inclusion of digital banks as a distinct classification of banks and defines the corresponding guidelines for their establishment.

A digital bank is defined as a bank that offers financial products and services that are processed end-to-end through a digital platform and/or electronic channels with no physical branches. Digital banking applicants are expected to have a sound digital governance, robust, secure and resilient technology infrastructure, and effective data management strategy and practices.

The BSP recognizes that digital banks are exposed to the same financial risks faced by conventional banks with potential elevated exposure to cybersecurity and money laundering risks. As such, digital banks would be subject to the same prudential requirements applicable to other types of banks with recalibration to be commensurate to their business model and risk profile.

The minimum capitalization of digital banks was set at P1,000,000,000, in compliance with the new BSP regulation (Note 13).

Regulatory qualifying capital

BSP Circular No. 688, Revised Risk-based Capital Adequacy Framework for Stand-alone Thrift Banks, Rural Banks and Cooperative Banks, provides the implementing guidelines on the revised risk-based capital adequacy framework, particularly on the minimum capital and disclosure requirements for thrift, rural and cooperative banks that are not subsidiary of universal or commercial banks. This framework is also known as Basel 1.5. The circular took effect on May 26, 2010. The circular also sets out the minimum Common Equity Tier 1 (CET 1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces capital conservation buffer of 2.50% comprised of CET 1 capital.

The BSP's existing requirement for total Capital Adequacy Ratio (CAR) remains unchanged at 10.00% and this ratio shall be maintained at all times. As at December 31, 2021, the CAR of the Bank is shown in the table below:

Total CET 1 / Tier 1 capital	(12,249,364)
Total qualifying capital	(12,249,364)
Total risk-weighted assets	
Credit risk-weighted assets	90,987,682
Market risk-weighted assets	-
Operational risk-weighted assets	-
Common Equity Tier 1 / Tier 1 Capital Ratio	(13.46%)
Total Capital Adequacy Ratio	(13.46%)

The negative ratio reflected above was due to the net loss incurred by the Bank given that it has limited transactions following the commencement of its operations only on November 25, 2020. The Bank has taken into consideration the impact of the requirements of the BSP to ensure that the appropriate level and quality of capital are maintained on an ongoing basis. On January 6, 2021, additional capital was infused into the Bank in order to address the current and anticipated regulatory capital requirements (Note 13).

Other reserves

Other reserves, which amount to P5,004,864, pertain to the share-based compensation reserves for the shares awarded to certain employees of the Bank under the Parent Company's Employee Stock Option Plan (ESOP).

The Parent Company implemented the ESOP during the financial period ended from September 2019 to December 31, 2020 in accordance to the plan approved by shareholders and directors of the Parent Company on September 17, 2020. The purpose of the plan is to provide an opportunity for directors, employees and other business consultants or partners of the Bank to participate in the equity of the Parent Company so as to motivate them to greater dedication, loyalty and higher standards of performance.

During the financial period, the Parent Company has granted options to the employees of the Bank to subscribe for 8,500 preference shares of the Parent Company at the exercise price of US$0.01 for one share. A four-year graded vesting schedule is applicable to all options granted and vesting of options is conditional upon completing the required period of service and performance conditions determined by the Parent Company. The options are exercisable upon an exit event.

No options expired during the year ended December 31, 2020.

The fair value of options granted in 2020,determined using the Black Scholes Model, is US$48.62. The significant inputs into the model are as follows:

	Inputs
Share price (US$)	48.63
Exercise price (US$)	0.01
Expected volatility (%)	40.00
Expected life (years)	5
Risk free rate (%)	0.49
Expected dividend yield (%)	0.00

The options granted under the scheme are as follows:

Grant date	As at September 1, 2020	Options granted	Exercised	Lapsed	Forfeited	Outstanding as at December 31, 2020	Exercisable as at December 31, 2020
September 2020	-	8,500	-	-	-	8,500	2,144

Note 8 - Operating expenses

The account for the period ended December 31, 2020 consists of:

	Notes	Amount
Compensation and benefits		27,523,740
Management and other professional fees		27,131,021
Occupancy and equipment-related expense	3,11	5,762,391
Technology expenses		2,434,690
Fees and commission expense		1,376,461
Communication expense		1,306,237
Taxes and licenses		264,255
Supplies expenses		344,233
Travelling expenses		45,074
Provision for impairment loss	4	7,065
Others		2,053,509
		68,248,676

Expenses recognized for compensation and benefits consist of:

	Amount
Salaries and wages	18,675,614
Social security costs and other contributions	394,351
Other benefits	8,453,775
	27,523,740

Other benefits mainly pertain to employee stock options and health benefits provided to the Bank's employees.

The Bank did not accrue any retirement benefits as the amounts are determined to be not material as at December 31, 2020.

Note 9 - Income taxes

The Bank recognized deferred tax assets amounting to P12,413,998 as at December 31, 2020 as it has determined that the Bank will generate sufficient taxable income to take full advantage of the related tax benefits within the prescribed period.

The details of net operating loss carryover (NOLCO) and temporary differences for the period ended December 31, 2020 for which the Bank has recognized deferred tax assets follow:

	Amount
Net operating loss carryover (NOLCO)	40,816,826
Lease liability	556,101
Allowance for impairment loss	7,065
Total temporary differences	41,379,992
Statutory tax rate	30%
Deferred tax assets	12,413,998

The resulting NOLCO in 2020 shall have a validity period of five years and shall expire in 2025.

A reconciliation between the income tax benefit at the statutory tax rate to the effective income tax expense for the period ended December 31, 2020 follows:

	Amount	%
Pre-tax loss subjected to statutory tax rate	(20,326,644)	(30.00%)
Effects of items not subjected to statutory tax rate		
Non-deductible expenses	7,940,737	11.72%
Income subject to lower tax rate	(28,091)	(0.04%)
Effective income tax	(12,413,998)	(18.32%)

Note 10 - Related party transactions

The Bank created a Related Party Transactions Committee composed of an independent director and non-executive directors. The said Committee exercises oversight role to ensure the Bank's compliance with BSP regulations on related party transactions.

Related party balances and transactions as at and for the period ended December 31, 2020 are summarized as follows:

	Due to Parent Company		
	Transactions	Outstanding balance	Terms and conditions
Parent Company			
Reimbursement of expenses	(64,003,531)	(64,003,531)	- Payable in cash on demand at gross amount - Non-interest bearing - Unguaranteed and unsecured

Reimbursement of expenses

On December 26, 2019, the BSP issued a letter-approval which granted an authority for the Bank, which was yet to be incorporated, to establish a rural bank. On May 26, 2020, the Bank was subsequently incorporated, and the Monetary Board then issued a Certificate of Authority to operate as a rural bank.

Throughout this time, the Parent Company has incurred various pre-incorporation and pre-operating expenses, on behalf of, and for the benefit of the Bank. The Bank agrees and acknowledges that such expenses be recorded in its financial books and records, which is payable to the Parent Company. It was further agreed that the Bank shall endeavor to repay the advances from time to time, as and when there are sufficient excess cash to repay the same.

In 2020, the Bank was billed by the Parent Company for the expenses paid during pre-incorporation of the Bank to include management, consultancy and other professional fees, rent, communication, travel and for the acquisition of certain furniture, fixtures and equipment.

Information technology solutions and service level agreement (SLA)

On August 25, 2020, the BOD approved the engagement of the Parent Company for the over-all management and delivery of the following material information technology (IT) solutions and support services:

a. Core banking
b. Card management system
c. Digital onboarding and biometric authentication
d. Mobile app security
e. Suspicious activity monitoring, customer due diligence, watch list filtering
f. Data source (anti-money laundering) access to World Check's database of heightened risk individuals and organizations
g. Security audit
h. Alternative risk scoring services
i. Video SMS/social media solutions
j. API Management

The Parent Company will send an invoice to the Bank within 5 days from the end of each calendar month for all applicable fees and charges. The invoice shall be denominated in US Dollars, and the payment of any fees or charges shall be made in US Dollars. It was agreed that the Bank will pay the Parent Company all invoiced amounts within 30 days of the date of the invoice, provided that there is no disputed amount as provided in the SLA.

As at December 31, 2020, there are no outstanding balances due to the Parent Company relating to the aforementioned IT solutions and SLA.

Key management personnel

Salaries and other benefits paid to key management personnel in 2020 amounts to P8,314,610. There were no provisions for termination, post-employment and other long-term benefits for key management personnel, except for the stock option plan (Note 7). There were no outstanding receivable (payable) to key management personnel as at December 31, 2020.

Note 11 - Lease commitment

In 2020, the Bank entered into a lease contract for its office space with a lease term of five years until 2025, renewable under certain terms and conditions. The lease contract includes an annual escalation clause of 5%. In accordance with the terms of the lease agreement, the Bank paid P89,753 as a security deposit (Note 4), which is refundable at the end of the lease term.

The lease term is negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreement does not impose any covenants other than the security interests in the leased assets that are held by the lessor. The leased asset may not be used as security for borrowing purposes.

The Bank recognized a right-of-use (ROU) asset and lease liability from its long-term lease. Details of the ROU asset and lease liability at December 31, 2020 are as follows:

	Note	Amount
ROU asset		
Office premises	3	26,220,689
Lease liability		
Current		5,358,606
Non-current		21,418,184
		26,776,790

The lease liability was measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of 2.8%.

Movements in the lease liability for the period ended December 31, 2020 follow:

	Amount
Balance at lease inception date (June 15, 2020)	29,498,275
Interest accretion on lease liability	467,939
Payments during the year	
Principal portion of lease liability	(2,721,486)
Interest expense on lease liability	(467,938)
Balance at December 31, 2020	26,776,790

As at December 31, 2020, the total cash outflow for leases is P3,189,424.

The statement of total comprehensive income shows the following amounts relating to leases for the period ended December 31, 2020:

	Amount
Reported under Occupancy and equipment-related expenses	
Depreciation expense on ROU asset	3,277,586
Interest expense	467,939
Expense relating to short-term leases	885,502

Note 12- Commitments and contingencies

As at December 31, 2020, there are no pending cases for and against the Bank arising from its normal banking activities. There is no outstanding guarantee of indebtedness of others, obligation under letters of credit or standby agreements, guarantee to repurchase receivables or the capacity and other unconditional obligation to make payment during and as at period-end.

Note 13 - Subsequent events

Additional capital infusion

As at December 31, 2020, the Bank has authorized capital stock of 5,000,000 with a par value of P100 each, of which 1,250,000 common shares have been issued and outstanding (Note 7). The Bank's unissued common shares consist of 3,750,000 common shares.

In order to meet the capitalization requirements of a digital bank and in addition to the payment of the unpaid subscriptions on the existing common shares, the BOD has determined that the Bank shall issue additional common shares out of the unissued capital stock. The Bank's corporate stockholders have expressed their willingness to infuse the additional capital.

On January 6, 2021, the BOD approved the issuance of 819,671 common shares out of the unissued capital stock at a subscription price of P199.47 per share and payment of the remaining unpaid subscription of 750,000 common shares at par value of P100. The Bank shall bear the same rights as the existing shares of common stock, and that the stockholders should subscribe and pay before January 15, 2021.

The table below summarizes the increase in issued and outstanding common shares as at January 6, 2021.

	Number of shares	Amount
Authorized capital stock (at P100 par value per share)	5,000,000	500,000,000
Issued and outstanding common shares		
Balance at December 31, 2020	500,000	50,000,000
Issuance of additional common shares at par value	1,569,671	156,967,100
Balance at January 6, 2021	2,069,671	206,967,100
Additional paid-in capital		
Balance at December 31, 2020		-
Excess of subscription price over par value for additional common shares issued		81,532,674
Balance at January 6, 2021		81,532,674
		288,499,774

Corporate Recovery and Tax Incentives for Enterprises Act

On March 26, 2021, RA No. 11534, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE), was signed into law effective April 11, 2021. Among the salient provisions of CREATE include changes to the corporate income tax (CIT) rates as follows:

- Reduction of CIT rate to 20% applicable to domestic corporations with total net taxable income not exceeding P5,000,000 and with total assets not exceeding P100 Million (excluding land on which the business entity's office, plant and equipment are situated);
- Reduction of CIT rate to 25% shall be applicable to all other corporations subject to regular CIT; and,
- Minimum Corporate Income Tax (MCIT) rate shall also be amended to 1%, instead of 2%, for the period beginning July 1, 2020 until June 30, 2023.

For financial reporting purposes, the enactment of CREATE after the reporting date is deemed a non-adjusting subsequent event. Had the new CIT rates been applied on the December 31, 2020 financial statements of the Bank, the financial impact would have been as follows:

	Amount
Decrease in:	
Deferred tax assets	1,035,600
Total assets	1,035,600
Increase in:	
Net loss	1,035,600

Note 14 - Critical accounting estimates, assumptions and judgments

The Bank makes estimates, assumptions and judgments that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgments 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. It is reasonably possible that the outcomes within the next financial year could differ from assumptions made at reporting date and could result in the adjustment to the carrying amount of affected assets and liabilities.

14.1 Critical accounting estimates and assumptions

14.1.1 Estimated useful lives (EUL) of bank premises, furniture, fixtures and equipment (Note 3)

The useful life of each item of premises, furniture and fixtures and equipment are estimated based on the period over which the asset is expected to be available for use. Such estimate is based on the collective assessment of practices for similar businesses and experiences with similar assets. The EUL of each asset is reviewed periodically and updated if expectations differ from previous estimates due to obsolescence, physical wear and tear and other limits on the use of the asset.

If the actual useful lives of the bank premises, furniture, fixtures and equipment will differ by 10% from management's estimates, the carrying amounts of these assets in 2020 would be an estimated P811,052 higher or lower at P782,160.

In 2020, total depreciation charged as part of occupancy and equipment-related costs in the statement of total comprehensive income amounts to P3,866,759 and the related net carrying value of premises, furniture, fixtures amounts to P55,686,174, as at December 31, 2020 (Note 3).

14.1.2 Determination of incremental borrowing rate (Note 11)

The Bank measures its lease liability at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Bank's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the lease, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

The Bank has assessed that it is impracticable to present the sensitivities arising from the impact of upward/downward changes in the discount rates used in the determination of lease liability without undue efforts; as such, the sensitivity analysis was no longer presented.

14.2 Critical accounting judgments

14.2.1 Realization of deferred tax assets (Note 9)

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Significant judgment is applied by the management to determine the amount of deferred tax assets that can be recognized based on the likely timing and level of the Bank's future taxable income together with its future tax planning strategies. The Bank assessed its projected performance in determining the sufficiency of the future taxable income to support the recognition of deferred tax assets.

As at December 31, 2020, the carrying value of deferred tax asset, which management assessed to be utilizable within the next two to three years, amounts to P12,413,998.

14.2.2 Impairment of premises, furniture, fixtures and equipment (Note 3)

Assets that have definite useful lives are subject to depreciation and amortization and are reviewed for impairment, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In assessing whether there is any indication that an asset may be impaired, management considers evidence of obsolescence or physical damage of an asset, assets becoming idle, or the economic performance of the asset is, or will be, worse than expected. If any such evidence exists for any item of property and equipment and computer software changes in those estimates and judgments could result in adjustments to the net carrying amount of property and equipment and computer software.

There is no recorded provision for impairment loss pertaining to premises, furniture, fixtures and equipment for the period ended December 31, 2020. This was upon consideration of the absence of impairment indicators, such as evidence of obsolescence or physical damage to any items of property and equipment and computer software or significant changes in the Bank's business or industry in which it operates.

Note 15 - Financial risk and capital management

Risk management structure

The BOD is responsible for the overall risk management approach and for approving the risk management strategies and principles.

The Risk Management Department (RMD), headed by the Chief Risk Officer (CRO), has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The RMD is responsible for managing risk decisions and monitoring risk levels and reports to the BOD. Furthermore, the RMD is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The department works closely with and reports to the BOD to ensure that procedures are compliant with the overall framework.

The RMD is also responsible for monitoring compliance with risk principles, policies and limits across the Bank. The Bank's policy also requires that exceptions are reported on a daily basis, where necessary, to the RMD, and the relevant actions are taken to address exceptions and any areas of weakness.

The Bank's Treasury is responsible for managing its assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank. The Bank's policy is that risk management processes throughout the Bank are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Bank's compliance with them. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the BOD.

The possibility of incurring losses is, however, compensated by the possibility of earning more than expected income. Risk-taking is, therefore, not entirely negative to be avoided. Risk-taking actions present opportunities if risks are fully identified and accounted, deliberately taken, and are kept within prudent and rationalized limits.

The most important financial risks that the Bank manages are credit risk, market risk and liquidity risk.

15.1 Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Credit risk is monitored by the Credit Risk Officer of the Bank's RMD. It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties. Credit risk consists of line credit risk managers who are responsible for their business lines and manage specific portfolios and experts who support both the line credit risk manager, as well as the business with tools like credit risk systems, policies, models and reporting. The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

Credit risk exposures

The following table shows the maximum exposure to credit risk of the Bank as at December 31, 2020:

	Notes	Amount
Due from BSP	2	1,000,000
Due from other banks	2	14,968,347
Other assets	4	
Due from settlement partners		5,245,110
Accounts receivable		1,891,342
Security deposits		89,753
		23,194,552

There are no collaterals held as security or other credit enhancements attached to the Bank's financial assets.

Due from BSP and other banks

The Bank has cash and short-term placements deposited with the BSP and other banks which carry a performing status (Stage 1). The credit quality of these credit exposures is assessed and managed using external ratings. Cash with the BSP is covered by a sovereign guarantee. The Bank deposited its cash and has short-term placements with reputable banks of good credit and financial standing. Accordingly, management has assessed that the credit risk arising from these credit exposures is minimal as at December 31, 2020.

Other financial assets

The Bank's other financial assets generally arise from transactions with various unrated counterparties with good credit standing. The Bank applies the simplified approach, as permitted by PFRS 9, in measuring ECL which uses a lifetime expected loss methodology for other financial assets.

To measure the ECL, other financial assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of and corresponding historical credit losses experienced within the said period. The impact of forward-looking variables on macroeconomic factors is considered insignificant in calculating ECL provisions for other financial assets. Loss rate on such financial assets is assessed to be remote and no allowance is provided.

15.2 Liquidity risk

Liquidity risk is defined as the risk that the Bank does not have sufficient liquid financial resources to meet obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due, as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Bank on acceptable terms. To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity, on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk.

The Assets and Liabilities Committee (ALCO) is responsible for managing the Bank's liquidity risk through comprehensive policies, governance and review procedures, stress testing, monitoring of limit sets to ensure these are in line with the overall liquidity risk appetite and strategy of the Bank.

The Treasury Department of the Bank is responsible for working with other departments within the Bank to ensure the liquidity risk strategy is executed. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding, if required. The Bank also intends to maintain a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption in cash flow. The Bank also has lines of credit that it can access to meet liquidity needs. Net liquid assets consist of cash and short-term bank deposits, less deposit for banks and other issued securities and borrowings due to mature within the next month, if any.

15.2.1 Minimum liquidity ratio (MLR)

On February 8, 2018, the BSP issued Circular No. 996, as amended by Circular No. 1035, which introduced the MLR framework for stand-alone Thrift Banks, Rural Banks, Cooperatives and Quasi-Banks. The MLR is the ratio of stock of liquid assets to total qualifying liabilities which should not be lower than 20%. However, due to the perceived impact of the Covid-19 pandemic, the BSP has reduced the MLR requirement to 16% as allowed by Memorandum Letter M-2020-085 dated December 1, 2020.

As at December 31, 2020, the Bank's MLR was 15%. The said MLR was driven by the Bank's stock of liquid assets, which primarily consists of unencumbered deposits in other banks and required reserves maintained with the BSP.

The non-compliance with the MLR resulted from the recognition of expenses billed by the Parent Company to the Bank. These expenses mainly pertain to management, consultancy and other professional fees, rent, communication, travel and acquisition of certain furniture, fixtures and equipment, which were shouldered by the Parent Company on behalf of the Bank, during the time of pre-incorporation (Note 10).

The said shortfall was rectified by the infusion of the additional capital on January 6, 2021 (Note 13).

15.2.1 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at December 31, 2020. Gross settled, non-trading derivatives are shown separately, by contractual maturity at the foot of the note. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history.

Liquidity is monitored by the Bank on a regular basis and under stressed situations using gap analysis. The maturity profile of the Bank's financial assets and financial liabilities as at December 31, 2020 based on contractual cash flows, is shown below:

	Notes	Up to 1 year	Over 1 year up to 3 years	Over 3 years	Total
Financial assets					
Cash	2	50,000	-	-	50,000
Due from BSP	2	1,000,000	-	-	1,000,000
Due from other banks	2	14,968,347	-	-	14,968,347
Other assets	4	7,226,205	-	-	7,226,205
Total financial assets		23,244,552	-	-	23,244,552
Financial liabilities					
Deposit liabilities	5	2,760,640	555,000	-	3,315,640
Due to Parent Company	10	64,003,531	-	-	64,003,531
Lease liability	11	5,358,606	-	21,418,184	26,776,790
Other liabilities	6	7,122,692	-	-	7,122,692
Total financial liabilities		79,245,469	555,000	21,418,184	101,218,653
Net financial liabilities		(56,000,917)	(555,000)	(21,418,184)	(77,974,101)

As at December 31, 2020, the Bank has no contingent liabilities and commitments.

15.3 Market risk

Market risk is the risk of changes in the fair value of financial instruments from fluctuations in foreign exchange rates (currency risk) and market interest rates (interest rate risk), whether such change in prices are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The main market risks to which the Bank is exposed are interest rate risk and foreign currency risks.

15.3.1 Interest rate risk

The Bank's primary business model is to collect deposits and use these funds to provide loans and other potential funding products to its customers. Interest rate risk is the impact that changes in interest rates could have on the Bank's margins, profit or loss, and equity. Interest risk arises from the mismatch of interest payable on the Bank's liabilities and the interest earned on its assets.

The Bank's asset-liability profile of its banking book is such that interest on deposits may be primarily fixed, but once the Bank launches its loan products, the loan portfolio may be a mixture of fixed and floating rates instruments. As at December 31, 2020, the Bank has no outstanding customer loan portfolio yet.

The Bank's policy is to monitor positions on a daily basis. The banking book interest rate risk is monitored using various interest rate shock scenarios, including sensitivity of profit or loss and equity, both of which incorporate the effect of existing hedging activities, but do not include any management actions that could arise as the markets change. The sensitivity of profit or loss is the effect of the assumed changes in interest rates on the profit or loss over a 12-month horizon and measures sensitivities to short-term interest rate changes.

The table below summarizes the interest profile of the Bank's financial instruments at December 31, 2020 categorized by maturity dates:

		Interest-bearing				
	Notes	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
Financial assets						
Cash	2	-	-	-	50,000	50,000
Due from BSP	2	-	-	-	1,000,000	1,000,000
Due from other banks	2	14,968,347	-	-	-	14,968,347
Other assets	4	7,226,205	-	-	-	7,226,205
Total financial assets		22,194,552	-	-	1,050,000	23,244,552
Financial liabilities						
Deposit liabilities	5	2,760,640	555,000	-		3,315,640
Due to Parent Company	10		-		64,003,531	64,003,531
Lease liability	11	5,358,606	-	21,418,184		26,776,790
Other liabilities	6	869			7,121,823	7,122,692
Total financial liabilities		8,120,115	555,000	21,418,184	71,125,354	101,218,653
Total interest gap		14,074,437	(555,000)	(21,418,184)	(70,075,354)	(77,974,101)

15.3.2 Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The table below presents the carrying amount in Philippine Peso of US Dollar-denominated financial asset as at December 31, 2020:

Due from other banks (In US Dollar)	985
Exchange rate	Usd1.00:P48.02
PHP equivalent	47,300

Presented below is a sensitivity analysis demonstrating the impact on net loss after tax and capital funds due to possible change in the exchange rate between USD and PHP. The fluctuation rate is based on the historical movement of US Dollar against the Philippine Peso, considering all other variables held constant.

Year	Change in currency	Effect on net loss after tax and capital funds
2020	+/- 1.77%	49,368

15.4 Fair value of financial assets and liabilities

The table below summarizes the carrying amounts of financial assets and liabilities at December 31, 2020 which are not presented in the statement of condition at fair value.

	Notes	Carrying amount	Fair value
Financial assets			
Cash	2	50,000	50,000
Due from BSP	2	1,000,000	1,000,000
Due from other banks	2	14,968,347	14,968,347
Other assets	4	7,136,452	7,136,452
Total financial assets		23,154,799	23,154,799
Financial liabilities			
Deposit liabilities	5	3,315,640	3,315,640
Due to Parent Company	10	64,003,531	64,003,531
Lease liability	11	26,776,790	29,498,275
Other liabilities	6	7,122,692	7,122,692
Total financial liabilities		101,218,653	103,940,138

The carrying amounts of the Bank's financial assets and liabilities approximate their fair values as at reporting date. Except for the lease liability (Note 11), the impact of discounting on the fair value calculation is deemed not material as the other financial assets and liabilities are generally short-term in nature.

Due from BSP and other banks

The estimated fair values of fixed interest-bearing placements and deposits are based on discounted cash flows using prevailing interest rates for debts with similar credit risk and maturities.

Financial liabilities

The estimated fair value of deposit liabilities with no stated maturity is the amount repayable on demand. The estimated fair value of the lease liability is based on discounted cash flows using the Bank's incremental borrowing rate (Note 11).

Other financial assets/liabilities

The carrying amounts of other financial assets/liabilities which have no definite repayment dates are assumed to be their fair values.

Note 16 - Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

16.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). The term PFRSs, in general, includes all applicable PFRSs, Philippine Auditing Standards (PAS), and interpretations of Philippine Interpretations Committee (PIC), Standing Interpretations Committee and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council and adopted by the SEC.

The preparation of these financial statements in accordance with PFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 14.

16.2 Changes in accounting policies and disclosures

The Bank has applied the relevant requirements of PFRSs in its 2020 financial statements including the following amendments to existing standards:

(a) Amendments to existing standards adopted by the Bank

- Amendments to PAS 1, *'Presentation of Financial Statements'*, and PAS 8, *'Accounting Policies, Changes in Accounting Estimates and Errors'*

  The amendments clarify that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and; the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

  The adoption of the above amendments did not have a material impact on the Bank's financial statements as its materiality assessment is already made in the context of the financial statements as a whole.

- Adoption of the Revised Conceptual Framework for Financial Reporting

  The revised Framework includes the following changes:
  - increasing the prominence of stewardship in the objective of financial reporting
  - reinstating prudence as a component of neutrality
  - defining a reporting entity, which may be a legal entity, or a portion of an entity
  - revising the definitions of an asset and a liability
  - removing the probability threshold for recognition and adding guidance on derecognition
  - adding guidance on different measurement basis, and
  - 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.

  No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from January 1, 2020.

  As at December 31, 2020, the Bank's accounting policies are still appropriate and consistent with the revised Framework.

(b) Amendments to existing standards not yet adopted by the Bank

The following amendments to existing standards are not mandatory for the December 31, 2020 reporting period and have not been early adopted by the Bank:

- Amendments to PAS 1, *'Presentation of Financial Statements'*

  The amendments to PAS 1 clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant).

- PAS 37, *'Provisions, Contingent Liabilities and Contingent Assets'*

  The amendment clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling the contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

- Annual Improvements to PFRS Standards 2018-2020

  The following improvements were finalized in May 2020:
  i. PFRS 9, *'Financial Instruments'*, clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
  ii. PFRS 16, *'Leases'*, amendment to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

The adoption of the above amendments is not expected to have a material impact on the financial statements of the Bank.

There are no other new standards, amendments to existing standards or interpretations effective after December 31, 2020 that are expected to have a material impact on the financial statements of the Bank

16.3 Financial assets

16.3.1 Classification

The Bank classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income (FVOCI)
- those to be measured subsequent at fair value through profit or loss (FVTPL), and
- those to be measured at amortized cost.

The classification depends on the Bank's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Bank has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes.

16.3.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade date, the date on which the Bank commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred.

16.3.3 Subsequent measurement

The classification is based on both the business model for managing the financial assets and their contractual cash flow characteristics. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel, how risks are assessed and managed, and how managers are compensated.

As at December 31, 2020, the Bank only holds debt financial assets classified and measured at amortized cost.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognize directly in profit or loss and presented in other income. Impairment losses, if any, are presented as separate line item in the statement of total comprehensive income.

The Bank's financial assets at amortized cost consist of cash on hand (Note 2), due from BSP and other banks (Note 2), and other assets (excluding prepaid expenses and miscellaneous assets) (Note 4).

16.3.4 Impairment

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1 - When loans are first recognized, the Bank recognizes an allowance based on 12 months' expected credit loss (12mECLs). Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

- Stage 2 - When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the lifetime expected credit loss (LTECLs). Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

- Stage 3 - Loans considered credit-impaired (as outlined in Note 49.4.3.1). The bank records an allowance for the LTECLs.

- POCI - Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

16.3.5 Calculation of ECL

The Bank calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- Probability of default - The Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.

- Exposure at default - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

- Loss Given Default - The Loss Given Default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral or credit enhancements that are integral to the loan. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Bank considers four scenarios (a base case, an upside, a mild downside ('downside 1') and a more extreme downside ('downside 2')). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarized below:

- Stage 1 - The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.

- Stage 2 - When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

- Stage 3 - For loans considered credit-impaired, the Bank recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

- POCI - POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognizes the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit-adjusted EIR.

16.3.6 Write-offs

With the exception of partial write-offs, the Bank's accounting policy under PFRS 9 remains the same as it was under PAS 39. Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

16.4 Financial liabilities

16.4.1 Classification

The Bank classifies its financial liabilities in the following categories: financial liabilities at FVTPL, and financial liabilities at amortized cost. As at December 31, 2020, the Bank only has financial liabilities at amortized cost. Financial liabilities measured at amortized deposit liabilities (Note 5), due to Parent Company (Note 10), lease liability (Note 11) and other liabilities (excluding provisions and tax-related liabilities) (Note 6).

16.4.2 Recognition and measurement

Financial liabilities at amortized cost are recognized when the Bank becomes a party to the contractual provision of the instruments. Financial liabilities at amortized cost are initially measured at fair value less transaction costs and subsequently measured at amortized cost using the effective interest rate method.

16.4.3 Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

16.5 Offsetting

Financial assets and liabilities are offset, and the net amount reported in the statement of condition when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank or the counterparty.

As at December 31, 2020, there are no financial assets and liabilities that have been offset.

16.6 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The Bank classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

As at December 31, 2020, there are no financial and non-financial assets and liabilities measured at fair value.

All of the Bank's financial assets and liabilities are carried at amortized cost and are assumed to be approximately at fair values considering their short-term maturities and/or low susceptibility to price volatility or the impact of discounting is not material.

16.7 Bank premises, furniture, fixture and equipment

Bank premises, furniture, fixture and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Depreciation is calculated using the straight-line method to allocate cost to residual values over the estimated useful lives as follows:

Furniture and fixtures	5 years
IT equipment	5 years
Leasehold improvement	useful life of the improvements or the terms of the related leases, whichever is shorter

Right-of-use asset is generally depreciated over the shorter of the asset's useful life of 2 to 15 years and the lease term, on a straight-line basis.

Major renovations are depreciated over the remaining useful life of the related asset.

The Bank's right-of-use asset is depreciated over the lease term (Note 11).

The assets' residual values and useful lives are reviewed at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use.

The carrying amount of an asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. When assets are derecognized, their cost, accumulated depreciation and amortization are eliminated from the accounts. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit or loss.

16.8 Impairment of non-financial assets

Assets that have definite useful lives are subject to amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that are impaired are reviewed for possible reversal of the impairment at each reporting date.

As at December 31, 2020, the Bank has no impaired non-financial assets.

16.9 Prepayments

Prepayments are expenses paid in advance and recorded as assets before they are used or consumed, as the service or benefit will be received in the future. Prepayments expire and are recognized as expense either with the passage of time or through use or consumption.

Prepayments are carried at cost and are included in current assets, except when the related goods or services are expected to be received and rendered more than twelve months after the end of the reporting period, in which case, these are classified as non-current assets.

16.10 Income taxes

The income tax expense recognized in the statement of total comprehensive income for the period comprises current and deferred income tax.

16.10.1 Current tax

Current tax expense is calculated on the basis of the tax laws enacted or substantially enacted at the end of the reporting period. Management periodically evaluates positions taken in the tax returns with respect to situations in which the applicable tax regulation is subject to interpretation and establishes provisions, where applicable, on the basis of amounts expected to be paid to the tax authorities.

16.10.2 Deferred tax

Deferred income tax (DIT) is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. DIT is determined using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the related DIT asset is realized or the DIT liability is settled.

DIT assets are recognized for all deductible temporary differences and carry-forward of unused tax losses (NOLCO) to the extent it is probable that future taxable profit will be available against which the temporary differences and NOLCO can be utilized. NOLCO is the net operating loss for any taxable year immediately preceding the current taxable year which had not been previously offset as deduction from gross income. Ordinarily, NOLCO can be carried over as deduction from gross income for the next three (3) consecutive years only. The Bank may carry over its NOLCO in 2020 as a deduction from its gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

The Bank reassesses at the end of each reporting period the need to recognize a previously unrecognized DIT asset.

DIT liabilities are recognized in full for all taxable temporary differences.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

DIT assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when DIT assets and liabilities relate to income taxes levied by the same taxation authority where there is an intention to settle the balances on a net basis.

16.11 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the statement of total comprehensive income net of any reimbursement in other operating expenses.

16.12 Interest income and expense

Interest income and expense are recognized in profit or loss on a time-proportion basis using the effective interest rate method.

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

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

16.13 Foreign currency transactions and translation

16.13.1 Functional and presentation currency

Items in the financial statements are measured using the currency of the primary economic environment in which the Bank operates (the functional currency). The financial statements are presented in Philippine Peso, which is the Bank's functional and presentation currency.

16.13.2 Transactions and balances

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transactions. 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 profit or loss.

16.14 Employee benefits

16.14.1 Short-term employee benefits

Salaries, wages, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the financial year in which the associated services are rendered by employees of the Bank.

16.14.2 Share-based compensation

The Parent Company operates an equity-settled, share-based compensation plan. Under this plan, restricted stock units are awarded to the recipients at no cost upon their grant. These are generally granted annually and generally vest over four years and are subject to forfeiture until the vesting date. In addition, stock options may be granted with an exercise price equal to the fair value of the Parent Company's common stock at grant date. The fair value of the employee services received in exchange for the grant of the options and awards is recognized as an expense with a credit to an equity account. The total amount to be expensed over the vesting period is determined by reference to the fair value at grant date.

16.14.3 Other benefits

The Bank will provide for retirement benefits to its employees in accordance with the requirements of Republic Act 7641, The Retirement Law. The law provides that an employee upon serving five years in the Bank shall be entitled to a retirement pay equivalent to at least one-half (1/2) month salary for every year of service.

The Bank did not accrue any retirement benefits as the amounts are determined to be not material as at December 31, 2020.

16.15 Leases

Bank as the lessee

The Bank recognizes a right-of-use asset and a corresponding liability from its long-term lease at the date at which the leased asset is available for use.

Assets and liabilities arising from long-terms leases are initially measured on a present value basis. Interest expense is recognized in the statement of total comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the lease commencement date plus any initial direct costs incurred, less any lease incentives received. The right-of-use asset is depreciated over the lease term. The right-of-use asset may be reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Payments associated with short-term leases are recognized on a straight-line basis as an expense in the statement of total comprehensive income.

When the Bank enters into an arrangement comprising a transaction or a series of related transactions that does not take the legal form of a lease, but conveys a right to use an asset or is dependent on the use of a specific asset or assets, the Bank assesses whether the arrangement is, or contains, a lease. The Bank does not have such arrangements during the reporting period.

16.16 Related party transactions and relationships

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or shareholders of the Parent Company. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

16.17 Subsequent events

Post-year-end events that provide additional information about the Bank's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Note 17 - Supplementary information required under BSP Circular No. 1074

Presented below is the additional information for 2020 as required by BSP Circular No. 1074 issued on January 8, 2020. This information is presented for BSP reporting purposes and is not required in the basic financial statements.

(i) Basic quantitative indicators of financial performance

The key financial performance indicators follow:

	2020
Return on average equity	(385,683%)
Return on average assets	(52%)
Net interest margin	101%

The negative return reflected above was due to the net loss incurred by the Bank following the commencement of its operation on November 25, 2020.

(ii) Description of capital instrument issued

The Bank's capital funds are used for the purposes of calculating its capital adequacy ratio as at December 31, 2020.

Other required disclosures are not applicable to the Bank as at December 31, 2020 given its limited transactions.

Note 18 - Supplementary information required by the Bureau of Internal Revenue (BIR)

Revenue Regulations (RR) No. 15-2010

Below is the additional information required by RR No. 15-2010 that is relevant to the Bank. This information is presented for the purposes of filing with the BIR and is not a required part of the basic financial statements.

(a) Documentary stamp taxes

Documentary stamp taxes paid for the period ended December 31, 2020 amount to P60,533.

(b) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the period ended December 31, 2020 consist of:

	Paid	Accrued	Total
Withholding taxes on compensation and benefits	2,306,259	1,017,408	3,323,667
Expanded withholding taxes	60,940	52,310	113,250
Final withholding taxes	2	263	265
	2,367,201	1,069,981	3,437,182

Accrued withholding taxes are presented as part of as part of Other liabilities in the statement of condition.

(c) All other local and national taxes

	Amount
Business permits	186,552
Others	77,703
	264,255

The above local and national are included as part of taxes and licenses under Operating expenses in the statement of total comprehensive income.

RR No. 34-2020

On December 18, 2020, the BIR issued RR No. 34-2020, *Prescribing the Guidelines and Procedures for the Submission of BIR Form No. 1709, Transfer Pricing Documentation (TPD) and other Supporting Documents, Amending for this Purpose the Pertinent Provisions of RR Nos. 19-2020 and 21-2002, as amended by RR No. 15-2010*, to streamline the guidelines and procedures for the submission of BIR Form No. 1709, TPD and other supporting documents by providing safe harbors and materiality thresholds. Section 2 of the RR provides the list of taxpayers that are required to file and submit the RPT Form, together with the annual income tax return.

The Bank is not covered by the requirements and procedures for related party transactions provided under this RR as it does not meet any criteria of the taxpayers prescribed in Section 2 of the RR.