BANK OF THE PHILIPPINE ISLANDS
(Europe) PLC

Pillar 3 Disclosures

December 2022

1. Introduction

Bank of the Philippine Islands (Europe) Plc. (BPI Europe or the bank) is a UK registered bank authorised by the PRA and regulated by both the Financial Conduct Authority and the PRA. It is also registered under the Financial Services Compensation Scheme.

BPI Europe is a wholly owned subsidiary of the Bank of the Philippine Islands (BPI). Founded in 1851, BPI was the first bank in the Philippines and in the Southeast Asian region. It is a publicly listed universal bank in the Philippines.

BPI established BPI Europe as its first step to expand its reach in the European region. The original intention was to attend to the basic financial requisites of the growing Philippine community in the UK and the EU, offering savings and time deposits, money payment services, as well as retail loans. The bank however reviewed its strategies given the evolving business environment and decided to exit its retail remittance business in 2019, and focus on its wholesale business instead where it has consistently been able to derive better value.

2. Purpose of the Pillar 3 Document and Regulatory Guidance

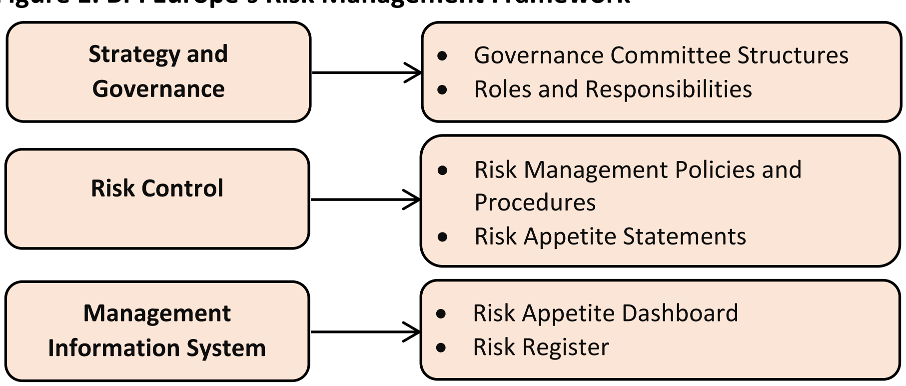
This document comprises the Pillar 3 disclosures on the bank's risk management, governance, and capital. The disclosures were prepared in accordance with the Disclosures Part of the PRA Rulebook. This report should be read in conjunction with the 2022 Annual Report and Financial Statements (Annual Report). This document will be released about the same time as the release of the bank's Annual Report.

3. Risk Management

Risk management in BPI Europe aims to identify, evaluate, mitigate, measure, and control the risks stemming from the execution of business strategies. A Risk Management Framework was established to guide the business activities of the bank, ensuring that these are reasonably performed, and the desired returns are generated commensurate to the overall risk appetite of the bank's Board of Directors (Board).

The bank's risk management framework is illustrated below.

Figure 1. BPI Europe's Risk Management Framework



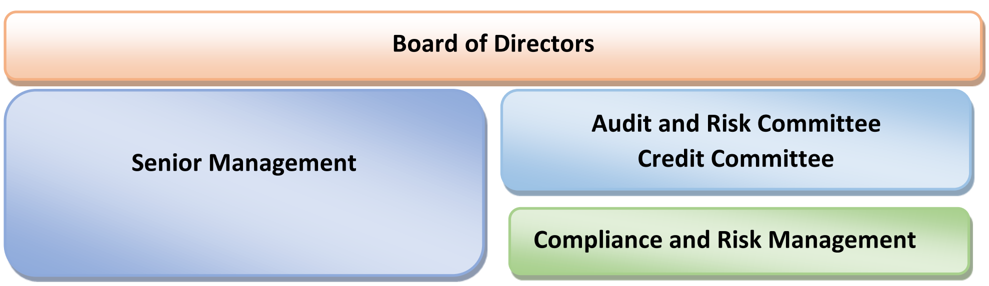
Risk Culture

BPI Europe's Board has set a risk culture in the organisation that promotes awareness of the risks inherent in the bank's business activities and proactive and prudent risk management. The risks are measured, monitored, and managed through adequate management information (MI) as reported to Management and the Board. The business undertakings are executed within the defined risk parameters, and any deviation from the established appetite requires escalation procedures for proper risk governance and disposition. BPI Europe has adopted the three lines of defence model to embed risk management within the responsibilities of the bank's Staff, as relevant to their role. This model enables effective risk management governance and control processes through clearly-delineated functions. Escalation processes are likewise in place to ensure proper decision making when the risk appetite comes close to being breached.

Risk Governance

BPI Europe has a simple risk management structure as shown below:

Figure 2. BPI Europe's Risk Management Organisation



Senior management, along with all front-line staff, as the first line of defence, is responsible for ensuring that they implement their management strategies within the risk appetite set by the Board.

The Risk Management Unit, along with the support units, monitor the risk-taking activities, provide the necessary management information (MI) to management, and monitor the performance of the first line to ensure compliance to risk limits. Compliance testing is likewise conducted by the Compliance Unit periodically to check adherence to policies, procedures, and risk limits. The reports are then presented to the Audit and Risk Committee.

The Audit and Risk Committee discharges the Board-level responsibility for risk management guidance and oversight. This committee nurtures a culture of risk management across the organisation, endorses policies and guidelines to the Board, and reviews, on a regular basis, risk management structures, limits, issues, and measurements across the bank with the objective of meeting and complying with regulatory and international standards on risk measurement and management. The bank's enterprise-wide risk management documents were reviewed, challenged, and approved by the Board in 2022.

Principal Risks

A summary of the bank's principal risks is discussed below.

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.

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.

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.

Credit Risk

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

Credit Concentration Risk

Credit concentration risks arise from the imperfect diversification of exposures to entities, sectors, and geographies. This may also arise from exposures to borrowers with similar risk characteristics (i.e., industry, geographical location) which are thereby collectively vulnerable to huge losses if things go wrong. The bank has defined internal metrics to properly measure its credit concentration in terms of single issuers or borrowers, sectors, and geographical exposures, which are monitored against approved limits and credit parameters. The bank's exposures to individual names are capped at regulatory large exposures limits wherein exposure to a single name does not exceed the applicable percentage of capital in line with Capital Requirements Directives.

Capital Adequacy

This is defined as the risk of financial losses and regulatory sanctions resulting from inadequate capital buffers to cover losses from business activities. It is imperative for financial institutions to maintain an adequate level of capital relative to its risk-taking activities as a buffer against unexpected losses to provide confidence to the bank's stakeholders that it could meet its obligations and demonstrate financial strength and stability. BPI Europe's risk-taking activities are bound by the regulatory capital requirements set by the PRA in their regulatory assessment of the firm and the internal risk appetite set by the Board. The distribution of risk-weighted assets are managed to be consistent with the business strategies and objectives of the bank.

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 uses the Value-at-Risk (VaR) 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.

Interest Rate Risk in the Banking Book (IRRBB)

IRRBB is defined as the current and prospective risk to the bank's capital and earnings arising from adverse movements in the yield curve, particularly for assets and liabilities with mismatched repricing maturities. Interest rate movements may affect the bank's earnings from mismatches in rate-sensitive assets and liabilities, which may affect the original contracted spread. Furthermore, as interest rates change, the present value and timing of future cash flows likewise change. This, in turn, changes the underlying value of a bank's assets, liabilities, and off-balance sheet items, and hence its economic value. BPI Europe has established internal risk indicators and appetite to manage its IRRBB.

Conduct Risk

Conduct risk is defined as any action, behaviour, or decision made by the bank, its Board, or any of its employees that may be detrimental to the bank's and the entire BPI Group's reputation, or may compromise the integrity of the financial market, and may result in unfair and inappropriate outcomes to customers. It may result to 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..

Operational Risk

Operational risk is defined as losses arising from inadequate or failed internal processes, people, and systems. These events could vary from internal and external fraud, systems failures, bank and customer data breaches, human errors, errors in processing wholesale and retail transactions, amongst others. BPI Europe exercises caution in performing operations processes to ensure that these are performed with a high degree of accuracy to avoid errors which may eventually lead to reputational and regulatory consequences. Throughout the year, the bank periodically reviewed these risks and ensured that controls remained appropriate. The bank deems that these risks have been managed and mitigated accordingly.

Climate Change Risk

Climate change risk refers to the risk of financial losses arising from the impact of climate change on the value of the bank's physical assets and financial investments, either through physical or transition risks. BPI Europe has established a framework that governs the way climate change risk is managed in the bank. While climate change may have minimal direct impact on BPI Europe as a financial institution, it has investments whose market value may be vulnerable to climate change; this has consequently been incorporated in the bank's stress testing exercise, and investment decisions include an assessment of climate change risks to specific sectors and/or names. Management continues to enhance its risk management framework in relation to climate change risks to align with the latest regulatory expectations and industry practice.

Risk Metrics and Risk Appetite

BPI Europe's Board of Directors has set a culture of risk awareness in the firm. Each business unit has a good understanding of the risks inherent to their lines of businesses and how to institute adequate controls to mitigate these risks. Risk indicators and metrics are defined to measure risk exposures, and risk-taking activities are governed by certain risk limits. Any deviation from these set appetite levels require escalation processes for proper governance and disposition.

BPI Europe's business activities are governed by the Board's defined risk appetite with respect to the type and amount of exposures that the bank is willing to accept to meet its business objectives. Management ensures that the business activities of the bank are prudently carried out to generate maximum returns while managing the risks that are commensurate to the overall risk appetite of the Board.

4. Capital and Other Disclosures

4.1 Reconciliation of Capital with the Audited Financial Statements

BPI Europe has pure capital; no Tier 1 nor Tier 2 capital. Details are shown below.

Figure 3. Composition of Regulatory Capital (in '000 GBP)

	Amounts	References to disclosures in Figure 4
Common Equity Tier 1 (CET1) capital: instruments and reserves		
Capital instruments and the related share premium accounts	100,000	a
Retained earnings	1,883	b
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**101,883**	**c**

Figure 4. Reconciliation of Regulatory Capital to Balance Sheet in the Audited Financial Statements (in '000 GBP)

	As at 31 December 2022	Reference
Assets		
Cash	1	
Loans and advances to banks	10,590	
Loans and advances to customers, net	84,805	
Amounts due from group undertakings	24	
Investment in debt securities	89,861	
Derivative Assets	1,525	
Tangible fixed assets, net	43	
Other assets	302	
Total assets	187,150	
Liabilities		
Customer accounts	1,180	
Bank borrowings	67,708	
Amounts due to group undertakings	14,275	
Amounts due to Other Banks	1,121	
Derivative Liabilities	661	
Other liabilities	321	
Total liabilities	85,267	
Shareholders' Equity		
Called up share capital	100,000	a
Profit and loss account	1,883	b
Total shareholders' equity	101,883	c

4.2 Risk Weighted Exposures

The bank applies the standardised approach for Credit Risk, Counterparty Credit Risk, and Market Risk; and basic indicator approach for Operational Risk. Summary of the bank's Risk Weighted Exposures is shown in Figure 5.

Figure 5. Overview of Risk Weighted Exposure Amounts as of 31 December 2022 (In '000 GBP)

	Risk weighted exposure	Total own funds requirements
Credit risk (excluding CCR)	152,474	12,198
Counterparty credit risk - CCR	466	37
Position, foreign exchange and commodities risks (Market risk)	11,838	947
Operational risk	4,400	352
Total	**169,178**	**13,534**

BPI Europe assesses its capital adequacy through its ICAAP document which is reviewed, challenged, and approved by the Board annually. The 2022 ICAAP assessed a capital requirement of 25.74%, slightly higher than the regulatory requirement of 23.38% as of 31 December 2022, reflecting heightened risks due to events that transpired throughout 2022. As of 31 December 2022, the bank's capital ratio stood at 60.19%, well above the regulatory minimum.

4.3 Key Metrics

Figure 6. Key Metrics as of 31 December 2022 and 30 June 2022 (In '000 GBP)

	a	b
	Dec-22	**Jun-22**
Available own funds (amounts)		
Common Equity Tier 1 (CET1) capital	101,883	101,666
Tier 1 capital	101,883	101,666
Total capital	101,883	101,666
Risk-weighted exposure amounts		
Total risk-weighted exposure amount	169,178	158,062
Capital ratios (as a percentage of risk-weighted exposure amount)		
Common Equity Tier 1 ratio (%)	60%	64%
Tier 1 ratio (%)	60%	64%
Total capital ratio (%)	60%	64%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
Additional CET1 SREP requirements (%)		
Additional AT1 SREP requirements (%)		
Additional T2 SREP requirements (%)		
Total SREP own funds requirements (%)	15.25%	15.25%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
Capital conservation buffer (%)	2.50%	2.50%
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)		
Institution specific countercyclical capital buffer (%)	0.16%	0.02%
Systemic risk buffer (%)		
Global Systemically Important Institution buffer (%)		
Other Systemically Important Institution buffer		
Combined buffer requirement (%)	2.66%	2.52%
Overall capital requirements (%)	17.91%	17.77%
CET1 available after meeting the total SREP own funds requirements (%)	71,587	73,580
Leverage ratio		
Total exposure measure excluding claims on central banks	180,026	171,617
Leverage ratio excluding claims on central banks (%)	56.57%	59.24%
Additional leverage ratio disclosure requirements		
Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)		
Leverage ratio including claims on central banks (%)	56.57%	59.24%
Average leverage ratio excluding claims on central banks (%)		
Average leverage ratio including claims on central banks (%)		
Countercyclical leverage ratio buffer (%)		
Liquidity Coverage Ratio		
Total high-quality liquid assets (HQLA) (Weighted value -average)	15,647	15,219
Cash outflows - Total weighted value	30,696	28,681
Cash inflows - Total weighted value	22,107	21,511
Total net cash outflows (adjusted value)	8,589	7,170
Liquidity coverage ratio (%)	182%	212%
Net Stable Funding Ratio		
Total available stable funding	139,873	
Total required stable funding	115,768	
NSFR ratio (%)	121%	

4.4 Remuneration

BPI Europe has established a remuneration policy in line with the requirements of SYSC 19 D (Dual-regulated firms Remuneration Code) of the FCA Handbook and the Remuneration Section of the PRA rulebook. The policy provides guidance in setting compensation for Board Directors and all employees of BPI Europe commensurate to their level of skill, competence, and performance, as well as the risks attendant to their position.

Given the size of BPI Europe, the Remunerations Committee function is currently being performed by the Board. The Committee is responsible for establishing the bank's remuneration policies and for the oversight on its implementation. The Committee is responsible for creation of incentives meant to manage risk, capital and liquidity taking into account the long-term interest of the various stakeholders of the bank.

BPI Europe complies with the guidelines on the ratios between fixed and variable remuneration as set in Sections 15.9 to 15.13 of the Remuneration Part of the PRA Rulebook. As of 31 December 2022, no individuals have been remunerated EUR 1 million or more. The bank is also not covered by the derogation laid down in Sections 5.3, 12.2, and 15.A1 of the Remuneration Part of the PRA Rulebook.

4.5 Governance

The Board, Management and employees of BPI Europe believe that sound and effective corporate governance is the cornerstone of the bank's strength and long term existence.

The bank subscribes to a culture of adhering to honesty, integrity, and professionalism in the conduct of its business, exercising prudence in arriving at decisions, enforcing internal discipline and a system of checks and balances in its operating processes, and providing transparency to the public regarding basic management policies and practices, major business strategies and decisions, and its operating results.

The bank has established policies in the selection of Directors taking into consideration their skills, experience, knowledge, integrity and reputation. Balance and mix as appropriate and beneficial to the bank are also taken into account.

4.6 Climate Change

BPI Europe is committed to helping the United Kingdom (UK) achieve its stated goal of net zero emissions by 2050. In line with this, BPI Europe has established a sustainability framework, which aims to provide guidance to the bank and its employees on the integration of sustainability principles in its day-to-day business activities and operations, and to help manage and address the bank's potential exposure to environmental, social, and governance (ESG) risks associated with climate change.

The bank defines ESG risks, of which risks associated with climate change forms part of, as potential financial, legal, and/or reputational negative effects from possible ESG issues affecting the bank's key business activities. It has likewise adopted the PRA's formal definitions for physical, transition, and liability risks as stated in Supervisory Statement 3/19. BPI Europe is cognizant of the transversal nature of these risks and recognises their ability to influence and/or aggravate the bank's existing traditional credit, market, and operational risks. It also acknowledges that how these risks manifest and impact the bank's existing categories may differ across different time horizons as certain physical risks from acute weather events may have an immediate or short-term effect on the bank while other physical risks such as global sea level rise and transition risks such as gradual shifts in investor preferences are expected to impact the bank in the long-run.

The bank's framework also adheres to the Bank of the Philippine Islands Group Sustainability Agenda, which is built on the two pillars of Responsible Banking and Responsible Operations with the aim to create long-term value for stakeholders and to positively contribute to an equitable society and healthy environment. Both pillars also form part of BPI Europe's sustainability framework as seen in the integration of ESG factors in the bank's management decision process. This is evident in how the bank assesses risks arising from ESG factors that affect the value of the bank's portfolio, gives consideration to green investments and businesses that are currently transitioning and taking the necessary steps to transition towards a greener and more sustainable business model over the long term, and seeks to minimise adverse impacts of its operations on the environment and communities.

The Board of Directors have the overall responsibility for sustainability-related issues, including integration of sustainability principles, and those covering ESG risks, in the strategic direction of the bank. The bank's Audit and Risk Management Committee is responsible for oversight and management of the bank's exposures to environmental and social risks, the incorporation of sustainability principles in the bank's Corporate Governance and Risk Management Frameworks, the promotion of a culture of ESG-responsible business decisions, and the approval of related ESG risk management policies and risk appetite.

The bank's Managing Director[1] has the overall responsibility for climate change and oversees and ensures the implementation of the bank's sustainability agenda, policies, frameworks, and targets, and integrating sustainability principles into the strategic direction of the bank.

BPI Europe also formed a Sustainability Committee, a cross-functional team across the bank's various business areas tasked to provide support to the Managing Director in the implementation of the bank's sustainability agenda. The Committee will ensure the implementation and execution of the various policies across their respective functional areas.

Specific Functions of the various business units of the bank are as follows:

Wholesale Business Unit as the first line of defence is responsible for the day-to-day risk-taking activities of the bank. They manage the bank's liquidity, funding, and investments, in line with the bank's Sustainability Strategy Framework.

[1] SMF in charge of Climate Change

Middle Office Unit will ensure adherence of the bank's sustainability practices in its interactions and transactions with its business partners.

Administrative Unit will assist in setting the Key Performance Indicators, training, and compensation metrics, and align them to the bank's Sustainability Agenda

Risk Management and Compliance Units act as the second line of defence. Risk Management Unit is responsible for the management of the enterprise-wide risk management framework including the embedding of ESG risk management in the bank's overall risk management process of risk identification, assessment, control, monitoring, and reporting, as well as undertaking stress testing and/or scenario analysis, as applicable, on the bank's portfolio and returns. Compliance Unit performs reviews to ensure that the implementation of the bank's Sustainability Agenda is consistent with regulations and the bank's policies.

Internal Audit, the third line of defence, performs independent review and assessment of involved units' implementation of the Sustainability Agenda and risk management activities and their compliance to relevant regulations and bank policies.

The bank has implemented both positive and negative screening, veering away from brown names and/or assets and actively investing in either green or sustainable credits for its portfolio. This is incorporated in the bank's Credit and Treasury policies. Regular update on the bank's climate metrics from a portfolio level is also presented to the Board in its quarterly Board meeting, which will continue to be enhanced as more data becomes available. The data currently being monitored include portfolio GHG total emissions (scope 1 + scope 2), GHG/Revenues, GHG/EV, Sustainalytics risk score, MSCI ESG score, and Bloomberg Environmental scores.

BPI Europe regularly monitors the portfolio Sustainalytics Risk Category, which categorizes each company from a residual ESG risk (including climate change risk) As of 31 December 2022, none of BPI Europe's portfolio companies is rated with a "Severe" Risk Category.

The percentage of climate change vulnerable assets in the bank's total portfolio is also being monitored and reported to the Audit & Risk Committee regularly in line with the bank's established risk appetite. As of 31 December 2022, Climate change risk is also included in the bank's annual stress testing and ICAAP. Based on the bank's assessment in 2022, no additional capital specific to climate change was set.