COMPANY REGISTRATION NUMBER 5888535

BANK OF THE PHILIPPINE ISLANDS (EUROPE) PLC
FINANCIAL STATEMENTS FOR THE YEAR ENDED
31st DECEMBER 2019

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OFFICERS AND STATUTORY REGISTERED AUDITORS

The Board of Directors ("the Board")

Mr Cezar Consing
Ms Lizbeth Joan Yulo
Mr Robert David Reoch
Mr Martin Lynch O'Neil
Mr Alexander John Shapland (Appointed on 01st January 2019)
Ms Marita Socorro Gayares (Appointed on 24th June 2019)
Mr Mario Antonio Paner (Resigned on 31st December 2019)
Mr John Reed (Resigned on 1st May 2019)
Mr Edgardo Madrilejo (Resigned on 24th June 2019)

Registered office

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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 2019

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

PRINCIPAL ACTIVITIES

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

BPI Europe's original business plan envisaged a retail banking operation passporting from the UK into several European Union territories. The model was built around offering basic banking services to retail customers in the form of deposit accounts, personal loans as well as money transmission services.

In 2016 and 2017, BPI Europe's retail banking business underwent a rationalisation exercise, significantly reducing its customer count to below 5,000. At the same time, focus shifted to laying the foundation for a wholesale business, securing regulatory approvals for lower capital requirements, and putting in place the necessary infrastructure for investments in higher yielding fixed income securities and participation in the syndicated loan markets.

The regulatory framework has significantly evolved over the past few years compelling banks and financial institutions to implement stricter measures to mitigate risks against financial crime and improper market conduct. The resources necessary to fully comply with the regulatory expectations on firms' systems and controls requirements motivated the bank to rationalise its retail business. In 2019, the Board of Directors approved a move to further implement changes to the retail business; this resulted in changes in the deposit product features offered to individual customers, including the discontinuation of money transfer service offered to retail customers. BPI Europe undertook a transition process to help the customers in finding an appropriate alternative channel to service their remittance needs. BPI Europe now targets retail depositors with long-term investment objective who can avail of savings with maintaining average daily balance of £5,000 and term deposit products offered at higher rates, determined by market conditions.

The BPI Europe Board of Directors, in line with the contraction of the retail business, concluded that the resources would be better allocated to the wholesale business where the bank has been able to derive more value. The bank envisions to engage in increased trading activities, participation in syndicated loans, and expansion of business relationships with counterparties for additional funding sources. These increased wholesale activities will be carried out within the defined and approved risk appetite by the Board.

STATEMENT OF DIRECTORS IN THE PERFORMANCE OF THEIR STATUTORY DUTIES IN ACCORDANCE WITH S172(1) COMPANIES ACT 2006

The Board of Directors of BPI Europe consider, both individually and together, that they have acted in the way they consider in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in s172(1) (a-f) of the Act in the decisions taken during the year ending 31st December 2019.

The Board of Directors believes that effective corporate governance is the cornerstone of BPI Europe's strength and long term existence. The Board has established and promoted sound principles and practices as stated in the company's Corporate Governance Manual, and resolve to adopt this framework of policies, rules, systems and process that govern them in the pursuit of the BPI Europe's corporate goals.

The Board is responsible for prescribing a sound and sustainable business model, setting out the bank's strategy and an overarching risk framework, and providing guidance and leadership to the Management Team to see these strategies through.

The Board continuously strives to ensure that the bank's business objectives and goals are met while protecting the customers' interests. BPI Europe espouses transparency, professionalism, taking responsibility, and protecting the confidentiality of customers' information in all its dealings, allowing it to build mutually beneficial, long-standing business relationships.

The Board considers its employees as fundamental to the success of the bank. The bank sets fair remuneration policies, which are implemented in a way that supports the bank's business strategy and promote sustainable success. The health safety and general well-being of employees are primary considerations at all times.

The Board believes in our responsibility to the bank's shareholder. Capital is treated as the bank's most valuable asset, and management seeks to generate superior returns while being prudent in risk-taking, spending and investment.

The Board reviews and approves the BPI Europe Code of Business Conduct and Ethics (Code) which sets the guidance for observing ethical behaviour among the bank's employees. The Board observes the provisions set in the Code in making the right decision and in discharging their responsibilities to the bank. The Code is used by the bank in its working relationships with colleagues, customers, counterparties, regulators, and co-players in the banking industry.

REVIEW OF THE BUSINESS

BPI Europe has reported profit before tax for the year amounting to £370,065 (2018: £219,215). Interest receivables and similar income for the year amounted to £1,524,014 (2018: £1,387,480), mainly from interest income received on debt securities, loans and interbank placements. Fees and commission income from remittance services and loan referrals during the year was £497,019 (2018:£657,770). Gains from foreign exchange transactions for the year amounted to £1,112,268 (2018: £1,218,729). Gains from the sale of debt securities for the year amounted to £394,519 (2018: £1,600).

Total assets were £67,926,666 (2018: £76,764,098), and total liabilities were £46,539,879 (2018: £55,668,880).

Operating expenses for the year amounted to £2,060,926 (2018: £1,965,096). The bank's current ratio (current assets divided by current liabilities) is 0.66 (2018: 0.94). The bank's return on equity (profit after tax divided by the total shareholders' funds) for the year is 1.36% (2018: 1.00%).

RESULTS AND DIVIDENDS

The profit before tax for the 2019 financial year amounted to £370,065 (2018: £219,215). The directors have not recommended a dividend, (2018: nil).

PRINCIPAL RISKS AND UNCERTAINTIES

The bank's risk culture emanates from the Board and promotes awareness of the risks inherent in its business activities. Risk parameters are clearly articulated, and set the tone for the bank's business undertakings. The bank has established an enterprise wide risk management framework where risks are monitored, managed and controlled through adequate management information reporting to both management and the Board.

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

Business model risk

Business model risk is defined as the risk of financial losses due to uncontrollable factors that may challenge the firm's business model and strategy execution. This may be externally or internally driven, such as in the case of changes in 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 organisational structure and rotation/loss of key officers.

Funding concentration risk

Funding concentration risk is defined as the risk of financial losses due to undiversified sources of funds to support balance sheet requirements. BPI Europe's reliance on a few counterparties for funding facilities pose threats to the liquidity position of the bank when liabilities fall due, when counterparties decide to reduce credit lines or exit the relationship with the bank altogether. BPI Europe continues to widen its business relationship with funding counterparties to appropriately manage this risk.

Liquidity risk

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

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

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

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

Market risk
Market risk pertains to the possible loss of a portfolio's value in the future influenced by movements in the level or volatility of market prices or other risk factors. The bank's market risk exposure is observed in its net open FX position arising from foreign currency-denominated assets and liabilities in the banking book, and its end of day portfolio of investment securities in the trading book.

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

Interest rate risk in the banking book (IRRBB)
IRRBB is defined as the current and prospective risk to the bank's capital and earnings arising from adverse movements in the yield curve, particularly for assets and liabilities with mismatched repricing maturities. Interest rate movements may affect the bank's earnings from mismatches in rate-sensitive assets and liabilities. This in turn changes the underlying value of a bank's assets, liabilities and off balance sheet items and hence its economic value. BPI Europe has set internal risk indicators and appetite to manage its IRRBB.

Conduct Risk
Conduct risk in BPI Europe is broadly defined as financial losses resulting from regulatory penalties, fees, redress, remediation costs, and other operational costs stemming from poor conduct in the firm. In general, the UK financial industry regards this as a risk of improper treatment of customers, violation of rules, and market manipulation in order to prioritise the interest of the firm. Conduct risk is regarded as one of the key risk areas in the bank and the Board has set a tone and risk appetite to control the detrimental impact of having poor conduct amongst the employees. All BPI Europe Staff are aware of and consistently abide by the conduct rules outlined and defined under the Senior Managers and Certification Regime in their day to day discharge of duties. Management believes that if every Staff in the firm observes these rules as they carry out their roles, conduct risk will be fully mitigated. Processes are in place in order to monitor potential and actual breaches from conduct rules and results are reported to management and to the Audit and Risk Committee quarterly.

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 breach, human errors, errors in processing wholesale and retail transactions, etc. 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.

KEY PERFORMANCE INDICATORS (KPIS)

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

- **Profit Before Tax** BPI Europe Management and the Board of Directors monitor the bank's profitability on a monthly and quarterly basis. Net Income is monitored against the Board-approved annual budget. Net income before tax is higher than previous year by 69% YoY (2018: lower by 42% YoY).
- **Balance sheet growth and composition**. This shows the bank's growth, investment, and funding strategies. Total assets are lower by 12% YoY (2018: higher by 1% YoY).
- **Operating Income.** This provides information on the bank's capability to generate revenues. This also reflects the bank's business focus. Revenues are up by 11% YoY (2018: down by 25% YoY).
- **Net Interest Margin**. This represents the bank's net interest differential between sources and uses of funds. Net interest income is higher by 37% YoY (2018: lower by 40% YoY).

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

On behalf of the Board

Ms Lizbeth Joan Yulo
Managing Director
3rd April 2020

THE DIRECTORS' REPORT

The Board of Directors present their report and the audited financial statements of the Bank of the Philippine Islands (Europe) Plc for the year ended 31st December 2019.

The bank's material financial instruments comprise of placements (loans and advances) to banks and corporate accounts, investments in debt securities, amounts due from and to group undertakings, bank borrowings and customer deposit accounts. In 2019, BPI Europe continued its strategy to grow and optimise its wholesale business consistent with the Board's direction and appetite. Focus shifted to maximising returns on the balance sheet in response to movements in the financial markets.

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

As the UK legal and regulatory landscape continues to evolve to further protect the integrity of the financial industry, the bank has exerted efforts in refining internal policies and processes to ensure that the business operates within the approved risk appetite while optimising the bank's resources.

DIRECTORS AND SECRETARIES

The directors who each held office as Director of the bank throughout the period and until the date of this report, unless disclosed otherwise here:

Mr Cezar Consing
Ms Lizbeth Joan Yulo
Mr Robert David Reoch
Mr Martin Lynch O'Neil
Mr Alexander John Shapland (Appointed on 1st January 2019)
Ms Marita Socorro Gayares (Appointed on 24th June 2019)
Mr Mario Antonio Paner (Resigned on 31st December 2019)
Mr John Reed (Resigned on 1st May 2019)
Mr Edgardo Madrilejo (Resigned on 24th June 2019)

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

Mr Chiwai Lu

THE DIRECTORS' REPORT (continued)

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

POLICY ON THE PAYMENT OF CREDITORS
It is the bank's policy, in respect of all suppliers, to settle its obligations to creditors within 30 days of invoice date. The number of creditor days in relation to suppliers' balance outstanding at 31st December 2019 was not more than 30 days.

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

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

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

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

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

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

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

The bank's Internal Audit, outsourced to the parent bank's Internal Audit, performs the monitoring, review, and assessment of the bank's compliance to rules, regulations, and policies. The bank has engaged the services of BDO Financial to carry out supplemental reviews on specific issues of particular topical relevance, such as regulatory reporting and General Data Protection Regulation (GDPR).

THE DIRECTORS' REPORT (continued)

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP will be the bank's auditor for the year, after which BPI Europe will put the audit out to tender, in compliance with the mandatory firm rotation under the UK Governance Code. A new firm will be appointed by the Board to take over the audit.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

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

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

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

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

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

THE DIRECTORS' REPORT (continued)

DISCLOSURE OF FINANCIAL INFORMATION TO AUDITORS

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

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

GOING CONCERN STATEMENT

The global pandemic, coined "COVID-19", has severely impacted financial markets worldwide, and has forced governments to act in unprecedented ways, causing extreme market volatilities. BPI Europe has been closely following developments on this front, and have assessed its portfolio for vulnerabilities. High among these is access to funding at reasonable levels and the credit deterioration of its asset portfolio. The bank has plans in place to address these risks, including building up substantial liquidity buffers and keeping in constant dialogue with its funding counterparties. The asset portfolio has been stress tested using the Debt Service Coverage Ratio (DSCR) metric and has assessed that the issuers would still be capable of paying off their obligations. There have been no indicators that the bank needs to increase the loan loss provision subsequent to the year end and the bank continues to monitor the loan performance. If the bank sees deterioration in performance, it will increase the loan loss provision to the extent allowable by the current rules and regulations.

Absent COVID-19, the bank meets its day-to-day working capital requirements through its banking facilities.

Approved by the directors on 03 April 2020

On behalf of the board:

Ms Lizbeth Joan Yulo
Managing Director
03 April 2020

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 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Financial Statements for the Year Ended 31 December 2019 (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2019; 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 and Risk Committee.

Basis for opinion

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

Independence

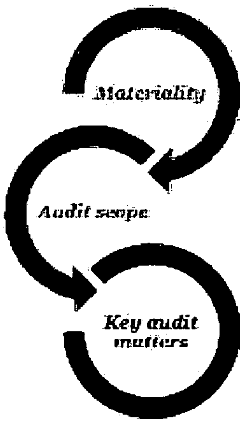
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance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

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

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview



- Overall materiality: £214,651 (2018: £210,684), based on 1% of net assets.
- Performance materiality: £160,988 (2018: £158,013), based on 25% haircut of overall materiality.

- All FSLIs with balances above performance materiality, were scoped in for testing purposes. All FSLIs below this materiality level yet which were material by nature were in scope for testing purposes.
- The scope of our audit, and the nature, timing and extent of the audit procedures performed were determined by our risk assessment, the financial significance of the balance and other qualitative factors.

- Key audit matters are those that, in our professional 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 Impairment of loans and advances to corporate customers and the potential impact of Covid-19 as key audit matters for the Company for the year ended 31 December 2019.

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.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of regulations of the Financial Conduct Authority's Client Asset Sourcebook, the Financial Conduct Authority's Handbook, and the Prudential Regulation Authority's regulations, as well as the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and the Companies and Group Accounts Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates, particularly regarding estimations around the impairment of the corporate lending portfolio. Audit procedures performed by the engagement team included:

- Performing reviews of board and committee minutes;
- Performing reviews of internal audit reports, including those outsourced to external firms;
- Reading key correspondence with regulatory authorities, for example the PRA and the FCA;
- Discussions with management, including consideration of any known or suspected instances of non-compliance with laws and regulations, or of fraud;
- Assessment of matters reported on the entity's complaints helplines and the results of management's investigation of such matters;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to impairment of corporate loans (see related key audit matter below);
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, posted by senior management, posted at unusual times, or posted by infrequent users of the system (see related key audit matter below).

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

Key audit matters
Key audit matters are those matters that, in the auditors' professional 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 of loans and advances to corporate customers The provision for loans and advances to corporate customers is an area where a high level of judgement is applied in both assessing whether impairment indicators exist and estimating the size of any impairment. The total provision consists of specific provisions in relation to their retail loans and a collective provision over their corporate loans.	We assessed whether the policies and procedures developed by management were appropriate for calculating the impairment provision by using our industry knowledge. We have also ensured that the policies and procedures are in line with FRS 102 section 11. We considered the appropriateness of the market data used to calculate the collective

The size of the impairment calculated is based on the assessment of the current credit rating of the counterparty and historical experience. With regards to the collective provision, BPIE determines the size of the provision using the expected loss model by considering the exposure at default, the probability of default and the loss given default. This is inherently uncertain and involves various assumptions and judgements.

Given the extent of the judgement management have identified this as a critical accounting estimate. We consider this to be a key audit matter.

provision for corporate loans. This included independently testing the probability of default rates of respective credit ratings for the collective provision calculation.

We performed a recalculation of the collective provision balance recognised for the year ended 31 December 2019.

We have obtained and assessed credit reviews performed by management for a sample of corporate loans by testing underlying financial information and other relevant information and concurred with management's assessment.

Based on the procedures performed and the evidence obtained, we found management's assumptions to be appropriate and that the level of provisions against corporate loans is not materially misstated for the year ended 31 December 2019.

Potential impact of Covid-19

The pandemic of the novel coronavirus and the disease Covid-19 in early 2020 have caused uncertainty in global markets along with financial difficulties for many companies. While the situation is still developing, the change in the global environment may indicate new impairment triggers for loans and investments, as well as impact the medium-term plan and forecasting of the Bank's performance.

Management have performed analysis over the impact of the pandemic and have specifically considered the impact on the financial statements, including its impact on the going concern assessment and post balance sheet event disclosures.

Due to the impact of the pandemic on global markets and economies, the inherent uncertainty in the global economic-financial situation, and the potential impact of this on key areas of the Bank's activities such as lending and investments,

As this is an event after the reporting period that is indicative of a condition that arose after the end of the reporting period, PwC agrees that this is a non-adjusting post balance sheet event per IAS 10.

We assessed and monitored the performance of the corporate debtors in order to identify impairment triggers based on elements such as share price falling out of line with market trends, press releases surrounding performance, and similar triggers listed under FRS 102 section 11.

We have assessed and monitored the performance of the investments held in the market where applicable to confirm whether (i) the issuing parties will continue to perform and pay any accrued interest and coupons, in light of any receivables recognised in the

considerations have been within our going concern assessment around the impact of the pandemic and as such we consider this to be a key audit matter.	financial statements, and (ii) assessed whether the fair value calculated for any applicable instruments as at 31 December 2019 was appropriate in light of the global environment. We have assessed the reasonableness and achievability of management's mitigating actions in light of the pandemic, and how they will impact the forecasts and coming year from a going concern perspective. We have read relevant "other information" and checked its consistency with the financial statements and our knowledge based on our audit. Based on the procedures performed and the evidence obtained, we found that the matter has been appropriately evaluated and reflected in the financial statements.

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.

Audit approach overview

The entity is a standalone UK-incorporated company headquartered in London with no subsidiaries. Its ultimate parent is the Bank of the Philippine Islands, headquartered in the Philippines. All significant operations are based out of London, and for the year 2019 encompassed deposit taking, payment services, corporate lending, and investing activities.

The entity was treated as a single component for the purposes of the audit due to its size and the nature of its activities. Due to this, there was no use of shared service centres or a requirement for a group engagement team. No component audit teams were used or contacted.

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	£214,651 (2018: £210,684).
How we determined it	1% of net assets.
Rationale for benchmark applied	We believe that net assets are the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £10,733 (2018: £10,534) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in Respect of Financial Statements set out on page 12, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the directors to audit the financial statements for the year ended 31 December 2007 and subsequent financial periods. The period of total uninterrupted engagement is 13 years, covering the years ended 31 December 2007 to 31 December 2019.

Timothy Lawrence

Timothy Lawrence (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3 April 2020

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2019

		Year Ended 31 Dec 19	Year Ended 31 Dec 18
REVENUES	Note	£	£
Interest receivable and similar income		1,542,014	1,387,480
Interest payable and similar charges		(1,121,255)	(1,080,968)
Net interest income	9	**420,759**	**306,512**
Fees and commission income		497,019	657,770
Foreign exchange gains		1,112,268	1,218,729
Gain/(Loss) on sale of investments	5	394,519	1,600
Other operating income		6,426	(300)
OPERATING INCOME		**2,430,991**	**2,184,311**
Administrative expenses		(2,010,091)	(2,010,226)
Depreciation		(50,706)	(41,976)
Impairment charges	11	(129)	87,106
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	**370,065**	**219,215**
Tax on profit on ordinary activities	10	(78,496)	(21,828)
PROFIT FOR THE FINANCIAL YEAR		**291,569**	**197,387**

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

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

Profit on ordinary activities before taxation relate wholly to continuing operations. The bank, however ceased offering its remittance services effective 23 December 2019.

BALANCE SHEET

AS OF 31 DECEMBER 2019

	Note	Year Ended 31 Dec 19 £	Year Ended 31 Dec 18 £
ASSETS			
Cash		16,926	20,918
Loans and advances to banks	11	13,361,818	17,591,992
Loans and advances to customers, net	11	8,865,828	11,198,783
Investment in debt securities	12	43,751,653	35,948,247
Tangible fixed assets, net	13	155,240	205,946
Other assets	14	82,087	113,102
Amounts due from group undertakings	15	1,693,114	11,685,110
TOTAL ASSETS		67,926,666	76,764,098
LIABILITIES			
Customer accounts	16	2,452,958	4,646,512
Amounts due to group undertakings	24	7,507,648	5,207,199
Bank borrowings	17	36,196,273	45,561,076
Other liabilities	18	383,000	254,093
		46,539,879	55,668,880
TOTAL ASSETS LESS LIABILITIES		21,386,787	21,095,218
Called up share capital	22	20,000,000	20,000,000
Profit and loss account		1,386,787	1,095,218
TOTAL SHAREHOLDERS' FUNDS		21,386,787	21,095,218

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 22 to 43 were approved by the Board of Directors and authorized for issue on 3rd April 2020 and are signed on their behalf by Ms Lizbeth Joan Yulo.

Ms Lizbeth Joan Yulo
Managing Director

STATEMENT OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31 December 2019

	Share capital £	Retained earnings £	Shareholder's funds £
Balance as at 1 January 2018	20,000,000	897,831	20,897,831
Profit for financial year	0	197,387	197,387
Balance as at 31 December 2018	**20,000,000**	**1,095,218**	**21,095,218**
Balance as at 1 January 2019	20,000,000	1,095,218	21,095,218
Profit for financial year		291,569	291,569
Balance as at 31 December 2019	**20,000,000**	**1,386,787**	**21,386,787**

NOTES TO THE FINANCIAL STATEMENT

1. GENERAL INFORMATION

The Bank of the Philippine Islands (Europe) Plc ("the Bank") is a public limited Company domiciled in the United Kingdom. It was incorporated in London, United Kingdom on 27 July 2006 and obtained its authorization to provide regulated products and services on 26 April 2007, which includes the following permissions: accepting deposits, dealing in investments as principal, and agreeing to carry out a regulated activity. It is a UK-licensed bank authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). The Bank's registered office address is Fourth Floor 28/29 Threadneedle Street, London EC2R 8AY.

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

2. STATEMENT OF COMPLIANCE

The financial statements of the bank have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006, *under the provision* of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The bank has adopted FRS 102 in these financial statements.

a) Basis of preparation of financial statements

These financial statements are under the historical cost convention as modified for revaluation of certain financial assets and liabilities measured at fair value through profit or loss.

b) Going Concern

The global pandemic, coined "COVID-19", has severely impacted financial markets worldwide, and has forced governments to act in unprecedented ways, causing extreme market volatilities. BPI Europe has been closely following developments on this front, and have assessed its portfolio for vulnerabilities. High among these is access to funding at reasonable levels and the credit deterioration of its asset portfolio. The bank has plans in place to address these risks, including building up substantial liquidity buffers and keeping in constant dialogue with its funding counterparties. The asset portfolio has been stress tested using the Debt

Service Coverage Ratio (DSCR) metric and has assessed that the issuers would still be capable of paying off their obligations. There have been no indicators that the bank needs to increase the loan loss provision subsequent to the year end and the bank continues to monitor the loan performance. If the bank sees deterioration in performance, it will increase the loan loss provision to the extent allowable by the current rules and regulations.

Absent COVID-19, the bank meets its day-to-day working capital requirements through its banking facilities.

After making enquiries, the directors have a reasonable expectation that the bank has adequate resources to continue its operational existence for the foreseeable future.

c) Exemptions for qualifying entities under FRS 102

FRS 102 allows specific disclosure exemptions for qualifying entities. The bank's Shareholders have been notified and have not objected to the use of these exemptions, and otherwise apply the recognition, measurement and disclosure requirements of FRS102. (Sec 7: Exemption from Cash Flow Statement reporting). The directors have taken advantage of this exemption in the preparation of a statement of cash flow for the qualifying entities under FRS 102 on the grounds that the bank is wholly owned by the Bank of the Philippine Islands, a bank incorporated in the Republic of the Philippines, and its parent publishes a consolidated Cash Flow Statement, Balance Sheet and Income Statement.

d) Foreign currency

i. Functional and presentation currency
The bank's functional and presentation currency is GBP.

ii. Transactions and balances
Foreign currency transactions are translated into the functional currency using the end of day foreign exchange rates on transaction date. At the end of each financial reporting period, foreign currency monetary items are translated using the day's closing exchange rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of transactions and from the revaluation of foreign currency denominated assets and liabilities are recognised in the profit and loss account.

e) Recognition of income

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

f) Cash

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

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

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

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

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

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

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

l) Pension costs
The bank pays fixed contributions (in line with statutory minimums) into a separate entity. Once the contributions have been paid, the bank has no further payment obligations. The contributions are recognised as expenses when these fall due. Amounts not paid are shown in payables in the balance sheet. The assets of the individual's plans are held separately from the bank in funds administered by the employees.

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

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

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

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

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

At the end of each reporting period, financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired, the impairment loss is measured as the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss, if any, is recognised in the profit and loss account.

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

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

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

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

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

ii. Provision is not made for future operating losses
Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

iii. Contingencies

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

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

p) Share capital

Ordinary shares are classified as equity. Current shares of 20,000,000 are at £1 each.

q) Consistency of Presentation

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

When comparative amounts are reclassified, an entity shall disclose the following:

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

4. KEY ACCOUNTING ESTIMATES, ASSUMPTIONS, AND CRITICAL JUDGMENTS

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

As at 31 December 2019, the bank has not made any critical accounting judgments in preparing the year's financial statements.

5. GAIN ON SALE OF INVESTMENTS

The gain on sale of debt securities amounted to £394,519 (2018: £1,600)

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

	Year Ended 31 Dec 19 £	Year Ended 31 Dec 18 £
Staff costs	1,145,056	1,066,887
Foreign exchange gains	(1,112,268)	(1,218,729)
Depreciation of fixed assets	50,706	41,976
Auditors' fees	68,000	64,850
Operating lease costs (rent expense)	153,000	154,785

Other staff costs in 2019 are included within administrative expenses in the Profit and Loss account.

	Year Ended 31 Dec 19 £	Year Ended 31 Dec 18 £
Auditors' Remuneration		
Fees payable to the bank's auditors for the audit of the bank	62,600	59,700
Fees payable to the bank's auditors for other services pursuant to legislation (CASS Audit)	5,400	5,150
Fees payable to the bank's auditors for other non-audit services	0	0
Total	68,000	64,850

7. PARTICULARS OF EMPLOYEES

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

	Year Ended 31 Dec 19	Year Ended 31 Dec 18
Number of administrative staff	12	21
Number of management staff	4	4
	16	25

The payroll costs of the staff employed were:

	Year Ended 31 Dec 19 £	Year Ended 31 Dec 18 £
Wages and salaries	1,093,055	1,030,659
Social security cost	37,562	28,841
Other staff costs	14,439	7,387
Total staff costs	1,145,056	1,066,887

8. DIRECTORS' EMOLUMENTS

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

	Year Ended 31 Dec 19 £	Year Ended 31 Dec 18 £
Director's remuneration	297,237	273,996
Highest paid director	176,237	175,996

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

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

9. NET INTEREST INCOME

	Year Ended 31 Dec 19 £	Year Ended 31 Dec 18 £
(a) Interest receivable and similar income		
Interbank placements	319,973	464,569
Debt securities	768,907	540,184
Time loans	451,797	381,261
Others	1,337	1,466
	1,542,014	**1,387,480**
(b) Interest payable and similar charges		
Borrowings	(996,514)	(955,346)
Customer Deposits	(124,741)	(125,622)
	(1,121,255)	(1,080,968)
(c) Net interest income	**420,759**	**306,512**

10. TAX ON PROFIT FROM ORDINARY ACTIVITIES

	Year Ended 31 Dec 19 £	Year Ended 31 Dec 18 £
(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% in 2019 and 2018	78,496	21,828
Tax charge on profit on ordinary activities	**78,496**	**21,828**
Less: Adjustment of deferred tax liability		
Tax charge on profit on ordinary activities	**78,496**	**21,828**

(b) Factors affecting tax charge for the year:		
Profit on ordinary activities before taxation	370,065	219,215
Profit on ordinary activities multiplied by standard rate of UK		
Corporation tax of 19% in 2019 & 2018	78,468	41,651
Current year deferred tax	0	0
Effect of different tax rate for the period	0	0
Disallowable (allowable) expenditure	28	(19,823)
Current tax (note 11a)	**78,496**	**21,828**
Less: Adjustment of deferred tax liability	0	0
Tax charge on profit on ordinary activities	**78,496**	**21,828**

11. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

	Year Ended 31 Dec 19	Year Ended 31 Dec 18
	£	£
Loans and advances to banks	13,361,818	17,591,992
Provision for impairment	0	0
	13,361,818	**17,591,992**

	Year Ended 31 Dec 19	Year Ended 31 Dec 18
	£	£
Corporate loans	8,877,118	11,113,306
Loans to high net worth individuals	0	85,420
Other retail loans	8,986	22,199
Provision for impairment	(20,276)	(22,142)
	8,865,828	**11,198,783**

Movement in provision for impairment

	Year Ended 31 Dec 19	Year Ended 31 Dec 18
	£	£
Beginning balance	22,142	110,608
Additional provision	129	0
Reversal of provision	(1,995)	(88,466)
Ending balance	**20,276**	**22,142**

FRS 102 requires banks to adhere to the Incurred Loss Model for the calculation of the loan loss provision. BPI Europe has had no history of default since the bank started investing in Syndicated Loans in 2015. Given this, BPI Europe calculated its 2019 loan provisions using historical default rates and recovery rates from studies of S&P and Thomson Reuters.

12. INVESTMENT IN DEBT SECURITIES

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

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 2019, the bank held £6,488,350 worth of securities in the trading books. [2018; there were no outstanding holdings].

13. TANGIBLE FIXED ASSETS

	Leasehold Improvements	Fixture and Fittings	Office Furniture	Computer Equipment	Total
YEAR 2019	£	£	£	£	£
COST					
At 1 January 2019	581,820	42,491	137,587	38,982	800,880
Net Additions (Disposals)	0	0	0	0	0
At 31 December 2019	581,820	42,491	137,587	38,982	800,880
DEPRECIATION					
At 1 January 2019	391,529	42,491	134,645	26,269	594,934
Net Charge(Write-off) for the period	42,060	0	0	8,646	50,706
At 31 December 2019	433,589	42,491	134,645	34,915	645,640
NET BOOK VALUE					
At 31 December 2019	148,231	0	2,942	4,067	155,240

	Leasehold Improvements	Fixture and Fittings	Office Furniture	Computer Equipment	Total
YEAR 2018	£	£	£	£	£
COST					
At 1 January 2018	533,711	42,491	137,587	36,506	750,295
Net Additions(Disposals)	48,109	0	0	2,476	50,585
At 31 December 2018	581,820	42,491	137,587	38,982	800,880
DEPRECIATION					
At 1 January 2018	358,289	42,491	131,971	20,207	552,958
Net Charge(Write-off) for the period	33,240	0	2,674	6,062	41,976
At 31 December 2018	391,529	42,491	134,645	26,269	594,934
NET BOOK VALUE					
At 31 December 2018	190,291	0	2,942	12,713	205,946

14. OTHER ASSETS

	Year Ended 31 Dec 19	Year Ended 31 Dec 18
	£	£
Amounts falling due within one year:		
Prepayments and other assets	69,556	96,950
Operating lease deposit	5,618	15,110
	75,174	**112,060**
Amounts falling due after more than one year:		
Prepayments and other assets	0	0
Operating lease deposit	6,913	1,042
TOTAL	**82,087**	**113,102**

15. AMOUNT DUE FROM UNDERTAKING

	Year Ended 31 Dec 19	Year Ended 31 Dec 18
	£	£
From the Parent company	1,693,114	11,685,110
From group entities		
TOTAL	**1,693,114**	**11,685,110**

Significant accounts falling under this category include placements to the Parent company totaling to £1.5 million (the equivalent $2.0 million); (2018: £9.8 million, the equivalent of $11.0 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. Said Deed covered a pledge of $1.0 million in the form of a placement held as collateral for Parent's credit facility for BPI Europe (2018: $1.0 million).

16. CUSTOMER ACCOUNTS

	Year Ended 31 Dec 19 £	Year Ended 31 Dec 18 £
Customer Accounts	**2,452,958**	**4,646,512**

The decrease in customer deposits is a result of BPI Europe's change in business model which put an end to remittance services to the Philippines. A minimum deposit amount was imposed on clients who wished to maintain their account.

17. BANK BORROWINGS

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

	Year Ended 31 Dec 19 £	Year Ended 31 Dec 18 £
Payable within:		
30 days	18,464,264	20,068,645
3 months	10,712,408	11,862,178
6 months	4,712,033	3,322,653
1 year	2,307,568	10,307,600
TOTAL	**36,196,273**	**45,561,076**

The bank borrowings comprise of €7,737,115 at rates of 0.625%, and $37,191,280 at rates ranging from 1.75% to 3.03364% p.a. (2018: €7,737,115 at rates of 0.625% and $49,264,662 at rates ranging from 1.48% to 2.7159%).

18. OTHER LIABILITIES

	Year Ended 31 Dec 19 £	Year Ended 31 Dec 18 £
Other taxation and social security	21,600	23,492
Accrued interest payable	0	0
Accrued expenses and other creditors	90,645	91,070
Derivatives with negative fair value held for trading	0	37,709
Other liabilities	270,755	139,531
Deferred tax liability	0	0
TOTAL	**383,000**	**291,802**

Money booked under other liabilities are balances from unclaimed closed accounts. These are treated as customer's money and can be claimed by respective customers anytime from BPI Europe.

19. DEFERRED TAXATION

	Year Ended 31 Dec 19 £	Year Ended 31 Dec 18 £
Profit and loss account movement arising during the period	0	0

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

	Year Ended 31 Dec 19 £	Year Ended 31 Dec 18 £
At 1 January	0	5,374
Timing Differences:		0
Tax Paid 2018	0	(5,374)
Movement in current provision	0	0
Other timing differences	0	0
Adjustment on deferred tax liability	0	0
At 31 December	**0**	**0**

20. FINANCIAL INSTRUMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which an asset or liability could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced liquidation or sale. Given the bank's balance sheet profile and investment strategy, the fair value of all financial instruments held at 31 December 2019 approximates the amounts at which these instruments are reflected in the balance sheet.

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

CREDIT RISK

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

Maximum exposures to credit risk

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

Collateral and credit enhancements held

The bank has received marketable securities in the face amount of $400,000 (2018: $400,000) to mitigate credit risk exposures of loans and advances to one retail customer of £85,000 (2018 £85,000) as at 31 December 2019.

Credit quality of financial assets

The table below details the credit quality of the bank's financial assets, showing the maximum exposure to credit risk, based on Moody's credit ratings. Assets that have ratings below investment grade have Moody's ratings of Ba1 to Ba2 (2018: Moody's Ba1 to Ba2) and S&P ratings of BB+ to BBB- (2018: BB+ to BBB).

CREDIT QUALITY - 2019

	Investment Grade £	Below Investment Grade £	Unrated £	Total £
Loans and advances to banks	13,361,818	0	0	13,361,818
Loans and advances to customers	1,570,784	7,288,958	6,086	8,865,828
Investment in debt securities	43,751,653	0	0	43,751,653
Amounts due from group undertakings	1,693,114	0	0	1,693,114
Total	60,377,369	7,288,958	6,086	67,672,413

CREDIT QUALITY - 2018

	Investment Grade £	Below Investment Grade £	Unrated £	Total £
Loans and advances to banks	17,591,992	0	0	17,591,992
Loans and advances to customers	0	11,096,059	102,724	11,198,783
Investment in debt securities	34,841,101	1,107,146	0	35,948,247
Amounts due from group undertakings	11,685,110	0	0	11,685,110
Total	**64,118,203**	**12,203,205**	**102,724**	**76,424,132**

A facility is considered to be past due when a contractual payment falls overdue by one day. When a facility is classified as past due, the entire facility balance after provisions is disclosed in the past due analysis. There are no other balances overdue by one day or more to be presented under past due category other than those disclosed in the table below.
The factors taken into consideration by the bank when determining an asset to be impaired are set out in Financial Statement Notes 3(n)

Ageing analysis of assets past due but not impaired and impaired assets - 2019

2019	**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						0
Loans and advances to customers					2,899	2,899
Investment in debt securities						0
Amounts due from group undertakings						0
Total	0	0	0	0	2,899	2,899

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

2018	**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	0	0	0	0	0	0
Loans and advances to customers	0	0	0	0	4,895	4,895
Investment in debt securities	0	0	0	0	0	0
Amounts due from group undertakings	0	0	0	0	0	0
Total	0	0	0	0	4,895	4,895

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 mitigate liquidity concerns. The bank also performs an annual Internal Liquidity Adequacy Assessment Process (ILAAP) to identify the need for additional liquidity buffers.

Financial liabilities analysed by contractual undiscounted amounts based on remaining contractual maturities as at 31 December 2019 (£'s)

Months / Years	0-3	3-6	6-12	1-5	Over 5	Total
Customer accounts	2,452,958	-	-	-	-	2,452,958
Bank borrowings*	29,176,672	4,712,033	2,307,568	-	-	36,196,273
Other accrued Expense payable	90,645	-	-	-	-	90,645
Amounts due to group undertakings	5,498,875	854,722	1,154,051		-	7,507,648
TOTAL	37,219,150	5,566,755	3,461,619	-	-	46,247,525

**Bank borrowings are typically rolled over when required. These are largely determined by the limits issued by funding counterparties to BPI Europe. For example, one creditor has set out a maximum tenor limit of 1 month, so borrowings from this institution are rolled over on a monthly basis.*

Financial liabilities analysed by contractual undiscounted amounts based on remaining contractual maturities as at 31 December 2018 (£'s)

Months / Years	0-3	3-6	6-12	1-5	Over 5	Total
Customer accounts	4,646,512	-	-	-	-	4,646,512
Bank borrowings	31,930,823	3,322,653	10,307,600	-	-	45,561,076
Other accrued Expense payable	91,070	-	-	-	-	91,070
Amounts due to group undertakings	4,019,763	-	1,187,436	-	-	5,207,199
TOTAL	40,688,168	3,322,653	11,495,036	-	-	55,505,857

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

Market risk
Market risk is the exposure to adverse changes in the value of the bank's financial assets and liabilities as a result of changes or volatilities in market prices. 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 a deterioration in its financial position in response to movements in interest rates. The bank is exposed to interest rate risks from rate sensitive positions in the balance sheet. The bank has outstanding borrowings of £36,196,273 (2018: £45,461,076), amounts due to group undertakings £7,507,648 (2018: £5,207,199), and customer deposit accounts of £2,452,958; (2018: £4,464,512) on which interest is paid. Meanwhile, the bank earns interest income on loans and advances to banks of £13,361,818; (2018: £17,591,992), debt

securities of £43,751,653; (2018: £35,948,247), amounts due from group undertakings of £1,693,114; (2018: £11,685,110) and loans and advances to customers of £8,865,828; (2018: £11,198,783).

The table below indicates the bank's exposure to movements in interest rates as at 31 December 2019 and 2018.

	Movement in basis points	2019 Sensitivity of profit before tax £	2018 Sensitivity of profit before tax £
Euro	+50	(920.00)	173.00
Great British Pound	+50	108,400.33	95,489.00
United States Dollar	+50	(101.53)	8,764.00
Other currencies	+50	198.85	621.00
Euro	-50	920.00	(173.00)
Great British Pound	-50	(108,400.33)	(95,489.00)
United States Dollar	-50	101.53	(8,764.00)
Other currencies	-50	(198.85)	(621.00)

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

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

	Movements of +10%		Movements of -10%	
	2019 Sensitivity of profit before tax £	2018 Sensitivity of profit before tax £	2019 Sensitivity of profit before tax £	2018 Sensitivity of profit before tax £
Euro	(18,294.00)	3,884.00	18,294.00	(3,884.00)
United States Dollar	(1,684.00)	176,490.00	1,684.00	(176,490.00)
Philippine Peso	3,822.00	12,268.00	(3,822.00)	(12,268.00)

21. COMMITMENTS UNDER OPERATING LEASES

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

Land and Buildings

	2019	2018
Operating Leases which expires	£	£
0 - 1 year	142,855	142,855
1 - 5 years	375,710	424,335
After more than 5 years	0	0

22. CALLED UP SHARE CAPITAL

CAPITAL

	Year Ended 31 Dec 19	Year Ended 31 Dec 18
	£	£
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

Periodically, BPI Europe enters into foreign exchange swap transaction to manage its foreign currency position. BPI Europe performs daily marking to market of these positions, which are then recognised daily in the profit and loss account under "foreign exchange gains/losses." BPI Europe, as at reporting date, has no outstanding foreign currency swap position (2018: notional amount of £1,676,765 and negative fair value of £37,709)

Furthermore, as at reporting date BPI Europe had commitments to extend credit for Syndicated Term Loans, which are yet to settle in the amount of $3,000,000 (2018: Syndicated Term Loans for $7,000,000).

24. RELATED PARTY TRANSACTIONS

BPI Europe's related party balances with parent are:	Year Ended 31 Dec 19 £	Year Ended 31 Dec 18 £
Amount due from group undertakings		
Fixed deposits	1,547,331	9,820,715
Demand deposits	145,783	1,864,395
Total	**1,693,114**	**11,685,110**
Amount due to group undertakings	**7,507,648**	**5,207,199**

The corresponding interest earned is:

Amount due from group undertakings		
Fixed Deposits	81,848	310,994
Demand Deposits	362	495
Total	**82,210**	**311,489**

The corresponding interest incurred is:

Amount due to group undertakings	83,938	110,824

Included in management and other professional fees is the amount of £67,551 (2018: 140,457) paid to Lu Oliphant Solicitors LLP for legal services incurred, and £121,000 (2018: £98,000) paid as remuneration to the Non-Executive Directors.

25. EVENTS AFTER REPORTING PERIOD

The outbreak of COVID-19 in 2020 was a non-adjusting event based on International Accounting Standards 10 which did not change the amount in the financial statements. The bank however considered the developments in the market in relation to the global pandemic in assessing its portfolio for vulnerabilities.