COMPANY REGISTRATION NUMBER 5888535

BANK OF THE PHILIPPINE ISLANDS (EUROPE) PLC
FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2017

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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
Mr Ramon Opulencia

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 2017

In accordance with the resolution of the directors (the "Directors") of Bank of the Philippines Islands (Europe) Plc ("BPI Europe", the "Company", or the "bank"), the Directors submit herewith the Strategic Report of the Company 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 jointly 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 and travel loans, as well as money transmission services. In 2014 the bank expanded into wholesale activities by accepting corporate deposits, obtaining wholesale funding, and participation in the syndicated loan markets, and continues to establish relationships with professional counterparties while operating within its current regulatory permissions. In 2016, the PRA granted BPI Europe lower capital requirements as a result of the implementation of an enterprise wide risk management framework. This fueled the growth in the bank's balance sheet and corresponding revenues, while prudently managing the business within the Board's risk appetite.

The bank aims to keep its retail operations at its current levels, which is comparable to its size and available resources, with risk exposures that are within the Board's expectation. Management intends to manage growth in its wholesale business by seeking opportunities to balance its portfolio to optimise returns and secure stable funding from high net worth individuals and corporate counterparties.

REVIEW OF THE BUSINESS

BPI Europe has reported an income before tax for the year amounting to £376,307 (2016: £263,204).

Interest receivables and similar income for the year amounted to £1,149,436 (2016: £1,008,226), 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 £688,739 (2016: £754,583). Gains from foreign exchange transactions for the year amounted to £1,364,285 (2016: £2,075,544). Gains from the sale of investments / debt securities for the year amounted to £345,219 (2016: £10,956).

Total assets were £75,667,141 (2016: £65,756,402), and total liabilities were £54,800,737 (2016: £45,168,960).

Operating expenses for the year amounted to £2,535,990 (2016: £3,211,579). The Bank's current ratio (current assets divided by current liabilities) is 0.69 (2016: 1.09). The bank's return on equity (profit after tax divided by the total shareholders' funds) for the year is 1.34% (2016: 1.02%).

PRINCIPAL RISKS AND UNCERTAINTIES

Financial risk management
The Board has set a risk culture in the organisation that promotes awareness of the risks emanating from its business activities. The risks are monitored, managed, and controlled through adequate management information reporting to management and the Board. The business undertakings are executed within defined risk parameters and any deviation from the set appetite requires escalation procedures for proper risk governance.

The BPI Europe Management and Board of Directors recognise the following as the risks emanating from its business operations:

Business model risk
The risk of financial losses due to factors that may challenge the firm's business model and strategies. This may be externally driven, such as in the case of changes in the counterparties' business decision/strategy to deal with BPI Europe or changes in the regulations or laws that pose a challenge to the bank's profitability and long term viability.

Funding concentration risk
Financial losses due to undiversified sources of funding used to support balance sheet requirements. BPI Europe's reliance on a few counterparties for funding facilities threatens the liquidity position of the bank when the liabilities are due or when the counterparties decide to limit or totally exit their exposures.

Liquidity risk
The risk of financial losses, regulatory sanctions, and reputational damages due to the bank's inability to meet its liquidity obligations. This risk particularly arises as the bank invests in long term assets with more attractive returns funded by short-term borrowings, which causes funding mismatches in the near term.

Credit risk
The risk of financial losses due to (a) a borrowers' default or inability to pay off their loan or (b) a market counterparty reneging on a trade. As the bank's wholesale business grows, the bank's exposure to credit risk likewise increases.

Credit concentration risk
The risk of financial losses and liquidity issues due to the Bank's undiversified credit exposures. This risk particularly arises due to limited investment opportunities in the market resulting from internal risk appetite and regulatory limit constraints.

Capital adequacy
The risk of financial losses and regulatory sanctions resulting from inadequate capital buffers to cover losses from business activities.

Market risk
The risk of financial losses due to adverse movements in interest rates and other market factors. Market risks arise from the bank's trading activities as Treasury takes advantages of market opportunities to maximise its returns through the purchase and sale of financial instruments.

Foreign exchange risk
The risk of financial losses and liquidity events due to the adverse movement of foreign exchange rates. The bank has net exposures in non-GBP positions which expose the bank to foreign exchange rate volatilities.

Interest Rate risk
The risk of financial losses affecting the Bank's interest differential income and the economic value of the balance sheet due to adverse movements in the yield curve. This arises from the mismatch in the repricing of the bank's assets and liabilities, which is sensitive to interest rate volatilities wrought by unpredictable developments in the global markets.

Conduct risk
The risk of financial losses resulting from regulatory sanctions and reputational damage due to unprofessional and unethical business practices. Management believes that the bank's exposure to this risk is minimal because of the high level of ethical standards and professionalism is embedded in the bank's culture.

Financial Crime – Anti-Money Laundering (AML)
The risk of financial losses resulting from regulatory sanctions and reputational damage due to the failure to prevent and/or detect money laundering activities. The bank's risk exposure to financial crime is inherent to its retail business operations, which the bank continues to mitigate by instituting more robust controls and improved governance processes.

Outsourcing risk
The risk of financial losses and regulatory sanctions arising from failures and breaches in outsourcing arrangements with third party providers. BPI Manila provides technological and back office support to BPI Europe, evidenced by an outsourcing agreement. The bank has established a governance and monitoring process to ensure that all risks are addressed.

Information Security (Cyber Security) risk
The risk of financial losses from regulatory sanctions and reputational damage arising from leaks of information due to the lack of systems integrity to counter the effects of security threats. Given the technological advancements and elevated crime rate involving cyber-attacks globally, all institutions are exposed to this type of risk.

KEY PERFORMANCE INDICATORS (KPIS)

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

- Financial leverage. This represents the bank's investment strategy to grow the balance sheet through additional funding.

- Gross revenue. BPI Europe Management and the Board of Directors monitor the bank's profitability on a monthly and quarterly basis. Revenues are gauged against the Board approved annual budget.

- Net Revenue from Funds. This represents the bank's net interest differential between sources and uses of funds.

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
10 April 2018

THE DIRECTORS' REPORT

The Board of Directors present their report and the audited financial statements of the Bank of Philippine Islands (Europe) Plc ("the Company" or "BPI Europe" or "the bank") for the year ended 31st December 2017.

RESULTS AND DIVIDENDS

The profit before tax for the 2017 financial year amounted to £376,307 (2016: £263,204). The directors have not recommended a dividend, (2016: nil).

FINANCIAL INSTRUMENTS

Given the developments in the global financial markets and UK/EU regulatory regimes, BPI Europe expanded its wholesale activities to reduce its retail business and to promote growth and diversity in the bank's resources and revenue streams. The company's material financial instruments comprise placements (loans and advances) to banks and corporate accounts, investments in debt securities, amounts due from and to group undertakings, bank borrowings and customer deposit accounts.

The bank's balance sheet has significantly increased in 2017 as a result of the reduction in the bank's regulatory capital requirements, which enabled the firm to increase its leverage and invest in higher yielding investment products. The main component of the bank's balance sheet growth stemmed from more active participation in the secondary market for syndicated loans. The bank's investment activities in such products were governed by the Board-approved investment parameters, strategy and risk appetite.

BPI Europe's retail business activities focused largely on enhancing the management controls against financial crime and regulatory risks. This resulted to whittling down the number of retail customers and consequently, deposit balances. In a similar way, the bank observed a marked contraction in the bank's consumer credit activities, as efforts were channeled into activities that bring better long-term economic benefit, and are more aligned to the overall business strategy and objectives.

DIRECTORS AND SECRETARIES

The directors who each held office as Director of the Company 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 (Appointed on 3rd April 2017)
Mr Ramon Opulencia

The Secretaries who each held office throughout the period and until the date of this report, unless disclosed otherwise were:

Mr Chiwai Lu

THE DIRECTORS' REPORT (continued)

The bank is a wholly owned subsidiary of the Bank of the Philippines 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 Company's policy, in respect of all suppliers, to settle the terms of payment within 30 days of invoice date. The number of creditor days in relation to suppliers' balance outstanding at 31 December 2017 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 BPI Europe management considers 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.

BPI Europe has a functional risk management system to identify, measure, monitor and control the risks inherent to its business. Its Compliance framework is firmly rooted in the principles of "Three Lines of Defence" as explained below.

1. *First Line of Defence (Risk Ownership)*

The bank's first line of defence includes staff who are responsible for the day-to-day risk-taking activities of the bank. They manage the risks that the firm is exposed to, and ensure compliance with the relevant risk parameters and controls, both internal and regulatory, to mitigate these risks.

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, remains independent of business. The Unit reviews the bank's capabilities and resources to ensure that all activities of the bank are performed in compliance with the set regulatory and internal rules, standards and limits. It ensures the bank is kept abreast of relevant regulations and standards, and makes an assessment on the adequacy of the bank's 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's compliance framework, tools and policies to aid the first line of defence in complying with current and future policies and regulations.

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

The bank's Audit and Risk Committee is a Board-level Committee which has the over-all responsibility of providing direction and guidance in complying with the Board-approved risk appetite.

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)

INDEMNIFICATION AND INSURANCE OF DIRECTORS

As permitted by the Articles of Association, the directors have the benefit of an indemnity, which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force.

EVENTS AFTER THE REPORTING PERIOD

There are no material events subsequent to the financial year ended 31 December 2017 that have not been disclosed in the financial statements.

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP are deemed to be re-appointed as the Company'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 law and regulation.

Company law requires the 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.

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 10 April 2018.

On behalf of the board:

Ms Lizbeth Joan Yulo
Managing Director
10 April 2018

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 2017 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 (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the profit and loss account, the statement of movements 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 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

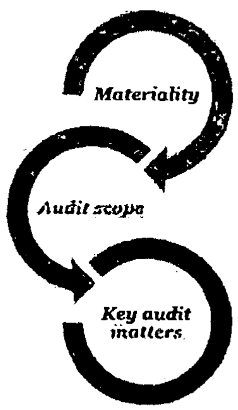
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance 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 2017 to 31 December 2017.

Our audit approach

Overview



- Overall materiality: £208,956 (2016: £1,314,117), based on 1% of Capital (i.e. net assets).

- Our overall approach to setting our audit scope was to focus our audit in areas where we identified a higher risk of material misstatement to the financial statements, including areas where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. 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.

- We performed audit work for all financial statement line items with balance above our performance materiality of £156,717. For each in-scoped line item, we performed the audit work until untested balance is less than performance materiality.

- Key audit matters are those that, in our professional judgement, 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 provision for loans and advances to customers is key audit matter of the Company for the year ended 31 December 2017.

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 judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that 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. We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements, including, but not limited to, the Companies Act 2006, the Financial Conduct Authority and Prudential Regulation Authority's regulations, and the UK tax legislation.

Our tests included, but were not limited to, review of the financial statement disclosures and agreement to underlying supporting documentation, review of correspondence with and reports to the regulators, enquiries of management and review of internal audit reports in so far as they related to the financial statements. 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.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, 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***
Impairment/Valuation of loans and advances to customers Provision for loans and advances to customers is an area where a high level of judgement is applied in assessing whether impairment indicators exist and estimating the size of any impairment. The size of the impairment calculated 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 judgements. Given the extent of judgement involved, we considered this to be a key audit matter.	• We enquired management on policies and procedures for periodic credit assessment. • We obtained and assessed credit review for a sample of existing retail loans and initial credit offering document for new syndicated loans entered during the year. • We have independently tested the probability of default rates of respective credit ratings for collective provision calculation. • We performed recalculation for the collective provision balance recognised for the year ended 31 December 2017. Based on the work performed above, we concurred with management's assessment that no specific provision is required to be recognised. We also deem level of collective provision of £94,872 is not materially misstated for the year ended 31 December 2017.

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.

Our overall approach to setting our audit scope was to focus our audit in areas where we identified a higher risk of material misstatement to the financial statements, including areas where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. 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 judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£208,956 (2016: £1,314,117).
How we determined it	1% of Capital.
Rationale for benchmark applied	We consider materiality based on Capital (i.e. net assets) 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 Committee that we would report to them misstatements identified during our audit above £10,448 (2016: £65,706) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which 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.

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.

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 2017 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 set out on page 11, 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 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 11 years, covering the years ended 31 December 2007 to 31 December 2017.

Amena Shaista

Amena Shaista (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
12 April 2018

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2017

	Note	Year ended 31 Dec 17	Year ended 31 Dec 16
		£	£
Interest receivable and similar income		1,149,436	1,008,226
Interest payable and similar charges		(637,313)	(383,003)
Net interest income	9	**512,123**	**625,223**
Fee and commission income		688,739	754,583
Foreign exchange gains		1,364,285	2,075,544
Gain on sale of investments	5	345,219	-
Other operating income		1,931	8,477
OPERATING INCOME		2,912,297	3,463,827
Gain on sale of investments	5	-	10,956
Administrative expenses		(2,394,189)	(3,121,485)
Impairment charges	11	(94,872)	-
Depreciation		(46,929)	(90,094)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	376,307	263,204
Tax on profit on ordinary activities	10	(97,345)	(52,297)
PROFIT FOR THE FINANCIAL YEAR		**278,962**	**210,907**

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 Company 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 21 to 37 form part of these financial statements.

BALANCE SHEET

As at 31 December 2017

	Note	At 31 Dec 17	At 31 Dec 16
		£	£
ASSETS			
Cash		43,590	40,486
Loans and advances to banks	11	12,065,119	24,778,010
Loans and advances to customers	11	14,768,745	933,986
Investment in debt securities	12	29,551,835	20,721,926
Tangible fixed assets	13	197,338	239,415
Other assets	14	568,647	617,783
Amounts due from group undertakings	15	18,471,867	18,424,796
TOTAL ASSETS		**75,667,141**	**65,756,402**
LIABILITIES			
Customer accounts	16	4,463,116	5,859,448
Amount due to group undertakings	24	4,815,890	5,194,887
Bank borrowings	17	44,951,926	33,613,210
Other liabilities	18	569,805	501,415
		54,800,737	**45,168,960**
TOTAL ASSETS LESS LIABILITIES		**20,866,404**	**20,587,442**
Called up share capital	22	20,000,000	20,000,000
Retained earnings		866,404	587,442
TOTAL SHAREHOLDERS' FUNDS		**20,866,404**	**20,587,442**

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 18 to 37 were approved by the Board of Directors and authorised for issue on 10 April 2018 and are signed on their behalf by:

Ms Lizbeth Joan Yulo
Managing Director
10 April 2018

The notes on pages 21 to 37 form part of these financial statements.

STATEMENT OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31 December 2017

	Share capital £	Retained earnings £	Total shareholders' funds £
Balance as at 1st January 2016	20,000,000	376,535	20,376,535
Profit for the financial year	-	210,907	210,907
Balance as at 31st December 2016	20,000,000	**587,442**	**20,587,442**
Balance as at 1st January 2017	20,000,000	**587,442**	**20,587,442**
Profit for the financial year	-	278,962	278,962
Balance as at 31st December 2017	**20,000,000**	**866,404**	**20,866,404**

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Bank of the Philippine Islands (Europe) Plc ("the Company" or "BPI Europe" or "the bank") is a public limited Company and 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 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 the Registered Office of Bank of the Philippine Islands: BPI Building, Ayala Avenue corner Paseo de Roxas, 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 company 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. 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 a qualifying entity for specific disclosure exemptions. The bank's Shareholders have been notified and have not objected to the use of the exemptions, and it otherwise applies 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 company 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 company'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 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 position.

f) Fixed assets

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

g) Depreciation

Depreciation is calculated-over the useful economic life of that 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

h) Borrowing costs

All borrowing costs are recognised in profit and loss accounts in the period in which they are incurred.

i) 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.

j) 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.

k) 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.

l) 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 is recognised in the profit and loss account, if any.

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, including forward foreign exchange contracts, are not basic financial instruments. 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.

m) Provisions and contingencies

i. Provisions
Provisions are recognised when the company 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 company'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.

n) Share capital

Ordinary shares are classified as equity.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. BPI Europe recognises the estimates and assumptions from impairment of loans portfolio to have significant risk of causing material adjustment to the carrying amount of the assets within the next financial year. When assessing impairment of loans and advances to customers, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience. See note 11 for the associated impairment provision.

5. GAIN ON SALE OF INVESTMENTS

The gain on sale of debt securities amounted to £345,219 (2016: £10,956).

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

	Year ended 31 Dec 17	Year ended 31 Dec 16
	£	£
Staff costs	1,421,310	1,845,396
Foreign exchange gains	(1,364,285)	(2,075,544)
Depreciation of fixed assets	46,929	90,094
Auditors' fees	58,000	31,000
Operating lease costs (rent expense)	126,159	212,566

Other staff costs in 2017 are included within administrative expenses in the Profit and Loss account.

	Year ended 31 Dec 17	Year ended 31 Dec 16
Auditors' remuneration	£	£
Fees payable to the bank's auditors for the audit of the bank	58,000	31,000
Fees payable to the bank's auditors for other services pursuant to legislation (CASS Audit)	5,000	5,000
Fees payable to the bank's auditors for other non-audit services	21,985	41,710

The statutory audit fees payable to the bank's auditor, PricewaterhouseCoopers Audit related fees for the year relate to Client Asset Report (CASS). The fees paid to the bank's auditors in respect of non-audit services relate to services performed in connection with consultations on relevant UK, EU, and international regulations.

7. PARTICULARS OF EMPLOYEES

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

	Year ended 31 Dec 17	Year ended 31 Dec 16
Number of administrative staff	18	18
Number of management staff	5	7
Total	**23**	**25**

The payroll costs of the staff employed were:

	Year ended 31 Dec 17	Year ended 31 Dec 16
	£	£
Wages and salaries	1,385,379	1,887,957
Social security costs	27,462	(65,724)
Provision for separation pay	-	18,527
Other staff costs	8,469	4,636
Total staff costs	**1,421,310**	**1,845,396**

8. DIRECTORS' EMOLUMENTS

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

	Year ended 31 Dec 17	Year ended 31 Dec 16
	£	£
Directors' remuneration	393,584	516,668
Highest paid director	301,834	304,731

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

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 17 £	Year ended 31 Dec 16 £
(a) Interest receivable and similar income		
Interest on interbank placements	436,357	328,336
Interest on debt securities	483,423	500,136
Interest on term loans	228,101	170,799
Others	1,555	8,955
	1,149,436	**1,008,226**
(b) Interest payable and similar charges		
Interest payable on bank borrowings	(541,227)	(287,760)
Interest payable on customers deposits	(96,086)	(95,243)
	(637,313)	**(383,003)**
(c) Net interest income	**512,123**	**625,223**

10. TAX ON PROFIT FROM ORDINARY ACTIVITIES

	Year ended 31 Dec 17 £	Year ended 31 Dec 16 £
(a) Analysis of tax charge for the year:		
Current tax		
In respect of the year:		
UK corporation tax based on the results for the period at 19.25% in 2017 and 20% in 2016	91,971	38,604
Deferred tax:		
Timing differences	5,374	13,693
Tax charge on profit on ordinary activities	**97,345**	**52,297**

10. TAX ON PROFIT FROM ORDINARY ACTIVITIES (Continued)

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

The tax charge for the year is higher (2016: lower tax charge) than the standard rate of corporation tax in the UK of 19.25% (2016: 20%) due to the differences explained below:

	Year ended 31 Dec 17 £	Year ended 31 Dec 16 £
Profit on ordinary activities before taxation	376,307	263,204
Profit on ordinary activities multiplied by standard rate of UK Corporation tax of 19.25% in 2017 and 20% in 2016	72,426	52,641
Current year deferred tax	5,374	13,693
Disallowable (allowable) expenditure	19,545	(14,037)
Current tax (Note 10a)	**97,345**	**52,297**

11. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

	Year ended 31 Dec 17 £	Year ended 31 Dec 16 £
Loan and advances to banks	12,065,119	24,778.010
Provision for impairment	-	-
	12,065,119	**24,778,010**

Significant accounts falling under this category include placements to a UK bank totalling to £9.3 million ($10.7 million and £1.4 million) and a non-UK bank amounting to £2.2 million ($3.0 million).

Loan and advances to customers :	Year ended 31 Dec 17 £	Year ended 31 Dec 16 £
Corporate loans	14,480,342	-
Retail loans	399,011	955,032
Provision for impairment	(110,608)	(21,046)
	14,768,745	**933,986**

11. LOANS AND ADVANCES TO BANKS AND CUSTOMERS (Continued)

Movement in provision for impairment:

	Year ended 31 Dec-17	Year ended 31-Dec-16
	£	£
Beginning balance	21,046	21,733
Additional provision	94,872	-
Reversal of provision	(5,310)	(687)
Ending balance	**110,608**	**21,046**

In determining the loan loss provision, the bank identified whether impairment indicators exist for each of the loan issuers given their individual credit risk profile. The impairment indicators would be a factor for estimating expected losses from the loan portfolio. This approach is consistent with the guidelines stated in FRS 102 Section 11 paragraph 24.

12. INVESTMENT IN DEBT SECURITIES

Investments in debt securities are non-derivative financial assets with fixed or determinable payments and maturities that the bank's management 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 2017, there were no outstanding holdings.

13. TANGIBLE FIXED ASSETS

	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-17 £	Year ended 31-Dec-16 £
Amounts falling due within one year:		
Accrued interest receivable	434,407	398,166
Prepayments and other assets	59,271	132,641
Operating lease deposit	6,210	22,908
	499,888	**553,715**
Amounts falling due after more than one year:		
Prepayments and other assets	9,993	4,249
Operating lease deposit	58,766	59,819
TOTAL	**568,647**	**617,783**

15. AMOUNTS DUE FROM GROUP UNDERTAKINGS

	Year ended 31-Dec-17 £	Year ended 31-Dec-16 £
From the Parent company	18,471,867	18,424,796
From group entities	-	-
	18,471,867	**18,424,796**

Significant accounts falling under this category includes placements to Parent company totaling to £17.9 million ($22.7 million and £1.2 million).

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 to cover a pledge of $1.0 million in the form of a placement held as collateral for the Parent's credit facility for BPI Europe (2016: $9.5 million).

16. CUSTOMER ACCOUNTS

	Year ended 31-Dec-17 £	Year ended 31-Dec-16 £
Customer accounts	**4,463,116**	**5,859,448**

Customer accounts consist of retail deposits.

17. BANK BORROWINGS

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

Payable in:	31 Dec-17 £	31-Dec-16 £
30 days	20,552,000	21,041,800
3 months	5,174,400	6,092,100
6 months	5,001,806	4,051,410
1 year	14,223,720	2,427,900
Total	**44,951,926**	**33,613,210**

The bank borrowings carry fixed rate interest from 0.6% to 2.7% p.a. (2016 – 0.5% to 1.7% p.a.).

18. OTHER LIABILITIES

	Year ended 31-Dec-17 £	Year ended 31-Dec-16 £
Other taxation and social security	32,714	34,069
Accrued interest payable	189,631	21,232
Accrued expenses and other creditors	186,100	344,616
Other liabilities	124,559	43,642
Deferred tax liability	36,801	57,856
TOTAL	**569,805**	**501,415**

19. DEFERRED TAXATION

Movement in the deferred taxation provision during the period was:

	Year ended 31-Dec-17 £	Year ended 31-Dec-16 £
Profit and loss account movement arising during the period	**5,374**	**13,693**

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

	Year ended 31-Dec-17 £	Year ended 31-Dec-16 £
At 1 January	57,856	44,163
Timing differences:		
Movement in current provision	5,374	13,693
Other timing differences	(26,429)	-
At 31 December	**36,801**	**57,856**

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 2017 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 Company has received marketable securities in the face amount of $1,820,000 to mitigate credit risk exposures of loans and advances to Private Banking customers of £274,495 as at 31 December 2017.

20. FINANCIAL INSTRUMENTS (Continued)

Credit quality of financial assets
The table below details the credit quality of the Company's financial assets for the maximum exposure to credit risk, based on S&P credit ratings.

Credit quality – 2017

	Investment grade	Below Investment Grade	Unrated	Total
	£	£	£	£
Loans and advances to banks	12,065,119	-	-	12,065,119
Loans and advances to customers	3,696,000	10,784,341	288,404	14,768,745
Investment in debt securities	29,551,835	-	-	29,551,835
Amounts due from group undertakings	18,471,867	-	-	18,471,867
Total	63,784,821	10,784,341	288,404	74,857,566

Credit quality – 2016

	Investment grade	Below Investment Grade	Unrated	Total
	£	£	£	£
Loans and advances to banks	24,778,010	-	-	24,778,010
Loans and advances to customers	-	-	933,986	933,986
Investment in debt securities	20,721,926	-	-	20,721,926
Amounts due from group undertakings	18,424,796	-	-	18,424,796
Total	63,924,732	-	933,986	64,858,718

A facility is considered to be past due when a contractual payment falls overdue. 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 Company when determining an asset to be impaired are set out in Note 3 (m).

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

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

20. FINANCIAL INSTRUMENTS (Continued)

Ageing analysis of assets past due but not impaired and impaired assets - 2016

	Past Due but not Impaired					
	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Impaired	Total
Loans and advances to banks	-	-	-	-	11,565	11,565
Total	-	-	-	-	11,565	11,565

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, 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.

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 2017

	<3 months £	3 - 6 months £	6 – 12 months £	1 – 5 years £	>5 years £	Total £
Customer Accounts	4,462,065	1,051	-	-	-	4,463,116
Bank Borrowings	25,726,400	5,001,806	14,223,720	-	-	44,951,926
Accrued Interest Payable	189,631	-	-	-	-	189,631
Accrued Other Expenses Payable	186,100	-	-	-	-	186,100
Amount due to group undertakings	1,108,800	3,707,090	-	-	-	4,815,890
Total	31,672,996	8,709,947	14,223,720	-	-	54,606,663

Financial liabilities analysed by contractual undiscounted amounts based on remaining contractual maturities as at 31 December 2016

	<3 months £	3 – 6 months £	6 – 12 months £	1 - 5 years £	>5 years £	Total £
Customer Accounts	5,858,400	1,048	-	-	-	5,859,448
Bank Borrowings	27,133,900	4,051,410	2,427,900	-	-	33,613,210
Accrued Interest Payable	21,232	-	-	-	-	21,232
Accrued Other Expenses Payable	344,616	-	-	-	-	344,616
Amounts due to group undertakings	5,194,887	-	-	-	-	5,194,887
Total	38,553,035	4,052,458	2,427,900	-	-	45,033,393

20. FINANCIAL INSTRUMENTS (Continued)

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 Company'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.

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 company has outstanding borrowings of $49,044,164 (£36,253,446) and €9,800,000 (£8,698,480), and customer deposit accounts of £4,463,116 on which interest is paid. Meanwhile, the Company earns interest income on loans and advances to banks of £12,065,119, debt securities of £29,551,835, amounts due from group undertakings of £18,471,867 and loans and advances to customers of £14,768,745.

The table below indicates the Company's exposure to movements in interest rates as at 31 December 2017 and 2016.

		2017	2016
	Movement in basis points	Sensitivity of profit before tax	Sensitivity of profit before tax
		£	£
Euro	+50	466	76
Great British Pound	+50	92,683	90,455
United States Dollar	+50	9,399	10,164
Other currencies	+50	585	260
Euro	-50	(466)	(76)
Great British Pound	-50	(92,683)	(90,455)
United States Dollar	-50	(9,399)	(10,164)
Other currencies	-50	(585)	(260)

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 the foreign exchange rates. It arises from monetary financial instruments in the bank's balance sheet that are denominated in currencies other than GBP.

20. FINANCIAL INSTRUMENTS (Continued)

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

	Movement of +10%		Movement of -10%	
	2017	2016	2017	2016
	Sensitivity of profit before tax	Sensitivity of profit before tax	Sensitivity of profit before tax	Sensitivity of profit before tax
	£	£	£	£
Euro	10,488	3,144	(10,488)	(3,144)
United States Dollar	190,129	197,922	(190,129)	(197,922)
Other currencies	11,694	5,209	(11,694)	(5,209)

21. COMMITMENTS UNDER OPERATING LEASES

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

Land and Buildings

	2017	2016
Operating leases which expires	**£**	**£**
0 - 1 year	6,210	87,298
1 - 5 years	6,920	367,893
After more than 5 years	51,846	17,500

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 primarily 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."

The bank, as at reporting date had a foreign currency swap with a notional amount of £1,441,881 and negative fair value of £4,506 (2016: notional of £1,438,801 and negative fair value of £5,360).

Furthermore, as at reporting date the Company had no commitment to extend credit. (2016: £nil).

24. RELATED PARTY TRANSACTIONS

The Bank's related party balances with Parent are:	31 Dec-17	31-Dec-16
	£	£
Amount due from group undertakings		
Fixed deposits	17,942,880	17,311,600
Demand deposits	528,987	1,113,196
Total	**18,471,867**	**18,424,796**
Amount due to group undertakings	**4,815,890**	**5,194,887**

Included in management and other professional fees is a balance of £75,670 (2016: £58,029) paid to Lu Oliphant Solicitors LLP for legal services incurred and £91,750 (2016: £67,000) paid as remuneration to the Non-Executive Directors.

25. EVENTS AFTER THE REPORTING PERIOD

There are no material events subsequent to the financial year ended 31 December 2017 that have not been disclosed in the financial statements.