BANK OF THE PHILIPPINE ISLANDS (EUROPE) PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2021

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OFFICERS AND STATUTORY REGISTERED AUDITORS

The Board of Directors ("the Board")

Mr Jose Teodoro Limcaoco
Mr Alexander John Shapland
Ms Lizbeth Joan Yulo
Mr Martin Lynch O'Neil
Mr Robert David Reoch
Ms Maria Theresa Javier
Mr Dino Gasmen

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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 2021

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 is a UK-licenced bank authorised by the Prudential Regulation Authority (PRA), jointly regulated by the PRA and the Financial Conduct Authority (FCA). It has been in operation since 2007, and started off with a paid-up capital of £20 million, subsequently increased to £100 million after equity infusions in 2020 and 2021. The bank offers simple retail deposit products and engages in the trading of fixed income securities, foreign exchange and syndicated loans for its own books.

BPI Europe received the first tranche of additional capital amounting to £20 million in 2020. The final tranche of capital amounting to £60 million was received in 2021.

The higher capital base has allowed the bank to further its growth ambitions through leveraging opportunities. Wholesale borrowings are expected to fund balance sheet growth in the coming years by investing in a mix of high quality, liquid fixed income securities and syndicated loans. Fixed income and foreign exchange trading activities have likewise increased with larger bite sizes and the ability to express longer-termed market views

The bank's transition to the wholesale business has provided access to global financial assets, particularly in the European and American markets, allowing the parent bank to expand its trading reach into these geographical regions, consistent with the BPI Group's cross-border expansion plans.

BPI Europe's deposit-taking franchise, no less crucial to the bank's growth plans, consists of USD and GBP-denominated savings and time deposits offered to selected retail customers.

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 2021.

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 bank'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 its 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

The global financial markets started showing signs of post-pandemic recovery in 2020, and further gained steam in 2021. BPI Europe took advantage of improving market conditions to start implementing its growth strategy, originally intended for 2020. Following the receipt of additional capital infusions from the Bank of the Philippine Islands ("BPI", "Parent", "BPI Parent"), the bank added selectively to its portfolio of fixed income securities and syndicated loans, consistent with its plans.

BPI Europe reported a profit for the year amounting to £372,855 (2020: £141,700). Net Interest Income increased to £1,635,140 (2020: £737,760), due to a bigger balance sheet and better margins. Meanwhile, non-interest income was down to £942,435 (2020: £1,295,067) mainly due to unrealised loss recognised on the fair market valuation of the foreign currency swaps. Operating expenses for the year were higher at £2,124,748 (2020: £1,848,904).

In line with the capital infusion plan approved in 2020, the Board of Directors issued another 60,000,000 ordinary shares at £1 each in 2021, allotted to the current and sole shareholder, BPI. Total assets grew to £159,915,215 (2020: £82,576,244). Meanwhile, total liabilities were higher at £58,013,873 (2020: £41,047,757) as the bank looked to selectively leverage the balance sheet to pursue investment opportunities.

The bank's current ratio (current assets divided by current liabilities) is 0.86 (2020: 0.63). The bank's return on equity (profit after tax divided by the total shareholders' funds) for the year is 0.37% (2020: 0.34%).

RESULTS AND DIVIDENDS

The directors have not recommended a dividend (2020: 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 business 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 risks 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 2021 version of its ILAAP took into account the tranches of capital received, which served to improve the bank's liquidity position, and continued to consider the impact of the pandemic in its stress testing. 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 has also secured long-term borrowings to comply with the requirements of Net Stable Funding Ratio (NSFR), ahead of its full implementation in 2022. Cash and other cash items (included under "loans and advances to banks" and "amounts due from group undertakings") at year end stood at over £13.3 million, placements have been kept short (between 1 week to 1 month), and HQLA levels remain healthy. As of 31 December 2021, the bank's LCR stood at 224% 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. This may also arise from exposures to borrowers with similar risk characteristics (i.e., industry, geographical location) 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.

The bank's most recent ICAAP document, similar to the ILAAP, considered the accretive impact of the capital infusions and the ramifications of the ongoing global pandemic in its stress testing. Reverse stress testing was performed to identify the scenarios that will breach the bank's regulatory capital requirement. The results of these assessments showed that BPI Europe retains sufficient capital resources in normal and stressed market conditions given its financial and business projections. As of end 2021, the bank's capital ratio stood at 76.78%, well above the regulatory limit of 23.46%. The table below shows the components of the bank's capital ratio:

	2021	**2020**
Own Funds	101,528	21,387
Tier 1 Capital	101,528	21,387
Common Equity Tier 1 Capital	101,528	21,387
Total Risk Exposure Amount	132,211	70,440
Total CRWA	119,123	64,048
Total MRWA	8,938	1,692
Total ORWA	4,150	4,700
CET1 Capital Ratio	76.79%	30.36%
Tier 1 Capital Ratio	76.79%	30.36%
Total Capital Ratio	76.79%	30.36%
Regulatory Requirement	23.46%	23.48%

Market risk

Market risk pertains to the possible future loss of a portfolio's value 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 Foreign Exchange (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 the Value-at-Risk (VaR) metric, to properly mitigate and manage this risk.

Foreign exchange risk

FX risk is defined as the risk of financial losses and liquidity concerns due to adverse movements in 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 through dashboards. The bank does not currently deal in derivative instruments for speculative purposes, it holds foreign currency swaps for funding purposes to strategically invest in foreign currency assets with relatively more attractive yields. From time to time, the bank also enters FX Swap transactions to manage its foreign currency position as necessary.

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 the improper treatment of customers, violation of rules, and market manipulation, in order to prioritise the interests 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 among 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. Training on conduct rules is also regularly rolled out to all BPI Europe Staff and Board of Directors. 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 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, BPI Europe 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 the coronavirus. This setup continued throughout 2021. 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, transition risks, and/or liability risk. BPI Europe has established a framework that governs the way climate change risk is managed in the bank. While climate change may have minimal direct impact on BPI Europe as a financial institution, it has investments whose market value may be vulnerable to climate change; this has consequently been incorporated in the bank's stress testing exercise, and investment decisions include an assessment of climate change risks to specific sectors and/or names. 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 higher than previous year by 163% YoY (2020: lower by 51% YoY).

• **Balance sheet growth and composition**. This shows the bank's growth, investment, and funding strategies. Total assets are higher by 94% YoY (2020: higher by 22% YoY) as the bank received the remaining £60 million tranche of capital infusion in 2021.

• **Operating Income.** This provides information on the bank's capability to generate revenues and reflects the bank's business focus. Operating Income is up by 27% YoY (2020: down by 16% YoY) largely due to higher net interest income, on the back of additional capital infusions in 2021.

• **Net Interest Margin**. This represents the bank's net interest differential between sources and uses of funds. Net interest margin improved to 1.29% (2020: 1.03%), attributed to lower funding costs.

• **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 regulatory limits. As of end 2021, the capital ratio stood at 76.78%, well above the regulatory limit of 23.46% while liquidity coverage ratio was at 224% 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
4th April 2022

THE DIRECTORS' REPORT

The Board of Directors present their report and the audited financial statements of the Bank of the Philippine Islands (Europe) Plc (the "bank" or "BPI Europe") for the year ended 31st December 2021.

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.

BPI Europe continues to grow and optimise its wholesale business consistent with the Board's direction and appetite.

In 2021, the Board of Directors issued additional 60,000,000 ordinary shares at £1 each which were allotted to the current and sole shareholder, Bank of the Philippine Islands ("BPI", "Parent", "BPI Parent"). Following the receipt of the additional capital from BPI Parent, the bank deployed the funds to higher yielding corporate syndicated loans and bonds. Funding cost also improved as the bank initially paid high-cost borrowings and as interest rates remained relatively low throughout 2021. This resulted in higher net interest income in 2021. As BPI Europe continues to implement its growth strategies, the bank is expected to continue to deploy funds in a calculated way, within the Board-approved parameters and limits.

Hard Brexit did 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, however, may eventually be felt in potential 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.

The bank has assessed the geopolitical risk arising from the entering of Russian forces into Ukraine during February 2022. The bank, based on assessment performed and close monitoring of the bank's portfolio, is currently confident that the ongoing conflict and resulting crisis will not adversely impact the bank's liquidity or operations in any significant or material way. The bank is well poised to mitigate any impact that may ensue from this geopolitical crisis

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 Jose Teodoro Limcaoco (appointed 28 June 2021)
Mr Alexander John Shapland
Ms Lizbeth Joan Yulo
Mr Martin Lynch O'Neil
Mr Robert David Reoch
Ms Maria Theresa Javier
Mr Dino Gasmen (appointed 27 September 2021)
Ms Marita Socorro Gayares (resigned 27 September 2021)
Mr Cezar Consing (resigned 30 November 2021)

THE DIRECTOR'S REPORT (continued)

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

Mr Chi Wai Lu

THIRD PARTY INDEMNITIES

The bank has arranged qualifying third party indemnity insurance for all Directors. BPI Europe is a wholly owned subsidiary of the BPI 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 BPI Parent.

POLICY ON THE PAYMENT OF CREDITORS

It is the bank's policy, in respect of all suppliers, to settle its obligations to creditors within the 30 days of invoice date. The number of creditor days in relation to suppliers' balance outstanding at 31st December 2021 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 Board-approved parameters, controls, and governance structures that guide 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 Units, perform the compliance and risk management oversight functions, respectively, and as such, remain independent of business. The second line ensures that the bank is kept abreast of relevant regulatory rules and standards and that the firm has adequate resources to comply with these rules. The Units perform regular assessments of the bank's systems and controls and make recommendations for process improvements based on its evaluations. They are responsible for providing the bank with the risk management and compliance frameworks, tools, and policies to aid the first line of defence to remain compliant with current and future policies and regulations.

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 bank's Internal Audit, outsourced to the BPI Parent's Internal Audit, performs the monitoring, review, and assessment of the bank's compliance to rules, regulations, and policies.

THE DIRECTOR'S REPORT (continued)

INDEPENDENT AUDITORS

Mazars LLP are deemed to be re-appointed as the bank's auditors in accordance with section 487(2) of the Companies Act 2006.

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.

DISCLOSURE OF FINANCIAL INFORMATION TO AUDITORS

For all 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 bank'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 bank's auditors are aware of that information.

GOING CONCERN STATEMENT

In line with the bank's medium-term growth strategy, the bank received additional capital from BPI Parent totalling £80 Million, spread out across 3 tranches between 2020 and 2021. Since the first tranche of capital arrived in 2020, and as the succeeding tranches of capital were infused, the bank has been focused on putting the additional capital to work, in line with its strategic plans.

Throughout 2021, the global financial markets showed signs of post Covid-19 pandemic recovery, tentatively at first, as vaccines were rolled out across the world and economies reopened, gaining more steam as the year progressed. However, as winter set in, countries again tightened restrictions as cases rose; the Omicron variant discovered in December resulted, once again, in border closures and lockdowns, and continues to threaten the still fragile global economic recovery.

Having weathered the worst of the pandemic reasonably well thus far, BPI Europe took advantage of improving market conditions to add selectively to its portfolio of fixed income securities and syndicated loans, consistent with its plans. Implementation of its growth strategy, originally intended for 2020, began in earnest in mid-2021. 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, demonstrating the position of strength and resilience the bank currently finds itself in. Both the ILAAP and the ICAAP reflect that the bank has sufficient capital and liquidity to execute its growth strategy.

The bank constantly assesses the performance of the credit assets in the bank's books. It actively monitors the credit worthiness of the borrowers/issuers, ensuring that interest payments coming due continue to be paid, and regularly checks credit ratings actions and compliance certificates. These are reported on a quarterly basis to both the Audit and Risk Committee and the Board of Directors.

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

The infusion of additional capital bolstered the bank's strategy to grow its balance sheet, and allowed the bank to attract wholesale funding. In effect, the capital infusions have addressed the impediments to the bank's longer term growth ambitions.

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. The Directors have conducted this assessment and are satisfied that the bank will have adequate resources to continue in business for the foreseeable future including a period of 12 months from the date of approval of these annual report and financial statements.

Approved by the directors on 4th April 2022

On behalf of the board:

Ms Lizbeth Joan Yulo
Managing Director
4th April 2022

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 'bank') for the year ended 31 December 2021 which comprise the Profit and Loss Account, Balance Sheet, Statement of Movements in Shareholder's 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 bank's affairs as at 31 December 2021 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 bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "FRC") 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 bank'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 bank's ability to continue as a going concern;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the bank's future financial performance;

- Reviewing the directors' going concern assessment including Covid-19 considerations based on a range of scenarios, and assessing the sufficiency of the bank's capital and liquidity taking into consideration the most recent Internal Capital Adequacy Assessment Process and Internal Liquidity Assessment Process;
- Evaluating the key assumptions used in the scenarios indicated above and consider whether these appear reasonable;
- Challenging the appropriateness of the key assumptions used in management's forecasts, including incorporating back-testing to evaluate the historical accuracy of management's forecasting and budgeting;
- Reading regulatory correspondence and Audit and Risk Committee and Board of Directors meeting minutes to identify events of conditions that may impact the bank's ability to continue as a going concern; 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 bank's ability to continue as a going concern for a period of 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 matters in forming our opinion above, together with an overview of the principal audit procedures performed to address each matter and our key observations arising from those procedures.

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

Key Audit Matter	How our scope addressed this matter
Provision for impairment on loans and advances to customers (£90,400) *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 impairment provision. As at 31 December 2021, the total impairment provision of the bank principally consists of a collective provision over corporate loans amounting to £90,399. 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. Therefore, there is a greater risk of misstatement in the provision for impairment on loans and advances to customers, either by fraud or error, including through the potential override of controls by management.	We have assessed the design and implementation, and tested the operating effectiveness, of the key controls operating at the bank 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 material corporate loan counterparties. We assessed the appropriateness of impairment provision disclosures in the financial statements. In respect of the model used to determine the collective provision, with the assistance of our in-house credit specialists we: • Considered the appropriateness of the methodology used by management; • Tested 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 2021, including the use of alternative inputs from independent sources.

	Our observations We found that the assumptions used by management in the impairment assessment are reasonable and that the balance of impairment provision on loans and advances to customers as at 31 December 2021 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	£754,000
How we determined it	0.85% of average net assets during the year.
Rationale for benchmark applied	Due to the volatility of profits, net assets are considered to reflect more appropriately the size of the bank's operations. Furthermore, net assets are an approximation of regulatory capital resources which is a key focus for management, shareholder and regulators. We have used an average of net assets instead of the year-end balance considering that the bank received significant capital injections in two stages during the year.
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. We set performance materiality at £528,000, which represents 70% of overall materiality.
Reporting threshold	We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £23,000 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 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 our risk assessment, our understanding of the bank, its environment, controls, and critical business processes, to consider qualitative factors 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.

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 this gives rise to a material misstatement in the financial statements themselves. 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 bank 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 bank, or returns adequate for our audit have not been received from branches not visited by us; or

- the bank's 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 the 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 bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the bank 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.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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.

Based on our understanding of the bank and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: the regulatory and supervisory requirements of the Prudential Regulation Authority (the "PRA") and the Financial Conduct Authority (the "FCA").

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Gaining an understanding of the legal and regulatory framework applicable to the bank and the industry in which it operates, and considering the risk of acts by the bank which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the bank is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with relevant licensing or regulatory authorities including the PRA and the FCA;
- Reviewing Audit and Risk Committee and Board of Directors meeting minutes in the year; and
- Discussing amongst the engagement team the laws and regulations listed above, and remaining alert to any indications of non-compliance.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as the Companies Act 2006 and UK tax legislation.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks 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 the provision for impairment on loans and advances to customers (as described in the "Key audit matters" section of our report), and revenue recognition (which we related to the occurrence and accuracy assertions).

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; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing on a sample basis.

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 are discussed in the "Key audit matters" section of this report.

A further description of our responsibilities is available on the FRC's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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 two years, covering the years ended 31 December 2020 to 31 December 2021.

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

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

Use of the audit report

This report is made solely to the bank'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 bank'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 bank and the bank'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

4 April 2022

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2021

		Year Ended 31 Dec 2021	Year Ended 31 Dec 2020
REVENUES		**£**	**£**
Interest receivable and similar income		1,977,005	1,229,508
Interest payable and similar charges		(341,865)	(491,748)
Net interest income	9	1,635,140	737,760
Fees and commission income		44,019	30,478
Foreign exchange gains		636,230	1,076,593
Gain on sale of investments	5	267,358	195,874
Other operating income		(5,172)	(7,878)
OPERATING INCOME		2,577,575	2,032,827
Administrative expenses		(2,029,872)	(1,779,979)
Depreciation		(44,704)	(46,766)
Impairment charges	11	(50,172)	(22,159)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	452,827	183,923
Tax on profit on ordinary activities	10	(79,972)	(42,223)
PROFIT FOR THE FINANCIAL YEAR		372,855	141,700

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

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	Year Ended 31 Dec 21 £	Year Ended 31 Dec 20 £
ASSETS			
Cash		4,443	4,443
Loans and advances to banks	11	8,215,760	6,910,392
Loans and advances to customers, net	11	43,461,929	17,733,505
Amounts due from group undertakings	15	9,094,569	4,041,215
Investment in debt securities	12	98,421,761	52,767,259
Derivative Assets	22	336,406	936,238
Tangible fixed assets, net	13	75,625	111,124
Other assets	14	304,722	72,068
TOTAL ASSETS		159,915,215	82,576,244
LIABILITIES			
Customer accounts	16	1,291,370	1,948,317
Bank borrowings	17	42,276,046	31,693,828
Amounts due to group undertakings	24	10,915,712	7,130,063
Amounts due to Other Banks	23	2,020,426	-
Derivative Liabilities	22	1,114,662	-
Other liabilities	18	395,657	275,549
		58,013,873	41,047,757
TOTAL ASSETS LESS LIABILITIES		101,901,342	41,528,487
Called up share capital	21	100,000,000	40,000,000
Profit and loss account		1,901,342	1,528,487
TOTAL SHAREHOLDERS' FUNDS		101,901,342	41,528,487

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 23 to 51 were approved by the Board of Directors and authorised for issue on 4th April 2022 and are signed on their behalf by Ms Lizbeth Joan Yulo.

Ms Lizbeth Joan Yulo
Managing Director

STATEMENT OF MOVEMENTS IN SHAREHOLDER'S FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital £	Retained earnings £	Shareholder's funds £
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**
Balance as at 1 January 2021	40,000,000	1,528,487	41,528,487
Additional share capital	60,000,000	-	60,000,000
Profit for financial year	-	372,855	372,855
Balance as at 31 December 2021	**100,000,000**	**1,901,342**	**101,901,342**

NOTES TO THE FINANCIAL STATEMENT

1. GENERAL INFORMATION

The Bank of the Philippine Islands (Europe) Plc ("BPI Europe" or "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", "Parent", "BPI 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 line with the bank's medium-term growth strategy, the bank received additional capital from BPI Parent totalling £80 million, spread out across (three) 3 tranches between 2020 and 2021.

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 Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) were proven to be more severe than the scenarios that actually played out. Both the ILAAP and the ICAAP reflect that the bank has sufficient capital and liquidity to execute its growth strategy.

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. The Directors have conducted this assessment and are satisfied that the bank will have adequate resources to continue in business for the foreseeable future including a period of 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 BPI, a bank incorporated in the Republic of the Philippines, and BPI 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/loss from foreign exchange transactions is recognised on transaction date and from the daily revaluation of foreign currency positions. Gains on sale of fixed income securities investments are recognised from the sale and purchase of debt securities and fair value changes in the period in which they arise.

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, including loans and advances to banks, loans and advances to customers, amounts due from group undertakings, cash, and investments in debt securities at amortised cost 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.

Debt securities for trading are measured at fair value with the transaction costs recognised immediately in the profit or loss. Subsequent to initial recognition, the fair value is determined using prevailing market rates on a daily basis. Realised and unrealised trading gains or losses are recognised as part of the Gain on sale of investments in the Profit or Loss.

Financial assets booked at 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 the 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 impairment loss, if any, is recognised in the profit and loss account. As a prudential measure, the bank sets loan loss provision for syndicated loans to act as buffer for potential losses that may be incurred for the year. In estimating the loss provision, the bank uses the Incurred Loss methodology by deriving default rates from observable market data.

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, amounts due to other banks, 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

BPI Europe's balance sheet is composed mainly of simple (plain vanilla) financial instruments. The bank has outstanding Foreign Exchange (FX) swap transactions in 2021 and 2020 which are used for funding purposes, to strategically invest in foreign currency denominated assets with relatively more attractive yields. The bank may also enter into FX Swap transactions to manage its foreign currency position, if necessary.

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 an obligation at the reporting date as a result of past events, when 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.

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 are not recognised in the financial statements but are disclosed unless the possibility of an outflow of assets embodying economic benefits is remote. A contingent liability is either:

(1) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(2) a present obligation that arises from past events but is not recognised because:

2.1 it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

2.2 the amount of the obligation cannot be measured with sufficient reliability.

p) Share capital

Ordinary shares are classified as equity. Current shares of 100,000,000 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 £267,358 (2020: £195,874).

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

	Year Ended 31 Dec 21	Year Ended 31 Dec 20
	£	£
Staff costs	1,069,862	989,150
Foreign exchange gains	(636,230)	(1,076,593)
Depreciation of fixed assets	44,704	46,766
Operating lease costs (rent expense)	153,426	153,455

	Year Ended 31 Dec 21	Year Ended 31 Dec 20
	£	£
Auditor's Remuneration:		
Fees payable to the bank's auditors for the audit of the bank	96,000	105,000
Fees payable to the bank's auditors for other services pursuant to legislation (CASS Limited Assurance Engagement)	6,600	6,000
Total	**102,600**	**111,000**

7. PARTICULARS OF EMPLOYEES

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

	Year Ended 31 Dec 21	Year Ended 31 Dec 20
Number of administrative staff	11	10
Number of management staff	6	5
	17	**15**

The payroll costs recognized under "Administrative expenses" in the Profit or Loss statement were:

	Year Ended 31 Dec 21	Year Ended 31 Dec 20
	£	£
Wages and salaries	1,008,423	946,030
Social security cost	49,925	33,972
Other staff costs	11,514	9,148
Total staff costs	**1,069,862**	**989,150**

Other staff costs include the employer's contribution to the employee's workplace pension funds and employees' insurance in 2021, and are included within administrative expenses in the Profit and Loss account.

8. DIRECTORS' EMOLUMENTS

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

	Year Ended 31 Dec 21	Year Ended 31 Dec 20
	£	£
Director's Remuneration	293,978	286,533
Highest Paid	188,978	181,533

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 21	Year Ended 31 Dec 20
	£	£
(a) Interest receivable and similar income		
Interbank placements	7,122	57,168
Debt securities	1,433,118	807,296
Time loans	530,875	363,854
Others	5,890	1,190
	1,977,005	**1,229,508**
(b) Interest payable and similar charges		
Borrowings	(265,673)	(368,032)
Customer Deposits	(76,192)	(123,716)
Time Loans	-	-
	(341,865)	**(491,748)**
(c) Net interest income	**1,635,140**	**737,760**

10. TAX ON PROFIT ON ORDINARY ACTIVITIES

The current corporation tax rate is 19% for the year end 31 December 2021. The corporation tax rate is due to increase to 25% effective 1 April 2023.

	Year Ended 31 Dec 21 £	Year Ended 31 Dec 20 £
(a) Analysis of tax charge for the year:		
Current tax in respect of the year:		
Corporation tax at 19%	91,267	42,223
Deferred tax:		
Movement in deferred tax liability	(4,017)	-
Adjustment in respect of prior period	(7,278)	-
Tax charge on profit on ordinary activities	**79,972**	**42,223**
(b) Factors affecting tax charge for the year:		
Profit on ordinary activities before taxation	452,827	183,923
Profit on ordinary activities multiplied by standard rate of UK		
Profit on ordinary activities multiplied by standard rate of UK corporation tax based on the results for the period at 19%	86,037	34,945
Disallowable (allowable) expenditure	(534)	-
Depreciation in excess of capital allowances	5,764	7,278
Current tax (note 11a)	**91,267**	**42,223**
Less: Adjustment of deferred tax liability	(4,017)	-
Adjustment in respect of prior period	(7,278)	-
Tax charge on profit on ordinary activities	**79,972**	**42,223**

11. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

Loans and advances to banks consists of:

	Year Ended 31 Dec 21	Year Ended 31 Dec 20
	£	£
Loans and advances to banks	8,215,760	6,910,392
Provision for impairment	-	-
	8,215,760	**6,910,392**

	Year Ended 31 Dec 21	Year Ended 31 Dec 20
	£	£
Corporate loans	43,552,328	17,772,311
Loans to high net worth individuals	-	-
Other retail loans	1	1,422
Provision for impairment	(90,400)	(40,228)
	43,461,929	**17,733,505**

Movement in provision for impairment

	Collective	Year Ended 31 Dec 21 Specific	Total	Year Ended 31 Dec 20 Total
	£	£	£	£
Beginning balance	38,806	1,422	40,228	20,276
Additional provision	51,593	-	51,593	23,260

Reversal of provision		(1,421)	(1,421)	(3,308)
Ending balance	**90,399**	**1**	**90,400**	**40,228**

FRS 102, considering 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 for 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 2021 loan provisions by obtaining the applicable probability of default, loss given default, and exposure at default (total balance as of 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 or to trade.

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, 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 appropriate two-way market.

	Year Ended 31 Dec 21	**Year Ended 31 Dec 20**
INVESTMENTS IN DEBT SECURITIES	£	£
Debt securities for trading at fair value	27,004,356	5,701,220
Debt securities at amortised cost	71,417,405	47,066,039
	98,421,761	**52,767,259**

13. TANGIBLE FIXED ASSETS

	Leasehold nprovements	Fixture and Fittings	Office Furniture	Computer Equipment	Total
YEAR 2021	£	£	£	£	£
COST					
At 1 January 2021	581,819	42,491	137,587	41,633	803,530
Additions	-	-	-	9,205	9,205
At 31 December 2021	581,819	42,491	137,587	50,838	812,735
DEPRECIATION					
At 1 January 2021	475,650	42,491	137,551	36,714	692,406
Charge for the period	42,060	-	36	2,608	44,704
At 31 December 2021	517,710	42,491	137,587	39,322	737,110
NET BOOK VALUE					
At 31 December 2021	**64,109**	**-**	**-**	**11,516**	**75,625**

	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
Net Additions	-	-	-	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	-	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	-	2,640	2,314	111,124

There were no write-offs booked in 2021 (2020: nil).

14. OTHER ASSETS

	Year Ended 31 Dec 21 £	Year Ended 31 Dec 20 £
Amounts falling due within one year:		
Prepayments and other assets	294,479	63,078
Operating lease deposit	3,677	8,990
	298,156	**72,068**
Amounts falling due after more than one year:		
Prepayments and other assets	-	-
Operating lease deposit	6,566	-
TOTAL	**304,722**	**72,068**

15. AMOUNTS DUE FROM GROUP UNDERTAKINGS

	Year Ended 31 Dec 21 £	Year Ended 31 Dec 20 £
From BPI Parent	9,094,569	4,041,215
From other group entities	-	-
TOTAL	**9,094,569**	**4,041,215**

Significant accounts falling under this category include nostro balances and term deposits placed with the BPI Parent company totalling to £9.0 million, where £4.0 million is the term deposit pledged to BPI Parent. (2020: £2.46 million, the equivalent of $2.0 million and £1.0 million). Placements with BPI Parent 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 2021. Collectively, these documents cover a pledge of £4.0 million in the form of placements (broken down with £1 million pledged starting July 8, 2021 and £3 million pledged on June 11, 2021) and $5.0 million with BPI Parent in the form of dollar-denominated Philippine sovereign bond (2020: $2.0 million and £1.0 million in the form of placements and $5.0 million the form of bonds issued by the Philippine government).

16. CUSTOMER ACCOUNTS

	Year Ended 31 Dec 21 £	Year Ended 31 Dec 20 £
Customer Accounts	**1,291,370**	**1,948,317**

17. BANK BORROWINGS

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

	Year Ended 31 Dec 21 £	Year Ended 31 Dec 20 £
Payable in:		
30 days	9,637,589	9,507,998
3 months	-	6,751,895
6 months	9,655,522	3,721,875
1 year	8,161,471	11,712,060
Over 1 year	14,821,464	-
TOTAL	**42,276,046**	**31,693,828**

The bank borrowings comprise of $57,123,384 at rates from 0.18% to 1.40% p.a. (2020: €10,021,336 at rates from 0.36% to 0.64% and $31,044,512 at rates ranging from 0.28% to 1.48% p.a.).

18. OTHER LIABILITIES

	Year Ended 31 Dec 21 £	Year Ended 31 Dec 20 £
Other taxation and social security	27,236	26,677
Accrued expenses and other creditors	198,101	93,805
Other liabilities	170,320	155,067
TOTAL	**395,657**	**275,549**

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 2021 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 bank's financial instruments by category:

FINANCIAL ASSETS	**Year Ended 31 December 2021**		
	Amortised Cost	**Fair Value through Profit or Loss (FVPNL)**	**Total**
	£	£	£
Cash	4,443	-	4,443
Loans and advances to banks	8,215,760	-	8,215,760
Loans and advances to customers, net	43,461,929	-	43,461,929
Investment in debt securities	71,417,405	27,004,356	98,421,761
Derivative Assets	-	336,406	336,406
Amounts due from group undertakings	9,094,569		9,094,569
TOTAL	**132,194,106**	**27,340,762**	**159,534,868**
FINANCIAL LIABILITIES			
Customer accounts	1,291,370	-	1,291,370
Amounts due to group undertakings	10,915,712		10,915,712
Derivative Liabilities	-	1,114,662	1,114,662
Bank borrowings	42,276,046	-	42,276,046
Other liabilities*	368,421	-	368,421
Amounts due to Other Banks	2,020,426	-	2,020,426
TOTAL	**56,871,975**	**1,114,662**	**57,986,637**

*Other Liabilities excludes taxes liability

FINANCIAL ASSETS	**Year Ended 31 December 2020**		
	Amortised Cost	**Fair Value through Profit or Loss (FVPNL)**	**Total**
	£	£	£
Cash	4,443	-	4,443
Loans and advances to banks	6,910,392	-	6,910,392
Loans and advances to customers, net	17,733,505	-	17,733,505
Investment in debt securities	47,066,039	5,701,220	52,767,259
Derivatives Assets		936,238	936,238
Amounts due from group undertakings	4,041,215	-	4,041,215
TOTAL	**75,755,594**	**6,637,458**	**82,393,052**
FINANCIAL LIABILITIES			
Customer accounts	1,948,317	-	1,948,317
Amounts due to group undertakings	7,130,063	-	7,130,063
Derivatives Liabilities	-	-	-
Bank borrowings	31,693,828	-	31,693,828
Other liabilities*	248,872	-	248,872
TOTAL	**41,021,080**	-	**41,021,080**

*Other Liabilities excludes taxes liability

Fair Value Measurement

The bank categorises financial instruments held at fair value in the financial statements using a 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 December 2021			
	Level 1	Level 2	Level 3	Total
	£	£	£	
Financial Assets				
Debt securities for trading at Fair Value	27,004,356	-	-	27,004,356
Derivative Assets	-	336,406	-	336,406
Total	**27,004,356**	**336,406**	**-**	**27,340,762**
Financial Liabilities				
Derivatives Liabilities	-	1,114,662		1,114,662
Total	**-**	**1,114,662**	**-**	**1,114,662**

	Year Ended 31 December 2020			
	Level 1	Level 2	Level 3	Total
	£	£	£	
Financial Assets				
Debt securities for trading at Fair Value	5,701,220	-	-	5,701,220
Derivative Assets	-	936,238	-	936,238
Total	**5,701,220**	**936,238**	**-**	**6,637,458**

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 2021 (2020: no outstanding).

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 and S&P ratings of BB+ to BBB-.

CREDIT QUALITY - 2021

	Investment Grade	Below Investment Grade	Unrated	Total
	£	£	£	£
Loans and advances to banks	5,943,705	-	2,272,055	8,215,760
Loans and advances to customers	9,596,249	28,865,680	5,000,000	43,461,929
Investment in debt securities	94,428,654	3,993,107	-	98,421,761
Derivative Assets	336,406	-	-	336,406.00
Amounts due from group undertakings	9,094,569	-	-	9,094,569
Total	**119,399,583**	**32,858,787**	**7,272,055**	**159,530,425**

CREDIT QUALITY - 2020

	Investment Grade	Below Investment Grade	Unrated	Total
	£	£	£	£
Loans and advances to banks	6,910,392	-	-	6,910,392
Loans and advances to customers	5,808,748	11,924,757	-	17,733,505
Investment in debt securities	47,567,508	-	-	52,767,259
Derivative Assets	936,238	5,199,751	-	936,238
Amounts due from group undertakings	4,041,215	-	-	4,041,215
Total	**65,264,101**	**17,124,508**	-	**82,388,609**

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).

LIQUIDITY RISK

Liquidity risk is the risk that BPI Europe is unable to meet its obligations 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 various internal reports such as the daily cash flow gaps, intra-day liquidity, and 92-day liquidity. 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. Throughout the period, the bank has kept sufficient liquidity, well above the regulatory limits.

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

Financial assets analysed by contractual undiscounted amounts based on remaining contractual maturities as at 31 December 2021

	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	8,216,176	-	-	-	-	8,216,176
Loans and advances to customers, net	219,872	235,938	5,454,932	33,519,366	7,578,509	47,008,617
Investment in debt securities	69,124,493	189,603	549,658	12,818,068	19,179,363	101,861,185
Derivative Assets	148,795	32,427	155,184	-	-	336,406
Amounts due from group	5,091,829	3,792	1,267	-	4,000,000	9,096,888
TOTAL	**82,805,608**	**461,760**	**6,161,041**	**46,337,434**	**30,757,872**	**166,523,715**

Financial liabilities analysed by contractual undiscounted amounts based on remaining contractual maturities as at 31 December 2021

	0-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Customer accounts	1,291,370	-	-	-	-	1,291,370
Bank borrowings	9,690,024	9,730,589	8,308,192	15,215,274	-	42,944,079
Amounts due to group undertakings	10,074,907	840,805	-	-	-	10,915,712
Derivative Liabilities	87,748	995,962	30,952	-	-	1,114,662
Other Liabilities*	198,101	-	-	-	170,319.85	368,421
Amounts due to Other banks	2,020,426	-	-	-	-	2,020,426
TOTAL	**23,362,576**	**11,567,356**	**8,339,144**	**15,215,274**	**170,320**	**58,654,670**
Gap	**59,443,032**	**(11,105,596)**	**(2,178,103)**	**31,122,160**	**30,587,552**	**107,869,045**

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

	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	77,117	114,290	151,703	16,579,406	2,233,813	19,156,329
Investment in debt securities	33,748,420	110,122	6,305,459	11,526,058	2,357,798	54,047,857
Derivative Assets	318,818	441,475	175,945	-	-	936,238
Amounts due from group undertakings	1,576,712	927	3,461	-	2,462,200	4,043,300
TOTAL	42,635,902	666,814	6,636,568	28,105,464	7,053,811	85,098,559

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

	0-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Customer accounts	1,948,317	-	-	-	-	1,948,317
Bank borrowings	16,267,851	3,733,287	11,792,912	-	-	31,794,049
Amounts due to group undertakings	6,229,902	900,161	-	-	-	7,130,063
Derivative Liabilities	-	-	-	-	-	-
Other Liabilities*	93,805	-		-	155,067	275,549
TOTAL	24,539,875	4,633,448	11,792,912	-	155,067.00	41,147,978
Gap	18,096,027	(3,966,634)	(5,156,344)	28,105,464	6,898,744	43,950,581

*Other liabilities excludes taxes liability

The above figures exclude items that are non-financial instruments and non-contractual accruals and provisions.

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 one 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 table below indicates the bank's exposure to movements in interest rates as at 31 December 2021 and 2020.

Financial assets as at 31 December 2021

	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	8,215,760	-	-	-	-	8,215,760
Loans and advances to customers, net	39,259,323	4,202,606	-	-	-	43,461,929
Investment in debt securities	30,177,319	-	-	28,202,166	40,042,276	98,421,761
Derivative Assets	148,795	32,427	155,184	-	-	336,406
Amounts due from group undertakings	5,091,829	3,002,125	1,000,615	-	-	9,094,569
TOTAL	82,897,469	7,237,158	1,155,799	28,202,166	40,042,276	159,534,868

Financial liabilities as at 31 December 2021

	0-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Customer accounts	1,291,370	-	-	-	-	1,291,370
Bank borrowings	24,459,053	9,655,522	8,161,471	-	-	42,276,046
Amounts due to group undertakings	10,074,907	840,805	-	-	-	10,915,712
Derivative Liabilities	87,748	995,962	30,952	-	-	1,114,662
Other liabilities*	198,101	-	-	-	170,320	368,421
Amounts due to Other Banks	2,020,426	-	-	-	-	2,020,426
TOTAL	38,131,605	11,492,289	8,192,423	-	170,320	57,986,636

*Other liabilities excludes taxes liability

NET GAP	44,765,864	(4,255,131)	(7,036,624)	28,202,166	39,871,956	101,548,232
+50 bps shock	223,829	(21,276)	(35,183)	141,011	199,360	507,741
-50 bps shock	(223,829)	21,276	35,183	(141,011)	(199,360)	(507,741)

Financial assets as at 31 December 2020

	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	17,733,505	-	-	-	-	17,733,505
Investment in debt securities	6,709,831	2,101,995	7,038,626	21,568,790	15,348,017	52,767,259
Derivative Assets	318,818	441,475	175,945	-	-	936,238
Amounts due from group undertakings	1,576,712	624	1,679	-	2,462,200	4,041,215
TOTAL	33,253,701	2,544,094	7,216,250	21,568,790	17,810,217	82,393,052

Financial liabilities as at 31 December 2020

	0-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Customer accounts	1,948,317	-	-	-	-	1,948,317
Bank borrowings	16,259,893	3,721,875	11,712,060	-	-	31,693,828
Amounts due to group undertakings	6,229,902	900,161	-	-	-	7,130,063
Derivative Liabilities	-	-	-	-	-	-
Other liabilities*	93,805	-		-	155,067	248,872
Amounts due to Other Banks	-	-	-	-	-	-
TOTAL	24,531,917	4,622,036	11,712,060	-	155,067	41,021,080

*Other liabilities excludes taxes liability

NET GAP	8,721,784	(2,077,942)	(4,495,810)	21,568,790	17,655,150	41,371,972
+50 bps shock	43,609	(10,390)	(22,479)	107,844	88,276	206,860
-50 bps shock	(43,609)	10,390	22,479	(107,844)	(88,276)	(206,860)

FOREIGN CURRENCY ASSETS AND LIABILITIES

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.

From time to time, the bank enters into FX Swap transactions to manage its foreign currency position if necessary.

	Year Ended 31 December 2021				
ASSETS	**GBP**	**EUR**	**USD**	**PHP**	**Total**
Cash	4,443	-	-	-	4,443
Loans and advances to banks	5,405,255	93,428	2,717,077	-	8,215,760
Loans and advances to customers, net	4,929,972	12,003,013	26,528,944	-	43,461,929
Investment in debt securities	24,602,946	-	73,818,815	-	98,421,761
Derivative Assets	181,222	-	155,184	-	336,406
Amounts due from group undertakings	9,029,250	38,690	11,308	15,321	9,094,569
TOTAL ASSETS	**44,153,088**	**12,135,131**	**103,231,328**	**15,321**	**159,534,868**
LIABILITIES					
Customer accounts	1,013,984	-	277,386	-	1,291,370
Bank borrowings	-	-	42,276,046	-	42,276,046
Amounts due to group undertakings	-	840,805	10,074,907	-	10,915,712
Derivative Liabilities	-	-	1,114,662	-	1,114,662
Other liabilities*	366,756	1,244	421	-	368,421
Amounts due to other banks	-	-	2,020,426	-	2,020,426
	1,380,740	**842,049**	**55,763,848**	**-**	**57,986,637**
TOTAL ASSETS LESS LIABILITIES	**42,772,348**	**11,293,082**	**47,467,480**	**15,321**	**101,548,231**

*Other Liabilities excludes taxes liability

	Year Ended 31 December 2020				
ASSETS	**GBP**	**EUR**	**USD**	**PHP**	**Total**
Cash	4,443	-	-	-	4,443
Loans and advances to banks	6,686,154	116,330	107,908	-	6,910,392
Loans and advances to customers, net	(38,806)	9,775,836	7,996,475	-	17,733,505
Investment in debt securities	14,816,680	-	37,950,579	-	52,767,259
Derivative Assets	936,238	-	-	-	936,238
Amounts due from group undertakings	2,519,391	4,551	1,508,491	8,782	4,041,215
TOTAL ASSETS	**24,924,100**	**9,896,717**	**47,563,453**	**8,782**	**82,393,052**
LIABILITIES					
Customer accounts	1,398,931	-	549,386	-	1,948,317
Bank borrowings	-	8,997,156	22,696,672	-	31,693,828
Amounts due to group undertakings	-	900,161	6,229,902	-	7,130,063
Derivative Liabilities	-	-		-	-
Other liabilities*	245,339	1,332	2,201	-	248,872
Amounts due to other banks	-	-	-	-	-
	1,644,270	**9,898,649**	**29,478,161**	**-**	**41,021,080**
TOTAL ASSETS LESS LIABILITIES	**23,390,954**	**(1,932)**	**18,089,033**	**8,782**	**41,486,837**

*Other Liabilities excludes taxes liability

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%	
	2021 Sensitivity of profit before tax	**2020** Sensitivity of profit before tax	**2021** Sensitivity of profit before tax	**2020** Sensitivity of profit before tax
	£	£	£	£
Euro	9,793	(193)	(9,793)	193
United States Dollar	55,691	981	(55,691)	(981)
Philippine Peso	1,532	878	(1,532)	(878)

CAPITAL ADEQUACY

BPI Europe actively manages its capital adequacy. The bank'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 is managed to be consistent with the business strategies and objectives of the bank. The bank updates its ICAAP annually. Reverse stress testing is performed to identify the scenarios that will breach the bank's regulatory capital requirement. Refer to Strategic Report for the components of the bank's capital ratio.

20. COMMITMENTS

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

Land and Buildings

	2021	2020
Operating Leases which expires	£	£
0 - 1 year	121,969	142,855
1 - 5 years	17,177	139,146
Total	139,146	282,001

Furthermore, BPI Europe has a total of £8.9 Million loan commitments to extend credit for any Syndicated Term Loans as at reporting date. (2020: no pending loan commitments).

21. CALLED UP SHARE CAPITAL

	Year Ended 31 Dec 21	Year Ended 31 Dec 20
	£	£
Authorised share capital		
100,000,000 ordinary shares of £1 each	100,000,000	40,000,000
Allotted and called up:		
Ordinary shares of £1 each	100,000,000	40,000,000

On 16th February 2021 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. On 9th July 2021, the Board of Directors issued another 40,000,000 ordinary shares at £1 and were allotted to 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

BPI Europe's balance sheet is composed mainly of simple (plain vanilla) financial instruments. The bank has outstanding FX swap transactions in 2021 and 2020 which are booked for funding purposes to strategically invest the additional capital to foreign currency denominated assets with relatively attractive yields. The additional capital was denominated in GBP while the assets that were yielding better returns were denominated in USD and/or EUR, hence the need to enter into FX Swap transactions.

As mentioned in Note 3, the bank's balance sheet is composed of simple financial instruments and the FX swaps in the books are used for funding purposes. 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.

As at reporting date, the total notional amount of the bank's FX swaps is at £57 Million (2020:19 Million notional amount). In 2021, mark to market of the unsettled forward legs of the swaps as of year-end was £778,256 consisting of derivative assets of £336,406 and derivative liabilities of £1,114,662. In 2020, mark to market of the unsettled forward legs of the swaps as of year-end was £936,238 consisting of derivative assets of £936,238. Derivative liabilities in 2020 is nil.

23. AMOUNTS DUE TO OTHER BANKS

Amounts Due to Other Banks in 2021 amounting to £2,020,426 include collateral (in the form of cash margin) for BPI Europe's outstanding derivatives transactions with counterparty banks (2020: nil).

24. RELATED PARTY TRANSACTIONS

The bank's related party balances with BPI Parent are:

	Year Ended 31 Dec 21	Year Ended 31 Dec 20
	£	£
Amount due from group undertakings		
Fixed deposits	4,002,740	2,464,503
Demand deposits	5,091,829	1,576,712
Total	**9,094,569**	**4,041,215**
Amount due to group undertakings	**10,915,712**	**7,130,063**

The corresponding interest earned is:

Amount due from group undertakings		
Fixed Deposits	4,205	12,934
Demand Deposits	5,844	604
Total	**10,049**	**13,538**

The corresponding interest incurred is:

Amount due to group undertakings	61,457	91,189

During the year, three 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.

25. EVENTS AFTER REPORTING PERIOD

There are no material events subsequent to the financial year ended 31 December 2021 that have not been disclosed in the financial statements.