COMPANY REGISTRATION NUMBER 05888535

BANK OF THE PHILIPPINE ISLANDS (EUROPE) PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2020

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OFFICERS AND STATUTORY REGISTERED AUDITORS

The Board of Directors ("the Board")

Mr Cezar Consing
Ms Lizbeth Joan Yulo
Mr Robert David Reoch
Mr Martin Lynch O'Neil
Mr Alexander John Shapland
Ms Marita Socorro Gayares
Ms Maria Theresa Javier (Appointed 1st January 2020)

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Independent Auditors

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Company Secretary

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STRATEGIC REPORT

For the financial year ended 31st December 2020

In accordance with a resolution of the directors (the "Directors") of Bank of the Philippine Islands (Europe) Plc (the "bank" or "BPI Europe"), the Directors submit herewith the Strategic Report of the bank as follows:

PRINCIPAL ACTIVITIES

BPI Europe was incorporated on 27th July 2006 and obtained its authorisation to provide regulated products and services on 26th April 2007. It is a UK-licensed bank authorised by the Prudential Regulation Authority (PRA), and regulated by the PRA and the Financial Conduct Authority (FCA).

BPI Europe's original business plan envisaged a retail banking operation passporting from the UK into several European Union territories. The model was built around offering basic banking services to retail customers in the form of deposit accounts, personal loans as well as money transmission services.

In 2016 and 2017, BPI Europe's retail banking business underwent a rationalisation exercise, significantly reducing its customer count to below 5,000. At the same time, focus shifted to laying the foundation for a wholesale business, and putting in place the necessary infrastructure for investments in higher yielding fixed income securities and participation in the syndicated loan markets.

The regulatory framework has significantly evolved over the past few years compelling banks and financial institutions to implement stricter measures to mitigate risks against financial crime and improper market conduct. The resources necessary to fully comply with the regulatory expectations on firms' systems and controls requirements motivated the bank to rationalise its retail business. In 2019, the Board of Directors approved a move to further implement changes to the retail business; this resulted in changes in the deposit product features offered to individual customers, including the discontinuation of money transfer service offered to retail customers. BPI Europe undertook a transition process to help the customers in finding an appropriate alternative channel to service their remittance needs. BPI Europe now targets retail depositors with a long-term investment objective, who can avail of the account by maintaining an average daily balance of £5,000 (minimum) and term deposit products offered at higher rates, determined by market conditions.

The BPI Europe Board of Directors, in line with the contraction of the retail business, concluded that the resources would be better allocated to the wholesale business where the bank has been able to derive more value. The bank envisions engaging in increased trading activities, participation in syndicated loans, and expansion of business relationships with banking and other financial counterparties for additional funding sources. These increased wholesale activities will be carried out within the defined risk appetite approved by the Board. Given the strong growth trajectory of the bank in the past few years and the considerable opportunities presented to the bank in the global financial markets, BPI Parent has given approval for a capital infusion to support the bank's plans of further growing its business. In 2020, the Bangko Sentral ng Pilipinas granted its approval for BPI to infuse £80 Million into BPI Europe in tranches. The first £20 Million was issued and allotted on 25th September 2020 and classified as qualifying capital in 9th March 2021.

STATEMENT OF DIRECTORS IN THE PERFORMANCE OF THEIR STATUTORY DUTIES IN ACCORDANCE WITH S172(1) COMPANIES ACT 2006

Section 172 (1) of Companies Act 2006 requires the directors to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

(a) the likely consequences of any decision in the long term,
(b) the interests of the company's employees,
(c) the need to foster the company's business relationships with suppliers, customers and others,
(d) the impact of the company's operations on the community and the environment,
(e) the desirability of the company maintaining a reputation for high standards of business conduct, and
(f) the need to act fairly as between members of the company.

The Board of Directors of BPI Europe consider, both individually and together, that they have acted in the way they consider in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, having regard to the stakeholders, including shareholders/investors, customers, regulators, employees and the broader community, and matters set out in S172(1) (a-f) of the Act in the decisions taken during the year ended 31st December 2020.

The Board of Directors believes that effective corporate governance is the cornerstone of BPI Europe's strength and long-term existence. The Board has established and promoted sound principles and practices as stated in the company's Corporate Governance Manual, and resolve to adopt this framework of policies, rules, systems and process that govern them in the pursuit of the BPI Europe's corporate goals.

The Board is responsible for prescribing a sound and sustainable business model, setting out the bank's strategy and an overarching risk framework, and providing guidance and leadership to the Management Team to see these strategies through.

The Board continuously strives to ensure that the bank's business objectives and goals are met while protecting the customers' interests. BPI Europe espouses transparency, professionalism, a strong sense of responsibility, and protecting the confidentiality of customers' information in all its dealings, allowing it to build mutually beneficial, long-standing business relationships.

The Board considers its employees as fundamental to the success of the bank. The bank sets fair remuneration policies, which are implemented in a way that supports the bank's business strategy and promotes sustainable success. The health, safety and general well-being of employees are primary considerations at all times.

The Board believes in its responsibility to the bank's shareholder. Capital is treated as the bank's most valuable asset, and management seeks to generate superior returns while being prudent in risk-taking, spending and investment.

The Board believes in its responsibility to the regulators. While the bank seeks to generate superior returns, this is done so within firm regulatory boundaries. The management and the Board maintain good relationships with the regulators by dealing with them with honesty and transparency and remain candid, proactive and constructive in their engagement with them.

The Board gives high regard to the wider community and the environment by being socially responsible. We observe corporate social responsibility principles as part of our culture and decision-making process through the institutionalization of a framework on business ethics, financial crime and climate change.

The Board reviews and approves the BPI Europe Code of Business Conduct and Ethics (Code) which sets the guidance for observing ethical behaviour among the bank's employees. The Board observes the provisions set in the Code in making the right decision and in discharging their responsibilities to the bank. The Code is used by the bank in its working relationships with colleagues, customers, counterparties, regulators, and co-players in the banking industry.

REVIEW OF THE BUSINESS

Despite the pandemic situation in 2020, the bank has carried out its business activities reasonably well and has protected its profitability. Asset rebalancing was also carried out to minimise the negative impact of the pandemic to the bank's financial profile by reducing assets which manifested significant credit deterioration or demonstrated signs of weakness. BPI Europe reported a profit for the year amounting to £141,700 (2019: £291,569). Net Interest Income increased to £737,760 (2019: £420,759), due to better margins. Meanwhile, non-interest income was down to £1,295,067 (2019: £2,010,232) on lower trading gains from foreign exchange transactions and sale of investment securities as well as lower fees and commission from loan referrals. Operating expenses for the year were lower at £1,848,904 (2019: £2,060,926).

In line with the bank's plan to grow the business, on 25th September 2020, the Board of Directors issued 20,000,000 ordinary shares at £1 each which were allotted to the current and sole shareholder, Bank of the Philippine Islands. Total assets grew to £82,576,244 (2019: £67,926,666). Meanwhile, total liabilities were lower at £41,047,757 (2019: £46,539,879) as the bank paid off some high-cost borrowings to improve margins.

The bank's current ratio (current assets divided by current liabilities) is 0.63 (2019: 0.66). The bank's return on equity (profit after tax divided by the total shareholders' funds) for the year is 0.34% (2019: 1.36%).

RESULTS AND DIVIDENDS

The directors have not recommended a dividend (2019: nil).

PRINCIPAL RISKS AND UNCERTAINTIES

The bank's risk culture emanates from the Board and promotes awareness of the risks inherent in its business activities. Risk parameters are clearly articulated, and set the tone for the bank's business undertakings. The bank has established an enterprise-wide risk management framework where risks are monitored, managed and controlled through adequate management information reporting to both management and the Board.

The main risks arising from the bank's financial instruments and activities are as follows:

Business model risk
Business model risk is defined as the risk of financial losses due to uncontrollable factors that may challenge the firm's business model and strategy execution. This may be externally or internally driven, such as in the case of changes in counterparties' business decision/strategy to deal with BPI Europe, changes in regulations or laws that pose a challenge to the bank's profitability and long term viability, or changes in the internal structure and rotation/loss of key officers. BPI Europe did not observe heightened business model risk despite the pandemic situation.

Funding concentration risk
Funding concentration risk is defined as the risk of financial losses due to undiversified sources of funds to support balance sheet requirements. BPI Europe's reliance on a few counterparties for funding facilities pose threats to the liquidity position of the bank when liabilities fall due, when counterparties decide to reduce credit lines or exit the relationship with the bank altogether. BPI Europe continues to widen its business relationships with funding counterparties to appropriately manage this risk.

Liquidity risk
Liquidity risk is defined as the risk of financial losses and reputational damage due to the bank's inability to meet its financial obligations in a timely manner. Liquidity risk should be considered in two aspects: (1) the ability to liquidate assets to service the liquidity requirements of the bank, and (2) tenor mismatches where the bank cannot meet the liabilities as they fall due. BPI Europe actively manages its liquidity risk by maintaining highly liquid assets and placements that can be quickly disposed of or terminated when the need arises. The bank updated its ILAAP document in 2020, in line with the change in its business model as well as its growth plans. Stress testing was also performed, taking into consideration the impact of the pandemic. Based on the assessment, it is deemed that BPI Europe maintains a level of liquidity resources that are adequate, ensuring that there is no significant risk that the bank cannot meet its liabilities as they fall due, in accordance with regulatory requirements and internal stress testing analysis. The bank also closely monitored its liquidity profile, particularly the maturities of its liabilities. It has maintained a highly liquid asset buffer level by maintaining cash proceeds from placements that were not rolled over in its bank accounts as readily available funds, and in short-term securities in its trading book that can be sold quickly when necessary. All borrowings were rolled over in an orderly manner throughout 2020. Borrowing rates have been in line with the market, with no untoward changes. The first tranche of capital infusion in 2020 further improved the bank's liquidity position. Cash at year end stood at over £8.5M, placements have been kept short (between 1 week to 1 month), and HQLA levels remain healthy. As of December 2020, the bank's LCR stood at 284% vs. internal limits of 120% (100% regulatory limit)

Credit risk
Credit risk is defined as the risk of financial losses due to a borrower's default or inability to pay their obligations to the bank as they fall due. Once the bank enters into a relationship with a borrowing counterparty, either retail or corporate, the bank is exposed to the risk that the other party fails to meet its contractual obligation in accordance with the agreed terms of the obligation. Deposits with banks, interbank borrowings, investments in securities and syndicated loans are the largest sources of credit risk. This type of risk is managed within the bank's underwriting standards and procedures emanating from a comprehensive Credit Policy. To manage this risk, BPI Europe is guided by a conservative set of underwriting standards and

adheres to credit policies and procedures in granting credit facilities. Constant monitoring of the bank's credit portfolio is likewise observed.

Credit concentration risk
Credit concentration risks arise from the imperfect diversification of exposures to entities, sectors, and geographies. Credit concentration risk can arise from exposures to borrowers with similar risk characteristics which are thereby collectively vulnerable to huge losses if things go wrong. The bank has defined internal metrics to properly measure its credit concentration in terms of single issuers or borrowers, sectors, and geographical exposures, which are monitored against approved limits and credit parameters. The bank's exposures to individual names are capped at regulatory large exposures limits wherein exposure to a single name does not exceed the applicable percentage of capital in line with Capital Requirements Directives. The bank monitors these limits on a daily basis and credit concentration risk is highly considered in the internal capital adequacy assessment process.

Capital adequacy
This is defined as the risk of financial losses and regulatory sanctions resulting from inadequate capital buffers to cover losses from business activities. It is imperative for financial institutions to maintain an adequate level of capital relative to its risk-taking activities as a buffer against unexpected losses to provide confidence to the bank's stakeholders that it could meet its obligations and demonstrate financial strength and stability. BPI Europe's risk-taking activities are bound by the regulatory capital requirements set by the PRA in their regulatory assessment of the firm and the internal risk appetite set by the Board. The distribution of risk weighted assets are managed to be consistent with the business strategies and objectives of the bank. BPI Europe performs an annual update of its ICAAP document; the 2020 assessment was of particular importance because of the changes in its business model and growth plans, particularly as the pandemic situation was playing out. The impact of the global pandemic was incorporated in various scenarios considered in the bank's stress testing. Reverse stress testing was also performed to identify the scenarios that will breach the bank's regulatory capital requirement. The results of these assessments have shown that BPI Europe retains sufficient capital resources in normal and stressed market conditions given its financial and business projections. As of end-2020, the bank's capital ratio stood at 30.36%, well above the regulatory limit of 23.48%

Market risk
Market risk pertains to the possible loss of a portfolio's value in the future influenced by movements in the level or volatility of market prices or other risk factors. The bank's market risk exposure is observed in its net open FX position arising from foreign currency-denominated assets and liabilities in the banking book, and its end of day portfolio of investment securities in the trading book. The bank performs daily risk monitoring of market risk exposures and controls the exposures using Value-at-Risk (VaR) metrics, to properly mitigate and manage this risk.

Foreign exchange risk
Foreign exchange (FX) risk is defined as the risk of financial losses and liquidity concerns due to adverse movements of foreign exchange rates against the bank's net FX position. The bank has assets and liabilities denominated in foreign currencies. Exchange gains and losses are recognised in the income statement as they arise. The bank's policy is to measure and control foreign exchange risk exposure as part of the overall market risk exposure VaR calculation. This limit is monitored at all times and the management monitors risks reported through dashboards. The bank does not currently deal in derivative instruments for speculative

purposes, however it holds foreign currency swaps for funding purposes to strategically invest the additional capital denominated in foreign currency assets with relatively attractive yields.

Interest rate risk in the banking book (IRRBB)
IRRBB is defined as the current and prospective risk to the bank's capital and earnings arising from adverse movements in the yield curve, particularly for assets and liabilities with mismatched repricing maturities. Interest rate movements may affect the bank's earnings from mismatches in rate-sensitive assets and liabilities. This in turn changes the underlying value of a bank's assets, liabilities and off balance sheet items and hence its economic value. BPI Europe has set internal risk indicators and appetite to manage its IRRBB.

Conduct Risk
Conduct risk in BPI Europe is broadly defined as financial losses resulting from regulatory penalties, fees, redress, remediation costs, and other operational costs stemming from poor conduct in the firm. In general, the UK financial industry regards this as a risk arising from improper treatment of customers, violation of rules, and market manipulation in order to prioritise the interest of the firm. Conduct risk is regarded as one of the key risk areas in the bank and the Board has set a tone and risk appetite to control the detrimental impact of having poor conduct amongst employees. All BPI Europe Staff are aware of and consistently abide by the conduct rules outlined and defined under the Senior Managers and Certification Regime in their day to day discharge of duties. Management believes that if every Staff in the firm observes these rules as they carry out their roles, conduct risk will be fully mitigated. Processes are in place in order to monitor potential and actual breaches from conduct rules and results are reported to management and to the Audit and Risk Committee on a quarterly basis.

Operational Risk
Operational risk is defined as losses arising from inadequate or failed internal processes, people, and systems. These events could vary from internal and external fraud, systems failures, bank and customer data breaches, human errors, errors in processing wholesale and retail transactions. BPI Europe exercises caution in performing operations processes to ensure that these are performed with a high degree of accuracy to avoid errors which may eventually lead to reputational and regulatory consequences. In 2020, similar to what most firms have done, BPIE executed its business continuity plan involving remote work setup/work from home arrangements in line with the government's advice, to minimise the spread and impact of corona virus. The bank provided resources to staff (such as laptops/desktop computers) to carry out their work from home. Management performed an overall risk assessment and established controls to mitigate risks arising from this setup. Throughout the year, the bank periodically reviewed these risks and ensured that controls remained appropriate. The bank deems that these risks have been managed and mitigated accordingly.

Climate Change Risk
Climate change risk refers to the risk of financial losses arising from the impact of climate change on the value of the bank's physical assets and financial investments, through physical and/or transition risks. BPI Europe has established a high level framework that governs the way climate change risk is managed in the bank. While climate change does not have a direct impact on BPI Europe as a financial institution, it has investments whose market value may be vulnerable to climate change. Management has been monitoring the positions that are vulnerable to climate change, and has included climate change risk in the credit decisions process. The bank has stringent credit parameters, a well-managed liquidity profile, regular management information, and escalation processes in the event of triggers. Management continues to enhance its risk management framework in relation to climate change risks to align with regulatory expectations and industry practice.

KEY PERFORMANCE INDICATORS (KPIS)

The Board of Directors provides governance and oversight over the bank's financial performance through the following Key Performance Indicators:

- **Profit after Tax.** BPI Europe Management and the Board of Directors monitor the bank's profitability on a monthly and quarterly basis. Profit after tax is monitored against the Board-approved annual budget. Profit after tax is lower than previous year by 51% YoY (2019: higher by 48% YoY).
- **Balance sheet growth and composition**. This shows the bank's growth, investment, and funding strategies. Total assets are higher by 22% YoY (2019: lower by 12% YoY) as the bank received the £20M first tranche of capital infusion in 2020.
- **Operating Income**. This provides information on the bank's capability to generate revenues. This also reflects the bank's business focus. Operating Income is down by 16% YoY (2019: up by 11% YoY) largely due to lower foreign exchange gains, gain on sale of investments, and fees and commissions from loan referrals.
- **Net Interest Margin**. This represents the bank's net interest differential between sources and uses of funds. Net interest margin improved to 1.03% (2019: 0.60%), attributed to lower funding cost.
- **Regulatory capital and liquidity metrics**. The bank monitors capital ratio and liquidity coverage ratio on a daily basis and ensures that risk taking activities are within the regulatory limits. As of end -2020, the capital ratio stood at 30.36%, well above the regulatory limit of 23.48% while liquidity coverage ratio was at 284% vs regulatory limit of 100%.

These KPIs are presented and discussed at the Management level on a monthly basis, and with the Board during its quarterly meetings. The Board's discussion focuses on the factors that influenced the movement of these KPIs as well as the management strategies to optimise returns on a forward-looking basis.

On behalf of the Board

Ms Lizbeth Joan Yulo
Managing Director
15th April 2021

THE DIRECTORS' REPORT

The Board of Directors present their report and the audited financial statements of the Bank of the Philippine Islands (Europe) Plc for the year ended 31st December 2020.

The bank's material financial instruments comprise of placements (loans and advances) to banks and corporate accounts, investments in debt securities, amounts due from and to group undertakings, bank borrowings and customer deposit accounts. In 2020, BPI Europe continued its strategy to grow and optimise its wholesale business consistent with the Board's direction and appetite albeit more cautiously than planned given the volatilities caused by the pandemic. The bank took a more measured approach in deploying the portion of additional capital in the latter part of the year, while ensuring that it maintained a good level of liquidity to weather the crisis.

The strategy resulted in higher net interest margins, as global central banks delivered stimulus packages resulting in lower borrowing costs. As markets normalized, the bank began investing in higher yielding debt securities and corporate syndicated loans. In subsequent years, it is expected that the bank continues in this manner, investing in a calculated way within the approved parameters.

In line with the bank's plan to grow the business, on 25th September 2020, the Board of Directors issued 20,000,000 ordinary shares at £1 each which were allotted to the current and sole shareholder, Bank of the Philippine Islands.

The bank has assessed that Brexit will not have a material impact on the business. Its biggest counterparties, namely, global financial institutions were well positioned for a hard Brexit, ensuring that there are no impediments to carrying on with financial market relationships with the bank. The impact may be felt in possible changes to the UK legal and regulatory landscape; the bank constantly refines its internal policies and processes to ensure that the business operates within the approved risk appetite, in line with the regulatory framework, while optimising the bank's resources.

DIRECTORS AND SECRETARIES

The directors who each held office as Director of the bank throughout the period and until the date of this report, unless disclosed otherwise here:

Mr Cezar Consing
Ms Lizbeth Joan Yulo
Mr Robert David Reoch
Ms Maria Theresa Javier (Appointed 1st January 2020)
Mr Alexander John Shapland
Ms Marita Socorro Gayares
Mr Martin Lynch O'Neil

The Secretary who held office throughout the period and until the date of this report, unless disclosed otherwise was:

Mr Chiwai Lu

THE DIRECTORS' REPORT (continued)

THIRD PARTY INDEMNITIES

The Company has arranged qualifying third party indemnity insurance for all Directors.

BPI Europe is a wholly owned subsidiary of the Bank of the Philippine Islands ("BPI" or "Parent"), which is incorporated under the laws of the Republic of the Philippines. The interests of the group directors are disclosed in the financial statements of the parent company.

POLICY ON THE PAYMENT OF CREDITORS

It is the bank's policy, in respect of all suppliers, to settle its obligations to creditors within 30 days of invoice date. The number of creditor days in relation to suppliers' balance outstanding at 31st December 2020 was not more than 30 days.

INTERNAL CONTROLS

BPI Europe's internal control mechanism finds its basis in the enterprise-wide risk management framework (EWRMF). The EWRMF lays out the Board-approved parameters, controls, and governance structure that guides BPI Europe management in executing its activities. It is firmly rooted in a "three lines of defence" framework, which entails establishing limits, monitoring and control of risk exposures, and timely, accurate and comprehensive management information.

1. *First Line of Defence (Risk Ownership)*

BPI Europe's first line of defence includes the majority of the bank's personnel and management who are responsible for the day-to-day risk-taking activities of the bank. An annual Risk and Control Self-Assessment (RCSA) exercise ensures that risks are properly identified, and controls to mitigate these risks are established and observed. The first line of defence specific to liquidity risk management is the Treasury Unit which has access and control over all sources and uses of the bank's funding and liquidity.

2. *Second Line of Defence (Compliance and Risk Management Oversight)*

The Compliance and Risk Management Unit (CRMU) has the risk management oversight function, and as such, remain independent of business. It ensures the bank is kept abreast of relevant regulatory rules and standards and that the firm has adequate resources to comply with these rules. It performs regular assessments of the bank's systems and controls and makes recommendations for process improvements based on its evaluations. It is responsible for providing the bank with the risk management framework and tools and policies to aid the first line of defence to remain compliant with current and future policies and regulations. In line with the bank's business growth strategy and enhancement of its systems and controls, effective 2021, CRMU has been divided into two separate units to provide in-depth focus on each control area to support the risk-taking activities.

3. *Third Line of Defence (Compliance and Risk Assurance)*

The bank's Audit and Risk Committee has the overall responsibility of providing direction to comply with the bank's risk appetite established by the Board of Directors.

THE DIRECTORS' REPORT (continued)

The bank's Internal Audit, outsourced to the parent bank's Internal Audit, performs the monitoring, review, and assessment of the bank's compliance to rules, regulations, and policies. The bank has engaged the services of BDO LLP UK to carry out thematic reviews on specific issues of particular topical relevance, such as regulatory reporting, General Data Protection Regulation (GDPR), and ICAAP/ILAAP.

INDEPENDENT AUDITORS

Effective financial year ended 31st December 2020, the Board of Directors appointed Mazars LLP, replacing PricewaterhouseCoopers LLP, to perform the statutory audit of the bank's financial statement.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The directors are responsible for preparing the directors' report and financial statements in accordance with applicable laws and regulations.

Company law requires directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). The directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company, and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

THE DIRECTORS' REPORT (continued)

DISCLOSURE OF FINANCIAL INFORMATION TO AUDITORS

The report must contain a statement to the effect that, in the case of each of the persons who are directors at the time when the report is approved, the following applies:

- As far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- The director has taken all the steps that he/she ought to have taken as a director in order to make him/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

GOING CONCERN STATEMENT

In its 2020 strategic planning, the bank set out its strategy to veer away from its retail business and focus on furthering its wholesale business growth objectives, anchored on two tranches of capital infusions from its parent. BPI Europe spent most of 2019 laying the groundwork for receiving the first tranche in the first half of 2020, and the second tranche by year end. COVID-19, however, resulted in unprecedented market volatilities for a significant portion of 2020, and forced the bank to reassess its plans. During 2020 BPI Europe received £20M in capital, followed by receiving a second tranche of £20m in January 2021.

Through the course of 2020 and the pandemic, BPI Europe fared reasonably well. Early on in the pandemic, it identified and assessed its most significant vulnerabilities, which included a deterioration in the credit quality of its investment portfolio, particularly for the names that were deemed to be vulnerable to a prolonged economic slowdown, and the potential inability to access traditional funding sources leading to a liquidity crisis. The portfolio was closely monitored, and subjected to a credit risk stress test, and the bank built up its liquidity buffers to ensure that all obligations would continue to be met.

Liquidity conditions remained normal, even at the height of the global lockdowns, the bank did not experience any difficulties in accessing its traditional sources of funding, both in terms of volume and price. While credit conditions, for the most part, have normalised, the bank continued to monitor its asset base for prolonged signs of weakness. It began disposing of its most vulnerable assets towards year end, and early in 2021, when market prices were more favourable.

In the annual review and update of its Risk Management Framework documents, the bank considered the stress scenarios in light of the pandemic and its impact, direct and indirect, on the business. In all cases, the stress scenarios identified in the ICAAP and the ILAAP were proven to be more severe than the scenarios that actually played out in 2020, demonstrating the position of strength and resilience the bank currently finds itself in. The infusion of additional capital from the parent in support of the bank's growth ambitions is further testament to this.

The bank has continuously assessed the performance of the credit assets in the bank's books amidst the market developments related to the COVID -19 crisis. The bank has been actively monitoring the credit

THE DIRECTORS' REPORT (continued)

worthiness of the borrowers/issuers and has disposed of the most vulnerable ones. Furthermore, the bank monitors whether interest payments coming due continue to be paid, which they have been, and regularly checks relevant credit ratings actions and compliance certificates.

The bank meets its day-to-day working capital requirements through its banking facilities.

After making enquiries, the Directors have a reasonable expectation that the bank has adequate resources to continue in operational existence for the foreseeable future. In making this assessment, the Directors have considered the risks associated with both the bank's business, profitability projections, liquidity, funding and capital plans incorporated in its strategy and also their intention to potentially restructure the UK business by converting the subsidiary into a branch by no earlier than 2024. The Directors have conducted this assessment and are satisfied that the Company will have adequate resources to continue in business for a period of at least 12 months from the date of approval of these annual report and financial statements.

Approved by the directors on 15th April 2021

On behalf of the board:

Ms Lizbeth Joan Yulo
Managing Director
15th April 2021

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BANK OF THE PHILIPPINE ISLANDS (EUROPE) PLC

Opinion

We have audited the financial statements of Bank of the Philippine Islands (Europe) Plc (the 'company') for the year ended 31 December 2020 which comprise the Profit and Loss Account, Balance Sheet, Statement of Movements in Shareholders' Funds and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. 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 are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our audit procedures to evaluate the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the company's ability to continue as a going concern;

- Reviewing the directors' going concern assessment including COVID-19 implications based on a range of scenarios as approved by the board of directors. We have considered the company's most recent Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process;
- Making enquiries of directors to understand the period of assessment considered by the directors, and the potential impact of COVID-19 on the company's financial performance, business operations, and liquidity and regulatory positions;
- Evaluating the key assumptions used in the scenarios indicated above and consider whether these appear reasonable; and
- Evaluating the appropriateness of the directors' disclosures in the financial statements on going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matter in forming our audit opinion above, together with an overview of the principal audit procedures performed to address this matter and key observations arising from those procedures.

This matter, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

<table>
<tr><th>Key Audit Matter</th><th>How our scope addressed this matter</th></tr>
<tr><td>Credit risk: Impairment on loans and advances to customers</td><td></td></tr>
<tr><td>Refer to summary of significant accounting policies (Note 3); and Notes 4 and 11 of the financial statements.

Credit risk is an inherently judgemental area due to the use of subjective assumptions and a high degree of estimation in arriving at the year end collective provision.

The total impairment provision of the company consists of specific provisions in relation to retail loans and a collective provision over corporate loans.

The retail loan portfolio is comprised of an immaterial balance at 31 December 2020, which is impaired and fully provided for.

The calculation of the collective provision takes into consideration probability of default and loss given default. The inputs used in the calculation are primarily based on the assessment of the current credit rating of the counterparty. Management judgement is required in deriving assumptions to be applied in the calculation.</td><td>We have assessed the design and implementation, and tested the operating effectiveness, of the key controls operating at the company in relation loan underwriting, monitoring and provisioning.

We assessed management's ability to identify impaired loans by reviewing adequacy of the credit reviews performed by management for all corporate loan counterparties.

In respect of the model used to determine the collective provision, with the assistance of our in-house credit risk specialists we:
• Considered the appropriateness of the methodology used by management;
• Reviewed key assumptions used in applying the methodology adopted and assessed it for reasonableness;
• Tested the completeness of the loan portfolio applied to the model;
• Verified inputs to source documentation;
• Tested the mathematical integrity of the model; and
• Performed a recalculation of the collective impairment provision balance recognised for the year ended 31 December 2020.

We assessed the appropriateness of impairment provision disclosures in the financial statements.

Our observations
Based on the work performed, we found that the assumptions used by management in assessing the impairment are reasonable and that the impairment provision on loans and advances to</td></tr>
</table>

	customers as at 31 December 2020 is consistent with the requirements of FRS 102.

Our application of materiality and an overview of the scope of our audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£415,000
How we determined it	1% of net assets
Rationale for benchmark applied	Due to the volatility of profits, net assets are considered to reflect more appropriately the size of the company's operations. Furthermore, net assets are an approximation of regulatory capital resources which is a key focus for management, shareholder and regulators.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. Performance materiality of £249,000 was applied in the audit based on 60% overall materiality taking into consideration that this is a first-year audit.
Reporting threshold	We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £12,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the company, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Other information

The other information comprises the information included in the annual report and financial statements other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do 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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of directors' responsibilities in respect of financial statements set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine 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, the directors are responsible for assessing the company'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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 ISAs (UK) 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Based on our understanding of the company and its industry, we identified that the principal risks of non-compliance with laws and regulations related to the regulatory and supervisory requirements of the Prudential Regulation Authority (the 'PRA') and the Financial Conduct Authority (the 'FCA'), and we considered the extent to which non-compliance might have a material effect on the financial statements.

In identifying and assessing risks of material misstatement in respect to irregularities including non-compliance with laws and regulations, our procedures included but were not limited to:

- At the planning stage of our audit, gaining an understanding of the legal and regulatory framework applicable to the company, the industry in which it operates and considered the risk of acts by the company which were contrary to the applicable laws and regulations;

- Discussing with the directors and management the policies and procedures in place regarding compliance with laws and regulations;
- Discussing amongst the engagement team the identified laws and regulations, and remaining alert to any indications of non-compliance; and
- During the audit, focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussions with the directors (as required by auditing standards), from inspection of the company's regulatory and legal correspondence and review of minutes of directors' meetings in the year. We identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements of the PRA and the FCA. We also considered those other laws and regulations that have a direct impact on the preparation of financial statements, such as the Companies Act 2006 and UK tax legislation.

Our procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud such as opportunities for fraudulent manipulation of financial statements, and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to loan loss provisions; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit, including fraud and irregularities are discussed under "Key audit matters" within this report.

A further description of our responsibilities is available on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities.

Other matters which we are required to address

Following the recommendation of the Audit and Risk Committee, we were appointed by the board of directors on 24 June 2020 to audit the financial statements for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is one year, covering the year ended 31 December 2020.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit and Risk Committee.

Use of the audit report

This report is made solely to the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

Maximiliano Bark (Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St. Katharine's Way
London
E1W 1DD
15 April 2021

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2020

REVENUES	Note	Year Ended 31 Dec 20 £	Year Ended 31 Dec 19 £
Interest receivable and similar income		1,229,508	1,542,014
Interest payable and similar charges		(491,748)	(1,121,255)
Net interest income	9	**737,760**	**420,759**
Fees and commission income		30,478	497,019
Foreign exchange gains		1,076,593	1,112,268
Gain/(Loss) on sale of investments	5	195,874	394,519
Other operating (loss) / income		(7,878)	6,426
OPERATING INCOME		**2,032,827**	**2,430,991**
Administrative expenses		(1,779,979)	(2,010,091)
Depreciation		(46,766)	(50,706)
Impairment charges	11	(22,159)	(129)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	**183,923**	**370,065**
Tax on profit on ordinary activities	10	(42,223)	(78,496)
PROFIT FOR THE FINANCIAL YEAR		**141,700**	**291,569**

The above Profit and loss account should be read in conjunction with the accompanying notes, which form an integral part of the financial statements.

The bank has no other comprehensive income or expenses other than the results for the year as set out above and therefore no separate statement of comprehensive income has been presented.

Profit on ordinary activities before taxation relate wholly to continuing operations.

BALANCE SHEET

AS OF 31 DECEMBER 2020

		Year Ended 31 Dec 20	Year Ended 31 Dec 19
		£	£
ASSETS	Note		
Cash		4,443	16,926
Loans and advances to banks	11	6,910,392	13,361,818
Loans and advances to customers, net	11	17,733,505	8,865,828
Investment in debt securities	12	52,767,259	43,751,653
Derivatives	22	936,238	0
Tangible fixed assets, net	13	111,124	155,240
Other assets	14	72,068	82,087
Amounts due from group undertakings	15	4,041,215	1,693,114
TOTAL ASSETS		82,576,244	67,926,666
LIABILITIES			
Customer accounts	16	1,948,317	2,452,958
Amounts due to group undertakings	23	7,130,063	7,507,648
Bank borrowings	17	31,693,828	36,196,273
Other liabilities	18	275,549	383,000
		41,047,757	46,539,879
TOTAL ASSETS LESS LIABILITIES		41,528,487	21,386,787
Called up share capital	21	40,000,000	20,000,000
Profit and loss account		1,528,487	1,386,787
TOTAL SHAREHOLDERS' FUNDS		41,528,487	21,386,787

The above balance sheet should be read in conjunction with the accompanying notes, which form an integral part of the financial statements. The financial statements on pages 24 to 50 were approved by the Board of Directors and authorised for issue on 15th April 2021 and are signed on their behalf by Ms Lizbeth Joan Yulo.

Ms Lizbeth Joan Yulo
Managing Director

STATEMENT OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital £	Retained earnings £	Shareholder's funds £
Balance as at 1 January 2019	20,000,000	1,095,218	21,095,218
Profit for financial year	-	291,569	291,569
Balance as at 31 December 2019	**20,000,000**	**1,386,787**	**21,386,787**
Balance as at 1 January 2020	20,000,000	1,386,787	21,386,787
Additional Share Capital	20,000,000	-	20,000,000
Profit for financial year		141,700	141,700
Balance as at 31 December 2020	**40,000,000**	**1,528,487**	**41,528,487**

NOTES TO THE FINANCIAL STATEMENT

1. GENERAL INFORMATION

The Bank of the Philippine Islands (Europe) Plc ("the bank") is a public limited Company domiciled in the United Kingdom. It was incorporated in London, United Kingdom on 27th July 2006 and obtained its authorisation to provide regulated products and services on 26th April 2007, which includes the following permissions: accepting deposits, dealing in investments as principal, and agreeing to carry out a regulated activity. It is a UK-licensed bank authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). The Bank's registered office address is Fourth Floor 28/29 Threadneedle Street, London EC2R 8AY.

The bank is 100% owned by the Bank of the Philippine Islands (the "BPI" or the Parent") which is incorporated in the Republic of the Philippines. Copies of the consolidated financial statements of the Bank of the Philippine Islands are available from its Registered Office: Ayala North Exchange, Ayala Avenue corner Salcedo St., Legaspi Village, Makati City, Philippines. The audited consolidated financial statements may also be found in bpi.com.ph.

2. STATEMENT OF COMPLIANCE

The financial statements of the bank have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

3. 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 all the years presented, unless otherwise stated. The bank has adopted FRS 102 in these financial statements.

a) Basis of preparation of financial statements
These financial statements are under the historical cost convention as modified for revaluation of certain financial assets and liabilities measured at fair value through profit or loss.

b) Going Concern
In its 2020 strategic planning, the bank set out its strategy to veer away from its retail business and focus on furthering its wholesale business growth objectives, anchored on two tranches of capital infusions from its parent. BPI Europe spent most of 2019 laying the groundwork for receiving the first tranche in the first half of 2020, and the second tranche by year end. COVID-19, however, resulted in unprecedented market volatilities for a significant portion of 2020, and forced the bank to reassess its

plans. During 2020 BPI Europe received £20M in capital, followed by receiving a second tranche of £20m in January 2021.

Through the course of 2020 and the pandemic, BPI Europe fared reasonably well. Early on in the pandemic, it identified and assessed its most significant vulnerabilities, which included a deterioration in the credit quality of its investment portfolio, particularly for the names that were deemed to be vulnerable to a prolonged economic slowdown, and the potential inability to access traditional funding sources leading to a liquidity crisis. The portfolio was closely monitored, and subjected to a credit risk stress test, and the bank built up its liquidity buffers to ensure that all obligations would continue to be met.

Liquidity conditions remained normal, even at the height of the global lockdowns, the bank did not experience any difficulties in accessing its traditional sources of funding, both in terms of volume and price. While credit conditions, for the most part, have normalised, the bank continued to monitor its asset base for prolonged signs of weakness. It began disposing of its most vulnerable assets towards year end, and early in 2021, when market prices were more favourable.

In the annual review and update of its Risk Management Framework documents, the bank considered the stress scenarios in light of the pandemic and its impact, direct and indirect, on the business. In all cases, the stress scenarios identified in the ICAAP and the ILAAP were proven to be more severe than the scenarios that actually played out in 2020, demonstrating the position of strength and resilience the bank currently finds itself in. The infusion of additional capital from the parent in support of the bank's growth ambitions is further testament to this.

The bank has continuously assessed the performance of the credit assets in the bank's books amidst the market developments related to the COVID -19 crisis. The bank has been actively monitoring the credit worthiness of the borrowers/issuers and has disposed of the most vulnerable ones. Furthermore, the bank monitors whether interest payments coming due continue to be paid, which they have been, and regularly checks relevant credit ratings actions and compliance certificates.

The bank meets its day-to-day working capital requirements through its banking facilities.

After making enquiries, the Directors have a reasonable expectation that the bank has adequate resources to continue in operational existence for the foreseeable future. In making this assessment, the Directors have considered the risks associated with both the bank's business, profitability projections, liquidity, funding and capital plans incorporated in its strategy and also their intention to potentially restructure the UK business by converting the subsidiary into a branch by no earlier than 2024. The Directors have conducted this assessment and are satisfied that the Company will have adequate resources to continue in business for a period of at least 12 months from the date of approval of these annual report and financial statements.

c) Exemptions for qualifying entities under FRS 102

FRS 102 allows specific disclosure exemptions for qualifying entities. The bank's Shareholders have been notified and have not objected to the use of these exemptions, and otherwise apply the recognition, measurement and disclosure requirements of FRS102. (Sec 7: Exemption from Cash Flow Statement reporting). The directors have taken advantage of this exemption in the preparation of a statement of cash flow for the qualifying entities under FRS 102 on the grounds that the bank is wholly owned by the Bank of the Philippine Islands, a bank incorporated in the Republic of the Philippines, and its parent publishes a consolidated Cash Flow Statement, Balance Sheet and Income Statement.

d) Foreign currency

i. Functional and presentation currency
The bank's functional and presentation currency is GBP.

ii. Transactions and balances
Foreign currency transactions are translated into the functional currency using the end of day foreign exchange rates on transaction date. At the end of each financial reporting period, foreign currency monetary items are translated using the day's closing exchange rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of transactions and from the revaluation of foreign currency denominated assets and liabilities are recognised in the profit and loss account.

e) Recognition of income

Income arising from fees and commissions is recognised when the service is provided. Interest income on loans and advances, interbank placements, and investment in debt securities is recognised on an accrual basis using the effective interest method. Interest expense on customer deposits and bank borrowings is recognised on an accrual basis using the effective interest method. Income from foreign exchange relates to foreign exchange income derived from foreign currency trading and the unrealised gains and losses on revaluation of foreign currency assets and liabilities.

f) Cash

Cash consists of physical cash notes and coins held by the bank.

g) Loans and advances to banks

Loans and advances to banks include placements and deposits held with banks and other financial institutions, and accrued interest.

h) Fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and provisions for impairment, if any.

i) Depreciation

Depreciation is calculated over the useful economic life of the asset, less its residual value, as follows:

Leasehold Improvements	Over the period of the lease
Office Furniture	5 years, straight line
Fixtures and Fittings	20% reducing balance
Computer Equipment	Over 5 years, straight line

j) Borrowing costs

All borrowing costs are recognised in profit and loss accounts in the period in which they are incurred. The carrying amounts include accrued interest.

k) Operating lease agreements

Rentals applicable to operating leases, where substantially all of the benefits and risks of ownership remain with the lessor, are charged against profits on a straight line basis over the period of the lease.

l) Pension costs

The bank pays fixed contributions (in line with statutory minimums) into a separate entity. Once the contributions have been paid, the bank has no further payment obligations. The contributions are recognised as expenses when due. Amounts not paid are shown in payables in the balance sheet. The assets of the individual's plans are held separately from the bank in funds which are chosen by the employees.

m) Taxation

The charge for taxation is based on the profit for the year and takes into account deferred taxes. Current tax is measured at amounts expected to be paid using the tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less, or to receive more tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax balances are not discounted.

n) Financial instruments

The bank has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

i. Financial assets

Basic financial assets, loans and advances to banks, loans and advances to customers and amounts due from group undertakings, cash, and investments in debt securities are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

The Company's financial assets booked as amortised cost such as loans and investment securities, are regularly tested for impairment based on objective evidence of deterioration in the asset's credit quality since the time of its booking and/or since the last impairment review.

The impairment review is based on asset's credit worthiness which is assessed based on relevant and available information on past events, current conditions, and future expectations. At the end of each reporting period, financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired, the impairment loss is measured as the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The bank uses an incurred loss model. The impairment loss, if any, is recognised in the profit and loss account. The bank also sets a collective loan loss provision for loans to corporate customers related to potential losses that are incurred but have not been separately identified at balance sheet date. In estimating the collective loan loss provision, the bank takes into consideration loss given default and probability of default derived from observable market data whenever possible.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

ii. Financial liabilities

Basic financial liabilities, including customer accounts, amounts due to group undertakings, bank borrowings, and other liabilities, are initially recognised at transaction price, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Financial liabilities are derecognised when the liability is extinguished, that is, when the contractual obligation is discharged, cancelled or expired.

iii. Derivatives

The bank's balance sheet is composed of simple financial instruments and the FX swaps in the books are used for funding purposes. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value using latest available market data. Changes in the fair value of derivatives are recognised in the profit or loss statement.

o) Provisions and contingencies

i. Provisions

Provisions are recognised when the bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be estimated reliably.

ii. Provision is not made for future operating losses

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

iii. Contingencies

Contingent liabilities, arising as a result of past events, are recognised when (i) it is probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the bank's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

p) Share capital

Ordinary shares are classified as equity. Current shares of 40,000,000 are at £1 each.

4. KEY ACCOUNTING ESTIMATES, ASSUMPTIONS, AND CRITICAL JUDGMENTS

The bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. When assessing impairment of loans and advances to customers, which is a key accounting estimate, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience. See note 11 for the associated impairment provision.

5. GAIN ON SALE OF INVESTMENTS

The gain on sale of debt securities amounted to £195,874 (2019: £394,519).

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging/ (crediting):

	Year Ended 31 Dec 20 £	Year Ended 31 Dec 19 £
Staff costs	989,150	1,145,056
Foreign exchange gains	(1,076,593)	(1,112,268)
Depreciation of fixed assets	46,766	50,706
Auditors' fees	111,000	68,000
Operating lease costs (rent expense)	153,455	153,000

Other staff costs include the employer's contribution to the employee's workplace pension funds and employees' insurance in 2020, and are included within administrative expenses in the Profit and Loss account.

	Year Ended 31 Dec 20 £	Year Ended 31 Dec 19 £
Auditors' Remuneration		
Fees payable to the bank's auditors for the statutory *audit of the bank's financial statements*	105,000	62,600
Fees payable to the bank's auditors for other services pursuant to legislation (CASS assurance)	6,000	5,400
Total	111,000	68,000

7. PARTICULARS OF EMPLOYEES

The average number of staff employed by the bank during the financial year amounted to:

	Year Ended 31 Dec 20	Year Ended 31 Dec 19
Number of administrative staff	10	12
Number of management staff	5	4
	15	**16**

The payroll costs of the staff employed were:

	Year Ended 31 Dec 20 £	Year Ended 31 Dec 19 £
Wages and salaries	946,030	1,093,055
Social security cost	33,972	37,562
Other staff costs	9,148	14,439
Total staff costs	989,150	1,145,056

8. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

	Year Ended 31 Dec 20	Year Ended 31 Dec 19
	£	£
Director's Remuneration	286,533	297,237
Highest Paid	181,533	176,237

Directors are not entitled to either shares or share options under long-term incentive schemes. No director holds or has exercised share options in the bank.

Directors' emoluments are included within staff costs in Note 7 above and in the Profit and Loss account.

9. NET INTEREST INCOME

	Year Ended 31 Dec 20	Year Ended 31 Dec 19
	£	£
(a) Interest receivable and similar income		
Interbank placements	57,168	319,973
Debt securities	807,296	768,907
Term loans	363,854	451,797
Others	1,190	1,337
	1,229,508	**1,542,014**
(b) Interest payable and similar charges		
Borrowings	(368,032)	(996,514)
Customer Deposits	(123,716)	(124,741)
	(491,748)	**(1,121,255)**
(c) Net interest income	**737,760**	**420,759**

10. TAX ON PROFIT FROM ORDINARY ACTIVITIES

	Year Ended 31 Dec 20 £	Year Ended 31 Dec 19 £
(a) Analysis of tax charge for the year:		
Current tax		
In respect of the year:		
UK corporation tax based on the results for the period at 19% 2020	42,223	78,496
Adjustment for tax charge being 19%		
Deferred tax:		
Tax charge on profit on ordinary activities	**42,223**	**78,496**
Tax charge on profit on ordinary activities	**42,223**	**78,496**

	Year Ended 31 Dec 20 £	Year Ended 31 Dec 19 £
(b) Factors affecting tax charge for the year:		
Profit on ordinary activities before taxation	183,923	370,065
Profit on ordinary activities multiplied by standard rate of UK		
Corporation tax of 19% in 2019	34,945	70,279
Deferred tax not recognised	7,278	8,189
Disallowable (allowable) expenditure	0	28
Current tax	**42,223**	**78,496**
Less: Adjustment of deferred tax liability	0	0
Tax charge on profit on ordinary activities	**42,223**	**78,496**

The corporation tax rate for the year ended 31st December 2020 was 19%. The Corporation Tax rate of 19% was enacted with effect from 1 April 2017. Finance Act 2020 repealed the planned reduction to 17% which had been expected to take effect from 1 April 2020, and re-enacted the 19% rate. The Finance Bill published on 11 March 2021 proposes to continue the 19% corporation tax rate to 31 March 2023 and to enact a 23% rate from 1 April 2023. However, this change was not substantively enacted at the reporting date of 31 December 2020.

11. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

	Year Ended 31 Dec 20	Year Ended 31 Dec 19
	£	£
Loans and advances to banks	6,910,392	13,361,818
	6,910,392	**13,361,818**

The impairment provision for loans and advances to banks is nil (2019: nil)

	Year Ended 31 Dec 20	Year Ended 31 Dec 19
	£	£
Corporate loans	17,772,311	8,877,118
Other retail loans	1,422	8,986
Provision for impairment	(40,228)	(20,276)
	17,733,505	**8,865,828**

Movement in provision for impairment of loans:

	Collective	Year Ended 31 Dec 20 Specific	Total	Year Ended 31 Dec 19 Total
	£	£	£	£
Beginning balance	17,377	2,899	20,276	22,142
Additional provision	21,429	1,831	23,260	129
Reversal of provision		(3,308)	(3,308)	(1,995)
Ending balance	**38,806**	**1,422**	**40,228**	**20,276**

FRS 102, the accounting policy choice made by the bank, requires BPI Europe to adhere to the incurred loss model for the calculation of the loan loss provision. BPI Europe calculates collective provisions using the incurred loss model. BPI Europe has had no history of default since the bank started investing in syndicated loans in 2015. Given this, BPI Europe calculated its 2020 loan provisions by obtaining the applicable probability of default, loss given default, and total exposure balance as of the reporting date for each loan in the books. The inputs to the model are historical default rates and recovery rates from studies of S&P and Thomson Reuters, respectively.

12. INVESTMENT IN DEBT SECURITIES

Investments in debt securities are non-derivative financial assets with fixed or determinable payments and maturities that the bank has the intention and ability to hold to maturity.

BPI Europe carries a substantial portfolio of investment securities held under Amortised Cost, and debt securities for trading valued at fair value.

Securities held under amortised cost are booked at cost adjusted for amortisation of discount or premium, if any, using the effective interest rate method. Securities booked under the trading book are booked at fair value through profit and loss; as these securities are mostly liquid, the market prices are obtained from published and verifiable market data.

These securities contribute to the bank's interest income and provide diversification to its asset base. Management has ensured that the average credit rating of the investment securities portfolio remains at investment grade and all investments are made in line with the bank's (and BPI Parent's) credit and other investment criteria. Management also ensures that these securities have a decent two-way market.

	Year Ended 31 Dec 20	**Year Ended 31 Dec 19**
INVESTMENTS in DEBT SECURITIES	£	£
Debt securities for trading at FVTPL	5,701,220	6,521,454
Debt securities at amortised cost	47,066,039	37,230,199
TOTAL	**52,767,259**	**43,751,653**

13. TANGIBLE FIXED ASSETS

	Leasehold Improvements	Fixture and Fittings	Office Furniture	Computer Equipment	Total
YEAR 2020	£	£	£	£	£
COST					
At 1 January 2020	581,819	42,491	137,587	38,982	800,879
Additions	0	0	0	2,651	2,651
At 31 December 2020	581,819	42,491	137,587	41,633	803,530
DEPRECIATION					
At 1 January 2020	433,589	42,491	134,645	34,915	645,640
Net Charge for the period	42,060	0	302	4,404	46,766
At 31 December 2020	475,649	42,491	134,947	39,319	692,406
NET BOOK VALUE					
At 31 December 2020	106,170	0	2,640	2,314	111,124

	Leasehold Improvements	Fixture and Fittings	Office Furniture	Computer Equipment	Total
YEAR 2019	£	£	£	£	£
COST					
At 1 January 2019	581,820	42,491	137,587	38,982	800,880
At 31 December 2019	581,820	42,491	137,587	38,982	800,880
DEPRECIATION					
At 1 January 2019	391,529	42,491	134,645	26,269	594,934
Net Charge for the period	42,060	0	0	8,646	50,706
At 31 December 2019	433,589	42,491	134,645	34,915	645,640
NET BOOK VALUE					
At 31 December 2019	148,231	0	2,942	4,067	155,240

14. OTHER ASSETS

	Year Ended 31 Dec 20	Year Ended 31 Dec 19
	£	£
Amounts falling due within one year:		
Prepayments and other assets	63,078	69,556
Operating lease deposit	8,990	5,618
	72,068	**75,174**
Amounts falling due after more than one year:		
Operating lease deposit	0	6,913
TOTAL	**72,068**	**82,087**

15. AMOUNT DUE FROM UNDERTAKING

	Year Ended 31 Dec 20	Year Ended 31 Dec 19
	£	£
From the Parent company	4,041,215	1,693,114
TOTAL	**4,041,215**	**1,693,114**

Significant accounts falling.under this category include term deposits placed with the Parent Bank totalling to £2.46 million (the equivalent $2.0 million and £1 million); (2019: £1.5 million, the equivalent of $2.0 million). Placements with the Parent Bank have an agreed term and maturity date which can be pre-terminated anytime.

Assets Pledged as Security:

In compliance with Bangko Sentral Pilipinas (BSP) regulations, a Deed of Assignment (the "Deed") was executed between BPI Europe and BPI Parent in June 2016, constituting collateral against BPI Parent's credit facilities for BPI Europe. The said Deed was supplemented with assignment documents executed in 2020. Collectively, these documents cover a pledge of \$2.0Mn and £1.0Mn in the form of placements, and \$5.0Mn in the form of bonds issued by the Philippine government (2019: \$1.0Mn placements).

16. CUSTOMER ACCOUNTS

	Year Ended 31 Dec 20 £	Year Ended 31 Dec 19 £
Customer Accounts	**1,948,317**	**2,452,958**

The decrease in customer deposits is attributed to the BPI Europe's change in business model in 2019 which put an end to remittance services to the Philippines and in 2020, more retail customers decided to close their accounts A minimum deposit amount was imposed on clients who wished to maintain their account.

17. BANK BORROWINGS

Included in the bank borrowings from financial institutions are the following:

	Year Ended 31 Dec 20 £	Year Ended 31 Dec 19 £
Payable in:		
30 days	9,507,998	18,464,264
3 months	6,751,895	10,712,408
6 months	3,721,875	4,712,033
1 year	11,712,060	2,307,568
TOTAL	**31,693,828**	**36,196,273**

The bank borrowings comprise of €10,021,336 at rates ranging from 0.36% to 0.64%, and \$31,044,512 at rates ranging from 0.28% to 1.48% p.a. (2019: €7,737,115 at rates of 0.63% and \$37,191,280 at rates ranging from 1.75% to 3.03%).

18. OTHER LIABILITIES

	Year Ended 31 Dec 20	Year Ended 31 Dec 19
	£	£
Other taxation and social security	26,677	21,600
Accrued expenses and other creditors	93,805	90,645
Other liabilities	155,067	270,755
TOTAL	**275,549**	**383,000**

Funds booked under other liabilities are balances from unclaimed closed accounts. These are treated as customer's money and can be claimed by respective customers anytime from BPI Europe.

19. FINANCIAL INSTRUMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which an asset or liability could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced liquidation or sale. Given the bank's balance sheet profile and investment strategy, the fair value of all financial instruments held at 31st December 2020 approximates the amounts at which these instruments are reflected in the balance sheet.

The values of the financial instruments are influenced by relevant internal (balance sheet gaps) and external risk factors (market fluctuations). BPI Europe manages these risks by measuring and managing the liquidity, interest rate, and foreign exchange risks of the bank as illustrated in the following sections.

Set out below are the Company's financial instruments by category;

		Year Ended 31 Dec 20	
	£	£	£
FINANCIAL ASSETS	Amortised Cost	FVPNL	Total
Cash	4,443		4,443
Loans and advances to banks	6,910,392		6,910,392
Loans and advances to customers	17,733,505		17,733,505
Investment in debt securities	47,066,039	5,701,220	52,767,259
Derivatives		936,238	936,238
Other assets	72,068		72,068
Amounts due from group undertakings	4,041,215		4,041,215
	75,827,662	6,637,458	82,465,120

FINANCIAL LIABILITIES

Customer accounts	1,948,317	1,948,317
Amounts due to group undertakings	7,130,063	7,130,063
Bank borrowings	31,693,828	31,693,828
Other liabilities	275,549	275,549
	41,047,757	41,047,757

	Year Ended 31 Dec 19		
	£	£	£
FINANCIAL ASSETS	Amortised Cost	FVPNL	Total
Cash	16,926		16,926
Loans and advances to banks	13,361,818		13,361,818
Loans and advances to customers	8,865,828		8,865,828
Investment in debt securities	37,230,199	6,521,454	43,751,653
Other assets	82,087		82,087
Amounts due from group undertakings	1,693,114		1,693,114
	61,249,972	6,521,454	67,771,426

FINANCIAL LIABILITIES

Customer accounts	2,452,958		2,452,958
Amounts due to group undertakings	7,507,648		7,507,648
Bank borrowings	36,196,273		36,196,273
Other liabilities	383,000		383,000
	46,539,879		46,539,879

Fair Value Measurement

The bank categorises financial instruments held at fair value in the financial statements using three level hierarchy as follows:

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e., developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e., for which market data is unavailable) for the asset or liability

	Year Ended 31 Dec 20			
	Level 1 £	**Level 2** £	**Level 3** £	**Total**
Debt securities for trading at Fair Value	5,701,220	-	-	5,701,220
Derivatives at fair value	-	936,238	-	936,238
Total	5,701,220	936,238		6,637,458

	Year Ended 31 Dec 19			
	Level 1 £	**Level 2** £	**Level 3** £	**Total**
Debt securities for trading at Fair Value	6,521,454	-	-	6,521,454
Derivatives at fair value	-	-	-	-
Total	6,521,454			6,521,454

In measuring the fair value of these instruments, the bank uses a valuation methodology that reflects the closest value in the event of liquidation of the said securities or unwinding of / exit from the contract. Debt securities held at fair value are highly traded financial instruments of which prices are obtained from published and verifiable market data. The derivatives at fair value comprise of the outstanding FX swaps which were valued through the net present value methodology using forward currency rates and interest rates as inputs to the calculation.

CREDIT RISK

Credit risk is defined as the risk of a counterparty failing to complete its contractual obligations when they fall due. The balances disclosed in the credit risk tables below exclude financial assets that are subject to risks other than credit risk.

Maximum exposures to credit risk

The carrying amount of all financial assets of the bank best represents the maximum exposure to credit risk.

Collateral and credit enhancements held

The bank has no outstanding marketable securities held as collateral or credit enhancements as at 31 December 2020 (2019: $400,000)

Credit quality of financial assets

The table below details the credit quality of the bank's financial assets, showing the maximum exposure to credit risk, based on Moody's credit ratings. Assets that have ratings below investment grade have Moody's ratings of Ba1 to Ba2 (2019: Moody's Ba1 to Ba2) and S&P ratings of BB+ to BBB- (2019: BB+ to BBB-).

CREDIT QUALITY -2020

	Investment Grade £	Below Investment Grade £	Total £
Loans and advances to banks	6,910,392	0	6,910,392
Loans and advances to customers	5,808,748	11,924,757	17,733,505
Investment in debt securities	47,567,508	5,199,751	52,767,259
Amounts due from group undertakings	4,041,215	0	4,041,215
Total	**64,327,863**	**17,124,508**	**81,452,371**

CREDIT QUALITY - 2019

	Investment Grade £	Below Investment Grade £	Unrated £	Total £
Loans and advances to banks	13,361,818	0	0	13,361,818
Loans and advances to customers	1,570,784	7,288,958	6,086	8,865,828
Investment in debt securities	43,751,653	0	0	43,751,653
Amounts due from group undertakings	1,693,114	0	0	1,693,114
Total	**60,377,369**	**7,288,958**	**6,086**	**67,672,413**

A facility is considered to be past due when a contractual payment falls overdue by one day. When a facility is classified as past due, the entire facility balance after provisions is disclosed in the past due analysis. There are no other balances overdue by one day or more to be presented under past due category other than those disclosed in the table below.

The factors taken into consideration by the bank when determining an asset to be impaired are set out in Financial Statement Notes 3(n)

IMPAIRED ASSETS

	2020 £	2019 £
Loans and advances to customers	1,422	2,899
Total	**1,422**	**2,899**

LIQUIDITY RISK

Liquidity risk is the risk that BPI Europe is unable to meet its liabilities when they fall due and the inability to provide funding for withdrawals. The bank's liquidity profile is managed through regular monitoring of the regulatory metric, Liquidity Coverage Ratio (LCR), and internal daily reports such as cash flow gaps. The Board has set risk appetite levels and escalation processes to ensure that management actions are taken to mitigate liquidity concerns. The bank also performs an annual Internal Liquidity Adequacy Assessment Process (ILAAP) to identify the need for additional liquidity buffers.

The table below shows the contractual cash flows of financial assets and liabilities

Financial assets analysed by contractual amounts based on remaining contractual maturities as at 31 December 2020

Assets	0-3 Months £	3-6 Months £	6-12 Months £	1-5 Years £	Over 5 Years £	Total £
Cash	4,443					4,443
Loans and advances to banks	6,910,392	-	-	-	-	6,910,392
Loans and advances to customers, net	-	-	-	15,533,821	2,199,684	17,733,505
Investment in debt securities	33,415,708	-	5,943,330	10,956,719	2,451,502	52,767,259
Derivatives	318,818	441,475	175,945	-	-	936,238
Other assets	63,078	6,913	2,077	-	-	72,068
Amounts due from group undertakings	1,576,712	624	1,679	-	2,462,200	4,041,215
TOTAL	42,289,151	449,012	6,123,031	26,490,540	7,113,386	82,465,120

Liabilities	0-3 Months	3-6 Months	6-12 Months	1-5 Years	Over 5 Years	Total
Customer accounts	1,948,317	0	0	0	0	1,948,317
Bank borrowings	16,259,893	3,721,875	11,712,060	0	0	31,693,828

Other liabilities	120,482	0	155,067	0	0	275,549
Amounts due to group undertakings	6,229,902	900,161	0	0	0	7,130,063
TOTAL	**24,558,594**	**4,622,036**	**11,867,127**	**0**	**0**	**41,047,757**
Gap	**17,730,557**	**-4,173,024**	**-5,744,096**	**26,490,540**	**7,113,386**	**41,417,363**

Financial assets analysed by contractual amounts based on remaining contractual maturities as at 31 December 2019

Assets	**0-3 Months £**	**3-6 Months £**	**6-12 Months £**	**1-5 Years £**	**Over 5 Years £**	**Total £**
Cash	16,926	0	0	0	0	16,926
Loans and advances to banks	13,361,818	0	0	0	0	13,361,818
Loans and advances to customers, net	0	0	6,086	6,714,617	2,145,125	8,865,828
Investment in debt securities	32,914,661	0	1,019,089	9,038,027	779,876	43,751,653
Derivatives	0	0	0	0	0	0
Other assets	71,656	3,518	0	6,913	0	82,087
Amounts due from group undertakings	920,029	12,985	0	0	760,100	1,693,114
TOTAL	**47,285,090**	**16,503**	**1,025,175**	**15,759,557**	**3,685,101**	**67,771,426**

Liabilities	**0-3 Months**	**3-6 Months**	**6-12 Months**	**1-5 Years**	**Over 5 Years**	**Total**
Customer accounts	2,452,958	0	0	0	0	2,452,958
Bank borrowings	29,176,672	4,712,033	2,307,568	0	0	36,196,273
Other liabilities	164,987	0	218,013	0	0	383,000
Amounts due to group undertakings	5,498,875	854,722	1,154,051	0	0	7,507,648
TOTAL	**37,293,492**	**5,566,755**	**3,679,632**	**0**	**0**	**46,539,879**
Gap	**9,991,598**	**-5,550,252**	**-2,654,457**	**15,759,557**	**3, 685,101**	**21,231,547**

**Bank borrowings are typically rolled over when required. These are largely determined by the limits issued by funding counterparties to BPI Europe. For example, one creditor has set out a maximum tenor limit of 1 month, so borrowings from this institution are rolled over on a monthly basis.*

Market risk

Market risk is the exposure to adverse changes in the value of the bank's financial assets and liabilities as a result of changes or volatilities in market prices. Market risk arises from the bank's trading book activities as Treasury takes advantages of market opportunities to maximise its returns through the purchase and sale of financial instruments.

Interest Rate Risk

Interest rate risk pertains to the risk that BPI Europe experiences a deterioration in its financial position in response to movements in interest rates. The bank is exposed to interest rate risks from rate sensitive positions in the balance sheet. The bank has outstanding borrowings of £31,693,828 (2019: £36,196,273), amounts due to group undertakings £7,130,063(2019: £7,507,648), and customer deposit accounts of £1,948,317; (2019: £2,452,958) on which interest is paid. Meanwhile, the bank earns interest income on loans and advances to banks of £6,910,392 (2019: £13,361,818), debt securities of £52,767,259; (2019: £43,751,653), amounts due from group undertakings of £4,041,215 (2019: £1,693,114) and loans and advances to customers of £17,733,505; (2019: £8,865,828).

The table below indicates the bank's exposure to movements in interest rates as at 31 December 2020 and 2019.

		2020	2019
	Movement in basis point	Sensitivity of profit before tax	Sensitivity of profit before tax
		£	£
Euro	+10	(1)	184
Great British Pound	+10	22,584	21,680
United States Dollar	+10	18,087	20
Other currencies	+10	9	40
Euro	-10	1	184
Great British Pound	-10	(22,584)	21,680
United States Dollar	-10	(18,087)	20
Other currencies	-10	(9)	40

FOREIGN CURRENCY ASSETS AND LIABILITIES

Foreign exchange (FX) risk pertains to the risk that the fair value of future cash flows of financial instruments will change as a result of adverse movements in foreign exchange rates. It arises from financial instruments in the bank's balance sheet that are denominated in currencies other than GBP.

	Year Ended 31 Dec 2020				
ASSETS	**GBP**	**EUR**	**USD**	**PHP**	**Total**
	£	**£**	**£**	**£**	**£**
Cash	4,443	0	0	0	4,443
Loans and advances to banks	6,686,154	116,330	107,908	0	6,910,392
Loans and advances to customers, net	-38,806	9,775,836	7,996,475	0	17,733,505
Investment in debt securities	14,816,680	0	37,950,579	0	52,767,259
Derivatives	936,238	0	0	0	936,238
Tangible fixed assets, net	111,124	0	0	0	111,124
Other assets	65,889	2,438	3,741	0	72,068
Amounts due from group undertakings	2,519,391	4,551	1,508,491	8,782	4,041,215
TOTAL ASSETS	**25,101,113**	**9,899,155**	**47,567,194**	**8,782**	**82,576,244**

LIABILITIES					
Customer accounts	1,398,931	0	549,386	0	1,948,317
Amounts due to group undertakings	0	900,161	6,229,902	0	7,130,063
Bank borrowings	0	8,997,156	22,696,672	0	31,693,828
Other liabilities	272,016	1,332	2,201	0	275,549
	1,670,947	**9,898,649**	**29,478,161**	**0**	**41,047,757**
TOTAL ASSETS LESS LIABILITIES	**23,430,166**	**506**	**18,089,033**	**8,782**	**41,528,487**

Year Ended 31 Dec 2019

ASSETS	**GBP**	**EUR**	**USD**	**PHP**	**Total**
	£	**£**	**£**	**£**	**£**
Cash	16,926	0	0	0	16,926
Loans and advances to banks	2,307,138	76,623	10,978,057	0	13,361,818
Loans and advances to customers, net	-11,290	7,190,382	1,686,736	0	8,865,828
Investment in debt securities	20,971,734	0	22,779,919	0	43,751,653
Tangible fixed assets, net	155,240	0	0	0	155,240
Other assets	75,869	2,315	3,903	0	82,087
Amounts due from group undertakings	62,125	0	1,591,220	39,769	1,693,114
TOTAL ASSETS	**23,577,742**	**7,269,320**	**37,039,835**	**39,769**	**67,926,666**
LIABILITIES					
Customer accounts	1,649,642	0	803,316	0	2,452,958
Amounts due to group undertakings	0	854,722	6,652,926	0	7,507,648
Bank borrowings	0	6,596,277	29,599,996	0	36,196,273
Other liabilities	379,757	1,265	433	1,545	383,000
	2,029,399	**7,452,264**	**37,056,671**	**1,545**	**46,539,879**
TOTAL ASSETS LESS LIABILITIES	**21,548,343**	**-182,944**	**-16,836**	**38,224**	**21,386,787**

The sensitivity analysis table below shows the impact on the bank's profit and loss of possible changes in significant currency exposures based on assumed near term future volatility.

	Movements of +10%		Movements of -10%	
	2020	2019	2020	2019
	£	£	£	£
Euro	51	(18,294)	(51)	18,294
United States Dollar	1,808,903	(1,684)	(1,808,903)	1,684
Philippine Peso	878	3,822	(878)	(3,822)

20. COMMITMENTS UNDER OPERATING LEASES

At 31 December, the bank had annual commitments under non-cancellable operating leases as set out below.

Land and Buildings

	2020	2019
Operating Leases which expires	£	£
0 - 1 year	142,855	142,855
1 - 5 years	139,146	375,710

21. CALLED UP SHARE CAPITAL

	Year Ended 31 Dec 20	Year Ended 31 Dec 19
	£	£
Authorised share capital		
40,000,000 ordinary shares of £1 each	40,000,000	20,000,000
Allotted and called up:		
Ordinary shares of £1 each	40,000,000	20,000,000

On 25th September 2020, the Board of Directors issued 20,000,000 ordinary shares at £1 each which were allotted to the current and sole shareholder, Bank of the Philippine Islands.

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

22. DERIVATIVES AND COMMITMENTS

BPI Europe's balance sheet is composed mainly of simple (plain vanilla) financial instruments. The bank has outstanding FX swap transactions dealt in 2020 which are booked for funding purposes to strategically invest the additional capital denominated in foreign currency assets with relatively attractive yields. The additional capital was denominated in GBP while the assets that were yielding better returns were denominated in USD, hence the need to enter into FX Swap transactions. Additionally, from time to time, the bank enters into FX Swap transactions to manage its foreign currency position if necessary.

BPI Europe performs daily marking to market of these positions, which are then recognised daily in the profit and loss account under "foreign exchange gains/losses." Fair value of FX Swaps is calculated through net present value methodology using forward points and discount rates obtained from published and verifiable market data. Marking to market is done on a daily basis.

BPI Europe, as at reporting date, has a notional amount of £ 19,000,000 (2019 no foreign currency swap position). Mark to market of the unsettled forward legs of the swaps as of year-end was **£936,238.**

Furthermore, BPI Europe had no pending loan commitments to extend credit for any Syndicated Term Loans as at reporting date. (2019: Syndicated Term Loans for $3,000,000).

Refer to Note 20 for the Lease Commitments.

23. RELATED PARTY TRANSACTIONS

The bank's related party balances with parent are:

	Year Ended 31 Dec 20 £	Year Ended 31 Dec 19 £
Amount due from group undertakings		
Fixed deposits	2,464,503	1,547,331
Demand deposits	1,576,712	145,783
Total	**4,041,215**	**1,693,114**
Amount due to group undertakings	**7,130,063**	**7,507,648**
The corresponding interest earned is:		
Amount due from group undertakings		
Fixed Deposits	12,934	81,848
Demand Deposits	604	362
Total	**13,538**	**82,210**
The corresponding interest incurred is:		
Amount due to group undertakings	**91,189**	**83,938**

During the year, two related companies undertook commercial's arm's length transactions with the bank in the form of deposits placed with the bank.

Key management personnel compensation total is included in Note 8.

24. EVENTS AFTER REPORTING PERIOD

During January 2021, the bank received £20M of capital infusion from its parent, in line with its pre-COVID business growth strategy.