

BANK OF THE PHILIPPINE ISLANDS (EUROPE) PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED
31st DECEMBER 2022



**BANK OF THE PHILIPPINE ISLANDS (EUROPE) PLC – 05888535
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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

Registered Office

26a & 27a Earls Court Gardens
London SW5 0SZ
United Kingdom

Independent Auditors

Mazars LLP
30 Old Bailey
London EC4M 7AU
United Kingdom

Company Secretary

Lu Oliphant Solicitors LLP
The Bloomsbury Building
10 Bloomsbury Way
London WC1A 2SL
United Kingdom

STRATEGIC REPORT

For the financial year ended 31st December 2022

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-licensed 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 further support 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 slightly larger proportions 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, EUR 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 considers, 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 2022.

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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 resolved to adopt this framework of policies, rules, systems, and processes that govern them in the pursuit of BPI Europe's corporate goals.

The Board is responsible for prescribing a sound and sustainable business model, setting out the bank's strategy, risk appetite, and an overarching risk management 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 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 investments.

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 by remaining 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, countering financial crime, and addressing financial risks arising from 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 also observes the provisions set in the Code in making the right decisions 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

Following the receipt of additional capital infusions from the Bank of the Philippine Islands ("BPI", "Parent", "BPI Parent"), and taking advantage of improving market conditions, BPI Europe added selectively to its portfolio of fixed income securities and syndicated loans, consistent with its medium-term plans. With the view of further economic recovery and moderate interest rate increases in 2022, the bank took strategic trading positions at the onset of the year. However, 2022 was characterized by geopolitical tensions ignited by Russia's invasion of Ukraine, higher global interest rates, increased inflationary pressures, as well as the lasting impacts of the pandemic. On the domestic front, the fragile Post-Brexit and Post-COVID economic conditions were threatened by heightened political tensions.

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Against this tumultuous market backdrop, the bank exercised prudence in growing its assets, regularly monitoring its portfolio for credit weakness, and assessing for vulnerabilities, especially to inflation and slowing growth.

Total assets grew to £187,149,846 (2021: £159,915,215), led by the 95% expansion of the bank's syndicated loans portfolio, which ended the year at £84,804,657 (2021: £43,461,929). Combined treasury assets were lower at £89,860,760 (2021: £98,421,761), as the decrease in the trading book was bigger than the growth in the banking book. Loans and advances to banks, inclusive of amounts due to undertakings, was also lower at £10,614,262 (2021: £17,310,329).

To support asset expansion, the bank looked to selectively leverage the balance sheet to pursue investment opportunities. As a result, borrowings grew 60% to £67,708,294 (2021: £42,276,046). Total deposits, inclusive of amounts due to group undertakings, also increased 27%, driven by time deposits. While equity continues to comprise the majority of funding, its proportion has been reduced from 64% in 2021 to 54% in 2022. Nonetheless, the bank enjoys a healthy capital position, with CET1 ratio of 60.19%, comfortably above the regulatory and internal minimums of 23.38% and 25.72%, respectively.

With the bigger balance sheet, complemented by better margins, the bank's Net Interest Income increased to £2,936,225 (2021: £1,635,140). Operating income, however, was lower at £2,456,242 (2021: £2,577,575) mainly due to the net realized loss of £68,042 (2021: gain of £636,230) on FX trading, attributable to the volatility in the UK market, and loss of £506,419 (2021: gain of 267,358) on securities trading, owing largely to higher interest rates, which reduced the value of the bond book. Operating expenses for the year were higher at £2,390,557 (2021: £2,074,576), driven by increases in manpower costs on additional headcount, and growth in subscription fees and payment related to acquisition of new loans. Provision for loan losses was likewise higher at £82,437 (2021: £50,172). As a consequence, BPI Europe reported a pre-tax loss for the year of £16,752 (2021: profit of £452,827), with corresponding loss after tax of £18,387 (2021: net income of £372,855). Return on equity for the year is -0.02% (2021: 0.37%).

RESULTS AND DIVIDENDS

The bank reported a loss of £18,387 in 2022 (2021: net income of £372,855). The statement of profit and loss, set out on page 26, details the bank's performance for the year.

The directors have not recommended a dividend for 2022 (2021: 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 identified, measured, monitored, controlled, and reported 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 geopolitical tensions and the post-Brexit and pandemic situation.

Funding Concentration Risk

Funding concentration risk is defined as the risk of financial losses due to undiversified sources of funds (liabilities and capital) 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 or when counterparties decide to reduce credit lines or exit the relationship with the bank altogether. BPI Europe continued 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 light of the following: (1) the ability to liquidate assets to service the liquidity requirements of the bank, (2) tenor mismatches where the bank cannot meet the liabilities as they fall due, and (3) currency mismatches where the bank could not fund outflows in a specific currency. 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 2022 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 and the risks arising from the Russia/Ukraine conflict 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 £10.6 million, placements have been kept short (between 1 week to 1 month), and High-Quality Liquid Assets (HQLA) levels remain healthy. As of 31 December 2022, the bank's Liquidity Coverage Ratio (LCR) stood at 166% vs. internal limit of 120% and regulatory limit of 100%. To ensure that the bank is able to swap currencies and raise funds consistent with the 30 calendar day stress period, the desk limits its total swap maturities in any 30-day period in accordance with its cross currency gap 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 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 is 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 war in Ukraine, the lingering impact of the pandemic, as well as post-Brexit challenges in its stress testing. Reverse stress testing was likewise performed to identify the scenarios where the bank will breach its 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 2022, the bank's capital ratio stood at 60.19%, well above the regulatory minimum of 23.38%, and the internal capital requirement, of 25.72%. The table below shows the components of the bank's capital ratio:

	2022	2021
	£	£
Own Funds	101,839	101,528
Tier 1 Capital	101,839	101,528
Common Equity Tier 1 (CET1) Capital	101,839	101,528
Total Risk Exposure Amount	169,178	132,211
Total Credit Risk-Weighted Assets (CRWA)	152,940	119,123
Total Market Risk-Weighted Assets (MRWA)	11,838	8,938
Total Operational Risk-Weighted Assets (ORWA)	4,400	4,150

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	2022	2021
CET1 Capital Ratio	60.19%	76.79%
Tier 1 Capital Ratio	60.19%	76.79%
Total Capital Ratio	60.19%	76.79%
Regulatory Requirement	23.38%	23.46%

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 on 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 and derivative positions 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, which may affect the original contracted spread. Furthermore, as interest rates change, the present value and timing of future cash flows likewise change. 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 established internal risk indicators and appetite to manage its IRRBB.

Conduct Risk

Conduct risk is defined as any action, behaviour, or decision made by the bank, its Board, or any of its employees that may be detrimental to the bank's and the entire BPI Group's reputation, or may compromise the integrity of the financial market, and may result in unfair and inappropriate outcomes to customers. It may result in financial losses for the bank due to regulatory penalties, fees, redress, remediation costs, and other operational costs stemming from poor conduct. 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 zero appetite for conduct rules breaches. All BPI Europe

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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 and detect potential and actual breaches of conduct rules and monitoring results are regularly reported to Management and to the Audit and Risk Committee on a quarterly basis. No conduct risk breaches within the bank have occurred over the past 12 months.

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, amongst others. 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. 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, either through physical or transition risks. 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 the latest regulatory expectations and industry practice.

Replacement of London Interbank Offered Rate (LIBOR)

Following the Financial Conduct Authority’s (FCA’s) cessation of the publication of the GBP and EUR LIBOR on 1 January 2022, and the expected cessation of the USD LIBOR after June 2023, BPI Europe started an orderly transition away from LIBOR to alternative risk-free reference rates. The table below sets out the bank’s exposure to the Secured Overnight Financing Rate (SOFR) as of 31 December 2022.

	Notional Amount (in \$)
Assets	12,130,664
Liabilities	10,000,000

As to the outstanding LIBOR-based syndicated loans as at reporting period, the bank expects to follow the fallback methodology described in each facility agreement.

KEY PERFORMANCE INDICATORS (KPIs)

The Board of Directors provides governance and oversight of 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. Net of tax, a loss of £18,387 was posted in 2022 (2021: net income of £327,855).
- **Balance Sheet Growth and Composition.** This shows the bank's growth, investment, and funding strategies. Total assets are higher by 17% YoY (2021: higher by 94% YoY).
- **Operating Income.** This provides information on the bank's capability to generate revenues and reflects the bank's business focus. Operating Income is down by 5% YoY (2021: up by 27% YoY) largely due to trading losses attributable to unfavourable market conditions this year.
- **Net Interest Margin.** This represents the bank's net interest differential between sources and uses of funds. Net interest margin improved to 1.61% (2021: 1.30%), attributed to higher loan volumes and yields.
- **Regulatory Capital and Liquidity Metrics.** The bank monitors capital ratio, liquidity coverage ratio, and net stable funding ratio on a daily basis and ensures that risk taking activities are within regulatory limits. As of end 2022, the capital ratio stood at 60.19%, well above the regulatory limit of 23.38% while liquidity coverage and net stable funding ratios were at 166% and 119%, respectively, versus regulatory limits of 100% for both.

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.

In line with the guidance provided by its regulators, and in accordance with the Parent Bank's broader Environmental, Social, and Governance (ESG) framework and the UN's Principles for Responsible Banking, BPI Europe has developed a proportionate approach in establishing a framework to help address and manage its potential exposure to risks associated with climate change. It covers key risks to the bank, breakdown of management and Board responsibilities, responsibilities across divisions and functional areas, disclosure and reporting, credit assessment, risk management, and milestones.

Consistent with the Parent Bank's philosophy of excluding industries that are harmful from an ESG perspective, the bank's Credit and Treasury policies were updated to incorporate its climate change/ESG agenda. Climate change has likewise been made part of BPI Europe's annual accounts. Corresponding risk appetite indicators and metrics and stress test scenarios were also established concurrent with the annual conduct of the bank's ICAAP.

The framework is expected to drive BPI Europe's business to become one that is more sustainable, helping the UK and Parent Bank achieve their ESG and climate-related targets. It will continue to evolve as regulations become clearer and more guidance is issued.

On behalf of the Board



Ms Lizbeth Joan Yulo
Managing Director
17th April 2023

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 2022.

The bank’s material financial instruments consist 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.

Additional capital received from BPI Parent in 2021 was deployed in higher-yielding corporate syndicated loans and bonds. In 2022, the bank further grew its balance sheet, with the acquisition of more syndicated loans, supported mostly by additional borrowings. Even as borrowing costs grew, in line with the aggressive rate increases implemented by global central banks, BPI Europe managed to see its net interest margin widen during the year, owing to higher yields on the loans portfolio. However, the tumultuous market environment in 2022 proved challenging, with the bank recognising losses from its FX and securities trading activities and, consequently, posting a net loss. As BPI Europe remains steadfast in implementing its growth strategies, it will continue to deploy funds in a calculated manner, cognizant of Board-approved parameters and limits.

BPI Europe’s biggest counterparties, namely global financial institutions, were well positioned for a hard Brexit, ensuring that there were 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 and in line with the regulatory framework, while optimising the bank’s resources.

Commensurate risk governance and management over significant concerns and high-risk areas in the organisation is a priority carried out across the bank’s three lines of defence. BPI Europe’s corporate governance and enterprise-wide risk management frameworks are subject to annual compliance testing and have always resulted in satisfactory assessments. The 2022 ICAAP assessed a capital requirement of 25.74%, higher than the 23.38% set by the PRA, reflecting heightened risks due to events that transpired throughout the year. As of 31 December 2022, the bank’s capital ratio stood at 60.19%. The 2022 ILAAP reflected risks arising from global events and ensured that the stress testing scenarios remained appropriate. As of 31 December 2022, the bank’s LCR and NSFR stood at 166% and 119%, respectively, well above the regulatory limit of 100% for both.

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
Mr Alexander John Shapland
Ms Lizbeth Joan Yulo
Mr Martin Lynch O’Neil

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Mr Robert David Reoch
Ms Maria Theresa Javier
Mr Dino Gasmen

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 BPI Parent which is incorporated under the laws of the Republic of the Philippines. The interests of the BPI 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 30 days of invoice date. The number of creditor days in relation to suppliers' balance outstanding at 31st December 2022 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 while also managing its financial and non-financial risks. It uses the "three lines of defence" model, which fosters a strong governance, risk management, and controls culture that entails establishing limits, monitoring and control of risk exposures, and timely, accurate and comprehensive reporting through management information. The model defines the risk management responsibilities of each unit as follows:

- 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. The units of the bank responsible for such activities are the Wholesale Business and Branch Operations, who ensure the efficient use of capital and enter into transactions that are within the bank's approved risk appetite. An annual Risk and Control Self-Assessment (RCSA) exercise is also carried out by these units to ensure that risks are properly identified, and controls to mitigate these risks are established and observed.
- 2. Second Line of Defence (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 units which form the first line of defence. 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 in remaining compliant with current and future policies and regulations. The Heads of Risk Management and Compliance also have a direct functional reporting line to the bank's Audit & Risk Committee and its Chair.

3. Third Line of Defence (Independent Assurance). The bank's Internal Audit, outsourced to BPI Parent's Internal Audit, performs the independent monitoring, review, and assessment of the bank's compliance to rules, regulations, and policies and the effectiveness of the bank's EWRMF. As necessary, the bank engages the services of a local, reputable third-party subject matter expert to conduct a deep-dive analysis on regulatory matters of particular topical importance to further supplement the efforts of Internal Audit.

4. Governing Bodies. The bank's Audit and Risk Committee is a Board-level Committee that sits above the Three Lines of Defence. It has the overall responsibility of providing direction and guidance on how to comply with the bank's risk appetite. The Committee monitors the risk exposures and regulatory compliance status of the bank through reviews of the various management information regularly provided.

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.

**BANK OF THE PHILIPPINE ISLANDS (EUROPE) PLC – 05888535
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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 himself/herself aware of any relevant audit information and to establish that the bank's auditors are aware of that information.

GOING CONCERN STATEMENT

2022 began on a high note, with global economies posting decent levels of growth in 2021 despite lingering effects of the pandemic. Expectations were rife that pent up demand built up during protracted pandemic lockdowns would fuel a strong economic rebound globally, even as central banks were poised to increase interest rates. However, geopolitical tensions ignited by the Russian invasion of Ukraine, and supply chain issues wrought by China's Zero-COVID policy took centre stage early in the new year, and fed already high inflation, triggering more aggressive responses from global central banks. Domestically, the fragile Post-Brexit and Post-COVID economic conditions were threatened by heightened political tensions.

BPI Europe's strategy for the year was to continue to grow its balance sheet, with a preference for floating rate assets. It exercised prudence in selecting these assets given the tumultuous market backdrop. Throughout the year, the bank regularly assessed its portfolio for vulnerabilities as events played out in the world stage. In particular, it monitored its portfolio for signs of credit weakness and vulnerabilities to inflation and slowing growth. The 2022 iteration of the ICAAP and ILAAP documents reflected these heightened risks; the stress testing scenarios were updated to ensure that they sufficiently encompassed these risks. In all cases, results showed that these scenarios remained more severe than what had actually occurred.

BPI Europe has a sound and effective corporate governance framework with a Board-defined philosophy adhering to a culture of honesty, integrity, and professionalism in the conduct of its business. The Corporate Governance Manual outlines the framework of the bank as well as the terms of reference of the Board- and Management-level Committees.

BPI Europe also has an established enterprise-wide risk management framework that effectively manages financial and non-financial risks using a functional three lines of defence model. This structure fosters a risk culture that actively involves the Board of Directors as a governing body and various units across the organisation that own and manage risk, oversee the risk management function, or provide independent assurance on the quality and effectiveness of risk management and internal controls. Commensurate risk governance and management over significant concerns and high-risk areas in the organisation is a priority carried out across these lines.

The bank's corporate governance and enterprise-wide risk management frameworks are subject to annual compliance testing and have always resulted in satisfactory assessments.

BPI Europe updates its ICAAP on an annual basis. The 2022 ICAAP assessed a capital requirement of 25.74%, higher than the 23.38% capital requirement set by the PRA effective 31 December 2022, and the previous year's assessment of 24.09%. The increase reflects heightened risks due to events that transpired throughout the year. As of 31 December 2022, the bank's capital ratio stood at 60.19%.

Similar to the ICAAP, the 2022 ILAAP reflected the risks arising from global events, and ensured that the stress testing scenarios remained appropriate. As of 31 December 2022, the bank's LCR stood at 166% (versus an internal limit of 120% and a regulatory limit of 100%), and its NSFR was at 119% (versus a regulatory limit of 100%).

The bank drew on long term facilities it had executed at the end of 2021, comprising a \$20 million 3-year facility and a \$25 million 2-year facility. In the second half of 2022, the bank executed and drew on an additional \$10 million 3-year green facility, bolstering its NSFR as well as its Climate Change agenda.

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As a matter of practice, the bank keeps a certain portion of its funding facilities unutilised. As of 31 December 2022, funding facilities amounted to \$140 million (includes short- and long-term facilities, but excludes amounts undisclosed by lenders), of which 57.70% was utilised.

The due diligence work detailed above supports the continued application of the going concern assumption and it is therefore appropriate for the Board to make the going concern statement. Management and the Directors have a reasonable expectation that the bank has adequate resources to continue its operational existence for a period of twelve months from when the financial statements are authorised for issue.

Approved by the directors on 17th April 2023

On behalf of the Board:



Ms Lizbeth Joan Yulo
Managing Director

INDEPENDENT AUDITOR’S 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 2022 which comprise the Profit and Loss Account, the Balance Sheet, the 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 2022 and of its loss 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 (‘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;

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- 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 to determine that it appropriately considers an assessment of key business risks including assessing the sufficiency of the bank's capital and liquidity. This included assessing the director's consideration of severe but plausible scenarios and its reverse stress testing 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 directors' key assumptions in management's forecasts, including consideration of impact of macro-economic factors;
- Performing back-testing to evaluate historical accuracy of management's forecasting and budgeting;
- Testing the arithmetical accuracy of the model used to prepare the directors' forecasts;
- 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;
- Considering the consistency of the directors' forecasts with other areas of the financial statements and our audit; 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 matter in forming our opinion above, together with an overview of the principal audit procedures performed to address this matter and our key observations arising from those procedures.

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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
<p>Provision for impairment on loans and advances to customers £172,837 (2021: £90,400)</p> <p><i>Refer to summary of significant accounting policies (Note 3); and Notes 4 and 11 of the financial statements.</i></p> <p>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.</p> <p>As at 31 December 2022, the total impairment provision of the bank principally consists of a collective provision over corporate loans amounting to £172,836 (2021: £90,399).</p> <p>The bank accounts for impairment of loans and advances to customers using an incurred loss model. Estimating collective provision requires management judgement in deriving assumptions to be applied in the calculation. The calculation of the collective provision is derived from a combination of the bank's experience and external data. In particular, the impairment assessment is most sensitive to movements in the Probability of Default ('PD') and Loss Given Default ('LGD').</p> <p>Due to lack of internal historical default rate, the bank used external sources data as proxy adjusted for current conditions.</p> <p>Therefore, there is a greater risk of misstatement in the provision for impairment on loans and advances to customers.</p> <p>The level of risk remained consistent with the prior year.</p>	<p>Our audit procedures included, but were not limited to:</p> <p>Assessing the design and implementation, and tested the operating effectiveness, of the key controls operating at the bank in relation to loan underwriting, monitoring and provisioning.</p> <p>Assessing management's ability to identify impaired loans by reviewing adequacy of the credit reviews performed by management for all material corporate loan counterparties.</p> <p>In respect of the model used to determine the collective provision, with the assistance of our in-house credit modelling specialists, we:</p> <ul style="list-style-type: none"> • Critically assessed the appropriateness of the methodology used by management; • Tested key assumptions used in applying the methodology adopted and assessed it for reasonableness and relevance; • Performed sensitivity analysis over the key assumptions on PDs and LGD; • 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 2022, including the use of alternative inputs from independent sources. <p>Testing the completeness of the loan portfolio applied to the collective provision model.</p> <p>Performing a stand-back assessment of the resulting collective impairment estimate to assess its appropriateness and reasonableness.</p>

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	<p>Assessing the appropriateness of impairment provision disclosures in the financial statements.</p> <p>Our observations</p> <p>Based on the audit procedures performed, we found that the assumptions used by management in the impairment assessment and the balance of impairment provision on loans and advances to customers as at 31 December 2022 are materially correct in accordance with the requirements of FRS 102.</p>
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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	£1,018,000 (2021: £754,000)
How we determined it	1% of net assets at year-end (2021: 0.85% of average net assets during the year).
Rationale for benchmark applied	The bank was loss making in 2022 and net assets are deemed to be the most appropriate benchmark given this is the main focus of the shareholder (the overseas parent) to assess the value of their investment. Further, net assets as a benchmark is supported by the fact that regulatory capital is a key benchmark for management and regulators, where net assets is an approximation of regulatory capital resources.
Performance materiality	<p>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.</p> <p>We set performance materiality at £713,000 (2021: £528,000), which represents 70% (2021: 70%) of overall materiality. In determining the performance materiality, we considered a number of factors, including the effectiveness of internal controls and the history of misstatements, and concluded that an amount towards the upper end of our normal range was appropriate.</p>

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Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £31,000 (2021: £23,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.
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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.

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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 set out on page 14, 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

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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.

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 risk of material misstatement that had the greatest effect on our audit is discussed in the "Key audit matters" section of this report.

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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

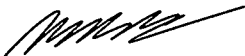
Following the recommendation of the Audit and Risk Committee, we were appointed by the board of directors on 24 June 2020 to audit the financial statements for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is three years, covering the years ended 31 December 2020 to 31 December 2022.

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
30 Old Bailey
London
EC4M 7AU

17th April 2023

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PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2022

REVENUES	Note	Year Ended 31 Dec 22 £	Year Ended 31 Dec 21 £
Interest receivable and similar income		4,823,824	1,977,005
Interest payable and similar charges		(1,887,599)	(341,865)
Net interest income	8	2,936,225	1,635,140
Fees and commission income		91,623	44,019
Foreign exchange gain/(loss)		(68,042)	636,230
Fair value gain/(loss) on investments		(506,419)	267,358
Other operating income/(loss)		2,855	(5,172)
OPERATING INCOME		2,456,242	2,577,575
Administrative expenses		(2,344,707)	(2,029,872)
Depreciation		(45,850)	(44,704)
Impairment charges	11	(82,437)	(50,172)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	5	(16,752)	452,827
Tax on profit on ordinary activities	9	(1,635)	(79,972)
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		(18,387)	372,855

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/loss on ordinary activities before taxation relate wholly to continuing operations.


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BALANCE SHEET

FOR THE YEAR ENDED 31 DECEMBER 2022

		Year Ended 31 Dec 22 £	Year Ended 31 Dec 21 £
ASSETS	Note		
Cash		680	4,443
Loans and advances to banks	10	10,590,380	8,215,760
Loans and advances to customers, net	11	84,804,657	43,461,929
Amounts due from group undertakings	15	23,882	9,094,569
Investment in debt securities	12	89,860,760	98,421,761
Derivative Assets	22	1,524,834	336,406
Tangible fixed assets, net	13	42,965	75,625
Other assets	14	301,688	304,722
TOTAL ASSETS		<u>187,149,846</u>	<u>159,915,215</u>
LIABILITIES			
Deposit from customers	16	1,180,161	1,291,370
Bank borrowings	17	67,708,294	42,276,046
Amounts due to group undertakings	24	14,274,996	10,915,712
Amounts due to Other Banks	23	1,120,704	2,020,426
Derivative Liabilities	22	661,433	1,114,662
Deferred Tax Liability		193	-
Other liabilities	18	320,976	395,657
		<u>85,266,757</u>	<u>58,013,873</u>
TOTAL ASSETS LESS LIABILITIES		<u>101,883,089</u>	<u>101,901,342</u>
Called up share capital	21	100,000,000	100,000,000
Profit and loss account		1,883,089	1,901,342
TOTAL SHAREHOLDERS' FUNDS		<u>101,883,089</u>	<u>101,901,342</u>

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 26 to 55 were approved by the Board of Directors and authorised for issue on 17th April 2023 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 2022

	Share Capital £	Retained earnings £	Shareholder's funds £
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
Balance as at 1 January 2022	100,000,000	1,901,342	101,901,342
Additional share capital	-	-	-
Loss for financial year	-	(18,387)	(18,387)
Prior Period Adjustment	-	134	134
Balance as at 31 December 2022	100,000,000	1,883,089	101,883,089

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). In 2022, the Bank’s registered office address was transferred to 26a & 27a Earls Court Gardens, London SW5 0SZ. Prior to 2022, BPI Europe’s registered office address was 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. The bank remains committed to carrying out its growth objectives consistent with established risk appetite and compliance guidelines.

In the annual review and update of its Risk Management Framework documents, the bank

considered the stress scenarios factoring in the lasting impact of the pandemic, higher global interest rates, increased inflationary pressures, and the geopolitical tensions from the Ukraine-Russia conflict. 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.

The Directors have a reasonable expectation that the bank has adequate resources to continue in operational existence for a period of twelve months from when the financial statements are authorised for issue. 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 a period of twelve months from when the financial statements are authorised for issue.

c) Exemptions for qualifying entities under FRS 102

In preparing these financial statements, BPI Europe has taken advantage of the disclosure exemption on the requirement of Section 7 Statement of Cash Flows, as permitted by the FRS 102 'The Financial Reporting Standards applicable in the UK and Republic of Ireland'. The bank is wholly-owned by BPI, a bank incorporated in the Republic of the Philippines and which publishes a consolidated Cash Flow Statement, Balance Sheet, and Income Statement. The bank's Shareholders have been notified and have not objected to the use of this exemption, and otherwise apply the recognition, measurement, and disclosures of FRS 102.

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. Gains or losses on trading of fixed income securities investments are recognised from the sale of debt securities and fair value changes in the period in which they arise.

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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. 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.

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, 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 deposits from customers, amounts due to group undertakings, bank borrowings, amounts due to other banks, and other liabilities, are initially

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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. Derivatives held by BPI Europe consist mainly of plain vanilla financial instruments, in particular, foreign exchange swaps. 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.

ii. 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 and loan structure, the ageing profile of debtors and historical experience. See note 11 for the associated impairment provision.

BPI Europe's management applies judgement in determining the functional currency that faithfully represents the economic effects of the underlying transaction events and transactions, including other factors such as the currency in which funds from operating and financing activities are generated. Based on its assessment, management has considered GBP to be the functional currency of the bank for 2022 (2021: GBP).

5. PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

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

	Year Ended 31 Dec 22	Year Ended 31 Dec 21
	£	£
Staff costs	1,187,099	1,069,862
Foreign exchange loss/(gain)	68,042	(636,230)
Depreciation of fixed assets	45,850	44,704
Operating lease costs (rent expense)	136,501	153,426
	Year Ended 31 Dec 22	Year Ended 31 Dec 21
	£	£
Auditor's Remuneration:		
Fees payable to the bank's auditors for the audit of the bank*	141,000	96,000
Fees payable to the bank's auditors for other services pursuant to legislation (CASS Limited Assurance Engagement)**	-	6,600
Total	141,000	102,600

*The audit fees charged during 2022 include £21,403 corresponding to audit fees for the preceding year charged

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during 2022.

**There have been no accruals for this service charged to the 2022 profit and loss. The expectation is that fees for services related to 2022 will be provided by the statutory auditor with level of fees similar to the prior year 2021.

6. PARTICULARS OF EMPLOYEES

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

	Year Ended 31 Dec 22	Year Ended 31 Dec 21
Number of administrative staff	13	11
Number of management staff	6	6
	19	17

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

	Year Ended 31 Dec 22	Year Ended 31 Dec 21
	£	£
Wages and salaries	1,128,454	1,008,423
Social security cost	47,784	49,925
Pension costs	10,861	11,514
Total staff costs	1,187,099	1,069,862

7. DIRECTORS’ EMOLUMENTS

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

	Year Ended 31 Dec 22	Year Ended 31 Dec 21
	£	£
Directors' Remuneration	298,642	293,978
Highest Paid	193,642	188,978
Pension contributions	1,126	1,126

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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. Out of the four (4) directors on BPIE payroll, only two (2) have pension contributions.

Directors' emoluments are included within staff costs in Note 6 above and in the Profit and Loss account.

8. NET INTEREST INCOME

	Year Ended	Year Ended
	31 Dec 22	31 Dec 21
	£	£
(a) Interest receivable and similar income		
Loans and advances to Banks	132,030	7,122
Debt securities	1,868,009	1,433,118
Loans and advances to Customers	2,785,211	530,875
Others	38,574	5,890
	4,823,824	1,977,005
(b) Interest payable and similar charges		
Borrowings	(1,619,633)	(265,673)
Deposit from customers	(267,324)	(76,192)
Others	(642)	-
	(1,887,599)	(341,865)
(c) Net interest income	2,936,225	1,635,140

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9. TAX ON PROFIT ON ORDINARY ACTIVITIES

The current corporation tax rate is 19% for the year end 31 December 2022. The corporation tax rate is due to increase to 25% effective 1 April 2023.

	Year Ended 31 Dec 22 £	Year Ended 31 Dec 21 £
(a) Analysis of tax charge for the year:		
Current tax in respect of the year:		
Corporation tax at 19%	1,442	91,267
Deferred tax:		
Movement in deferred tax liability	(5,339)	(4,017)
Adjustment in respect of prior period	5,532	(7,278)
Tax charge on profit on ordinary activities	1,635	79,972
(b) Factors affecting tax charge for the year:		
Profit/(loss) on ordinary activities before taxation	(16,752)	452,827
Profit/(loss) on ordinary activities multiplied by standard rate of UK		
Profit/(loss) on ordinary activities multiplied by standard rate of UK corporation tax based on the results for the period at 19%	(3,183)	86,037
Disallowable (allowable) expenditure	(751)	(534)
Depreciation in excess of capital allowances	5,376	5,764
Current tax (note 9a)	1,442	91,267
Less: Adjustment of deferred tax liability	193	(4,017)
Adjustment in respect of prior period	-	(7,278)
Tax charge on profit on ordinary activities	1,635	79,972

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10. LOANS AND ADVANCES TO BANKS

Loans and advances to banks consists of:

	Year Ended 31 Dec 22	Year Ended 31 Dec 21
	£	£
Loans and advances to banks	10,590,381	8,215,760
Provision for impairment	-	-
	10,590,381	8,215,760

11. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers consists of:

	31 Dec 22	31 Dec 21
	£	£
Corporate loans	84,977,493	43,552,328
Retail loans	1	1
Provision for impairment	(172,837)	(90,400)
	84,804,657	43,461,929

Movement in provision for impairment

	Year Ended 31 Dec 22			Year Ended 31 Dec 21	
	Collective	Specific	Total	Total	
	£	£	£	£	
Beginning balance	90,399	1	90,400	40,228	
Additional provision	82,437	-	82,437	51,593	
Reversal of provision	-	-	-	(1,421)	
Ending balance	172,836	1	172,837	90,400	

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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 2022 loan provisions by obtaining the applicable probability of default, loss given default, and exposure at default (outstanding 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 an appropriate two-way market.

	Year Ended 31 Dec 22	Year Ended 31 Dec 21
	£	£
INVESTMENTS IN DEBT SECURITIES		
Debt securities for trading at fair value	7,882,421	27,004,356
Debt securities at amortised cost	81,978,339	71,417,405
	89,860,760	98,421,761

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13. TANGIBLE FIXED ASSETS

	Leasehold Improvements	Fixture and Fittings	Office Furniture	Computer Equipment	Total
YEAR 2022	£	£	£	£	£
COST					
At 1 January 2022	581,819	42,491	137,587	50,838	812,735
Additions	-	-	-	13,189	13,189
At 31 December 2022	581,819	42,491	137,587	64,027	825,924
DEPRECIATION					
At 1 January 2022	517,710	42,491	137,587	39,322	737,110
Charge for the period	42,060	-	-	3,789	45,849
At 31 December 2022	559,770	42,491	137,587	43,111	782,959
NET BOOK VALUE					
At 31 December 2022	22,049	-	-	20,916	42,965

	Leasehold Improvements	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

There were no write-offs booked in 2022 (2021: nil).

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14. OTHER ASSETS

	Year Ended 31 Dec 22	Year Ended 31 Dec 21
	£	£
Amounts falling due within one year:		
Prepayments and other assets	288,609	294,479
Operating lease deposit	13,079	3,677
	301,688	298,156
Amounts falling due after more than one year:		
Prepayments and other assets	-	-
Operating lease deposit	-	6,566
	-	6,566
TOTAL	301,688	304,722

15. AMOUNTS DUE FROM GROUP UNDERTAKINGS

	Year Ended 31 Dec 22	Year Ended 31 Dec 21
	£	£
Term Deposits	-	4,002,740
Demand Deposits	23,882	5,091,829
TOTAL	23,882	9,094,569

In 2021, the £4.0 million term deposits have been pledged to BPI Parent.

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 an assignment document executed in 2020 covering a pledge of \$5.0 million with BPI Parent in the form of dollar-denominated Philippine sovereign bonds (2021: £4.0 million in the form of placements and \$5.0 million in the form of bonds issued by the Philippine government).

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16. DEPOSIT FROM CUSTOMERS

	Year Ended 31 Dec 22	Year Ended 31 Dec 21
	£	£
Current Account	53,843	76,753
Savings Account	702,594	880,388
Time Deposit	423,724	334,229
TOTAL	1,180,161	1,291,370

17. BANK BORROWINGS

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

	Year Ended 31 Dec 22	Year Ended 31 Dec 21
	£	£
Payable in:		
30 days	19,232,838	9,637,589
3 months	1,444,023	-
6 months	6,769,342	9,655,522
1 year	6,723,278	8,161,471
Over 1 year	33,538,813	14,821,464
TOTAL	67,708,294	42,276,046

The bank borrowings comprise of \$80,738,175.20 at rates from 2.70% to 5.95% p.a. (2021: \$57,123,384 at rates ranging from 0.18% to 1.40% p.a.).

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18. OTHER LIABILITIES

	Year Ended 31 Dec 22	Year Ended 31 Dec 21
	£	£
Other taxation and social security	23,677	27,236
Accrued expenses and other creditors	143,398	198,101
Other liabilities	153,901	170,320
TOTAL	320,976	395,657

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 2022 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.

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Set out below are the bank's financial instruments by category:

Year Ended 31 December 2022			
	Amortised Cost	Fair Value through Profit or Loss (FVPL)	Total
	£	£	£
Cash	680	-	680
Loans and advances to banks	10,590,380	-	10,590,380
Loans and advances to customers, net	84,804,657	-	84,804,657
Amounts due from group undertakings	23,882	-	23,882
Investment in debt securities	81,978,340	7,882,420	89,860,760
Derivative Assets	-	1,524,834	1,524,834
TOTAL	177,397,939	9,407,254	186,805,193
FINANCIAL LIABILITIES			
Deposit from customers	1,180,161	-	1,180,161
Bank borrowings	67,708,294	-	67,708,294
Amounts due to group undertakings	14,274,996	-	14,274,996
Amounts due to Other Banks	1,120,704	-	1,120,704
Derivative Liabilities	-	661,433	661,433
Other liabilities*	297,299	-	297,299
TOTAL	84,581,454	661,433	85,242,887

*Other liabilities exclude taxes liability

Year Ended 31 December 2021			
	Amortised Cost	Fair Value through Profit or Loss (FVPL)	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
Amounts due from group undertakings	9,094,569	-	9,094,569
Investment in debt securities	71,417,405	27,004,356	98,421,761
Derivative Assets	-	336,406	336,406
TOTAL	132,194,106	27,340,762	159,534,868
FINANCIAL LIABILITIES			
Deposit from customers	1,291,370	-	1,291,370
Bank borrowings	42,276,046	-	42,276,046
Amounts due to group undertakings	10,915,712	-	10,915,712
Amounts due to Other Banks	2,020,426	-	2,020,426
Derivative Liabilities	-	1,114,662	1,114,662
Other liabilities*	368,421	-	368,421
TOTAL	56,871,975	1,114,662	57,986,637

*Other liabilities exclude taxes liability

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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 2022				
	Level 1	Level 2	Level 3	Total
	£	£	£	
Financial Assets				
Debt securities for trading at Fair Value	7,882,420	-	-	7,882,420
Derivative Assets	-	1,524,834	-	1,524,834
Total	7,882,420	1,524,834	-	9,407,254
Financial Liabilities				
Derivatives Liabilities	-	661,433	-	661,433
Total	-	661,433	-	661,433

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

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.

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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. As of 31 December 2022, this amounted to £186,805,193 (2021: £159,534,868).

Collateral and credit enhancements held

The bank has no outstanding marketable securities held as collateral or credit enhancements as at 31 December 2022 (2021: 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 B1 to Ba1 and S&P ratings of BB+ to BBB-.

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. Past due as of 2022 is nil (2021: nil).

CREDIT QUALITY - 2022

	Investment Grade	Below Investment Grade	Unrated	Total
	£	£	£	£
Loans and advances to banks	10,590,380	-	-	10,590,380
Loans and advances to customers	27,087,894	57,716,763	-	84,804,657
Investment in debt securities	82,953,937	6,906,823	-	89,860,760
Amounts due from group undertakings	23,882	-	-	23,882
Derivative Assets	1,524,834	-	-	1,524,834
Total	122,180,927	64,623,586	-	186,804,513

CREDIT QUALITY - 2021

	Investment Grade	Below Investment Grade	Unrated	Total
	£	£	£	£
Loans and advances to banks	5,943,705	-	2,272,055.00	8,215,760
Loans and advances to customers	9,596,249	28,865,680	5,000,000.00	43,461,929
Investment in debt securities	94,428,654	3,993,107	-	98,421,761
Amounts due from group undertakings	9,094,569	-	-	9,094,569
Derivative Assets	336,406	-	-	336,406
Total	119,399,583	32,858,787	7,272,055.00	159,530,425

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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 will incur financial losses and reputational damage due to its inability 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 metrics, LCR and NSFR, and various internal reports such as the daily cash flow gaps, intra-day liquidity, 92-day liquidity, and cross-currency gap. 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 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 2022

	0-3 months	3-6 months	6-12 month	1-5 years	Over 5 years	Total
Cash	680	-	-	-	-	680
Loans and advances to banks	10,593,730	-	-	-	-	10,593,730
Loans and advances to customers	8,172,189	1,262,594	2,423,283	58,538,811	33,056,180	103,453,057
Amounts due from group undertakings	23,882	-	-	-	-	23,882
Investment in debt securities	57,123,886	150,984	703,353	16,560,999	19,137,470	93,676,692
Derivative Assets	1,524,834	-	-	-	-	1,524,834
TOTAL	77,439,201	1,413,578	3,126,636	75,099,810	52,193,650	209,272,875

Financial liabilities analysed by contractual undiscounted amounts based on remaining contractual maturities as at 31 December 2022

	0-3 months	3-6 months	6-12 month	1-5 years	Over 5 years	Total
Deposit from customers	1,180,161	-	-	-	-	1,180,161
Bank borrowings	21,262,040	7,281,098	7,766,836	35,228,316	-	71,538,290
Amounts due to group undertakings	13,385,900	889,096	-	-	-	14,274,996
Amounts due to Other banks	1,120,704	-	-	-	-	1,120,704
Derivative Liabilities	661,433	-	-	-	-	661,433
Other Liabilities*	143,398	-	-	-	153,902	297,300
TOTAL	37,753,636	8,170,194	7,766,836	35,228,316	153,902	89,072,884

*Other liabilities exclude taxes liability

Gap	39,685,565	-6,756,616	-4,640,200	39,871,494	52,039,748	120,199,991
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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 month	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	219,872	235,938	5,454,932	33,519,366	7,578,509	47,008,617
Amounts due from group undertakings	5,091,829	3,792	1,267	-	4,000,000	9,096,888
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
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 month	1-5 years	Over 5 years	Total
Deposit from customers	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
Amounts due to Other banks	2,020,426	-	-	-	-	2,020,426
Derivative Liabilities	87,748	995,962	30,952	-	-	1,114,662
Other Liabilities*	198,101	-	-	-	170,320	368,421
TOTAL	23,362,576	11,567,356	8,339,144	15,215,274	170,320	58,654,670

*Other liabilities exclude taxes liability

Gap	59,443,032	-11,105,596	-2,178,103	31,122,160	30,587,552	107,869,045
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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 pertains to the possible loss of a portfolio's value in the future influenced by movements in the level or volatility of market prices or risk factors. The bank's market risk exposure is observed on its net open FX position arising from foreign currency-denominated assets and liabilities in the banking book, its end-of-day investment securities, and derivative positions in the trading book.

The following risk metrics were used to help manage market risk in the bank:

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- Value-at-Risk (VaR) is a measure of potential loss from the trading business computed using a financial model with an assumed confidence level and measured over a certain horizon; and
- Loss limit pertains to the maximum cumulative year-to-date loss that the bank is allowed to incur from its trading activities.

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 2022 and 2021. The time bands represent the repricing profile of the entire balance sheet relative to the financial reporting date. The net gap for each time band is subject to an interest rate shock to determine the impact of adverse movements in interest rates on the bank's economic value and earnings. Set out below is the indicative impact of a 200-bp parallel increase or decrease in interest rates.

Financial assets as at 31 December 2022

	0-3 months	3-6 months	6-12 month	1-5 years	Over 5 years	Total
Cash	680	-	-	-	-	680
Loans and advances to banks	10,590,380	-	-	-	-	10,590,380
Loans and advances to customers, net	80,375,363	4,429,294	-	-	-	84,804,657
Investment in debt securities	7,882,420	-	-	36,320,455	45,657,885	89,860,760
Derivative Assets	1,524,834	-	-	-	-	1,524,834
Amounts due from group undertakings	23,882	-	-	-	-	23,882
TOTAL	100,397,559	4,429,294	-	36,320,455	45,657,885	186,805,193

	0-3 months	3-6 months	6-12 month	1-5 years	Over 5 years	Total
Deposit from customers	1,180,161	-	-	-	-	1,180,161
Bank borrowings	20,676,861	6,769,342	6,723,278	-	-	34,169,481
Amounts due to group undertakings	13,385,900	889,096	-	-	-	14,274,996
Derivative Liabilities	661,433	-	-	-	-	661,433
Other liabilities*	143,398	-	-	-	153,901	297,299
Amounts due to Other Banks	1,120,704	-	-	-	-	1,120,704
TOTAL	37,168,457	7,658,438	6,723,278	-	153,901	51,704,074

*Other liabilities exclude taxes liability

NET GAP	63,229,102	(3,229,144)	(6,723,278)	36,320,455	45,503,984	135,101,119
+200 bps shock	1,264,582	(64,583)	(134,466)	726,409	910,080	2,702,022
-200 bps shock	(1,264,582)	64,583	134,466	(726,409)	(910,080)	(2,702,022)

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Financial assets as at 31 December 2021

	0-3 months	3-6 months	6-12 month	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 month	1-5 years	Over 5 years	Total
Deposit from customers	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	57,986,637

*Other liabilities exclude taxes liability

NET GAP	44,765,864	(4,255,131)	(7,036,624)	28,202,166	39,871,956	101,548,231
+200 bps shock	895,317	(85,103)	(140,732)	564,043	797,439	2,030,964
-200 bps shock	(895,317)	85,103	140,732	(564,043)	(797,439)	(2,030,964)

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.

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ASSETS	Year Ended 31 December 2022				
	GBP	EUR	USD	PHP	Total
Cash	680	-	-	-	680
Loans and advances to banks	7,934,364	135,354	2,520,662	-	10,590,380
Loans and advances to customers, net	(172,836)	14,458,096	70,519,397	-	84,804,657
Amounts due from group undertakings	7,307	1,020	7,138	8,417	23,882
Investment in debt securities	24,112,355	-	65,748,405	-	89,860,760
Derivative Assets	-	-	1,524,834	-	1,524,834
TOTAL ASSETS	31,881,870	14,594,470	140,320,436	8,417	186,805,193
LIABILITIES					
Deposit from customers	885,217	-	294,944	-	1,180,161
Bank borrowings	-	-	67,708,294	-	67,708,294
Amounts due to group undertakings	-	889,096	13,385,900	-	14,274,996
Amounts due to other banks	-	-	1,120,704	-	1,120,704
Derivative Liabilities	380,255	-	281,178	-	661,433
Other liabilities	319,190	1,314	472	-	320,976
TOTAL LIABILITIES	1,584,662	890,410	82,791,492	-	85,266,564
TOTAL ASSETS LESS LIABILITIES	30,297,208	13,704,060	57,528,944	8,417	101,538,629

*Other liabilities exclude taxes liability

ASSETS	Year Ended 31 December 2021				
	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
Amounts due from group undertakings	9,029,250	38,690	11,308	15,321	9,094,569
Investment in debt securities	24,602,946	-	73,818,815	-	98,421,761
Derivative Assets	181,222	-	155,184	-	336,406
TOTAL ASSETS	44,153,088	12,135,131	103,231,328	15,321	159,534,868
LIABILITIES					
Deposit from customers	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
Amounts due to other banks	-	-	2,020,426	-	2,020,426
Derivative Liabilities	-	-	1,114,662	-	1,114,662
Other liabilities	366,756	1,244	421	-	368,421
TOTAL LIABILITIES	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

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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%	
	2022	2021	2022	2021
	Sensitivity of profit before tax £	Sensitivity of profit before tax £	Sensitivity of profit before tax £	Sensitivity of profit before tax £
EU	59,374	9,793	(59,374)	(9,793)
USD	902,161	55,691	(902,161)	(55,691)
PHP	842	1,532	(842)	(1,532)

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 the 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

	2022	2021
	£	£
<i>Operating Leases which expire in</i>		
0 - 1 year	17,177	121,969
1 - 5 years		17,177
Total	17,177	139,146

As to assets traded, BPI Europe has nil loan commitments to extend credit for any Syndicated Term Loans as at reporting date. (2021: £8.9 million loan commitments).

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21. CALLED UP SHARE CAPITAL

	Year Ended 31 Dec 22 £	Year Ended 31 Dec 21 £
Authorised share capital		
100,000,000 ordinary shares of £1 each	100,000,000	100,000,000
Allotted and called up:		
Ordinary shares of £1 each	100,000,000	100,000,000

There were no ordinary shares issued by the Board of Directors for 2022 (2021: 60,000,000 ordinary shares at £1 each were allotted to the sole shareholder, Bank of the Philippine Islands). There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

22. DERIVATIVES

BPI Europe's balance sheet is composed mainly of plain vanilla financial instruments. The bank entered into FX swap transactions to strategically fund and invest in foreign currency denominated assets with relatively attractive returns. With its entire capital is in GBP, BPI Europe needed to book FX swap transactions to take advantage of the better yields from assets denominated in USD and/or EUR.

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 £70.29 million (2021:£57 million notional amount). In 2022, mark to market of the unsettled forward legs of the swaps as of year-end was £863,400 consisting of derivative assets of £1,524,834 and derivative liabilities of £661,433. 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.

23. AMOUNTS DUE TO OTHER BANKS

Amounts Due to Other Banks in 2022 amounting to £1,120,704 (2021: £2,020,426) include collateral (in the form of cash margins) for BPI Europe's outstanding derivatives transactions with counterparty banks.

24. RELATED PARTY TRANSACTIONS

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

	Year Ended 31 Dec 22	Year Ended 31 Dec 21
	£	£
Amounts due from group undertakings		
Fixed deposits	-	4,002,740
Demand deposits	23,882	5,091,829
Total	23,882	9,094,569
Amounts due to group undertakings	14,274,996	10,915,712
The corresponding interest earned is:		
Amount due from group undertakings		
Fixed Deposits	2,319	12,934
Demand Deposits	238	604
Total	2,557	13,538
The corresponding interest incurred is:		
Amount due to group undertakings	-	61,457

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

Key management personnel compensation total is included in Note 7.

25. EVENTS AFTER REPORTING PERIOD

In line with the definition of "functional currency" under FRS 102, Management has assessed that the firm's functional currency has changed to USD, taking also into consideration its forecast business activities in the coming years. As the balance sheet grows, USD will be used to an even greater extent than GBP, and it will more faithfully represent the economic effects of underlying transactions, balances, events and conditions that are relevant to the firm.

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The change was applied on 01 January 2023, coinciding with the beginning of the annual financial reporting period. The presentation currency was likewise changed from GBP to USD and will be reflected in subsequent regulatory submissions.

BPI Europe has filed with the Companies House a notice of redenomination of its 100,000,000 ordinary shares from a nominal value of GBP 1.0 per share to a new nominal value of USD 1.2039 per share. The redenomination of capital from GBP to USD, with effect from 1 January 2023, was supported by a shareholders resolution dated 9 December 2022.