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Tonik Digital Bank, Inc.

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

Isla Lipana & Co.

Independent Auditor's Report

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

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Tonik Digital Bank Inc. (the "Bank") as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

What we have audited

The financial statements of the Bank comprise:

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

Basis for Opinion

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

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

Independence

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

Other Information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Isla Lipana & Co.

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

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

Isla Lipana & Co.

Ruth F. Blasco
Partner
CPA Cert No. 112595
P.T.R. No. 0018519, issued on January 9, 2023, Makati City
SEC A.N. (individual) as general auditors 112595-SEC, Category A; valid to audit 2020 to 2024 financial statements
SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024 financial statements
TIN 235-725-236
BIR A.N. 08-000745-133-2020, issued on June 5, 2020; effective until June 4, 2023
BOA/PRC Reg. No. 0142, effective until November 14, 2025

Makati City
April 4, 2023

Tonik Digital Bank, Inc.

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

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

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

Tonik Digital Bank, Inc.

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

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

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

Tonik Digital Bank, Inc.

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

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

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

Tonik Digital Bank, Inc.

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

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

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

Tonik Digital Bank, Inc.

Notes to the Financial Statements
As at and for the years ended December 31, 2022 and 2021
(In the notes, all amounts are shown in Philippine Peso unless otherwise stated)

Note 1 - General information

Corporate profile

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

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

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

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

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

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

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

As at December 31, 2022, the Bank has 424 employees (2021 - 253).

Approval and authorization for issuance of the audited financial statements

These financial statements have been approved and authorized for issuance by the Board of Directors (BOD) on April 4, 2023.

Note 2 - Cash and cash equivalents

The account as at December 31 consists of:

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

Due from other banks

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

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

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

Due from BSP

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

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

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

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

Note 3 - Loans receivables, net

The account as at December 31 consists of:

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

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

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

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

a) Concentration as to industry/economic sector

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

b) Classification as to collateral

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

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

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

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

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

The account as at December 31 consists of:

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

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

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

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

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

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

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

Due from settlement partners

Due from settlement partners amounting to P25,153,042 as at December 31, 2022 (2021 - P226,421,635) represent operational funds maintained by the Bank with its settlement partners. These operational funds are set up as virtual disbursement wallets that facilitate cash-in and cash-out transactions of the Bank's customers.

Other assets, net

The account as at December 31 consists of:

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

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

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

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

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

Other assets are expected to be realized as follows:

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

Note 6 - Deposit liabilities

The account as at December 31 consists of:

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

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

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

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

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

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

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

Note 7 - Other liabilities

The account as at December 31 consists of:

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

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

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

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

Other liabilities are classified as current.

Note 8 - Capital funds

Share capital

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

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

Capitalization requirements

In 2020, as a registered rural bank with its head office located in the National Capital Region, the Bank is required to maintain a minimum capitalization of P50,000,000 pursuant to Section 121 of the BSP Manual of Regulation for Banks.

As at November 26, 2020, the Monetary Board of the BSP approved the inclusion of digital banks as a distinct classification of banks and define the corresponding guidelines for their establishment. A digital bank is defined as a bank that offers financial products and services that are processed end-to-end through a digital platform and/or electronic channels with no physical branches. Digital banking applicants are expected to have a sound digital governance, robust, secure and resilient technology infrastructure, and effective data management strategy and practices.

The BSP recognizes that digital banks are exposed to the same financial risks faced by conventional banks with potential elevated exposure to cybersecurity and money laundering risks. As such, digital banks would be subject to the same prudential requirements applicable to other types of banks with recalibration to be commensurate to their business model and risk profile. The minimum capitalization of digital banks was set at P1,000,000,000, in compliance with the new BSP regulation. Existing banks converting to digital banks shall be given a period of three (3) years from the approval of the Monetary Board within which to meet the minimum capital requirement and implement the transition plan, including divestment or closure of branches or branch lite units. ln the case of an existing bank with up to sixty percent (60%) of its voting stock held by a foreign individual or non-bank corporation, such stockholding may be retained or reduced, but once reduced, shall not be increased thereafter beyond forty percent (40%) of the voting stock.

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

Increase in authorized capital stock and capital infusion

On January 6, 2021, the BOD approved the issuance of 819,671 common shares out of the unissued capital stock at a subscription price of P199.47 per share and payment of the remaining unpaid subscription of 750,000 common shares at par value of P100. These shares have the same rights as the existing common shares and that the shareholders should subscribe and pay before January 15, 2021. The excess of proceeds from the issuance of share capital at par value, which amounted to P81,532,900, is credited to additional paid-in capital (APIC).

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

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

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

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

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

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

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

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

Other reserves

Other reserves, which amount to P81,793,293 in 2022 (2021 - P46,893,248), pertain to the share-based compensation reserves for the shares awarded to certain employees of the Bank under the Parent Company's Employee Stock Option Plan (ESOP).

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

The options granted under the scheme are as follows:

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

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

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

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

Note 9 - Operating expenses

The account for the year ended December 31 consists of:

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

Expenses recognized for compensation and benefits consist of:

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

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

Note 10 - Income taxes

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

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

The Bank recognized deferred tax assets amounting to P551,423,291 as at December 31, 2022 (2021 - P227,669,586) as management has determined that the Bank will be able to generate sufficient taxable income to take full advantage of the related tax benefits within the prescribed period.

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

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

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

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

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

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

Corporate Recovery and Tax Incentives for Enterprises Act

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

Note 11 - Related party transactions

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

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

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

Information technology solutions and service level agreement (SLA)

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

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

The Parent Company will send an invoice to the Bank within five days from the end of each calendar quarter for all applicable fees and charges. The Bank deducts fees for any failure due to non-compliance of the SLA. The invoice is denominated in US Dollars, and the payment of any fees or charges shall be made in US Dollars. It was agreed that the Bank will pay the Parent Company billed amounts within 30 days of the date of the invoice, provided that there is no disputed amount as provided in the SLA. The related charges have been billed by the Parent Company starting in 2021.

Sub-lease agreement

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

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

Key management personnel

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

Note 12 - Lease commitment

In 2020, the Bank entered into a lease contract for its office space with a lease term of five years until 2025, renewable under certain terms and conditions. The lease contract includes an annual escalation clause of 5%.

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

In accordance with the terms of the lease agreements, the Bank paid a security deposit amounting to P482,216 in 2022 (2021 - P14,519,880) (Note 5), which is refundable at the end of the lease term. The lease term is negotiated on an individual basis and contains a wide range of different terms and conditions. The lease agreement does not impose any covenants other than the security interests in the leased assets that are held by the lessor. The leased asset may not be used as security for borrowing purposes.

The Bank recognized right-of-use (ROU) assets and lease liabilities from its long-term leases. Details of the ROU assets and lease liabilities as at December 31 are as follows:

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

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

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

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

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

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

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

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

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

Note 13- Commitments and contingencies

As at December 31, 2022 and 2021, there are no pending cases for and against the Bank arising from its normal banking activities. There is no outstanding guarantee of indebtedness of others, obligation under letters of credit or standby agreements, guarantee to repurchase receivables or the capacity and other unconditional obligation to make payment during and as at year-end.

Note 14 - Critical accounting estimates, assumptions and judgments

The Bank makes estimates, assumptions and judgments that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. It is reasonably possible that the outcomes within the next financial year could differ from assumptions made at the reporting date and could result in the adjustment to the carrying amount of affected assets and liabilities.

14.1 Critical accounting estimates and assumptions

14.1.1 Measurement of expected credit losses (ECL)

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

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

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

Sensitivity

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

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

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

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

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

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

14.1.3 Determination of incremental borrowing rate (Note 12)

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

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

14.2 Critical accounting judgments

14.2.1 Realization of Deferred tax assets (Note 10)

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

As at December 31, 2022, the carrying value of deferred tax assets, which management assessed to be realizable within the next three to five years, amounts to P551,423,291 (2021 - P227,669,586).

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

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

There is no recorded provision for impairment loss pertaining to Premises, furniture, fixtures and equipment for the years ended December 31, 2022 and 2021. This was upon consideration of the absence of impairment indicators, such as evidence of obsolescence or physical damage to any item of Premises, furniture, fixtures and equipment or significant changes in the Bank's business or industry in which it operates.

Note 15 - Financial risk and capital management

Risk management structure

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

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

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

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

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

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

15.1 Credit risk

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

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

Credit risk exposures

The following table shows the maximum exposure to credit risk of the Bank as at December 31, 2022 and 2021:

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

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

Due from BSP and other banks

The Bank has cash and various placements deposited with the BSP and other banks which carry a performing status (Stage 1). The credit quality of these credit exposures is assessed and managed using external ratings. Cash with the BSP is covered by a sovereign guarantee. The Bank deposited its cash and has short-term placements with reputable banks of good credit and financial standing. Accordingly, management has assessed that the credit risk arising from these credit exposures is minimal as at December 31, 2022 and 2021.

Loans receivables, net

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

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

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

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

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

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

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

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

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

Other financial assets

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

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

15.2 Liquidity risk

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

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

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

15.2.1 Minimum liquidity ratio (MLR)

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

As at December 31, 2022, the Bank's MLR was 136% (2021 - 111%). Said MLR was driven by the Bank's stock of liquid assets, which primarily consists of unencumbered deposits in other banks and required reserves and excess liquidity maintained with the BSP.

15.2.2 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at December 31, 2022 and 2021. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay, and the table does not reflect the expected cash flows indicated by its deposit retention history.

Liquidity is monitored by the Bank on a regular basis and under stressed situations using gap analysis. The maturity profile of the Bank's financial assets and financial liabilities as at December 31, 2022 and 2021 based on contractual cash flows, is shown below:

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

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

As at December 31, 2022 and 2021, the Bank has no contingent liabilities and commitments.

15.3 Market risk

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

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

15.3.1 Interest rate risk

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

The Bank's asset-liability profile in its banking book is such that interest on deposits and interest from loan portfolio are primarily fixed. The Bank started to grant customer loans beginning July 2021.

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

The table below summarizes the interest profile of the Bank's financial instruments at December 31, 2022 and 2021 categorized by maturity dates:

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

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

15.3.2 Foreign currency risk

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

The table below presents the carrying amount in Philippine Peso of US Dollar-denominated financial asset as at December 31, 2022 and 2021:

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

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

Year	Change in currency	Effect on net loss after tax and capital funds
2022	+/- 10.82%	180,748,972
2021	+/- 6.18%	220,496

15.4 Fair value of financial assets and liabilities

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

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

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

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

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

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

15.5 Capital management

BSP Circular No. 688, Revised Risk-based Capital Adequacy Framework for Stand-alone Thrift Banks, Rural Banks and Cooperative Banks, provides the implementing guidelines on the revised risk-based capital adequacy framework, particularly on the minimum capital requirement for thrift, rural and cooperative banks that are not subsidiary of universal or commercial banks. The risk-based capital adequacy ratio (CAR), as indicated in the circular, should not be less than 10%. The updated guidance on the composition of qualifying capital has been included under BSP Circular No. 762.

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

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

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

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

Note 16 - Summary of significant accounting policies

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

16.1 Basis of preparation

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

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

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

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

16.2 Changes in accounting policies and disclosures

(a) Amendments to existing standards adopted by the Bank

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

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

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

- Amendment to PAS 37, 'Provisions, Contingent Liabilities and Contingent Assets'

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

- Annual Improvements to PFRSs 2018-2020

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

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

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

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

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

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

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

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

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

- Amendments to PAS 12, 'Income Taxes'

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

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

There are no other new standards, amendments to existing standards or interpretations effective after January 1, 2022 that may be considered relevant or would be expected to have a material impact on the financial statements of the Bank.

16.3 Financial assets

16.3.1 Classification

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

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

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

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

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

16.3.2 Recognition and derecognition

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

16.3.3 Measurement

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

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

- *Amortized cost*

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

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

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

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

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

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

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

- *FVOCI*

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

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

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

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

- *FVTPL*

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

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

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

Equity instruments

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

16.3.4 Impairment

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

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and Purchased or originated credit impaired (POCI), as described below:

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

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

- Stage 3 - Loans considered credit-impaired. The Bank records an allowance for lifetime ECL.

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

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

16.3.5 Calculation of ECL

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

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

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

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

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

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

The mechanics of the ECL method are summarized below:

- Stage 1 - The 12mECL is calculated as the portion of the lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original effective interest rate

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

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

- POCI - POCI assets are financial assets that are credit impaired on initial recognition.

Forward-looking information incorporated in the ECL models

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

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

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

Definition of default and credit-impaired assets

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

(i) Quantitative criteria

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

(ii) Qualitative criteria

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

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

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

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

16.3.6 Write-offs

Financial assets are written-off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written-off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

16.4 Financial liabilities

16.4.1 Classification

The Bank classifies its financial liabilities in the following categories: financial liabilities at FVTPL, and financial liabilities at amortized cost. As at December 31, 2022, the Bank only has financial liabilities at amortized cost. Financial liabilities measured at amortized cost include deposit liabilities (Note 6), due to Parent Company (Note 11), lease liabilities (Note 12) and other liabilities (excluding provisions and tax-related liabilities) (Note 7).

16.4.2 Recognition and measurement

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

16.4.3 Derecognition

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

16.5 Offsetting

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

As at December 31, 2022 and 2021, there are no financial assets and liabilities that have been offset.

16.6 Fair value measurement

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

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

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

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

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

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

As at December 31, 2022, there are no financial and non-financial assets and liabilities measured at fair value.

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

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

16.7 Premises, furniture, fixtures and equipment

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

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

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

Furniture, fixtures and equipment	5 years
IT equipment	3 years
Leasehold improvement	Useful life of the improvement or term of the related lease, whichever is shorter

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

The Bank's right-of-use asset is depreciated over the lease term of 5 years (Note 12).

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

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

16.8 Impairment of non-financial assets

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

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

16.9 Prepayments

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

Prepayments are carried at cost and are included in current assets, except when the related goods or services are expected to be received and rendered more than 12 months after the end of the reporting period, in which case, these are classified as non-current assets.

16.10 Income taxes

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

16.10.1 Current tax

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

16.10.2 Deferred tax

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

DIT assets are recognized for all deductible temporary differences and carry-forward of unused tax losses (NOLCO) to the extent it is probable that future taxable profit will be available against which the temporary differences and NOLCO can be utilized. NOLCO is the net operating loss for any taxable year immediately preceding the current taxable year which had not been previously offset as deduction from gross income. Ordinarily, NOLCO can be normally carried over as a deduction from gross income for the next three (3) consecutive years. However, specifically for NOLCO incurred from 2020 to 2021, the Bank may carry it over as a deduction from its gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

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

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

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

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

16.11 Equity

Share capital

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

Retained earnings

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

Deposit for future stock subscription

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

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

16.12 Provisions

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

16.13 Interest income and expense

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

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

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

16.14 Fees and commissions

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

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

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

16.15 Foreign currency transactions and translation

16.15.1 Functional and presentation currency

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

16.15.2 Transactions and balances

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

16.16 Employee benefits

16.16.1 Short-term employee benefits

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

16.16.2 Share-based compensation

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

16.16.3 Other benefits

The Bank provides for retirement benefits to its employees in accordance with the requirements of Republic Act No. 7641, The Philippine Retirement Pay Law. The law provides that an employee upon serving five years shall be entitled to a retirement pay equivalent to at least one-half (1/2) month salary for every year of service.

The Bank did not accrue any retirement benefits as at December 31, 2022 and 2021 as the amounts are determined to be not material.

16.17 Leases

The Bank as the lessee

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

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

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

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

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

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

16.18 Related party transactions and relationships

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

16.19 Comparatives

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

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

16.20 Subsequent events

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

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

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

(i) Basic quantitative indicators of financial performance

The Bank's key financial performance indicators follow:

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

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

(ii) Description of capital instrument issued

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

(iii) Significant credit exposures

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

(iv) Breakdown of total loans

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

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

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

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

(v) Information on related party loans

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

(vi) Secured liabilities and assets pledged as security

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

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

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

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

Revenue Regulations (RR) No. 15-2010

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

(a) Documentary stamp taxes

Documentary stamp taxes paid for the year ended December 31, 2022 amount to P32,611,441.

(b) Withholding taxes

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

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

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

(c) All other local and national taxes

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

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

(d) Tax cases and assessments

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

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

RR No. 34-2020

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

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