BANK OF THE PHILIPPINE ISLANDS (EUROPE) PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2023

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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

Registered with the Companies House on 19 July 2023
95 Aldwych
London WC2B 4JF
United Kingdom

Prior to the above, registered office address was
26a & 27a Earls Court Gardens
London SW5 0SZ
United Kingdom

Bankers

Barclays Bank UK PLC
JP Morgan Chase & Co.
Wells Fargo Bank

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 2023

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

PRINCIPAL ACTIVITIES

BPI Europe is a UK-licenced bank authorised by the Prudential Regulation Authority (PRA), jointly regulated by the PRA and the Financial Conduct Authority (FCA). It has been in operation since 2007, and started off with a paid-up capital of £20 million, subsequently increased to £100 million after equity infusions amounting to £20 million in 2020 and £60 million in 2021. Following a change in functional currency and redenomination of its capital, BPI Europe's capital stood at $121.9 million as at end-2023. 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.

The higher capital base has allowed the bank to further its growth ambitions through leveraging opportunities. 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. Fixed income and foreign exchange trading activities have likewise increased with slightly larger proportions and the ability to express longer-termed market views.

Deposits and 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.

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 retail customers consisting of existing BPI deposit clients and a potential client base from a partnership with a deposit aggregator.

In 2022, Management assessed that the bank's functional currency had changed to USD, as this was now used to a greater extent than GBP and it more faithfully represents the economic effects of underlying transactions, balances, events, and conditions that are relevant to the bank. The assessment was carried out in accordance with FRS 102, the Financial Reporting Standard applicable to the bank. As such, a change in the bank's functional and presentation currencies from GBP to USD was implemented at the beginning of 2023. Consistent with these changes, the bank's 100,000,000 ordinary shares were redenominated to have a nominal value of $1.2039 from a nominal value of £1.00); total share capital is now valued at $120,390,000.

Over the short-term, the bank's strategic focus is to optimise the composition of its balance sheet to derive the best returns. Medium-term plans include reinforcing a solid retail base, further leveraging the balance sheet to invest in a mix of fixed income securities and syndicated loans and increasing trading in the fixed income and foreign exchange markets.

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 between members of the company.

The Board of Directors of BPI Europe considers, both individually and collectively, that they have in good faith acted in the way they consider would be most likely to promote the success of the bank for the benefit of its members as a whole, having regard to its 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 31 December 2023.

The Board 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, which adheres to the UK Corporate Governance Code in a manner that is relevant and appropriate for the bank, 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, regulatory compliance, and control frameworks, and providing guidance and leadership to Management to see these strategies through.

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 investing activities.

As a wholly-owned subsidiary of Bank of the Philippine Islands, BPI Europe ensures alignment of its goals with the Parent's medium-term strategy. BPI Europe's Governance Policy allows its shareholder, particularly the Parent Bank, to appoint a senior officer from its Board of Directors to act as Chairman of BPI Europe for a more effective chain of oversight and to extend downstream to the subsidiary the BPI Group of Companies' corporate governance practices, business objectives, and risk appetite. For this reporting period, BPI Europe's Board Chairman is the President and Chief Executive Officer of the Parent Bank. Other directors who sit on the Board are also Parent Bank executives overseeing areas relevant to BPI Europe's business. Through its regular meetings, the Board, and effectively, the Parent, is apprised of BPI Europe's financial performance and other matters that require its attention. The presence and participation of Parent Bank executives in BPI Europe's Board likewise provides representation for BPI Europe in the Parent Bank's sphere, allowing it access to the Parent's resources and other forms of support needed to pursue its objectives. All transactions with the Group, however, remain to be dealt with at an arm's length basis in adherence to the bank's policy on related party transaction and under the purview of the Board.

At least half of the Board of Directors, excluding the Chairman, consists of Independent Non-Executive Directors (INEDs) who are not part of the day-to-day management of banking operations. Board subcommittee membership usually requires the inclusion of at least one INED to bring balance, diversity of experience, and appropriate challenge to the bank's decision-making processes. An example of this is the Audit and Risk Committee, which shall be composed of at least three members, at least two of whom shall be INEDs. For the reporting period, the Audit and Risk Committee consisted of all three of the bank's INEDs.

The Board believes in its responsibility to its customers. Aligned with the Parent's core value of customer-centricity, 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. Further, it has appointed one of its INEDs as Consumer Duty Champion to oversee governance and adherence to Consumer Duty regulations and best practices designed to deliver good outcomes for the bank's retail customers.

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. Management and the Board maintain good relationships with the regulators by dealing with them with honesty and transparency and by remaining candid, proactive, cooperative, and constructive in their engagements.

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. As needed, employee concerns are discussed by senior management and escalated accordingly. The bank also has a whistleblowing policy, which establishes formal channels through which BPI Europe personnel with serious concerns on any aspect of the bank's activities may voice their concerns. A confidential e-mail account dedicated for receiving whistleblowing reports is in place, and access to it is restricted to the Whistleblowing Champion, who is appointed from one of the bank's independent non-executive directors.

The Board gives high regard to the wider community and the environment by being socially responsible. It observes corporate social responsibility principles as part of its culture and decision-making process through the institutionalisation of a framework on business ethics, countering financial crime, and addressing environmental and social risks, particularly those 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 customers, counterparties, regulators, and co-players in the banking industry.

REVIEW OF THE BUSINESS

Profitability

For 2023, BPI Europe posted a net loss of $771,489 (2022: net loss of $22,729). The higher deficit during the year is attributed mainly to the one-time loss of $1.16 million from trades executed to manage the bank's open foreign exchange positions following the change in its functional currency from GBP to USD. The bank also incurred a loss of $383,713 from the sale of a portion of one of its syndicated loan accounts after an assessment of its credit portfolio taking into consideration existing market conditions during the year. Operating expenses grew 21.7% to $3.6 million (2022: $3.0 million) in view of higher management and professional fees, increase in manpower cost from additional headcount, and expenses related to the bank's relocation to its new office.

Higher policy rates set by global central banks during the year impacted the bank's interest-rate sensitive accounts, translating to offsetting increases in the bank's interest income and interest expense. Higher bond yields towards the latter part of 2023, meanwhile, allowed the bank to recover from the previous year's loss from securities trading and post gains of $71,503.

The impairment charge for 2023 was significantly lower at $15,771 (2022: $101,900), as the total loan portfolio contracted, following prepayments and the aforementioned sale of a portion of a syndicated loan exposure.

Capital Resources

BPI Europe's total regulatory capital resources as of 31 December 2023 stood at $121.7 million (2022: $122.68 million), with the capital adequacy ratio at 68.24% (2022: 60.20%) against the regulatory requirement of 25.05% (2022: 23.38%). The improvement in capital ratio is due to the reduction in the total risk-weighted assets driven by the contraction in the size of the bank's balance sheets during the year. Leverage ratio for the year was at 64.62%.

Liquidity Resources

Throughout the year, the bank maintained its liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) well above the regulatory minimum for both of 100%. As at end-2023, LCR was at 410% (2022: 166%) and NSFR at 117% (2022: 119%).

RESULTS AND DIVIDENDS

The bank reported a net loss of $771,489 in 2023 (2022: net loss of $22,729). The statement of profit and loss, set out on page 28, details the bank's performance for the year.

The directors have not recommended a dividend for 2023 (2022: 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 2023 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 lingering effects of the pandemic, geopolitical tensions, rising interest rates, and the U.S. banking sector concerns 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). Cash and other cash items (included under "loans and advances to banks") at year end stood at over $3.7 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 2023, the bank's Liquidity Coverage Ratio (LCR) stood at 410% vs. an internal limit of 120% and a 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, 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 appropriately 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 ongoing geopolitical tensions, the lingering impact of the pandemic, rising interest rates, and U.S banking sector concerns 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 2023, the bank's capital ratio stood at 68.2%, well above the regulatory minimum of 25.05%, and the internal capital requirement of 27.01%. The table below shows the components of the bank's capital ratio:

	2023 $000	*Restated* 2022 $000
Own Funds	**121,737**	**122,675**
Tier 1 Capital	121,737	122,675
Common Equity Tier 1 (CET1) Capital	121,737	122,675
Total Risk Exposure Amount	**178,393**	**203,791**
Total Credit Risk-Weighted Assets (CRWA)	163,978	184,232
Total Market Risk-Weighted Assets (MRWA)	8,665	14,259
Total Operational Risk-Weighted Assets (ORWA)	5,750	5,300
CET1 Capital Ratio	**68.24%**	**60.20%**
Tier 1 Capital Raito	**68.24%**	**60.20%**
Total Capital Ratio	**68.24%**	**60.20%**
Regulatory Requirement	**25.05%**	**23.38%**

The restatement of the 2022 comparative financials due to the change in presentation currency did not have an impact on the ratios.

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 markets, 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 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.

During the reporting period, the bank experienced one fraud incident that resulted in the incurrence of a financial loss. The incident primarily involved fraudulent transactions initialised by unauthorised external individuals. Upon discovery of the incident, bank employees immediately carried out established incident handling procedures, which allowed the bank to recover a substantial amount and reduce actual financial losses. These losses, amounting to $68K, have been duly accounted for and are included in the bank's financial statements for the financial period. New and enhanced controls have since been implemented to prevent further incidents from reoccurring.

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.

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/Loss after Tax**. BPI Europe Management and the Board of Directors monitor the bank's profitability on a monthly and quarterly basis. Profit/loss after tax is monitored against the Board-approved annual budget. A loss of $771,489 was posted in 2023 (2022: net loss of $22,729).

• **Balance Sheet Movement and Composition**. This shows the movement in the bank's balance sheet, investment, and funding strategies. Total assets contracted by 10.8% year-on-year and ended the year at $201.03 million (2022: $225.31 million). With the decrease in the size of loan books in 2023 to $74.75 million (2022: $102.10 million), investment securities portfolio has taken a significantly larger proportion of the balance sheet at $121.88 million (2022: $108.18 million), comprising 60.6% (2022: 48.02%) of total assets. Funding remains largely from equity, at 60.63% (2022: 54.44%). Borrowings, comprising 30.84% (2022: 36.18%) of the balance sheet, declined to $62.00 million (2022: $81.51 million), while the amount due to group undertakings likewise fell to $14.09 million (2022: $17.19 million).

• **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 14.87% year-on-year to $2.58 million (2022: $3.04 million). This was driven by losses incurred from trades executed to manage open foreign exchange positions following the change in functional currency from GBP to USD, as well as from the sale of a portion of a syndicated loan.

• **Net Interest Margin**. This represents the bank's net interest differential between sources and uses of funds. Net interest income grew marginally by 0.10%, from the offsetting impact of higher interest rates to interest-earning assets and interest-bearing liabilities. Net interest margin improved to 1.73% (2022: 1.63%).

• **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 2023, the capital ratio stood at 68.24%, well above the regulatory limit of 25.05% while liquidity coverage and net stable funding ratios were at 410% and 117%, 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 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
25 April 2024

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 31 December 2023.

The bank's material financial instruments consist of placements (loans and advances) to banks and corporate accounts, investment securities, bank borrowings, and customer deposit accounts.

BPI Europe continues to focus on and optimise its wholesale business consistent with the Board's direction and appetite. Additional capital received from BPI Parent in 2021 was deployed to higher-yielding corporate syndicated loans and bonds.

After a tumultuous post-Covid market in 2022, 2023 proved to be another challenging year, as the bank saw its balance sheet contract, with settlements and prepayments on both the assets and liabilities sides. Even as borrowing costs grew, in line with the continued rate increases implemented by global central banks during the first half of the year, BPI Europe managed to see a slight improvement in its net interest income and margin.

In line with the change in its functional currency from GBP to USD effective 1 January 2023, the bank executed a number of spot and forward trades to manage the risks from its open foreign exchange position relative to the new functional currency. This exercise resulted in a one-time loss of $1.16 million, greatly impacting the bottomline. Exclusive of this one-off loss, the bank would have posted a net income before tax of $131K for the year.

Market events during the year also called for a review of the bank's credit portfolio to evaluate vulnerabilities relative to its counterparties. The exercise resulted in the sale of a portion of its exposure to one of its loan counterparties, for which the bank absorbed a loss.

Albeit there have been setbacks in recent periods, BPI Europe remains steadfast in implementing its growth strategies in the coming years and it will continue to deploy funds in a calculated manner, cognizant of Board-approved parameters and limits.

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 2023 ICAAP assessed a capital requirement of 27.01%, higher than the 25.05% set by the PRA, reflecting heightened risks due to events that transpired throughout the year. As of 31 December 2023, the bank's capital ratio stood at 68.24%. The 2023 ILAAP reflected risks arising from global events and ensured that the stress testing scenarios remained appropriate. As of 31 December 2023, the bank's LCR and NSFR stood at 410% and 117%, respectively, well above the regulatory limit of 100% for both.

Operational risk self-assessment exercise meanwhile assures the bank's ability to continuously deliver and improve on the delivery of its identified important business services.

A further discussion on the bank's ability to sustain its operations over the next twelve months is provided in the Going Concern Statement provided in the succeeding portions of this document.

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, President & CEO of the BPI Group and Chairman of BPI Europe Board
Mr Alexander John Shapland, INED and Chairman of the Audit and Risk Committee
Ms Lizbeth Joan Yulo, Managing Director of BPI Europe
Mr Martin Lynch O'Neil, INED
Mr Robert David Reoch, INED
Ms Maria Theresa Javier, Executive Director
Mr Dino Gasmen, Executive Director

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 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 31 December 2023 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 bank-wide 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 has expressed its willingness to continue in office and the Directors have decided to reappoint Mazars LLP as external auditors.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

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

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

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

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

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

DISCLOSURE OF FINANCIAL INFORMATION TO AUDITORS

For all directors at the time when the report is approved, the following apply:

- 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

Amidst a tumultuous market backdrop that reeled from the lingering effects of the pandemic, geopolitical tensions, rising interest rates, and concerns about the banking sector, BPI Europe set out on a conservative path for 2023, focusing on investment-grade high-quality liquid assets as it grew its balance sheet. Throughout the year, the bank regularly assessed its portfolio for vulnerabilities as events played out on the global stage. In particular, it monitored its portfolio for signs of credit weakness and vulnerabilities to inflation and slowing growth. The 2023 iteration of the Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("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.

The bank 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.

As a matter of good practice, the bank annually conducts its ICAAP and ILAAP, via an integrated process that begins with translating the Board's medium-term direction into a five-year financial forecast.

The focus over the next year is to optimise the composition of the balance sheet to derive the best returns. Medium-term plans include strengthening the bank's retail deposit base, further leveraging the balance sheet to invest in a mix of fixed income securities and syndicated loans and increasing trading in the fixed income and foreign exchange markets. As the books grow, the ability to hedge will be an invaluable tool in mitigating exposure to heightening market risks.

Proportionate to the nature, scale, and complexity of its business operations, the bank then identifies risk events, such as an economic downturn, geopolitical tensions, and market sector concerns, to test its resilience and determine the level of capital and liquidity required to weather adverse scenarios that may occur. The bank likewise identifies the breaking point, via a reverse stress scenario, where its business becomes unviable and capital and liquidity requirements are breached.

The 2023 ICAAP assessed a capital requirement of 27.01%, higher than the regulatory requirement of 25.05%. The increase reflects the heightened risks factored into the stress scenarios. As of 31 December 2023, the bank's capital ratios stood at 68.24%.

Similar to the ICAAP, the 2023 ILAAP incorporated the risks arising from global events and ensured that the stress testing scenarios remained appropriate. As of 31 December 2023, the bank's LCR stood at 410% (versus an internal limit of 120% and a regulatory limit of 100%), and its NSFR was at 117.4% (versus an internal limit of 110% and a regulatory limit of 100%).

Taking into consideration definitions from both the PRA and FCA, BPI Europe identified its important business services. In its latest Operational Resilience Self-Assessment, the bank concluded that it could implement its contingency strategies for the severe but plausible scenarios identified and that it can meet the impact tolerance levels that is has set for its important business services. Regular testing is being performed to address challenges noted, embed contingency strategies in the bank's processes, and continuously improve the delivery of important business services within the impact tolerance levels set.

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 25 April 2024.

On behalf of the Board:

Ms Lizbeth Joan Yulo

Managing Director

25 April 2024

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 2023 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 2023 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;
- Obtained an understanding of the relevant controls relating to the directors’ going concern assessment;
- 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;
- Assessing the sufficiency of the Bank’s capital and liquidity taking into consideration the most recent Internal Capital Adequacy Assessment Process (“ICAAP”) and Internal Liquidity Assessment Process (“ILAAP”), and evaluating the results of management’s stress testing, including consideration of principal risks on liquidity and regulatory capital;

- Assessing the appropriateness of the directors' key assumptions used in the forecasts such as capital and liquidity, by reviewing supporting and contradictory evidence in relation to these assumptions, and assessing the directors' considerations of severe but plausible scenarios;
- Assessing the historical accuracy by performing back-testing and testing the arithmetical accuracy of the forecasts prepared by the directors;
- Performing sensitivity analysis by incorporating various stress scenarios to assess the impact on the capital and liquidity position of the Bank;
- Reading regulatory correspondence and minutes of meetings of the Audit Committee, the Risk Committee and the Board of Directors to identify events of conditions that may impact the Bank's ability to continue as a going concern;
- Considering whether there were events subsequent to the balance sheet date that could have a bearing on the Bank's going concern conclusion;
- 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 at least twelve months from when the financial statements are authorised for issue.

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

Key audit matters

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

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

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

Key Audit Matter	How our scope addressed this matter
Provision for impairment on loans and advances to customers	Our audit procedures included, but were not limited to:

Refer to significant accounting policies (Note 1n) and Notes 4 and 12 of the financial statements. As at 31 December 2023, the Bank had a collective provision of $224k (2022: $208k). Credit risk is an inherently judgmental area due to the use of subjective assumptions and a high degree of estimation in arriving at the year-end impairment provision. The collective provision is provided on externally rated corporate exposures. The Bank has no actual loss experience to base its impairment assessment of the loan portfolio, resulting in management judgement being required in deriving assumptions to be applied in the assessment. Management applies judgement in estimating the loss emergence period ('LEP') and uses 12- month average default rates as probabilities of default ('PD'), sourced from external credit rating agencies, therefore judgement is required to calibrate the PD assumption against each rated exposure. In addition, the loss given default ('LGD') is calculated using historical global recovery rates allocated against each credit rating. The potential range of outcomes for PD and LEP assumption under the plausible stress scenarios could be greater than our materiality for the financial statement as whole.	• Evaluating the design and implementation and testing the operating effectiveness of the key controls operating at the Bank in relation to the credit process (monitoring of loans, collections, and provisioning); • Assessing management's ability to identify impaired loans by reviewing adequacy of the credit reviews performed by management for material corporate loan counterparties; • Critically assessing how management has performed the accounting estimate, including reasonableness of external and internal data used, and considering whether this is consistent with our understanding of the Bank's loan portfolio; • Testing the accuracy of the credit ratings assigned and the LGD applied against each exposure; • Comparing the key assumption such as LEP with similar banks and sector experience to critically assess the reasonableness and relevance of the assumption applied; • Developing a range of auditor's estimate of the collective provision using assumptions relevant to the Bank's portfolio; • Assessing the reasonableness of the PD assumption using alternative scenarios such as adjusting the long run average default rates to a point in time default rates; • Performing a stand-back assessment of the resulting collective impairment estimate to assess its appropriateness; and • Assessing the appropriateness and adequacy of the disclosures in the financial statements in relation to provision for impairment of loans and advances to customers. **Our observations** Based on the procedures performed, we found that the provision for impairment on loans and advances to customers is not materially misstated as at 31 December 2023 and is materially consistent with the requirements of FRS 102.

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

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

Overall materiality	$1,218,000 (2022: $1,226,000)
How we determined it	1% of net assets (2022: 1% of net assets)
Rationale for benchmark applied	The Bank was loss making in 2023 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. Furthermore, net assets is an approximation of regulatory capital, being a key benchmark for management and regulators.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. We set performance materiality at $852,600 (2022: $858,000), which represents 70% (2022: 70%) of overall materiality. In determining the performance materiality, we considered a number of factors, including the level and nature of uncorrected and corrected misstatements in the prior year and the effectiveness of the control environment, and concluded that an amount towards the upper end our normal range was appropriate.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above $36,500 (2022: $36,700) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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

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

Other information

The other information comprises the information included in the Annual Report and Financial Statements other than the financial statements and our auditor’s report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank 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 directors' responsibilities statement set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor’s responsibilities for the audit of the financial statements

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the Bank and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: regulatory and supervisory requirements of the Prudential Regulation Authority (‘PRA’) and of the Financial Conduct Authority (‘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;
- Attending a bilateral meeting with the PRA to enhance our understanding of the regulator’s focus and potential concerns related to the Bank;
- Inspecting minutes of meetings of the Board of Directors, the Audit Committee and the Risk Committee held during the year and up to the signing date of financial statements; 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 Companies Act 2006 and UK tax legislation.

In addition, we evaluated the directors’ and management’s incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, and significant one-off or unusual transactions.

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;
- Addressing the risks of fraud through management override of controls by performing journal entry testing; and
- Being skeptical to the potential of management bias through judgements and assumptions in significant accounting estimates.

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

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

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

Other matters which we are required to address

Following the recommendation of the Audit 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 four years, covering the years ended 31 December 2020 to 31 December 2023.

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 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.

Greg Simpson (Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
30 Old Bailey
London EC4M 7AU
25 April 2024

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	Year Ended 31 Dec 2023 $	*Restated* Year Ended 31 Dec 2022 $
Interest receivable and similar income	8	8,749,221	5,962,729
Interest payable and similar charges	8	(5,116,017)	(2,333,261)
Net interest income		**3,633,204**	**3,629,468**
Fees and commission income		22,362	113,255
Foreign exchange loss	9	(760,974)	(84,107)
Gain/(Loss) on sale of investments	10	71,503	(625,985)
Loss on sale of syndicated loan		(383,713)	-
Other operating income		2,226	3,528
Operating Income		**2,584,608**	**3,036,159**
Administrative expenses		(3,550,817)	(2,898,292)
Depreciation	14	(44,436)	(56,675)
Impairment charges	12	(15,771)	(101,900)
Loss on Ordinary Activities Before Taxation		**(1,026,416)**	**(20,708)**
Tax credit/(charge) on profit on ordinary activities	11	254,927	(2,021)
Loss For The Financial Year		**(771,489)**	**(22,729)**

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

The comparatives have been restated to reflect the change in the presentational currency, which is further explained in Note 3 (d).

BALANCE SHEET

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	Year Ended 31 Dec 2023 $	*Restated* Year Ended 31 Dec 2022 $
ASSETS			
Cash		10	819
Loans and advances to banks		3,736,215	12,749,758
Loans and advances to customers	12	74,751,736	102,096,327
Amount due from group undertakings		39,521	28,752
Investment securities	13	121,881,874	108,183,369
Derivative assets		17,192	1,835,748
Tangible fixed assets	14	130,877	51,726
Deferred Tax Asset		254,694	-
Other assets	15	220,331	363,201
TOTAL ASSETS		**201,032,450**	**225,309,700**
LIABILITIES			
Deposits from customers	17	1,696,057	1,420,796
Bank borrowings	18	61,998,461	81,514,015
Amount due to group undertakings		14,088,060	17,185,668
Amount due to other banks	16	-	1,349,216
Derivative liabilities		853,975	796,299
Deferred tax liability		-	232
Other liabilities	19	510,335	386,423
		79,146,888	**102,652,649**
TOTAL ASSETS LESS LIABILITIES		**121,885,562**	**122,657,051**
Called up share capital	22	120,390,000	148,044,000
Profit and loss account		1,495,562	2,727,755
Exchange reserve		-	(28,114,704)
TOTAL SHAREHOLDERS' FUNDS		**121,885,562**	**122,657,051**

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 28 to 55 were approved by the Board of Directors and authorised for issue on 25 April 2024 and are signed on their behalf by Ms Lizbeth Joan Yulo.

The comparatives have been restated to reflect the change in the presentational currency, which is further explained in Note 3 (d).

Ms Lizbeth Joan Yulo

Managing Director

STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2023

	Share capital $	Retained earnings $	Exchange reserve $	Shareholder's funds $
Balance as at 1 January 2022, *Restated*	148,044,000	2,750,484	(12,901,588)	137,892,896
Loss for the year, *Restated*	-	(22,729)	-	(22,729)
Translation adjustment	-	-	(15,213,116)	(15,213,116)
Balance as at 31 December 2022, *Restated*	**148,044,000**	**2,727,755**	**(28,114,704)**	**122,657,051**
Balance as at 1 January 2023, *Restated*	148,044,000	2,727,755	(28,114,704)	122,657,051
Effect of change in functional currency	(27,654,000)	(460,704)	28,114,704	-
Balance as at 1 January 2023, *Restated*	**120,390,000**	**2,267,051**	**-**	**122,657,051**
Loss for the year	-	(771,489)	-	(771,489)
Balance as at 31 December 2023	**120,390,000**	**1,495,562**	**-**	**121,885,562**

The comparatives have been restated to reflect the change in the presentational currency, which is further explained in Note 3 (d).

NOTES TO THE FINANCIAL STATEMENT

1. GENERAL INFORMATION

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 27 July 2006 and obtained its authorisation to provide regulated products and services on 26 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 2023, the Bank's registered office address was transferred to 95 Aldwych, London WC2B 4JF. Prior to this, BPI Europe's registered office address was 26a & 27a Earls Court Gardens, London SW5 0SZ.

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 BPI are available from its Registered Office at 22F–28F Ayala Triangle Gardens Tower 2, Paseo De Roxas cor. Makati Ave., Bel-Air, Makati City, and 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

The financial statements are prepared on a going concern basis as detailed in the Directors' Report and Statement of Directors' Responsibilities.

In the annual review and update of its Risk Management Framework documents, the bank considered the stress scenarios factoring in the protracted impact of the pandemic, higher global interest rates, increased inflationary pressures, geopolitical tensions, and U.S. banking sector concerns. 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.

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

Effective 1 January 2023, the bank adopted the US dollar (USD) as its functional currency. Prior to 1 January 2023, the functional currency of the bank was the British pound sterling (GBP).

The bank has likewise adopted USD as its presentation currency effective 1 January 2023, implementing the change from GBP.

Per FRS 102, the Effects of Changes in Foreign Exchange Rates, in respect of changes in presentational currency, comparative financial information has been restated from GBP to USD as follows:

- Assets and liabilities in non-USD denominated currencies were translated into USD at the GBP-USD foreign exchange rate of 1.2039;
- Income and expenses were translated at the average GBP-USD foreign exchange rate of 1.2361;
- Opening retained earnings were translated at the average rate for each period in which the retained earnings arose;
- Share capital and other components of equity were translated using the historical exchange rate at the date of actual transaction/issue; and
- All foreign currency translation differences due to the application of different FX rates from the four items above were reported in a separate reserve in equity. The cumulative foreign exchange translation reserve was set to zero on 1 January 2023,

the effective date of change in the bank's functional currency from GBP to USD, and this reserve has been restated on the basis that the bank has reported in USD since that date. This has been included in the Statement of Movement in Shareholders' Funds.

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.

f) Cash in hand

Cash in hand 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.

The bank recognises deferred tax assets on the carry forward tax losses to the extent that it is probable that they will be recovered against future taxable profits. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that related tax benefits will be realised. The deferred tax assets is estimated and recognised at an applicable tax rate as of December 2023. 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 statement.

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 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

Derivatives held by BPI Europe consist 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. Following the change in the bank's functional and presentation currency, ordinary shares were redenominated to have a nominal value of $1.2039 (from a nominal value of £1.00) 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 12 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 USD to be the functional currency of the bank for 2023 (2022: GBP).

The bank recognises deferred income tax assets on carried forward tax losses to the extent there are still sufficient estimated future taxable profits and/or taxable temporary differences against which the tax losses can be utilised. In 2023, net deferred tax assets amounting to $254,694 was recognised based on the anticipated future use of tax losses carried forward. This will be offset against taxable profits expected to arise in the next accounting period. The assumption about future taxable income requires the use of significant judgment and is based on assessment of the latest budget, which reflects improved revenue generation on higher volume and trading targets.

5. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before taxation is stated after charging:

	Year Ended 31 Dec 2023 $	*Restated* Year Ended 31 Dec 2022 $
Staff costs	1,776,409	1,467,373
Foreign exchange loss	760,974	84,107
Depreciation of fixed assets	44,436	56,675
Operating lease costs (rent expense)	181,895	168,729

	Year Ended 31 Dec 2023 $	*Restated* Year Ended 31 Dec 2022 $
Auditor's Remuneration:		
Fees payable to the bank's auditors for the audit of the bank	186,510	174,290
Fees payable to the bank's auditors for other services pursuant to legislation (CASS Limited Review)	9,699	11,236
Total	**196,209**	**185,526**

6. PARTICULARS OF EMPLOYEES

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

	Year Ended 31 Dec 2023	Year Ended 31 Dec 2022
Number of administrative staff	16	13
Number of management staff	7	6
Total	**23**	**19**

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

	Year Ended 31 Dec 2023 $	*Restated* Year Ended 31 Dec 2022 $
Wages and salaries	1,679,552	1,394,882
Social security cost	72,186	59,066
Other staff costs	24,671	13,425
Total staff costs	**1,776,409**	**1,467,373**

7. DIRECTORS' EMOLUMENTS

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

	Year Ended 31 Dec 2023	*Restated* Year Ended 31 Dec 2022
	$	$
Directors' remuneration	391,398	369,151
Highest paid	260,634	239,361
Pension contributions	1,402	1,392

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 31 Dec 2023	*Restated* Year Ended 31 Dec 2022
	$	$
(a) Interest receivable and similar income		
Interbank placements	164,714	163,202
Debt securities	2,615,082	2,309,046
Time loans	5,945,560	3,442,799
Others	23,865	47,682
	8,749,221	**5,962,729**
(b) Interest payable and similar charges		
Borrowings	(4,307,566)	(2,002,028)
Customer Deposits	(791,510)	(330,439)
Others	(16,941)	(794)
	(5,116,017)	**(2,333,261)**
(c) Net interest income	**3,633,204**	**3,629,468**

Amount under debt securities include effective interest rate adjustment of $1,099,019 in 2023 (2022: $1,327,111).

9. FOREIGN EXCHANGE GAINS LOSSES

	Year Ended 31 Dec 2023	*Restated* Year Ended 31 Dec 2022
	$	$
Realised gains/(losses)	(777,045)	(12,172,105)
Unrealised gains	16,071	12,087,998
	(760,974)	**(84,107)**

Realised losses account of $777,045 in 2023 includes a one-time loss of $1.16 million on trade transactions executed to manage the bank's open foreign exchange positions following the change in its functional currency from GBP to USD. Net of the one-time loss, the bank would have reflected a realised gain of $380,503 and net foreign exchange gain of $396,574.

10. PROFIT/(LOSS) FROM SALE OF INVESTMENT SECURITIES

	Year Ended 31 Dec 2023	*Restated* Year Ended 31 Dec 2022
	$	$
Realised losses	(156,244)	(618,747)
Mark-to-market gains/(losses)	227,747	(7,238)
	71,503	**(625,985)**

11. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year Ended 31 Dec 2023	*Restated* Year Ended 31 Dec 2022
	$	$
(a) Analysis of tax charge for the year:		
Current tax in respect of the year		
Corporation tax	-	1,783
Deferred tax		
Movement in net deferred tax	(254,927)	(6,600)
Adjustment in respect of prior period	-	6,838
Tax (credit)/charge on loss on ordinary activities	(254,927)	2,021

(b) Factors affecting tax charge for the year:

Loss on ordinary activities before taxation	(1,026,416)	(20,708)
Loss on ordinary activities multiplied by standard rate of UK corporation tax based on the results for the period at 19%	(195,019)	(3,934)
Disallowable (allowable) expenditure	1,304	(928)
Depreciation in excess of capital allowances	(30)	6,645
Effect of change in tax rate	(61,182)	-
Current tax (note 11a)	(254,927)	1,783
Less: Adjustment of deferred tax liability		239
Tax (credit)/charge on loss on ordinary activities	**(254,927)**	**2,021**

The Finance Act 2021 includes a legislation increasing UK corporation tax rate to 25% with effect from 1 April 2023. However, as the bank has not exceeded the small profits threshold of £50,000, the tax rate applied for 2023 was still 19%.

The ‘effect of change in tax rate’ line was included to adjust the tax rate for 2023, assuming the subsequent application of the 25% rate on factors affecting the tax charge.

12. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers consists of:

	Year Ended 31 Dec 2023 $	*Restated* **Year Ended 31 Dec 2022** $
Corporate loans	74,975,584	102,304,404
Other retail loans	1	1
Provision for impairment	(223,849)	(208,078)
	74,751,736	**102,096,327**

Movement in provision for impairment

	Collective $	**Year Ended 31 Dec 2023** **Specific** $	**Total** $	*Restated* **Year Ended 31 Dec 2022** **Total** $
Beginning balance	208,077	1	208,078	122,148
Additional provision	15,771	-	15,771	101,900
Currency translation adjustment	-	-	-	(15,970)
Ending balance	**223,848**	**1**	**223,849**	**208,078**

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 2023 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.

A downgrade in the credit rating of the bank's loan portfolio by one notch would result in additional provision amounting to $215,459.

13. 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 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 2023	*Restated* **Year Ended 31 Dec 2022**
	$	$
Debt securities for trading at fair value	20,900,857	9,489,647
Debt securities at amortised cost	100,981,017	98,693,722
	121,881,874	**108,183,369**

14. TANGIBLE FIXED ASSETS

	Leasehold Improvements	Fixtures and Fittings	Office Furniture	Computer Equipment	Total
YEAR 2023	$	$	$	$	$
COST					
At 1 January 2023	700,452	51,155	165,641	77,082	994,330
Additions	27,596	-	-	95,992	123,588
At 31 December 2023	728,048	51,155	165,641	173,074	1,117,918
DEPRECIATION					
At 1 January 2023	673,908	51,155	165,641	51,901	942,605
Charge for the period	26,774	-	-	17,662	44,436
At 31 December 2023	700,682	51,155	165,641	69,563	987,041
NET BOOK VALUE					
At 31 December 2023	**27,366**	**-**	**-**	**103,511**	**130,877**

There were no write-offs booked in 2023 (2022: nil).

15. OTHER ASSETS

	Year Ended 31 Dec 2023	*Restated* Year Ended 31 Dec 2022
	$	$
Amounts falling due within one year:		
Prepayments and other assets	202,512	347,456
Operating lease deposit	17,819	15,745
	220,331	**363,201**

16. AMOUNT DUE TO OTHER BANKS

Amount due to other banks account in 2022 of $1.35 Million pertains to collateral (in the form of cash margins) for BPI Europe's outstanding derivatives transactions with counterparty banks. Balance of the account as at end-2023 is nil.

17. DEPOSITS FROM CUSTOMERS

	Year Ended 31 Dec 2023	*Restated* Year Ended 31 Dec 2022
	$	$
Current Account	-	64,821
Savings Account	900,779	845,853
Time Deposits	795,278	510,122
TOTAL	**1,696,057**	**1,420,796**

$490,665 of the Deposits from customers is from related parties (2022: $184,925).

18. BANK BORROWINGS

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

	Year Ended 31 Dec 2023	*Restated* Year Ended 31 Dec 2022
	$	$
Payable in:		
30 days	5,014,125	23,154,414
3 months	6,625,277	1,738,459
6 months	10,745,282	8,149,611
1 year	29,493,231	8,094,154
Over 1 year	10,120,546	40,377,377
TOTAL	**61,998,461**	**81,514,015**

Interest rates on outstanding bank borrowings range from 5.5% to 7.23% p.a. (2022: 2.70% to 5.96% p.a.).

19. OTHER LIABILITIES

	Year Ended 31 Dec 2023	*Restated* Year Ended 31 Dec 2022
	$	$
Other taxation and social security	15,703	28,505
Accrued expenses and other creditors	296,067	172,637
Other liabilities	198,565	185,281
TOTAL	**510,335**	**386,423**

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.

20. 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 31 December 2023 approximates the amounts at which these instruments are reflected in the balance sheet

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

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

		Year Ended 31 December 2023	
	Amortised Cost	Fair Value through Profit or Loss	Total
	$	$	$
FINANCIAL ASSETS			
Cash	10	-	10
Loans and advances to banks	3,736,215	-	3,736,215
Loans and advances to customers	74,751,736	-	74,751,736
Amounts due from group undertakings	39,521		39,521
Investment securities	100,981,017	20,900,857	121,881,874
Derivative assets	-	17,192	17,192
TOTAL	**179,508,499**	**20,918,049**	**200,426,548**
FINANCIAL LIABILITIES			
Deposits from customers	1,696,057	-	1,696,057
Bank borrowings	61,998,461	-	61,998,461
Amounts due to group undertakings	14,088,060	-	14,088,060
Amounts due to other banks	-	-	-
Derivative liabilities	-	853,975	853,975
Other liabilities	510,335	-	510,335
TOTAL	**78,292,913**	**853,975**	**79,146,888**

	Amortised Cost	*Restated* **Year Ended** **31 December 2022** **Fair Value through Profit or Loss**	**Total**
	$	$	$
FINANCIAL ASSETS			
Cash	819	-	819
Loans and advances to banks	12,749,758	-	12,749,758
Loans and advances to customers	102,096,327	-	102,096,327
Amounts due from group undertakings	28,752	-	28,752
Investment securities	98,693,724	9,489,645	108,183,369
Derivative assets	-	1,835,748	1,835,748
TOTAL	**213,569,380**	**11,325,393**	**224,894,773**
FINANCIAL LIABILITIES			
Deposits from customers	1,420,796	-	1,420,796
Bank borrowings	81,514,015	-	81,514,015
Amounts due to group undertakings	17,185,668	-	17,185,668
Amounts due to other banks	1,349,216	-	1,349,216
Derivative liabilities	-	796,299	796,299
Other liabilities	386,423	-	386,423
TOTAL	**101,856,118**	**796,299**	**102,652,417**

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 2023			
	Level 1	Level 2	Level 3	Total
	$	$	$	
Financial Assets				
Debt securities for trading at Fair Value	20,900,857	-	-	20,900,857
Derivative assets	-	17,192	-	17,192
Total	**20,900,857**	**17,192**	**-**	**20,918,049**
Financial Liabilities				
Derivatives Liabilities	-	853,975	-	853,975
Total	**-**	**853,975**	**-**	**853,975**

	Restated **Year Ended** **31 December 2022** Level 1 $	 Level 2 $	 Level 3 $	 Total
Financial Assets				
Debt securities for trading at Fair Value	9,489,645	-	-	9,489,645
Derivative assets	-	1,835,748	-	1,835,748
Total	**9,489,645**	**1,835,748**	**-**	**11,325,393**
Financial Liabilities				
Derivatives Liabilities	-	796,299	-	796,299
Total	**-**	**796,299**	**-**	**796,299**

Debt securities held at fair value are highly traded financial instruments of which prices are obtained from published and verifiable market data. The derivatives at fair value comprise of the outstanding FX swaps which were valued through the net present value methodology using forward currency rates and interest rates as inputs to the calculation.

CREDIT RISK

Credit risk is defined as the risk of financial losses due to a borrower's default or inability to pay their obligations as 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 2023, this amounted to $164.0 million (2022: $184.2 million).

Collateral and credit enhancements held

The bank has no outstanding marketable securities held as collateral or credit enhancements as at 31 December 2023 (2022: nil).

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 2023 is nil (2022: nil).

CREDIT QUALITY – 2023

	Investment Grade	Below Investment Grade	Unrated	Total
	$	$	$	$
Loans and advances to banks	3,736,215	-	-	3,736,215
Loans and advances to customers	31,703,253	43,048,483	-	74,751,736
Investment in debt securities	111,559,896	10,321,978	-	121,881,874
Amounts due from group undertakings	39,521	-	-	39,521
Derivative assets	17,192	-	-	17,192
Total	**147,056,077**	**53,370,461**	**-**	**200,426,538**

CREDIT QUALITY – 2022

		Restated		
	Investment Grade	Below Investment Grade	Unrated	Total
	$	$	$	$
Loans and advances to banks	12,749,758	-	-	12,749,758
Loans and advances to customers	32,611,116	69,485,211	-	102,096,327
Investment in debt securities	99,868,245	8,315,124	-	108,183,369
Amounts due from group undertakings	28,752	-	-	28,752
Derivative assets	1,835,748	-	-	1,835,748
Total	**147,093,619**	**77,800,335**	**-**	**224,893,954**

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 customer deposit 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 2023

	0-3 months $	3-6 months $	6-12 month $	1-5 years $	Over 5 years $	Total $
Cash	10	-	-	-	-	10
Loans and advances to banks	3,736,489	-	-	-	-	3,736,489
Loans and advances to customers	7,015,468	1,573,270	2,953,348	92,898,074	-	104,440,160
Amounts due from group undertakings	39,521	-	-	-	-	39,521
Investment securities	70,249,621	360,125	4,066,564	31,922,626	20,818,364	127,417,300
Derivative assets	17,192	-	-	-	-	17,192
TOTAL	**81,058,301**	**1,933,395**	**7,019,912**	**124,820,700**	**20,818,364**	**235,650,672**

Financial liabilities analysed by contractual undiscounted amounts based on remaining contractual maturities as at 31 December 2023

	0-3 months $	3-6 months $	6-12 month $	1-5 years $	Over 5 years $	Total $
Deposits from customers	1,696,057	-	-	-	-	1,696,057
Bank borrowings	12,247,662	11,436,408	30,648,270	10,448,029	-	64,780,369
Amounts due to group undertakings	8,930,638	5,157,422	-	-	-	14,088,060
Amounts due to Other banks	-	-	-	-	-	-
Derivative liabilities	853,975	-	-	-	-	853,975
Other Liabilities*	299,189	-	-	-	195,443	494,632
Contingents	6,994,778	-	-	-	-	6,994,778
TOTAL	**31,022,299**	**16,593,830**	**30,648,270**	**10,448,029**	**195,443**	**88,907,871**
*Other liabilities excludes tax liability						
Gap	**50,036,002**	**(14,660,435)**	**(23,628,358)**	**114,372,671**	**20,622,921**	**146,742,801**

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

Restated

	0-3 months $	3-6 months $	6-12 month $	1-5 years $	Over 5 years $	Total $
Cash	819	-	-	-	-	819
Loans and advances to banks	12,753,792	-	-	-	-	12,753,792
Loans and advances to customers	9,838,498	1,520,037	2,917,390	70,474,875	39,796,335	124,547,135
Amounts due from group undertakings	28,752	-	-	-	-	28,752
Investment securities	68,771,446	181,770	846,767	19,937,787	23,039,600	112,777,370
Derivative assets	1,835,748	-	-	-	-	1,835,748
TOTAL	**93,229,055**	**1,701,807**	**3,764,157**	**90,412,662**	**62,835,935**	**251,943,616**

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

	Restated					
	0-3 months	**3-6 months**	**6-12 months**	**1-5 years**	**Over 5 years**	**Total**
	$	$	$	$	$	$
Deposits from customers	1,420,796	-	-	-	-	1,420,796
Bank borrowings	25,597,370	8,765,714	9,350,494	42,411,370	-	86,124,948
Amounts due to group undertakings	16,115,285	1,070,383	-	-	-	17,185,668
Amounts due to other banks	1,349,216	-	-	-	-	1,349,216
Derivative liabilities	796,299	-	-	-	-	796,299
Other Liabilities*	172,637	-	-	-	185,282	357,919
TOTAL	**45,451,603**	**9,836,097**	**9,350,494**	**42,411,370**	**185,282**	**107,234,846**
*Other liabilities excludes tax liability						
Gap	**47,777,452**	**(8,134,290)**	**(5,586,337)**	**48,001,292**	**62,650,653**	**144,708,770**

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, if necessary.

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 are used to help manage market risk in the bank:

- 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

2023 and 2022. 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 2023

	0-3 months	**3-6 months**	**6-12 months**	**1-5 years**	**Over 5 years**	**Total**
	$	$	$	$	$	$
Cash	10	-	-	-	-	10
Loans and advances to banks	3,736,215	-	-	-	-	3,736,215
Loans and advances to customers	69,228,449	5,523,287	-	-	-	74,751,736
Investment securities	20,900,857	-	7,676,568	56,107,484	37,196,965	121,881,874
Derivative assets	17,192	-	-	-	-	17,192
Amounts due from group undertakings	39,521	-	-	-	-	39,521
TOTAL	**93,922,244**	**5,523,287**	**7,676,568**	**56,107,484**	**37,196,965**	**200,426,548**

Financial liabilities as at 31 December 2023

	0-3 months	**3-6 months**	**6-12 months**	**1-5 years**	**Over 5 years**	**Total**
	$	$	$	$	$	$
Deposits from customers	1,696,057	-	-	-	-	1,696,057
Bank borrowings	41,894,699	10,745,282	9,358,480	-	-	61,998,461
Amounts due to group undertakings	8,930,638	5,157,422	-	-	-	14,088,060
Derivative liabilities	853,975	-	-	-	-	853,975
Other liabilities*	299,189	-	-	-	195,443	494,632
Amounts due to other banks	-	-	-	-	-	-
TOTAL	**53,674,558**	**15,902,704**	**9,358,480**	**-**	**195,443**	**79,131,185**
*Other liabilities excludes tax liability						
NET GAP	**40,247,686**	**(10,379,417)**	**(1,681,912)**	**56,107,484**	**37,001,522**	**121,295,363**
+200 bps shock	804,954	(207,588)	(33,638)	1,122,150	740,030	2,425,908
-200 bps shock	(804,954)	207,588	33,638	(1,122,150)	(740,030)	(2,425,908)

Financial assets as at 31 December 2022

Restated

	0-3 months	**3-6 months**	**6-12 months**	**1-5 years**	**Over 5 years**	**Total**
	$	$	$	$	$	$
Cash	819	-	-	-	-	819
Loans and advances to banks	12,749,758	-	-	-	-	12,749,758
Loans and advances to customers, net	96,763,900	5,332,427	-	-	-	102,096,327
Investment in debt securities	9,489,645	-	-	43,726,196	54,967,528	108,183,369
Derivative assets	1,835,748	-	-	-	-	1,835,748
Amounts due from group undertakings	28,752	-	-	-	-	28,752
TOTAL	**120,868,622**	**5,332,427**	**-**	**43,726,196**	**54,967,528**	**224,894,773**

Financial liabilities as at 31 December 2022

	Restated					
	0-3 months	**3-6 months**	**6-12 month**	**1-5 years**	**Over 5 years**	**Total**
	$	$	$	$	$	$
Deposits from customers	1,420,796	-	-	-	-	1,420,796
Bank borrowings	24,892,873	8,149,611	8,094,154	40,377,377	-	81,514,015
Amounts due to group undertakings	16,115,285	1,070,383	-	-	-	17,185,668
Derivative liabilities	796,299	-	-	-	-	796,299
Other liabilities*	172,637	-	-	-	185,282	357,919
Amounts due to other banks	1,349,216	-	-	-	-	1,349,216
TOTAL	**44,747,106**	**9,219,994**	**8,094,154**	**40,377,377**	**185,282**	**102,623,913**
*Other liabilities excludes tax liability						
NET GAP	**76,121,516**	**(3,887,567)**	**(8,094,154)**	**3,348,819**	**54,782,246**	**122,270,860**
+200 bps shock	1,522,430	(77,751)	(161,883)	66,976	1,095,645	2,445,417
-200 bps shock	(1,522,430)	77,751	161,883	(66,976)	(1,095,645)	(2,445,417)

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 USD.

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

	Year Ended 31 December 2023				
	GBP	**EUR**	**USD**	**PHP**	**Total**
	$	$	$	$	$
ASSETS					
Cash	10	-	-	-	10
Loans and advances to banks	802,284	112,966	2,820,965	-	3,736,215
Loans and advances to customers, net	-	12,955,081	61,796,655	-	74,751,736
Amounts due from group undertakings	11,666	887	5,035	21,933	39,521
Investment in debt securities	27,718,148	-	94,163,726	-	121,881,874
Derivative assets	-	-	17,192	-	17,192
TOTAL ASSETS	**28,532,108**	**13,068,934**	**158,803,573**	**21,933**	**200,426,548**
LIABILITIES					
Deposits from customers	1,045,638	-	650,419	-	1,696,057
Bank borrowings	-	-	61,998,461	-	61,998,461
Amounts due to group undertakings	-	1,107,367	12,980,693	-	14,088,060
Amounts due to other banks	-	-	-	-	-
Derivative liabilities	-	-	853,975	-	853,975
Other liabilities	508,126	1,640	569	-	510,335
TOTAL LIABILITIES	**1,553,764**	**1,109,007**	**76,484,117**	**-**	**79,146,888**
TOTAL ASSETS LESS LIABILITIES	**26,978,344**	**11,959,927**	**82,319,456**	**21,933**	**121,279,660**

	Restated				
	Year Ended 31 December 2022				
	GBP	**EUR**	**USD**	**PHP**	**Total**
	$	$	$	$	$
ASSETS					
Cash	819	-	-	-	819
Loans and advances to banks	9,552,181	162,953	3,034,624	-	12,749,758
Loans and advances to customers, net	(208,077)	17,406,102	84,898,302	-	102,096,327
Amounts due from group undertakings	8,797	1,228	8,594	10,133	28,752
Investment in debt securities	29,028,864	-	79,154,505	-	108,183,369
Derivative Assets	-	-	1,835,748	-	1,835,748
TOTAL ASSETS	**38,382,584**	**17,570,283**	**168,931,773**	**10,133**	**224,894,773**
LIABILITIES					
Deposits from customers	1,065,713	-	355,083	-	1,420,796
Bank borrowings	-	-	81,514,015	-	81,514,015
Amounts due to group undertakings	-	1,070,383	16,115,285	-	17,185,668
Amounts due to other banks	-	-	1,349,216	-	1,349,216
Derivative Liabilities	457,789	-	338,510	-	796,299
Other liabilities	384,273	1,582	568	-	386,423
TOTAL LIABILITIES	**1,907,775**	**1,071,965**	**99,672,677**	**-**	**102,652,417**
TOTAL ASSETS LESS LIABILITIES	**36,474,809**	**16,498,318**	**69,259,096**	**10,133**	**122,242,356**

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%**	
	2023	**2022**	**2023**	**2022**
Sensitivity of profit before tax	$	$	$	$
Euro	4,156	71,481	-4,156	-71,481
British Pound Sterling	-10,674	12,109,370	10,674	-12,109,370
Philippine Peso	2,193	1,013	-2,193	-1,013

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. Components of the bank's capital ratio are set out in the Strategic Report.

21. COMMITMENTS

At 31 December 2023, the bank had total commitments under non-cancellable operating leases as set out below.

Land and buildings

	Year Ended 31 Dec 2023	*Restated* Year Ended 31 Dec 2022
	$	$
Operating leases which expire in		
0 to 1 year	192,749	21,232
1 to 5 years	770,997	-
After more than 5 years	867,371	-
	1,831,117	21,232

BPI Europe has loan commitments to extend credit for Syndicated Term Loans amounting to $6,994,778 as at reporting date (2022: nil).

22. CALLED UP SHARE CAPITAL

	Year Ended 31 Dec 2023	Year Ended 31 Dec 2022
	$	$
Authorised and called up share capital:		
100,000,000 ordinary shares of $1.4804 each	148,044,000	148,044,000
Effect of change in functional currency	(27,654,000)	-
100,000,000 ordinary shares of $1.2039 each	**120,390,000**	**148,044,000**

There were no ordinary shares issued by the Board of Directors for 2023 (2022: nil). There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

In relation to the change in its functional currency from GBP to USD, BPI Europe redenominated its 100,000,000 ordinary shares to have a nominal value of USD 1.2039 (from a nominal value of GBP 1.00) for a total share capital amount of USD 120,390,000 effective 01 January 2023.

23. DERIVATIVES

BPI Europe's balance sheet consists of plain vanilla financial instruments. The bank enters into FX swap transactions to strategically fund and invest in foreign currency denominated assets with relatively attractive returns. With its entire capital redenominated to USD, BPI Europe books FX swap transactions to take advantage of the better yields from assets denominated in GBP 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.

	Year Ended 31 Dec 2023 $	*Restated* **Year Ended 31 Dec 2022** $
FX swaps notional amount	38,180,279	84,618,895
Mark to market of unsettled forward legs	(836,783)	1,039,449
Derivative assets	17,192	1,835,748
Derivative liabilities	(853,975)	(796,299)

24. RELATED PARTY TRANSACTIONS

In the normal course of business, BPI Europe transacts on an arm’s length basis with related parties consisting of the Parent Bank and its subsidiaries and associates, as well as subsidiaries and associates of Ayala Corporation (AC), which is a significant stockholder of BPI as of reporting date.

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

	Year Ended 31 Dec 2023 $	*Restated* **Year Ended 31 Dec 2022** $
Amount due from group undertakings	39,521	28,752
Amount due to group undertakings	14,088,060	17,185,668
The corresponding interest earned is:		
Amount due from group undertakings		
Fixed Deposits	-	2,867
Demand Deposits	21	294
Total	21	3,161
The corresponding interest incurred is:		
Amount due to group undertakings	753,867	181,111
Payment made to Parent Bank for outsourced services	16,912	27,395

Deposits from related parties total is included in Note 17.

Key management personnel compensation total is included in Note 7.

25. ULTIMATE PARENT UNDERTAKING

Bank of the Philippine Islands (Europe) Plc is a wholly owned subsidiary of the Bank of the Philippine Islands which is incorporated in the Republic of the Philippines. Copies of the consolidated financial statements of BPI are available from its Registered Office at 22F–28F Ayala Triangle Gardens Tower 2, Paseo De Roxas cor. Makati Ave., Bel-Air, Makati City, and may also be found in bpi.com.ph.

26. EVENTS AFTER REPORTING PERIOD

As of 19 April 2024, the bank has fully divested its exposure to the syndicated loan account mentioned on pages 8 and 13. No additional losses were recognised from the transactions as the loan portions were sold at par.

There are no other material events subsequent to the financial year ended 31 December 2023 that have not been disclosed in the financial statements.