Tonik Digital Bank, Inc.

Financial Statements
As at and for the years ended December 31, 2024 and 2023

pwc

Independent Auditor's Report

To the Board of Directors and Shareholders of
Tonik Digital Bank, Inc.
Unit 605B, 6/F West Wing
The Estancia Offices, Meralco 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, 2024 and 2023, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS) Accounting Standards.

What we have audited

The financial statements of the Bank comprise:

- the statements of condition as at December 31, 2024 and 2023;
- the statements of total comprehensive income for the years ended December 31, 2024 and 2023;
- the statements of changes in capital funds for the years ended December 31, 2024 and 2023;
- the statements of cash flows for the years ended December 31, 2024 and 2023; and
- the notes to the financial statements, comprising material accounting policy and other explanatory information.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). 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 PFRS Accounting Standards, 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 PSA 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 PSA, 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 Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required by the Bangko Sentral ng Pilipinas under Circular No. 1074 and by the Bureau of Internal Revenue under Revenue Regulations No. 15-2010 as disclosed in Notes 17 and 18, respectively, to the financial statements is presented for the purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS Accounting Standards. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audits of the basic financial statements and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

Dexter DJ V. Toledaña
Partner
CPA Cert. No. 0121827
P.T.R. No. 0032961; issued on January 3, 2025 at Makati City
T.I.N. 255-979-765
BIR A.N. 08-000745-241-2023, issued on January 30, 2023; effective until January 29, 2026
BOA/PRC Reg. No. 0142, effective until November 14, 2025

Makati City
April 14, 2025

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

To the Board of Directors and Shareholders of
Tonik Digital Bank, Inc.
Unit 605B, 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 supplementary information on taxes and licenses is presented in Note 18 to the financial statements.

Isla Lipana & Co.

Dexter Toledana

Dexter DJ V. Toledaña
Partner
CPA Cert. No. 0121827
P.T.R. No. 0032961; issued on January 3, 2025 at Makati City
T.I.N. 255-979-765
BIR A.N. 08-000745-241-2023, issued on January 30, 2023; effective until January 29, 2026
BOA/PRC Reg. No. 0142, effective until November 14, 2025

Makati City
April 14, 2025

tonik

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

**STATEMENT FOR MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of Tonik Digital Bank, Inc. (the "Bank") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2024, in accordance with the prescribed financial reporting framework indicated therein, 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 of 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 bases of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

The Board of Directors reviews and approved the financial statements, including the schedules attached therein, and submits the same to the shareholders.

Isla Lipana & Co., the independent auditor appointed by the shareholders, has audited the financial statements of the Bank in accordance with Philippine Standards in Auditing, and in its report to the shareholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Carmina Esteban / Chief Financial Officer

Grygorii Krasnov / President and CEO

Mark Iwashko

Mark Andrew Iwashko / Chairman of the Board

Signed this 28th of April, 2025

Tonik Digital Bank, Inc.

Statements of Condition
December 31, 2024 and 2023
(All amounts in Philippine Peso)

	Notes	2024	2023
Assets			
Cash and other cash items	2	49,986	49,986
Due from Bangko Sentral ng Pilipinas	2	3,882,360,188	8,167,997,024
Due from other banks	2	284,468,337	61,983,729
Loans receivables, net	3	2,163,172,479	511,205,486
Premises, furniture, fixtures and equipment, net	4	66,678,055	100,595,263
Deferred tax assets, net	10	167,173,969	659,857,373
Due from settlement partners	5	59,678,153	14,030,940
Other assets, net	5	484,322,819	50,960,495
Total assets		7,107,903,986	9,566,680,296
Liabilities and Capital Funds			
Deposit liabilities	6	5,766,070,828	7,803,927,699
Due to Parent Company	11	-	16,112,670
Lease liabilities	12	31,228,291	45,441,534
Other liabilities	7	239,957,658	192,692,812
Total liabilities		6,037,256,777	8,058,174,715
Share capital	8	460,780,100	431,519,000
Additional paid-in capital	8	4,038,946,292	3,363,712,733
Other reserves	8	88,343,043	104,540,106
Deficit		(3,517,422,226)	(2,391,266,258)
Total capital funds		1,070,647,209	1,508,505,581
Total liabilities and capital funds		7,107,903,986	9,566,680,296

The notes on pages 1 to 33 are an integral part of these financial statements.

Tonik Digital Bank, Inc.

Statements of Total Comprehensive Income
For the years ended December 31, 2024 and 2023

	Notes	2024	2023
Interest income			
On loans receivables	3	712,878,539	244,236,872
On due from BSP	2	377,995,613	526,757,100
On due from other banks	2	116,492	6,084,884
		1,090,990,644	777,078,856
Interest expense			
On deposit liabilities	6	309,687,645	400,787,292
Others	12	1,725,086	2,418,644
		311,412,731	403,205,936
Net interest income		779,577,913	373,872,920
Provision for impairment losses	3,5	(300,222,409)	(354,604,760)
Net interest income after provision for impairment losses		479,355,504	19,268,160
Other income (expense), net			
Fees and commission expense		(161,385,764)	(42,219,576)
Fees and commission income		92,780,414	38,918,803
Foreign exchange loss, net		(5,287,774)	(268,375)
Other operating income		12,532,600	645,790
		(61,360,524)	(2,923,358)
Operating expenses			
Compensation and benefits	9	360,914,281	381,111,290
Management and other professional fees		281,617,270	42,919,872
Marketing expense		100,285,923	49,483,406
Taxes and licenses		71,397,056	57,555,639
Information technology expense		50,937,385	66,900,462
Occupancy and equipment-related expense	4,12	38,670,489	36,852,989
Documentary stamp tax expense		21,429,387	41,371,923
Communication expense		18,915,431	14,946,895
Insurance expense		13,436,777	16,316,393
Office expense		3,617,267	3,156,458
Repairs and maintenance expense		2,807,105	2,295,910
Employee stock option plan	8	-	22,746,813
Other expenses		10,334,756	28,894,015
		974,363,127	764,552,065
Loss before income tax		(556,368,147)	(748,207,263)
Income tax (expense) benefit	10	(569,787,821)	3,282,345
Net loss after income tax		(1,126,155,968)	(744,924,918)
Other comprehensive income		-	-
Total comprehensive loss		(1,126,155,968)	(744,924,918)

The notes on pages 1 to 33 are an integral part of these financial statements.

Tonik Digital Bank, Inc.

Statements of Changes in Capital Funds
For the years ended December 31, 2024 and 2023

	Share capital (Note 8)	Additional paid-in capital (Note 8)	Other reserves (Note 8)	Deficit	Total
Balance, January 1, 2023	431,519,000	3,363,712,733	81,793,293	(1,646,341,340)	2,230,683,686
Transactions with shareholders					
Share-based compensation	-	-	22,746,813	-	22,746,813
Comprehensive loss					
Net loss for the year	-	-	-	(744,924,918)	(744,924,918)
Other comprehensive income for the year	-	-	-	-	-
	-	-	-	(744,924,918)	(744,924,918)
Balance, December 31, 2023	431,519,000	3,363,712,733	104,540,106	(2,391,266,258)	1,508,505,581
Transactions with shareholders					
Issuance of shares	29,261,100	675,233,559	-	-	704,494,659
Share-based compensation	-	-	(16,197,063)	-	(16,197,063)
	29,261,100	675,233,559	(16,197,063)	-	688,297,596
Comprehensive loss					
Net loss for the year	-	-	-	(1,126,155,968)	(1,126,155,968)
Other comprehensive income for the year	-	-	-	-	-
	-	-	-	(1,126,155,968)	(1,126,155,968)
Balance at December 31, 2024	460,780,100	4,038,946,292	88,343,043	(3,517,422,226)	1,070,647,209

The notes on pages 1 to 33 are an integral part of these financial statements.

Tonik Digital Bank, Inc.

Statements of Cash Flows
For the years ended December 31, 2024 and 2023

	Notes	2024	2023
Cash flows from operating activities			
Loss before income tax		(556,368,147)	(748,207,263)
Adjustments for:			
Provision for impairment losses	3,5	251,616,932	354,604,760
Interest expense on deposit liabilities	6	309,687,645	400,787,292
Interest income	2,3	(1,090,990,644)	(777,078,856)
Share-based compensation expense	8	(16,197,063)	22,746,813
Depreciation and amortization	4	37,845,528	33,840,409
Interest expense on lease liabilities	12	1,725,086	2,418,644
Loss on disposal of premises, furniture, fixtures and equipment	4	-	77,601
Operating loss before changes in operating assets and liabilities		(1,062,680,663)	(710,810,600)
Changes in operating assets and liabilities			
(Increase) decrease in:			
Loans receivables, net		(2,579,342,708)	(667,201,347)
Due from settlement partners		(45,647,213)	11,122,102
Other assets	5	(426,532,958)	19,685,497
(Decrease) increase in:			
Deposit liabilities	6	(2,037,856,871)	(316,282,649)
Due to Parent Company	11	(16,112,670)	8,418,480
Other liabilities	7	85,660,056	(3,150,496)
Net cash (used in) from operations		(6,082,513,027)	(1,658,219,013)
Interest received		1,759,274,146	768,614,764
Interest paid		(348,082,855)	(372,980,037)
Final taxes paid		(77,104,417)	(105,151,739)
Net cash (used in) from operating activities		(4,748,426,153)	(1,367,736,025)
Cash flows from investing activities			
Additions to premises, furniture, fixtures and equipment	4	(4,123,784)	(40,472,141)
Proceeds from sale of premises, furniture, fixtures and equipment	4	195,464	2,365,540
Net cash used in investing activities		(3,928,320)	(38,106,601)
Cash flows from financing activities			
Payments of lease liabilities	12	(15,938,329)	(15,845,139)
Proceeds from the contributions of shareholders	8	704,494,659	-
Net cash from (used in) financing activities		688,556,330	(15,845,139)
Net decrease in cash and cash equivalents		(4,063,798,143)	(1,421,687,765)
Cash and cash equivalents			
Beginning of the year		8,230,030,739	9,651,357,407
Effect of exchange rate changes on cash and cash equivalents		645,915	361,097
End of the year	2	4,166,878,511	8,230,030,739

The notes on pages 1 to 33 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, 2024 and 2023
(In the notes, all amounts are shown in Philippine Peso unless otherwise stated)

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, 2024, the Bank has 292 employees (2023 - 461).

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 14, 2025.

2 Cash and cash equivalents

The account as at December 31 consists of:

	2024	2023
Cash and other cash items	49,986	49,986
Due from other banks	284,468,337	61,983,729
Due from BSP	3,882,360,188	8,167,997,024
	4,166,878,511	8,230,030,739

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, 2024	280,276,022	4,192,315	284,468,337
At December 31, 2023	61,449,708	534,021	61,983,729

These deposits carry interest rates ranging from 0.05% to 0.75% in 2024 and 2023. Interest income earned on due from other banks amounts to P116,492 (P6,084,884 in 2023).

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, 2024, the BSP reserve requirement is set at 4% (2023 - 6%) and the mandatory reserves amount to P229,440,877 (2023 - P467,110,854). The Bank is in compliance with the minimum reserve requirement as at December 31, 2024 and 2023.

Excess liquidity from the demand deposit accounts has been placed in various BSP facilities, with interest rates ranging from 5.25% to 6.81% (2023 - 6.00% to 6.95%; 2022 - 2.14% to 6.10%). Interest income earned from the BSP facilities amounts to P377,995,613 in 2024 (2023 - P526,757,100).

Cash and cash equivalents are classified as current as at December 31, 2024 and 2023.

3 Loans receivables, net

The account as at December 31 consists of:

	2024	2023
Consumer loans	2,371,673,713	812,907,726
Accrued interest receivable	103,319,843	51,314,480
Deferred origination fee	39,373,626	-
Unamortized loan processing fees	(9,075,280)	(4,308,999)
	2,505,291,902	859,913,207
Allowance for impairment losses	(342,119,423)	(348,707,721)
	2,163,172,479	511,205,486

The BSP approved on December 4, 2023 the request of the Bank to outsource loan servicing of acquired loan portfolio to a financing company provided that the Bank shall maintain adequate controls proportionate to the nature and complexity of outsourced services and vendor engagement, and ensure compliance at all times with the relevant laws and regulations, particularly those involving outsourcing, consumer protection, and credit risk management practices. As of December 31, 2024, the Bank has acquired loans amounting to P716,856,913 from a related company (Note 11) (2023 - nil).

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

	2024	2023
January 1	348,707,721	252,771,689
Provision for impairment losses	300,089,083	339,959,184
Write-off	(306,677,381)	(244,023,152)
	342,119,423	348,707,721

Details of loans receivables as at December 31, 2024 and 2023 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 (2023 - secured and unsecured). None of these loans are pledged as collateral for liabilities.

Loans receivables carry interest rates ranging from 7% to 95% per annum in 2024 (2023 - 7% to 84%). Interest earned on loans receivables for the year ended December 31, 2024 amounts to 712,878,539 (2023 - P244,236,872).

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

	2024	2023
Within one year	2,514,367,182	484,842,562
More than one year	-	379,379,644
	2,514,367,182	864,222,206

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, 2023	98,138,382	40,876,220	4,808,750	143,823,352
Additions	32,935,731	4,665,550	2,870,860	40,472,141
Disposals	-	(5,841,591)	-	(5,841,591)
At December 31, 2023	131,074,113	39,700,179	7,679,610	178,453,902
Additions	3,004,969	1,009,055	109,760	4,123,784
Disposals	-	(974,750)	-	(974,750)
At December 31, 2024	134,079,082	39,734,484	7,789,370	181,602,936
Accumulated depreciation				
At January 1, 2023	31,526,333	14,099,563	1,790,784	47,416,680
Depreciation for the year	20,250,104	12,482,331	1,107,974	33,840,409
Disposal	-	(3,398,450)	-	(3,398,450)
At December 31, 2023	51,776,437	23,183,444	2,898,758	77,858,639
Depreciation for the year	25,245,171	11,125,190	1,475,167	37,845,528
Disposal	-	(779,286)	-	(779,286)
At December 31, 2024	77,021,608	33,529,348	4,373,925	114,924,881
Net book value				
December 31, 2023	79,297,676	16,516,735	4,780,852	100,595,263
December 31, 2024	57,057,474	6,205,136	3,415,445	66,678,055

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

During 2024, the Bank sold laptops recognized under IT and other equipment with a book value of P195,464 (2023 - P2,443,141) for the same amount (2023 - P2,365,540). There is no gain/loss on the sale in 2024. The loss incurred amounting to P77,601 in 2023 is presented as part of other expenses under operating expenses in the statement of total comprehensive income.

As at December 31, 2024, the Company continues to utilize certain assets that are fully depreciated, with carrying value of zero, as their continued use provides significant operational benefits.

Under the BSP Manual of Regulation for Banks (MORB), Premises, furniture, fixtures and equipment should not exceed 50% of unimpaired capital. As at December 31, 2024 and 2023, 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.

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

5 Due from settlement partners; Other assets, net

Due from settlement partners

Due from settlement partners amounting to P59,678,153 as at December 31, 2024 (2023 - P14,030,940) 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. These are considered as current assets.

Other assets, net

The account as at December 31 consists of:

	Notes	2024	2023
Intercompany receivables	11	451,517,974	-
Security deposits	12	17,241,849	16,761,849
Prepaid expenses		3,045,458	4,391,429
Miscellaneous		27,403,146	44,767,628
		499,208,427	65,920,906
Allowance for impairment losses		(14,885,608)	(14,960,411)
		484,322,819	50,960,495

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. Miscellaneous assets also include receivables which are fully provided.

The movement in the Bank's allowance for impairment losses follows:

	2024	2023
At January 1	14,960,411	314,835
(Reversal of) Provision for impairment losses	(74,803)	14,645,576
At December 31	14,885,608	14,960,411

Other assets are expected to be realized as follows:

	2024	2023
Current	467,138,730	49,159,059
Non-current	32,069,697	16,761,847
	499,208,427	65,920,906

6 Deposit liabilities

The account as at December 31 consists of:

	2024	2023
Savings	3,625,855,598	3,229,121,618
Time	2,140,215,230	4,574,806,081
	5,766,070,828	7,803,927,699

Deposit liabilities from retail customers are denominated in Philippine peso and carry an average interest rate ranging from 1% to 6% in 2024 and 2023. Interest expense on deposit liabilities amounts to P309,687,645 in 2024 (2023 - P400,787,292).

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, 2024, mandatory reserves amount to P229,440,877 (2023 - P467,110,854), 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:

	2024	2023
Less than one year	5,190,521,334	7,561,045,057
One to five years	575,549,494	242,882,642
	5,766,070,828	7,803,927,699

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

	2024	2023
Savings	122,260,667	120,988,912
Time	187,426,978	279,798,380
	309,687,645	400,787,292

7 Other liabilities

The account as at December 31 consists of:

	2024	2023
Accrued expenses	123,020,558	141,703,742
Accounts payable	48,560,427	27,785,946
Miscellaneous liabilities	68,376,673	23,203,124
	239,957,658	192,692,812

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 normally clear within two to five working days.

Other liabilities are classified as current.

8 Capital funds

Share capital

Details of the Bank's share capital follow:

	December 31, 2024		December 31, 2023	
	Number of shares	Amount	Number of shares	Amount
Authorized common shares (at P100 par value per share)	10,000,000	1,000,000,000	10,000,000	1,000,000,000
Issued common shares	4,607,801	460,780,100	4,315,190	431,519,000

Increase in authorized capital stock and capital infusion

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 deposits for future stock subscriptions.

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 also received additional subscription from its Parent Company amounting to P205,200,000.

On March 14, 2022, the BOD approved the issuance of 977,914 common shares out of its unissued capital stock at a subscription price of US$59.31 per share. 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 accordingly reclassified all deposits for future stock subscriptions to share capital and APIC.

In June 2024, the Bank received P704,494,659 in cash as subscriptions to the increase in authorized capital stock equivalent to 292,611 shares from its existing shareholders. APIC of P675,233,559 has been recorded as part of this subscription.

Other reserves

Other reserves, which amount to P88,343,043 in 2024 (2023 - P104,540,106), pertain to 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 ESOP expense is calculated using the requirements of PFRS 2, Share-based Payments. The shares will be settled by the Parent Company using its own shares.

The Parent Company implemented the ESOP during the financial period from September 2019 to December 31, 2020, in accordance with the plan approved by the 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 to motivate them to greater dedication, loyalty and higher standards of performance.

The options granted under the scheme (in number of shares) are as follows:

	2024	2023
Outstanding at the beginning of the year/period	15,433	16,033
Granted during the year/period	-	1,050
Forfeiture/expired during the year	(4,401)	(1,650)
Outstanding at the end of the year/period	11,032	15,433
Exercisable at the end of the year/period	8,662	8,033

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 2024 and 2023, determined using the Black Scholes Model, is US$387.44. The significant inputs into the model are as follows:

	2024	2023
Share price (US$)	387.44	387.44
Exercise price (US$)	0.01	0.01
Expected volatility (%)	40	40
Expected life (years)	5	5
Risk free rate (%)	2.82	3.15
Expected dividend yield (%)	0.00	0.00

9 Compensation and benefits

Expenses recognized for compensation and benefits consist of:

	2024	2023
Salaries and wages	323,617,140	344,326,581
Social security costs and other contributions	37,297,141	36,784,709
	360,914,281	381,111,290

10 Income taxes

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

	2024	2023
Current (including final tax)	(77,104,418)	(105,151,737)
Deferred	(492,683,403)	108,434,082
	(569,787,821)	3,282,345

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:

	2024	2023
NOLCO	250,164,212	2,234,628,825
Allowance for impairment loss	357,005,030	363,668,132
Leases	31,228,291	45,441,534
Others	30,298,343	(4,308,999)
Total temporary differences	668,695,876	2,639,429,492
Statutory tax rate	25%	25%
Deferred tax assets, net	167,173,969	659,857,373

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

Year incurred	Year of expiration	2024	2023
2020	2025	40,816,826	40,816,826
2021	2026	500,142,550	500,142,550
2022	2025	637,368,884	637,368,884
2023	2026	1,056,300,565	1,056,300,565
2024	2027	902,885,538	-
Total NOLCO		3,137,514,363	2,234,628,825
Expired		-	-
Utilized		-	-
Not recognized		(2,887,350,151)	-
Total recognized NOLCO		250,164,212	2,234,628,825
Statutory tax rate		25%	25%
Deferred tax asset		62,541,053	558,657,206

The Bank recognized deferred tax assets amounting to P167,173,969 as at December 31, 2024 (2023 - P659,857,373), inclusive of the portion adjusted due to NOLCO.

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

	2024		2023	
	Amount	%	Amount	%
Statutory tax benefit	(139,092,037)	(25.00)	(187,051,816)	(25.00)
Effects of items not subjected to statutory tax rate:				
Income subject to lower tax rate	(75,622,421)	(13.59)	(106,568,397)	(14.24)
Non-deductible interest expense	18,905,605	3.40	26,642,099	3.56
Non-deductible expenses	(373,978,968)	(67.22)	263,695,769	35.24
Effective income tax benefit	(569,787,821)	(102.41)	(3,282,345)	(0.44)

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:

	Transactions		Outstanding balances Due from (due to)		Terms and conditions
	2024	2023	2024	2023	
Parent Company					
IT Service Level Agreement	47,925,372	63,642,555	-	(16,112,670)	- Payable in cash on demand at gross amount - Non-interest bearing - Unguaranteed and unsecured
Entities under common control					
Loan services outsourcing	716,856,913	-	451,517,974	-	- Payable in cash on demand at gross amount
Sub-lease agreement	649,937	548,993	-	-	- Non-interest bearing - Unguaranteed and unsecured
			451,517,974	(16,112,670)	

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 amount billed by the Parent Company within 30 days from the date of the invoice, provided that there is no disputed amount as provided in the SLA.

Sub-lease agreement

In November 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%. In 2023, the agreement has been extended to a period of five years.

In June 2024, the Bank entered into a sub-lease agreement with Templetech Finance Corp., an affiliate, wherein the Bank sub-leases a portion of its office premises with initial term of one (1) year, and unless, earlier terminated as provided in the sub-lease agreement, with automatic renewal for a similar term of one (1) year.

Rent income from the sub-lease agreement is included as part of Other operating income in the in the statement of total comprehensive income.

Loan services outsourcing agreement

Intercompany receivables amounting to P451,517,974 pertain to the amount due from Tendo which is the total loan payments that are collected from the clients by Templetech Finance Corp. and to be remitted to the Bank as part of their services outsourcing agreement.

Key management personnel

Salaries and other benefits paid to key management personnel in 2024 amounts to P45,846,180 (2023 - P48,736,017). 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, 2024 and 2023.

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%.

As at December 31, 2024, security deposit related to the lease commitments of the Bank amounts to P17,241,849 (2023 - P16,761,849) (Note 5). 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 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:

	2024	2023
ROU assets		
Office premises	73,658,539	73,658,539
Accumulated depreciation	(50,421,617)	(36,650,234)
	23,236,922	37,008,305
Lease liabilities		
Current	13,741,072	14,180,921
Non-current	17,487,219	31,260,613
	31,228,291	45,441,534

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of 4.95% in 2024 and 2023.

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

	2024	2023
Balance, beginning	45,441,534	58,868,029
Interest accretion on lease liabilities	1,725,086	2,418,644
Payments during the year		
Principal portion of lease liabilities	(14,213,243)	(13,426,495)
Interest expense on lease liabilities	(1,725,086)	(2,418,644)
Balance at December 31	31,228,291	45,441,534

As at December 31, 2024, the total cash outflow for leases is P15,938,329 (2023 - P15,845,139).

Movements in ROU assets, net for the years ended December 31 follow:

	2024	2023
Beginning	37,008,305	48,370,830
Depreciation	(13,771,383)	(11,362,525)
	23,236,922	37,008,305

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

	2024	2023
Interest expense	1,725,086	2,418,644
Reported under Occupancy and equipment-related expense		
Depreciation expense on ROU assets	13,771,383	11,362,525
Expense relating to short-term leases	2,741,707	3,012,580

13 Commitments and contingencies

As at December 31, 2024 and 2023, there are no pending cases 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.

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 of P20.51 million from the base scenario as at December 31, 2024 (2023 - P4.85 million).

14.1.2 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 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, 2024, the carrying value of net deferred tax assets, which management assessed to be realizable within the next three to five years, amounts to P167,173,969 (2023 - P659,857,373). The Bank did not fully recognize deferred tax assets amounting to P721,837,538 from its NOLCO amounting to P2,887,350,151 as at December 31, 2024. Management assessed that it does not have sufficient taxable income to fully utilize the balance of NOLCO that is expiring from 2025 to 2027.

14.1.3 Estimated useful lives (EUL) of Premises, furniture, fixtures and equipment, including the determination of lease term for ROU assets (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.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The Bank considers the factors below as the most relevant in assessing the options:

- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Bank is typically reasonably certain to extend (or not terminate).
- Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased 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:

	2024	2023
Increase by 10%	Higher by P2,854,780	Higher by P3,129,874
Decrease by 10%	Lower by P3,489,182	Lower by P3,825,401

In 2024, total depreciation charged as part of Occupancy and equipment-related expense in the statement of total comprehensive income amounts to P37,845,528 (2023 - P33,840,410) and the related net carrying value of Premises, furniture, fixtures and equipment amounts to P66,678,055 as at December 31, 2024 (2023 - P100,595,263) (Note 4).

14.1.4 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 to be 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 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, 2024 and 2023. 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.

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 Department 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, 2024 and 2023:

	Notes	2024	2023
Due from BSP	2	3,882,360,188	8,167,997,024
Due from other banks	2	284,468,337	61,983,729
Loans receivables, net	3	2,163,172,479	511,205,486
Due from settlement partners	5	59,678,153	14,030,940
Other assets, net			
Intercompany receivables	5	451,517,974	-
Security deposits	5	17,241,849	16,761,849
Other receivables	5	3,485,510	2,218,095
		6,861,924,490	8,774,197,123

The carrying amount of loans receivables, net represents the Bank's maximum credit risk as any related collateral is considered to be insignificant. There are no other 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, 2024 and 2023.

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, 2024 and 2023 follows:

	Stage 1	Stage 2	Stage 3	
2024	12-month ECL		Lifetime ECL	Total
Credit risk				
Very low	-	-	-	-
Low	-	-	-	-
Medium	2,126,103,777	159,896,732	-	2,286,000,509
High	-	-	219,291,393	219,291,393
Gross carrying amount	2,126,103,777	159,896,732	219,291,393	2,505,291,902
Allowance for impairment	(98,836,932)	(72,794,064)	(170,488,427)	(342,119,423)
Carrying amount	2,027,266,845	87,102,668	48,802,966	2,163,172,479

	Stage 1	Stage 2	Stage 3	
2023	12-month ECL		Lifetime ECL	Total
Credit risk				
Very low	-	-	-	-
Low	-	-	-	-
Medium	683,096,644	101,195,381	-	784,292,025
High	-	-	75,621,182	75,621,182
Gross carrying amount	683,096,644	101,195,381	75,621,182	859,913,207
Allowance for impairment	(228,874,571)	(44,211,968)	(75,621,182)	(348,707,721)
Carrying amount	454,222,073	56,983,413	-	511,205,486

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

There were no purchased originated credit impaired loans as at December 31, 2024 and 2023.

Loss allowance

The following table summarizes the changes in the loss allowance for loans receivables, net between the beginning and the end of the annual period.

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Loss allowance, at January 1, 2024	170,963,298	68,261,067	109,483,356	348,707,721
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	(16,889,202)	4,801,633	12,087,569	-
Transfer from Stage 2	67,011,675	(68,016,531)	1,004,856	-
Transfer from Stage 3	109,061,838	105,604	(109,167,442)	-
New financial assets originated	3,071,542	53,894,969	203,475,796	260,442,307
Other movements	(190,204,923)	76,032,766	153,818,933	39,646,776
Write-off	(44,177,296)	(62,285,444)	(200,214,641)	(306,677,381)
Loss allowance, at December 31, 2024	98,836,932	72,794,064	170,488,427	342,119,423

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Loss allowance, at January 1, 2023	82,815,283	61,095,342	108,861,064	252,771,689
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	-	-	-	-
Transfer from Stage 3	42,027	180,981	(223,008)	-
New financial assets originated	208,187,583	41,120,878	138,180,856	387,489,317
Other movements	(101,739,383)	21,047,989	33,161,261	(47,530,133)
Write-off	(18,342,212)	(55,184,123)	(170,496,817)	(244,023,152)
Loss allowance, at December 31, 2023	170,963,298	68,261,067	109,483,356	348,707,721

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. Allowance for impairment losses for other receivables amounts to P14,885,608 as at December 31, 2024 (2023 - P14,960,411).

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. Further, the Bank 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.

Liquidity Coverage Ratio (LCR)

Pursuant to BSP Circular No. 905 issued in 2016 and as amended to include digital banks by BSP Circular No. 1154 issued in 2022, the Bank is required to hold and maintain an adequate level of unencumbered High Quality Liquid Assets (HQLA) that are sufficient to meet its estimated total net cash outflows over a 30 calendar-day period of liquidity stress. The LCR is the ratio of HQLAs to total net cash outflows which should be no lower than 100% on a daily basis. It is designed to promote short-term resilience of the Branch's liquidity risk profile to withstand significant liquidity shocks that may last over 30 calendar days. HQLA represents the Bank's stock of liquid assets that qualify for inclusion in the LCR which consists mainly of cash, regulatory reserves and unencumbered high-quality liquid assets. HQLAs therefore, serve as defense against potential stress events.

The main drivers of the Bank's LCR comprise the changes in the total stock of HQLA as well as changes in net cash outflows related to deposits and unsecured borrowings, among others. The Bank's LCR is well-above the regulatory minimum of 100%.

Net Stable Funding Ratio (NSFR)

With the commencement of operations in August 2022, the Bank adopted BSP Circular No. 1007 (as amended by BSP Circular No. 1154) regarding the NSFR requirement. The NSFR is aimed at strengthening the Bank's long-term resilience by maintaining a stable funding in relation to its assets and off-balance sheet items as well as to limit the maturity transformation risk of the Bank. The NSFR is expressed as the ratio of available stable funding and the required stable funding and complements the LCR as it takes a longer view of the Bank's liquidity risk profile. The Bank's capital and retail deposits are considered as stable funding sources whereas the Bank's assets including, but not limited to, HQLA, deposits at other banks, as well as other assets form part of the required stable funding. The Bank's NSFR is well-above the regulatory minimum of 100%.

The Bank maintains a well-diversified funding base and has a substantial amount of core deposits, thereby mitigating the risk of undue concentrations by counterparty, maturity, and currency. The Bank's manages its liquidity position through asset-liability management activities supported by a well-developed funds management practice as well as a sound risk management system. As part of risk oversight, the Bank monitors its liquidity risk on a daily basis, in terms of single currency and significant currencies, to ensure it is operating within the risk appetite and to assess ongoing compliance with the minimum requirement of the liquidity ratios. Furthermore, the Bank has a set of policies and escalation procedures in place that govern its day-to-day risk monitoring and reporting processes.

The table below shows the liquidity metrics of the Bank as reported to the BSP as at December 31:

	2024	2023
Liquidity coverage ratio	3,718.58%	1,917.10%
Total stock of High Quality Liquid Assets (HQLA)	3,876,046,557	8,154,273,067
Total net cash outflows	104,234,683	425,343,101
Net stable funding ratio	261.82%	593.80%
Available stable funding	7,108,226,887	17,913,828,818
Required stable funding	2,714,893,788	3,016,804,301

15.2.1 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at December 31, 2024 and 2023. 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, 2024 and 2023 based on contractual cash flows, is shown below:

At December 31, 2024	Up to 1 year	Over 1 year and up to 3 years	Over 3 years	Total
Financial assets				
Cash and other cash items	49,986	-	-	49,986
Due from BSP	3,882,360,188	-	-	3,882,360,188
Due from other banks	284,468,337	-	-	284,468,337
Loans receivables	2,514,367,182	-	-	2,514,367,182
Due from settlement partners	59,678,153	-	-	59,678,153
Other assets	469,889,092	17,241,849	-	487,130,941
Total financial assets	7,210,812,938	17,241,849	-	7,228,054,787
Financial liabilities				
Deposit liabilities	5,190,521,334	575,549,494	-	5,766,070,828
Due to Parent Company	-	-	-	-
Lease liabilities	14,686,142	26,289,434	-	40,975,576
Other liabilities	191,618,006	-	-	191,618,006
Total financial liabilities	5,396,825,482	601,838,928	-	5,998,664,410
	1,813,987,456	(584,597,079)	-	1,229,390,377

At December 31, 2023	Up to 1 year	Over 1 year and up to 3 years	Over 3 years	Total
Financial assets				
Cash and other cash items	49,986	-	-	49,986
Due from BSP	8,167,997,024	-	-	8,167,997,024
Due from other banks	61,983,729	-	-	61,983,729
Loans receivables	484,842,562	375,863,201	3,516,443	864,222,206
Due from settlement partners	14,030,940	-	-	14,030,940
Other assets	17,178,506	16,761,849	-	33,940,355
Total financial assets	8,746,082,747	392,625,050	3,516,443	9,142,224,240
Financial liabilities				
Deposit liabilities	7,561,045,057	242,882,642	-	7,803,927,699
Due to Parent Company	16,112,670	-	-	16,112,670
Lease liabilities	11,472,059	37,706,370	-	49,178,429
Other liabilities	45,561,730	-	-	45,561,730
Total financial liabilities	7,634,191,516	280,589,012	-	7,914,780,528
	1,111,891,231	112,036,038	3,516,443	1,227,443,712

As at December 31, 2024 and 2023, 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 changes in price 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 books 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 categorized by earlier of interest repricing or maturity date:

		Interest-bearing				
At December 31, 2024	Notes	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
Financial assets						
Cash and other cash items	2	49,986	-	-	-	49,986
Due from BSP	2	3,882,360,188	-	-	-	3,882,360,188
Due from other banks	2	284,468,337	-	-	-	284,468,337
Loans receivables	3	2,514,367,182	-	-	-	2,514,367,182
Due from settlement partners	5	-	-	-	59,678,153	59,678,153
Other assets	5	-	-	-	487,130,941	487,130,941
Total financial assets		6,681,245,693	-	-	546,809,094	7,228,054,787
Financial liabilities						
Deposit liabilities	6	5,190,521,334	575,549,494	-	-	5,766,070,828
Lease liabilities	12	13,741,072	17,487,219	-	-	31,228,291
Other liabilities	7	-	-	-	191,618,006	191,618,006
Total financial liabilities		5,204,262,406	593,036,713	-	191,618,006	5,988,917,125
Total interest gap		1,476,983,287	(593,036,713)	-	355,191,088	1,239,137,662

At December 31, 2023	Notes	Interest-bearing Up to 1 year	 Over 1 up to 3 years	 Over 3 years	Non-repricing	Total
Financial assets						
Cash and other cash items	2	49,986	-	-	-	49,986
Due from BSP	2	8,167,997,024	-	-	-	8,167,997,024
Due from other banks	2	61,983,729	-	-	-	61,983,729
Loans receivables	3	484,842,562	375,863,201	3,516,443	-	864,222,206
Due from settlement Partners	5	-	-	-	14,030,940	14,030,940
Other assets	5	-	-	-	33,940,355	33,940,355
Total financial assets		8,714,873,301	375,863,201	3,516,443	47,971,295	9,142,224,240
Financial liabilities						
Deposit liabilities	6	7,561,045,057	242,882,642	-	-	7,803,927,699
Due to Parent Company	11	-	-	-	16,112,670	16,112,670
Lease liabilities	12	14,180,921	31,260,613	-	-	45,441,534
Other liabilities	7	-	-	-	45,561,730	45,561,730
Total financial liabilities		7,575,225,978	274,143,255	-	61,674,400	7,911,043,633
Total interest gap		1,139,647,323	101,719,946	3,516,443	(13,703,105)	1,231,180,607

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, 2024 and 2023:

	2024	2023
Due from other banks (In US Dollar)	$72,474.98	$9,644.59
Exchange rate	USD1.00:P57.85	USD1.00:P55.37
PHP equivalent	4,192,678	534,021

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
2024	+/- 5.39%	43,288,261
2023	+/- 4.77%	53,966,787

15.4 Fair value of financial assets and liabilities

All of the Bank’s financial assets and liabilities are carried at amortized cost and the carrying amounts, except for loans receivables, deposit liabilities and 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 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.

Due to the inherent complexity and significant judgment required to determine the unobservable inputs in estimating the fair value of loans and receivables and deposit liabilities, the fair values have not been disclosed.

15.5 Capital management

BSP Circular No. 1105, Guidelines on the Establishment of Digital Banks, requires digital banks to have a minimum capitalization of one billion pesos (P1,000,000,000). The Bank has met the minimum capital requirement upon application for a digital license with the BSP. The Manual of Regulations for Banks Section 121 provides banks, which are already authorized by the Monetary Board but not yet operating, a transitory period of five (5) years to meet the minimum capital requirements.

BSP requires each bank to adopt the capital requirements in accordance with the provisions of BASEL III. The guidelines are meant to strengthen the composition of the Bank's capital by increasing the level of core capital and regulatory capital. BSP sets out minimum Common Equity (CET1) ratio and Tier 1 Capital ratios of 6.0% and 7.5%, respectively. A capital conservation buffer of 2.5%, comprised of CET1 capital, was likewise imposed. The minimum required capital adequacy ratio remains at 10% which includes the capital conservation buffer.

As at December 31, the CAR of the Bank as submitted to the BSP is shown in the table below:

	2024	2023
Total Common Equity Tier 1 (CET1) / Tier 1 capital	847,952,473	743,888,786
Total qualifying capital	863,666,762	750,348,211
Total risk-weighted assets	3,606,536,935	788,051,320
Credit risk-weighted assets	3,122,147,448	745,066,009
Market risk-weighted assets	-	-
Operational risk-weighted assets	484,389,487	42,985,311
CET1 / Tier 1 capital ratio	23.51%	94.40%
Total CAR	23.95%	95.22%

As at December 31, 2024 and 2023, 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 medium-term. Amidst the Bank’s plans, management is keen to ensure compliance with all regulatory ratios and capitalization requirements.

Leverage Ratio

As per BSP Circular No. 881 issued in 2015 (as amended by BSP Circular No. 1154), the Bank adopted the monitoring of Basel III Leverage Ratio (BLR) which is designed to act as a supplementary measure to the risk-based capital requirements. The leverage ratio intends to restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes which can damage the broader financial system and the economy. Likewise, it reinforces the risk-based requirements with a simple, non-risk based “backstop” measure. The Basel III Leverage Ratio is defined as the capital measure (numerator) divided by the exposure measure (the denominator).

The BLR of the Bank as reported to the BSP as at December 31 is as follows:

	2024	2023
Basel III Leverage Ratio	12.12%	8.35%
Tier 1 capital	847,952,473	743,888,786
Exposure measure	6,998,789,258	8,913,063,033

The Bank remains compliant with the BLR requirement by the BSP in 2024.

16 Summary of material accounting policies

The material 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 (PFRS) Accounting Standards. PFRS Accounting Standards comprise the following authoritative literature:

- PFRS Accounting Standards
- PAS Standards, and
- Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC), and Standing Interpretations Committee (SIC) as approved by the Financial and Sustainability Reporting Standards Council (FSRSC) and the Board of Accountancy, 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 PFRS Accounting Standards 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 area 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

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on January 1, 2024 that have a material effect on the financial statements of the Bank.

(b) Amendments to existing standards not yet adopted by the Bank
The following amendments are not mandatory for December 31, 2024 reporting period and have not been early adopted by the Bank:

- *PFRS 18, 'Presentation and Disclosure in Financial Statements'*

  This is the new standard on presentation and disclosure in financial statements, which replaces PAS 1, with a focus on updates to the statement of profit or loss.

  The key new concepts introduced in PFRS 18 relate to:

  a) The structure of the statement of profit or loss with defined subtotals;
  b) Requirement to determine the most useful structure summary for presenting expenses in the statement of profit or loss
  c) Required disclosures in a single note within the financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements (that is, management-defined performance measures); and
  d) Enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general

- *Amendments to the Classification and Measurement of Financial Instruments - Amendments to PFRS 9 and PFRS 7*

  On 30 May 2024, the IASB issued targeted amendments to PFRS 9 Financial Instruments and PFRS 7 Financial Instruments: Disclosures to respond to recent questions arising in practice, and to include new requirements not only for financial institutions but also for corporate entities. These amendments:

  a) Clarify the date of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system;
  b) Clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest (SPPI) criterion;
  c) Add new disclosures for certain instruments with contractual terms that can change cash flows (such as some financial instruments with features linked to the achievement of environment, social and governance targets); and
  d) Update the disclosures for equity instruments design

There are no other new standards, amendments to existing standards, or interpretations that are effective for annual periods beginning on or after January 1, 2024 that are considered relevant or expected to have a material effect on the financial statement 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.

The Bank does not hold financial assets at FVTPL and FVOCI as at December 31, 2024 and 2023.

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 as measured at 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, 2024 and 2023 include cash and cash equivalents (Note 2), loans receivables (Note 3), due from settlement partners (Note 5), and other accounts receivables (Note 5).

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, 2024, 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, measurement and derecognition

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.

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 Fair value measurement

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).

As at December 31, 2024 and 2023, 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.

16.6 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.

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

Furniture and fixtures	5 years
IT and other 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 ROU assets are depreciated over the lease term of 5 years (Note 12).

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.

16.7 Prepayments

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.

16.8 Income taxes

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

16.8.1 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.

16.8.2 Deferred tax

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.

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.

16.9 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.

16.10 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.

16.11 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.

16.12 Employee benefits

16.12.1 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.

16.12.2 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.

16.12.3 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, 2024 and 2023 as the amounts are determined to be not material.

16.13 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.

16.14 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.

16.15 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.

16.16 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.

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. The 2023 information has been presented for comparative purposes.

(i) Basic quantitative indicators of financial performance

The Bank's key financial performance indicators follow:

	2024	2023
Return on average equity	(38%)	(38%)
Return on average assets	(14%)	(7%)
Net interest margin	10%	48%

The Bank's performance was primarily affected 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, 2024 and 2023.

(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:

	2024	2023
Performing loans	2,286,605,900	750,429,851
Non-performing loans	218,686,002	109,483,356
	2,505,291,902	859,913,207
Allowance attributable to performing loans	(171,630,996)	(239,224,365)
Allowance attributable to NPL	(170,488,427)	(109,483,356)
	(342,119,423)	(348,707,721)
Net carrying amount	2,163,172,479	511,205,486

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 has outstanding loans to directors, officers, stockholders and related interests (DOSRI) and other related party loans as at December 31, 2024 amounting to P756,713 (2023 - nil).

(vi) Secured liabilities and assets pledged as security

There are no secured liabilities and assets pledged as security as at December 31, 2024 and 2023.

(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, 2024 and 2023.

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

Below is the additional information required by Revenue Regulations 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, 2024 amount to P25,438,625.

(b) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the year ended December 31, 2024 consist of:

	Paid	Accrued	Total
Withholding taxes on compensation and benefits	39,020,610	2,607,578	41,628,188
Expanded withholding taxes	9,007,475	1,340,750	10,348,225
Final withholding taxes	66,173,229	2,953,680	69,126,909
	114,201,314	6,902,008	121,103,322

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

(c) All other local and national taxes

	Paid	Accrued	Total
Gross receipts tax	48,187,335	20,424,619	68,611,954
Business permits	1,207,472	-	1,207,472
Others	1,577,630	-	1,577,630
	50,972,437	20,424,619	71,397,056

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

The Bank received letter of authority from the BIR for the investigation of all its internal revenue tax liabilities for taxable year 2022 and 2023. As at December 31 2024, the BIR has not yet issued any assessments.

As at December 31, 2024, the Bank has an outstanding claim for refund of erroneously paid documentary stamp taxes (DST) for 2022, which is currently pending resolution before the Court of Tax Appeals (CTA).

Taxable years 2021 and 2020 are open tax years as at December 31, 2024.