TONIK DIGITAL BANK, INC.
(TDB)

Annual Report
2022 Financial Year

Table of Contents

CORPORATE POLICY

Vision and Mission

We believe the existing Filipino banking customers and the 70% of the Filipinos that remain unbanked deserve a better choice - a digital-only Bank that is simple, not intimidating, helpful for savings, and more at the simple click of a button. We firmly believe that the Philippines, being the world leader in internet and social media usage, is ripe for becoming a world leader in digital banking, too.

Brand and Differentiation

Innovation is woven into the DNA ofTonik Digital Bank, Inc. ("TDB", "Tonik" or "The Bank"). We put customers first. We challenge the status quo. We are relentless. We are passionate about improving people's financial lives using technology.

Business Model

Tonik provides retail financial products, including deposits, loans, savings accounts, payments, and cards on a highly secure digital banking platform.

With an unsecured consumer lending opportunity of around USD100B in the country and market research indicating that more than half of existing Bank clients would switch to a purely digital platform, Tonik provides Filipinos access and opportunities to avail of financial products for their various needs.

Products and Services

Tonik offers a suite of banking products and services built on a purely digital and highly secure platform:

1. **Tonik Account (Transactional Savings Account) with an instant Virtual Mastercard** – main savings account with 1% savings rate per annum. Gateway to access other deposit products.
2. **Inbound and Outbound payments (powered by InstaPay and PESONet)** – safe and secure fund transfers among Bank partners, with an outbound limit of

Php 250,000.00 per transfer. Cash-in limits vary, depending on the policy of the sending institution.

3. **Stash (Savings Account)** – savings vault or pocket accessible only from a Tonik account, with a higher interest rate of 4% per annum (p.a.). The Stash aims to encourage account holders to save up for various needs such as emergency funds, travel plans, etc.
4. **Group Stash (Savings Accoun**t) – communal savings vault or pocket accessible only from a Tonik Account, with account owner's ability to invite contributing members to the savings vault; with rate of 4.0% - 4.5% p.a. Subject to savers' ability to unlock the higher interest rate.
5. **Time Deposits** - high-interest deposit product with fixed duration, pretermination, and roll over option. Time deposits are available in five (5) term options and can earn up to 6% p.a. for a 6-month duration.
6. **Quick Loan (Cash Loan)** - loan application within 30 minutes and easy access to extra cash of up to Php 50,000.00; credited to Tonik Account on the same day.
7. **Flex Loan (Cash Loan)** - 'flexible' and multi-purpose access to extra cash of up to Php 250,000; credited to Tonik Account on the same day (subject for approval).
8. **Big Loan (Home Equity Loan)** - one-time multipurpose installment loan that allows a borrower to use the equity value of their condominium and get up to Php 5,000,000.00 payable up to 60 months; Pre-approval in as fast as 30 minutes, with a 7-day loan disbursement guarantee.
9. **Physical debit card (powered by Mastercard)** – available upon request on the mobile app. The debit card can be used to access funds through ATMs nationwide.
10. **Shop Installment Loan** – loan used to purchase appliances or items or convert the purchase of an item into monthly amortized payments.

OPERATIONAL AND FINANCIAL HIGHLIGHTS

Tonik officially made its commercial launch in 2021 and celebrated its first year of operations in March. In the months that followed, Tonik has made strategic partnerships to bolster its services and strengthen its position as a trailblazing digital bank.

Included in the partnerships are the milestone US $131 Million Series B Funding led by Mizuho Bank (Japan), and the partnership with Google Cloud to improve its API in February and January 2022, respectively. Tonik also launched two (2) loan products, Flex Loan and Big Loan in November of 2022, which diversified its loan portfolio.

The Bank closed the year with the acquisition of TendoPay, effectively entering the employee benefits market. Subject to approval of government authorities, the acquisition will further cement Tonik's position in digital credit inclusion in the Philippines.

In addition to the vital partnerships and funding that the Bank received, Tonik also launched two innovative products towards the end of the year, namely Flex Loan and Big Loan. Flex Loan is a mid-size, non-collateral cash loan that is accessible to employed individuals with a minimum monthly income. Through Flex, customers can loan up to P250,000 with up to 24 months installment period. Meanwhile, Big Loan is like a home equity loan where customers can leverage the value of their condominium unit/s and use it to borrow up to P5 million pesos. These product launches have expanded the Bank's portfolio, providing more access to financial products to Filipinos.

The Bank also won various accolades and recognitions from various reputable publications, including Top 100 Digital Banks in the World (1 of only 3 from the Philippines), Best New Digital Bank 2022, Most Innovative Digital Bank Philippines

2022, and Best New Mobile Banking App Philippines 2022 from reputable publications and financial institutions to name a few.

Tonik is gearing towards scaling the business in 2023, focusing on furthering its product portfolio while improving the standards and values that initially led to its successful commercial launch. The Bank is positive that through strategically enhancing and expanding its operations and capabilities, it will achieve more significant numbers, and will be able to build a sustainable business that will adapt to the ever-changing banking and financial industry.

Improvements in financial performance can be found on the comparative financial summary for 2022 and 2021, respectively.

FINANCIAL SUMMARY

	Consolidated		Remarks
	Current Year	Previous Year	
	2022	2021	
Profitability			
Total Net Interest Income	(76,515,792)	(77,296,871)	
Total Non-Interest Income	36,182,625	5,686,145	
Total Non-Interest Expense	(925,006,043)	(490,281,665)	
Pre-provision profit	(965,339,210)	(561,892,391)	*Reported Net Loss before Taxes
Provision for Impairment Losses	(265,704,649)	(297,267,611)	
Net Loss	(947,095,444)	(643,904,414)	*Reported Net Loss after Taxes
Selected Balance Sheet Data			
Liquid Assets	9,633,031,923	5,155,331,991	*Liquid assets as defined by MLR (Nostro + BSP, excludes Petty Cash)
Gross Loans	433,995,409	375,458,167	
Total Assets	10,585,492,306	5,884,999,458	
Deposits	8,120,210,348	5,375,069,326	
Total Equity	2,230,683,686	354,792,164	
Selected Ratios			
Return on Equity	(74%)	(356%)	
Return on Assets	(11%)	(21%)	
Capital Adequacy Ratio	187.79%	10.66%	
Others			
Cash Dividends Declared	-	-	
Headcount	424	253	
Officers	197	104	
Staff	227	149	

BOARD OF DIRECTORS

GRYGORII "GREG" KRASNOV

Chairman

49 years old, Ukrainian

Greg is the founder and serving Chairman of the Board of Tonik Digital Bank, Inc., the first neobank in the Philippines. Prior, he co-founded and chaired multiple other successful Asian fintech companies such as FORUM, Credolab, FLOW, Solarhome and AsiaKredit. He has been recognized as a Director of the Year at the Asia FinTech Awards 2021, one of the Top 12 Fintech Leaders in Singapore, and Financier of the Year in Ukraine. He is also a long-standing member of the Young Presidents Organization (YPO) and founder of its Kyiv chapter. A true global citizen, he has resided in eight countries across three continents, speaking fluent English, Polish, and Russian.

MARIA LOURDES JOCELYN “LONG” S. PINEDA

Executive Director

67 years old, Filipino

Long is an Executive Director of the Board and President of Tonik Digital Bank, Inc. She brings over 25 years of professional experience in financial inclusion in the Philippines and in different global emerging markets in Asia and Latin America. Prior to joining Tonik, Long was the President of Rizal MicroBank and served as a First Senior Vice President at Rizal Commercial Banking Corporation (RCBC). She also held director and consultancy positions in various business and microfinancing institutions such as MicroKonsult, GONegosyo, BDO Network Bank, and ACCION International. Further, she holds a diploma for an executive course on strategic leadership on microfinance from the Harvard Business School in Boston, USA.

NILOTPAL “NIL” BORPUJARI

Non-Executive Director

51 years old, Indian

Nil is a Non-Executive Director and the Group Chief Risk Officer of Tonik Financial Pte. Ltd. He is a seasoned banking and financial services industry professional with over 25 years of experience in a diverse range of business verticals such as retail and SME; and stints in start-ups, both fintech and brick- and-mortar as well as large corporates, with exposure to multi-cultural work environments. He is a Commerce graduate from Shriram College of Commerce (SRCC) at the University of Delhi, India, and holds a post-graduate diploma in management (PGDM) from one of India’s premiere management schools, the Indian Institute of Management (IIM), Lucknow.

TODD S. ESPOSITO

Non-Executive Director

52 years old, American

Todd is a Non-Executive Director and the Group Chief Financial Officer of Tonik Financial Pte. Ltd. Prior to joining the neobank, Todd spent over 20 years in banking and financial services across the globe, starting his career with GE Capital Consumer Finance where he became one of the youngest CFOs in the company's history and spent a decade in Europe both acquiring and running banking and financial service companies. He then moved farther east to Russia and Ukraine for various banking organizations.

JOHN PHILLIP "SUNNY" P. SEVILLA

Non-Executive Director

54 years old, Filipino

Sunny is a Non-Executive Director of the Board of Tonik Digital Bank, Inc. He is a Director of Oak Drive Ventures Inc., one of the major shareholders of TDB. A seasoned financier, John has held several leadership positions in both public and private sectors, most notable of which was serving as an Undersecretary of the Department of Finance in 2006 to 2007, and 2010 to 2013; and as Commissioner of the Bureau of Customs in 2013 to 2015. In the early 2000s, he has also served as an Executive Director for Goldman Sachs and Vice President at Salomon Smith Barney, both based in Hong Kong. He received an undergraduate degree from Cornell University majoring in Economics and Government, and a master's degree in Public Affairs, Economics, and Public Policy from Princeton University.

JUSTIN T. LIU

Non-Executive Director

41 years old, Filipino

Justin is a Non-Executive Director of the Board of Tonik Digital Bank, Inc. He is the Executive Director of Camerton Holdings, Inc., one of the major shareholders of TDB. Camerton is a Philippines-based conglomerate with diversified holdings across the food, pharmaceutical, insurance, real estate, and technology industry. Currently, Justin occupies the position of President & Director at Figaro Coffee Systems, Inc. and Director, Vice President & Information Officer at Cirtek Holdings Philippines Corp. He received an undergraduate degree from De La Salle University and a graduate degree from the University of San Francisco.

JOHN ALOYSIUS "LUIGI" S. BERNAS

Independent/Non-Executive Director

62 years old, Filipino

Luigi is an Independent and Non-Executive Director of the Board of Tonik Digital Bank, Inc. He is the Chairman of TDB's Audit Committee of the Board and Related Party Transactions Committee. He holds leaderships in Boards of several investments and technology solutions companies such as LeapFrog Investments, Transnational Education Solutions & Technologies, Inc. and Cold Front Technologies Asia, Inc. He currently serves as Chief Investment Officer at LifeBank Foundation Inc., Independent Director at Intellicare and at CreditAccess Asia. Luigi has previous stints in the public health sector, being a member of the Board of Directors at Philcare Inc. and PhilPlans First Inc. where he also served as Chairman of the Investment Committee. Luigi graduated with a degree of Bachelor of Arts in Economics from Ateneo de Manila University and obtained a Master of Business Administration degree from the University of Virginia Darden School of Business.

SENIOR MANAGEMENT

MARIA LOURDES JOCELYN "LONG" S. PINEDA, 67 years old, Filipino – President

BRYAN V. SAN LUIS, 44 years old, Filipino – Chief Financial Officer

MELVIN M. RAMIS, 47 years old, Filipino – Chief Technology Officer

VICTOR Q. LIM, 61 years old, Filipino – Chief Operations Officer

EDUARDO RAMON G. JOSON, 47 years old, Filipino – Chief Product Officer

DIANA ROSE N. MENDOZA, 41 years old, Filipino – Chief Risk Officer

JOANNE D. SIY, 46 years old, Filipino – Chief Compliance Officer

MELISSA ANNE A. ASUNCION, 42 years old, Filipino – Head of HR

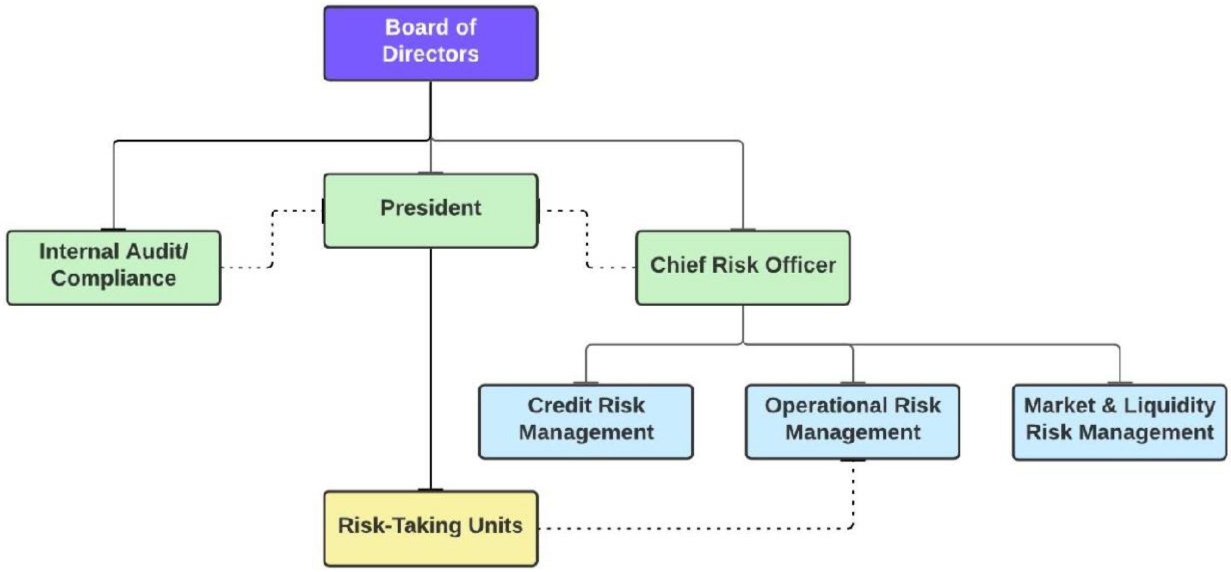
CATHERINE ANN D. PALERACIO, 35 years old, Filipino – OIC of Information Security

RISK MANAGEMENT FRAMEWORK

Risk Management Organization

Tonik adopts a top-down risk management framework, with the Board of Directors (BOD) setting policy, defining the overall institutional tolerance for risk, and creating the framework that allocates responsibilities and institutes controls for compliance with policies.

The BOD's execution and operational arm is primarily the Risk Management Department, headed by the Chief Risk Officer (CRO). The CRO is independent from executive functions and business line responsibilities, operations and revenue-generating functions, and reports directly to the BOD.



Risk Governance

A sound internal governance forms the foundation of an effective risk management framework. Tonik's risk governance function is fully integrated into the Bank's overall risk management governance structure.

The Three Lines of Defense is applied for managing risks:

- **First Line of Defense (1LoD)** – the heads of Tonik's business units and their delegates own and manage risks. They have the primary accountability for the performance, operations, adherence, and effective control of risks affecting their businesses or operations. This line of defense is also accountable for implementing corrective actions to address process and control deficiencies.
- **Second Line of Defense (2LoD)** – an independent risk management function generally complementing the business or operation line's risk-taking activities. This line of defense monitors and facilitates the implementation of effective risk management practices by Tonik's

business or operations units and assists the risk owners in reporting adequate risk-related information up and down the organization.

- **Third Line of Defense (3LoD)** – an independent, objective assurance function (i.e. Audit) with reporting lines to the Board of Directors and the control committee. This line of defense conducts an independent assessment of the risk management framework, including the implementation of risk management policies and procedures.

Risk Management Process

Risk Management is functionally independent of business/operational units within the Bank. It is responsible for the development of measures to ensure that the risk inherent to the Bank's activities are properly identified, measured, controlled, monitored, and reported.

AML Risk Management Framework

The Bank is committed to comply with the Anti-Money Laundering (AML) law and other related rules and regulations. The Compliance Department through its AML Unit ensures that its AML System is effectively always implemented to validate whether customer's financial transactions are within assessed capacities. Know-Your-Customer (KYC) measures, which includes Customer Due Diligence (CDD) and other related standards like thorough customer identification based on their risk assessment, are regularly reviewed and enhanced, to remain aligned with the changing requirements and emerging trends.

The Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) Policy (Money Laundering and Terrorist Financing Program) is in place to protect the Bank, employees, products, and services from being used as a money laundering vehicle and conduit for proceeds of unlawful activities, and to protect the integrity and confidentiality of banking transactions. The Compliance Department is responsible for managing, updating, and implementing the AML/CFT Policy, including ensuring that employees have sufficient and up-to-date knowledge of the regulations and policies, through classroom and electronic-based trainings as well as constant communications or reminders.

The Bank's Financial Crime Committee is the governance structure at the management level and oversees the implementation of the AML Policy. Meanwhile, the Board of Directors exercises oversight functions to ensure compliance to AML regulations.

Risk Appetite and Limits

The overall risk appetite of TDB is defined through established policies and procedures, product programs, limits setting to manage risk exposures and through defined accountabilities and responsibilities across the organization. TDB adheres to both regulatory and internal limits approved by the Board of Directors. These limits are monitored regularly and presented to appropriate committees. Any breaches are elevated for approval as appropriate.

Related Party Transactions

Tonik recognizes that transactions between and among related parties create financial, commercial, and economic benefits to individuals, institutions and to the entire group where said institutions belong. It shall be the Bank's policy to conduct these transactions at arm's length and the Related Party Transaction Committee (RPTCom) is mandated to undertake the first layer of oversight and ensure that effective control systems are in place for managing said exposures. It shall be the RPTCom's primary function to ensure that RPT exposures do not lead to abuses that may be disadvantageous to the Bank and its depositors, creditors, fiduciary clients, and other stakeholders.

The RPTCom shall evaluate all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g. price, commissions, interest rates, fees, tenor, collateral requirements) to related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Bank are misappropriated or misapplied, and to determine any potential reputational risk issue that may arise as a result of, or in connection with the transactions.

Approval of RPTs falling below the materiality threshold is delegated by the BOD to the Senior Management and RPTCom subject to their confirmation. This shall, however, exclude DOSRI transactions, which are required to be approved by the BOD. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings.

All material RPTs shall be endorsed by the RPTCom and approved by the majority or at least two-thirds (2/3) of the BOD. Otherwise, ratification of stockholders representing at least two-thirds (2/3) of outstanding capital stock shall be required.

Related Party Balances and Transactions and for the period of December 31, 2022 are summarized as follows:

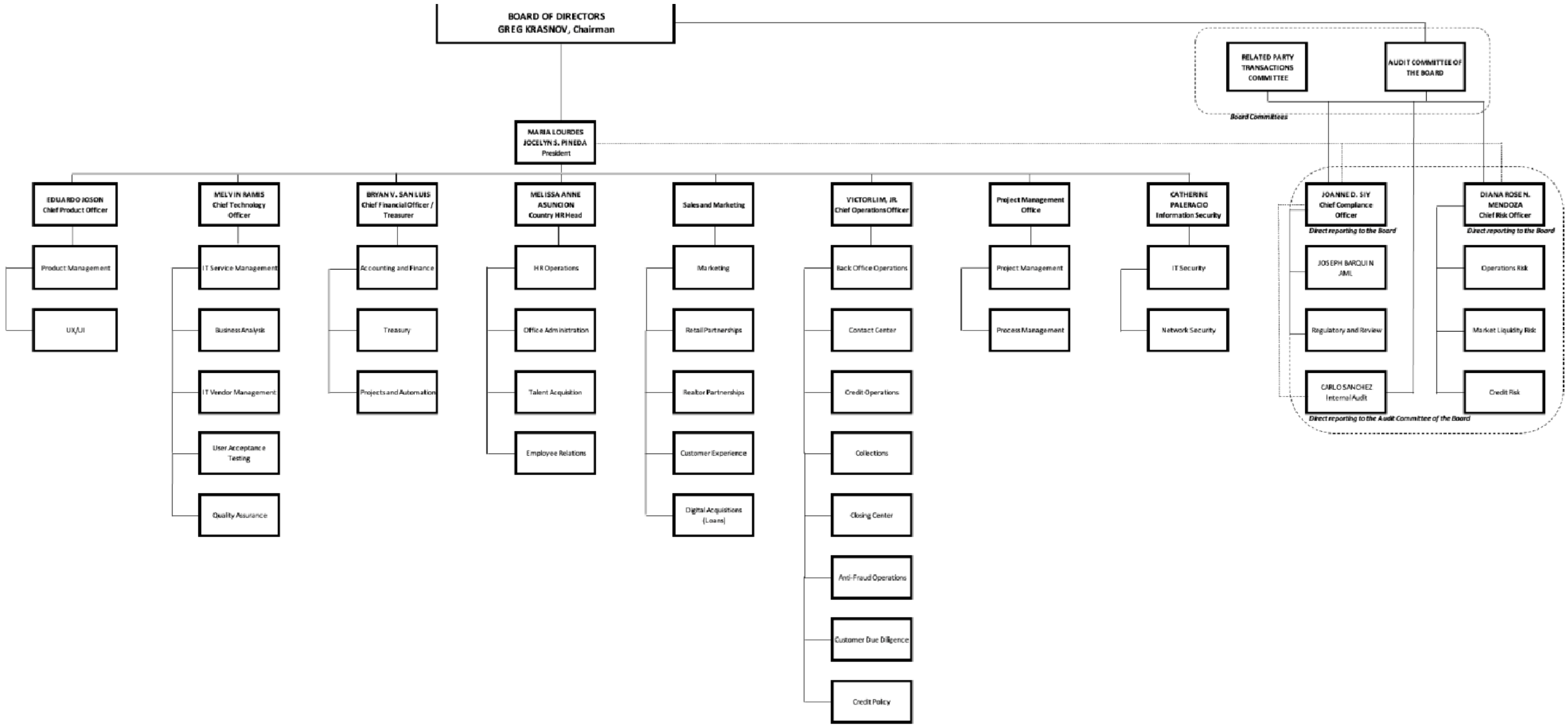
	Due to Parent Company		
	Transactions	Outstanding balance Due to (Due from)	Terms and conditions
2022			
Parent Company			
IT Service Level Agreement	32,454,879	7,694,190	- Payable in cash on demand at gross amount - Non-interest bearing - Unguaranteed and unsecured

*Tonik Financial Pte. Ltd.

CORPORATE GOVERNANCE

Conglomerate Map

Organizational Structure



Corporate Governance Structure and Practices

In carrying out its advocacy of good corporate governance, TDB has implemented a Governance System that encompasses three critical pillars consisting of:

1. Board of Directors that provides direction for business and risk strategies, organization, financial soundness, and governance;
2. Senior Management that carries the implementation of the strategies and initiatives set and approved by the Board; and,
3. An internal control system, which covers implementation of the key control functions, such as risk management, compliance, and internal audit.

Selection Process for the Board and Senior Management

The Board of Directors and Management Committee take part in the screening process and make the final decision on Senior Management hirings and placements. All candidates for such positions go through a series of interviews and are assessed based on the following:

1. Relevant experience, background, competency, and training in their chosen field vis-à-vis the banking/financial services industry;
2. Physical and mental fitness;
3. Availability to fulfill his/her duties; and,
4. Alignment to Bank's values, and culture fitness.

A director shall have the following minimum qualifications:

a. S/he must be fit and proper for the position of a director. In determining whether a person is fit and proper for the position of a director, the following are considered:

    a.1. integrity/probity, physical/mental fitness;

a.2. relevant education/financial literacy/training;

a.3. possession of competencies relevant to the job, such as knowledge and experience;

a.4. skills, diligence, and independence of mind; and

a.5. sufficiency of time to fully carry out responsibilities.

b. S/he must have attended a seminar on corporate governance for board of directors.

c. Provided, the following persons are exempted from complying with the aforementioned requirement: (a) Filipino citizens with recognized stature, influence and reputation in the banking community and whose business practices stand as testimonies to good corporate governance; (b) Distinguished Filipino and foreign nationals who served as senior officials in central banks and/or financial regulatory agencies, including former Monetary Board members; or (c) Former Chief Justices and Associate Justices of the Supreme Court

d. Provided, further, that this exemption shall not apply to the annual training requirements for the members of the board of directors.

In assessing a director's integrity/probity, consideration shall be given to the director's market reputation, observed conduct and behavior, as well as his/her ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies. The members of the Board of Directors should also possess the qualifications prescribed under R.A. No. 8791and other applicable laws and regulations.

Board Overall Responsibility

The Board of Directors is primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance, and corporate values. Further, the Board is also responsible for monitoring and overseeing the performance of senior management as the latter manages the day-to-day affairs of the institution.

The Board shall carry out the following duties and responsibilities:

1. Approve and oversee the implementation of strategies to achieve corporate objectives;
2. Approve and oversee the implementation of risk governance framework and the systems of checks and balances;
3. Establish and oversee a sound corporate governance framework;
4. Approve the selection of the CEO and key members of the senior management and control functions and oversee their performance; 5. Approve sound renumeration policy for personnel;
6. Define the Company's corporate culture and values;
7. Establish a code of conduct and ethical standards in the Company and institutionalize a system that allow reporting of concerns or violations to an appropriate body; and,
8. Other duties and responsibilities as defined in TDB's Corporate Governance Policy.

Directors, Officers, and Employees

Directors

Composition of the Board of Directors. The business affairs of the Bank are conducted under the supervision and control of a Board composed of seven (7) directors. The holders of common stock entitled to vote elect such directors in the manner provided in Sec. 23 of R.A No. 11232, as amended (Revised Corporation Code), whose qualifications are subject to the approval of the Monetary Board of the Bangko Sentral ng Pilipinas (BSP).

Non-Filipino citizens may become members of the Board of Directors to the extent of the foreign participation in the equity of the Bank. In compliance with Sec. 132 (b) of the BSP Manual of Regulations, the Bank shall elect at least one (1) independent director. An independent director shall be defined as a person who, apart from shareholdings and fees received from the Bank, is independent of management and free from any business or other relationship with the Bank.

Chairman of the Board. The Chairman of the Board of Directors presides at the meetings of the directors and the stockholders. His primary duties and responsibilities are as follows:

a. To provide leadership in the Board of Directors;

b. To ensure that the Board takes an informed decision;

c. To ensure that the members of the Board of Directors shall receive accurate, timely, and relevant information;

d. To ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors; and,

   To ensure conduct of performance evaluation of the Board of Directors at least once a year.

Board Composition

Name of Director	Type of Directorship	Principal stockholder represented if nominee	Number of years served as Director	Number of direct and indirect shares held	Percentage of shares held to total outstanding shares
Grygorii Krasnov	Non-Executive	Tonik Financial Pte. Ltd.	3	1	0%
Todd Esposito	Non-Executive	Tonik Financial Pte. Ltd.	3	1	0%
John Phillip Sevilla	Non-Executive	Oak Drive Ventures, Inc	3	1	0%
Justin Liu	Non-Executive	Camerton, Inc	3	1	0%
John Aloysius Bernas	Independent and Non-Executive	N/A	3	1	0%
Maria Lourdes Jocelyn Pineda	Executive Director	N/A	3	1	0%
Nilotpal Borpujari	Non-Executive	Tonik Financial Pte. Ltd.	2	1	0%

Election and Term. The Board of Directors are elected during the annual meeting of the stockholders and hold office for one (1) year until their successors are duly elected and qualified. The regular term of a director shall be from the date of his election to the regular annual meeting of the stockholders of the Bank, or until his/her successor shall have been elected and qualified to take his/her place at said annual meeting. Unless a director shall sooner resign, be removed from office, or become unable to act by reasons of death, disqualification, or otherwise, s/he shall hold office during the term for which elected until his/her successor is elected and qualified. Any director who ceases to be the owner of at least one share of the capital stock of the Bank shall thereby cease to be a director.

Eligibility. Every director must own at least one (1) share in his/her own name, of the Bank's issued and outstanding capital stock. Eligibility of directors shall be subject to existing laws and BSP rules and regulations. Such number of foreigners may be elected as directors of the Bank in proportion to their shareholdings.

Prohibition. No individual shall become or be a director if s/he is or becomes a director or employee of any other financial or banking institution under the supervision of the Bangko Sentral ng Pilipinas when said financial or banking institutions are of the same type or classification. For purposes of this prohibition, a husband and his wife shall be treated as one and the same person.

Vacancies. Any vacancy occurring in the Board of Directors shall be filled in accordance with the provision in Article III, Sec. 5 of the Bank's By-laws.

Major Stockholders

CLASSIFICATION	INDIVIDUAL STOCKHOLDERS 1/ NAME OF THE STOCKHOLDER			FAMILY GROUP 2/	CORPORATE STOCKHOLDERS 3/ (NAME OF INSTITUTION)	CITIZENSHIP 4/	COMMON SHARES					
	Last Name	Complete First Name	Middle Name				No. of Shares Subscribed (1)	Par Value per Share (2)	Paid-In Capital (3)	Subscription Receivable (5) - (3) = (4)	Amount Subscribed (1) x (2) = (5)	Ratio of Paid-in Capital to Total Paid-in Capital (3) / (7) = (6)
Corporate Stockholder				Tonik Financial Pte. Ltd.	Tonik Financial Pte., Ltd.	Singaporean	2,589,109	100.00	258,910,900.00	0.00	258,910,900.00	60.00%
Corporate Stockholder				Oak Drive Ventures, Inc.	Oak Drive Ventures, Inc.	Filipino	863,037	100.00	86,303,700.00	0.00	86,303,700.00	20.00%
Corporate Stockholder				Camerton, Inc.	Camerton, Inc.	Filipino	863,037	100.00	86,303,700.00	0.00	86,303,700.00	20.00%
Individual Stockholder	Krasnov	Grygorii	-	Tonik Financial Pte. Ltd.		Ukranian	1	100.00	100.00	0.00	100.00	0.00%
Individual Stockholder	Pineda	Maria Lourdes Jocelyn	Solis	Tonik Financial Pte. Ltd.		Filipino	1	100.00	100.00	0.00	100.00	0.00%
Individual Stockholder	Borpujari	Nilotpal	-	Tonik Financial Pte. Ltd.		Indian	1	100.00	100.00	0.00	100.00	0.00%
Individual Stockholder	Sevilla	John Phillip	Padilla	Oak Drive Ventures, Inc.		Filipino	1	100.00	100.00	0.00	100.00	0.00%
Individual Stockholder	Liu	Justin	Tan	Camerton, Inc.		Filipino	1	100.00	100.00	0.00	100.00	0.00%
Individual Stockholder	Esposito	Todd	Sedlmayer	Tonik Financial Pte. Ltd.		American	1	100.00	100.00	0.00	100.00	0.00%
Individual Stockholder	Bernas	John Aloysius	Seechung	N/A (independent director)		Filipino	1	100.00	100.00	0.00	100.00	0.00%
						TOTAL =	4,315,190	100.00	431,519,000.00	0.00	431,519,000.00	100.00%

LIST OF BOARD-LEVEL COMMITTEES

AUDIT COMMITTEE

The Audit Committee is composed of three non-executive directors, with an independent director as the Chairman. The Committee is governed by a board-approved charter that defines its overall purpose, authority, organization, meeting requirements and responsibilities. In accordance with this charter, the Committee

BENEFICIAL OWNER REPORT

TONIK DIGITAL BANK, INC.

As of 31 December 2022

Name of Participant/Broker	Name of Beneficial Owner	Citizenship	No. of Shares	Total Amount	Percentage of Ownership
Tonik Digital Bank, Inc.	Tonik Financial Pte. Ltd.	Singaporean	2,589,109	258,910,900	60%
Tonik Digital Bank, Inc.	Oak Drive Ventures, Inc.	Filipino	863,037	86,303,700	20%
Tonik Digital Bank, Inc.	Camerton, Inc.	Flipino	863,037	86,303,700	20%
		Total =	4,315,183	431,518,300	100%

assists the Board of Directors in its oversight responsibilities on the following, thereby enhancing shareholders' and other stakeholders' value and protecting their interest:

a) Integrity of the Bank's financial statements and financial reporting process;

b) System of internal controls, risk management and governance process;

c) Performance of the internal audit function and independent auditors;

d) Compliance with applicable laws, rules and regulations, and its code of conduct and business ethics; and,

e) Fulfillment of other responsibilities set out in the Audit Committee Charter.

COMPOSITION

John Aloysius Bernas – Chairman

Todd Esposito – Member

Justin Liu – Member

John Phillip Sevilla – Observer

MEETINGS

Number of meetings in 2022: 5

HIGHLIGHTS

In 2022, the highlights of the ACB's actions pertaining to Internal Audit and External Audit are as follows:

A. For External Audit Function

- Approved the Fees for the Annual Review of the Financial Statements (FS) of Tonik Digital Bank, Inc.
- Reviewed the results of and endorsing for BOD approval PWC's Audit of the Financial Statements of Tonik Digital Bank, Inc. for the year ended December 31, 2021
- Reappointed PWC as External Financial Auditor and corresponding Review and Approval of PWC's Plan for the Audit of the Financial Statements of Tonik Digital Bank, Inc. for the year ending December 31, 2022

B. For Internal Audit Function

- Approved Whistleblowing Mechanism policy which includes the procedures and scope for whistleblowing, procedures for investigation and reporting to the board, rights and duties of the whistleblower, and due process for the subject of the whistleblower's report
- Approved Internal Audit Risk Assessment & Risk-Based Plan, including interim revisions

- Confirmed the Internal Audit's Management-approved Budget
- Approved the revisions in the Internal Audit Manual, Whistle-blowing Policy and Audit Committee Charter
- Quarterly review and notation of the status of audit plan, manpower complement and vacancies, and outstanding/unresolved audit issues
- Noted Internal Audit's Declaration of Organizational Independence and various periodic reports and minutes of meetings, such as: (1) Accomplishment Reports, (2) Outstanding Audit Issues, and (3) Results of Performance Rating for 2022 .

C. Whistleblowing Mechanism

The policy aims to establish and maintain mechanisms that will encourage employees of the Bank, employees of third-party service providers, business partners and other stakeholders of Tonik Digital Bank, Inc. to confidentially and without the risk of reprisal, communicate and raise legitimate concerns about possible improprieties or malpractices in matters of financial reporting, internal control, money laundering, fraud, bribery or corruption, illegal, unethical or questionable RPTs, auditing, or other issues to persons or entities that have the power to take corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

The Whistleblowing Committee determines the substance and validity of the whistleblowing report or disclosure, and if deemed sufficient in form and substance, refers it to the Internal Audit or the Human Resources Group for further investigation.

Any suspected or actual criminal activities in the Bank, unlawful acts or omissions, fraud, violation of the Code of Conduct and other Bank policies, danger to health or safety, or any improprieties or malpractice in the workplace must be reported to the official whistleblowing email: whistleblowing@tonikbank.com or to the whistleblowing hotline: 7908-6645 local 6647.

Employees have continuously taken a proactive stance to protect the Bank. In 2022, we received reports on varying issues – from conflict of interest, to alleged violations of the Code of Conduct. All reports were reviewed and investigated by involved business units to ensure they are addressed and closed appropriately.

Audit Committee Report For the year ended December 31, 2022

The Bank has an Internal Audit function that reports directly to the Audit Committee and assists in the discharge of its oversight responsibilities. The Internal Audit function, governed by a charter approved by the Audit Committee, is responsible for providing an independent, reasonable assurance on the Bank's system of risk management, internal controls, and governance processes, as well as the operating and business units' adherence to internal processes and procedures and to regulatory and legal requirements. In performing its oversight responsibilities and in compliance with the Audit Committee Charter and applicable corporate governance laws and rules, the Audit Committee confirmed in its report for 2022 the following:

A. Bank's financial statements and financial reporting process

The results of internal and external audits of the Bank's internal controls relative to the financial reporting process were discussed. The results of the review of the Bank's audited financial statements and its related disclosures for the year ended December 31, 2022, were discussed by the external auditor with the Audit Committee. After obtaining the external auditor's unqualified opinion on the yearend financial statements, the Audit Committee approved the audited financial statements based on authority given by the Board of Directors and its inclusion in the 2022 Annual Report to the Stockholders.

B. Systems of internal control, management of risks, and governance

The results of external and internal audits of the Bank's internal control, risk management and governance were discussed. The Audit Committee also ensured that management is taking appropriate corrective actions in a timely manner and addressing risk exposures, internal control, governance and compliance issues.

C. Performance of the independent auditors and internal audit function External Audit

1. PricewaterhouseCoopers (PWC) was appointed as the Bank's external auditor for the 2022 financial statements based on the results of performance assessment conducted by designated officers of the Bank.
2. The plan and scope, including audit fees, of the Bank's external auditor were discussed and approved.

On external audit, it ensured the independence, qualification, and objectivity of the appointed external auditor, which is accredited by the BSP. It reviewed and discussed the content of the engagement letter, audit plan, scope of work, focus areas, composition of engagement team among others, prior to the commencement of audit work. It comprehensively discussed the external audit reports, focusing on internal controls, risk management, governance and matters with Corporate Governance financial impact particularly on the changes in accounting and reporting standards. It reviewed Management's Letter as well as Management's response and action taken on the external auditor's findings and recommendations.

D. Internal Audit

1. Reviewed and approved the revised risk assessment framework and the annual audit plan including subsequent revisions and necessary adjustments throughout the year.

2. Reviewed the Internal Audit Charter and noted the revisions in the Internal Audit Manual, as well as the Audit Committee Charter and the Policy on Whistleblowing.

3. The organizational independence of the Internal Audit function is maintained as confirmed by the Head of Internal Audit. Regular self-certification is in place to confirm the independence of Internal Audit personnel as well as compliance with the Code of Ethics.

4. The Internal Audit conducts its functions in accordance with the standards set forth by the Bank’s internal policies, the Audit Manual, regulatory requirements as well as IIA standards as confirmed by the Head of Internal Audit.

5. Reviewed and evaluated the performance of the Head of Internal Audit and approved the annual internal audit budget, including additional resource requirements to ensure adequate and competent resources.

E. Compliance with the standards set forth by the Bank’s internal policies, code of conduct and business ethics and applicable laws, rules and regulations

The Audit Committee, through the Internal Audit function, assesses compliance with the standards set forth by the Bank’s internal policies, code of conduct and business ethics, and the applicable laws, rules and regulations including the effectiveness of the system of monitoring resolutions of outstanding issues.

F. Performance of the Audit Committee

1. The committee met quarterly during the year with 100% attendance.

2. The Audit Committee Charter was reviewed and approved in the Audit Committee Meeting on July 12, 2022, to align its provisions and the Committee's roles and responsibilities with relevant regulations.

3. An annual performance assessment of the Audit Committee and individual assessment of committee members were conducted last December 2022.

4. The Audit Committee members have undergone trainings from Institute of Corporate Directors as part of their continuing education.

Based on the reviews and discussions undertaken, including the unqualified opinion of the external auditor on the Bank's financial statements, reasonable assurance is given that the systems of internal control, risk management and governance are generally adequate and designed to meet the organization's business objectives. Improvements are being continually pursued by Senior Management to strengthen the Bank's policies and procedures including adherence to regulatory requirements.

RELATED PARTYTRANSACTIONS COMMITTEE

The RPT Committee shall conduct the proper oversight, review, approval and reporting of all transactions which may be entered into by and between or among the Bank or any of its shareholders, subsidiaries, directors and officers, and respective affiliates ("Related Parties").

The RPT Policy shall define the materiality threshold amount and terms that require the final approval of the Board ("Material RPT"). The report of the RPT Committee on RPT and Material RPTs shall be one of the regular items on the agenda of Regular Meetings of the Board. It shall have the authority to receive reports on transactions between the Bank and Related Parties, order an investigation on documents of RPT, and recommend proper action or corrective measures to the Board of Directors for RPT transactions that violate laws, regulations, or Bank policies.

COMPOSITION

The RPT Committee shall be composed of three (3) members of the Board of Directors, including the independent director who shall be the Chairperson, one (1) director nominated by the foreign shareholder (Tonik Financial Pte. Ltd.), and one (1) director nominated by the Local Shareholders. The other director (Local Shareholder) who is not member of Committee shall be allowed to attend and participate on Observer status.

If a member of the Committee (or the Shareholder that nominated such director/member) has a personal interest in the transaction to be reviewed, the concerned Board member shall abstain from the discussion and endorsement to the Board of such transaction.

Members of RPT Committee:

1. John Aloysius Bernas – Chairman
2. Todd Esposito – Member
3. John Philip Sevilla – Member
4. Justin Liu – Observer Status for year 2021

MEETINGS

No. of meetings for 2022: 6

Percentage of Attendance: 83%

The RPT Committee shall meet quarterly or whenever necessary to discuss and agree on matters to be endorsed to the Board of Directors for approval and confirmation. The Regulatory and Review Officer of the Compliance Department will act as Committee Secretary and will be tasked with preparing the agenda for each meeting and send out notice at least two (2) days before the meeting date. The Committee Secretary shall also prepare and distribute minutes of the meetings and make regular reports ready for presentation to the Board by the RPT Committee Chairman.

SPECIFIC DUTIES AND RESPONSIBILITIES

All Material RPT transactions must be reviewed by the Committee, with the assistance of the CFO/Treasurer, whenever necessary, to ensure the following:

a. A conflict of interest does not exist;

b. No improper valuation of such transaction has been made;

c. Information necessary to disclose the RPT/Material RPT is fully documented.

All Material RPTs may only be endorsed by the Committee for BOD approval if it was determined that the transactions are fair, and on terms comparable to those that could obtained at arms' length dealings with an un-related third party or can be justified on a legitimate business case basis.

The RPT Committee approved the appointment of the committee secretary and discussed the RPT Transactions and IT SLA Costs for year 2022.

Directors' Attendance at Meetings

Name of Directors	Board Meetings		ACB Meetings		RPT Meetings	
	Attended	%	Attended	%	Attended	%
Bernas, John Aloysius S.	11	100%	5	100%	4	67%
Borpujari, Nilotpal	10	90%	-	-	-	-
Esposito, Todd	10	90%	5	100%	5	83%
Krasnov, Grygorii	11	100%	-	-	-	-

Liu, Justin	11	100%	5	100%	-	100%
Pineda, Maria Lourdes Jocelyn	11	100%	-	-	-	-
Sevilla, John Phillip	11	100%	-	-	6	100%
Total Number of Meetings Held During the Year	11		5		6	
Total Attendance Rate for the Year	**97%**		**100%**		**83%**	

HR PRACTICES

Performance Assessment Program

The Bank conducts a semi-annual performance appraisal exercise to ensure alignment and progression of goals vis-à-vis the overall business objectives. Each employee conducts a self-assessment on both goal achievement and adherence to values, undergoes a separate review by the immediate superior, then both engage in a performance conversation before determining the final performance rating.

In addition to the regular performance appraisal process, Senior Management conducts peer review amongst themselves to ensure that the leadership team remains aligned to organizational objectives and values.

The members of the Board conduct an annual self-assessment of the Board as a whole, of themselves as the individual members and as members of the Board committees. The self-assessment includes an evaluation of the independent judgment, objectivity, and balanced perspectives of each member and of the entire Board.

Orientation and Education Program

Tonik operates in a highly agile and rapidly changing environment; that is why the Bank is committed to ensuring that every employee is equipped to not simply deal with these changes, but to harness these situations to continually improve themselves, and the Bank, as a whole.

Since the Bank started its operations, there have already been developments in the way the Bank trains its employees. Human Resources (HR) works with other Departments in rolling-out programs that are essential to the employees' efficient and legally compliant performance of their respective functions. Tonik has regularly provided Bank-wide learning sessions on Anti-Money Laundering, Data Privacy, Information Security Awareness, and Regulatory Compliance updates. Internal programs geared towards product proficiency and fraud detection have also been initiated, particularly for our front-liners in the Contact Center (CC) and Customer Due Diligence teams. Function-specific learning sessions, both internal and external, that cover systems, skills enhancement, and new trends have likewise been provided.

Leadership training and individual coaching sessions have also been provided to Senior Management to continuously develop management competencies.

The Board of Directors is oriented with their duties and responsibilities, and such duties and responsibilities are accepted by each Director. The BOD is also required to undergo Annual Training (i.e., Corporate Governance Seminar and AML Seminar). First time directors are required to complete at least 8 hours of training, while other members of the board are required to complete at least 4 hours of training annually.

The Board of Directors attended various webinars such as AML/CFT training, Technology Governance, Sales Governance and Business with Sustainable Practices for 2022.

Retirement and Succession Policy

Tonik is committed to continuously update its employee benefits as it develops and grows as an organization. The Bank shall ensure compliance with Philippine law, particularly Presidential Decree No. 442, otherwise known as the Labor Code of the Philippines.

The Bank is also on its way towards developing a succession strategy, beginning with the establishment of the performance appraisal exercise. The exercise considers employees' strength and growth areas, as well as development plans and career aspirations that may be discussed during the performance conversation with immediate superiors. All of which are essential to identifying candidates who can become potential successors to key leadership positions.

The Board reviews annually its composition and will adopt a policy on retirement for directors and senior management, as well as succession plan, to promote dynamism and avoid perpetuation in power.

Renumeration Policy

The Bank commits to pay its employees (Senior Management, Officers, Rank and File) that are consistent with job performance and the requirements of the law, remaining competitive with the banking industry.

For the rest of the Bank, Senior Management works closely with the Human Resources Department in ensuring that pay is aligned with the Bank's financial performance and individual job performance. It is continuously working on improving its salary structure to align externally with the market and to ensure internal equity among the different job levels of the Bank, across functions.

To guarantee that Senior Management compensation is equitable and competitive, both internally and externally, renumeration is presented to and approved by the Board. Highly compensated management officers are the President, Chief Financial Officer, Chief Operations Officer, Chief Product Officer, and Deputy Head of Product.

In accordance with TDB's By-Laws and by resolution of the Board, each Director shall receive a reasonable per diem allowance for actual attendance at each meeting of the Board of Directors. Remuneration of directors is commensurate with their contributions and scope of their responsibilities. The Board assures itself that the director's compensation is structured and competitive to align the interests of the directors with the long-term interest of the organization.

SELF-ASSESSMENT FUNCTION

Internal Audit

The Internal Audit Function adheres to the principles required by the ISPPIA (International Standard for the Professional Practice of Internal Auditing), COSO Internal Control-Integrated Framework, COBIT (Control Objectives for Information and Related Technology), the Internal Audit Definition and Code of Ethics.

It provides assurance and a systematic, disciplined approach to evaluate and improve effectiveness of risk management, internal control, and governance processes. Upholding a commitment to integrity and accountability, Internal Audit provides value to Senior Management and governing bodies as objective source of independent advice. Internal Audit reports to the Board of Directors through the Audit Committee of the Board (ACB). It seeks ACB approval for the annual audit plan, annual budget and manpower, performance appraisal, provides updates on accomplishments, reports results of audit conducted and tracks resolution of audit findings.

The Bank's Internal Audit function provides reasonable assurance to the Board, Senior Management, and stockholders that the Bank's key organizational and procedural controls are effective, appropriate and complied with. Internal Audit covers at the minimum the evaluation of the adequacy and effectiveness of controls that cover governance, operations and information systems, reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules, and regulations.

Compliance

The Compliance function is independent from the business activities of the Bank and is governed by a Compliance Framework approved by the Board of Directors. It carries out its responsibilities on all groups, divisions, or departments where compliance risk exists. It has access to all operational areas as well as any records or files necessary to enable it to carry out its duties and responsibilities, including the right to conduct investigations of possible breaches of the compliance policy. It directly reports or has direct access to the BOD or to the appropriate Board-level committee.

The Compliance function is being carried out by Tonik's Compliance Department, which advises the Board and Senior Management and apprises business units on relevant laws, regulatory rules, standards, and compliance issues. It acts as a contact point within the Bank for compliance issues. It establishes written guidance on the appropriate implementation of related laws, rules, and policies; assesses the appropriateness of the Bank's compliance procedures and guidelines; formulates proposals as necessary; tests and monitors Bank units' compliance to regulatory rules by performing representative compliance testing; and maintains a constructive working relationship with regulatory agencies and bodies.

Dividend Policy

Dividends may be declared by the Board of Directors from time to time, provided all requirements outlined in Sec. 124 of the BSP Manual of Regulation for Banks are met.

Corporate Social Responsibility

The Bank is committed to supporting the country's mission of nation-building and will endeavor to contribute more towards helping uplift the lives of Filipinos. As such, the Human Resources Department is currently conceptualizing Corporate

Social Responsibility (CSR) initiatives to forward TDB's mission of serving the Filipino community which shall be soon presented to the Board for approval and implementation.

CONSUMER PROTECTION PRACTICES

The Board and Senior Management are responsible for developing the consumer protection strategy and establishing an effective oversight over TDB's consumer protection programs. The Board shall be primarily responsible for approving and overseeing the implementation of TDB's consumer protection policies as well as the mechanism to ensure compliance with the said policies.

Board of Directors	Senior Management
Approval and Implementation Oversight	Implementation of the Framework
Monitor Framework Implementation and Management	Manage day-to-day consumer protection activities
Oversee Compliance with the Framework	Development and implementation of the Customer Service Training Program
Review periodically the effectiveness of the Consumer Protection Risk Management System	
Ensure sufficient resources are devoted to the implementation of the Consumer Protection Risk Management	
Address weaknesses and make corrective actions in a timely manner	

Senior Management is expected to:

- Establish an open and enabling culture to encourage responsible and ethical behavior.

- Promote staff awareness of the significance of consumer protection, including providing sufficient training, in their respective business functions, particularly those who have regular interaction with customers.
- Set-up effective systems and controls to manage and monitor compliance with all applicable laws, regulatory standards, best practices, and internal guidelines.
- Be alert to early warning indicators of potential problem or threats to the Bank's reputation.

Consumer Protection Risk Management System

The Bank is committed to safeguarding that all its business activities and that of its officers and staff are conducted in accordance with all applicable laws, rules regulations and regulatory guidelines and the highest ethical standards.

To ensure adherence to consumer protection laws, rules, and regulations, Tonik has in place a Consumer Protection Risk Management System (CPRMS). It is a means by which the Bank identify, measure, monitor, and control consumer protection risks inherent in its operations. The components of the Bank's CPRMS are the following:

a. **Board and Senior Management Oversight** - Their responsibilities are enumerated in the Framework.

b. **Policies and Procedures** – Guarantee that consumer protection practices are embedded in the business operation, address compliance with consumer protection laws, rules and regulations, and reviewed periodically and kept up-todate as these serve as reference for employees in their day-to-day activities.

c. **Internal Audit function** - Involves the review of the Bank's consumer protection practices, adherence to internal policies and procedures, and compliance with existing laws, rules and regulations.

d. **Training**- Specific and thorough training for all relevant personnel specifically those whose roles and responsibilities have customer interface to reinforce and help them implement written policies and procedures on consumer protection.

e. **Reputational Risk Policy** - Covers customer satisfaction as one of the key drivers of reputational risk. It provides a high-level policy in which reputational risk is identified, measured, managed, controlled, mitigated, and reported.

Complaints Handling Procedure

A complaint may be made by the client regarding our products, services, and employees via phone, email, writing, or chat. Complaints received shall be acknowledged or tried to be resolved at the point of the interaction. Contact Center will utilize the stored call/screen recordings to validate the complaint, to be handledby theTraining & Quality Officer/Quality Associate, when needed.

Contact Center will aim to assist in resolving complaints within the prescribed timelines below and following the necessary escalation levels:

	SIMPLE	**COMPLEX**
Acknowledgement	Within 2 days from receipt	Within 2 days from receipt
Processing and resolution (assess, investigate, and resolve)	Within 7 days from receipt	Within 45 days from receipt
Communication of resolution	Within 9 days from receipt	Within 47 days from receipt

a. **Anonymous complaints** – a complaint which the customer/complainant does not provide any information regarding their identity. Contact Center will acknowledge the complaint and use it as feedback only to the concerned personnel or business unit. Contact Center would encourage the complainant to properly identify themselves to properly document and to receive the corresponding feedback for their complaint.

b. **Complaints received from Employees** – employees can complain and lodge their complaints regarding the Bank's services and products. But if the complaint is against a fellow employee, the complainant shall be directed to have the complaint forwarded to the proper channel via their line manager for coordination with the concerned employee's immediate line manager and with HR (if needed).

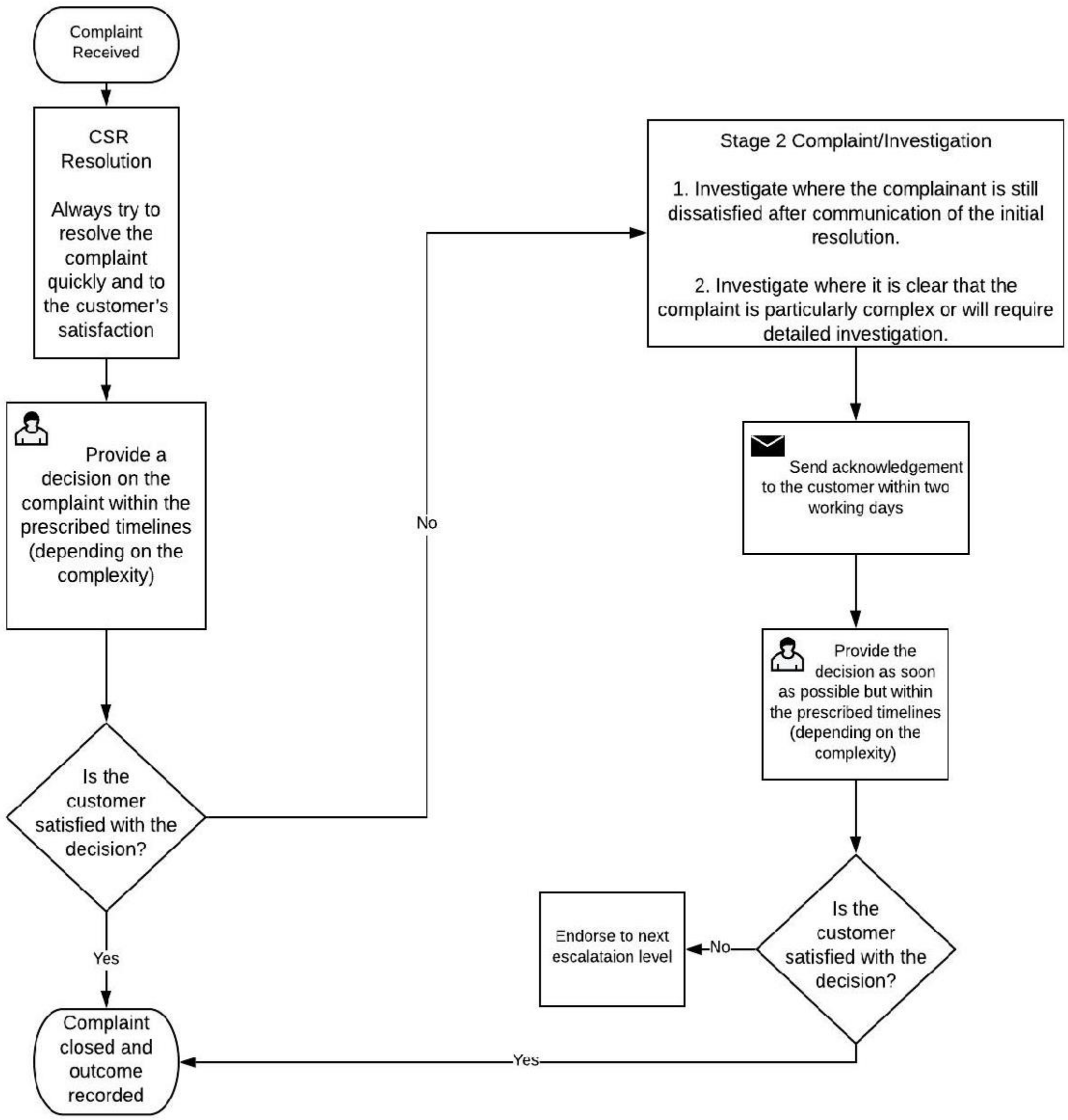
c. **Repeat complaints** – CC shall raise these complaints to the Senior Management and the concerned business units; and provide recommendations, if warranted, any products and services that generate repeat complaints for appropriate action.

d. **Managing difficult customers** – CC employees should exercise maximum tolerance when dealing with difficult customers. CC will extend all assistance to the client until the resolution of the complaint.

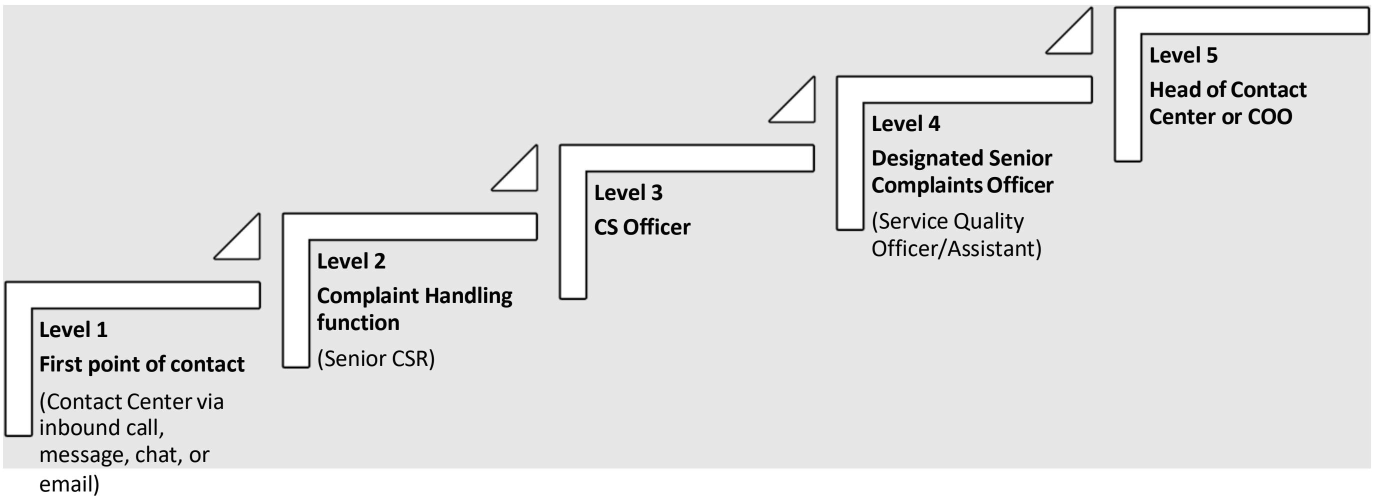
e. **Complaints via BSP** – CC shall immediately acknowledge the customer complaint received through BSP and endeavor to provide a reply to the customer and BSP within the timeline of seven (7) banking days.

CC shall provide a monthly report to Risk Unit and quarterly report to the Compliance Department with the summary of all complaints and updated status of each.

Complaints Handling Flowchart



Complaints Escalation Levels



CORPORATE INFORMATION COMPANY

ADDRESS:

TONIK DIGITAL BANK, INC.
Unit 605B, 6/F West Wing, The Offices at Estancia, 1605 Meralco Ave., Pasig City
Landline: 02 7 908 6645

ONLINE CHANNELS:
Official Website - https://tonikbank.com/
Official Facebook - https://www.facebook.com/TonikBankPH
Official Instagram - https://www.instagram.com/tonikbank/
Official LinkedIn - https://www.linkedin.com/company/tonikbank

Contact Center Hotline: 02 5 322 2645

SCAN CODE TO DOWNLOAD THE OFFICIAL TONIK DIGITAL BANK APP NOW

AUDITED FINANCIAL STATEMENT

www.pwc.com/ph

Tonik Digital Bank, Inc.

Financial Statements
As at and for the years ended December 31, 2022 and 2021

Isla Lipana & Co.

Isla Lipana & Co.

Independent Auditor's Report

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

Report on the Audits 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, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

What we have audited

The financial statements of the Bank comprise:

- the statements of condition as at December 31, 2022 and 2021;
- the statements of total comprehensive income for the years ended December 31, 2022 and 2021;
- the statements of changes in capital funds for the years ended December 31, 2022 and 2021;
- the statements of cash flows for the years ended December 31, 2022 and 2021; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audits 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.

Other Information

Management is responsible for the other information. The other information comprises the Annual Report, but does not include the financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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.

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

Our audits were 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 audits 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 9, 2023, 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 November 14, 2025

Makati City
April 4, 2023

Isla Lipana & Co.

Statement Required by Section 8-A, Revenue Regulations No. V-1

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

None of the partners of the firm has any financial interest in Tonik Digital Bank Inc. or any family relationship with its president, managers or principal shareholders.

The supplemental information on taxes and licenses is presented in Note 18 to the financial statements.

Isla Lipana & Co.

Ruth F. Blasco
Partner
CPA Cert No. 112595
P.T.R. No. 0018519, issued on January 9, 2023, 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 November 14, 2025

Makati City
April 4, 2023

Tonik Digital Bank, Inc.

Statements of Condition
December 31, 2022 and 2021
(All amounts in Philippine Peso)

	Notes	2022	2021
ASSETS			
Cash and other cash items	2	6,028	409,147,678
Due from Bangko Sentral ng Pilipinas	2	9,172,502,299	4,013,238,977
Due from other banks	2	478,849,080	769,573,902
Loans and receivables, net	3	179,779,090	99,733,900
Premises, furniture, fixtures and equipment, net	4	96,406,672	102,390,953
Deferred tax assets	10	551,423,291	227,669,586
Due from settlement partners	5	25,153,042	226,421,635
Other assets, net	5	81,372,804	36,822,827
Total assets		10,585,492,306	5,884,999,458
LIABILITIES AND CAPITAL FUNDS			
Deposit liabilities	6	8,120,210,348	5,375,069,326
Due to Parent Company	11	7,694,190	12,077,417
Lease liabilities	12	58,868,029	64,948,542
Other liabilities	7	168,036,053	78,112,009
Total liabilities		8,354,808,620	5,530,207,294
Share capital	8	431,519,000	206,967,100
Additional paid-in capital	8	3,363,712,733	81,532,900
Deposits for future stock subscriptions	8	-	718,644,812
Other reserves	8	81,793,293	46,893,248
Deficit		(1,646,341,340)	(699,245,896)
Total capital funds		2,230,683,686	354,792,164
Total liabilities and capital funds		10,585,492,306	5,884,999,458

(The notes on pages 1 to 36 are an integral part of these financial statements.)

Tonik Digital Bank, Inc.

Statements of Total Comprehensive Income
For the years ended December 31, 2022 and 2021

	Notes	2022	2021
INTEREST INCOME			
On loans receivables	3	96,351,914	34,907,683
On due from other banks	2	199,032,689	15,617,608
		295,384,603	50,525,291
INTEREST EXPENSE			
On deposit liabilities	6	368,801,342	127,303,862
Others	12	3,099,053	518,300
		371,900,395	127,822,162
NET INTEREST EXPENSE		(76,515,792)	(77,296,871)
PROVISION FOR IMPAIRMENT LOSSES	3,5	(265,704,649)	(297,267,611)
NET INTEREST EXPENSE AFTER PROVISION FOR IMPAIRMENT LOSSES		(342,220,441)	(374,564,482)
OTHER (EXPENSE) INCOME, NET			
Fees and commission expense		(72,143,130)	(120,081,102)
Fees and commission income		17,702,667	3,558,662
Foreign exchange gain, net		18,479,958	2,127,483
		(35,960,505)	(114,394,957)
OPERATING EXPENSES			
Compensation and benefits		417,125,465	191,272,385
Marketing expense		239,497,537	67,065,600
Information technology expense		35,128,823	6,586,516
Occupancy and equipment-related expense	4,11	31,008,159	15,131,488
Documentary stamp tax expense		32,611,441	40,054,169
Taxes and licenses		25,705,566	20,406,545
Insurance expense		20,502,299	1,706,997
Management and other professional fees		13,159,797	10,148,533
Communication expense		7,018,457	2,549,758
Office expense		3,761,156	3,521,989
Repairs and maintenance expense		2,637,088	1,624,941
Other expenses		24,707,125	10,131,642
	9	852,862,913	370,200,563
LOSS BEFORE INCOME TAX BENEFIT		(1,231,043,859)	(859,160,002)
INCOME TAX BENEFIT	10	283,948,415	215,255,588
NET LOSS AFTER INCOME TAX BENEFIT		(947,095,444)	(643,904,414)
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE LOSS		(947,095,444)	(643,904,414)

(The notes on pages 1 to 36 are an integral part of these financial statements.)

Tonik Digital Bank, Inc.

Statements of Changes in Capital Funds
For the years ended December 31, 2022 and 2021

	Share capital (Note 8)	Additional paid-in capital (Note 8)	Deposits for future stock subscriptions (Note 8)	Deficit	Other reserves (Note 8)	Total
BALANCE, JANUARY 1, 2021	50,000,000	-	-	(55,341,482)	5,004,864	(336,618)
TRANSACTIONS WITH SHAREHOLDERS						
Issuance of shares and receipt of deposits for future stock subscriptions	156,967,100	81,532,900	718,644,812	-	-	957,144,812
Share-based compensation	-	-	-	-	41,888,384	41,888,384
Total transactions with shareholders	156,967,100	81,532,900	718,644,812	-	41,888,384	999,033,196
COMPREHENSIVE LOSS						
Net loss for the year	-	-	-	(643,904,414)	-	(643,904,414)
BALANCE, DECEMBER 31, 2021	206,967,100	81,532,900	718,644,812	(699,245,896)	46,893,248	354,792,164
TRANSACTIONS WITH SHAREHOLDERS						
Issuance of shares and reclassification of deposits for future stock subscriptions	224,551,900	3,282,179,833	(718,644,812)	-	-	2,788,086,921
Share-based compensation	-	-	-	-	34,900,045	34,900,045
Total transactions with shareholders	224,551,900	3,363,712,733	-	-	34,900,045	2,822,986,966
COMPREHENSIVE LOSS						
Net loss for the year	-	-	-	(947,095,444)	-	(947,095,444)
BALANCE AT DECEMBER 31, 2022	431,519,000	3,363,712,733	-	(1,646,341,340)	81,793,293	2,230,683,686

(The notes on pages 1 to 36 are an integral part of these financial statements.)

Tonik Digital Bank, Inc.

Statements of Cash Flows
For the years ended December 31, 2022 and 2021

	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax benefit		(1,231,043,859)	(859,160,002)
Adjustments for:			
Provision for impairment losses	3,5	265,704,649	297,267,611
Interest expense on deposit liabilities	6	368,801,342	127,303,862
Interest income	2,3	(295,384,603)	(50,525,291)
Share-based compensation expense	8	34,900,046	41,888,384
Depreciation and amortization	4	29,949,759	13,600,162
Interest expense on lease liabilities	12	3,099,052	518,300
Operating loss before changes in operating assets and liabilities		(823,973,614)	(429,106,974)
Changes in operating assets and liabilities			
(Increase) decrease in:			
Loans receivables, net		(327,170,453)	(368,450,650)
Due from settlement partners		201,268,593	(221,176,523)
Other assets	5	(44,549,978)	(21,286,030)
Increase (decrease) in:			
Deposit liabilities	6	2,745,141,022	5,371,753,686
Due to Parent Company	11	(4,383,227)	(51,926,114)
Other liabilities	7	63,435,615	(38,753,804)
Net cash from operations		1,809,767,958	4,241,053,591
Interest received		236,500,521	21,974,430
Interest paid		(345,411,965)	(22,097,434)
Net cash from operating activities		1,700,856,514	4,240,930,587
CASH FLOWS USED IN INVESTING ACTIVITY			
Additions to premises, furniture, fixtures and equipment	4	(21,764,406)	(18,345,749)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the capital contributions of shareholders	8	2,788,086,920	957,144,812
Payments of lease liabilities	12	(8,281,585)	(3,787,440)
Net cash from financing activities		2,779,805,335	953,357,372
NET INCREASE IN CASH AND CASH EQUIVALENTS		4,458,897,443	5,175,942,210
CASH AND CASH EQUIVALENTS			
Beginning of the year		5,191,960,557	16,018,347
Effect of exchange rate changes on cash and cash equivalents		499,407	-
End of the year	2	9,651,357,407	5,191,960,557

(The notes on pages 1 to 36 are an integral part of these financial statements.)

Tonik Digital Bank, Inc.

Notes to the Financial Statements
As at and for the years ended December 31, 2022 and 2021
(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.

On June 3, 2021, the Monetary Board of the BSP approved the conversion of the banking license of the Bank from a rural bank to a digital bank. As defined by Section 102 of Manual of Regulations for Banks, a digital bank offers financial products and services that are processed end-to-end through a digital platform and/or electronic channels with no physical branch/sub-branch or branch-lite unit offering financial products and services. In a letter dated September 29, 2021, the BSP provided the Bank with the Certificate of Authority to Register to proceed with the filing of the amended Articles of Incorporation and by-laws, with authority to operate as a digital bank, to the SEC.

On February 11, 2022, the Bank was granted a Certificate of Authority to operate with a digital banking license, under the BSP Monetary Board Resolution No. 693 dated June 3, 2021 pursuant to R.A. No. 8791, General Banking Law of 2000. The Bank's first day of operations as a digital bank was on February 14, 2022.

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. ("Oak Drive") and 20% owned by Camerton, Inc. ("Camerton"). Both Oak Drive and Camerton 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, 2022, the Bank has 424 employees (2021 - 253).

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 4, 2023.

Note 2 - Cash and cash equivalents

The account as at December 31 consists of:

	2022	2021
Cash and other cash items	6,028	409,147,678
Due from other banks	478,849,080	769,573,902
Due from BSP	9,172,502,299	4,013,238,977
	9,651,357,407	5,191,960,557

Due from other banks

The account pertains to deposits maintained with various banks as detailed below.

	Peso-denominated account	Dollar-denominated account	Total
At December 31, 2022	475,185,976	3,663,104	478,849,080
At December 31, 2021	768,701,409	872,493	769,573,902

These deposits carry interest rates ranging from 0.05% to 5.25% in 2022 (2021 - 0.05% to 0.35%). Interest income earned on due from other banks amounts to P14,698,161 in 2022 (2021 - P15,617,608).

Due from BSP

The account includes the balances maintained with the BSP to cover mandatory reserve requirements for deposit liabilities and to serve as clearing accounts for other interbank claims. These are non-interest bearing and are not available for use in the Bank's day-to-day operations.

As at December 31, 2022, the BSP reserve requirement is set at 8% (2021 - 2%) and the mandatory reserves amount to P649,616,828 (2021 - P107,501,387). The Bank is in compliance with the said minimum reserve requirements.

In June 2022, the Bank was approved to participate and place funds in the BSP window. Excess liquidity from the demand deposit accounts has been placed in various BSP facilities, with interest rates ranging from 2.14% to 6.10%. Interest income earned from the BSP facilities amounts to P184,334,528 in 2022 (2021 - nil).

Cash and cash equivalents are classified as current as at December 31, 2022 and 2021.

Note 3 - Loans receivables, net

The account as at December 31 consists of:

	2022	2021
Consumer loans	395,557,352	375,458,167
Accrued interest receivable	47,130,246	28,550,861
Unamortized loan processing fees	(10,136,819)	(7,495,749)
	432,550,779	396,513,279
Allowance for impairment losses	(252,771,689)	(296,779,379)
	179,779,090	99,733,900

The movement in the allowance for impairment losses at December 31 follows:

	2022	2021
January 1	296,779,379	-
Provision for impairment losses	265,885,112	296,779,379
Write off	(309,892,802)	-
	252,771,689	296,779,379

Details of loans receivables as at December 31, 2022 are as follows:

a) Concentration as to industry/economic sector

The BSP considers that concentration of credit risk exists when the total loan exposure to a particular industry or economic sector exceeds 30% of total loan portfolio. As to concentration in the industry/economic sector, the entire loan portfolio of the Bank is classified under the activities of the household sector.

b) Classification as to collateral

The Bank's loans receivables are unsecured. None of these loans are pledged as collateral for liabilities.

Loans receivables carry interest rates ranging from 12% to 84% per annum in 2022 and 2021. Interest earned on loans receivables for the year ended December 31, 2022 amounts to P96,351,914.50 (2021 - P34,907,683).

The maturity profile of loans receivables, gross of allowance for impairment losses, as at December 31 follows:

	2022	2021
Within one year	184,587,217	78,181,321
More than one year	258,100,381	325,827,707
	442,687,598	404,009,028

Note 4 - Premises, furniture, fixtures and equipment, net

The account as at December 31 consists of:

	Office premises	IT and other equipment	Furniture and fixtures	Total
Cost				
At January 1, 2021	50,748,500	5,287,263	3,517,170	59,552,933
Additions	41,959,193	17,700,657	645,091	60,304,941
At December 31, 2021	92,707,693	22,987,920	4,162,261	119,857,874
Additions	5,430,689	17,888,300	646,489	23,965,478
At December 31, 2022	98,138,382	40,876,220	4,808,750	143,823,352
Accumulated depreciation				
At January 1, 2021	3,675,095	122,477	69,187	3,866,759
Depreciation for the year	9,369,275	3,406,631	824,256	13,600,162
At December 31, 2021	13,044,370	3,529,108	893,443	17,466,921
Depreciation for the year	18,481,963	10,570,455	897,341	29,949,759
At December 31, 2022	31,526,333	14,099,563	1,790,784	47,416,680
Net book value				
December 31, 2021	79,663,323	19,458,812	3,268,818	102,390,953
December 31, 2022	66,612,049	26,776,657	3,017,966	96,406,672

Office premises include right-of-use (ROU) assets on its long-term lease agreements (Note 12).

As at December 31, 2022 and 2021, the Bank has no fully depreciated assets which is still in use.

Under BSP's rules, Premises, furniture, fixtures and equipment should not exceed 50% of unimpaired capital. As at December 31, 2022 and 2021, the Bank has complied with this requirement.

Depreciation is included as part of Occupancy and equipment-related expense under Operating expenses in the statement of total comprehensive income (Note 9).

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

Note 5 - Due from settlement partners; Other assets, net

Due from settlement partners

Due from settlement partners amounting to P25,153,042 as at December 31, 2022 (2021 - P226,421,635) 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.

Other assets, net

The account as at December 31 consists of:

	Note	2022	2021
Prepaid expenses		21,553,410	13,816,747
Security deposits	12	15,091,849	14,609,633
Other receivables		1,087,258	6,775,046
Miscellaneous		43,955,122	2,116,698
		81,687,639	37,318,124
Allowance for impairment losses		(314,835)	(495,297)
		81,372,804	36,822,827

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

Miscellaneous assets include various inter-system clearing accounts and sundry debits which are expected to clear in one to two working days.

Allowance for impairment losses pertains to other receivables. The movement in the Bank's allowance for impairment losses follows:

	2022	2021
At January 1	495,297	7,065
(Reversal of) provision for impairment losses	(180,462)	488,232
At December 31	314,835	495,297

Other assets are expected to be realized as follows:

	2022	2021
Current	66,595,790	22,708,491
Non-current	15,091,849	14,609,633
	81,687,639	37,318,124

Note 6 - Deposit liabilities

The account as at December 31 consists of:

	2022	2021
Savings	3,490,864,230	2,647,293,308
Time	4,629,346,118	2,727,776,018
	8,120,210,348	5,375,069,326

Deposit liabilities from retail customers are denominated in Philippine peso and carry an average interest rate ranging from 1% to 6% in 2022 and 2021. Interest expense on deposit liabilities amounts to P368,801,342 in 2022 (2021 - P127,303,862).

Under current and existing BSP regulations, the Bank should comply with the minimum reserve requirement on statutory/legal liquidity reserve. Furthermore, all reserves are required to be kept by the BSP. As at December 31, 2022, mandatory reserves amount to P649,616,828 (2021 - P107,501,387), which is included under Due from BSP (Note 2). The Bank is in compliance with the minimum reserve requirement of the BSP.

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

	2022	2021
Less than one year	7,808,106,403	5,232,317,157
One to five years	312,103,945	142,752,169
	8,120,210,348	5,375,069,326

Related interest expense on deposit liabilities is broken down as follows:

	2022	2021
Savings	129,516,534	38,164,873
Time	239,284,808	89,138,989
	368,801,342	127,303,862

Note 7 - Other liabilities

The account as at December 31 consists of:

	2022	2021
Accrued expenses	165,608,896	61,589,118
Accounts payable	253,363	14,225,479
Miscellaneous liabilities	2,173,794	2,297,412
	168,036,053	78,112,009

Accrued expenses mainly include accruals for taxes, payments to regulatory agencies and various marketing expenses.

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

Miscellaneous liabilities include sundry credits which are normally cleared within two to five working days.

Other liabilities are classified as current.

Note 8 - Capital funds

Share capital

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

	2022		2021	
	Number of shares	Amount	Number of shares	Amount
Authorized common shares (at P100 par value per share)	10,000,000	1,000,000,000	5,000,000	500,000,000
Issued common shares	4,315,190	431,519,000	2,069,671	206,967,100

Capitalization requirements

In 2020, as a registered rural bank with its head office 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.

As at November 26, 2020, the Monetary Board of the BSP approved the inclusion of digital banks as a distinct classification of banks and define 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. Existing banks converting to digital banks shall be given a period of three (3) years from the approval of the Monetary Board within which to meet the minimum capital requirement and implement the transition plan, including divestment or closure of branches or branch lite units. ln the case of an existing bank with up to sixty percent (60%) of its voting stock held by a foreign individual or non-bank corporation, such stockholding may be retained or reduced, but once reduced, shall not be increased thereafter beyond forty percent (40%) of the voting stock.

On June 3, 2021, the Monetary Board of BSP approved the conversion of the Bank's license from a rural bank to a digital bank (Note 1).

Increase in authorized capital stock and capital infusion

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. These shares have the same rights as the existing common shares and that the shareholders should subscribe and pay before January 15, 2021. The excess of proceeds from the issuance of share capital at par value, which amounted to P81,532,900, is credited to additional paid-in capital (APIC).

On December 22, 2020 and March 23, 2021, the BOD approved the increase in the Bank's authorized number of shares from P500,000,000 divided into 5,000,000 common shares, with a par value of P100 per share to P1,000,000,000 divided into 10,000,000 common shares.

On May 21, 2021, the Bank received P516,244,812 in cash as subscriptions to the increase in authorized capital stock equivalent to 1,267,605 shares from its existing shareholders.

On October 12, 2021, the Bank received additional subscription from its Parent Company amounting to P202,400,000 and recognized this advance payment as deposit for future stock subscription.

On November 25, 2021, the Bank filed with the SEC its application for the increase in authorized capital stock. On January 20, 2022, the SEC approved the Bank's application to increase the authorized number of shares from P500,000,000 divided into 5,000,000 common shares, with a par value of P100 per share to P1,000,000,000 divided into 10,000,000 common shares.

On February 11, 2022, the Bank was granted a Certificate of Authority to operate with a digital banking license, under the BSP Monetary Board Resolution No. 693 dated June 3, 2021 pursuant to R.A. No. 8791, General Banking Law of 2000. On the said date, the Bank also received additional subscription from its Parent Company amounting to P205,200,000 and recognized this advance payment as deposit for future stock subscription.

On February 14, 2022, the Bank officially operated as a digital bank.

On March 14, 2022, the BOD approved the issuance of 977,914 common shares out of unissued capital stock at a subscription price of US$59.31. These shares have the same rights as the existing common shares and that the shareholders should subscribe and pay before March 31, 2022. The excess of proceeds from the issuance of share capital at par value, which amounted to P2,892,695,520, is credited to APIC.

As at December 31, 2022, the Bank has reclassified all deposits for future subscription to paid-in capital and APIC.

Other reserves

Other reserves, which amount to P81,793,293 in 2022 (2021 - P46,893,248), 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 with 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.

The options granted under the scheme are as follows:

	2022	2021
Outstanding at the beginning of the year/period	20,100	8,500
Granted during the year/period	300	11,600
Exercised	-	-
Forfeiture/expired during the year	(4,367)	-
Outstanding at the end of the year/period	16,033	20,100
Exercisable at the end of the year/period	6,233	6,858

Vesting schedules vary from a five-year graded schedule to only exercisable upon an exit event and are conditional upon completing the required period of service and performance conditions determined by the Parent Company.

The fair value of options granted in 2022 and 2021, determined using the Black Scholes Model, is US$387.44. The significant inputs into the model are as follows:

	2022	2021
Share price (US$)	387.44	387.44
Exercise price (US$)	0.01	0.01
Expected volatility (%)	40.00	40.00
Expected life (years)	5	5
Risk free rate (%)	2.74	1.45
Expected dividend yield (%)	0.00	0.00

Note 9 - Operating expenses

The account for the year ended December 31 consists of:

	Note	2022	2021
Compensation and benefits		417,125,465	191,272,385
Marketing expense		239,497,537	67,065,600
Information technology expense		35,128,823	6,586,516
Documentary stamp tax expense		32,611,441	40,054,169
Occupancy and equipment-related expense	4	31,008,159	15,131,488
Other taxes and licenses		25,705,566	20,406,545
Insurance expense		20,502,299	1,706,997
Management and other professional fees		13,159,797	10,148,533
Communication expense		7,018,457	2,549,758
Office expense		3,761,156	3,521,989
Repairs and maintenance expense		2,637,088	1,624,941
Other expenses		24,707,125	10,131,642
		852,862,913	370,200,563

Expenses recognized for compensation and benefits consist of:

	2022	2021
Salaries and wages	347,312,868	137,843,490
Social security costs and other contributions	34,912,551	11,270,512
Other benefits	34,900,046	42,158,383
	417,125,465	191,272,385

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

Note 10 - Income taxes

Details of income tax benefit (expense) for the years ended December 31 are as follows:

	2022	2021
Current (including final tax)	(39,805,290)	(3,123,522)
Deferred	323,753,705	218,379,110
	283,948,415	215,255,588

The Bank recognized deferred tax assets amounting to P551,423,291 as at December 31, 2022 (2021 - P227,669,586) as management has determined that the Bank will be able to 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 years ended December 31 for which the Bank has recognized deferred tax assets follow:

	2022	2021
NOLCO	1,883,601,790	540,959,376
Allowance for impairment loss	253,086,524	297,274,676
Lease liabilities	58,868,029	64,948,542
Unearned loan processing fees	10,136,819	7,495,749
Total temporary differences	2,205,693,162	910,678,343
Statutory tax rate	25%	25%
Deferred tax assets	551,423,291	227,669,586

Details of the Bank's NOLCO as at December 31 follow:

Year incurred	Year of expiration	2022	2021
2020	2025	40,816,826	40,816,826
2021	2026	500,142,550	500,142,550
2022	2025	1,342,642,414	-
		1,883,601,790	540,959,376

A reconciliation between the income tax benefit at the statutory income tax rate to the effective income tax benefit follows:

	2022		2021	
	Amount	%	Amount	%
Statutory tax benefit	(307,760,965)	(25.00)	(214,790,000)	(25.00)
Effects of items not subjected to statutory tax rate:				
Income subject to lower tax rate	(49,758,172)	(4.04)	(3,904,403)	(0.45)
Non-deductible interest expense	9,951,634	0.80	780,880	0.09
Non-deductible expenses	63,619,088	5.17	588,935	0.07
Impact of change in tax rates	-	-	2,069,000	0.24
Effective income tax benefit	(283,948,415)	(23.07)	(215,255,588)	(25.05)

Corporate Recovery and Tax Incentives for Enterprises Act

The Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act which provides for lower corporate income tax rates and rationalized fiscal incentives had been signed into law by the President of the Philippines on March 26, 2021 and with retroactive effect of July 1, 2020. As a result of the CREATE Act, the Bank recognized an adjustment in 2021 pertaining to the December 31, 2020 balances which resulted in a decrease of P2,069,000 in deferred income tax benefit.

Note 11 - 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 years ended December 31 are summarized as follows:

	Due to Parent Company		
	Transactions	Outstanding balance Due to (Due from)	Terms and conditions
2022			
Parent Company			
IT Service Level Agreement	32,454,879	7,694,190	- Payable in cash on demand at gross amount - Non-interest bearing - Unguaranteed and unsecured
2021			
Parent Company			
IT Service Level Agreement	4,949,042	12,077,417	- Payable in cash on demand at gross amount - Non-interest bearing - Unguaranteed and unsecured

Information technology solutions and service level agreement (SLA)

On August 25, 2020, the BOD approved the engagement of the Parent Company for the overall 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 five days from the end of each calendar quarter for all applicable fees and charges. The Bank deducts fees for any failure due to non-compliance of the SLA. The invoice is 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 billed amounts within 30 days of the date of the invoice, provided that there is no disputed amount as provided in the SLA. The related charges have been billed by the Parent Company starting in 2021.

Sub-lease agreement

In 2022, the Bank entered into a sub-lease agreement with Purple Hub, Inc. (PHI), an affiliate, wherein the Bank sub-leases a portion of its office premises for an initial term of one (1) year, and unless earlier terminated as provided in the sub-lease agreement, with automatic extension for a similar term of one (1) year.
The sub-lease contract includes an annual escalation clause of 5%.

As at December 31, 2022, the total cash inflow for leases is P21,920.

Key management personnel

Salaries and other benefits paid to key management personnel in 2022 amounts to P16,664,157 (2021 - P22,310,434). There were no provisions for termination, post-employment and other long-term benefits for key management personnel, except for the stock option plan (Note 8). There was no outstanding receivable from (payable to) key management personnel as at December 31, 2022 and 2021.

Note 12 - 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 2021, the Bank entered into a lease contract for additional office space with a lease term of five years until 2026, renewable under certain terms and conditions. The lease contract includes an annual escalation clause of 5%.

In accordance with the terms of the lease agreements, the Bank paid a security deposit amounting to P482,216 in 2022 (2021 - P14,519,880) (Note 5), which is refundable at the end of the lease term. The lease term is negotiated on an individual basis and contains 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 right-of-use (ROU) assets and lease liabilities from its long-term leases. Details of the ROU assets and lease liabilities as at December 31 are as follows:

	2022	2021
ROU assets, gross		
Office premises	73,658,539	71,457,468
Lease liabilities		
Current	12,882,166	5,883,735
Non-current	45,985,863	59,064,807
	58,868,029	64,948,542

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of 4.95% (2021 - 5.0%).

Movements in the lease liabilities for the years ended December 31 follow:

	2022	2021
Balance, beginning	64,948,542	26,776,790
Additional lease	2,201,072	41,959,192
Interest accretion on lease liabilities	3,099,052	518,300
Payments during the year		
Principal portion of lease liabilities	(8,281,585)	(3,787,440)
Interest expense on lease liabilities	(3,099,052)	(518,300)
Balance at December 31	58,868,029	64,948,542

As at December 31, 2022, the total cash outflow for leases is P11,380,637 (2021 - P4,305,740).

Movements to ROU for the years ended December 31, follow:

	Note	2022	2021
Beginning		60,688,255	26,220,689
Additions during the year		2,201,072	41,959,192
Depreciation		(14,518,497)	(7,491,626)
	4	48,370,830	60,688,255

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

	2022	2021
Interest expense	3,099,053	518,300
Reported under Occupancy and equipment-related expense		
Depreciation expense on ROU assets	14,518,497	7,491,626
Expense relating to short-term leases	4,074,294	2,181,322

Note 13- Commitments and contingencies

As at December 31, 2022 and 2021, 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 year-end.

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 the 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 Measurement of expected credit losses (ECL)

The Bank determines the recoverable amount of its financial assets at amortized cost based on ECL. The measurement of ECL is an area that requires the use of complex methods and significant assumptions about future economic conditions and credit behavior.

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; and
- Establishing groups of similar financial assets for purposes of measuring ECL.

Sensitivity

The Bank's loan portfolio has different sensitivities to movements in macroeconomic variables (MEVs). The allowance for impairment is calculated as the weighted average of ECL under the base, upside and downside scenarios. The impact of weighting these multiple scenarios was an increase in the allowance for impairment by P6.41 million from the base scenario as at December 31, 2022 (2021 - P1.48 million).

14.1.2 Estimated useful lives (EUL) of Premises, furniture, fixtures and equipment (Note 4)

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 Premises, furniture, fixtures and equipment will increase/decrease by 10% from management's estimates, the carrying amounts of these assets will be as follows:

	2022	2021
Increase by 10%	Higher by P3,712,806	Higher by P2,192,575
Decrease by 10%	Lower by P2,009,306	Lower by P3,288,862

In 2022, total depreciation charged as part of Occupancy and equipment-related costs in the statement of total comprehensive income amounts to P29,949,759 (2021 - P13,600,162) and the related net carrying value of Premises, furniture, fixtures and equipment amounts to P96,406,672 as at December 31, 2022 (2021 - P102,390,953) (Note 4).

14.1.3 Determination of incremental borrowing rate (Note 12)

The Bank measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contracts. The lease payments are 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 liabilities 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 10)

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, 2022, the carrying value of deferred tax assets, which management assessed to be realizable within the next three to five years, amounts to P551,423,291 (2021 - P227,669,586).

14.2.2 Impairment of Premises, furniture, fixtures and equipment (Note 4)

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 if the economic performance of the asset is, or will be, worse than expected. If any such evidence exists for any item of Premises, furniture, fixtures and equipment, changes in those estimates and judgments could result in adjustments to the net carrying amount of the assets.

There is no recorded provision for impairment loss pertaining to Premises, furniture, fixtures and equipment for the years ended December 31, 2022 and 2021. This was upon consideration of the absence of impairment indicators, such as evidence of obsolescence or physical damage to any item of Premises, furniture, fixtures and equipment 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 those. 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 CRO of the Bank's RMD. It is their responsibility to review and manage credit risk for all types of counterparties. Credit risk management 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 monitor the quality of the loan portfolio and credit worthiness of counterparties. 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, 2022 and 2021:

	Notes	2022	2021
Due from BSP	2	9,172,502,299	4,013,238,977
Due from other banks	2	478,849,080	769,573,902
Loans receivables, net		179,779,090	99,733,900
Due from settlement partners		25,153,042	226,421,635
Other assets	5		
Accounts receivable		1,087,258	6,775,046
Security deposits		15,091,849	14,609,633
		9,872,462,618	5,130,353,093

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 various 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, 2022 and 2021.

Loans receivables, net

In response to the characteristics and scale of business, the Bank sets up credit policies for risk management purposes.

The Bank, using statistical methods and expert professional judgment, as well as the consideration of customer information, employs credit policies for the purpose of evaluating the credit risk of its clients. The policies are regularly reviewed to check if the calculation result is consistent with the actual situation.

The credit quality of borrowers can be divided into four risk categories, which are set out and defined below, from very low to high, apart from impaired:

(i) Very low - obligors rated in this category have an excellent capacity to meet financial commitments with very low credit risk.
(ii) Low - obligors rated in this category have a good capacity to meet financial commitments with low credit risk.
(iii) Medium - obligors rated in this category have a fairly acceptable capacity to meet financial commitments with moderate credit risk.
(iv) High - obligors rated in this category have uncertain capacity to meet financial commitments and are subject to high credit risk.

The credit risk of the Bank's loans and receivables as at December 31, 2022 and 2021 follows:

	Stage 1	Stage 2	Stage 3	
2022	12-month ECL	Lifetime ECL		Total
Credit risk				
Very low	-	-	-	-
Low	-	-	-	-
Medium	253,332,943	70,356,772	-	323,689,715
High	-	-	108,861,064	108,861,064
Gross carrying amount	253,332,943	70,356,772	108,861,064	432,550,779
Allowance for impairment	(82,815,283)	(61,095,342)	(108,861,064)	(252,771,689)
Carrying amount	170,517,660	9,261,430	-	179,779,090

2021	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3	Total
Credit risk				
Very low	-	-	-	-
Low	-	-	-	-
Medium	52,634,953	59,363,847	-	111,998,800
High	-	-	284,514,479	284,514,479
Gross carrying amount	52,634,953	59,363,847	284,514,479	396,513,279
Allowance for impairment	(17,688,796)	(47,435,000)	(231,655,583)	(296,779,379)
Carrying amount	34,946,157	11,928,847	52,858,896	99,733,900

The Bank's allowance for Stage 1 loans receivables is higher than the minimum requirement of the BSP.

In 2021, the Bank has originated credit impaired loans amounting to P228,316,001. These loans have been written off as at December 31, 2022. There were no purchased originated credit impaired loans as at December 31, 2022.

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 the 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 Treasury Department 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, 2022, the Bank's MLR was 136% (2021 - 111%). Said MLR was driven by the Bank's stock of liquid assets, which primarily consists of unencumbered deposits in other banks and required reserves and excess liquidity maintained with the BSP.

15.2.2 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, 2022 and 2021. 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, 2022 and 2021 based on contractual cash flows, is shown below:

	Notes	Up to 1 year	Over 1 year and up to 3 years	Over 3 years	Total
At December 31, 2022					
Financial assets					
Cash and other cash items	2	6,028	-	-	6,028
Due from BSP	2	9,172,502,299	-	-	9,172,502,299
Due from other banks	2	478,849,080	-	-	478,849,080
Loans receivables, net	3	87,425,752	92,353,338	-	179,779,090
Due from settlement partners	5	25,153,042	-	-	25,153,042
Other assets	5	1,087,258	15,091,849	-	16,179,107
Total financial assets		9,765,023,459	107,445,187		9,872,468,646
Financial liabilities					
Deposit liabilities	6	7,879,442,404	240,767,944	-	8,120,210,348
Due to Parent Company	11	7,694,190		-	7,694,190
Lease liabilities	12	12,882,166	37,690,745	8,295,118	58,868,029
Other liabilities	7	77,070,780		-	77,070,780
Total financial liabilities		7,977,089,540	278,458,689	8,295,118	8,263,843,347
		1,787,933,919	(171,013,502)	(8,295,118)	1,608,625,299

	Notes	Up to 1 year	Over 1 year and up to 3 years	Over 3 years	Total
At December 31, 2021					
Financial assets					
Cash and other cash items	2	409,147,678	-	-	409,147,678
Due from BSP	2	4,013,238,977	-	-	4,013,238,977
Due from other banks	2	769,573,902	-	-	769,573,902
Loans receivables, net	3	20,183,143	79,550,757	-	99,733,900
Due from settlement partners	5	226,421,635		-	226,421,635
Other assets	5	6,775,046	14,609,633	-	21,384,679
Total financial assets		5,445,340,381	94,160,390	-	5,524,891,138
Financial liabilities					
Deposit liabilities	6	5,232,317,157	142,752,169	-	5,375,069,326
Due to Parent Company	11	12,077,417	-	-	12,077,417
Lease liabilities	12	5,883,735	59,064,807	-	64,948,542
Other liabilities	7	38,106,017	-	-	38,106,017
Total financial liabilities		5,288,384,326	201,816,976	-	5,490,201,302
		156,956,055	(107,656,586)	-	34,689,836

As at December 31, 2022 and 2021, 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 in its banking book is such that interest on deposits and interest from loan portfolio are primarily fixed. The Bank started to grant customer loans beginning July 2021.

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, 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, 2022 and 2021 categorized by maturity dates:

		Interest-bearing				
	Notes	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
At December 31, 2022						
Financial assets						
Cash and other cash items	2	6,028	-	-	-	6,028
Due from BSP	2	9,172,502,299	-	-	-	9,172,502,299
Due from other banks	2	478,849,080	-	-	-	478,849,080
Loans receivables, net		87,425,752	92,353,338	-	-	179,779,090
Due from settlement partners		-	-	-	25,153,042	25,153,042
Other assets	5	-	-	-	16,179,107	16,179,107
Total financial assets		9,738,783,159	92,353,338	-	41,332,149	9,872,468,646
Financial liabilities						
Deposit liabilities	6	7,879,442,404	240,767,944	-	-	8,120,210,348
Due to Parent Company	11	-	-	-	-	
Lease liabilities	12	12,882,166	37,690,745	8,295,118	-	58,868,029
Other liabilities	7	-	-	-	77,070,780	77,070,780
Total financial liabilities		7,892,324,570	278,458,689	8,295,118	77,070,780	8,256,149,157
Total interest gap		1,846,458,589	(186,105,351)	(8,295,118)	(35,738,631)	1,616,319,489

		Interest-bearing				
	Notes	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
At December 31, 2021						
Financial assets						
Cash and other cash items	2	-	-	-	409,147,678	409,147,678
Due from BSP	2	-	-	-	4,013,238,977	4,013,238,977
Due from other banks	2	769,573,902	-	-	-	769,573,902
Loans receivables, net		69,705,333	30,028,567	-	-	99,733,900
Due from settlement partners		-	-	-	226,421,635	226,421,635
Other assets	5	-	-	-	21,384,679	21,384,679
Total financial assets		839,279,235	30,028,567	-	4,670,192,969	5,539,500,771
Financial liabilities						
Deposit liabilities	6	5,232,317,157	142,752,169	-	-	5,375,069,326
Due to Parent Company	11	-		-	1,274,000	1,274,000
Lease liabilities	12	5,883,735	59,064,807	-	-	64,948,542
Other liabilities	7			-	38,106,017	38,106,017
Total financial liabilities		5,238,200,892	201,816,976	-	39,380,017	5,479,397,885
Total interest gap		(4,398,921,657)	(171,788,409)	-	4,630,812,952	60,102,886

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, 2022 and 2021:

	2022	2021
Due from other banks (In US Dollar)	$65,700	$93,561
Exchange rate	USD1.00:P55.755	USD1.00:P50.99
PHP equivalent	3,663,104	4,770,675

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
2022	+/- 10.82%	180,748,972
2021	+/- 6.18%	220,496

15.4 Fair value of financial assets and liabilities

The table below summarizes the carrying amounts of financial assets and liabilities at December 31, 2022 and 2021 which are not presented in the statement of condition at fair value.

2022	Notes	Carrying amount	Fair value
Financial assets			
Cash and other cash items	2	6,028	6,028
Due from BSP	2	9,172,502,299	9,172,502,299
Due from other banks	2	478,849,080	478,849,080
Loans receivables, net	3	179,779,090	179,779,090
Due from settlements partners	5	25,153,042	25,153,042
Other assets	5	16,179,107	16,179,107
Total financial assets		9,872,468,646	9,872,468,646
Financial liabilities			
Deposit liabilities		8,120,210,348	8,120,210,348
Due to Parent Company	11	7,694,190	7,694,190
Lease liabilities	12	58,868,029	58,868,029
Other liabilities	7	77,070,780	77,070,780
Total financial liabilities		8,263,843,347	8,263,843,347

2021	Notes	Carrying amount	Fair value
Financial assets			
Cash and other cash items	2	409,147,678	409,147,678
Due from BSP	2	4,013,238,977	4,013,238,977
Due from other banks	2	769,573,902	769,573,902
Loans receivables, net	3	99,733,900	99,733,900
Due from settlements partners	5	226,421,635	226,421,635
Other assets	5	21,384,679	21,384,679
Total financial assets		5,539,500,771	5,539,500,771
Financial liabilities			
Deposit liabilities		5,375,069,326	5,375,069,326
Due to Parent Company	11	12,077,417	12,077,417
Lease liabilities	12	64,948,542	71,457,467
Other liabilities	7	38,106,017	38,106,017
Total financial liabilities		5,490,201,302	5,496,710,227

All of the Bank's financial assets and liabilities are carried at amortized cost and the carrying amounts, except for lease liabilities (Note 12), are assumed to approximate their fair values considering either their short-term maturities and/or low susceptibility to price volatility, or the impact of discounting is not material or the rates used are consistent with the market rates.

The fair values of lease liabilities are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

The fair values of the financial assets and liabilities above are categorized under Level 2 of the fair value hierarchy.

15.5 Capital management

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 requirement for thrift, rural and cooperative banks that are not subsidiary of universal or commercial banks. The risk-based capital adequacy ratio (CAR), as indicated in the circular, should not be less than 10%. The updated guidance on the composition of qualifying capital has been included under BSP Circular No. 762.

As at December 31, the CAR of the Bank is shown in the table below:

	2022	2021
Total Common Equity Tier 1 (CET1) / Tier 1 capital	1,614,539,979	128,318,439
Total qualifying capital	1,618,503,956	132,073,021
Total risk-weighted assets	861,888,738	1,239,298,519
Credit risk-weighted assets	861,748,298	1,239,158,079
Market risk-weighted assets	-	-
Operational risk-weighted assets	140,440	140,440
CET1 / Tier 1 capital ratio	187.33%	10.35%
Total CAR	187.79%	10.66%

As at December 31, 2021, the CAR already reflects the capital infusion during the year and the results of the Bank's full year of operations. It is expected that losses will be incurred at the onset of the Bank's operations, but management is keen to maintain and to ensure compliance with the defined regulatory threshold at all times. Aside from setting up the Bank's key businesses and establishing the framework for product profitability, additional capital was likewise infused to the Bank, in order to ensure compliance with the capitalization requirements.

As at December 31, 2022, the Bank reflects a strong and healthy CAR despite losses incurred from operations. This is attributable to a strong capital base and profits derived from high-yielding placements. As the Bank continues to scale its business and widen its reach, it is expected that some losses may still be incurred before a turnaround to profit is expected in the short-term future. Amidst these plans, management is keen to ensure compliance with the all regulatory ratios and capitalization requirements.

Note 16 - Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to both periods presented unless otherwise stated.

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 and Sustainability Reporting Standards Council and adopted by the SEC.

The financial statements comprise the statement of condition, statement of total comprehensive income, statement of changes in capital funds, the statement of cash flows and the notes.

These financial statements of the Bank have been prepared under the historical cost convention.

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

(a) Amendments to existing standards adopted by the Bank

The Bank has adopted the following amendments to existing standards effective January 1, 2022

- Amendments to PAS 16, 'Property, Plant and Equipment'

  The amendment prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling the items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset.

- Amendment to 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 contract. 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 PFRSs 2018-2020

  The following improvements were finalized in May 2020:
    - PFRS 9, 'Financial Instruments', clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
    - 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 did not have a material impact on the financial statements of the Bank.

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

The following amendments to existing standards are not mandatory for the December 31, 2022 reporting period and have not been early adopted by the Bank:

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

  The amendments 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). The amendments also clarify what PAS 1 means when it refers to the 'settlement' of a liability.

  In addition, PAS 1 requires entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

- Amendment to PAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'

  The amendment clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

- Amendments to PAS 12, 'Income Taxes'

  The amendments require entities to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognize deferred tax assets (to the extent that it is probable that they can be utilized) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with (a) right-of-use assets and lease liabilities, and (b) decommissioning, restoration and similar liabilities, and the corresponding amounts recognized as part of the cost of the related assets. The cumulative effect of recognizing these adjustments is recognized in retained earnings, or another component of equity, as appropriate.

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 January 1, 2022 that may be considered relevant or would be 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 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.

Based on these factors, the Bank classifies its financial assets in debt instruments into one of the following three measurement categories:

- *Amortized cost*

  Financial assets are measured at amortized cost if they are held under a business model with the objective to collect contractual cash flows and they have contractual terms under which cash flows are solely payments of principal and interest (SPPI). In making the SPPI assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI. As a result of the application of these criteria, only debt financial assets are eligible to be measured at amortized cost.

  Amortized cost financial assets at December 31, 2022 and 2021 include cash and cash equivalents (Note 2), loans receivables (Note 3), due from settlement partners (Note 5), and other accounts receivables (Note 5).

  Cash and cash equivalents consist of cash on hand, due from BSP and due from other banks.

  Loans receivables consist of consumer loans granted by the Bank to its customers.

  Balances with settlement partners consist of revolving funds and settlement accounts maintained by the Bank with its partners for its fund settlement activities.

  Financial assets measured at amortized cost are initially recognized at fair value including transaction costs (which are explained below). The initial amount recognized is subsequently reduced for principal repayments and for accrued interest using the effective interest rate method. In addition, the carrying amount of financial assets is adjusted by recognizing an expected credit loss allowance.

  The effective interest rate method is used to allocate interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial asset or a shorter period when appropriate, to the net carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset. The calculation of the effective interest rate includes all fees and commissions received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issuance or disposal of a financial asset.

- *FVOCI*

  Financial assets are measured at FVOCI if they are held under a business model with the objective of both collecting contractual cash flows and selling the financial assets, and they have contractual terms under which cash flows are SPPI.

  Financial assets measured at FVOCI are initially recognized at fair value, which includes direct transaction costs. The financial assets are subsequently remeasured at fair value with any changes presented in other comprehensive income (OCI) except for changes attributable to impairment gains or losses and foreign currency exchange gains and losses, if any. Impairment loss, if any, is measured and presented in profit or loss on the same basis as financial assets measured at amortized cost.

  On disposal of financial assets measured at FVOCI, the cumulative gains or losses in OCI are reclassified from equity, and recognized in profit or loss.

  As at December 31, 2022 and 2021, the Bank does not hold debt financial assets classified and measured at FVOCI.

- *FVTPL*

  Financial assets are measured at FVTPL if they are held for trading. A financial asset is defined as "held for trading" if it is acquired or incurred principally for the purpose of selling it in the near term, or forms part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking or it is a derivative.

  In addition, certain financial assets that are not held for trading are measured at FVTPL if they do not meet the criteria to be measured at amortized cost or at FVOCI. For example, if the financial assets are managed on a fair value basis, have contractual cash flows that are not SPPI or are equity securities.

  Financial instruments measured at FVTPL are initially recognized at fair value in the statement of condition. Transaction costs and any subsequent fair value gains or losses are recognized in profit or loss as they arise. As at December 31, 2022 and 2021, the Bank does not hold financial assets at FVTPL.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. As at December 31, 2022 and 2021, the Bank does not hold investments in equity instruments.

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 the 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 Purchased or originated credit impaired (POCI), as described below:

- Stage 1 - When loans are first recognized, the Bank recognizes an allowance based on 12 months' ECL (12mECL). 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 lifetime ECL. 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. The Bank records an allowance for lifetime ECL.

- POCI - 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 ECL.

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 certain 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 (EAD) 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.

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 the lifetime ECL 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 effective interest rate

- Stage 2 - When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the lifetime ECL. 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 effective interest rate.

- Stage 3 - For loans considered credit-impaired, the Bank recognizes the lifetime ECL 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.

Forward-looking information incorporated in the ECL models

The Bank incorporates historical and current information, and forecasts forward-looking events and key economic variables that are assessed to impact credit risk and ECL for its portfolio. Macroeconomic variables that affect the portfolio's non-performing loan rate(s) are determined through statistical modelling and the application of expert judgement.

The estimation and application of forward-looking information requires significant judgment. As with any economic forecasts, the projections and likelihood of occurrences are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The scenarios and their attributes are reassessed at each reporting date.

Where there is no, or insufficient, sources of entity-specific data, it is permitted to use peer experience for comparable financial instruments.

Definition of default and credit-impaired assets

The Bank considers a financial instrument in default or credit-impaired, when it meets one or more of the following criteria:

(i) Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

(ii) Qualitative criteria

The counterparty is experiencing significant financial difficulty which may lead to non-payment of loan as may be indicated by any or combination of the following events:

- The counterparty is in long-term forbearance;
- The counterparty is insolvent;
- Granting of concession that would not be otherwise considered due to economic or contractual reasons relating to the counterparty's financial difficulty; and
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Bank's ECL calculations.

The Bank's definition of default is substantially consistent with non-performing loan definition of the BSP.

16.3.6 Write-offs

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, 2022, the Bank only has financial liabilities at amortized cost. Financial liabilities measured at amortized cost include deposit liabilities (Note 6), due to Parent Company (Note 11), lease liabilities (Note 12) and other liabilities (excluding provisions and tax-related liabilities) (Note 7).

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, 2022 and 2021, 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, 2022, 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 the carrying amounts, except for lease liabilities, are assumed to approximate their fair values considering either their short-term maturities and/or low susceptibility to price volatility, or the impact of discounting is not material or the rates used are consistent with the market rates.

The fair values of lease liabilities are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

16.7 Premises, furniture, fixtures and equipment

Premises, furniture, fixture and equipment are stated at historical cost less accumulated depreciation and accumulated impairment, if any. 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, fixtures and equipment	5 years
IT equipment	3 years
Leasehold improvement	Useful life of the improvement or term of the related lease, whichever is shorter

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 of 5 years (Note 12).

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 impairment at each reporting date.

As at December 31, 2022 and 2021, the Bank has no non-financial assets that have been impaired.

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 12 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 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 substantively 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 normally carried over as a deduction from gross income for the next three (3) consecutive years. However, specifically for NOLCO incurred from 2020 to 2021, the Bank may carry it over 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 DIT 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 DIT 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 the 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 Equity

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Retained earnings

Retained earnings represent the accumulated profit arising from the operations of the Bank, less any dividends declared. Appropriation of retained earnings is recognized based on the approval of the Bank's BOD relating to specific purpose or projects. The Bank's BOD releases retained earnings from appropriation when the purpose of such appropriation has been completed.

Deposit for future stock subscription

The deposit for future stock subscription refers to cash received from the existing shareholders of the Bank as subscription to the increase in authorized capital stock following the capitalization requirement of the BSP that is needed to be observed for digital banks. The deposit for future stock subscription is classified as equity as this meets the definition of an equity instrument under PAS 32 such that the deposit for future stock subscription is non-interest bearing nor withdrawable by the subscribers. Further, the proposed increase in authorized capital stock has been duly approved by the Board of Directors and shareholders. The Bank has also filed an application with the SEC pertaining to the proposed increase in authorized capital stock (Note 8).

Deposit for future stock subscription is initially recognized at fair value of consideration received or receivable. Upon approval and corresponding issuance of shares, the amount will be credited to share capital for the par value of the shares and to additional paid-in capital for the amount in excess of the par value, as applicable.

16.12 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.

16.13 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.

16.14 Fees and commissions

The Bank recognized revenue when (or as) the Bank satisfies a performance obligation by transferring a promised good or service to a customer (i.e. an asset). An asset is transferred when (or as) the customer obtains control of that asset.

Fees and commissions are generally recognized over time when the service has been provided and the control over the service is transferred to the customer. The service being rendered by the Bank represents a single performance obligation.

Fees and commissions, mainly representing service fees, are recognized on an accrual basis when the service has been provided. Fees and commission arising from loans, deposits and other banking transactions are recognized as income based on agreed terms and conditions.

16.15 Foreign currency transactions and translation

16.15.1 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 currency.

16.15.2 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.

16.16 Employee benefits

16.16.1 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.

16.16.2 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.

16.16.3 Other benefits

The Bank provides for retirement benefits to its employees in accordance with the requirements of Republic Act No. 7641, The Philippine Retirement Pay Law. The law provides that an employee upon serving five years 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 at December 31, 2022 and 2021 as the amounts are determined to be not material.

16.17 Leases

The 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-term 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.

16.18 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.

16.19 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

Where PAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year. This did not have an impact on prior period's reported results of operations, total assets, total liabilities, capital funds or cash flows.

16.20 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 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 Bank's key financial performance indicators follow:

	2022	2021
Return on average equity	(74%)	(356%)
Return on average assets	(11%)	(21%)
Net interest margin	(19%)	(21%)

The Bank's performance was impacted by increased operating expenses and provisions on impairment losses on loans receivable, thereby resulting in negative returns. However, the Bank remains committed to reducing these losses by optimizing its product mix, focusing on higher-margin investments, and implementing cost-saving measures. Management is confident that these strategies will improve the Bank's financial performance going forward.

(ii) Description of capital instrument issued

The Bank considers its common shares as capital instrument for purposes of calculating its capital adequacy ratio as at December 31, 2022 and 2021.

(iii) Significant credit exposures

The BSP considers that concentration of credit risk exists when the total loans exposure to a particular industry or economic sector exceeds 30% of total loan portfolio or 10% of tier 1 capital. As to concentration to industry/economic sector, the entire loan portfolio of the Bank is classified under the activities of household sector.

(iv) Breakdown of total loans

The Bank’s loans receivables are unsecured. None of these loans are pledged as collateral for liabilities.

Breakdown of performing and non-performing loans, net of allowance for impairment, as at December 31 follows:

	2022	2021
Performing loans	323,689,715	166,969,309
Non-performing loans	108,861,064	229,543,970
	432,550,779	396,513,279
Allowance attributable to performing loans	(143,910,625)	(67,849,393)
Allowance attributable to NPL	(108,861,064)	(228,929,986)
	(252,771,689)	(296,779,379)
Net carrying amount	179,779,090	99,733,900

BSP Circular 941, *Amendments to Regulations on Past Due and Non-Performing Loans,* states that loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under the existing accounting standards, classified as doubtful or loss, in litigation, and if there is an evidence that full repayment of principal and interest is unlikely without foreclosure of collateral. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after they have become past due. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

(v) Information on related party loans

The Bank does not have outstanding directors, officers, stockholders and related interests (DOSRI) and other related party loans as at December 31, 2022 and 2021.

(vi) Secured liabilities and assets pledged as security

There are no secured liabilities and assets pledged as security as at December 31, 2022 and 2021.

(vii) Contingencies and commitments arising from off-balance sheet items

There are no contingencies and commitments arising from off-balance sheet items as at December 31, 2022 and 2021.

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 year ended December 31, 2022 amount to P32,611,441.

(b) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the year ended December 31, 2022 consist of:

	Paid	Accrued	Total
Withholding taxes on compensation and benefits	50,154,852		50,154,852
Expanded withholding taxes	2,291,166	311,501	2,602,667
Final withholding taxes	73,766,417		73,766,417
	126,212,435	311,501	126,523,936

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
Gross receipts tax	25,286,888
Business permits	149,976
Others	268,702
	25,705,566

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

(d) Tax cases and assessments

There are no outstanding tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR as at and for the year ended December 31, 2022.

Taxable years 2021 and 2020 are open tax years as at December 31, 2022.

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.

tonik
Unit 605B, 6/F West Wing
Estancia Offices
Meralco Avenue, Pasig City 1605
+63 2 7908 6645

4 April 2023

ISLA LIPANA & CO., PwC MEMBER FIRM
29th Floor, Philamlife Tower
8767 Paseo de Roxas
1226 Makati City

Dear Sirs:

A. Management's representation on the basic financial statements

This representation letter is provided in connection with your audit of the financial statements of Tonik Digital Bank, Inc. (the "Bank"), as at and for the year ended December 31, 2022 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with Philippine Financial Reporting Standards (PFRSs).

Certain representations in this letter are described as being limited to those matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

The financial statements were authorized for issue by the Bank's Board of Directors on April 4, 2023.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated September 29, 2022 for the preparation of the financial statements in accordance with PFRSs; in particular the financial statements are fairly presented in accordance therewith.

The term PFRSs in general includes all applicable PFRSs, Philippine Accounting Standards (PAS), interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council and adopted by the Securities and Exchange Commission (SEC).

2. All transactions have been recorded in the accounting records and are reflected in the financial statements.

3. Methods, significant assumptions and the data used in making the accounting estimates and the related disclosures are appropriate to achieve recognition, measurement or disclosure that is in accordance with the PFRSs.

4. All events subsequent to the date of the financial statements and for which PFRSs require adjustment or disclosure have been adjusted or disclosed.

5. The financial statements are free of material misstatements, including omissions, and out of period adjustments.

6. We confirm that the Bank has the ability to continue on a going concern basis.

Fraud and non-compliance with laws and regulations

The term fraud refers to an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage. Fraud also includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amounts or disclosures in financial statements to deceive financial statements users.

7. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

8. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

9. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
    a) Management;
    b) Employees who have significant roles in internal control; or
    c) Others where the fraud could have a material effect on the financial statements.

10. We have no knowledge of any information in relation to allegations of fraud, or suspected fraud, affecting the Bank's financial statements communicated by employees, former employees, analysts, regulators or others.

11. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related party transactions

12. We have disclosed to you the identity of the Bank's related parties and all the related party relationships and transactions of which we are aware.

13. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of PFRSs.

Litigation and claims

14. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and such matters have been appropriately accounted for and disclosed in accordance with PFRSs.

Information provided

15. We have provided you with:

    a) access to all information of which we are aware that is relevant to the preparation of the financial statements such as financial records, data, documentation and other matters;

    b) additional information that you have requested from us for the purpose of the audit;

    c) unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence; and

    d) all minutes of meetings of shareholders, directors, and audit or other committees of directors. The most recent meeting held was on April 4, 2023.

16. As original copies of documents were not readily available to you due to the community quarantine implemented by the Philippine government, we affirm the authenticity of the scanned or other electronic copies of documents provided to you as audit evidence to support the recorded transactions, balances and disclosures in our financial accounts. We have implemented controls to check the adequacy and reliability of scanned or electronic copies provided to you and we are not aware of any issues in relation to the scanning process. In accordance with your sampling

methodology, original copies were provided to you physically so that relevant details can be agreed to the electronic version.

Deficiencies in internal control

17. We have communicated to you all deficiencies in internal control of which we are aware of but these do not result in any material weaknesses or significant deficiencies in the Bank's internal control system.

Additional written representations about the financial statements

18. The selection and application of accounting policies are appropriate. The following have been recognized, measured, presented or disclosed in accordance with PFRSs:
    - Plans or intentions that may affect the carrying value or classification of assets and liabilities;
    - Liabilities, both actual and contingent;
    - Title to, or control over assets, liens or encumbrances on assets, and assets pledged as collateral; and
    - Aspects of laws, regulations and contractual agreements that may affect the financial statements, including non-compliance

19. We have communicated with you other significant and relevant COVID-19 assessments we have performed. COVID-19 impact is deemed immaterial to the Bank as at and for the period ended December 31, 2022.

Functional currency

20. Items included in the financial statements of the Bank are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (functional currency). The financial statements are presented in Philippine Peso, which is the functional currency of the Bank.

Cash and cash equivalents

21. All cash and bank accounts [due from Bangko Sentral ng Pilipinas (BSP) and other banks] and all other properties and resources of the Bank of which we are aware are included in the financial statements as at December 31, 2022. There are no restricted funds with the other banks and with the BSP.

22. We consistently applied our policy regarding classification of cash and cash equivalents, which are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from acquisition date and subject to insignificant risk of changes in value due to interest rate or other credit risk changes.

Financial instruments

23. The Bank has classified debt instruments that are held by the Bank for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, as financial assets at amortized cost.

    As at December 31, 2022, the Bank only holds debt financial assets classified and measured at amortized cost.

24. 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.

25. In making the assessment of whether the financial instruments' cash flows represent solely payments of principal the interest (the 'SPPI' test), the Bank considered whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

26. With respect to the Bank's expected credit loss (ECL) measurement, we acknowledge the following:

    The Bank assesses on a forward looking basis the ECL associated with its financial assets carried at amortized cost. The Branch recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:
    - An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
    - The time value of money; and
    - Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

    We have adequately disclosed in the notes to the financial statements the inputs, assumptions and estimation techniques applied by the Bank in measuring its ECL.

27. Qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk and the Bank's financial risk management objectives, policies and processes have been adequately disclosed in the financial statements as required by PFRS 7, *Financial Instruments: Disclosures*.

28. In 2022, the Bank has no originated credit impaired loans. Loans which were determined as originated credit impaired in the prior year was already written-off as at December 31, 2022.

Long-lived assets

29. The Bank has satisfactory title to all owned resources, and there are no liens or encumbrances or security interests of any important consequence on such resources disclosed in the financial statements.

30. In accordance with the provisions of PAS 36, *Impairment of Assets*, we have reviewed bank premises, furniture, fixtures and equipment, assets held for sale, and other resources for impairment, whenever events or changes in circumstances have indicated that the carrying amount of assets might not be recoverable.

Provisions and contingencies

31. All liabilities of the Bank, of which we are aware, are included in the financial statements at December 31, 2022. There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by PAS 1, *Presentation of Financial Statements*, and PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and no unasserted claims or assessments that our legal counsels have advised are probable of assertion and required to be disclosed in accordance with those standards.

32. The Bank has requested its legal advisors to provide you with all required information and has requested them to disclose to you any matters you may request in this respect.

Leases

33. We confirm the completeness of the lease contracts that have been evaluated and included in our assessment made with respect to PFRS 16. We further confirm the accuracy and validity of the terms indicated in the lease agreement.

34. 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 subsequently depreciated on a straight-line basis from the commencement date to the earlier of the useful life and 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.

35. 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.

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

37. We have used an incremental borrowing rate of 4.95% to discount the lease payments made. We confirm that the rate used is generally consistent with the requirements of PFRS 16.

Deposit for future stock subscriptions

38. As at December 31, 2022, the Bank has reclassified all deposits for future stock subscription to paid-in capital and APIC.

39. The deposit for future stock subscription refers to cash received from the existing shareholders of the Bank as subscription to the increase in authorized capital stock following the capitalization requirement of the BSP that is needed to be observed for digital banks. The deposit for future stock subscription is classified as equity as this meets the definition of an equity instrument under PAS 32 such that the deposit for future stock subscription is non-interest bearing nor withdrawable by the subscribers. Further, the proposed increase in authorized capital stock has been duly approved by the Board of Directors and shareholders.

40. Deposit for future stock subscription is initially recognized at fair value of consideration received or receivable. Upon approval and corresponding issuance of shares, the amount will be credited to share capital for the par value of the shares and to additional paid-in capital for the amount in excess of the par value, as applicable.

Share-based payment agreement

41. We properly and consistently applied accounting policies for the provisions of PFRS 2, *Share Based Payment*, for the shares awarded to certain employees of the Bank under the Employee Stock Option Plan (ESOP) of Tonik Financial Pte. Ltd. (the "Parent Company").

42. The listings provided to you of share-based payment awards granted during the reporting period are complete and accurate.

43. We appropriately assessed the probability of vesting for share-based payment awards with performance conditions and adjusted compensation cost in accordance with PFRS 2.

44. The fair value of share-based payment awards was determined using an acceptable model and reasonable assumptions in accordance with PFRS 2, *Share Based Payment*. We confirm that 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.

Fair value measurement

45. Presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with PFRSs. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and are reflective of our intent and ability to carry out specific courses of action on behalf of the Bank where relevant to the fair value measurement or disclosures.

Financial records

46. The Bank has appropriately reconciled its books and records (e.g., general ledger accounts) underlying the financial statements to their related supporting information (e.g., sub ledger or third-party data). All related reconciling items considered to be material were identified and included in the reconciliations and were appropriately adjusted in the financial statements, as necessary. There were no material unrecorded differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a balance sheet account, which should have been written off to an income statement account and vice versa.

Revenue

47. We confirm that the revenue recognition policies of the Bank are being applied in accordance with the requirements of the relevant accounting standards.

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

Income taxes

48. The expenses included in income tax returns of the Bank for the taxable year 2020 are deductible and revenues included therein are taxable under the provisions of the Tax Code. Such information agrees with the books of accounts or can be traced therefrom. Provisions for income taxes are fairly stated, and are computed in accordance with *PAS 12, Income Taxes.*

49. Deferred income taxes mainly pertain to the tax shield value of the temporary differences, and tax losses (net operating loss carryover or NOLCO). The Bank has recognized deferred income tax assets to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

50. Management reviews at each reporting date the carrying amounts of deferred tax assets. The carrying amount of deferred tax assets is reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which the related tax assets can be realized.

51. We appropriately reconciled the deferred tax assets and deferred tax liabilities recorded in the financial statements to their related supporting information. All related reconciling items considered to be material were identified and adjusted in the financial statements.

52. Management commits to continue reviewing and assessing the recoverability of the Bank's deferred tax assets. Management will start writing down deferred tax assets in 2023, should there be stronger proof that taxable income will not be sufficiently generated towards end of 2023.

Financial risk management

53. Information regarding the financial risks exposure and the Bank's financial risk management objectives and policies have been adequately disclosed in the financial statements as required by
PFRS 7.

54. We disclosed significant concentration of credit risk arising from all financial instruments in accordance with PFRS 7.

55. We confirm that we have calculated our liquidity position (Minimum Liquidity Ratio) following the guidelines set by the Bangko Sentral ng Pilipinas. In cases wherein a breach has occurred, we have reported the same to the BSP and subsequently corrected/resolved. Moreover, adequate disclosures have been made in the Bank’s financial statements.

Capital management

56. We confirm that we have calculated the required regulatory ratios (CET1 Capital, Tier 1 Capital, Total Qualifying Capital, Total Risk-Weighted Assets, Capital Adequacy Ratio, Tier 1 ratio and CET1 ratio, as applicable) in accordance with the guidelines set by the BSP. In cases wherein a breach has occurred, if any, we have reported the same to the BSP and subsequently corrected/resolved. Moreover, adequate disclosures have been made in the Bank’s financial statements.

Subsequent events

57. To the best of our knowledge and belief, no events have occurred subsequent to the balance sheet date and through the date of this letter that would require disclosure in the aforementioned financial statements.

B. Management's representation on the Supplementary information required by the Bureau of Internal Revenue (BIR)

The supplementary information in Note 18 to the financial statements is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

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.

We acknowledge our responsibility for the fair presentation in all material respects, in relation to the basic financial statements taken as a whole, and confirm the supplementary information as required by BIR Revenue Regulations (RR) Nos. 34-2020 and 15-2010.

The amounts in the supplementary schedules of taxes and licenses, and other information disclosed in the notes to financial statements agree or can be traced with the book of accounts and the corresponding returns.

There are no outstanding tax assessments with final assessment notices (FAN), including outstanding tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR have been disclosed.

C. Management' representation on the Supplementary information required under BSP Circular No. 1074

The supplementary information in Note 17 to the financial statements is presented for purposes of filing with the BSP and is not a required part of the basic financial statements.

We acknowledge our responsibility for the fair presentation in all material respects, in relation to the basic financial statements taken as a whole, and confirm the completeness of the supplementary information as required by BSP Circular No. 1074. The amounts in the supplementary schedule disclosed in the notes to financial statements agree or can be traced with the book of accounts and the corresponding documents.

We confirm that we have calculated the required regulatory ratios (CET1 Capital, Tier 1 Capital, Total Qualifying Capital, Total Risk-Weighted Assets, Capital Adequacy Ratio, Tier 1 ratio and CET1 ratio, as applicable) in accordance with the guidelines set by the BSP. We also confirm that we have calculated our liquidity position (MLR) following the guidelines set by the BSP. In cases wherein a breach has occurred, we have reported the same to the BSP and subsequently corrected/resolved. Moreover, adequate disclosures have been made in the Bank's financial statements.

We confirm that when PFRSs allow for policy choice over the accounting treatment on some transactions, which may be different to what the BSP encourages us to use, we have full understanding of the differences and confirm that the policy adopted best reflects the intention of the Bank.

D. Management's representation on special purpose financial information

This letter of representation is also provided in connection with your audit of the special purpose financial information of the Bank for the period ended December 31, 2022 ("the Reporting Package") for the purpose of expressing an opinion as to whether the Reporting Package has been prepared, in all material respects, in accordance with the policies and instructions contained in the Tonik Group's accounting manual ("Group Accounting Policies").

We confirm our acknowledgement and understanding of our responsibilities for the preparation of the Reporting Package in accordance with the Group Accounting Policies and for such internal control as we determine is necessary to enable the preparation of Reporting Package that is free from material misstatement, whether due to fraud or error; and we have fulfilled, as management these responsibilities.

We confirm to the best of our knowledge and belief and having made appropriate enquiries of other directors and officers of the Bank as we considered necessary, the representations in addition to the paragraphs in Representation A *Management's representation on the basic financial statements:*

1) The selection and application of accounting policies are appropriate.

2) We have considered and assessed the impact of COVID-19 on operations of the Bank and confirm that the impact of COVID-19 has been appropriately recognised, measured, presented and disclosed in accordance with Group's accounting policies.

3) The following have been recognised, measured, presented or disclosed in accordance with Group's accounting policies:
   (a) plans or intentions that may affect the carrying amount or classification of assets and liabilities;
   (b) liabilities, both actual and contingent;
   (c) title to, or control over assets, liens or encumbrances on assets, and assets pledged as collateral; and
   (d) aspects of laws, regulations and contractual agreements that may affect the Reporting Package, including non-compliance.

4) Methods, significant assumptions and the data used in making the accounting estimates and the related disclosures are appropriate to achieve recognition, measurement or disclosure that is in accordance with Group's accounting policies.

5) The Bank has appropriately reconciled its books and records (such as general ledger accounts) underlying the Reporting Package to their related supporting information (such as subsidiary ledgers or third-party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the Reporting Package. There were no material unreconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a balance sheet account, which should have been written off to an income statement account and vice versa. All intracompany accounts have been eliminated or appropriately measured and considered for disclosure in the Reporting Package.

Very truly yours,

MARIA LOURDES JOCELYN S. PINEDA
President

Bryan V. San Luis

BRYAN V. SAN LUIS
Chief Financial Officer

Unit 605B, 6/F West Wing
Estancia Offices
Meralco Avenue, Pasig City 1605
+63 2 7908 6645

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR ANNUAL INCOME TAX RETURN**

The management of **Tonik Digital Bank, Inc.** (the "Bank") is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2022. Management is likewise responsible for all information and representations contained in the financial statements accompanying the covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2022 and the accompanying Annual Income Tax Return are in accordance with the books and records of the Bank, complete and correct in all material respects. Management likewise affirms that:

(a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

(b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;

(c) the Company has filed all applicable tax returns, reports and statements required to be filed under Philippines tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

Signed this 4th day of April, 2023.

MA. LOURDES JOCELYN S. PINEDA
President

BRYAN V. SAN LUIS
Chief Financial Officer

Maribeth Ignacio

From:	no-reply@bir.gov.ph
Sent:	Wednesday, 5 April 2023 1:11 pm
To:	Maribeth Ignacio
Subject:	BIR Email Notification (ePayment)

Good Day TONIK DIGITAL BANK INC.,

Thank you for filing and paying your tax liabilities through eFPS. This email notification indicates that:

A. For Mode of Payment Using Bank Transfer, your Tax Payment Instruction (see below, eFPS Payment Summary) had been forwarded to the BIR-Authorized Agent Bank (BIR-AAB) for processing. Please note that the said eFPS Payment Summary does not reflect the completion of your tax payment transaction yet.

B. For Mode of Payment Using Tax Debit Memo (TDM) or Tax Remittance Advice (TRA), your Tax Payment has been acknowledged.

You may receive several of this email notification with the same Filing Reference Number depending on the number of Tax Payment Instruction you have submitted. To ensure that the tax payment/s were processed, please inquire your eReturn's Payment Details thru the eFPS *Tax Return Inquiry.*

From,

Bureau of Internal Revenue

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

eFPS PAYMENT SUMMARY

TIN	:010-485-545-000
Name	:TONIK DIGITAL BANK INC.
RDO	:043
Bank	:086000
Filing Reference No.	:142300053205357
Payment Transaction No.	:233842153
Actual Amount Paid / (Over Remittance)	:3086505.00
TDM Amount	:0.00
TRA Amount	:0.00

PLEASE DO NOT REPLY TO THIS E-MAIL

==========
DISCLAIMER
==========

Reference No :
Date Filed :
Batch Number :

Republic of the Philippines
Department of Finance
Bureau of Internal Revenue

For BIR Use Only: BCS/ Item:

BIR Form No. **1702-RT** January 2018(ENCS) Page 1	**Annual Income Tax Return** For Corporation, Partnership and Other Non-Individual Taxpayer Subject Only to REGULAR Income Tax Rate *Enter all required information in CAPITAL LETTERS. Mark applicable boxes with an "X". Two Copies MUST be filed with the BIR and one held by the taxpayer.*	1702-RT 01/18ENCS P1

1 For: Calendar / Fiscal; 2 Year Ended (MM/20YY): 12/2022	3 Amended Return? Yes / No	4 Short Period Return? Yes / No	5 Alphanumeric Tax Code (ATC): IC055 Minimum Corporate Income Tax (MCIT); IC010 DOMESTIC CORPORATION IN GENERAL

Part I - Background Information

6 Taxpayer Identification Number (TIN)	010 - 485 - 545 - 000
7 RDO Code	043
8 Registered Name *(Enter only 1 letter per box using CAPITAL LETTERS)*	TONIK DIGITAL BANK INC.
9A Registered Address *(Indicate complete registered address)*	UNIT 605B 6/F WEST WING THE ESTANCIA OFFICES MERALCO AVE PASIG CITY
9B Zipcode	1600
10 Date of Incorporation/Organization (MM/DD/YYYY)	05/26/2020
11 Contact Number	09209268218
12 Email Address	mignacio@tonikbank.com
13 Method of Deductions	Itemized Deductions [Section 34 (A-J), NIRC] / Optional Standard Deduction (OSD) - 40% of Gross Income [Section 34(L), NIRC as amended by RA No. 9504]

Part II - Total Tax Payable *(Do NOT enter Centavos)*

14 Total Income Tax Due (Overpayment) *(From Part IV Item 43)*	
15 Less: Total Tax Credits/Payments *(From Part IV Item 55)*	0
16 Net Tax Payable (Overpayment) *(Item 14 Less Item 15) (From Part IV Item 56)*	0
Add Penalties	
17 Surcharge	0
18 Interest	0
19 Compromise	
20 Total Penalties *(Sum of Items 17 to 19)*	0
21 TOTAL AMOUNT PAYABLE (Overpayment) *(Sum of Item 16 and 20)*	0

If Overpayment, mark "X" one box only *(Once the choice is made, the same is irrevocable)*

To be refunded / To be issued a Tax Credit Certificate (TCC) / To be carried over as tax credit next year/quarter

We declare under the penalties of perjury, that this annual return has been made in good faith, verified by us, and to the best of our knowledge and belief, is true and correct pursuant to the provisions of the National Internal Revenue Code, as amended, and the regulations issued under authority thereof. *(If Authorized Representative, attach authorization letter and indicate TIN)*

Signature over printed name of President/Principal Officer/Authorized Representative	Signature over printed name of Treasurer/Assistant Treasurer	22 Number of Attachments
Title of Signatory: ; TIN:	Title of Signatory: ; TIN:	4

Part III - Details of Payment

Particulars	Drawee Bank/Agency	Number	Date *(MM/DD/YYYY)*	Amount
23 Cash/Bank Debit Memo				0
24 Check				0
25 Tax Debit Memo				0
26 Others *(Specify Below)*				
				0

Machine Validation/Revenue Official Receipts Details *(if not filed with an Authorized Agent Bank)*	*Stamp of receiving Office/AAB and Date of Receipt (RO's Signature/Bank Teller's Initial)*

Bry V.L.

BRYAN V. SAN LUIS

Tonik Digital Bank, Inc.
Chief Financial Officer

BIR Form No. **1702-RT** January 2018(ENCS) **Page 2**	**Annual Income Tax Return** **Corporation, Partnership and Other Non-Individual Taxpayer Subject Only to REGULAR Income Tax Rate**	1702-RT 01/18ENCS P2

Taxpayer Identification Number (TIN)	**Registered Name**
010 - 485 - 545 - 000	TONIK DIGITAL BANK INC.

Part IV - Computation of Tax *(Do NOT enter Centavos)*

27 Sales/Receipts/Revenues/Fees	96,351,915
28 Less: Sales Returns, Allowances and Discounts	
29 Net Sales/Receipts/Revenues/Fees *(Item 27 Less Item 28)*	96,351,915
30 Less: Cost of Sales/Services	332,093,857
31 Gross Income from Operation *(Item 29 Less Item 30)*	(235,741,942)
32 Add: Other Taxable Income Not Subjected to Final Tax	33,541,554
33 Total Taxable Income *(Sum of Items 31 and 32)*	(202,200,388)

Less: Deductions Allowable under Existing Law

34 Ordinary Allowable Itemized Deductions *(From Part VI Schedule I Item 18)*	1,140,442,027
35 Special Allowable Itemized Deductions *(From Part VI Schedule II Item 5)*	0
36 NOLCO *(only for those taxable under Sec. 27(A to C); Sec. 28(A)(1) & (A)(6)(b) of the tax Code) (From Part VI Schedule III Item 8)*	0
37 Total Deductions *(Sum of Items 34 to 36)*	1,140,442,027
OR *[in case taxable under Sec 27(A) & 28(A)(1)]*	
38 Optional Standard Deduction *(40% of Item 33)*	0

39 Net Taxable Income/(Loss) *(If Itemized: Item 33 Less Item 37; If OSD: Item 33 Less Item 38)*	(1,342,642,415)
40 Applicable Income Tax Rate	25 %
41 Income Tax Due other than Minimum Corporate Income Tax (MCIT) *(Item 39 x Item 40)*	0
42 MCIT Due *(2% of Item 33)*	
43 Tax Due *(Normal Income Tax Due in Item 41 OR the MCIT Due in Item 42, whichever is higher) (To Part II Item 14)*	

Less: Tax Credits/Payments (attach proof)

44 Prior Year's Excess Credits Other Than MCIT	0
45 Income Tax Payment under MCIT from Previous Quarter/s	0
46 Income Tax Payment under Regular/Normal Rate from Previous Quarter/s	0
47 Excess MCIT Applied this Current Taxable Year *(From Part VI Schedule IV Item 4)*	0
48 Creditable Tax Withheld from Previous Quarter/s per BIR Form No. 2307	0
49 Creditable Tax Withheld per BIR Form No. 2307 for the 4th Quarter	0
50 Foreign Tax Credits, if applicable	0
51 Tax Paid in Return Previously Filed, if this is an Amended Return	0
52 Special Tax Credits *(To Part V Item 58)*	0
Other Credits/Payments *(Specify)*	
53	0
54	0

55 Total Tax Credits/Payments *(Sum of Items 44 to 54) (To Part II Item 15)*	0
56 Net Tax Payable / (Overpayment) *(Item 43 Less Item 55)) (To Part II Item 16)*	0

Part V - Tax Relief Availment

57 Special Allowable Itemized Deductions *(Item 35 of Part IV x Applicable Income Tax Rate)*	0
58 Add: Special Tax Credits *(From Part IV Item 52)*	0
59 Total Tax Relief Availment *(Sum of Items 57 and 58)*	0

BIR Form No. **1702-RT** January 2018(ENCS) **Page 3**	**Annual Income Tax Return** Corporation, Partnership and Other Non-Individual Taxpayer Subject Only to REGULAR Income Tax Rate	1702-RT 01/18ENCS P3

Taxpayer Identification Number (TIN)	**Registered Name**
010 - 485 - 545 - 000	TONIK DIGITAL BANK INC.

Schedule I - Ordinary Allowable Itemized Deductions *(Attach additional sheet/s, if necessary)*

1 Amortizations	0
2 Bad Debts	0
3 Charitable Contributions	0
4 Depletion	0
5 Depreciation	24,927,646
6 Entertainment, Amusement and Recreation	
7 Fringe Benefits	0
8 Interest	0
9 Losses	0
10 Pension Trust	0
11 Rental	0
12 Research and Development	
13 Salaries, Wages and Allowances	382,212,914
14 SSS, GSIS, Philhealth, HDMF and Other Contributions	34,912,551
15 Taxes and Licenses	58,317,007
16 Transportation and Travel	
17 Others (Deductions Subject to Withholding Tax and Other Expenses) *[Specify below; Add additional sheet(s), if necessary]*	
a Janitorial and Messengerial Services	
b Professional Fees	13,159,797
c Security Services	
d FEES AND COMMISSION EXPENSE	72,143,130
e IMPAIRMENT LOSSES	221,516,497
f INFORMATION TECHNOLOGY EXPENSE	35,128,823
g REPAIRS AND MAINTENANCE	2,637,088
h OTHER EXPENSES	24,707,126
i OTHERS	270,779,448
i.1 MARKETING EXPENSES	239,497,537
i.2 INSURANCE EXPENSES	20,502,299
i.3 COMMUNICATION EXPENSES	7,018,456
i.4 OFFICE EXPENSES	3,761,156
18 Total Ordinary Allowable Itemized Deductions *(Sum of Items 1 to 17i) (To Part IV Item 34)*	1,140,442,027

Schedule II - Special Allowable Itemized Deductions *(Attach additional sheet/s, if necessary)*

Description	Legal Basis	Amount
1		0
2		0
3		0
4		0
5 Total Special Allowable Itemized Deductions *(Sum of Items 1 to 4) (To Part IV Item 35)*		0

BIR Form No. 1702-RT January 2018(ENCS) Page 4	Annual Income Tax Return Corporation, Partnership and Other Non-Individual Taxpayer Subject Only to REGULAR Income Tax Rate	1702-RT 01/18ENCS P4

Taxpayer Identification Number (TIN)	Registered Name
010 - 485 - 545 - 000	TONIK DIGITAL BANK INC.

Schedule III - Computation of Net Operating Loss Carry Over (NOLCO)

1 Gross Income *(From Part IV Item 33)*	(202,200,388)
2 Less: Ordinary Allowable Itemized Deductions *(From Part VI Schedule I Item 18)*	1,140,442,027
3 Net Operating Loss*(Item 1 Less Item 2) (To Schedule IIIA, Item 7A)*	(1,342,642,415)

Schedule IIIA - Computation of Available Net Operating Loss Carry Over (NOLCO) *(DO NOT enter Centavos; 49 Centavos or Less drop down; 50 or more round up)*

Net Operating Loss		B) NOLCO Applied Previous Year
Year Incurred	A) Amount	
4 2022	1,342,642,415	0
5 2021	500,142,550	0
6 2020	40,816,826	0
7		0

Continuation of Schedule IIIA (Item numbers continue from table above)

C) NOLCO Expired	D) NOLCO Applied Current Year	E) Net Operating Loss (Unapplied) *[E = A Less (B + C + D)]*
4 0	0	1,342,642,415
5 0	0	500,142,550
6 0	0	40,816,826
7 0	0	0
8 Total NOLCO *(Sum of Items 4D to 7D) (To Part IV, Item 36)*	0	

Schedule IV - Computation of Minimum Corporate Income Tax (MCIT)

Year	A) Normal Income Tax as adjusted	B) MCIT	C) Excess MCIT over Normal Income Tax
1	0	0	0
2	0	0	0
3	0	0	0

Continuation of Schedule IV *(Item numbers continue from table above)*

D) Excess MCIT Applied/Used in Previous Years	E) Expired Portion of Excess MCIT	**F) Excess MCIT Applied this Current Taxable Year**	G) Balance of Excess MCIT Allowable as Tax Credit for Succeeding Year/s [G = C Less (D + E + F)]
1 0	0	0	0
2 0	0	0	0
3 0	0	0	0
Total Excess MCIT Applied *(Sum of Items 1F to 3F) (To Part IV Item 47)*		0	

Schedule V - Reconciliation of Net Income per Books Against Taxable Income *(attach additional sheet/s, if necessary)*

1 Net Income/(Loss) per books	(1,231,043,859)
Add: Non-deductible Expenses/Taxable Other Income	
2 NONDEDUCTIBLE INTEREST EXPENSE	39,806,538
3 ORDINARY ALLOWABLE ITEMIZED DEDUCTIONS	47,627,595
4 Total *(Sum of Items 1 to 3)*	(1,143,609,726)
Less: A) Non-Taxable Income and Income Subjected to Final Tax	
5 OTHER TAXABLE INCOME SUBJECTED TO FINAL TAX	199,032,689
6	
B) Special Deductions	
7	0
8	
9 Total (Sum of Items 5 to 8)	199,032,689
10 Net Taxable Income/(Loss) (Item 4 Less Item 9)	(1,342,642,415)