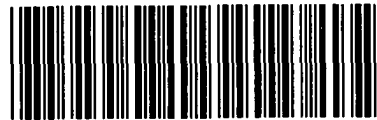


COMPANY REGISTRATION NUMBER 5888535

**BANK OF THE PHILIPPINE ISLANDS (EUROPE) PLC
FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2018**

WEDNESDAY



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COMPANIES HOUSE

BANK OF THE PHILIPPINE ISLANDS (EUROPE) PLC
FINANCIAL STATEMENTS
YEAR ENDED 31st DECEMBER 2018

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OFFICERS AND STATUTORY REGISTERED AUDITORS

The Board of Directors (the "Board")

Mr Cezar Consing
Mr Mario Antonio Paner
Mr Edgardo Madrilejo
Mr John Reed
Mr Robert Reoch
Mr Martin Lynch O'Neil
Ms Lizbeth Joan Yulo (Appointed on 16 August 2018)
Mr. Ramon Oplencia (Resigned on 10 October 2018)

Registered office

Fourth Floor
28/29 Threadneedle Street
London EC2R 8AY

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Company Secretary

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

STRATEGIC REPORT

For the financial year ended 31 December 2018

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

PRINCIPAL ACTIVITIES

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

BPI Europe offers basic banking services to retail customers in the form of deposit accounts, personal loans as well as money transmission services. After a rationalisation exercise completed in 2017, BPI Europe's retail client base is down to current sub-5,000 numbers, while focus shifted to building a wholesale business that includes accepting corporate deposits, obtaining wholesale funding, treasury management and participation in the syndicated loans market. This endeavor gained traction in late 2017 after the bank's efforts at establishing an enterprise wide risk management framework were rewarded with approvals for lower capital requirements, paving the way for investments in higher yielding fixed income securities and syndicated loans.

Furthermore in 2018, exposure to the European wholesale markets allowed the parent bank to expand its trading reach into this geographical region, consistent with the BPI Group's cross-border expansion plans.

REVIEW OF THE BUSINESS

BPI Europe has reported an income before tax for the year amounting to £219,215 (2017: £376,307).

Interest receivable and similar income for the year amounted to £1,387,480 (2017: £1,149,436), mainly due to interest income received on debt securities and placements with banks. Fees and commission income from remittance services and loan referrals during the year was £657,770 (2017: £688,739). Gains from foreign exchange transactions for the year amounted to £1,218,729 (2017: £1,364,285). Gains from the sale of debt securities for the year amounted to £1,600 (2017: £345,219).

Total assets were £76,764,098 (2017: £75,667,141), and total liabilities were £55,668,880 (2017: £54,769,310 ¹*).

Operating expenses for the year amounted to £1,965,096 (2017: £2,535,990). The bank's current ratio (current assets divided by current liabilities) is 0.94 (2017: 0.69). The bank's return on equity (profit after tax divided by the total shareholders' funds) for the year is 0.94% (2017: 1.49%*).

RESULTS AND DIVIDENDS

The profit before tax for the 2018 financial year amounted to £219,215 (2017: £376,307*). The directors have not recommended a dividend, (2017: nil).

¹ *Please refer to Note no. 3(r).

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 structure for the bank's business undertakings. Risks are monitored, managed and controlled through adequate management information reporting to both management and the Board.

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

Business model risk

Business model risk is defined as the risk of financial losses due to uncontrollable factors that may challenge the firm's business model and strategy execution. This may be externally or internally driven, such as in the case of changes in the counterparties' business decision/strategy to deal with BPI Europe, changes in the regulations or laws that pose a challenge to the bank's profitability and long term viability, or changes in the internal organisational structure and rotation/loss of key officers.

Funding concentration risk

Funding concentration risk is defined as the risk of financial losses due to undiversified sources of funds to support balance sheet requirements. 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.

Liquidity risk

Liquidity risk is defined as the risk of financial losses and reputational damage due to the bank's inability to meet its funding obligations. Liquidity risk should be considered in two aspects – (1) the ability to liquidate the assets to service the liquidity requirements of the bank, and (2) tenor mismatches where the bank could not meet the liabilities when they become due. To mitigate this risk, the firm's assets are composed of highly liquid securities that may be sold and placements that may be easily terminated when the need arises.

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. To manage this risk, BPI Europe is guided by a conservative set of underwriting standards and adheres to credit policies and procedures in granting credit facilities. Constant monitoring of the bank's credit portfolio is likewise observed.

Credit concentration risk

Credit concentration risks arise from the imperfect diversification of exposures to entities, sectors, and geographies. Credit concentration risk can arise from exposures to borrowers with similar risk characteristics which are thereby collectively vulnerable to huge losses if things go wrong. The bank manages its credit concentration through the internal monitoring of exposures against approved limits and credit parameters.

Capital adequacy risk

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 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 as set by the PRA in the regulatory assessment of the firm. The distribution of risk weighted assets are managed to be consistent with the business strategies and objectives of the bank.

Market risk

Market risk pertains to the possible loss of a portfolio's value in the (near or far) future influenced by movements in the level or volatility of market prices or risk factors that impact on the portfolio value. 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, its end of day level of investment securities, and derivative positions in the trading book.

Foreign exchange risk

Foreign exchange risk is defined as the risk of financial losses and liquidity concerns due to adverse movements of foreign exchange rates against the bank's net FX position. Currently, BPI Europe has minimal net open positions in foreign currencies as most of the non-Sterling assets are funded by liabilities of the same currency.

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 maturities. Interest rate movements may affect the bank's earnings from mismatches in rate-sensitive assets and liabilities. This in turn changes the underlying value of a bank's assets, liabilities and off-balance sheet items and hence its economic value. BPI Europe has set internal risk indicators and appetite to manage its IRRBB.

Key performance indicators (KPIs)

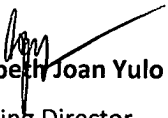
The Board of Directors provides governance and oversight over the bank's financial performance through the following Key Performance Indicators:

- **Net income.** BPI Europe Management and the Board of Directors monitor the bank's profitability on a monthly and quarterly basis. Net Income is monitored against the Board-approved annual budget. Net income before tax is lower than previous year by 42% YoY (2017 higher by 43% YoY).
- **Balance sheet growth and composition.** This shows the bank's growth, investment, and funding strategies. Total assets are higher by 1% YoY (2017: higher by 15% YoY).
- **Revenues.** This provides information on the bank's capability to generate revenues. This also reflects the bank's business focus. Revenues are down by 25% YoY (2017: down by 16% YoY).
- **Net Interest Margin.** This represents the bank's net interest differential between sources and uses of funds. Net interest income is lower by 40% YoY (2017: lower by 18% YoY).

BANK OF THE PHILIPPINE ISLANDS (EUROPE) PLC
FINANCIAL STATEMENTS
YEAR ENDED 31st DECEMBER 2018

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

On behalf of the Board


Ms Lizbeth Joan Yulo
Managing Director
01 April 2019

THE DIRECTORS' REPORT

The Board of Directors present their report and the audited financial statements of the Bank of the Philippine Islands (Europe) Plc for the year ended 31st December 2018.

The bank's material financial instruments comprise placements (loans and advances) to banks and corporate accounts, investment in debt securities, amounts due from and to group undertakings, bank borrowings and customer accounts. In 2018, BPI Europe continued its strategy to grow and optimise its wholesale business consistent with the Board's direction and appetite. Focus shifted to maximizing returns on the balance sheet in response to movements in the financial markets.

The strategy to invest in higher yielding assets was reflected in the movements in the bank's balance sheet, where a portion of the total investments have shifted from interbank placements to higher-yielding debt securities and corporate (syndicated) loans. This strategy is expected to carry on in the subsequent years.

BPI Europe's retail business activities continued to focus on enhancing controls against financial crime and regulatory risks. As the UK legal and regulatory landscape continues to evolve to further protect the integrity of the financial industry, the bank has exerted efforts on refining internal policies and processes to ensure that the retail business operates within the approved risk appetite while optimising the bank's resources. In turn, BPI Europe is able to service the needs of its retail customers in a more efficient manner.

DIRECTORS AND SECRETARY

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 Cesar Consing
Mr Mario Antonio Paner
Mr Edgardo Madrilejo
Mr John Reed
Mr Robert Reoch
Mr Martin Lynch O'Neil
Ms Lizbeth Joan Yulo (Appointed on 16 August 2018)
Mr Ramon Opulencia (Resigned on 10 October 2018)

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

Mr Chiwai Lu

THE DIRECTORS' REPORT (continued)

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

POLICY ON THE PAYMENT OF CREDITORS

It is the bank's policy, in respect of all suppliers, to settle its obligations to creditors within 30 days of invoice date. The number of creditor days in relation to suppliers' balance outstanding at 31 December 2018 was not more than 30 days.

INTERNAL CONTROLS

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

1. First Line of Defence (Risk Ownership)

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

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

The Compliance and Risk Management Unit of the bank has the risk management oversight function, and as such, remain independent of business. It ensures the bank is kept abreast of relevant regulatory rules and standards and that the firm has adequate resources to comply with these rules. It performs regular assessments of the bank's systems and controls and makes recommendations for process improvements based on its evaluations. It is responsible for providing the bank with the risk management framework and tools and policies to aid the first line of defence to remain compliant with current and future policies and regulations.

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

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

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

THE DIRECTORS' REPORT (continued)

EVENTS AFTER THE REPORTING PERIOD

There are no material events subsequent to the financial year ended 31 December 2018 that have not been disclosed in the financial statements.

INDEPENDENT AUDITORS

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

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

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

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

THE DIRECTORS' REPORT (continued)

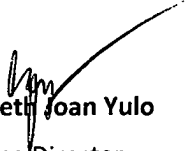
DISCLOSURE OF FINANCIAL INFORMATION TO AUDITORS

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

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

Approved by the directors on 01 April 2019.

On behalf of the board:


Ms Lizbeth Joan Yulo

Managing Director
01 April 2019

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

Report on the audit of the financial statements

Opinion

In our opinion, Bank of the Philippine Islands (Europe) Plc's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared 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); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Financial Statements for the Year Ended 31 December 2018 (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the profit and loss account, and the statement of movement in shareholders' funds for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

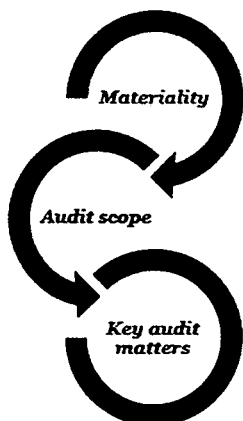
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview



- Overall materiality: £210,684 (2017: £208,956), based on 1% of Net Assets.
 - The scope of our audit, and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of the balance and other qualitative factors.
 - Key audit matters are those that, in our professional judgment, were of most significance in our audit of the financial statements for the current period. The key matters were addressed in the context of our audit of the financial statements as a whole, and forming our opinion thereon, and we do not provide a separate opinion on these matters. We considered impairment/ valuation for loans and advances to corporate customers as a key audit matter of the Company for the year ended 31 December 2018.
-

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Bank and the industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of banking regulations related to breaches of the rules of the Financial Conduct Authority and the Prudential Regulatory Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Reading key correspondence with regulatory authorities, Prudential Regulation Authority and Financial Conduct Authority;
- Discussions with management including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Challenging assumptions and judgments made by management in their significant accounting estimates, in particular in relation to impairment of loans and advances (see related key audit matter below);
- Identifying and testing journal entries, in particular any journal entries posted by senior management, with unusual description, unusual account combination and unexpected date.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgment, were of most significance in the 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) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, 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. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p>Impairment/valuation of loans and advances to corporate customers</p> <p>Provision for loans and advances to corporate customers is an area where a high level of judgment is applied in assessing whether impairment indicators exist and estimating the size of any impairment.</p> <p>The size of the impairment calculated is based on the assessment of current credit rating of the counterparty, the ageing profile and historical experience. This is inherently uncertain, involving various assumptions and judgments.</p> <p>Given the extent of the judgment we considered this to be a key audit matter.</p>	<p>We assessed whether the policies and procedures developed by management were appropriate for calculating the impairment provision using our industry knowledge.</p> <p>We considered the appropriateness of the market data used to calculate the collective provision for corporate loans. This included independently testing the probability of default rates of respective credit ratings for the collective provision calculation.</p> <p>During the year, management changed the market data used for the loss given default assumption in the calculation of the collective provision. We have assessed the change in assumption and concur that it is more reflective of the Company's loss experience.</p> <p>We performed a recalculation for the collective provision balance recognised for the year ended 31 December 2018.</p> <p>As the provision is sensitive to changes in the probability of default and the potential loss to be incurred, we also stressed these assumptions to consider the impact this would have on the provision.</p> <p>There were no specific provisions against corporate</p>

	<p>loans. We have obtained and assessed credit reviews performed by management for a sample of corporate loans by testing underlying financial information and other relevant information and concurred with management assessment.</p> <p>Based on the procedures performed and evidence obtained, we found management's assumptions to be appropriate and that the level of provisions against corporate loans is not materially misstated for the year ended 31 December 2018.</p>
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How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

To conduct this risk assessment, we considered the inherent risks facing the Company, including those arising from its respective business operations, and how the Company manages these risks. We also considered a number of other factors including the design and implementation of the Company's control environment relevant to the audit, the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements and the risk of management override of controls.

Materiality

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 in aggregate on the financial statements as a whole.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£210,684 (2017: £208,956).
How we determined it	1% of Net Assets.
Rationale for benchmark applied	We consider materiality based on net assets (i.e. capital) is most appropriate, giving consideration to the key users of the Company's financial statements. The key users of the Company's financial statements are primarily internal stakeholders within the Group, the UK regulators and deposit holders. Regulators focus primarily on the harm that firms can cause to the stability of the UK financial system. The parent group is profit-oriented and the profitability of the Company on a stand-alone basis is not the primary, or sole, driver of business decision making in the context of the Group's level objectives and strategy. Deposit holders are most likely to be focused on the Company's ability to fulfil its future obligations and therefore liquidity and capital resources of the entity are expected to be their primary focus areas.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £10,534 (2017: £10,448) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in Respect of Financial Statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 auditors' 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the directors to audit the financial statements for the year ended 31 December 2007 and subsequent financial periods. The period of total uninterrupted engagement is 12 years, covering the years ended 31 December 2007 to 31 December 2018.

Timothy Lawrence

Timothy Lawrence (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
01 April 2019

BANK OF THE PHILIPPINE ISLANDS (EUROPE) PLC
 FINANCIAL STATEMENTS
 YEAR ENDED 31ST DECEMBER 2018

PROFIT AND LOSS ACCOUNT
 For the year ended 31 December 2018

		Year ended 31 Dec 18	Year ended 31 Dec 17 (Restated)*
	Note	£	£
Interest receivable and similar income		1,387,480	1,149,436
Interest payable and similar charges		(1,080,968)	(637,313)
Net interest income	9	306,512	512,123
Fees and commission income		657,770	688,739
Foreign exchange gains		1,218,729	1,364,285
Gain on sale of investments	5	1,600	345,219
Other operating income		(300)	1,931
OPERATING INCOME		2,184,311	2,912,297
Administrative expenses		(2,010,226)	(2,394,189)
Impairment charges	11	87,106	(94,872)
Depreciation		(41,976)	(46,929)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	219,215	376,307
Tax on profit on ordinary activities	10	(21,828)	(65,918)
PROFIT FOR THE FINANCIAL YEAR		197,387	310,389

* Please see note no. 3 (r)

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

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

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

The notes on pages 22 to 40 form part of these financial statements.

BANK OF THE PHILIPPINE ISLANDS (EUROPE) PLC
 FINANCIAL STATEMENTS
 YEAR ENDED 31st DECEMBER 2018

BALANCE SHEET

As at 31 December 2018

		At 31 Dec 18	At 31 Dec 17 (Restated)*
	Note	£	£
ASSETS			
Cash		20,918	43,590
Loans and advances to banks	11	17,591,992	12,073,973
Loans and advances to customers	11	11,198,783	14,791,997
Investment in debt securities	12	35,948,247	29,822,771
Tangible fixed assets	13	205,946	197,338
Other assets	14	113,102	137,936
Amounts due from group undertakings	15	11,685,110	18,599,536
TOTAL ASSETS		76,764,098	75,667,141
LIABILITIES			
Customer accounts	16	4,646,512	4,461,457
Amount due to group undertakings	24	5,207,199	4,840,692
Bank borrowings	17	45,561,076	45,118,415
Other liabilities	18	254,093	348,746
		55,668,880	54,769,310
TOTAL ASSETS LESS LIABILITIES		21,095,218	20,897,831
Called up share capital	22	20,000,000	20,000,000
Retained earnings		1,095,218	897,831
TOTAL SHAREHOLDERS' FUNDS		21,095,218	20,897,831

* Please see note nos. 3 (r) and 3 (s)

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 19 to 40 were approved by the Board of Directors and authorised for issue on 01 April 2019 and are signed on their behalf by Ms Lizbeth Joan Yulo.


 Ms Lizbeth Joan Yulo

Managing Director
 01 April 2019

The notes on pages 22 to 40 form part of these financial statements.

STATEMENT OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31 December 2018

	Share capital	Retained earnings (Restated)*	Total shareholders' funds (Restated)*
	£	£	£
Balance as at 1 st January 2017	20,000,000	587,442	20,587,442
Profit for the financial year	-	310,389	310,389
Balance as at 31st December 2017	20,000,000	897,831	20,897,831
Balance as at 1 st January 2018	20,000,000	897,831	20,897,831
Profit for the financial year	-	197,387	197,387
Balance as at 31st December 2018	20,000,000	1,095,218	21,095,218

* Please see note no. 3 (r)

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Bank of the Philippine Islands (Europe) Plc ("the bank") is a public limited Company domiciled in the United Kingdom. It was incorporated in London, United Kingdom on 27 July 2006 and obtained its authorisation to provide regulated products and services on 26 April 2007. It is a UK-licensed bank authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). The Bank's registered office address is Fourth Floor 28/29 Threadneedle Street London, EC2R 8AY and its principal place of business is located at 26A and 27A Earl's Court London, SW5 0SZ.

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

2. STATEMENT OF COMPLIANCE

The individual 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 bank meets its day-to-day working capital requirements through its banking facilities. After making enquiries, the directors have a reasonable expectation that the bank has adequate resources to continue its operational existence for the foreseeable future. The bank therefore continues to adopt the going concern basis in preparing its financial statements.

c) Exemptions for qualifying entities under FRS 102

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

d) Foreign currency

i. Functional and presentation currency

The bank's functional and presentation currency is GBP.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the end of day foreign exchange rates on transaction date. At the end of each financial reporting period, foreign currency monetary items are translated using the day's closing exchange rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of transactions and from the revaluation of foreign currency denominated assets and liabilities are recognised in the profit and loss account.

e) Recognition of income

Income arising from fees and commissions is recognised when the service is provided. Interest income on loans and advances, interbank placements, and investment in debt securities is recognised on an accrual basis using the effective interest method. Interest expense on customer deposits and bank borrowings is recognised on an accrual basis using the effective interest method. Income/loss from foreign exchange transactions are recognised on transaction date and from the daily revaluation of foreign currency positions.

f) Cash

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

g) Loans and advances to banks

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

h) Fixed assets

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

i) Depreciation

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

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

j) Borrowing costs

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

k) Operating lease agreements

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

l) Pension costs

The bank pays fixed contributions (in line with statutory minimums) into a separate entity. Once the contributions have been paid, the bank has no further payment obligations. The contributions are recognised as expenses when these fall 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 administered by the employees.

m) Taxation

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

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

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

n) Financial instruments

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

i. Financial assets

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

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.

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

ii. Financial liabilities

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

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value using latest available market data. Changes in the fair value of derivatives are recognised in the profit or loss statement.

o) Provisions and contingencies

i. Provisions

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

ii. Provision is not made for future operating losses

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

iii. Contingencies

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

Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

p) Share capital

Ordinary shares are classified as equity.

q) Consistency of Presentation

When the presentation or classification of items in the financial statements is changed, an entity shall reclassify comparative amounts unless reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose the following:

- i. the nature of the reclassification;
- ii. the amount of each item or class of items that is reclassified; and
- iii. the reason for the reclassification.

r) Adjustment in Retained Earnings Relating to Deferred Tax Liability

Adjustment in retained earnings relates to a reduction of the deferred tax liability pertaining to the overprovision of the prior year's tax liability. The impact of this adjustment affected the following line items:

2017	£ Increase/(Decrease)
Deferred tax liability (Other liabilities)	(31,427)
Retained earnings	31,427
Tax on profit on ordinary activities	(31,427)

s) Reclassification of Accrued Interest Receivable and Accrued Interest Payable

The bank reclassified its accrued interest receivable (AIR) and accrued interest payable (AIP) from other assets and other liabilities to corresponding accounts under loans and advances to banks, loans and advances to customers, amounts due to/from group undertakings, customer accounts, and borrowings to align with industry practice. The AIR and AIP were reclassified with adjustments in the following lines:

	2018 £	2017 £
	Increase/(Decrease)	Increase/(Decrease)
Loans and advances to banks	11,390	8,854
Loans and advances to customers	17,475	23,252
Investment in debt securities	296,881	270,936
Amounts due from group undertakings	13,215	127,669
Other assets	(338,961)	(430,711)
Customer accounts	1,907	(1,659)
Amounts due to group undertakings	30,399	24,802
Bank borrowings	327,076	166,489
Other liabilities	(359,382)	(189,632)

t) Adjustment of Commitment under Operating Leases

The 2017 amounts were restated to reflect rent commitments for the unexpired terms of the existing non-cancellable leasehold contracts of the bank. This has no impact on the 2017 financial statements but only on the 2017 disclosures. The impact of this adjustment affected the following lines in Note 21.

	2017 £
<i>Operating leases which expire</i>	<u>Increase/(Decrease)</u>
0 - 1 year	116,645
1 - 5 years	463,503
After more than 5 years	<u>(38,805)</u>

4. KEY ACCOUNTING ESTIMATES, ASSUMPTIONS, AND CRITICAL JUDGMENTS

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

As at 31 December 2018, the bank has not made any critical accounting judgments in preparing the year's financial statements.

5. GAIN ON SALE OF INVESTMENTS

The gain on sale of debt securities amounted to £1,600 (2017: £345,219).

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

	Year ended 31 Dec 18 £	Year ended 31 Dec 17 £
Staff costs	1,066,887	1,421,310
Foreign exchange gains	(1,218,729)	(1,364,285)
Depreciation of fixed assets	41,976	46,929
Auditors' fees	59,700	58,000
Operating lease costs (rent expense)	<u>154,785</u>	<u>126,159</u>

Other staff costs in 2018 are included within administrative expenses in the Profit and Loss account.

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	Year ended 31 Dec 18 £	Year ended 31 Dec 17 £
Auditors' remuneration		
Fees payable to the bank's auditors for the audit of the bank	59,700	58,000
Fees payable to the bank's auditors for other services pursuant to legislation (CASS Audit)	5,150	5,000
Fees payable to the bank's auditors for other non-audit services	-	21,985

The statutory audit fees payable to the bank's auditor, PricewaterhouseCoopers, relate to the Client Asset Report (CASS Report).

7. PARTICULARS OF EMPLOYEES

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

	Year ended 31 Dec 18	Year ended 31 Dec 17
Number of administrative staff	21	18
Number of management staff	4	5
Total	25	23

The payroll costs of the staff employed were:

	Year ended 31 Dec 18 £	Year ended 31 Dec 17 £
Wages and salaries	1,030,659	1,385,379
Social security costs	28,841	27,462
Other staff costs	7,387	8,469
Total staff costs	1,066,887	1,421,310

8. DIRECTORS' EMOLUMENTS

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

	Year ended 31 Dec 18 £	Year ended 31 Dec 17 £
Directors' remuneration	273,996	393,584
Highest paid director	175,996	301,834

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

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

9. NET INTEREST INCOME

	Year ended 31 Dec 18	Year ended 31 Dec 17
	£	£
(a) Interest receivable and similar income		
Interest on interbank placements	464,569	436,357
Interest on debt securities	540,184	483,423
Interest on term loans	381,261	228,101
Others	1,466	1,555
Total interest receivable and similar income	1,387,480	1,149,436
(b) Interest payable and similar charges		
Interest payable on bank borrowings	(955,346)	(541,227)
Interest payable on customers deposits	(125,622)	(96,086)
Total interest payable and similar charges	(1,080,968)	(637,313)
(c) Net interest income	306,512	512,123

10. TAX ON PROFIT FROM ORDINARY ACTIVITIES

	Year ended 31 Dec 18	Year ended 31 Dec 17 (Restated)*
	£	£
(a) Analysis of tax charges for the year:		
Current tax		
In respect of the year:		
UK corporation tax based on the results for the period at 19% in 2018 and 19.25% in 2017	21,828	91,971
Deferred tax:		
Timing differences	-	5,374
Tax charge on profit on ordinary activities	21,828	97,345
Less: Adjustment of deferred tax liability	-	(31,427)
Tax charge on profit on ordinary activities	21,828	65,918

*Please see note 3 (r).

(b) Factors affecting tax charge for the year are explained below:

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	Year ended 31 Dec 18	Year ended 31 Dec 17 (Restated) *
	£	£
Profit on ordinary activities before taxation	219,215	376,307
Profit on ordinary activities multiplied by standard rate of UK Corporation tax of 19% in 2018 and 19.25% in 2017	41,651	72,426
Current year deferred tax	-	5,374
Net (allowable)/disallowable expenditure	(19,823)	19,545
Current tax (Note 10a)	21,828	97,345
Less: Adjustment of deferred tax liability	-	(31,427)
Tax charge on profit on ordinary activities	21,828	65,918

*Please see note 3 (r).

11. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

	Year ended 31 Dec 18	Year ended 31 Dec 17 (Restated)*
	£	£
Loans and advances to banks	17,591,992	12,073,973
Provision for impairment	-	-
	<u>17,591,992</u>	<u>12,073,973</u>

Significant accounts falling under this category include placements to a UK bank totaling to £8.2 million (the equivalent of \$10.5 million) and non-UK banks amounting to £4.9 million (the equivalent of \$5.0 million and £1.0 million); (2017: UK bank £9.3 million, the equivalent of \$10.7 million and £1.4 million; non-UK banks £2.2 million, the equivalent of \$3.0 million).

* Please see note no. 3 (s)

	Year ended 31 Dec 18	Year ended 31 Dec 17 (Restated)*
	£	£
Loan and advances to customers :		
Corporate loans	11,113,306	14,502,828
Retail loans	107,619	399,777
Provision for impairment	(22,142)	(110,608)
	<u>11,198,783</u>	<u>14,791,997</u>

* Please see note no. 3 (s)

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Movement in provision for impairment:

	Year ended 31 Dec-18	Year ended 31-Dec-17
	£	£
Beginning balance	110,608	21,046
Additional provision	-	94,872
Reversal of provision	(88,466)	(5,310)
Ending balance	<u>22,142</u>	<u>110,608</u>

FRS 102 requires banks to adhere to the Incurred Loss Model for the calculation of the loan loss provision. BPI Europe has no history of default since the bank started investing in Syndicated Loans in 2015. Given this, BPI Europe calculated its 2018 loan provisions using historical default rates and recovery rates from studies of S&P and Thomson Reuters.

12. INVESTMENTS IN DEBT SECURITIES

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

BPI Europe carries a substantial portfolio of investment securities held under Amortised Cost. These securities contribute to the bank's interest income and provide diversification to its asset base. Management has ensured that these securities are investment grade and have a decent two-way market.

To a lesser extent, the bank likewise holds securities under the Fair Value through Profit and Loss accounting method, or the trading books. As of end 2018, there were no outstanding holdings.

13. TANGIBLE FIXED ASSETS

	Leasehold Improvements	Fixtures and Fittings	Office Furniture	Computer Equipment	Total
	£	£	£	£	£
COST					
At 1 January 2018	533,711	42,491	137,587	36,506	750,295
Net Additions/(Disposals)	48,109	-	-	2,476	50,585
At 31 December 2018	581,820	42,491	137,587	38,982	800,880
DEPRECIATION					
At 1 January 2018	358,289	42,491	131,971	20,207	552,958
Net Charge/(Write-off) for the period	33,240	-	2,674	6,062	41,976
At 31 December 2018	391,529	42,491	134,645	26,269	594,934
NET BOOK VALUE					
At 31 December 2018	190,291	-	2,942	12,713	205,946

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	Leasehold Improvements £	Fixtures and Fittings £	Office Furniture £	Computer Equipment £	Total £
COST					
At 1 January 2017	533,711	42,491	137,587	31,654	745,443
Net Additions/(Disposals)	-	-	-	4,852	4,852
At 31 December 2017	533,711	42,491	137,587	36,506	750,295
DEPRECIATION					
At 1 January 2017	320,076	42,491	129,218	14,243	506,028
Net Charge/(Write-off) for the period	38,213	-	2,753	5,963	46,929
At 31 December 2017	358,289	42,491	131,971	20,206	552,957
NET BOOK VALUE					
At 31 December 2017	175,422	-	5,616	16,300	197,338

14. OTHER ASSETS

	Year ended 31-Dec-18 £	Year ended 31-Dec-17 (Restated)* £
Amounts falling due within one year:		
Prepayments and other assets	96,950	72,960
Operating lease deposit	15,110	6,210
	<u>112,060</u>	<u>79,170</u>
Amounts falling due after more than one year:		
Prepayments and other assets	-	-
Operating lease deposit	1,042	58,766
TOTAL	<u>113,102</u>	<u>137,936</u>

* Please see note no. 3 (s)

15. AMOUNTS DUE FROM GROUP UNDERTAKINGS

	Year ended 31-Dec-18 £	Year ended 31-Dec-17 (Restated)* £
From the Parent company	11,685,110	18,599,536
	<u>11,685,110</u>	<u>18,599,536</u>

Significant accounts falling under this category include placements to the Parent company totaling to £9.8 million (the equivalent of \$11.0 million and £1.2 million); (2017: £17.9 million, the equivalent of \$22.7 million and £1.2 million).

* Please see note no. 3 (s)

Assets Pledged as Security:

In compliance with Bangko Sentral ng Pilipinas (BSP) regulations, a Deed of Assignment (the "Deed") was executed between BPI Europe and BPI Parent in June 2016. Said Deed covered a pledge of \$1.0 million in the form of a placement held as collateral for Parent's credit facility for BPI Europe (2017: \$1.0 million).

16. CUSTOMER ACCOUNTS

	Year ended 31-Dec-18	Year ended 31-Dec-17 (Restated)*
	£	£
Customer accounts	4,646,512	4,461,457

The increase in customer deposits is a result of the bank's shift in positioning its deposit products. In 2018, clients were encouraged to build their deposit accounts for savings purposes rather than as transitory accounts for remittance/fund transfers to the Philippines.

** Please see note no. 3 (s)*

17. BANK BORROWINGS

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

Payable in:	31 Dec 2018	31 Dec-17 (Restated)*
	£	£
30 days	20,068,645	20,589,289
3 months	11,862,178	5,197,570
6 months	3,322,653	5,032,426
1 year	10,307,600	14,299,130
Total	<u>45,561,076</u>	<u>45,118,415</u>

The bank borrowings comprise of €7,737,115 at rates of 0.625%, and \$49,375,538 at rates ranging from 2.5% to 3.698% p.a. (2017: €9,803,939 at rates of 0.625% and \$49,264,662 at rates ranging from 1.48% to 2.7159%).

** Please see note no. 3 (s)*

18. OTHER LIABILITIES

	Year ended 31-Dec-18	Year ended 31-Dec-17 (Restated)*
	£	£
Other taxation and social security	23,492	32,714
Accrued expenses and other creditors	91,070	186,100
Derivatives with negative fair value held for trading	37,709	4,506
Other liabilities	101,822	120,052
Deferred tax liability	-	5,374
TOTAL	254,093	348,746

* Please see note nos. 3 (s) and 3(r).

19. DEFERRED TAXATION

Movements in the deferred taxation provision during the period were:

	Year ended 31-Dec-18	Year ended 31-Dec-17 (Restated)*
	£	£
Profit and loss account movement arising during the period	-	5,374

The provision for deferred taxation consists of movements in current provision and other timing differences:

	Year ended 31-Dec-18	Year ended 31-Dec-17 (Restated)*
	£	£
At 1 January	5,374	57,856
Timing differences:		
Movement in current provision	-	5,374
Tax paid in 2018	(5,374)	-
Other timing differences	-	(26,429)
Adjustment of deferred tax liability*		(31,427)
At 31 December	-	5,374

*Please see note 3 (r)

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 or liquidation sale. Given the bank's balance sheet profile and investment strategy, the fair value of all financial instruments held at 31 December 2018 approximates the amounts at which these instruments are reflected in the balance sheet.

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

CREDIT RISK

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

Maximum exposures to credit risk

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

Collateral and credit enhancements held

The bank has received marketable securities in the face amount of \$400,000 (2017: \$1,820,000) to mitigate credit risk exposures of loans and advances to one Private Banking customer of £85,000 (2017: £274,495) as at 31 December 2018.

Credit quality of financial assets

The table below details the credit quality of the bank's financial assets for the maximum exposure to credit risk, based on Moody's credit ratings. Below investment grade accounts have Moody's ratings of Ba1 to Ba2 (2017: Moody's Ba1 to Ba2) and S&P ratings of BB+ to BBB- (2017: BB).

Credit quality – 2018

	Investment grade	Below Investment Grade	Unrated	Total
	£	£	£	£
Loans and advances to banks	17,591,992	-	-	17,591,992
Loans and advances to customers	-	11,096,059	102,724	11,198,783
Investment in debt securities	34,841,101	1,107,146	-	35,948,247
Amounts due from group undertakings	11,685,110	-	-	11,685,110
Total	64,118,203	12,203,205	102,724	76,424,132

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Credit quality – 2017

	Investment grade £	Below Investment Grade £	Unrated £	Total £
Loans and advances to banks	12,073,973	-	-	12,073,973
Loans and advances to customers	3,691,174	10,706,015	394,808	14,791,997
Investment in debt securities	29,822,771	-	-	29,822,771
Amounts due from group undertakings	18,599,536	-	-	18,599,536
Total	64,187,454	10,706,015	394,808	75,288,277

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

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

Ageing analysis of assets past due but not impaired and impaired assets - 2018

	Past Due but not Impaired				Impaired £	Total £
	Less than 30 days £	31 to 60 days £	61 to 90 days £	More than 90 days £		
	Loans and advances to customers	-	-	-		
Total	-	-	-	-	4,895	4,895

Ageing analysis of assets past due but not impaired and impaired assets - 2017

	Past Due but not Impaired				Impaired £	Total £
	Less than 30 days £	31 to 60 days £	61 to 90 days £	More than 90 days £		
	Loans and advances to customers	-	-	-		
Total	-	-	-	-	6,255	6,255

LIQUIDITY RISK

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

20. FINANCIAL INSTRUMENTS (Continued)

The bank's strategy of expanding its wholesale business resulted in assets having longer maturities than liabilities'. BPI Europe management believes that liquidity concerns would not arise despite this situation by ensuring that funds are placed in highly liquid and pre-terminable assets and continues to develop relationships with other counterparties for additional sources of funding.

Financial liabilities analysed by contractual undiscounted amounts based on remaining contractual maturities as at 31 December 2018

	<3 Months	3 - 6 Months	6 - 12 Months	1 - 5 Years	>5 Years	Total
	£	£	£	£	£	£
Customer accounts	4,646,512	-	-	-	-	4,646,512
Bank borrowings	31,930,823	3,322,653	10,307,600	-	-	45,561,076
Other accrued expenses payable	91,070	-	-	-	-	91,070
Amount due to group undertakings	4,019,763	-	1,187,436	-	-	5,207,199
Total	40,688,168	3,322,653	11,495,036			55,505,857

Financial liabilities analysed by contractual undiscounted amounts based on remaining contractual maturities as at 31 December 2017

	<3 Months	3 - 6 months	6 - 12 months	1 - 5 years	>5 years	Total
	£	£	£	£	£	£
Customer accounts	4,460,406	1,051	-	-	-	4,461,457
Bank borrowings	25,786,859	5,032,426	14,299,130	-	-	45,118,415
Other accrued expenses payable	186,100	-	-	-	-	186,100
Amount due to group undertakings	1,131,642	3,709,050	-	-	-	4,840,692
Total	31,565,007	8,742,527	14,299,130			54,606,664

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

Market risk

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

20. FINANCIAL INSTRUMENTS (Continued)

Interest Rate Risk

Interest rate risk pertains to the risk that BPI Europe experiences deterioration in its financial position in response to movements in interest rates. The bank is exposed to interest rate risks from rate sensitive positions in the balance sheet. The bank has outstanding borrowings of £45,461,076 (2017: £45,118,415), amounts due to group undertakings £5,207,199 (2017:£4,840,692), and customer deposit accounts of £4,646,512; (2017: £4,461,457) on which interest is paid. Meanwhile, the bank earns interest income on loans and advances to banks of £17,591,992; (2017: £12,073,973), debt securities of £35,948,247; (2017: £29,822,771), amounts due from group undertakings of £11,685,110; (2017: £18,599,536) and loans and advances to customers of £11,198,783; (2017: £14,791,997).

The table below indicates the bank's exposure to movements in interest rates as at 31 December 2018 and 2017.

	Movement in basis points	2018	2017
		Sensitivity of profit before tax £	Sensitivity of profit before tax £
Euro	+50	173	466
Great British Pound	+50	95,489	92,683
United States Dollar	+50	8,764	9,399
Other currencies	+50	621	585
Euro	-50	(173)	(466)
Great British Pound	-50	(95,489)	(92,683)
United States Dollar	-50	(8,764)	(9,399)
Other currencies	-50	(621)	(585)

FOREIGN CURRENCY ASSETS AND LIABILITIES

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

The table below indicates the sensitivity to movements in GBP against various foreign currencies.

	Movement of +10%		Movement of -10%	
	2018 Sensitivity of profit before tax £	2017 Sensitivity of profit before tax £	2018 Sensitivity of profit before tax £	2017 Sensitivity of profit before tax £
Euro	3,884	10,488	(3,884)	(10,488)
United States Dollar	176,490	190,129	(176,490)	(190,129)
Other currencies	12,268	11,694	(12,268)	(11,694)

21. COMMITMENTS UNDER OPERATING LEASES

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

Land and Buildings

	2018	2017 (Restated)*
	£	£
Operating leases which expire		
0 - 1 year	142,855	122,855
1 - 5 years	424,335	470,423
After more than 5 years	-	13,041

*Please see note no. 3(t).

22. CALLED UP SHARE CAPITAL

	Year ended 31 Dec 17	Year ended 31 Dec 16
	£	£
Authorised share capital		
20,000,000 ordinary shares of £1 each	20,000,000	20,000,000
Allotted and called up:		
Ordinary shares of £1 each	20,000,000	20,000,000

23. DERIVATIVES AND COMMITMENTS

BPI Europe has an existing foreign exchange swap transaction in its books which was executed for liquidity of its foreign currency position. The bank performs daily marking to market to determine the swap's fair value, which is recognised daily in the profit and loss account under "foreign exchange gains/losses."

The bank, as at reporting date had a foreign currency swap with a notional amount of £1,676,765 and negative fair value of £37,709 (2017: notional of £1,441,881 and negative fair value of £4,506).

Furthermore, as at reporting date the bank had commitments to extend credit for Syndicated Term Loans, which are yet to settle in the amounts of \$3,000,000 and €4,500,000 (2017: Syndicated Term Loans for \$10,000,000).

24. RELATED PARTY TRANSACTIONS

The bank's related party balances with Parent are:	31 Dec-18	31-Dec-17
	£	£
Amount due from group undertakings		
Fixed deposits	9,820,715	18,070,550
Demand deposits	1,864,395	528,986
Total	<u>11,685,110</u>	<u>18,599,536</u>
Amount due to group undertakings	<u>5,207,199</u>	<u>4,840,692</u>

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The corresponding interest earned is:	31 Dec-18	31-Dec-17
	£	£
Amount due from group undertakings		
Fixed deposits	310,944	293,420
Demand deposits	495	1,019
Total	311,439	294,439
The corresponding interest incurred is:	£	£
Amount due to group undertakings	110,824	83,399

Included in management and other professional fees is a balance of £140,457 (2017: £75,670) paid to Lu Oliphant Solicitors LLP for legal services incurred, and £98,000 (2017: £91,750) paid as remuneration to the Non-Executive Directors.

25. EVENTS AFTER THE REPORTING PERIOD

There are no materials events subsequent to the financial year ended 31 December 2018 that have not been disclosed in the financial statements.