

COVER SHEET

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S.E.C. Registration Number

F I L I N V E S T D E V E L O P M E N T

C O R P O R A T I O N

(Company's Full Name)

6 / F , T H E B E A U F O R T , 5 T H A V E N U E

C O R N E R 2 3 R D S T . B G C T A G U I G C I T Y

(Business Address; No. Street City / Town / Province)

ATTY. SHARON P. REFUERZO

918-8188

Contact Person

Company Telephone Number

1 2

Month

3 1

Day

Fiscal Year

1 7 - A

FORM TYPE

Month

Day

Annual Meeting

Secondary License Type; If Applicable

C F D

Dept. Requiring this Doc.

Amended Articles Number / Section

4,266

Total No. of Stockholders

9,279,940,561 shares

Domestic

37,533,426 shares

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS



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## **PART I - BUSINESS AND GENERAL INFORMATION**

### **Item 1. History and Business**

FDC was incorporated in the Philippines on April 27, 1973 and has evolved from businesses established by the Gotianun Family since 1955. Originally engaged in the small-scale financing of second-hand cars, the Gotianun Family later expanded into consumer finance in partnership with foreign institutions, such as Chase Manhattan Bank, Westinghouse Electric Corporation and Ford Philippines. By the early 1980s, the Gotianun Family's Filinvest Credit Corporation became one of the leading consumer finance companies in the Philippines in terms of assets. Over time, the "Filinvest" name became established and well-recognized in the Philippines.

In 1967, the Gotianun Family entered the real estate business through the incorporation of Filinvest Realty Corporation, which was engaged in the development of residential subdivisions. In 1984, the Gotianun Family consolidated their real estate interests in FDC after divesting their shares in Family Bank and Trust Company and the Insular Bank of Asia and America. By 1990, FDC expanded its product line to include the construction and sale of low-cost and medium-cost housing units. Thereafter, the product line was further expanded to include the development of commercial district, leisure projects such as farm estates and sports clubs, construction of residential and office condominiums.

Filinvest Land Inc. (FLI) was incorporated on November 24, 1989 as Citation Homes, Inc. and changed its name to FLI on July 12, 1993. FLI began commercial operations in August 1993 after FDC spun off most of its real estate operations and transferred all related assets and liabilities to FLI in exchange for shares of FLI. FLI's shares were listed on the PSE on October 25, 1993. FDC remains FLI's largest shareholder. As of December 31, 2012, FDC beneficially owns approximately 59% of FLI's outstanding common shares and all of its issued and outstanding preferred shares, such that FDC has a 69% voting ownership in FLI.

Filinvest Alabang, Inc. (FAI) was incorporated on August 25, 1993 in connection with the joint development of Filinvest City in Alabang. With its development of Filinvest City, the Group started as a central business district developer and has successfully ventured into retail, office, high-rise residential and leisure club development. As of December 31, 2013, FDC directly owns 80.0% of FAI's issued and outstanding shares and FLI owns the remaining 20.0%.

In 1994, the Group decided to re-enter the financial and banking services business based on the then strengthening fundamentals of the Philippine economy and the Gotianun Family's prior experience in this business in the 1970s and 1980s. FDC incorporated East West Banking Corporation (EWBC) in March 1994. On May 7, 2012, EWBC was publicly listed on the PSE and issued common shares amounting to P2,609.6 million. FDC remains EWBC's largest shareholder. As of the December 31, 2013, FDC beneficially owns 75.0% of EWBC's issued and outstanding shares.

To diversify its business and position, FDC, as the Gotianun Family's primary holding company for its investments, acquired 100.0% of the issued and outstanding shares of Pacific Sugar Holdings Corporation (PSHC) from A.L. Gotianun, Inc. (ALG) in 2007.

In 1995, when the Philippines experienced a power crisis, the Group acquired a 25% interest in East Asia Power Corp. and in 1998 the Group acquired 100.0% of East Asia Utilities Corp. and Cebu Power Corp., each of which was divested in 2000 as part of its deleveraging activities during the Asian financial crisis. In 2007, FDC partnered with International Power Plc to bid for the Government's 60.0% controlling stake in Energy Development Corporation (EDC), and the FDC consortium's bid was shortlisted but ultimately did not succeed. In 2009, the Group re-entered the power generation business through FDC Utilities, Inc. (FDCUI). FDCUI is developing a 405 MW clean coal thermal power plant in Mindanao and a 13 MW hydropower plant in Luzon. Off-take agreements for 252 MW with 17 distribution utilities in Mindanao are already on hand and an additional 26 MW are still being negotiated.

The Group's hospitality business is operated through both FilArchipelago Hospitality, Inc. (FHI) and FDC Hotels Corporation (FHC). FHI is a joint venture of FDC (60.0%) and Archipelago International Pte. Ltd (AIPL) (40.0%), which was created in 2008 to manage the Group's hospitality projects. AIPL is an affiliate of Aston International, which manages hotels, resorts, residences, spas and villas under the Aston, Alana, Quest, Fave and Kamuela brands. FHI's principal purpose is to provide a comprehensive range of design, consulting, technical, marketing, training, operations and management services for hotels, serviced apartments, villas, condotels, and boutique resorts.

In August 2011, FDC formed its wholly-owned subsidiary, FHC. The primary role of FHC in collaboration with FHI is to evaluate, plan, develop and optimize potential and current hospitality investments.

The Group's first operating property is the 5 star, 290 key Crimson Resort and Spa Mactan (CRSM). The resort is directly owned by FDC through Seascapes Resorts, Inc. (SRI) which was incorporated on July 17, 2009. CRSM is an award-winning deluxe resort located on the island of Mactan, Cebu, Philippines. The resort features 290 guest rooms including 40 villas with private plunge pools, 5 Food and

Beverage Outlets, a Gym, a Children’s play area and 2 Ballrooms. CRSM was formally launched on October 8, 2010. Currently, FHC is studying a possible 60 room expansion of the property.

In September 2012, the Group opened its second property under the Quest Brand. Quest Hotel and Conference Center Cebu (QHCC) is a 427 key Condotel in FLI’s Grand Cenia Development in Cebu City. The condotel units are owned by third parties and are locked in a 25 year rental pool. The hotel is located in the Cebu Business Park and includes 10 meeting rooms, a 300 seat capacity all day dining restaurant and a swimming pool.

In March 2013, the Group grand opened its third property Crimson Hotel Filinvest City, Manila (CFCM) in Alabang. The property is directly owned by FAI through Entrata Hotel Services, Inc. (EHSI) which was incorporated on November 28, 2012. The hotel is part of the Entrata Urban Complex which features 345 keys, extensive meeting facilities, 5 F&B outlets, a gym, a spa and a swimming pool.

CRSM, QHCC, and CFCM are professionally managed and operated by FHI under a management agreement.

FDC is considering investments hotels, resorts and/or condotels across the economy, mid-range and luxury segment. FHC is currently in the planning and design stage for a 5-star, 192 key Crimson Resort and Spa development on the island of Boracay in Aklan, Philippines. The resort will be directly owned by FHC through its wholly owned subsidiary, Boracay Seascapes Resort, Inc. (BSRI) which was incorporated on December 28, 2012. It plans to break ground in the first quarter of 2014.

FDC's principal corporate office is located at The Beaufort, 5<sup>th</sup> Avenue corner 23<sup>rd</sup> Street, Bonifacio Global City, Taguig City, Philippines. FDC common shares were listed in the PSE on December 22, 1982.

FDC’s consolidated revenues are generated from its leasing, investing and managing activities and from real estate development, banking businesses, sugar cane farming and milling and sugar trading and starting in 2010, from hotel operations and from the following subsidiaries and joint ventures engaged in the following business activities, namely:

	<b>Date of Incorporation</b>
<b>Real Estate Development</b>	
FAI .....	August 25, 1993
FLI .....	November 24, 1989
Cyberzone Properties, Inc. (CPI) .....	January 14, 2000
Filinvest AII Philippines, Inc. (FAPI) .....	September 25, 2006
Filinvest Asia Corporation (FAC) .....	January 22, 1997
Property Maximizer Prof. Corp (Promax) .....	October 3, 1997
Homepro Realty Marketing Corporation (Homepro) .....	March 25, 1997
Property Specialist Resources, Inc. (Prosper) .....	June 10, 2002
Leisure Pro, Inc (Leisurepro) .....	April 21, 2004
Festival Supermall Inc .....	March 21, 1997
FSM Cinemas Inc. ....	April 23, 1998
ProExcel Property Managers Inc. ....	November 28, 2001
Proplus Inc. ....	February 16, 2000
Northgate Convergence Corporation .....	October 14, 1999
Countrywide Water Services, Inc. (CWSI) ...	May 18, 2012
<b>Financial and Banking Services</b>	
EWBC .....	March 22, 1994
FDC Forex Corporation (FFC) .....	February 17, 1997
Green Bank, Inc. (GBI) .....	June 20, 1974
East West Rural Bank, Inc. (EWRB, formerly Finman Rural Bank, Inc.) .....	November 5, 1997
Filinvest Development Cayman Islands .....	March 12, 2013

### **Sugar Business**

PSHC .....	June 5, 1989
Davao Sugar Central Co., Inc. (DSCC) . . .	October 4, 1968
Cotabato Sugar Central Co., Inc. (CSCC) . .	March 13, 2002
High Yield Sugar Farms Corporation (HYSFC).....	June 8, 1990

### **Hospitality Business**

FHI .....	November 8, 2008
SRI .....	July 17, 2009
FHC .....	August 22, 2011
Quest Restaurant, Inc (QRI).....	March 12, 2012
EHSI .....	November 28, 2012
BSRI.....	December 28, 2012
Chinatown Cityscapes Hotel, Inc. (CCHI) . . . .	March 22, 2013
Duawon Seascapes Resort, Inc. (DSRI) . . . . .	April 12, 2013

### **Power Generation Business**

FDCUI .....	December 4, 2009
FDC Retail Electricity Sales Corporation . .	November 16, 2009
FDC Misamis Power Corporation .....	November 16, 2009
FDC Danao Power Corporation .....	March 10, 2011
FDC Camarines Power Corporation .....	March 23, 2011
FDC Casecnan Hydro Power Corporation. . .	March 23, 2011
FDC Negros Power Corporation (FDC Negros).....	May 22, 2012
FDC Davao Del Norte Power Corporation (FDC Davao).....	July 17, 2012

#### Notes:

- (1) FDC's effective economic ownership and voting interest in FAI includes the 20% share of FAI owned by FLI.
- (2) FDC has a 69.0% voting interest in FLI after taking into account the Group's direct and indirect voting interests through its holdings of common and preferred shares in FLI.

With over 40 years of experience in an industry that is highly sensitive to the financial crises, market downturns, and political upheaval, the Filinvest Group has emerged as one of the few survivors in the country. FDC and its subsidiaries have carefully built and nurtured a distinguished performance record in the real estate development, which was recognized by international bankers, funds managers, other global institutional investors, and the international financial community.

On September 29, 2006, the Company had a major reorganization among its subsidiaries and joint ventures. The main objectives were to allow FLI, the residential arm of the Group and also its largest subsidiary, to increase its asset base and to diversify and balance its revenue base by providing higher and more stable revenues leveraging into growth investment sectors, like the Business Process Outsourcing (BPO), office/business park development and stability through a position in the mall market. FLI acquired from FAI, the Festival Supermall and its 60% ownership interest in CPI. CPI is the owner of the development in the IT park known as "Northgate Cyberzone", a PEZA-registered IT park, located within Filinvest City, and with BPO and call center companies mostly as its tenants. Festival Supermall is a shopping center located in a 10-hectare land also in Filinvest City, and with a gross leasable area of 135,163 sq.m. FLI also acquired the 60% ownership interest in FAC from its parent company, FDC. FAC is the owner of 50% of the spaces in PBCom Tower located in Ayala Avenue, Makati City. As consideration for these acquisitions, FLI issued a total of 5.6 billion common shares and assumed a total debt of P2.5 billion from FDC and FAI. Independent appraisers valued the three properties. Also in September 2006, FLI entered into an agreement with Africa Israel Investments (Philippines), Inc. (AIIPI) to form FAPI, which will undertake the development of Timberland Sports and Nature Club (the Club) and about 50-hectares of land comprising Phase II of Timberland Heights and the construction of two medium-rise buildings. Under the terms of the agreement, FLI contributed the land, all of the Class A shares of the Club and development costs of approximately P100 million, and AIIPI contributed P250 million to FAPI. FLI and AIIPI own 60% and 40% of FAPI, respectively. On December 28, 2009, FLI executed separate deeds of absolute sale of shares of stock for the acquisition of the 40% share of AIIPI in FAPI and 40% equity interest of Africa-Israel Properties (Phils.), Inc. (AIPPI) in CPI. The closing of the sale transactions is subject to the full payment of the purchase prices and other conditions which were not yet fulfilled as of December 31, 2009. On February

8, 2010, the sale transactions were closed as the purchase price was fully paid by FLI and all other conditions of the sales were met. The sale transactions made FAPI and CPI wholly owned subsidiaries of FLI.

On June 29, 2007, to further diversify its business, FDC acquired from ALG, a 100% ownership interest in PSHC. PSHC wholly owns three Mindanao-based sugar companies, DSCC, CSCC and HYSFC.

In 2010, the Parent Company purchased all the 5.2 billion FLI shares held by FAI at prevailing market prices and purchased additional 23.0 million FLI shares from outside investors. These transactions resulted in an increase in the effective ownership of the Parent Company in FLI by 4.3% and FAI by 4.3%.

On December 1, 2010, a stockholder assigned to the Parent Company its 100% ownership in ALG Renewable Energy Holdings, Inc. (AREHI) for a consideration of ₱1.0 million with Bureau of Internal Revenue (BIR) approval dated June 6, 2011, making the latter a wholly owned subsidiary of the Parent Company. Also in December 2010, the same stockholder transferred its 100% ownership in Eco Renewable Energy Holdings, Inc. (EREHI) and its 100% ownership interest in Green Renewable Power Holdings, Inc. (GRPHI) to AREHI for a consideration of ₱1.0 million for each company with BIR approval dated June 3, 2011 and June 6, 2011, respectively. The transfer effectively made EREHI and GRPHI wholly owned subsidiaries of AREHI. On February 14, 2011, the stockholders and Board of Directors (BOD) of AREHI approved the amendment of its articles of incorporation changing its corporate name to FDC Utilities, Inc. (FDCUI) and its primary purpose. On March 4, 2011, the stockholders and BOD of GRPHI also amended its articles of incorporation changing its primary purpose and its corporate name to Strong Field Energy Corporation (SFEC). In 2011, FDCUI incorporated Cebu Pure Energy, Inc. (CPEI), Strong Field Gas Power Corporation (SFGPC) and Strong Field Gas and Electric Corporation (SFGEC), all to operate under a new business segment engaged in power generation. CPEI was incorporated on March 10, 2011, while SFGPC and SFGEC were both incorporated on March 23, 2011.

On August 9, 2011, the Parent Company filed an application with the Securities and Exchange Commission (SEC) for the incorporation of FHC, whose primary purpose is to purchase, invest in, and engage in hotel and related businesses. Such application was approved by SEC on August 22, 2011.

On August 19, 2011, the SEC approved the Amended Articles of Incorporation of the Parent Company to include in the Primary Purpose the authority of the Company to invest in corporations, associations, partnerships, entities or persons or governmental, municipal or public businesses, domestic or foreign, engaged in utilities, power, energy, transportation on land, air and sea and infrastructure businesses.

On August 19, 2011, EWBC acquired 84.8% of the voting shares of GBI, engaged in the business of extending credit to small farmers and tenants and to deserving rural industries or enterprises and to transact all businesses which may be legally done by rural banks. GBI, as a subsidiary, has been consolidated with EWBC from the date of acquisition, being the date on which EWBC obtained control of GBI. The transaction was accounted for as a business combination.

On November 21, 2011, FDCUI filed an application with the SEC for the increase in authorized capital stock from ₱16.0 million to ₱4.0 billion, consisting of 40.0 million shares with par value of ₱100.0 per share. Such application was approved by SEC on December 8, 2011. As of December 31, 2011, the Parent Company had subscribed to a total of ₱1.0 billion, of which ₱250.0 million for 6,811,246 shares were paid.

In 2011, the Parent Company purchased from outside investors a total of 1.3 billion common shares of FLI. The transaction increased the Parent Company's effective ownership in FLI from 53% to 59%. The transaction also resulted in an increase in retained earnings of ₱0.8 billion.

On February 6, 2012, the SEC approved the amended articles of incorporation changing the EREHI's corporate name to FDC Retail Electricity Sales Corporation and its primary purpose to engage in business of a retail electricity supplier and wholesale aggregator; to develop, construct, commission, own, operate, maintain, rehabilitate, and manage facilities used in connection therewith; and/or provide services necessary or appropriate in connection with the supply and delivery of electricity, such as billing and collection, integrated customer solutions, and consultancy, to such an extent and in such manner as may be permitted by applicable law.

On February 14, 2012, the SEC approved the amended articles of incorporation changing the SFGEC's corporate name to FDC Casecan Hydro Power Corporation (FDC Casecan) and its principal office address to Makati City. On February 17, 2012, SEC approved the amended articles of incorporation changing the CPEI's corporate name to FDC Danao Power Corporation (FDC Danao) and its principal office address to Makati City.

On February 22, 2012, FHC filed an application with the SEC for the incorporation of its 100% owned subsidiary QRI, whose primary purpose, among others, is to establish, maintain, operate and manage, for its own account or for the account of other entities or individuals, restaurants, cafes, bars, and general food catering services. Such application was approved by SEC on March 12, 2012.

On February 29, 2012, the SEC approved the amended articles of incorporation changing the SFGPC's corporate name to FDC Camarines Power Corporation (FDC Camarines) and its principal office address to Makati City. Also on the same day, SEC approved the amended articles of incorporation changing the SFEC's corporate name to FDC Misamis Power Corporation (FDC Misamis) and its principal office address to Makati City.

In April 2012, EWBC conducted an Initial Public Offering (IPO) of 282,113,600 common shares at an offer price of ₱18.50 per share, which were listed and traded on the First Board of the Philippine Stock Exchange on May 7, 2012.

In various dates in 2012, FDC sold its 12.5% ownership in EWBC while another 12.5% of EWBC shares were sold to the public from the primary shares offering in the IPO of EWBC resulting to a retained controlling interest of 75% in the bank. The change in FDC's ownership interest in EWBC from 100% to 75% was accounted for as equity transactions in accordance with PAS 27R, Consolidated and Separate Financial Statements. The sale resulted to an increase in equity of ₱562.8 million recorded under retained earnings. The transaction costs incurred for the sale of the 25% share amounted to ₱456.2 million which was treated as deduction from equity in the consolidated financial statements. Further details are discussed in the Notes to the Audited Financial Statements.

On May 18, 2012, CWSI, a 100% owned subsidiary of FLI was incorporated. CWSI has the technical expertise and skills in the operation, management, maintenance, and rehabilitation of waterworks and sewerage system. On August 2, 2012, FLI has engaged the services of CWSI in order to maintain and further improve the billing, collection and customer relation services in the waterworks and sewerage system of its Residential Projects.

On May 22, 2012 and July 17, 2012, SEC approved the incorporation of FDC Negros Power Corporation (FDC Negros) and FDC Davao del Norte Power Corporation (FDC Davao), respectively. The primary purpose of FDC Negros and FDC Davao is to invest, undertake or participate in the development, operation, maintenance and/or rehabilitation of diesel, gas turbine, coal, steam power plants, and other power generating plants of any type and any related facilities, including substation, high voltage lines, interconnection facilities and apparatus, and port facilities together with facilities for the loading, unloading, storage of fuel, and transportation of fuel; and to sell and/or use the energy related thereby and waste and other by-products thereof.

On July 31, 2012, EWBC acquired 83.2% voting shares of EWRB, the primary purpose of which is to accumulate deposit and grant loans to various individuals and small-scale corporate entities as well as government and private employees. Subsequently, EWBC acquired additional shares of FRBI from its unissued capital stock amounting to ₱20.0 million. On January 23, 2013, EWBC acquired the remaining shares of the noncontrolling interest of EWRB, increasing its ownership to 100%. The acquisition of EWRB resulted to a goodwill of ₱23 million.

In 2012, EWBC acquired additional shares from the non-controlling shareholder amounting to ₱8.8 million and from GBI's unissued capital stock amounting to ₱19.7 million, increasing its ownership to 96.5% as of December 31, 2012. As of December 31, 2013, EWBC owns 99.84% of GBI.

On August 17, 2012, FDCUI filed an application with the SEC for the increase in authorized capital stock of FDC Danao from ₱16.0 million to ₱700.0 million consisting of 7.0 million shares with par value of ₱100 per share. This application was approved by the SEC on September 19, 2012. FDCUI had subscribed to ₱175.0 million of which ₱103.9 million for 1,039,005 shares were issued and paid. On the same day, an application was filed with the SEC for the increase in authorized capital stock of FDC Camarines from ₱4.0 million to ₱1.2 billion consisting of 12 million shares at ₱100 par value. This application was approved by the SEC on September 17, 2012. The subscribed capital amounted to ₱300.0 million of which ₱75.0 million for 750,005 shares were issued and paid. The authorized paid up capital stock of FDC Misamis, FDC Retail Electricity Sales and FDC Casecan remains at ₱16.0 million each, consisting of 160,000 shares at ₱100 par value, while each company has ₱1.0 million or 10,006 shares issued and paid up.

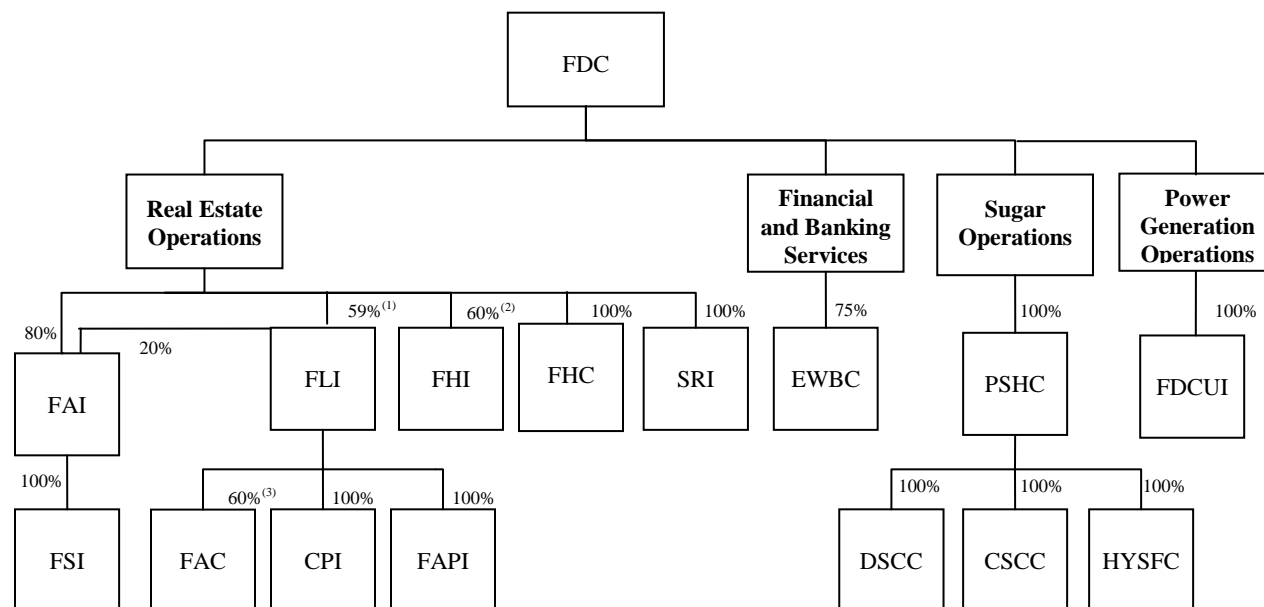
On March 12, 2013, the Parent Company incorporated FDCI under the laws of Cayman Islands with registered office at the offices of Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. FDCI was incorporated to facilitate the Group's issuance of foreign currency-denominated bonds.

On March 22, 2013 and April 12, 2013, FHC incorporated its 100% owned subsidiaries, CCHI and DSRI, respectively.

Other than the acquisitions stated above, there were no material reclassifications, mergers, consolidations or purchases or sales of significant amount of assets (not ordinary) by the Company and/or its significant subsidiaries during the past three (3) years. There were also no bankruptcy, receivership or similar proceedings filed by the Company and/or any of its significant subsidiaries during the past three (3) years.

## STRUCTURE OF THE GROUP

The following chart illustrates the Group's main activities of its material subsidiaries and controlled companies as of December 31, 2013. A detailed breakdown of FDC's subsidiaries and joint ventures was presented in the preceding section.



Notes:

(1) The remaining shares of FLI and EWBC are publicly-held.

(2) The remaining 40% of FHI is owned by AIPL.

(3) The remaining 40% of FAC is owned by Reco Herrera Pte. Ltd., a company that is 100% beneficially owned by the Government of Singapore Investment Corporation Pte. Ltd.

## Competitive Strengths

The Group believes that its principal strengths are the following:

### Strong Track Record of Growing a Diverse Portfolio of Profitable Businesses

The Group has been able to successfully establish and grow its business portfolio over the years. The Group's real estate business has grown over the last four decades to become one of the leading real estate developers and operators in the Philippines. In 1994, the Group established EWBC, which is currently one of the fastest growing universal banks in the Philippine banking industry with a nationwide presence of 300 branches as of December 31, 2013 compared with 245 branches as of December 31, 2012. In 2010, the Group opened its first hospitality project in Mactan. In recent years, the Group further applied its business expertise to the sugar industry, resulting in a profitable and cash generative sugar business in Mindanao. The Group is continuously exploring new growth areas for further value creation. In December 2009, the Group established FDCUI to re-enter the power generation business. FDCUI is currently in the planning stages with respect to the potential development of power projects in Luzon, the Visayas and Mindanao to capitalize on the highly attractive high-growth power generation market in the Philippines. FDCUI's project in Mindanao is now moving toward the development stage with construction starting soon. Projects in other parts of the country are now being assessed for their technical and financial feasibility to capitalize on the attractive high-growth power generation market in the Philippines.

## **Strategically Positioned in Attractive Sectors**

The Group's businesses are well-positioned within industries which it believes are high growth sectors of the Philippine economy. Each of the Group's businesses targets specific market segments. FLI targets the affordable, socialized and middle-income residential markets, which together are believed by the Group to be the largest addressable market in residential development in the Philippines. FAI's primary project is Filinvest City, a joint venture of the Government and FAI comprising office, retail, residential, institutional, leisure and hospitality projects in southern Metro Manila, approximately 16 kilometres south of Makati. As of December 31, 2013, the Group had a land bank of 2,379 hectares of raw land (of which 2,031 hectares is owned by FLI), which included 324 hectares of raw land held through joint venture arrangements and the 50.6-hectare South Road Properties in Cebu (of which 40 hectares is held through joint venture arrangements). EWBC focuses on the high margin consumer lending segments with high returns, and has expanded its lending portfolio in the consumer and middlemarket banking sector through the acquisition of AIG PhilAm in 2009, which included substantial auto loan and credit card businesses. EWBC's 2011 acquisition of GBI enabled EWBC to significantly expand its branch network by adding 46 branches and 94 kiosks, especially in rural and Restricted Areas. In addition, the Group's sugar business benefits from the industrialization of Luzon, which has increased Mindanao's importance in agribusiness, while the Group's hospitality business in Cebu and Alabang is well positioned to benefit from the growing tourism sector in the Philippines. The strategic location of the Group's planned projects in its power generation business in Luzon, the Visayas and Mindanao positions the Group to benefit from the expected growth in demand for electricity in the Philippines.

## **Diversified Earnings Stream**

With business interests in the real estate, hospitality projects, financial and banking services and sugar industries, the Group has diverse earning streams. The Group's financial and banking services are principally conducted through EWBC, a niche bank primarily focused on providing banking services to retail customers and middle-market corporate customers. Continuing to diversify its revenue and asset base, in 2007, FDC acquired the Sugar Subsidiaries. In 2012, the Group's real estate and hospitality projects, financial and banking services and sugar businesses accounted for 53.3%, 38.4% and 8.3%, respectively, of the Group's consolidated revenues and other income. In 2013, the Group's real estate and hospitality projects, financial and banking services and sugar businesses accounted for 50.2%, 41.9% and 7.9%, respectively, of the Group's consolidated revenues and other income.

## **Disciplined Financial Management**

The Group believes each of its business segments has a strong financial position and a stable earnings base. The Group believes it has strong debt service capabilities and a management team committed to growing its business prudently, while its relatively low leverage in its non-financial services businesses provides significant capacity to take advantage of growth opportunities. The Group believes that its financial strength and conservative leverage enhance its ability to expand and further diversify its business, as well as to capitalize on opportunities in each of its business segments, including the capacity to incur additional debt in order to do so.

## **Experienced Management Team**

The Group's management team has extensive experience in, and in-depth knowledge of, the Philippine real estate market, the financial and banking services industry and the sugar business. Members of the Group's management team have an average of more than 30 years' experience in their respective businesses. Several members of the management team have post-graduate degrees from well-known business schools in the United States. The Group believes its growth and strong financial performance are indicative of the capabilities of its management team. The Group believes that the market experience and knowledge that its key members of management possess across each of the Group's businesses and the business relationships they have developed in the various industries in which they are involved have been, and will continue to be an integral part of the Group's growth strategy.

## **Real Estate**

The Group has been active in the real estate business for over 40 years and believes its real estate business possesses the following principal strengths:

***A Market Leader in the Affordable and Middle-Income Residential Real Estate Segment with an Established Reputation and Brand Name.*** The Group has been involved in the real estate development business through the "Filinvest" brand for more than 40 years. It has become one of the Philippine's leading real estate developers and has successfully developed a large number of high-profile real estate projects, with a particular focus on the affordable and middle market housing segments. The Group believes that it has a reputation both in the real estate industry and among purchasers, including the significant Overseas Filipino Worker ("OFW") and expatriate Filipino

markets, as a reliable developer that develops and delivers in a timely manner quality products conveniently located near major commercial centres. The Group also has an extensive network of sales offices, in-house sales agents and independent brokers located throughout the Philippines, as well as accredited brokers in countries and regions with large OFW and expatriate Filipino populations. The Group was a pioneer in developing MRBs and is now the largest developer of MRBs in the Philippines, which has helped them maintain their leadership in the middle-income segment. Low and medium-rise buildings have faster construction periods, which the Group believes helps minimize the risk of construction delays and cost overruns, while also speeding up its cash collection from buyers.

**Product, Market and Geographical Diversification.** The Group believes it is able to offer customers one of the most diversified ranges of real estate products in the Philippine real estate market. FLI focuses its business on the socialized, affordable and middle-income market segments, while still addressing demand from the high end of the market through select offerings. FLI has also diversified its projects to include new types of residential developments that cater to potentially high-growth niche markets, such as residential farm estate projects, entrepreneurial communities, MRBs, high-rise condominiums and township developments. In addition, the Group has entered the hospitality industry to further diversify its real estate development portfolio. The Group believes that FLI and FHI can create synergistic effects by packaging hospitality products with FLI's residential, commercial and retail developments. The Group derived about 50% of its pre-sales in 2013 from outside Metro Manila, and is currently developing over 100 projects spread throughout the Philippines, thus reducing individual region and project risks. It is also able to generate demand from diversified sources, with 31% and 69% of 2013 pre-sales to OFWs and domestic buyers, respectively.

**Extensive and Diversified Land Bank.** The Group believes that it has a low cost land bank that is one of the largest land banks among real estate development companies in the Philippines. As of December 31, 2013, the Group owned or controlled a land bank of 2,379 hectares of raw land (of which 2,031 hectares is owned by FLI), which included 273.8 hectares of raw land held through joint venture arrangements and the 50.6-hectare South Road Properties in Cebu (of which 40 hectares is held through joint venture arrangements). The Group's land bank consists of land located in several locations throughout the country, especially in growth areas such as greater Metro Manila, Cebu, Davao and General Santos City in South Cotabato province. The Group believes that the diversity of its current projects and land bank will allow it to benefit from continued economic development of these areas, which is expected to result in growth in the demand for residential projects.

**Stable and Growing Recurring Income.** The Group has a portfolio of well-performing office and retail investment properties, with a total GLA of 440,000 sq.m., with recurring income from these properties accounting for 20% of FDC's consolidated net income. The Group owns Festival Supermall, the largest mall in the south of Metro Manila which sees traffic of approximately 100,000 people on weekdays and 250,000 people on weekends. It also owns a portfolio of BPO buildings in Northgate Cyberzone which has consistently enjoyed high occupancies. Over the next three years, the Group intends to double its leasing portfolio to approximately 827,000 sq.m., which it believes will further enhance its recurring income base. In 2010, the Group also opened its first hospitality project in Mactan, Cebu with 290 rooms. In 2012, the Group launched its second hotel with 427 rooms, also in Cebu. In 2013, the Group grand opened its third hotel with 345 rooms, in Muntinlupa City, Alabang.

**Strong Credit Record and Financial Position.** The Group believes that it has a strong financial position, with a record of debt service capabilities and a management team committed to maintaining and implementing a prudent financial management program. The Group's sound financial management allowed it to continue to meet its debt service obligations for its peso-denominated debts and to meet and exceed the debt service ratios required under its loan agreements throughout and in the aftermath of the Asian financial crisis and the global financial crisis. The Group believes that its financial strength enhances its ability to expand its business and to capitalize on opportunities in the Philippine housing and land development market. The Philippine Rating Services Corporation ("Philratings") maintained the PRS Aaa for FLI's (i) ₱4.5 billion outstanding bonds due in 2014, (ii) ₱3 billion outstanding bonds due in 2016, and (iii) a recent ₱11 billion domestic bond issuance. Obligations rated PRS Aaa are of the highest quality with minimal credit risk. FLI's capacity to meet its financial commitment for its obligations is strong. The rating assigned reflects the following key considerations: strong growth of FLI's real estate revenues and higher recurring income from FLI's leasing operations, sound debt position; and financial flexibility, FLI's established brand name, diversified portfolio and favourable industry conditions. In 2013, the Philratings has assigned a PRS Aaa rating, the highest possible rating for a bond, for FDC's ten-year ₱8.8 billion bonds due in 2024, on account of the following key considerations: FDC's steady earnings and diversified business portfolio; maintenance and good credit standing even in times of financial crisis; strong financial flexibility; established brand names and good market position of main contributing subsidiaries; subsidiaries operate in growing industries which will benefit significantly from the supportive economic environment; conservative and professional stance of management; and new investments (i.e. power) seen to significantly boost profitability in the medium term.

**Benefits of Large Scale of Operations.** With one of the largest real estate operations in the Philippines and in-depth industry knowledge, the Group believes it is well-positioned to respond promptly to changes in market conditions and capture opportunities. In addition, the Group's scale of real estate business operations enhances its position in negotiations with suppliers, landowners, credible land purchasers and tenants, as well as strengthening its reputation and brand awareness.

## Financial and Banking Services

Since its formation in 1994, EWBC has experienced strong growth. The Group believes EWBC is well-positioned in the Philippine market due to the following principal strengths:

***Maintaining Strong Financial Performance while Consistently Growing at a Faster Rate than the Industry.*** In recent years, EWBC has grown at a faster rate than the Philippine banking sector as a whole. Its total assets, gross loans (receivables from customers net of unearned discounts) and deposit liabilities increased at compound annual growth rates (“CAGR”) of 21.7%, 39.5% and 20.4%, respectively, from December 31, 2011 through December 31, 2013. Based on the BSP report published on February 6, 2014, the total assets, total loans and deposits of the Philippine banking industry as a whole increased at CAGRs of 16.5%, 14.0% and 18.9%, respectively, in December 31, 2011 through December 31, 2013. Despite such growth, EWBC was able to maintain profitability as measured by EWBC’s return on average assets and return on average equity, which were 1.6% and 11.1%, respectively, for the year ended December 31, 2013, and 1.9% and 11.9%, respectively, for the year ended December 31, 2012.

***Strong Position in High Growth Consumer Segment.*** EWBC focuses on providing loans and banking services to Philippine consumers, a high growth segment that is supported by strong growth fundamentals in terms of Philippine GDP and disposable income growth. According to the National Statistical Coordination Board, the Philippines’ GDP grew at 3.6% and 6.8% and 7.2% in 2011, 2012, and 2013 respectively, and GDP per capita grew at 1.8%, 5.0% and 5.4% in 2011, 2012, and 2013, respectively. Similarly, household expenditures grew by 5.7%, 6.6% and 5.6% in 2011, 2012, and 2013, respectively. EWBC successfully grew its consumer lending portfolio, which includes credit cards, auto loans, residential mortgages and personal loans, at a CAGR of 35.5% from December 31, 2011 through December 31, 2013. As of December 31, 2013, EWBC’s balance of consumer lending portfolio was ₱49,890.9 million, which accounted for 51.4% of EWBC’s gross loans, compared with ₱37,830.1 million, or 52.3% of EWBC’s gross loans, as of December 31, 2012. EWBC’s proportion of consumer lending as a percentage of total gross loans is among the highest in the Philippine banking sector. According to information published by the BSP, EWBC held 7.8% of all auto loans outstanding in the Philippines as of December 31, 2013. EWBC believes it is well-positioned to benefit from further consumer demand driven by the expected growth of this segment of the Philippine population.

***Differentiated Services Tailored to Mid-Market Corporates and Retail Customers.*** EWBC has a strong sales platform focused on delivering quality, convenient and comprehensive services to deposit customers through its branch and electronic banking network. In particular, EWBC targets the large number of underserved medium-sized corporate and retail deposit customers, including high net worth individuals, by tailoring its products and services to this segment with a view to increasing EWBC’s access to a large source of low cost deposits for funding. While deposit liabilities grew at a CAGR of 20.4% from December 31, 2011 through December 31, 2013, EWBC’s cost of funds ratio (which is the ratio of interest expense to average interest bearing liabilities) declined from 2.4% in 2011 to 2.2% in 2012 and 1.4% in 2013.

***Demonstrated Track Record of Organic and Inorganic Growth.*** EWBC has significantly expanded its branch network by growing its existing branches and successfully acquiring and integrating new ones into its business. EWBC’s branch network has rapidly grown from 67 branches as of December 31, 2005 to 347 branches as of December 31, 2013, including its rural bank branches. In 2011, EWBC also acquired GBI to grow its branch network by an additional 46 branches and 94 kiosks. The Bank’s supply of licenses allows for future growth and provides it with the flexibility to expand as suitable locations for new branches are identified. Competitors without sufficient bank branch licenses may not be able to pursue an aggressive branch expansion strategy. In addition, EWBC has merged and integrated the operations of AIG PhilAm since its acquisition in 2009, enabling EWBC to grow its credit card and auto loan businesses.

***Prudent Balance Sheet Management.*** In recent years EWBC has grown its business without compromising prudent balance sheet management practices. EWBC believes that prudent balance sheet management practices can provide flexibility to react to market uncertainties. EWBC maintains significant liquidity to support the growth of its business, as shown by its ratio of loans to deposits (which is equal to total gross loans divided by total deposit liabilities) of 86.5% as of December 31, 2013. EWBC believes it is well-capitalized with a Tier 1 capital adequacy ratio of 13.8% and total capital adequacy ratio of 17.0% (as reported to the BSP) as of December 31, 2013. Furthermore, EWBC believes it maintains a conservative treasury portfolio, with 75.7% of EWBC’s trading and investment securities invested in government securities as of December 31, 2013.

***Strong Management Team.*** EWBC has an experienced management team with an average of more than 20 years of operational and management experience in banking and finance. EWBC’s management team has extensive experience in and in-depth knowledge of the Philippine banking sector, especially as it relates to the mid-market corporate and consumer segments, and has also developed positive relationships with key market participants. Additionally, as a member of the FDC group of companies, EWBC benefits from FDC’s strong reputation in the Philippines and the support of its management.

## **Vertically Integrated Sugar Business**

***Strategically Located in Mindanao.*** FDC, through its wholly-owned subsidiary, PSHC, owns a vertically integrated sugar business, which includes corporate sugarcane farming operations, two sugar mills and two sugar refineries. FDC's sugar business is strategically located in Mindanao, which has fertile land resources and favourable climate while the industrialization of Luzon has increased Mindanao's importance in agribusiness. These conditions are expected to contribute to PSHC's ability to expand its sugar business. Since CY2008–09, PSHC has augmented its milling and refining capacity through an expansion and modernization program, which increased milling capacity to 9,500 TCD and refining capacity to 350 MT of refined sugar per day for CY2011–12. By CY2012–13, the total milling capacity is expected to be 10,500 TCD and the total refining capacity is expected to be 500 MT of refined sugar per day. By further upgrading of certain equipment and installing additional equipment, primarily at the CSCC mill, the total milling capacity will be increased to 11,000 TCD and the total refining capacity to 600 MT per day by CY2013-14. The additional refining capability is expected to provide PSHC with more flexibility and the opportunity to capture higher margins, as well as enabling it to expand its customer base to industrial users which generally have demand for refined sugar only. Moreover, the expansion and modernization program is expected to reduce PSHC's marginal costs through the utilization of newer equipment and economies of scale.

## **BUSINESS STRATEGY**

The Group's strategy is to actively grow its business portfolio in a disciplined and systematic way and to benefit from the recent positive economic growth and favourable social trends in the Philippines in each of its segments. After building a strong business foundation for each of its subsidiaries, the Group plans to provide the necessary capital support to its subsidiaries in order for these subsidiaries to expand and grow in their respective target markets. The Group seeks to unlock and maximize subsidiaries' values through accelerated development and greater market reach (both in terms of product offerings as well as geographical coverage), possibly supplementing organic growth through mergers and/or acquisitions. Once the subsidiaries have achieved a strong position in their respective segments, the Group aims to optimize its capital through the public listing of these subsidiaries as it has done in the case of FLI and EWBC. Proceeds from the Group's subsidiaries will be re-invested in the Group's existing subsidiaries, as well as opportunities in new growth areas, such as the newly identified power business. Specific strategies to achieve these objectives are described for each business segment below.

Across all of its businesses, the Group's financial strategy is to adhere to prudent financial management with a view to sustainable growth and capital sufficiency. The Group also intends to continue strengthening and developing its human resources both at the operating subsidiary and holding company levels. For example, the Group intends to continue to provide its employees with training and development programs to enhance their professional knowledge and experience.

### **Real Estate Strategy**

In the real estate business, FLI, FAI, their respective subsidiaries and the real estate development projects and real estate-related administrative functions undertaken by FDC (collectively, the "Real Estate Companies") intend to further accelerate growth and improve their return on equity by aggressively developing their land bank while retaining their current focus on the high-growth affordable and middle market segments where the Real Estate Companies believe they have a competitive advantage based on their current strong position. The Real Estate Companies intend to expand their residential product portfolio, extend their geographic coverage and increase recurring income from their leasing operations. The Group also intends to grow its recently established hospitality business through FHI and FHC.

***Continue to Strengthen the Real Estate Companies' Leadership Position in the Affordable and Middle Market Segments.*** The Real Estate Companies plan to capitalize on their strong position in the affordable and middle market segments to increase their market share. Driven by strong underlying demographic fundamentals with buyers representing the largest subset of house buyers in the Philippines, and highly fragmented supply, the Real Estate Companies believe that these segments provide favourable demand supply dynamics and attractive margins. By focusing on these segments, the Real Estate Companies intend to differentiate themselves from most large developers in the Philippines.

***Unlocking Value of Land Bank.*** The Real Estate Companies believe that there is currently significant unrealized value in their land bank based on the balance sheet carrying value of the land bank. The Real Estate Companies plan to accelerate the realization of the potential value of their land bank by aggressively rolling out new projects and developments. The Real Estate Companies have historically launched an average of 25 new projects (or phases of ongoing projects) annually since 2007. Given the current projects in their pipeline, the Real Estate Companies believe they can benefit from strong economic fundamentals to accelerate the pace of new project launches. For their higher value raw land, the Real Estate Companies plan to develop relatively higher density and higher value-added projects with a view to optimizing revenues per area of land bank.

***Widen Reach through Product Expansion and Extension of Geographic Coverage.*** The Real Estate Companies plan to maintain their strong position in the affordable and middle market segments by expanding product offerings and land bank into selective regional markets.

In particular, the Real Estate Companies plan to offer more inner city mixed-used developments and MRB products to capture the growing demand for these types of products in greater Metro Manila, Cebu, Davao, Iloilo and Cagayan de Oro.

***Continue to Diversify Income Streams.*** In addition to retaining their position as one of the leading residential house and lot developers in the Philippines, the Real Estate Companies intend to further balance their real estate derived income streams through the expansion of their retail and commercial leasing operations and recently established hospitality business. The Real Estate Companies intend to increase recurring rental income through the expansion of Festival Supermall, creation of new leasing projects, enhancement of their existing investment portfolio through proactive leasing and management, and capitalization on their extensive real estate experience, scale and access to resources. The Group intends to continue to develop hospitality projects through FHC and FHI, its joint venture with AIPL. For its future hospitality projects, the Group intends to implement hotel management practices that are modelled on AIPL's and its affiliates' past successes in the hospitality sector. The Group plans to develop hospitality projects through its various real estate subsidiaries either on a stand-alone basis or to complement the Group's mixed used developments.

***Improve Return on Equity without Compromising the Real Estate Companies' Land Bank Strategy.*** The Real Estate Companies plan to continue increasing return on equity by optimizing balance sheet leverage in funding the accelerated roll-out of their new projects. The Real Estate Companies plan to replenish their developed land bank through a combination of direct acquisitions and joint venture agreements with other land owners. The Group intends to continue to acquire raw land for development on a strategic basis in areas where the Group's existing land bank is not sufficient for this purpose.

### **Financial and Banking Services Strategy**

In the financial and banking services business, the Group intends to continue to grow EWBC as a significant competitor in the financial and banking services industry in the Philippines. The Group has adopted a strategy of increasing EWBC's asset base, targeting the retail and middle-market segments, expanding its deposit base and branch network, improving EWBC's information technology, risk management and operational processes, diversifying EWBC's distribution channels, strengthening its risk management and internal controls, and enhancing the professional capabilities of its employees.

***Continue Expansion Plans to Attain Desired Scale and Efficiencies.*** EWBC is focused on growing its asset base to reach economies of scale and benefit from cost efficiencies thereby improving returns on capital. EWBC believes that it can continue the trend of strong growth it experienced in the last few years, which it plans to leverage through its branch expansion programs. In 2013, EWBC opened 55 new branches in 2013, which increased its branch network to 347 branches including its rural bank branches, from 292 branches in 2012. EWBC believes that it can sustain this expansion program and plans to have 350 operating branches by the end of 2014. In addition, EWBC will continue to consider further expansion through potential strategic acquisitions alongside its organic growth.

***Balanced Loan Growth with a Consumer and Corporate Mid-Market Focus.*** EWBC will continue to focus on the consumer and mid-market corporate client segments with large corporations as a secondary focus. EWBC plans to target a loan portfolio mix consisting approximately 40% consumer loans, approximately 40% mid-market corporate loans and approximately 20% large corporate loans. EWBC plans to increasingly penetrate the consumer and mid-market corporate segments by aggressively cross selling products and offering services tailored towards consumer and middle market clients as it expands its distribution and coverage networks.

***Enhance Customer Experience.*** EWBC will continue to invest in initiatives to enhance its information technology and improve its operational processes to achieve customer service excellence. EWBC is also in the process of upgrading its information technology platform to establish a more advanced core banking system to meet the needs of its business development and operational management. EWBC implemented a new loans origination and customer on-boarding system, which is intended to enhance EWBC's efficiency and facilitate an expedient and seamless customer experience by effectively connecting the various elements of EWBC. These systems, together with EWBC's automation of its processes for workflow document management, are intended to reduce the overall sales approval process. EWBC is also looking for a lobby management system that is intended to enhance the customer experience at the branch.

***Strengthen Risk and Governance Framework.*** EWBC will continue to further enhance its various risk monitoring and management tools to improve its risk management capabilities and the quality of its loan portfolio by continuing to (i) improve its credit policies and credit approval procedures, (ii) implement risk management control tools, including, among others, a centralized credit management information system that allows it to standardize credit risk detection, quantification and management and (iii) strengthen internal controls and legal compliance by standardizing internal policies and procedures in accordance with legal and regulatory requirements with a view to establish a comprehensive internal control system.

***Attracting, Developing and Retaining Talent.*** A key to EWBC's success is its ability to attract, retain, train and develop talented and experienced professionals. EWBC plans on enhancing its human resource management to meet its business needs and growth plan. It will also continue to provide its employees with training and development programs through the EastWest Bank Academy to enhance their

professional knowledge and experience. In addition, EWBC plans to incentivize management by implementing an employee stock option plan for managers and employees. EWBC believes that its commitment to facilitating the career development of and providing incentives for its employees enables it to attract and retain skilled personnel and develop a high quality banking team.

### **Sugar Business Strategy**

In the sugar business, the Group plans to complete the expansion of the Sugar Subsidiaries' milling and refining capacity, focus on cost efficiency and improve its human resources management.

**Complete Modernization and Expansion Program.** PSHC has completed the first phase of its plant rehabilitation, modernization and expansion program, including the construction of a refinery at CSCC, which is scheduled to commence commercial operations in CY2012–13. After the expansion program is complete, which is expected by CY2016–17, PSHC expects the combined milling capacity of DSCC and CSCC to increase from the current level of 10,500 TCD to 13,500 TCD. PSHC believes that this program will lead to improved cost efficiency and productivity through a combination of reengineering, process improvements, increased automation, improved maintenance procedures and training.

**Augment Supply.** The Group plans to continue increasing PSHC's sugar production and capacity utilization by expanding PSHC's sugarcane supply from both independent farmers as well as its own corporate farms. In particular, PSHC will seek to enhance its partnerships with farmers to encourage them to improve their farm's productivity and to plant sugarcane on agricultural land which is currently not being used for sugarcane production. PSHC's farmer assistance programs include financial assistance and technical advice.

**Develop Human Resources.** PSHC is also focused on supporting its growth by expanding and improving its human resources. PSHC plans to implement a development program primarily focused on strengthening its sales and marketing department in anticipation of increasing sugar supplies. PSHC plans to leverage this stronger organizational platform to further increase its sales particularly among industrial users and customers outside Southern Mindanao.

### **Power Generation Strategy**

The Group has re-entered the power generation business in the Philippines to further diversify its business.

**Capitalize on Favourable Industry Dynamics.** The Group is seeking to capitalize on ongoing deregulation in the power market. The Philippines power market is undergoing continuing reforms pursuant to EPIRA, which has allowed private enterprises to benefit from favourable market conditions. As economic growth in the Philippines has increased demand for electricity, wholesale electricity prices in the Philippines have risen. The Group has re-entered the power generation business at an opportunistic time, as the Group believes that wholesale pricing is likely to continue to increase for the foreseeable future. The commercial operation of the Wholesale Electricity Spot Market ("WESM") and the implementation of the Retail Competition and Open Access ("RCOA") provide opportunities that will help maximize the benefits of operating the power projects.

The Group is seeking to capitalize on ongoing market changes in the power industry as outlined in the EPIRA. The EPIRA has paved the way for private enterprises to play a major role in generation and supply. This is especially attractive given the strong economic performance of the Philippines which has driven demand for electricity in turn propelling the price in the WESM. The RCOA will allow customers to choose their electricity supplier. The DOE foresees that this new market will promote true competition, improved efficiency and customer choice.

**Participate in the Government's Privatization of Power Generation Assets.** The Group is seeking to gain market share in the power generation industry by participating in the privatization of the Government's power generation assets and Independent Power Producer Administrators ("IPPAs"). IPPAs are independent entities that administer the power purchase agreements of Napocor with independent power producers ("IPPs"). The Group, through FDC's wholly-owned subsidiary FDCUI, is closely monitoring the development in the Government's plans for privatization of its power generation assets and has been conducting due diligence in advance to prepare for future rounds of bidding.

**Niche Marketing, and Strategic Partnerships.** The Group plans to develop projects where it believes it has a competitive advantage in terms of the cost and quality. The Group plans to grow its power generation capacity through both the development of greenfields and strategic acquisitions. It intends to utilize the incentives offered under the Renewable Energy Law on the development of hydropower and other environmentally-friendly energy resources. FDCUI expects to continue establishing partnerships with indigenous people, local communities and local government units ("LGUs") of each location of the proposed projects to ensure unimpeded construction and development.

## Revenue Mix

Historically, the Group's property-related operations accounted for the largest portion of FDC's consolidated revenues. For the year 2013, the Company's consolidated revenues amounted to ₱35.0 billion with revenue contribution from the following:

- Residential property development 35%
- Commercial property development 5%
- Leasing and hotel 10%
- Financial and banking services 42%
- Sugar business 8%

## REAL ESTATE

### Overview

#### Filinvest Land, Inc

Filinvest Land, Inc. ("FLI" or the "Company") is one of the Philippines' leading real estate developers, providing a wide range of real estate products to customers, namely: socialized, affordable, middle-income and high-end residential lots and housing units, medium-rise and high-rise residential buildings, condotel, industrial parks, leisure development such as farm estates, a residential resort development and a private membership club. Historically, FLI's business has focused on the development and sale of socialized, affordable and middle-income residential lots and housing units to lower and middle-income markets. In recent years, FLI has begun to develop and sell residential subdivisions and housing units across all income segments in the Philippines. FLI has also begun to develop themed residential projects with a leisure component, such as farm estates and developments anchored by sports and resort clubs. In 2006, FLI acquired three strategic investment properties, Festival Supermall and a 60% ownership interest in each of Filinvest Asia Corp. and Cyberzone Properties, Inc. In 2010, FLI was able to increase its ownership in CPI to 100.0% after acquiring the remaining 40.0% from AIPPI. CPI thus became a wholly-owned subsidiary of FLI.

Festival Supermall is a four-story premier shopping complex situated on a total land area of 10 hectares and located within FAI's Filinvest City development in Alabang, Muntinlupa City. FLI has leased from FAI the 10 hectares of land on which the mall and its adjoining structures (such as parking lots) are situated. The lease is for a term of 50 years from October 1, 2006, renewable for another 25 years, with FLI required to pay monthly rent equivalent to 10% of the monthly gross rental revenue generated by the mall. As of this date, the Festival Supermall has a Gross Floor Area (GFA) of approximately 200,000 sq.m. and a Gross Leasable Area (GLA) of approximately 135,163 sq.m. Festival Supermall was designed to allow the construction of an additional wing to the current two-wing structure on two adjacent hectares of land available for development.

FLI has leased from FAI the 10 hectares of land on which the mall and its adjoining structures (such as parking lots) are situated. The lease is for a term of 50 years from 01 October 2006, renewable for another 25 years, with FLI required to pay monthly rent equivalent to 10.0% of the monthly gross rental generated by the mall. The lease between FAI and FLI allows FLI to construct additions or extensions to the current mall structure, which will revert to FAI upon termination of the lease.

In 2013, FLI started the renovations of the Festival Supermall which is expected to be completed in 2015. In addition to the renovation project and to reinforce the mall's position as the largest regional, dining and entertainment destination in the southern part of Metro Manila, FLI has started the development of the mall's expansion on another 7 hectares of land wherein an additional 48,974 sq.m. of GLA and 92,768 sq.m GFA will be added. Land development on the expansion started in late 2011 and construction is expected to be completed in stages, starting in 2013.

Festival Supermall is approximately 15 kilometers south of the Makati City central business district and is near the juncture of three major road networks – the South Expressway, the old National Highway and the Alabang-Zapote Road which links the South Expressway to the Coastal Road that connects Metro Manila to Cavite province. Its location allows it to attract customers from offices located in the Filinvest Corporate City, the subdivision developments of southern Metro Manila such as the high-end Ayala Alabang subdivision, and from nearby provinces such as Batangas, Cavite and Laguna.

Festival Supermall's current anchor tenants include stores operated by some of the Philippines' largest retailers, such as the J.G. Summit group of companies (Robinsons Department Store and Handyman Do It Best), SM Investments Corporation (SaveMore Supermarket and Ace Hardware) and the Rustan's Group (Shopwise Supercenter). Festival Supermall also has a group of tenants that are well-known international and domestic retailers, restaurant chains and service companies, such as Bose, Levi's, Bench, Giordano, The Body Shop, National Bookstore, McDonald's, Jollibee and KFC.

In addition to having over 720 retail stores and outlets, Festival Supermall also features amenities such as a ten-theater movie multiplex with digital surround sound systems and two themed amusement centers. The mall also has exhibit, trade and music halls which are leased out to organizers of events such as trade fairs sponsored by the Philippine Department of Trade and Industry. As of this date, FLI has no plans to acquire any additional shopping malls, but intends to undertake commercial and retail projects to complement its residential developments in selected areas.

As of the date of this report, FLI owns 60% of FAC, which owns 50% of the 52-storey, PBCom Tower which is located in the Makati's business district. PBCom Tower is a Grade A, PEZA-registered I.T./office building in Ayala Avenue, Makati City, Metro Manila with approximate GLA of 36,000 sq.m. FAC's principal tenants include EastWest Bank, The Nomad Offices, Citibank N.A., Citigroup Business Process Solutions Pte., Ltd., Daksh eServices (Phils.), Inc., Linde Gas, Bayer Philippines, Huawei Technology, and Chartis Technology, ESS Manufacturing Co. and First Cagayan Corporation.

CPI owns and operates the IT buildings in Northgate Cyberzone, a PEZA registered BPO park located on a 10-hectare parcel of land within Filinvest City. Of the 10-hectares, approximately four (4) hectares are available for future development. FLI generates revenues from leasable space in twelve office buildings with a gross leasable area of 131,011 sq.m. as of December 31, 2013. Among others, Northgate's major tenants are HSBC, Convergys, APAC, GenPact Services LLC, eTelecare Global Solutions, Inc., Capital One, AIG Shared Services, First Source, Verizon Business, Lattice Semiconductor, and Flour Daniel. Its day-to-day operations are handled by FAI. CPI also leases a parcel of land measuring 2,831 sq.m. located in EDSA on which CPI built a 5-story BPO building with a total GLA of 7,358 sq.m. which is fully occupied by Anthem Solutions Inc.

In addition to the acquisition of these three strategic investments, FLI also entered into a joint venture agreement with Africa-Israel Investments (Phil.) Inc. ("AIPI") in September 2006 to jointly develop the Timberland Sports and Nature Club ("TSNC") and approximately 50 hectares of land comprising Phase 2 of FLI's Timberland Heights township project in 2006. TSNC started its commercial operations in October 2008.

On February 8, 2010, FLI acquired the 40% interest in its joint ventures – CPI and FAPI, from Africa-Israel Properties (Phils.), Inc. and Africa-Israel Investments (Phils.), Inc., respectively. The acquisition resulted in CPI and FAPI becoming wholly-owned subsidiaries of FLI. The acquisition of the joint ventures' interests was accounted for as a business combination. Prior to the acquisition, FLI accounted for its investments in the joint ventures under the proportionate consolidation. The sale by Africa-Israel of its interests in the two companies was part of Africa-Israel's global portfolio rebalancing and consolidation activity. On the other hand, the acquisition of Africa-Israel's interests enabled FLI to consolidate its share in the strong and stable recurring revenue streams from the two companies as well as provide incremental development potential to FLI's existing revenue streams.

With a more diversified portfolio, FLI expects to generate stable recurring revenue from its retail and office investment properties. These recurring revenues can, in turn, be used to provide internally generated funding for other projects.

FLI is not and has never been a subject of any bankruptcy, receivership, or similar proceedings.

## **Form and Date of Organization**

FLI was incorporated in the Philippines on November 24, 1989 as Citation Homes, Inc. and later changed its name to FLI on July 12, 1993. It started commercial operations in August 1993 after Filinvest Development Corporation, the Parent Company, spun off its real estate operations and transferred all related assets and liabilities to FLI in exchange for shares of stock of FLI.

As of December 31, 2013, FDC owns 59% of common stock and 100% of preferred stock of FLI. FDC is the holding company for real estate and other business activities of the Gotianun Family. FDC traces its origin to the consumer finance business established by Mr. Andrew Gotianun Sr., and his family in 1955. The shares of FDC and FLI are both listed in the Philippine Stock Exchange.

In February 2007, FLI had a follow-on offering where it listed up to 3.7 billion new common shares at the Philippine Stock Exchange. The follow-on offering was more than five times oversubscribed, raising around \$204 million from both the primary and secondary offerings. The offering raised additional funds for the Company's capital expenditure budget for the fast track development of targeted projects.

## **Subsidiaries**

FLI has seven wholly-owned subsidiaries and one-majority-owned subsidiary.

### Wholly-Owned Subsidiaries

These subsidiaries, being engaged in real estate marketing business handle the marketing and sale of socialized, affordable, middle income, high-end and farm estate property development projects of FLI and its leasing operations, with details as follows:

1. Promax, incorporated on October 3, 1997

2. Prosper, incorporated on June 10, 2002 and started commercial operations in January 1, 2004.
3. HomePro, incorporated on May 16, 2003 and started commercial operations on January 1, 2004.
4. Leisurepro, incorporated on April 21, 2004 and started commercial operations on January 1, 2006. Promax, HomePro, Prosper & Leisurepro are licensed real estate brokers and exclusively market and sells all real estate products of the Filinvest Group and are 100.0% owned by Filinvest Land Inc. In addition, Prosper also operates Quest Hotel which is owned by Filinvest Land, Inc.
5. CPI was incorporated on January 14, 2002 and is engaged in real property development. It owns and manages I.T.-based buildings on certain parcels of land forming part of the Northgate Cyberzone, the Special Economic Zone of Filinvest City, Alabang, and Muntinlupa City. On February 8, 2010, FLI acquired the 40.0% interest of AIPPI in CPI and thus ultimately obtain full ownership from the previous joint venture. The acquisition resulted in CPI becoming a wholly-owned subsidiary of FLI.
6. FAPI was incorporated on September 25, 2006 and, is engaged in real property development and is developing residential and leisure projects in certain parts of the township community also known as Timberland Heights. FAPI started out as a joint venture corporation between FLI (60.0%) and Africa-Israel Investments Philippines, Inc. (40.0%) to develop the Timberland Nature & Sports Club and Phase 2 of Timberland Heights. On February 8, 2010, FLI acquired the 40.0% interest of AIIPI and thus ultimately obtained full ownership from the previous joint venture. The acquisition resulted in FAPI being a wholly-owned subsidiary of FLI.
7. On May 18, 2012, Countrywide Water Services, Inc. (CWSI), a 100% owned subsidiary of FLI was incorporated. CWSI has the technical expertise and skills in the operation, management, maintenance, and rehabilitation of waterworks and sewerage system. On August 2, 2012, FLI has engaged the services of CWSI in order to maintain and further improve the billing, collection and customer relation services in the waterworks and sewerage system of its residential projects.

*Cyberzone Properties, Inc.*

CPI was incorporated on January 14, 2000 and began commercial operations on May 1, 2001. On February 8, 2010, FLI acquired the 40% interest in CPI from Africa-Israel Properties (Phils.), Inc. to ultimately obtain full ownership to the previous joint venture. CPI is registered with the PEZA as an Economic Zone Facilities Enterprise, which entitles CPI to certain tax benefits and non-fiscal incentives such as paying a 5.0% tax on its modified gross income in lieu of payment of national income taxes. CPI is also entitled to zero percent value-added tax on sales made to other PEZA-registered enterprises. Currently, FLI is one of the largest BPO office space providers in the country.

CPI operates the Northgate Cyberzone, which is located on a 10-hectare parcel of land within Filinvest City owned by FLI. Of the 10 hectares, approximately seven hectares are available for future development. CPI also leases a parcel of land measuring 2,831 sq.m. located in EDSA on which CPI built a 5-story BPO building with a total GLA of 7,358 sq.m. CPI's current buildings are as follows:

- IT School: This three-story building with an approximate Gross Floor Area (GFA) of 3,297 sq.m. and an approximate GLA of 2,898 sq.m. Its major tenant is currently Genpact Services LLC.
- Plaz@ B and Plaz@ C: Plaz@ B and Plaz@ C are four-story buildings, each with an approximate GFA of 7,150 sq. m. and an approximate GLA of 6,540 each for a total combined GLA of 13,080 sq.m. Both were completed in 2001. Plaz@ B is leased out to various tenants which include goFluent, AMS Express, Team Asia, Outboundphil, APPCO Direct Int'l., Treadyne and Seven Global Services, Inc. All of Plaz@ C has been leased by APAC Customer Services, Inc.
- Convergys Building: This is a three-story building with an approximate GFA of 6,466 sq.m. and an approximate GLA of 6,399 sq. m. Completed in 2004, it was "built-to-suit" to meet the requirements of Convergys. Recently, Convergys signed a contract to extend the lease for another five years.
- HSBC Building: This is another "built-to-suit" building, constructed to meet the needs of HSBC. Completed in 2005, the building has an approximate GLA of 18,000 sq.m.
- Plaz@ A: This is a six-story building with an approximate GFA of 11,575 and an approximate GLA of 10,860 sq. m. Plaz@ A was completed in June 2006. It is currently leased out to Genpact Services LLC and eTelecare Global Solutions, Inc.

- **Plaz@ D:** This is a six-story building with an approximate GFA of 11,575 sq. m. and GLA of 10,860 sq. m. It is lease out to ICICI First Source Ltd., a 100%-owned subsidiary of India's largest private sector bank, and Verizon Communications Phils., Inc., the Philippine branch of Verizon Business Solutions, a leading communications company in the United States of America.
- **Building 5132:** This is a six-story building with an approximate GFA of 10,560 sq. m. and GLA of 9,409 sq. m. It was completed in 2007 and is fully leased out to GenPact Service LLC.
- **iHub 1 and iHub 2:** These form a two-tower complex which was completed in 2008. iHub 1 has an approximate GLA of 9,474 sq. m. and has been leased out to numerous tenants which include GenPact, HSBC, W.R. Grace Philippines and Lattice Semiconductor. iHub 2 has an approximate GLA of 14,166 and has been leased out primarily to Convergys and Integra.
- **Vector One:** This is an 11-story building with an approximate GFA of 19,545 sq.m. and GLA of 17,951 sq.m. It was completed in 2010. Filinvest Alabang, Inc. was its first tenant, occupying the fifth to seventh floors for its corporate headquarters. Other tenants of the building are Convergys and Flour Daniel.
- **Vector Two:** This building has the same configuration as Vector One and has an approximate GLA of 17,914. It was completed in October 2011. Tenants of the building include Infosys and Flour Daniel.
- **Filinvest One (formerly called AZ Building):** This building is located within Northgate Cyberzone and is 10 Stories high. It has a GLA of 19,637Sq.m. 60% of the building is already committed to tenants.
- **FLI EDSA:** A 5-story building, with GLA of 7,358 sqm. and fully leased out to Anthem Solutions, Inc.

Construction is ongoing on the fourteenth building at Northgate Cyberzone called Plaz@ E, it is located between Plaz@ A and Plaz@ D. It has nine floors of office space and three floors of parking, and a GLA of approximately 15,351 sq.m. Plaz@ E is already 91% complete.

Considering the five hectares of land available for construction of available buildings within Northgate Cyberzone, FLI expects to be able to provide additional office space of around 190,000 sq. m. to accommodate the expected increase in demand from BPO companies. These BPO companies usually require significant amounts of office space for their operations. FLI, through CPI, plans to focus on attracting their businesses, including custom-designed office space with call center and BPO design requirements in mind.

Before completion of a new building, CPI evaluates whether the anticipated demand for office space among BPO firms is likely to allow it to lease out space in the building while it is being constructed. For example, office space at Plaz@ A and Plaz@ D were tendered for lease after construction began on these buildings but before completion. FLI expects to continue this practice.

Office space leases at the Northgate Cyberzone are typically for periods ranging from three to five years, although HSBC has entered into a ten-year lease. The lease agreements generally require tenants to make a three-month security deposit. Rent is paid on a fixed per square meter basis, depending on unit size and location.

CPI has started construction of its first BPO building at the 1.2 hectare joint venture project with the Provincial Government of Cebu. The first building will have a GLA of over 19,000 sq.m. When completed, the project, which will be called Filinvest Cebu Cyberzone, is projected to have four (4) buildings with a GLA of over 100,000 sq.m. Currently, FLI is one of the largest BPO office space providers in the country.

#### *Filinvest All Philippines, Inc.*

FAPI was incorporated on September 25, 2006 a joint venture corporation with Africa Israel Investments (Phil.), Inc to develop the Timberland Nature & Sports Club and Phase 2 of Timberland Heights. On February 8, 2010, FAPI became a wholly-owned subsidiary of FLI with FLI's acquisition of the 40.0% interest of AIIPI and obtained full ownership from the previous joint venture. Under the previous joint venture agreement, FLI owned 60% of FAPI while AIIPI owned the remaining 40%. FLI acquired 60.0% ownership interest in FAPI by contributing 50 hectares of land for Phase 2 of Timberland Heights, all of the Class "A" member shares in the Timberland Sports and Nature Club held by FLI and development costs of approximately Php100 million. Previously, AIIPI contributed Php250 million to FAPI to have a 40.0% ownership interest in FAPI. FLI also granted AIIPI a five-year option to participate in the development of the remaining areas of Timberland Heights but this has since lapsed with the purchase of FLI of AIIPI's stake.

Timberland Heights is a 677 hectare township project anchored by the Timberland Sport and Nature Club which is designed to be a world-class family country club in a mountain resort setting. Timberland Heights is situated at an elevation of 320 meters above sea level and provides panoramic views of the north of Metro Manila. The current projects within the development include Mandala Farm Estates (I and

II), Banyan Bridge, The Ranch, Banyan Crest, The Leaf, a condotel project, the Glades, the first middle-income housing subdivision and Timberland Sports and Nature Club. The master plan for Timberland Heights includes Banyan Ridge, a middle income subdivision; Mandala Farm Estates; the Ranch, a high end subdivision; and, a 50hectare linear greenway that straddles the entire development which will provide a large outdoor open space for residents. The project is wholly-owned by FLI after its acquisition of the remaining stake held by its previous Joint Venture Partner, AIIPI and is anchored by Timberland Sports and Nature Club. FLI has been able to develop approximately 100 hectares of the master-planned project.

#### *One majority-owned subsidiary - Filinvest Asia Corporation*

FAC was incorporated on January 22, 1997 and as of the date of this report is 60% -owned and controlled by FLI and 40% -owned by Reco Herrera Pte.Ltd. ("RHPL"). FAC is now accounted for as a subsidiary due to adoption of PFRS 10, Consolidated Financial Statements. RHPL is a corporation organized under the laws of Singapore, and is 100% beneficially-owned by Government of Singapore Investment Corporation Pte. Ltd ("GIC"). FAC owns 50% of the 52-story PBCom Tower which is strategically located at the corner of Ayala Avenue and Herrera Street in the Makati City Central Business District and is one of the tallest buildings in the Philippines. FAC owns 36,000 sq.m. of leasable office space. The remaining 50% of PBCom Tower is owned by the Philippine Bank of Communications.

The PBCom Tower is designated as an information technology building by PEZA and, as a result, tenants occupying space in PBCom Tower are entitled to avail of certain fiscal incentives, such as a 5% tax on modified gross income in lieu of the regular corporate income tax of 35%. PBCom Tower's occupancy rate reached 100% as of December 31, 2013. FAC's principal tenants include Citibank N. A., Citigroup Business Process Solutions Pte. Ltd., East West Banking Corporation, FDC Utilities, Inc., Thiacom, Stellent Services, Linde Gas, IBM Daksh Eservices, Bayer Philippines, Huawei Technology, Diversified Technology Systems and Chartis Technology.

Leases at the PBCom Tower are typically for periods ranging from three to five years, with the lease agreements generally requiring tenants to supply a three-month security deposit. Rent is paid on a fixed rate per square meter basis depending on unit size and location.

### **Equity Investment**

#### *Filinvest Alabang, Inc.*

FAI was incorporated on August 25, 1993 and started commercial operations in October 1995. FLI has a 20.0% equity interest ownership in FAI. The primary project of FAI is the Filinvest City ("FC"), a 244-hectare development project which has been designed as a satellite city using modern, ecological, urban planning and design. The said project is under a joint venture agreement with the Government. Located at the southern end of Metro Manila and adjacent to the South Expressway, Filinvest City is surrounded by over 2,800 hectares of developed high-end and middle-income residential subdivisions and commercial developments. Other developments in FC include residential condominiums, a driving range, sports club, office buildings, low-density retail developments and medical centers.

### **Business Groups, Product Categories, Target Markets and Revenue Contribution**

As a result of the recent business developments, FLI is now composed of two business segments with corresponding product categories, target markets and revenue contributions as follows:

#### *Real Estate Segment*

FLI's main real estate activity since it started operations has been the development and sale of residential property, primarily housing units and subdivision lots; in certain cases, provision of financing for unit sales.

#### Residential Projects

FLI is able to tap the entire residential market spectrum with the following range of housing units catering to various income segments:

- (a) **Socialized housing:** These developments are marketed and sold under FLI's Pabahay brand and consist of projects where lots typically sell for Php160,000 or less per lot and housing units typically sell for Php400,000 or less per unit. FLI's socialized housing comprises large-scale, mass-housing projects that have historically ranged in size from approximately six to fifty five (55) hectares and have been developed in phases typically comprising 1,000 lots of 35 to 50 sq.m each, organized in clusters of from-expandable row houses with supporting amenities and facilities. Buyers for these projects are eligible to obtain financing from the Government-mandated Pag-IBIG Fund. Maximum sale prices for the Company's specialized housing products do not exceed the Government-mandated ceilings of Php400,000 per unit. Any income realized from the development and improvement of socialized housing cites are exempt from taxation.

- (b) **Affordable housing:** These developments are marketed and sold under FLI's Futura Homes brand and consist of projects where lots are typically sold at prices ranging from above Php160,000 to Php750,000 and housing units from above Php400,000 to Php1,500,000. FLI's affordable housing developments typically range from two to 26 hectares and have been developed in phases typically comprising approximately 300 lots each, with the houses typically having a floor area of approximately 40 sq.m., with a lot size generally between 80 to 150 sq.m. FLI designs and constructs homes in this sector with the capacity and structural strength to give the owner the option to place an additional storey, which can double the available floor area. Affordable housing projects are typically located in provinces bordering Metro Manila, including Bulacan, Laguna, Batangas and Cavite, and in key regional cities such as Tarlac, Cebu and Davao. Construction of a house in this sector is usually completed approximately six months from the completion of the required down payment.
- (c) **Middle-income housing:** These developments are marketed and sold under FLI's Filinvest Legacy brand and consist of projects where lots are typically sold at prices ranging from above Php750,000 to Php1,200,000 and housing units from above Php1,500,000 to Php4,000,000. Historically, FLI's middle-income housing have ranged in size from approximately five to 46 hectares and have been developed in phases typically comprising approximately 150 lots of 150 to 300 sq.m. each. Middle-income projects are typically located within Metro Manila, nearby provinces such as Rizal, Cavite, Pampanga and Laguna, and major regional urban centers in Cebu, and Davao and Zamboanga.
- (d) **High-end housing:** Marketed under Filinvest Premiere brand, these developments consist of projects where lots are sold at prices above Php1,200,000 and housing units for above Php4,000,000. FLI's high-end projects have been located both within Metro Manila and in areas immediately outside Metro Manila.

#### Other Real Estate Projects

In order to achieve product and revenue diversification, FLI has added the following projects so as to cater to other market niches:

- (a) *Entrepreneurial Communities*

Because of the anticipated growth of small and medium-sized businesses as well as the Government support for entrepreneurial programs, FLI has launched two entrepreneurial communities under its "Asenso Village" brand. One project is in Laguna province, which forms part of the Company's Ciudad de Calamba township development, and another in Cavite province. Each Asenso Village currently consists of three phases, with its land being "dual-zoned" to allow both residential and commercial use. The Company has also cooperated with the Government by providing venues for various livelihood and small business seminars and programs conducted by government agencies in each Asenso Village. At present, sales in each Asenso Village consist of subdivision lot sales as well as shop houses that incorporate living quarters and an area for buyers to set up and operate their small enterprises and home-based businesses. Subject to market conditions, FLI plans to develop additional "Asenso Villages" in other locations.

- (b) *Townships*

Townships are master-planned communities to include areas reserved for the construction of anchor facilities and amenities. FLI believes that these facilities and amenities will help attract buyers to the project and will serve as the nexus for the township's community. Anchor developments could include schools, hospitals, churches, commercial centers police stations, health centers and some other government offices; or in the case of Timberland Heights, a private membership club.

FLI has also master-planned and developed the Ciudad de Calamba, Timberland Heights and Havila (formerly, Filinvest East County) township projects which are respectively located along the southern, northern and eastern boundaries of Metro Manila. In 2010, FLI launched Città di Mare, a seaside township project, spanning 50.6 hectares at Cebu's South Road Properties as part of a Joint Venture Agreement between FLI and the Cebu Government. Each township development is designed to include a mix of residential subdivisions from the affordable to the high-end sectors.

#### *Ciudad de Calamba*

Ciudad de Calamba is a 350-hectare development, that features themed residential communities and industrial and commercial components, located in Calamba, Laguna. This township project is a PEZA-registered special economic zone anchored by the Filinvest Technology Park-Calamba which provides both industrial-size lots and ready-built factories to domestic and foreign enterprises engaged in light to medium non-polluting industries. The project is wholly-owned by FLI. As of December 31, 2013, all 38 lots were already fully sold while 2 out of 3 factories were leased out in the Filinvest Technology Park-Calamba. FLI also donated to the city government of Calamba a parcel of land located within the Ciudad de Calamba which will be used for a city health center and police station. The Company also intends to

develop the Ciudad de Calamba Commercial Center as part of this township project. The master plan for Ciudad de Calamba includes a mix of affordable and middle-income subdivisions as set out below:

- Aldea Real, an affordable subdivision project which has a total developed area of approximately 16.9 hectares. Development for Phase 1 & 2 has been completed.
- Montebello, a middle-income subdivision project which is expected to have a total developed area of approximately 12.9 hectares. Three phases have been launched and developed.
- Punta Altezza, an affordable subdivision project consisting of 3 phases has a total developed area of approximately 9.7 hectares. Development has been completed.
- Vista Hills, an affordable subdivision project which has a total developed area of approximately 5.2 hectares. Development work for Vista Hills has been completed.
- FLI's first "Asenso Village" entrepreneurial community development will be located within the Ciudad de Calamba and has a total developed area of approximately 20 hectares. Development of this Project is almost complete.
- La Brisa Townhomes, La Brisa, which literally means "The Breeze" in Spanish, is located at Brgy. Punta, Calamba City. With its Spanish Mediterranean theme, La Brisa is the first townhouse development at Ciudad De Calamba that offers not just an affordable and quality home to families but also a worthy investment for those who would like to establish a "House for Rent" business. La Brisa is very accessible to industrial estates operating in the vicinity, definitely a valuable venture for companies that provide housing privilege to employees.
- Pueblo Solano is a 68 hectare portion of Ciudad de Calamba that has been earmarked for low-affordable and socialized housing. Valle Dulce will offer low-affordable housing units and the first phase will cover 12.4 hectares. Valle Alegre will offer socialized housing units and the first phase will cover 10.6 hectares. Land development is ongoing at Pueblo Solano.

#### Havila (formerly, Filinvest East County)

Havila, or formerly, Filinvest East County is a 335-hectare township along the eastern edge of Metro Manila which traverses the municipalities of Taytay, Antipolo and Angono. It is anchored by two educational institutions: San Beda College – Rizal and the Paref – Rosehill School. Havila is master-planned for a mix of affordable, middle-income and high-end subdivisions in Rizal province overlooking Metro Manila under development pursuant to joint venture arrangements between FLI and various landowners. This project can be divided into three primary areas:

- Mission Hills is located in the municipality of Antipolo and consists of seven subdivision projects which are expected to have a total developed area of approximately 77.7 hectares. Three subdivisions (Santa Barbara, Santa Monica and Santa Catalina) are being developed as high-end projects while another three (Santa Isabel, Santa Cecilia and Santa Clara) have been developed as middle-income projects. Development works for all six subdivisions have been completed. The newest addition to the Mission Hills community, Sta. Sophia, a mid-income development was launched in July 2008.
- Three subdivision projects are being developed in the municipality of Taytay which is expected to have a total developed area of approximately 56.1 hectares. Development work has been completed for Highlands Pointe, a high-end subdivision, and Villa Montserrat, an affordable-segment subdivision. In 2010, FLI expanded Havila, with its launching of the Phase 3 of the Villa Montserrat. Development work for a Manor Ridge, a middle-income subdivision, is also completed. The newest project in Highlands Pointe, The Terraces was launched in October 2008. The Terraces is a middle-income development which targets young couples starting a family.
- Forest Farms Residential Resort and Farm Estate, which is situated in the municipality of Angono, is a farm estate subdivision project which has a total developed area of 39.2 hectares. In 2010, FLI completed the construction of the Forest Farms clubhouse and swimming pool. Land development in Forest Farms is already 100% complete.

## Timberland Heights

Timberland Heights is a 677-hectare township project anchored by the Timberland Sport and Nature Club. It is located in the municipality of San Mateo, Rizal, which is just across the Marikina River from Quezon City, and has been designed to provide residents with leisure facilities and resort amenities while being located near malls, hospitals and educational institutions located in Quezon City. In addition to the Timberland Sports and Nature Club, Timberland Heights currently includes:

- BanyanRidge, a middle-income subdivision which has a total developed area of approximately 6.4 hectares.
- Mandala I Farm Estates, a farm estate subdivision which has a total developed area of approximately 39.7 hectares.
- Mandala II Farm Estates is a farm estate subdivision with a total area of 19.8 hectares. Land development has been completed.
- The Ranch, a high-end subdivision which has a total developed area of approximately 5.8 hectares.
- Banyan Crest, a 14.8 hectare high-end subdivision. Land development has been completed.
- The Glades, is a Middle Income subdivision with a total land area of 6 hectares was launched in November 2012.
- The Leaf. A condotel, located right across the Timberland Sports and Nature Club, was launched in November 2012. It covers approximately 4,718 sq.m. of land.

## Città di Mare

In August 2010, FLI gave Cebu a preview of its most ambitious seaside development when it launched Città di Mare at the Grand Ballroom of Crimson Resort and Spa in Mactan, Cebu. Inspired by the world's best-loved coastal cities, Città di Mare, which is Italian for "City by the Sea", spans 50.6 hectares at Cebu's South Road Properties. It is a master-planned development composed of three different zones catering to a wide array of lifestyles and activities - Il Corso, the 10.6 hectare waterfront lifestyle strip, the 40-hectare residential clusters and The Piazza, nestled at the heart of the residential enclaves, puts lifestyle essentials such as a school, church, shops and restaurants within the neighborhood. Città di Mare is envisioned to be a destination in itself, takes full advantage of the coastal ambience featuring seaside shopping, dining, beach and water sports and more, right by the water's edge.

In late 2011, FLI started the land development of the first two phases of Il Corso, covering seven hectares. Phase 1, has a GLA of approximately 22,506 sq.m. Phase 2, which is targeted for completion in 2014, will have a GLA of approximately 12,680 sq. m.

Città di Mare has four resort-themed residential enclaves inspired by world-class resorts, with each 10-hectare development flaunting a distinct architectural character. With over 65% of the property allocated for wide, open areas and landscaped greens, Città di Mare provides the generous amenity of breathing space and a refreshing dose of nature throughout the site. Residences are spread out over the sprawling development, maximizing the abundant sunlight and allowing the invigorating sea air to circulate freely.

- Amalfi Oasis features nine (9) five-storey buildings with luxuriant gardens, resort-style amenities and pedestrian-friendly environs, bask in fresh air, radiant sunshine and charming landscapes. The first building was completed in October 2012, while two more buildings were substantially completed in 2013.
- San Remo Oasis, the second recently opened residential enclave in Città di Mare involves the development of 3.4 hectares of land with well-planned living spaces with numerous choice units to suit anyone's lifestyle. San Remo Oasis already completed the construction of five (5) buildings as of December 31, 2013. San Remo Oasis will have a total of 8 buildings.

## (c) Leisure projects

FLI's leisure projects consist of its residential farm estate developments, private membership club and residential resort development.

### Residential farm estates

In 2003, FLI began marketing its residential farm estate projects which may serve as alternative primary homes near Metro Manila to customers, after the Company's market research revealed that there is a demand among customers, such as retirees and farming enthusiasts for such. For this Project, customers can purchase lots (with a minimum lot size of 750 sq.m.) on which they are allowed to build a residential unit (using up to 25.0% of the total lot area). The remaining lot area can be used for small-scale farm development, such as fish farming or vegetable farming. Residential farm estates are sold on a lot-only basis, with buyers being responsible for the construction of residential units on their lots. To help attract buyers, FLI personnel are available on site to provide buyers with technical advice on farming as well as to maintain demonstration farms.

At present, FLI has three residential farm estates:

- Nusa Dua Farm Estate (“Nusa Dua”) located in Cavite province just south of Metro Manila. The amenities at the Nusa Dua development include a two-storey clubhouse and a 370 square meter swimming pool. 90% of the first two phases had been sold. Its third phase is now open for sale.
- Mandala Residential Farm Estate (“Mandala”) located in Rizal province as part of the FLI’s Timberland Heights township project. It offers hobby farmers generous lot cuts and Asian-inspired homes that complement the mountain lifestyle. Around 60 hectares have already been opened in response to the strong market demand.
- Forest Farms Residential Farm Estate (“Forest Farms”) located in Rizal province and which forms part of Company’s Havila township project. It is an exclusive mountain retreat and nature park, nestled between the hills of Antipolo and forested area of Angono. Sales are still on-going.

#### Private membership club

FLI, through FAPI, developed the Timberland Sports and Nature Club and Phase 2 of Timberland Heights in 2006. In 2010, FLI acquired the remaining 40.0% interest of AIPI in FAPI. This Club includes sports and recreation facilities, fine dining establishments and function rooms that can be used to host corporate and social events. FLI expects that the sales of subdivision lots in the high-end subdivision components of Timberland Heights, such as Mandala II Farms Estate might be tied to Timberland Sports and Nature Club, with lot buyers acquiring membership shares as part of the purchase price for their lots. Sales of future projects may also be tied to memberships at the Timberland Sports and Nature Club.

- The Timberland Sports and Nature Club is a world-class family country club in a mountain resort setting. The club aims to become a social hub with 2,000sq.m. of full-range of indoor sports, nature oriented amenities, spa, dining, banquet and room facilities with world class standard club management on an 8-hectare elevated and rolling terrain. It started commercial operations in October 2008.

#### Residential resort development

In 2007, FLI entered the high-end residential resort market with its launching Laeuna de Taal project, located along Tagaytay Ridge Batangas and the Kembali project in Samal Island, Davao. The residential resorts projects of FLI is intended to capture the growing demand for second homes and leisure and retirement destinations of the high-end market segment.

Laeuna de Taal, provides scenic views of the Taal Lake. On March 2010, FLI started its construction of the Arista residential enclave at Laeuna de Taal and will also be the first mid-rise condominium project within the lakeside resort community. In addition, Laeuna de Taal expanded its residential offerings with the launching of the Phase 2 of the Orilla enclave.

Kembali Coast on Samal Island, Davao is a beachfront residential resort development. This 50-hectare Asian-Balinese inspired island getaway offers low-density exclusivity and comes with a 1.8 km beachfront that offers unobstructed view of the sea. Just a scenic boat ride from Davao, Kembali Coast features amenities such as water sports, forest parks, campsites and beach activity areas. Three overnight facilities were completed in 2008 while land development for the first two residential phases is in full swing. To enable buyers and guests to enjoy the facilities at an early stage, a multi-purpose hall, changing and shower areas, welcome huts and the guard house have been constructed. Kembali Horizons, three-story residential buildings, are currently being offered.

#### (d) Medium Rise Buildings

Medium Rise Building projects are five-story to ten-story buildings clustered around a central amenity area. Marketed under the “Oasis” brand, FLI’s MRBs are intended to provide a quiet environment within the urban setting. The buildings occupy 30% to 35% of the land area, providing a lot of open spaces.

- One Oasis Ortigas is FLI’s first MRB project, located along Ortigas Extension in Pasig City. FLI acquired the 4.4 hectare property in August 2007, and by February 2012, it had completed the construction of 13 buildings within this master planned community.

- FLI currently has fifteen (15) ongoing MRB projects in Luzon, Visayas and Mindanao. The Company has recently launched new MRB projects in 2013, One Oasis Cagayan de Oro, Fortune Hill in San Juan and the Signature in Balintawak, Quezon City.

Below is a list of FLI's ongoing MRB projects:

Project Name	Location
<b>Metro Manila</b>	
One Oasis Ortigas	Pasig City
Bali Oasis	Pasig City
Maui Oasis	Sta. Mesa, Manila
Capri Oasis	Pasig City
Sorrento Oasis	Pasig City
One Spatial	Pasig City
Bali Oasis 2	Pasig City
Asiana Oasis	Paranaque City
Fortune Hill	San Juan City
The Signature	Balintawak, Quezon City
<b>Visayas</b>	
One Oasis Cebu	Mabolo, Cebu City
Amalfi Oasis	Città di Mare, Cebu
San Remo Oasis	Città di Mare, Cebu
<b>Mindanao</b>	
One Oasis Davao	Davao City
One Oasis Cagayan de Oro	Cagayan de Oro

#### (e) High-Rise Buildings

##### **The Linear**

In 2010, FLI launched The Linear, which is FLI's first high-end residential condominium project in Metro Manila. The Linear is targeted at young professionals in the middle-income market. The Linear is a master-planned development, which is comprised of two 24-story towers that feature modern living spaces, modern lifestyle amenities and eco-friendly facilities. The Linear is bounded by Mayapis, Malugay and Yakal Streets and is close to the Makati Central Business District. The construction of Tower 1 was completed in December 2013, while Tower 2 is expected to be delivered in the third quarter of 2014.

##### **Studio City**

Studio City is a community composed of five-tower residential condominium complex within the Filinvest City to serve the demand for housing of the growing number of professionals working within Filinvest City and in the nearby Madrigal Business Park. Since it is located within the Filinvest City, residents will enjoy proximity to Festival Supermall, Westgate Center, Northgate Cyberzone, Asian Hospital and Medical Center, and other commercial, educational and medical institutions. The development consists of 18 stories per building with commercial units at the ground floor. All residential floors will have 25 studio units per floor. Site development works are on-going and the first building is targeted for completion in 2014.

##### **The Levels**

Located at one of the highest points of Filinvest City at around 23 meters above sea level, The Levels is a one-block, four-tower residential condominium development that features laidback suburban living inside a fast-paced business district. The residential development is set in a tropical landscape, with its four towers uniquely designed with terracing levels, giving it a castle-effect look. High-rise sections will be set in lush greenery, providing residents with views of the gardens. Construction of the first building, Anaheim, is ongoing and targeted for completion in 2014.

### Vinia Residences

Vinia is a 25-storey condominium development located along EDSA in Quezon City, right across TriNoma and just steps away from the MRT-North Avenue station. With its coveted location, it offers a world of ease and convenience to yuppies and families looking for quality homes, as well as budding entrepreneurs who want to start a home-based business at the heart of the city.

### Studio Zen

Studio Zen is a 21-storey condominium development located along Taft Avenue in Metro Manila. Student-oriented amenities, Zen-inspired features, and functional building facilities makes it an ideal residence for students living independently and a great investment opportunity for entrepreneurs who want to take advantage of the ready rental market in the area.

### Studio A

Studio A is a vertical residential community located in Loyola Heights in Quezon City. A community conveniently situated near premier universities, the LRT 2 line and other commercial establishments.

### Grand Cenia

The Grand Cenia Hotel and Residences, a 25-story development located along Archbishop Reyes Avenue in Banilad, Cebu, on the 4,211 sq.m. property strategically located close to the Cebu Business Park, a joint venture project of FLI, as developer, and Gotianun Family-owned GCK Realty Corporation, as landowner. Starting November 2011, units were turned over to the condotel buyers for preparation for hotel operations. In January 2012, the hotel started operating as the Quest Hotel and Conference Center, a three-star hotel complete with business and conference facilities. The 25-story structure has 432 condotel rooms and 119 residential condominium units. One and a half floors have been earmarked for BPO office space with a GLA of 3,227 sq.m.

## Analysis of Real Estate Sales

The table below shows a comparative breakdown of FLI's journalized real estate sales into various product categories for the years ended December 31, 2013, 2012 and 2011 (in Php millions, except for percentages).

Category	2013		2012		2011	
	Amount	%	Amount	%	Amount	%
Residential Lots and House & Lot Packages						
Socialized	243.7	2.3%	220.34	2.5%	1,014.27	14.5%
Affordable	1,119.7	10.7%	778.75	8.9%	888.18	12.8%
Middle income	8,439.4	80.6%	7,136.36	81.1%	4,419.89	63.6%
High end and others	277.0	2.6%	333.35	3.8%	376.29	5.4%
Industrial Lots	241.5	2.3%	187.31	2.1%	26.07	0.4%
Residential Farm Lots	140.1	1.3%	131.49	1.5%	213.35	3.1%
Leisure	17.1	0.2%	10.76	0.1%	15.43	0.2%
Total	10,478.5	100.0%	8,798.36	100.0%	6,953.47	100.0%

Sales to Overseas Filipinos accounted for 30.3%, 38.0%, and 44.0% for the years ended December 31, 2013, 2012 and 2011, respectively.

The table below illustrates the breakdown of effective share of sales to Overseas Filipinos (direct & indirect) to the total real estate sales of FLI.

	31 December		
	2013	2012	2011
Americas	1.1%	1.8%	1.8%
Europe	10.8%	26.2%	29.0%
Asia/Asia Pacific/Oceania	12.6%	9.5%	5.7%
Middle East	5.8%	0.4%	3.1%
Others	0.0%	0.1%	4.3%
Total	30.3%	38.0%	44.0%

The table below illustrates the breakdown of sales to Overseas Filipinos (direct & indirect) per major market region for the years ended 31 December 2013, 2012 and 2011.

	2013	2012	2011
Americas	3.5%	4.7%	4.1%
USA	3.4%	3.9%	3.3%
Canada	0.1%	0.8%	0.8%
Europe	35.6%	68.9%	65.9%
Asia/Asia Pacific/Oceania	41.7%	25.0%	13.1%
Middle East	19.2%	1.1%	7.1%
Others	0.0%	0.3%	9.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

### Analysis of Cost of Sales

The table below shows a comparative breakdown of FLI's journalized cost of sales by cost\* component for the years ended 31 December 2013, 2012, and 2011 (in Php millions) :

	2013	2012	2011
Land acquisition cost	1,251.42	1,044.27	827.14
Land development and construction cost	4,627.34	3,779.03	2,588.40
Housing construction cost	157.06	102.01	193.08
Cost of club share	0.26	2.14	3.67
<b>Total</b>	<b>6,036.08</b>	<b>4,927.45</b>	<b>3,612.29</b>

\*Based on the estimated percentage of component

### Leasing Segment

Starting 2007, FLI's acquired investment properties, which are categorized as retail and office, started to generate rental revenues for a full year operations.

### Festival Supermall

Festival Supermall is a four-story regional shopping complex situated on a total land area of 10 hectares and is located within Filinvest City, a development of Filinvest Alabang, Inc. (FAI). FLI has leased from FAI the 10 hectares of land on which the mall and its adjoining structures (such as parking lots) are situated. The lease is for a term of 50 years from 01 October 2006, renewable for another 25 years, with FLI required to pay monthly rent equivalent to 10.0% of the monthly gross rental generated by the mall. Festival Supermall has a GFA of approximately 200,000 sq.m., with a GLA of approximately 135,163 sq.m. FLI believes that Festival Supermall is one of the largest shopping malls in the southern Metro Manila area in terms of GFA and caters to a variety of market segments.

Festival Supermall was designed to allow the construction of an additional wing to the current two-wing structure. The lease between FAI and FLI allows FLI to construct additions or extensions to the current mall structure, which will revert to FAI upon termination of the lease. As of the date of this Prospectus, FLI has no plans to acquire any additional shopping mall. However, in order to strengthen the mall's position as southern Manila's biggest mall that offers the most diverse shops and services, plans are currently being finalized by FLI to expand the mall wherein an additional GLA of 44,000 sq.m. will be added to the approximately 135,163 sq.m. To strengthen the mall's position as southern Manila's biggest mall that offers the most diverse shops and services, FLI has started the development of the mall's expansion on another 10 hectares of land wherein an additional 57,000 sq.m. of Gross Leasable Area (GLA) will be added to the current mall's 135.163 sq. m. Land development on the expansion started in late 2011 and construction is expected to be completed in stages, starting in 2014. Plans were also finalized to renovate the existing mall in phases and should be completed before end-2016.

Day-to-day operations at Festival Supermall are currently managed by Festival Supermall Inc. (“FSI”), a wholly owned subsidiary of FAI, pursuant to management contract that entitles FSI to a management fee of Php262,500 per month, subject to annual increases. The contract does not have a specific expiration date but can be terminated by either party upon 90 days’ written notice. FLI also pays for the salaries and benefits of FSI’s officers and employees, assigned to manage Festival Supermall. Engineering, maintenance, security and janitorial services for the mall are outsourced to reputable third-party service providers on an annual contractual basis. These contracts can usually be terminated at any time, such as if the contractor fails to perform at an acceptable level.

Festival Supermall’s current anchor tenants include stores operated by some of the Philippines’ largest retailers, such as the J.G. Summit group of companies (Robinsons Department Store and Handyman Do It Best), SM Investments Corporation (SaveMore Supermarket and Ace Hardware) and the Rustan’s Group (Shopwise Supercenter). Festival Supermall also has a group of tenants that are well-known international and domestic retailers, restaurant chains and service companies, such as Bose, Levi’s, Bench, Giordano, The Body Shop, National Bookstore, McDonald’s, Jollibee and KFC.

In addition to having over 700 retail stores and outlets, Festival Supermall also features amenities such as a ten-theater movie multiplex with digital surround sound systems and two themed amusement centers. The mall also has exhibit, trade and music halls which are leased out to organizers of events such as trade fairs sponsored by the Philippine Department of Trade and Industry.

### **PBCom Tower**

The PBCom Tower, the tallest building in the Philippines, is a 52 floor, Grade A, PEZA-designated I.T. office building in Ayala Avenue, Makati City, Metro Manila. FLI owns part of the PBCom Tower thru Filinvest Asia Corporation. FLI earns 60% of revenues from the 36,000 sq.m.leasable space owned by Filinvest Asia Corp. in this building.

Colliers International had been hired to provide day-to-day property management services for PBCom Tower. In addition, pursuant to a management agreement, FAI provides the following services: general management services, accounting services, operations, legal review and documentation, office rental services and recruitment and training services.

### **Northgate Cyberzone**

- Northgate Cyberzone is a PEZA registered BPO park within Filinvest City. It was 60% owned by FLI until FLI acquired the remaining stake from its former joint venture partner, AIPPI. FLI currently derives 100% (60% only in 2007 to 2009) of its revenues from approximately 113,000 sq. m. with the start of commercial operations of Vector One in the fourth quarter of 2010. Vector Two, the twelfth building at Northgate Cyberzone, will start contributing to revenues in 2012. Out of the ten hectares of Northgate Cyberzone, five hectares are still available for future development. Below are the descriptions of the BPO office buildings at Northgate Cyberzone:
- IT School: This three-story building with an approximate Gross Floor Area (GFA) of 3,297 sq.m. and an approximate Gross Leasable Area (GLA) of 2,898 sq.m. Its major tenant is currently Genpact Services LLC.
- Plaz@ B and Plaz@ C: Plaz@ B and Plaz@ C are four-story buildings, each with an approximate GFA of 7,150 sq. m. and an approximate GLA of 6,540 each for a total combined GLA of 13,080 sq.m. Both were completed in 2001. Plaz@ B is leased out to various tenants which include goFluent, AMS Express, Team Asia, Outboundphil, APPCO Direct Int’l., Tredyne and Seven Seven Global Services, Inc. All of Plaz@ C has been leased by APAC Customer Services, Inc.
- Convergys Building: This is a three-story building with an approximate GFA of 6,466 sq.m. and an approximate GLA of 6,399 sq. m. Completed in 2004, it was “built-to-suit” to meet the requirements of Convergys. Recently, Convergys signed a contract to extend the lease for another five years.
- HSBC Building: This is another “built-to-suit” building, constructed to meet the needs of HSBC. Completed in 2005, the building has an approximate GLA of 18,000 sq.m.
- Plaz@ A: This is a six-story building with an approximate GFA of 11,575 and an approximate GLA of 10,860 sq. m. Plaz@ A was completed in June 2006. It is currently leased out to Genpact Services LLC and eTelecare Global Solutions, Inc.

- **Plaz@ D:** This is a six-story building with an approximate GFA of 11,575 sq. m. and GLA of 10,860 sq. m. It is lease out to ICICI First Source Ltd., a 100%-owned subsidiary of India's largest private sector bank, and Verizon Communications Phils., Inc., the Philippine branch of Verizon Business Solutions, a leading communications company in the United States of America.
- **Building 5132:** This is a six-story building with an approximate GFA of 10,560 sq. m. and GLA of 9,409 sq. m. It was completed in 2007 and is fully leased out to GenPact Service LLC.
- **iHub 1 and iHub 2:** These form a two-tower complex which was completed in 2008. iHub 1 has an approximate GLA of 9,474 sq. m. and has been leased out to numerous tenants which include GenPact, HSBC, W.R. Grace Philippines and Lattice Semiconductor. iHub 2 has an approximate GLA of 14,166 and has been leased out primarily to Convergys and Integra.
- **Vector One:** This is an 11-story building with an approximate GFA of 19,545 sq.m. and GLA of 17,951 sq.m. It was completed in 2010. Filinvest Alabang, Inc. (FAI) was its first tenant, occupying the fifth to seventh floors for its corporate headquarters. Other tenants of the building are Convergys and Flour Daniel.
- **Vector Two:** This building has the same configuration as Vector One and has an approximate GLA of 17,914. It was completed in October 2011. Tenants of the building include Infosys and Flour Daniel.
- **AZ Building:** This building is located within Northgate Cyberzone and is 10 storeys high. It has a GLA of 19,637Sq.m.and was completed in 2012. The building is already committed to tenants.

Construction is ongoing for Plaz@ E located in Northgate Cyberzone.Plaz@ E is situated between Plaz@ A and Plaz@ D. It has nine floors of office space and three floors of parking, and a GLA of approximately 15,351 sq. m.

Construction of the first BPO building has started at the 1.2 –hectare joint venture project with the Provincial Government of Cebu. The first building will have a GLA of over 19,000 sq.m. When completed, the project, which will be called Filinvest Cebu Cyberzone, is projected to have four (4) buildings with a GLA of over 100,000 sq.m. Currently, FLI is one of the largest BPO office space providers.

Office space leases at the Northgate Cyberzone are typically for periods ranging from three to five years, although HSBC has entered into a ten-year lease. The lease agreements generally require tenants to make a three-month security deposit. Rent is paid on a fixed per square meter basis, depending on unit size and location.

## **Marketing and Sales**

### *Real Estate Segment*

The Company develops customer awareness through marketing and promotion efforts and referrals from satisfied customers. The Company has a real estate marketing team and a network of sales offices located in the Philippines, Italy and Japan, as well as accredited agents in other parts of Europe, Singapore, Hongkong and the Middle East. FLI's marketing personnel, together with in-house sales agents and accredited agents, gather demographic and market information to help assess the feasibility of new developments and to assist in future marketing efforts for such developments.

The Company conducts advertising and promotional campaigns principally through print and broadcast media, including billboards, fliers, and brochures designed specifically for the target market. Advertising and promotional campaigns are conceptualized and conducted by FLI's marketing personnel and by third-party advertising companies. These campaigns are complemented with additional advertising efforts, including booths at shopping centers, such as Festival Supermall, and other high traffic areas, to promote open houses and other events.

The Company also believes that the OFW population, as well as expatriate Filipinos, who constitute a significant portion of the demand for affordable and middle-income housing either directly or indirectly by remitting funds to family members in the Philippines to purchase property. To this end, the Company has appointed and accredited independent brokers in countries and regions with large concentrations of OFWs and expatriate Filipinos, such as Italy, Japan, the United Kingdom and the Middle East. These brokers act as the Company's marketing and promotion agents in these territories to promote the Company and its products. The Company also sponsors road shows to promote its projects, including road shows in Europe, targeting the OFW and Filipino expatriate markets. FLI also markets its properties on the Internet.

Sales for FLI's housing and land development projects are made through both in-house sales agents and independent brokers. Both FLI's in-house sales agents and independent brokers are compensated through commissions on sales. In-house sales agents also receive a monthly allowance and are provided administrative support by FLI, including office space and expense allowances.

In addition to in-house sales agents and independent brokers, FLI also employs representatives who staff its sales offices and provide customers with information about FLI's products, including financing and technical development characteristics. FLI also assigns each project a sales and operations coordinator who will provide customers with assistance from the moment they make their sales reservation, during the process of obtaining financing, and through the steps of establishing title on their new home. FLI also has personnel who can advise customers on financing options, collecting necessary documentation and applying for a loan. FLI also helps design down payment plans for its low-cost housing customers that are tailored to each customer's economic situation. Further, once a house is sold and delivered, FLI has customer service personnel who are available to respond to technical questions or problems that may occur after delivery of the property.

#### *Leasing Segment*

Various professional, multinational commercial real estate leasing agents (including, but not limited to Jones Lang LaSalle, CB Richard Ellis and Colliers) are accredited to find tenants for its PBCom Tower and Northgate Cyberzone office space. These brokers work on a non-exclusive basis and earn commissions based on the term of the lease.

FLI also maintains, through its subsidiaries, an in house sales team to market its office & commercial spaces.

#### **Customer Financing for Real Estate Projects**

The ability of customers to obtain financing for purchases of subdivision lots or housing units is a critical element in the success of FLI's housing and land development business. Customer financing is particularly important in relation to sales of FLI's socialized housing projects, where most prospective buyers require financing for up to 90.0% of the purchase price. FLI therefore assists qualified homebuyers in obtaining mortgage financing from government-sponsored mortgage lenders, particularly for its socialized housing projects, and from commercial banks. FLI also provides a significant amount of in-house financing to qualified buyers. The interest rates charged by FLI for in-house financing typically range from 13.5% per annum to 19.0% per annum, depending on the term.

#### *In-house financing*

FLI offers in-house financing to buyers who chose not to avail of Government or bank financing. FLI typically finances 80.0% of the total purchase price, which is secured primarily by a first mortgage over the property being sold. The loans are then repaid through equal monthly installments over periods ranging from five (5) to ten (10) years. The interest rates charged by FLI for in-house financing typically range from 13.5% per annum to 19.0% per annum, depending on the term of the loan.

#### *Pag-IBIG Fund*

A substantial number of buyers of the Company's socialized housing units, as well as some affordable housing units, finance their purchases through the Home Development Mutual Fund or Pag-IBIG Fund. To provide a liquidity mechanism to private developers, the Pag-IBIG Fund has instituted a take-out mechanism for conditional sales contract receivables and mortgages and repurchases receivables from housing loans of its members.

In April 2009, Pag-IBIG announced an increase in the maximum loan amount for socialized housing units to Php400,000 per unit from Php300,000 per unit, at an interest rate of 6% per annum, fixed over a 30-year term. Pag-IBIG also recently increased the maximum loan amount for housing loans to Php6 million per unit from Php3 million previously, at an interest rate of 4.5% to 12.5% per annum, depending on the loan amount and the term of the loan which can be fixed over a maximum of 30 years.

#### *Mortgage loans*

Mortgage loans from commercial banks are usually available to individuals who meet the credit risk criteria set by each bank and who are able to comply with each bank's documentary requirements. In addition to taking security over the property, a bank may also seek repayment guarantees from the Home Guaranty Corporation ("HGC"). To assist prospective buyers obtain mortgage financing from commercial banks, FLI also has arrangements with several banks to assist qualified customers to obtain financing for housing unit purchases.

### *Deferred cash purchases*

In recent years, in addition to the aforementioned financing arrangements, FLI has offered so-called “deferred cash” purchases, particularly for its high-end and leisure developments. Under this arrangement, the entire purchase price is amortized in equal installments over a fixed period, which is typically 24 to 36 months. Title to the property passes to the buyer only when the contract price is paid in full or when the buyer executes a real estate mortgage in favor of the Company which can be annotated on the title to the property.

### **Real Estate Development**

FLI’s real estate development activities principally include the purchase of undeveloped land or entering into joint venture agreements covering undeveloped land, the development of such land into residential subdivisions or other types of development projects, the sale of lots, the construction and sale of housing units and the provision of financing for some sales.

The development and construction work is contracted out to a number of qualified independent contractors on the basis of either competitive bidding or the experience FLI has had with a contractor on prior project. FLI weighs each contractor’s experience, financial capability, resources and track record of adhering to quality, cost and time of completion commitments. FLI maintains relationships with over 100 independent contractors and deals with them on an arm’s length basis.

FLI does not enter into long-term arrangements with contractors and construction contracts typically cover the provision of contractor’s services in relation to a particular project or phase of a project. FLI also provides, in certain cases financial guarantees of payment to FLI-specified suppliers for purchases of construction materials. Progress payments are made to contractors during the course of a project development upon the accomplishment of pre-determined project performance milestones. Generally, FLI retains 10% of each progress payment in the form of a guarantee bond or cash retention for up to one year from the date the contracted work is completed and accepted by FLI to meet contingency costs.

FLI is not and does not expect to be dependent upon one or a limited number of suppliers or contractors. Its agreements with its contractors are in the nature of supply of labor and materials for the development and/or construction of its various real estate projects.

In 2011, FLI launched Php12.1 billion worth of projects, 17% more than the value of projects launched in 2010. FLI launched 11 new projects and 22 additional phases of existing projects, equivalent to 6,503 units, across all segments nationwide. Among the new projects were six affordable housing projects located in Batangas, Bulacan, Cavite, Pampanga and Rizal. FLI also launched two new mid-rise building projects, Bali Oasis 2 in Pasig City, and Asiana Oasis in Paranaque City. The Company also announced two new high-rise buildings, Studio Zen in Pasay City, and Vinia Residences + Versaflats along EDSA, Quezon City.

In 2012, FLI launched 20 new projects and phases totaling 3,454 housing units equivalent to around Php 7.64 billion worth of sales located in Rizal, Laguna, Pasig City, Cebu, Quezon City, Makati City, Palawan and Davao City.

In 2013, FLI launched 17 new projects and phases totaling 4,718 units with a sales value amounting to around Php 7.48 billion worth of sales located in Cavite, Laguna, Alabang, Rizal, Bulacan, Pampanga, Metro Manila, Cebu and Cagayan de Oro.

### **Suppliers**

The major raw materials used by the Company for the development and construction of its projects are cement and steel bars as well as the finishing materials. These materials are sourced from local suppliers.

The Company has about 150 suppliers. The major ones include the following:

Material supplied	Company
Cement	Apo Cement Corporation and Holcim Phils., Inc.
Steel Bars	Capitol Steel Corporation, Pag-asa Steel Works, Inc., Universal Steel Smelting Co., Inc., Steel Asia and Cebu Steel Corporation
Tiles	Lepanto Ceramics, Inc., Mariwasa Siam Ceramics, and Cebu Oversea Hardware Co., Inc.
PVC Pipes, Cast Iron Materials	Philippine Valve Manufacturing Co.
Plumbing Materials	Cebu Oversea Hardware Co., Inc. and Co Bian Kiat Hardware, Amici Mercantile, Inc.

The Company uses over 100 contractors for land development and construction works. These include the following contractors: Longridge Construction, Inc., CE Construction, Megawide Builders, RvabKonstruct Inc., RGL Construction, Primavera Construction and Nippon Formworks & Construction Corp.

### **Employees and Labor**

As of December 31, 2013, FLI had a total (consolidated) of 876 employees consist per function of 257 operations, 234 administrative, 215 technical and 170 marketing.

Management believes that FLI's current relationship with its employees is generally good and neither FLI nor any of its subsidiaries have experienced a work stoppage or any labor related disturbance as a result of labor disagreements. None of FLI's employees or any of its subsidiaries belongs to a union. FLI currently does not have an employee stock option plan.

There are no significant arrangements between FLI and its significant employees to assure that these persons will remain with FLI and not compete with it upon their termination. FLI, however, relies on its good relationship with its senior managers and significant employees to ensure loyalty. FLI likewise provides managers, supervisors and general staff the opportunity to participate in both in-house and external training and development programs which are designed to enhance skills, to improve productivity, to develop leadership and to prepare employees for future assignments. These programs range from the orientation of new employees to technical training for engineers and customer service. FLI has also provided a mechanism through which managers and staff are given feedback on their job performance, which FLI believes will help to ensure continuous development of its employees. FLI also offers employees benefits and salary packages that it believes are in line with industry standards in the Philippines and which are designed to help it compete in the marketplace for quality employees.

FLI does not anticipate any substantial increase in the number of its employees for the remainder of 2013.

### **Research and Development**

Although the Company engages in research and development activities focusing on the types of construction materials used for its housing units, construction methodology, value-engineering for its projects and quality assurance, the expenses incurred by the Company in connection with these activities are not material.

### **Filinvest Alabang, Inc. — Filinvest City**

FAI's current project is the master-planned development of Filinvest City, a 244-hectare premier satellite city located in Alabang, Muntinlupa City in the southern part of Metro Manila approximately 16 kilometres south of Makati, the central business district in Manila and 10 kilometres from the Ninoy Aquino International Airport. Filinvest City is a fully integrated, self-contained satellite city which serves as a viable urban residential and business alternative to Makati for the southern Metro Manila area and a business centre for the southern Tagalog provinces. The mixed-use development concept incorporates commercial and residential properties in a complementary manner and provides for a balance of recurring rental income from office and retail space as well as trading income from sale of lots and condominium units. Filinvest City is a joint venture development with Government entities, namely the DENR and the Philippine Reclamation Authority, in which FAI has a 74% interest.

Over the past few years, land sale prices in Filinvest City have risen rapidly, driven by improved accessibility and economic growth. In particular, the completion of the Skyway extension from Sucat to Alabang in April 2011 has caused land prices in the surrounding area to increase. As a result, FAI recorded a record high land sale price of P186,000 per sq.m in December 2013.

The development obligations of FAI in Filinvest City have been substantially completed. Construction of the entry/exit of the Skyway into Filinvest City was completed and opened to the public in May 2011.

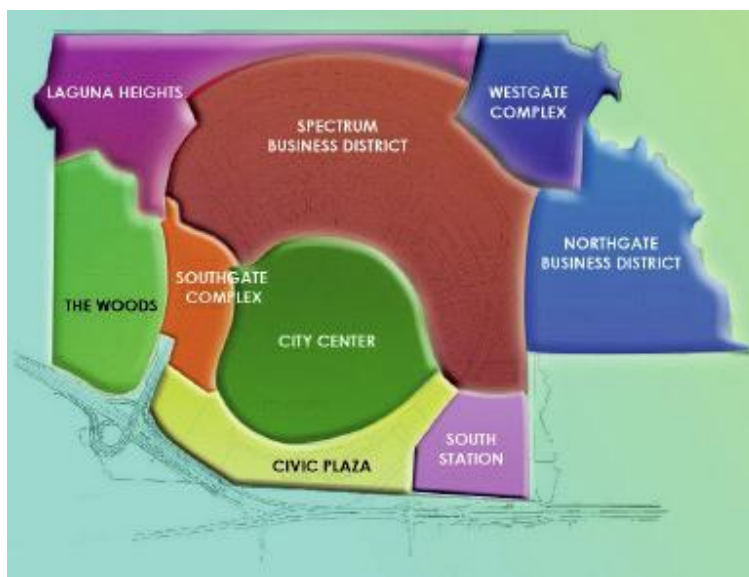
*Location*

Set out below is a map showing the location of Filinvest City relative to the Makati central business district, the Ortigas business centre and Laguna de Bay in Manila.



*Site Development*

Set out below is the site development concept of Filinvest City. The model below may not necessarily represent the eventual state of the actual property development.



## Land Use

The following table shows the estimated mix of office, retail, residential, institutional and leisure properties that Filinvest City is expected to have when the project is fully completed, as well as certain details relating to developments at Filinvest City as of December 31, 2013. The land use and gross floor area estimates below may be adjusted as market trends develop and may not necessarily represent the eventual state of the actual property development.

<u>Land Use</u>	<u>Lot area allocated</u> (sq.m.)	<u>Expected gross floor area</u> (sq.m.)
High-rise office and condominium . . . . .	711,095	5,636,136
Commercial and mixed-use . . . . .	518,794	1,499,620
Residential subdivision . . . . .	49,182	49,182
Leisure/hospitality . . . . .	91,475	278,140
Institutional/government . . . . .	241,458	325,012
Roads and open space . . . . .	<u>835,539</u>	<u>—</u>
Total . . . . .	<u>2,447,543</u>	<u>7,788,090</u>

As of December 31, 2013, FAI beneficially owns 84 hectares of unsold lots in Filinvest City comprising 35 hectares of unsold lots held through joint ventures (in which FAI beneficially owns 26 hectares) and 58 hectares of unsold lots owned directly by FAI. Of the 58 hectares, 21 hectares remain unused. Thirty seven hectares is rented out or being used for recurring business.

### *Office and Condominium Zone*

The office zone is currently concentrated in two districts of Filinvest City, the Spectrum and Northgate districts. A variety of office centres are owned and operated, or under development, by third parties in these districts. FLI's Northgate Cyberzone, is located at Filinvest City. For details, see “— Filinvest Land, Inc. — Northgate Cyberzone.” FAI also develops its own buildings in the office zone under the concept of small office-home office (“SOHO”). SOHO buildings are compact units designed to provide a flexible, efficient work place and living space. The SOHO units are developed for sale rather than for lease.

### *Commercial and Mixed-Use Zone*

A variety of major retail establishments at Filinvest City are owned and operated by third parties. In addition, FLI owns Festival Supermall, which is located at Filinvest City. See “— Filinvest Land, Inc. — Festival Supermall.” FAI also develops its own retail leasing projects.

Leases for space in the retail zone are typically for periods ranging from one month to 15 years, depending on the type of lease. The lease agreements generally require tenants to supply a six-month security deposit. Rent is paid based on a fixed rate, fixed amount or on a percentage of sales ranging from 1.25% to 5% depending on the tenant's merchandise, or a combination of base rent plus a variable portion which is a percentage of the tenant's sales. The base rent currently ranges from P250 to over P1,000 per sq.m., depending on the size of the space being leased, the merchandise, and its location within the retail zone. Leases are generally for a term of 10–15 years with respect to lots, three to five years with respect to buildings, one to five years with respect to retail space and one to three months with respect to exhibit space.

### *Marketing and Management*

The day-to-day operations in the retail zone, including leasing and general mall management, is managed by FSI pursuant to various management contracts entered into by FSI with the owners and developers of various retail projects. These contracts entitle FSI to management fees of varying amounts, ranging from P15,000 to P399,000 per month subject to annual escalation, depending on the size of the retail project, plus reimbursement of salaries and payroll costs. The contracts are on a continuing basis until terminated with 90-days advance notice by any of the parties.

As of December 31, 2013, FSI had approximately 176 personnel in its organization, responsible for the day-to-day operations of the retail zone. Engineering, maintenance, security and janitorial services for the mall and other retail establishments are outsourced to reputable third-party service providers on an annual contractual basis and reviewed annually by FSI.

#### Residential Zone

Filinvest City provides an urban residential alternative to the surrounding residential subdivisions. FAI is engaged in the development of a number of high-rise residential condominiums within Filinvest City. Each condominium's design varies according to its target market and income segment.

#### Leisure and Hospitality Zone

Filinvest City includes several hotels and condotels owned and managed by third parties, in addition to CHFC, a hotel that FAI launched in December 2012 within its mixed-use Entrata complex. CHFC has 345 rooms on 27 stories and is managed by FHI under the Crimson brand. The hotel had its grand opening in March 2013.

In addition to hotels and condotels, Filinvest City is also the site of leisure projects, including Palms Country Club. To enhance the value of its high-end residential projects in Filinvest City and to attract buyers to these projects, FAI established its own exclusive sports and leisure club, a 30,000-sq.m. private members club that hosts banquets, corporate functions and other events for its members. FAI sells individual and corporate club shares.

#### *Land Bank*

As of December 31, 2013, FAI's land bank included 2.9 hectares of raw land, which are located in Mactan. FAI intends to develop this land directly.

#### *Institutional and Government Zone*

Filinvest City has institutional establishments, including both the private sector and Government entities. Filinvest City has become a hub for health and medical care and home to Asian Hospital, Bureau of Food and Drugs and other Government-run medical facilities.

### **Competition**

#### *Real Estate Segment*

Real estate development and selling is very competitive. The Company believes it is strongly positioned in the socialized, affordable to middle-income residential subdivision market, as well as in mid-rise buildings and in the farm estates. Success in these markets depends on acquiring well-located land at attractive prices often in anticipation of the direction of urban growth. The Company believes the name and reputation it has built in the Philippine property market contributes to its competitive edge over the other market players. On the basis of publicly available information and its own market knowledge, FLI's management believes that it is among the leading housing and land project developers in the Philippines, particularly in the socialized to middle-income housing sectors, including mid-rise buildings. FLI's management also believes that FLI is able to offer competitive commissions and incentives for brokers, and that FLI is able to compete on the basis of the pricing of its products, which encompasses products for different market sectors, as well as its brand name and its track record of successful completed quality projects.

FLI directly competes with other major real estate companies positioned either as a full range developer or with subsidiary companies focused on a specific market segment and geographic coverage. Its direct competitors include Ayala Land Inc., Vista Land, and Robinsons Land Corp. The following table shows the real estate sales of FLI and real estate companies FLI considers as competitors for the nine months ended 30 September 2013 and years ended 31 December 2012 and 2011 (in Php millions):

Company	30 September	31 December	
	2013	2012	2011
Ayala Land, Inc.	55,777	49,904	41,231
SM Development Corp.	17,000	21,578	16,184
Megaworld Corp.	16,434	18,173	15,888
Vista Land, Inc.	14,827	16,336	13,513
Filinvest Land, Inc.	6,974	8,798	6,953
Empire East	1,132	1,003	984
Robinsons Land Corp.*		6,691	6,113

Note: Based on latest available information; \* 9M 2013 FS not yet available

The Company faces significant competition in the Philippine property development market. In particular, the Company competes with other developers in locating and acquiring, or entering into joint venture arrangements to develop, parcels of land of suitable size in locations and at attractive prices. This is particularly true for land located in Metro Manila and its surrounding areas, as well as in urbanized areas throughout the Philippines.

The Company focuses on market segments (i.e. first time buyers of affordable and middle-income housing) which are perceived to be more resilient in the face of economic volatilities. The Company's continued growth also depends in large part on its ability either to acquire quality land at attractive prices or to enter into joint venture agreements with land-owning partners under terms that can yield reasonable returns. Based on the Company's current development plans, the Company believes that it has sufficient land reserves for property developments for the next several years. If the Philippine economy continues to grow and if demand for residential properties remains relatively strong, the Company expects that competition among developers for land reserves that are suitable for property development (whether through acquisitions or joint venture agreements) will intensify and that land acquisition costs, and its cost of sales, will increase as a result.

#### *Leasing Segment*

With regard to the Company's acquired assets dedicated to office space leasing and shopping mall operations, the Company competes with property companies such as Ayala Land, Inc. and SM Prime Holdings. In office space leasing, particularly to call centers and other BPO operators, the Company competes with companies such as Robinsons Land, Inc., Ayala Land, Inc. and Megaworld Corporation.

#### **Intellectual Property and Trademarks**

The "Filinvest" name was registered with the Intellectual Property Office on 15 September 2011 and will expire on 15 September 2021. "Filinvest" is the brand FLI uses for the names of certain of its real estate products and for trademarks relating to the "FLI" brand.

The Company has pending applications with the Intellectual Property Office for the following trademarks:

- Artisans' Business Park;
- Artisans' Village;
- Cottage Industry Center;

- Cottage Industry Community;
- Cottage Industry Village;
- Craftsmen’s Village;
- Entrepinoy Village;
- Entrepreneurs’ Village;
- Micro Business Community;
- MSME Business Center;
- MSME Business Community; and
- MSME Business Park.

TRADEMARK	FILING DATE	DATE OF REGISTRATION	DATE OF EXPIRATION
Filinvest Land Incorporated Logo	2 January 2007	3 September 2007	3 September 2017
One Oasis Ortigas & Design	14 May 2009	10 December 2009	10 December 2019
One Oasis Ortigas (Word Mark)	14 May 2009	10 December 2009	10 December 2019
One Oasis (Word Mark)	14 May 2009	10 December 2009	10 December 2019
We Build the Filipino Dream (Slogan)	14 May 2009	10 December 2009	10 December 2019
The Linear Makati & Design	26 August 2009	12 August 2010	12 August 2020

**Government and Environmental Regulations**

The real estate business in the Philippines is subject to significant government regulations over among other things, land acquisition, development planning and design, construction and mortgage financing and refinancing.

After the project plan for subdivision is prepared, FLI applies for a development permit with the local government. If the land is designated agricultural land, FLI applies with the Department of Agrarian Reform (DAR) for a Certificate of Conversion or Exemption, as may be proper. Some parcels of FLI’s existing land bank are subject to the DAR conversion process.

Approval of development plans is conditioned on, among other things, completion of the acquisition of the project site and the developer’s financial, technical and administrative capabilities. Approvals must be obtained at both the national and local levels, and the Company’s results of operations are expected to continue to be affected by the nature and extent of the regulation of its business, including the relative time and cost involved in procuring approvals for each new project, which can vary from project to project.

The Company is also subject to the application of the Maceda Law, which gives purchasers of real property purchased on an installment basis certain rights regarding cancellations of sales and obtaining refunds from developers.

FLI believes that it has complied with all applicable Philippine environmental laws and regulations. FLI’s compliance with environmental laws is dictated by and in accordance with the environmental laws and regulations applicable to specific and individual projects. Compliance with such laws, in FLI’s opinion, is not expected to have a material effect on FLI’s capital expenditures, earning or competitive position. The cost of such compliance is not significant and FLI does not keep a separate account thereof.

FLI has secured all mandated permits and licenses necessary for the conduct of its business.

## FINANCIAL AND BANKING SERVICES

EWBC commenced operations in 1994 and is a medium-sized bank primarily focused on providing banking services to retail customers and mid-market corporate customers. EWBC's principal banking products and services include consumer loans, deposit products, corporate banking, treasury and trust products and cash management solutions among other services. Such products are offered to a wide range of customers, including consumers, mid-market corporates and large corporates. According to an industry survey conducted by Credit Cards Association of the Philippines, an industry association, EWBC ranked fifth among the Philippines' 12 major credit card issuers in terms of credit card receivables for the fourth quarter of 2013. According to information published by the BSP, EWBC held 7.8% of all auto loans outstanding in the Philippines as of December 31, 2013. According to the 4<sup>th</sup> Quarter Banking Report published in February 27, 2014 by Business World, a Philippine business magazine, EWBC ranked 14th among the Philippines' 36 commercial and universal banks in terms of total assets. EWBC is a subsidiary of FDC.

As of December 31, 2013, EWBC's Tier 1 capital adequacy ratio and total capital adequacy ratio (reported to the BSP) were 13.8% and 17.0%, respectively. For the year ended December 31, 2013, return on average equity and return on average asset ratios were 1.6% and 11.1%, respectively. In addition, for the year ended December 31, 2013, EWBC had a cost-to-income ratio of 59.2%. As of December 31, 2013, EWBC's total assets were ₱142,302.7, and EWBC's net income was ₱2,056.6 million.

As of December 31, 2013, EWBC had a network of 347 branches, compared with 245 branches as of December 31, 2012. EWBC also provides 24-hour banking services through its network of 472 ATMs as of December 31, 2013, compared with 306 ATMs as of December 31, 2012. In addition to branches and ATMs, EWBC has also made significant investments in EWBC's information technology, operational processes and governance to facilitate its growth and competitiveness. In March 2009, EWBC acquired 100.0% of AIG PhilAm Savings Bank, Inc., Philam Auto Finance and Leasing, Inc. and PFL Holdings, Inc. (collectively referred to as "AIG PhilAm") and merged AIG PhilAm into EWBC in September 2009. AIG PhilAm had significant auto loan and credit cards businesses, and its acquisition increased the balance of EWBC's consumer lending portfolio by ₱7,681.5 million based on the fair value of AIG PhilAm's consumer lending portfolio as of March 12, 2009, when it was acquired by EWBC. On August 19, 2011, EWBC entered into a deed of assignment for the purchase of a majority of the outstanding shares and control of GBI. Consequently, GBI became a subsidiary of EWBC. The GBI acquisition enabled EWBC to expand its branch network by adding 46 branches. On June 15, 2012, the BSP Monetary Board approved the application of EWBC to acquire up to 100.0% of the outstanding shares of Finman Rural Bank, Inc. ("FRBI"), subject to certain conditions. On July 11, 2012, EWBC completed the acquisition of 83.0% of the outstanding stocks of FRBI. On January 28, 2013, EWBC acquired the remaining 17.0% of the outstanding stocks of FRBI.

On May 7, 2012, EWBC was publicly listed on the PSE, increasing its capitalization through the issuance of common shares amounting to ₱2,609.6 million.

### *Principal Business Activities*

EWBC's principal business activities are organized into the following segments: retail banking, corporate banking, consumer lending, treasury and trust.

### ***Retail Banking***

EWBC's branches are the primary distribution channel for all of its products. EWBC's branch banking activities consist principally of offering deposit products and services to retail customers comprising individuals and small-to-medium-sized businesses. In addition to the branch network and its ATMs, EWBC's deposit products and services are accessible by customers through EWBC's internet banking network, where customers can perform a variety of banking transactions online. Among the services available are checking their balances, paying bills, transferring funds, executing wire transfers, ordering check-books, printing statements and issuing stop payment orders online on a real-time basis.

### *Deposit Products*

EWBC offers a comprehensive range of deposit products that consist principally of the following: peso demand deposits, peso savings deposits, peso time deposits, long-term peso deposits, U.S. dollar savings deposits, U.S. dollar time and non-interest bearing checking accounts.

EWBC offers varying interest rates on its deposit products depending on market interest rates, the rate of return on its earning assets and interest rates offered by other commercial banks.

EWBC offers a suite of innovative banking services to appeal to retail customers, including a 24-hour Internet banking facility that provides individual and corporate customers e-statements and online check imaging facilities, a bill payment facility that allows settlement of various bills over the counter and via ATM and internet banking, and a point of sale (POS) payment facility that allows ATM / debit cardholders to use their ATM / debit cards to pay for merchandise and services rendered by the merchant via POS terminals installed in accredited establishments.

#### *Branch Network*

EWBC's branch network is focused on the Philippines' major industrial and commercial regions in Metro Manila and has locations nationwide outside of Metro Manila, such as in Metro Cebu, Metro Davao, Northern Luzon, South Luzon Industrial Zone, Iloilo-Bacolod and the Mindanao corridor. Within these regions, EWBC seeks to maximize the number of transactions and deposits per branch by strategically positioning its branches in key business and commercial centres, which are areas that are generally more affluent, and have higher business growth and higher traffic, thereby maximizing the number of transactions and deposits per branch. Within these areas, EWBC has a strong focus on Metro Manila.

As of December 31, 2013, EWBC had 175 branches in Metro Manila and 172 branches in the other areas of Luzon, Visayas and Mindanao. EWBC opened ten additional branches in 2009, 24 additional branches in 2010, 9 additional branches in 2011, 123 additional branches in 2012 and 55 new branches in 2013.

The table below sets out the details of EWBC's branches in the Philippines in operation as of the specified dates.

	<b>As of December 31,</b>	
	<b>2012</b>	<b>2013</b>
Metro Manila .....	146	175
Other areas of Luzon.....	58	72
Visayas.....	43	48
Mindanao .....	45	52
<b>Total Branches</b> .....	<b>292</b>	<b>347</b>
ATMs.....	306	472

Each of EWBC's branches is managed by a branch head responsible for both the sales and general administration of the branch. Each branch head reports to a division head who supervises 15 to 18 branches. Branches are grouped geographically and these groups include North Luzon, South Luzon, Southern Metro Manila, Eastern Metro Manila, Northern Metro Manila, Downtown Manila, Visayas and Mindanao.

#### *ATM Network*

EWBC provides 24-hour banking services through its network of 472 ATMs as of December 31, 2013, compared with 306 ATMs as of December 31, 2012. Of these 472 ATMs as of 2013, 336 are located at EWBC's branches while 136 are located off-site. Customers are given access to the ATM facilities through ATM cards and debit cards, which are available to checking and savings account holders. EWBC also is a member of Bancnet, which is an ATM network that allows its member banks' customers to use ATM terminals operated by other Bancnet member banks. Furthermore, Bancnet has agreements with other ATM networks in the Philippines, namely Expressnet and Megalink, which gives its customers access to all ATMs in the Philippines. Customers of EWBC that use ATMs operated by other banks must pay a service charge for accessing these networks.

### *Access to Investment Products*

EWBC also offers investors access to investment products such as including treasury bills and bonds, fixed rate treasury notes and retail treasury bonds. Customers can also invest in long-term fixed income debt instruments issued by public and private entities.

### *Consumer Lending*

EWBC offers various types of consumer lending products to individuals, which consist principally of credit cards, auto loans, residential mortgage loans and personal loans. EWBC considers various factors in pricing its loan products, including the capacity of the borrower to repay the loan, estimated delinquency rates, funding costs, expenses related to making loans and a target spread. Loan terms are differentiated according to factors such as a customer's financial condition, age, loan purpose, collateral and the quality of relationship with EWBC.

### *Credit Cards*

In 2004, EWBC began issuing MasterCard credit cards under the name "East West Bank MasterCard" in partnership with AIG. In 2009, EWBC acquired the Philam Savings Bank, which issues Visa credit cards. After the acquisition, EWBC integrated its Visa and MasterCard businesses into a single business unit. According to an industry survey conducted by Credit Cards Association of the Philippines, EWBC ranked fifth among the Philippines' 12 major credit card issuers in terms of credit card receivables for the fourth quarter of 2013. EWBC issued approximately 971,000 credit cards, or 12.9% of the market share for credit cards in the Philippines, as of December 31, 2013.

Revenues from credit card operations are primarily composed of annual fees paid by cardholders, interest or finance charges on deferred and installment payments, cash advance fees, interchange fees paid by service establishments and late payment charges. Depending on the product variant and card type, annual membership fees for principal cards range from ₱1,000 to ₱2,500. As of December 31, 2013, the interest rate on deferred payments range from 2.75% to 3.5% per month (or 33% to 42% per annum). Fees for cash advances are approximately 7% of the cash advance amount and interchange fees range from 0.25% to 2.33% of the purchased amount. Revenues relating to the credit card business are reflected in EWBC's financial statements as interest income and income from service charges, fees and commissions.

EWBC seeks to diversify its distribution channels, form alliances with merchants and manage its product portfolio in order continue to grow its credit card business. EWBC currently markets and sells its credit cards through the branches and directly to customers through third party telemarketing agencies. Credit card customers may participate in a variety of instant and loyalty based rewards programs that allow them to redeem merchandise or gift certificates at partner establishments. EWBC attempts to identify and capitalize on gaps in the market by offering products tailored to meet the needs of underserved markets. EWBC's credit card products come in different grades, from regular cards to premium class cards at different annual membership fees.

### *Auto Loans*

EWBC's auto loans are offered through car dealerships and EWBC's branches. EWBC provides economic incentives to car dealerships and sales agents based on each approved auto loan amount. A key competitive factor in the automotive loan business is the speed by which a bank can process an automotive loan, as dealers will offer a loan to multiple banks and EWBC offers a three-hour auto loan approval process, which EWBC believes is an important aspect to its success in growing its auto loan portfolio. EWBC's auto loan business also engages in strategic partnerships with major car brands to develop exclusive programs. Additionally, EWBC cross-sells its auto loans with the products of other units and offers special plans for existing and repeat customers.

All of EWBC's auto loans are secured by a chattel mortgage over the car being purchased. In addition to being subject to EWBC's internal credit checks, EWBC generally requires the borrower to make a minimum down payment of 20.0% (or a minimum down payment of 15.0% for long-term customers with verifiable good credit) of the purchase price for a new car, and 30.0% in the case of a second-hand car. Depending on whether the car being purchased is a new car or a second-hand car, the interest rate of EWBC's auto loans can range from 8.5% to 18.0%, with an average maturity of 42 months. When an instalment payment falls 90 days past due, EWBC may commence foreclosure proceedings. Foreclosed cars are generally sold by EWBC through public auction.

### *Residential Mortgage Loans*

EWBC's residential mortgage loans are extended to property buyers in the Philippines who intend to occupy the premises. All of EWBC's home mortgage loans are secured by a first mortgage on the property. EWBC generally requires the borrower to make a minimum down payment of 20.0% of the appraised value for house acquisition or construction, 25.0% for lot acquisition and 35.0% for conversion of real estate assets into rental/leasing business. EWBC also refinances existing housing loans. EWBC offers loans at adjustable and fixed interest rates. EWBC uses its branch channels as a key distribution channel and maintains marketing campaigns to attract property buyers independently from real estate developers, which are distribution channels for mortgage loan providers.

The average maturity of EWBC's home mortgage loans is 10 years. In accordance with industry practice in the Philippines, interest rate on EWBC's home mortgage loan portfolio are set at a fixed rate applicable for an initial period of between one and five years, depending on the maturity of the loan. Following the expiry of this initial period, the interest rate is reset at a fixed rate applicable for succeeding periods.

When a borrower becomes delinquent or in arrears with mortgage payments, it can either agree to a voluntary disposition of the property to EWBC or EWBC may commence foreclosure proceedings. It generally takes between six and 24 months to foreclose mortgaged collateral, which is generally sold by public auction or by brokers on behalf of EWBC. However, the borrower has the right to repurchase the property within one year of completing foreclosure in return for payment of principal and interest plus EWBC's out-of-pocket expenses. EWBC cannot sell the property during the one year redemption period after foreclosure.

### *Personal Loans*

In April 2011, EWBC launched its personal loans business, which provides unsecured, uncollateralized consumer loans to qualified individuals for personal use. The monthly add-on interest rates for a personal loan ranges from 1.49% to 1.69% and is payable in fixed equal monthly instalments from six to 36 months. The primary distribution channel for personal loans is EWBC's branches and third party sales agencies. EWBC offers personal loans to employed and self-employed individuals with annual income of not less than ₱180,000. As of December 31, 2013, EWBC's personal loans amounted ₱1,978.0 million.

### *Corporate Banking*

EWBC's corporate banking activities are primarily focused on offering loans to mid-market corporate customers. These are predominantly entrepreneurial or family-owned businesses. Moreover, EWBC offers corporate customers various cash management services. EWBC believes that the development and expansion of its mid-market customer base is essential to the growth and success of EWBC and intends to concentrate on growing its mid-market portfolio as its core target customer group.

### *Loan Products*

EWBC provides a wide range of loan products and services to its corporate customers, including revolving credit lines, foreign currency loans, bills purchased, acceptances, trade finance facilities and term loans. In line with its strategy to create a balanced and diversified portfolio, EWBC's corporate customers are engaged in various industries in the Philippines. Facilities offered to corporate customers include both secured and unsecured loan products, depending on the credit risks associated with the customer and its business.

As of December 31, 2013, the balance of EWBC's corporate loans (corporate lending and small business lending) was ₱46,669.6 million, which represented 48.6% of EWBC's total loan portfolio. EWBC intends to continue to expand its corporate banking portfolio by increasing loan product marketing activities to its existing customers as well as targeting new corporate customers through its expanded combined customer network.

### *Cash Management Services*

EWBC offers a wide range of cash management solutions to assist mid-market corporates and other corporate customers, including (i) a facility for payroll preparation and crediting, (ii) an interest-earning checking account that provides a customized standalone check-writing facility and a comprehensive accounts payable system, (iii) an end-to-end automated solution for the creation, disbursement and monitoring of checks, (iv) a check depot service whereby EWBC retains a corporate customer's post-dated checks for immediate deposit to the customer's account on the same date indicated on the checks, (v) a bill collection service whereby EWBC acts as a collecting agent and

transmits consolidated payments to the customer online or via electronic file transfer and (vi) deposit pickup services, in which EWBC sends an armored vehicle to pickup cash and check deposits at the customer's premises.

### **Treasury**

EWBC's treasury has primary responsibility for managing EWBC's liquidity, interest rate and foreign exchange exposures. EWBC manages its liquidity position by regularly reviewing its cash flow position, debt maturity profiles, availability of credit facilities and overall liquidity position to mitigate the effects of fluctuations in cash flow. EWBC's treasury actively engages in trading for its own proprietary account. It trades local treasury bills and bonds, foreign-currency denominated bonds and foreign exchange. EWBC is an accredited Government Securities Eligible Dealer.

As of December 31, 2013, EWBC had ₱11,039.8 million of trading and investment securities, which included ₱9,912.6 million and ₱1,127.1 million of peso and U.S. dollar-denominated securities, respectively, and accounted for 7.8% of EWBC's total assets. As of December 31, 2013, 75.7% of EWBC's trading and investment securities portfolio was invested in government securities.

### **Trust Products**

EWBC offers a wide range of trust products and services, including fund management, investment management services, custodianship, administration and collateral agency services and stock and transfer agency services. In addition to offering trust services to corporate and high net-worth individual customers (customers with a total relationship balance of ₱2.5 million), EWBC provides retail customers with alternative investment opportunities through its unit investment trust funds (UITFs), which are available in peso and dollar denominated UITFs. In a UITF, funds of various investors are pooled and invested in a diversified portfolio of liquid securities, term deposits, money market instruments or stocks in accordance with the investment objectives and restrictions stated in the Declaration of Trust.

### **Subsidiaries and Affiliates**

#### **Subsidiaries**

The following describes certain information regarding EWBC's subsidiaries as of December 31, 2013:

<b>Subsidiary</b>	<b>Primary operations</b>	<b>EW's ownership (%)</b>	<b>Investment (₱ in millions)</b>	<b>EW share in net income (₱ in millions)</b>
GBI .....	Banking and Finance	99.84%	888.4	104.7
FRBI .....	Banking and Finance	100.00%	521.0	40.4

#### **Green Bank, Inc.**

GBI was founded on June 20, 1974 as Rural Bank of Nasipit (Agusan Del Norte), Inc., primarily to engage in the business of extending credit to small farmers, tenants and deserving rural industries or enterprises and to transact business which may be legally done by rural banks organized in accordance with R.A. No. 7353, Rural Bank Act of 1992. GBI has 46 branches and 94 kiosks, mostly in the Visayas and Mindanao areas.

The following selected key performance ratios measure the financial performance of GBI as of and for the year ended December 31, 2013

Total Assets.....	₱401.5
Net income.....	₱104.7
Return on average assets .....	2.46%
Net interest margin.....	4.8%

*East West Rural Bank (formerly Finman Rural Bank, Inc.)*

FRBI was founded on November 5, 1997 primarily to engage in the business of extending credit to small farmers, tenants and deserving rural industries or enterprises and to transact business which may be legally done by rural banks organized in accordance with R.A. No. 7353, Rural Bank Act of 1992. Its lone branch is situated at No. 360, Dr. Sixto Antonio Avenue, Barangay Caniogan, Pasig City.

The following ratios measure the financial performance of FRBI as of and for the year ended December 31, 2013:

Total Assets .....	₱3,744.2
Net income.....	₱40.4
Return on average assets.....	2.58%
Net interest margin.....	4.8%

### **Information Technology Management**

EWBC believes that sound information technology platform is an important element of the successful execution of its strategy to be a leader in customer service. EWBC continues to upgrade and strengthen its existing information technology platform to achieve maximum operational efficiency. Given EWBC's size compared to larger banks, it believes it has the advantage of flexibility to adapt to changing technologies.

EWBC is in the process of upgrading its information technology infrastructure to support its future growth. It is setting up a command centre to supervise the performance of the critical components of its IT infrastructure and to proactively manage these resources. EWBC will also implement a network management system which handles network performance monitoring and analysis. The server and database management system will also be implemented to track server and database availability and utilization, which will provide real-time detection and notification of system outages. Real-time data replication will also be deployed to improve data integrity and server redundancy. For operational efficiency, desktops of tellers and new accounts clerks will be replaced with client workstations. Enterprise back-up solutions will be implemented to enhance data back-up and restoration which will improve business continuity. These projects will optimize the resource utilization for all applications and business services.

Over the years, EWBC has implemented various automation projects to support its growth. In 2008, a new general ledger system was implemented to integrate the accounting, regulatory compliance, management information systems and risk management. The upgraded general ledger system maintains and reports data in a more accurate, timely and consistent manner across EWBC in order to facilitate informed decision making and allow EWBC to meet its internal and external financial reporting requirements. In 2010, EWBC installed an end-to-end treasury system to connect the front, middle and back-office operations of Treasury. A loan origination and customer on-boarding system were also implemented in 2010 to improve the process of customer acquisition and relationship. In 2011, the cash management platform was enhanced through the implementation of the new ATM switch and the addition of debit cards as an additional payment channel. EWBC is currently upgrading its internet and mobile banking systems. For operational efficiency, an inward check clearing system, signature verification system and predictive dialling system were implemented, resulting in significant increases in productivity. To improve corporate governance, anti-money laundering and Basel II systems were implemented for BSP compliance. To support EWBC's expansion program, a new core banking system will be implemented. An enterprise content management system is also being implemented to facilitate a paperless workflow of various customer fulfilment and operating processes with a view to reducing turn-around times and operating costs. These systems are intended to enhance EWBC's efficiency and facilitate an expedient and seamless customer experience by effectively connecting the various customer-facing elements of EWBC. In 2011, EWBC's disaster recovery site was moved to Filinvest Alabang, in order to accommodate larger requirements for business continuity and reduce proximity risk from EWBC's head office operations. On a regular basis, a business continuity drill is conducted to test the recovery of mission critical applications to ensure continuity of banking services in case of contingencies.

### **Risk Management**

EWBC is exposed to risks that are particular to all its business activities and the environment within which it operates. EWBC's Risk Management Division's primary role is to ensure that EWBC identify, measure and monitor the credit, market, liquidity and operational risks that arise from its business activities. It also ensures that all units adhere strictly to the policies and procedures which are established to mitigate or manage these risks. In coordination with the respective business units, it is also responsible for risk policy development, risk analysis, implementation of risk methodologies and risk reporting to senior management and the various risk committees of EWBC.

The Board of Directors is primarily responsible for approving the risk parameters, credit policies and the overall risk management of EWBC. The Board of Directors, through its Risk Management Committee oversees the risk management activities of EWBC. The Risk Management Committee is also responsible for periodically reviewing risk management policies and procedures relating to credit, market, liquidity and operational risks.

### ***Credit Risk***

Credit risk is the risk that the counterparty in a transaction may default. The risk may arise from lending, trade finance, trading investments, derivatives and other activities. EWBC's credit risk and loan portfolio are managed at the transaction, borrower, product and portfolio levels. EWBC has a structured and standardized credit rating and approval process according to the business and/or product segment, namely branch banking, corporate banking, consumer lending, treasury and trust. It also has well-defined concentration limits which are established for each type of borrower, individual risk rating and type of product or program to mitigate risk exposure across the business units.

The Risk Management Division undertakes several functions with respect to credit risk management. It independently performs credit analysis and reviews its consumer, commercial and corporate loan products against EWBC's risk assessment process to ensure consistency. It also strives to ensure that EWBC's credit policies and procedures are updated to meet the changing demands of the business.

The Risk Management Division's portfolio management function involves the review of EWBC's loan portfolio, including the portfolio risks associated with particular industry sectors, regions, loan size and maturity. It monitors compliance to the BSP's limit on exposure to any single person or group of connected persons to an amount not exceeding 25.0% of EWBC's adjusted capital accounts which includes only qualifying capital.

#### *Credit Risk Assessment for Consumer Loan Products*

The consumer loan portfolio of EWBC is composed of four main product groups, namely: credit cards, auto loans, residential mortgage loans and personal / salary loans. Each of these product groups has its own risk guidelines and risk assessment system. Although each loan application is examined through an individual credit evaluation process (combined manual and automated process), each of the main product groups of the consumer loans are managed on a portfolio basis with respect to defaults as well as different standards of review.

#### *Credit Risk Assessment for Corporate Loan Products*

EWBC has an internal credit rating system for corporate loan products that assesses risks relating to the borrower and the loan exposure. Borrower risk is evaluated by considering (i) quantitative factors, such as profitability, liquidity, capital adequacy, sales growth, production efficiency and leverage; (ii) qualitative factors, such as management skills and management integrity and (iii) industry risk. Industry risk is assessed by considering certain industry characteristics, such as its importance to the economy, growth outlook, cyclicity, industry structure and relevant government policies. Based on these factors, each borrower is assigned a Borrower Risk Rating (the "BRR"), a 10-scale scoring system that ranges from "1" to "10."

In addition to the BRR, EWBC assigns a Facility Risk Rating (FRR) to determine the risk of the prospective (or existing) exposure with respect to each credit facility that is applied for (or under which the exposure is accommodated). The FRR focuses on the quality and quantity of the collateral applicable to the underlying facility, independent of borrower quality. Consideration is given to the availability and amount of any collateral and the degree of control, which the lender has over the collateral. FRR applies both to balance sheet facilities and contingent liabilities. One FRR is determined for each individual facility taking into account the different security arrangements or risk influencing factors to allow a more precise presentation of risk. A borrower with multiple facilities will have one BRR and multiple FRRs. The Adjusted Borrower Risk Rating comprises a combination of the BRR and FRR with respect to a facility.

The credit rating for each borrower is reviewed annually except when the borrower has a higher risk profile or when there are extraordinary or adverse developments affecting the borrower, the industry and/or the Philippine economy.

EWBC determines the credit risk spread over its costs of funding based partly on the expected loss for each type of borrower pursuant to the risk ratings and expected loss guidelines formulated by the Risk Management Division.

### *Credit Approval Process*

Before any extension of credit, EWBC identifies the needs of the prospective borrower, analyzes the appropriateness of the exposure and evaluates inherent risks. The lending officers are responsible for soliciting target customers, evaluating credit and loan packaging.

The Loans and Investment Committee is responsible for reviewing and approving all loan proposals, with the exception of those delegated to the Sub-Loan Committee and back-to-back bills purchased transactions delegated to certain senior officers based on certain approval limits. The Loans and Investment Committee is a senior level group comprised of the chairman and senior officers of EWBC.

The Executive Committee reviews and approves proposals within its credit authority. Credit proposals exceeding the Executive Committee's credit authority limit and those which carry an unusual or material risk require approval of the Board of Directors. The Board of Directors has the ultimate authority to approve credit transactions and is also the only body with authority to approve directors, officers, stockholders and their related interests ("DOSRI") loans.

### *Credit Approval Authority*

The Board of Directors, being the ultimate approving authority of EWBC, has delegated specific approval limits to the Loans and Investments Committee and senior credit officers. These approval limits reflect the Board of Director's level of risk tolerance based on the type of borrower, size of maximum credit exposure, collateral, tenor and qualification of the credit officer. The approval limit of individual credit officers is based on, among other things, experience, education and training. The Executive Committee has a delegated approval limit of ₱500 million for secured loans and ₱250 million for unsecured loans. In addition, Sub-Loan Committees and Senior Officers are granted varying approval limits with respect to low-risk facilities.

Approval authority limits for Consumer Lending (comprising credit cards, auto, mortgage and personal lending) is granted to designated officers of EWBC. For certain amounts, the President and/or the Chairman are required to approve the credit proposals. In order to best serve its customers and expedite the approvals process for certain loans, designated officers are permitted a specified number of "deviations" to approve loans that would otherwise be outside the scope of their approval authority limits. For Corporate Lending, the authority and limits to approve credit proposals is generally vested in the Board of Directors, Executive Committee, Loan and Investments Committee, and designated officers of EWBC.

### *Credit Monitoring and Review Process*

Pursuant to the BSP's regulations, EWBC is required to establish a system of identifying and monitoring existing or potential problem loans and other risk assets and of evaluating credit policies under prevailing circumstances and emerging portfolio trends. To comply with this requirement, the Risk Taking Unit, on a regular basis or as circumstances require, monitors the financial condition of individual accounts and updates the senior management of EWBC accordingly.

All corporate accounts are reviewed at least once a year together with the credit line renewal. Larger exposures and lower rated-borrowers or counter-parties are reviewed more frequently, as necessary. EWBC also has an independent Credit Review Unit responsible for reviewing the corporate loan portfolio and Remedial Management Unit to manage and monitor its problem accounts.

EWBC also has an independent Credit Review Unit that is responsible for independently reviewing EWBC's corporate loan portfolio based on portfolio quality and compliance with pre-specified standards. The Credit Review Unit is also responsible for formulating credit policies.

The Corporate Banking Unit, Internal Audit Unit and Compliance Unit are responsible for monitoring compliance with DOSRI rules and guidelines. EWBC and its subsidiary, from time to time and in the ordinary course of business, enter into loan transactions with DOSRI. All such loans are on a commercial and arm's-length basis. The Philippine General Banking Law of 2000, RA 8791, (the "General Banking Law") and BSP regulations require that (a) the amount of individual outstanding loans, other credit accommodations and guarantees to DOSRI should not exceed an amount equivalent to their unencumbered deposits and the book value of their paid-in capital investment in EWBC, (b) unsecured loans, other credit accommodations and guarantees to each of EWBC's DOSRI may not exceed 30.0% of their respective total loans, other credit accommodations and guarantees, (c) the aggregate outstanding borrowings of DOSRI may not, without

the prior approval of the Monetary Board, exceed 15.0% of EWBC's total loan portfolio or 100.0% of EWBC's net worth, whichever is lower and (d) that the total unsecured DOSRI borrowings do not exceed 30.0% of the aggregate ceiling or the outstanding loans, whichever is lower. On January 31, 2007, the BSP issued Circular No. 560, imposing lower ceilings on loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks.

### ***Market Risk***

Market risk is the risk of future loss from changes in the value of a financial instrument held by EWBC. The primary source of market risk for EWBC is price risk. Price risk is the risk of a decrease in EWBC's earnings due to changes in the level or volatility of market factors, such as foreign exchange rates, interest rates, commodity prices or equity prices. Price risk is measured primarily through the Value-at-Risk ("VAR") model. EWBC manages its market risk through a system of limits based on notional amounts, VAR, and earnings at risk ("EAR"). The Board of Directors, Treasury Group, Treasury Operations, Risk Management Division and the ALCO manages the market risk through policy setting, reports, and transactions control and it monitors EWBC's sensitivity to market risks.

The Market Risk Management Unit of the Risk Management Division is responsible for (i) recommending market risk policies to the Risk Management Committee of the Board of Directors; (ii) reviewing and endorsing market risk limits; (iii) identifying, analyzing and measuring market risk affecting EWBC's trading, position-taking, lending, borrowing and other transactional activities; (iv) conducting stress tests and sensitivity analysis on EWBC's portfolio of financial instruments to assess risks; (v) assisting risk-taking personnel in developing risk reduction strategies; and (vi) establishing standards to monitor and report compliance with market risk limits.

### ***Price Risk***

EWBC manages its price risks through application of various limits set by the Risk Management Committee and approved by the Board of Directors. Such limits primarily include the following:

Market risk limits set the maximum monetary amount of potential loss, given a specified confidence interval, on the trading positions and portfolios, based on the risk tolerance by EWBC's management.

Duration limits are based on the change in the value of a security given a change in interest rates. Duration is monitored daily and EWBC has set modified duration limits for FVPL and historic tax credit ("HTC") portfolios.

Nominal position limits determine the maximum size of open risk positions that may be held by EWBC within a given time period. Such limits include overnight and daylight position limits which may vary for overbought and oversold positions. These limits must conform to the regulatory limits set by the BSP.

Management action trigger ("MAT"), loss alert and stop loss limits establish management's tolerance levels for accepting cumulative month-to-date market risk losses on trading positions.

Trader/Dealer Limits set the maximum volume of transactions that a trader/dealer may execute and is determined relative to the depth of experience and level of expertise of the personnel making the risk-bearing decision.

If any of the above limits are exceeded, such occurrence is promptly reported by the Market Risk Unit to the Risk Taking Unit and the President for appropriate action. All limit violations are also reported to the Risk Management Committee and the Board of Directors for appropriate action.

### ***Market Risk Management Process***

Treasury and other Risk Taking Units, in coordination with the Market Risk Unit of the Risk Management Division, seeks to develop a risk measurement process that is appropriate for EWBC's business and such process is approved by the Risk Management Committee and the Board of Directors from time to time. A product program manual, which sets out, among other things, a standardized process of measuring and managing price and liquidity risks, market risk limits, operational procedures and controls and approval procedures, is then prepared for each product. Price risk limits are applied at the business unit levels, endorsed by Risk Management Committee and approved by the

Board of Directors based on, among other things, a business unit's capacity to manage price risks, the size and distribution of the aggregate exposure to price risks and the expected return relative to price risk.

### ***Interest Rate Sensitivity Management***

A critical element of EWBC's risk management program consists of measuring and monitoring the risks associated with fluctuations in market interest rates on EWBC's net interest income. EWBC employs "gap analysis" to measure the interest rate sensitivity of its assets and liabilities. The asset/liability gap analysis measures, for any given period, any mismatch between the amounts of interest-earning assets and interest-bearing liabilities which would mature, or reprice, during that period. If there is a positive gap, there is asset sensitivity, which generally means that an increase in interest rates would have a positive effect on EWBC's net interest income. If there is a negative gap, this generally means that an increase in interest rates would have a negative effect on EWBC's net interest income.

### ***Foreign Exchange Risk***

EWBC manages its exposure to foreign exchange risk by maintaining foreign currency exposure within existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

EWBC's net foreign exchange exposure, taking into account any spot or forward exchange contracts, is computed as its foreign currency assets less foreign currency liabilities. BSP regulations impose a cap of 20.0% of unimpaired capital, or U.S.\$50.0 million, whichever is lower, on the excess foreign exchange holding of banks in the Philippines. In the case of EWBC, its foreign exchange exposure is primarily limited to the day-to-day, over-the-counter buying and selling of foreign exchange in EWBC's branches as well as foreign exchange trading with corporate accounts and other financial institutions. EWBC is permitted to engage in proprietary trading to take advantage of foreign exchange fluctuations.

EWBC's foreign exchange exposure during the day is guided by the limits set out in EWBC's Market Risk Policy Manual. These limits are within the prescribed ceilings mandated by the BSP. At the end of each banking day, EWBC reports to the BSP on its compliance with the mandated foreign currency exposure limits.

As of December 31, 2013, EWBC's net foreign exchange asset exposure was U.S.\$5.8 million.

### ***Liquidity Risk***

Liquidity risk is the risk that there are insufficient funds available to adequately meet all maturing liabilities, including demand deposits and off-balance sheet commitments. The primary responsibility of managing EWBC's liquidity risks lies with the ALCO. The ALCO's primary responsibilities include (i) ensuring that EWBC holds sufficient liquid assets of appropriate quality and in appropriate currencies to meet short-term funding and regulatory requirements, (ii) managing EWBC's balance sheet and ensuring that EWBC's business strategies are consistent with its liquidity, capital and funding strategies, (iii) establishing asset and/or liability pricing policies that are consistent with EWBC's balance sheet objectives, (iv) recommending liquidity risk limits to the Risk Management Committee and the Board of Directors and (v) approving the assumptions used in contingency and funding plans.

To ensure that EWBC has sufficient liquidity at all times, the ALCO and the Treasurer of EWBC formulate a contingency plan. The contingency plan sets out the amount and the sources of funds (such as unused credit facilities) that are available to EWBC and the circumstances under which EWBC may use such funds. The Treasurer periodically performs simulated stress tests that evaluate EWBC's ability to withstand a prolonged liquidity problem. Under a stress test, the Treasurer evaluates potential cash outflows resulting from, among other things, a potential early termination of financial instruments and a potential increase in withdrawals of deposits. Such potential cash outflows are then compared to the amount of funds that are available to EWBC to determine the liquidity status of each business unit and EWBC during a liquidity crisis. In performing such stress test, the Treasurer assumes certain customer and market behaviour under adverse market conditions and circumstances under which EWBC's reputation is tarnished. The Treasurer also determines the amount of committed credit lines that should be available to EWBC during a liquidity crisis.

As of December 31, 2013, the total amount of funds available to EWBC under credit facilities for unsecured borrowings and swaps was estimated to be ₱7,984 million.

EWBC also manages its short-term liquidity risks through the use of a maximum cumulative outflow (“MCO”) limit which limits the outflow of cash on a cumulative basis and on a tenor basis. To maintain sufficient liquidity in foreign currencies, EWBC has also set an MCO limit for certain designated foreign currencies. The MCO limits are endorsed by the Risk Management Committee and approved by the Board of Directors.

EWBC takes a multi-tiered approach to maintaining liquid assets. BSP regulations require EWBC to maintain minimum cash reserves and liquid assets as a proportion of its overall deposits. EWBC’s principal source of liquidity comprises cash and other cash items of ₱3,884.5 million, due from other banks of ₱1,751.8 million, due from BSP of ₱18,537.7 million and interbank loans receivable and securities purchased under resale agreement amounting to ₱3,116.5 million as of December 31, 2013. In addition to regulatory reserves, EWBC maintains what it believes to be a sufficient level of secondary reserves in the form of liquid assets such as short-term trading and investment securities that it believes can be realized quickly. Of a total portfolio of trading and investment securities of ₱11,039.8 million as of December 31, 2013, ₱1,949 million, or 17.7%, comprised trading and investment securities with remaining maturities of one year or less. In addition, EWBC manages liquidity by maintaining a loan portfolio with what it assesses to be a sufficient proportion of short-term loans. As of December 31, 2013, ₱57,216.0 million, or 59.8%, of EWBC’s total gross loans and receivables had remaining maturities of less than one year.

### ***Operations Risk***

EWBC is exposed to many types of operational risk. Operational risk can result from a variety of factors, including failure to obtain proper internal authorizations, improperly documented transactions, failure of operational and information security procedures, computer systems, software or equipment, fraud, inadequate training and employee errors. EWBC attempts to mitigate operational risk by maintaining a comprehensive system of internal controls, establishing systems and procedures to monitor transactions, maintaining key back-up procedures and undertaking regular contingency planning.

#### *Operational Controls and Procedures in Branches*

EWBC has operating manuals detailing the procedures for the processing of various banking transactions and the operation of the application software. Amendments to these manuals are implemented through circulars sent to all offices.

When taking a deposit from a new customer, EWBC requires the new customer to complete a relationship form, which details the terms and conditions for providing various banking services. EWBC enters into a relationship with a customer only after it verifies the customer’s identity. EWBC has a scheme of delegation of financial powers that sets out the monetary limit for each employee concerned with respect to the processing of transactions in a customer’s account. Cash transactions over a certain limit are subject to special scrutiny to avoid laundering.

EWBC’s banking software has multiple security features to protect the integrity of applications and data. EWBC gives importance to computer security and has a comprehensive information technology security policy. Most of the information technology assets including critical servers are hosted in centralized data centres, which are subject to appropriate physical and logical access controls.

#### *Operational Controls and Procedures for Internet Banking*

To open an internet banking account, the customer must provide EWBC with documentation to prove the customer’s identity. After verification of this documentation, EWBC opens the internet banking account and issues the customer a user identity and password to access his account online.

#### *Operational Controls and Procedures in Treasury*

EWBC uses technology to monitor risk limits and exposures. EWBC’s front office, back office and accounting and reconciliation functions are fully segregated. The respective middle offices use various risk monitoring tools such as counter-party limits, nominal position limits, aggregate control limits, VAR limits, EAR limits, MCO limits, stop loss, loss alert and individual dealer limits (per trader, position limits, stop loss and loss alert, among others). Procedures for reporting breaches in limits are also in place.

EWBC's front office treasury transactions consist of transactions relating to fixed income, interbank transactions, foreign exchange, swaps, money market and derivatives. EWBC's traders analyze the market conditions and take views on price movements. Trading strategies are discussed frequently and decisions are taken based on market forecasts, information and liquidity considerations. Thereafter, they enter into transactions in conformity with various limits relating to counter-parties, securities and brokers. Trading operations are also conducted in conformity with the code of conduct prescribed by internal and regulatory guidelines.

Interbank trading is conducted through Reuters, Philippine Dealing and Exchange Corporation ("PDEX") and Bloomberg dealing systems. Deals done through Reuters and PDEX are captured on a real-time basis for processing. Brokered deals carried out through voice systems are confirmed through the dealing system by the dealers.

EWBC's back office undertakes the settlement of funds and securities. The back office has procedures and controls for mitigating operational risks, including procedures with respect to deal confirmations with counterparties, verifying the authenticity of counter-party checks and securities, ensuring receipt of contract notes from brokers, monitoring receipt of interest and principal amounts on due dates, ensuring transfer of title in the case of purchases of securities, reconciling actual security holdings with the holdings pursuant to the records and reports any irregularity or shortcoming observed.

### ***Audit***

The Internal Audit Unit is an independent unit responsible for ensuring, internal control, operational efficiency, reliability of financial reporting and compliance with applicable laws and regulations.

The Internal Audit Unit is responsible for undertaking a comprehensive annual audit of all business groups and other functions, including each branch, the trust unit and EWBC's information technology, in accordance with a risk-based audit plan and provides an independent appraisal of the adequacy and effectiveness of the risk management and controls processes in operation throughout EWBC. It is also in charge of conceptualizing and implementing improved systems of internal controls to minimize operational risk. Various components of information technology from applications to databases, networks and operating systems are covered under the annual audit plan. The audit plan for every fiscal year is approved by the Audit Committee.

The Head of the Internal Audit Unit reports directly to the Audit Committee and the Board of Directors. These reporting lines and organizational structures ensure that the Internal Audit Unit has the full support and access required to efficiently and systematically conduct its work independently. The Internal Audit Unit issues various reports to the Audit Committee, management and other relevant parties throughout the year, including audit reports, compulsory audit reports of branch visits and periodic reports issued to the Audit Committee, the Board of Directors and management.

### ***Anti-money Laundering Controls***

Under the Anti-Money Laundering Act, EWBC is required to submit a "covered" transaction report involving a single transaction in cash or other equivalent monetary instruments in excess of ₱500,000 within one banking day. EWBC is also required to submit a "suspicious" transaction report to the AMLC of the BSP if there is reasonable ground to believe that any amounts processed are the proceeds of money-laundering activities. EWBC is required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for five years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

In an effort to further prevent any money laundering activities through EWBC, it has adopted the Know Your Customer ("KYC") policies and guidelines. Under the KYC guidelines, each business unit is required to validate the true identity of a customer based on official or other reliable identifying documents or records before an account may be opened. Each business unit is also required to monitor account activities to determine whether transactions conform to the normal or expected transactions for a customer or an account. For a high net worth individual, whose source of funds is unclear, a more extensive due diligence is required. Decisions to enter into a business relationship with a higher risk customer, such as a politically exposed person or a private individual holding a prominent position, are made exclusively at the senior management level.

## ***Legal Risk***

With a view to managing EWBC's exposure to legal risk and to ensure that contracts and other transaction documentation entered into by EWBC provide an acceptable level of legal protection, EWBC's counsel reviews transaction documentation in accordance with established policies and procedures. EWBC acknowledges that changes in laws, rules and regulations may impact its business and operations and that legal risk may be higher in some areas of its business and operations where the laws may not be entirely sufficient to cover the subject matter. EWBC seeks to mitigate its exposure to legal risks by, among others, using appropriate legal documentation, employing measures designed to ensure that transactions are properly authorized, and consulting with competent counsel and, when circumstances so warrant, consulting with regulators.

## **Banking Industry**

The banking industry in the Philippines is composed of universal banks, commercial banks, savings banks, savings and mortgage banks, private development banks, stock savings and loan associations, rural banks cooperative banks and Islamic banks.

Per BSP's latest available data as at September 30, 2013, the banking sector, comprising of universal and commercial banks, consisted of 36 banks, of which 20 were universal banks and 16 were commercial banks. Of the 20 universal banks, 11 were private domestic banks, 3 were Government-controlled banks and 6 were branches of foreign banks. Of the 16 commercial banks, 6 were private domestic banks, 2 were subsidiaries of foreign banks and 8 were branches of foreign banks.

Commercial banks are organized primarily to accept drafts and to issue letters of credit, to discount and negotiate promissory notes, drafts, bills of exchange and other evidences of indebtedness, receive deposits, buy and sell foreign exchange and gold and silver bullion, and lend money on a secured or unsecured basis. Universal banks are banks that have authority, in addition to commercial banking powers, to exercise the powers of investment houses, to invest in the equity of businesses not related to banking, and to own up to 100% of the equity in a thrift bank, a rural bank, or a financial allied or non-allied enterprise. A publicly listed universal or commercial bank may own up to 100% of the voting stock of only one other universal or commercial bank.

Thrift banks primarily accumulate the savings of depositors and invest them, together with their capital, in loans secured by bonds, mortgages in real estate and insured improvements thereon, chattel mortgage, bonds and other forms of security or in loans for personal and household finance, secured or unsecured, or in financing for home building and home development; in readily marketable debt securities; in commercial papers and accounts receivables, drafts, bills of exchange, acceptances or notes arising out of commercial transactions. Thrift banks also provide short-term working capital and medium-and long-term financing for businesses engaged in agriculture, services, industry, and housing as well as other financial and allied services for its chosen market and constituencies, especially for SMEs and individuals. Per BSP's latest available data as at June 30, 2013, there were 70 thrift banks.

Rural banks are organized primarily to make credit available and readily accessible in the rural areas on reasonable terms. Loans and advances extended by rural banks are primarily for the purpose of meeting the normal credit needs of farmers and fishermen, as well as the normal credit needs of cooperatives and merchants. Per BSP's latest available data as at September 30, 2013, there were 569 rural and cooperative banks.

Specialized government banks are organized to serve a particular purpose. The existing specialized banks are the Development Bank of the Philippines ("DBP"), Land Bank of the Philippines ("LBP"), and Al-Amanah Islamic Investment Bank of the Philippines ("AAIIB"). DBP was organized primarily to provide banking services catering to the medium-and long-term needs of agricultural and industrial enterprises, particularly in rural areas and preferably for SMEs. LBP primarily provides financial support in all phases of the Philippines' agrarian reform program. In addition to their special functions, DBP and LBP are allowed to operate as universal banks. AAIIB was organized to promote and accelerate the socio-economic development of the Autonomous Region in Muslim Mindanao through banking, financing and investment operations and to establish and participate in agricultural, commercial and industrial ventures based on Islamic banking principles and rulings. During the past fifteen years, the Philippine banking industry has been marked by two major trends — the liberalization of the industry, and mergers and consolidation.

Foreign bank entry was liberalized in 1994, enabling foreign banks to invest in up to 60% of the voting stock of an existing bank or a new banking subsidiary, or to establish branches with full banking authority. This led to the establishment of 10 new foreign bank branches in 1995. The General Banking Law further liberalized the industry by providing that the Monetary Board may authorize foreign banks to acquire up to 100% of the voting stock of one domestic bank. Under the General Banking Law, any foreign bank, which prior to the effectiveness of the said law availed itself of the privilege to acquire up to 60% of the voting stock of a domestic bank, may further acquire voting shares of such bank to the extent necessary for it to own 100% of the voting stock thereof. Per BSP's latest available data, as at

September 30, 2013, there were 14 foreign banks with branches and three foreign banks with subsidiaries in the Philippines, accounting for 12.3% of the total resources of the Philippine banking system.

The BSP has also been encouraging mergers and consolidations in the banking industry, seeing this as a means to create stronger and more globally competitive banking institutions. To encourage this trend, the BSP offered various incentives to merging or consolidating banks. Based on BSP data, since the new package of incentives took effect in September 1998, there have been an increasing number of mergers, acquisitions, and consolidations of banks. However, while recent mergers increased market concentrations, BSP studies showed that they were not enough to pose a threat to the overall competition levels since market share remained relatively well dispersed among the remaining players.

The following table sets out a comparison, based on quarterly reports filed with the BSP, of the leading Philippine banks in terms of total assets as at September 30, 2013 (latest available comparative data):

(in Php Billions)	Market Capitalization	Total Assets	Total Capital	Net Loans	Total Deposits
BDO	268,565.6	1,519.2	162.2	811.8	1,202.4
Metrobank	227,818.5	1,255.3	140.5	811.8	900.3
BPI	342,832.7	1,072.8	101.7	543.4	891.0
Land Bank	N/A	732.7	74.2	252.1	593.3
PNB	94,934.6	590.2	79.3	234.3	453.5
DBP	N/A	393.9	40.0	109.4	223.0
RCBC	58,042.5	391.8	46.1	194.6	260.2
China Bank	85,659.7	365.5	41.4	202.4	303.2
Union Bank	78,253.5	338.2	40.8	100.8	258.5
Security Bank	65,859.2	275.7	40.4	139.6	184.2
UCPB	N/A	257.7	20.8	92.4	212.5
EastWest Bank	30,297.8	126.0	18.8	84.2	95.2

## Competition

The Bank faces competition from both domestic and foreign banks, in part, as a result of the liberalization of the banking industry by the Government. Since 1994, a number of foreign banks, which have greater financial resources than the Bank, have been granted licenses to operate in the Philippines. Such foreign banks have generally focused their operations on the larger corporations and selected consumer finance products, such as credit cards. The foreign banks have not only increased competition in the corporate market, but have as a result caused more domestic banks to focus on the commercial middle-market, placing pressure on margins in both markets.

Since September 1998, the BSP has been encouraging consolidation among banks in order to strengthen the Philippine banking system. Mergers and consolidation result in greater competition, as a smaller group of “top tier” banks compete for business.

Per BSP’s latest available data as of December 31, 2013, the ten largest universal and commercial banks account for approximately 79.4% of total assets and 81.1% of total deposits of the universal and commercial banking system based on published statements of condition.

Certain factors arising from the 1997 Asian crisis and more recently the 2008 global financial crisis also resulted in greater competition and exert downward pressure on margins. Banks instituted more restrictive lending policies as they focused on asset quality and reduction of their NPLs, which resulted in increasing liquidity. As Philippine economic growth further accelerates and banks begin to apply such liquidity in the lending market, greater competition for corporate, commercial and consumer loans is expected. As of December 31, 2013, the ten largest universal and commercial banks account for approximately 83.8% of the gross customer loan portfolio of the universal and commercial banking system, based on published statements of condition.

### *Recent Government Policies and Regulations in Relation to the Philippine Banking System*

The Philippine banking industry is highly regulated by the BSP and operates within a framework that includes guidelines on capital adequacy, corporate governance, management, anti-money laundering and provisioning for NPLs. The BSP can alter any of these and can introduce new regulations to control any particular line of business. Certain policies that the Bank believes could affect its results of operations include the following:

- Regulations Governing the Derivatives Activities of Banks. In line with the policy of the BSP to support the development of the Philippine financial market by providing banks and their clients with expanded opportunities for financial risk management and investment diversification through the prudent use of derivatives, Circular No. 594 was issued by the BSP in January 8, 2008 amending the existing regulations governing the derivatives activities of banks and trust entities. The Bank expects increased competition in the swaps and other derivative transactions allowed under the new regulations. In addition, the Bank will need to apply for additional derivatives authority to increase its flexibility and to engage in other derivative products.
- Amendments to UITFs Regulations. In September 3, 2004, the BSP issued Circular No. 447 which provided guidelines for the launching and offering of new products to be known as UITFs, and was intended to completely phase out common trust funds or convert them into UITFs within two years from the date of the circular. UITFs are open-ended pooled trust funds denominated in pesos or any acceptable currency that are to be operated and administered by trust entities and made available by participation. Eligible assets of UITFs include bank deposits, securities issued by or guaranteed by the Government or the BSP, tradable securities issued by the government of a foreign country, exchange listed securities, marketable instruments that are traded in an organized exchange, loans traded in an organized market and such other tradable instruments as the BSP may allow. These assets are subject to mark-to-market valuation on a daily basis. The stated objective of the BSP is to align the operation of pooled funds with international best practices and enhance the credibility of pooled funds to investors. In January 2008, the BSP issued Circular No. 593 to improve risk disclosure on investing in UITFs, to require banks to conduct a client suitability assessment to profile the risk-return orientation and suitability of the client to the specific type of UITF that he wants to participate in, and to update client's profile at least every three years. The Bank has joined with the BSP in this endeavour to guide clients in choosing investment outlets that are best suited to their objectives, risk tolerance, preferences and experience.
- Limit on Real Estate Loans of Universal Banks. In February 4, 2008, the BSP issued Circular No. 600 removing interbank loans from the total loan base to be used in computing the aggregate limit on real estate loans, and amending the inclusions and exclusions to be observed in the computation. Overall, the new provisions reduced the Bank's exposure limit which it must ensure it will not exceed.
- Exemption of Paired ROP Warrants from Capital Charge for Market Risk. In connection with the Government's Paired Warrants Program, the BSP issued Circular No. 605 in March 5, 2008 exempting warrants paired with ROP Global Bonds from capital charge for market risk to the extent of a bank's holdings of bonds paired with warrants equivalent to not more than 50.0% of total qualifying capital. The Bank holds such investments which give it additional flexibility for capital deployment.
- Guidelines on Securities Borrowing and Lending Transactions. Guidelines by the PSE involving foreign entities of PSE-listed shares from local investors and lenders. In May 2008, the BSP Monetary Board authorized to issue BSP Registration documents to cover the PSE-listed shares of stock borrowed by foreign entities from local investors and lenders. This will allow foreign borrowers to purchase foreign exchange from the banking system for remittance abroad using the peso sales proceeds of the borrowed shares including the related income from SBL transaction, i.e. rebates or shares in the income earned on the reinvestment of the cash collateral, interest and dividends earned on the peso-denominated government securities and PSE-listed shares used as collateral.
- Reclassification of Financial Assets between Categories. The BSP issued Circular No. 628 dated October 31, 2008, amending Circular No. 626 dated October 23, 2008 and Resolution of the Monetary Board No. 1423 dated October 30, 2008, which approved the guidelines governing the reclassification of financial assets between categories. Financial Institutions shall be allowed to reclassify all or a portion of their financial assets from "held for trading" or "available for sale" categories to the "held to maturity" or "unquoted debt securities classified as loans" categories effective July 1, 2008.
- Taxes. In addition, the Bank is subject to certain tax rules specific to financial institutions. In November 2005, the Government increased the gross receipts tax, which is applied to the Bank's non-interest income, from 5.0% to 7.0%. Any changes in the regulatory or tax environment as pertaining to the Philippine banking industry could have a material impact on the Bank's results of operations and financial condition.

## **SUGAR BUSINESS**

### **Overview**

In 2007 FDC acquired a 100.0% ownership interest in PSHC from ALG. PSHC wholly owns DSCC, which owns and operates a sugar mill and refinery, CSCC, which owns and operates a sugar mill and refinery, and HYSFC, which owns and operates a corporate sugarcane farm, each of which is located in Mindanao. Sugarcane supply for DSCC and CSCC is sourced from HYSFC and contract farms in Mindanao.

PSHC is the holding company of the Sugar Subsidiaries. For 2012 and 2013, total revenues and other income from the Sugar Subsidiaries was ₱2,468.8 million and ₱2,756.1 million, respectively and contribution to the Group's consolidated revenues and other income was 8.3% and 8.2%, respectively.

The following table sets forth a summary of key information with respect to the Sugar:

<b>Subsidiary</b>	<b>Nature of Business</b>	<b>Summary features</b>
Davao Sugar Central Co., Inc.	Manufacture of raw and refined sugar	6,000 tons cane per day raw sugar mill and 350 tons day refinery
Cotabato Sugar Central Co., Inc.	Manufacture of raw and refined sugar	5,500 tons per day raw mill and 250 tons per day refinery
High Yield Sugar Farms Corp.	Sugarcane farming	Farms 1,900 hectares in Davao del Sur and North Cotabato (as of October 1, 2013)

## **Sugar Production**

### *Production Process and By-products*

PSHC's raw sugar production process involves cane crushing, clarification and crystallization, and separation, and yields molasses and bagasse as by-products. The molasses is sold and the bagasse is used to generate steam and electricity for the sugar production process. During the crushing season, all of PSHC's power requirements are satisfied from bagasse it produces. The typical sugarcane material balance is as follows: water — 73% to 76%, soluble solids 8% to 16%, recoverable sugar (sucrose) — 6% to 13.5%, other sugar (fructose, glucose) — 1.5%, fibre — 11% to 16%, others — 1%, based on the Handbook of Cane Sugar Engineering.

### *Production Capacity and Output.*

For CY2012–13, PSHC's total sugarcane crushing capacity at its two sugar mills was 10,500 TCD. Sugar production capacity is dependent upon the quantity of sugarcane available for crushing and the recovery percentage of sugar from sugarcane. Recovery percentages vary depending on the quality of the sugarcane and the efficiency of the recovery process. PSHC's crop year begins on October 1 of each year and ends on September 30 of the following year. Actual sugar production occurs within this crop year. The duration of the crushing period generally determines the amount of sugar that is produced. The following table sets forth the volumes of sugarcane crushed and sugar produced at PSHC's mills for the past three crop years.

	Sugarcane crushed and sugar production								
	DSCC			CSCC			Total PSHC		
	CY 2010- 2011	CY 2011- 2012	CY 2012- 2013	CY 2010- 2011	CY 2011- 2012	CY 2012- 2013	CY 2010- 2011	CY 2011- 2012	CY 2012- 2013
Sugarcane Crushed (‘000 MT)	505	549	592	426	507	526	931	1,056	1,118
Sugar Production (‘000 MT)	46	53	60	36	43	48	82	96	108
Average Recovery rate (% of sugarcane crushed)	9.11	9.67	10.10	8.45	8.48	9.19	8.81	9.09	9.67

The increase in PSHC's sugar production during CY2012–13 compared with CY2012–11 and CY2011–10 is primarily attributable to an increase in the area planted to sugarcane improved farm yields from better farm practices and higher level of inputs

All of the sugarcane that the PSHC mills crushed is currently used to produce sugar. Assuming that PSHC operates its mills for their optimum time periods, approximately 259 days a year, with an aggregate crushing capacity of 10,500 TCD, PSHC's total sugarcane crushing capacity would be 2,688 thousand MT, and at an average 10% sugar recovery rate, it would be able to produce 268,800 MT of sugar in a crop year.

#### *Raw and Refined Sugar Production*

PSHC produces raw and refined sugar at its DSCC mill and raw sugar at the CSCC mill. PSHC will produce refined sugar at the CSCC mill starting in CY2012–13. Refined sugar undergoes further processing than raw sugar and commands a higher price. The following table sets out the breakdown of sugar sales between raw and refined sugar by PSHC.

	Sugar sales ('000 MT)					
	CY 2010-11	% of Total	CY 2011-12	% of Total	CY 2012-13	% of Total
Raw sugar	26.33	89%	51.17	81%	73.13	80%
Refined sugar	3.40	11%	11.86	19%	18.48	20%
Total	29.73	100%	63.03	100%	91.61	100%

#### *Molasses and Bagasse Production*

The yield of molasses per metric ton of sugarcane crushed is approximately 3%, or 30 kilos, most of which PSHC sells to traders in the domestic market. Molasses can be used to produce ethanol. Each metric ton of sugarcane that PSHC crushes also produces approximately 33%, or 330 kilos of bagasse, which is fed to a boiler as fuel to produce steam which is then used to generate electricity and to provide the steam necessary for the sugar production process.

#### *Customers and Markets*

PSHC sells raw and refined sugar primarily to traders who then sell PSHC's sugar to end-customers in the Philippines. PSHC's end customers include wholesalers and retailers as well as food and beverage companies. PSHC is required to export a certain percentage of its sugar from each sugarmill, as required by the SRA. During CY2012–13, PSHC exported 19 thousand MT of sugar, with a value of Php283.7million. PSHC does not export sugar directly, but exports sugar through traders. In recent years, PSHC's exports were generally at a level no higher than the mandated allocation because prices in the domestic market were higher than prices available for export sales as a result of droughts in the Philippines and domestic transportation costs are lower than the costs of overseas transport. PSHC uses traders for all of its sugar exports. The following table sets forth the breakdown of PSHC's sales of sugar to traders and industrial users.

	% of total sugar sold		
	CY 2010-11	CY 2011-12	CY 2012-13
Traders	88%	91%	95%
Industrial users	12%	9%	5%

#### *Sales and Distribution*

For CY2012–13, the Group's sugar sales amounted to ₱2,691.8 million compared to sales of ₱2,369.3 million for the CY2011–12. The following table sets out the Group's sales of sugar by destination as a percentage of total sales.

	PSHC		
	CY 2010-11	CY 2011-12	CY 2012-13
Mindanao	21%	4%	17%
Luzon	8%	16%	29%
Visayas	58%	49%	42%
Export Sales (primarily to United States)	13%	31%	12%

PSHC sells the majority of its production in the wholesale market to traders. To mitigate the risk of non-payment, PSHC generally dispatches orders only after it receives payment although PSHC extends credit in limited circumstances to large customers whom PSHC believes have a strong credit record. Credit terms generally do not exceed 30 to 90 days. Increasingly, PSHC does not have written

contractual agreements with its traders, and they do not sell PSHC's sugar exclusively. Customers typically obtain delivery of the sugar at the mills and are responsible for transport, packaging and handling. In addition, PSHC has an internal sales team to sell and market its sugar which it has started to expand in anticipation of increasing its sugar output. PSHC also sells a substantial portion of its sugar to industrial buyers pursuant to short-term contracts. When the contract is renewed, the quantity of sugar to be purchased and the price are fixed. PSHC aims to increase its industrial customer base and expand sales in the Luzon region and other areas of the country outside PSHC's core market in Southern Mindanao.

#### *Raw Material*

Sugarcane is the principal raw material used in the production of sugar. The climate and topography of the southern Philippine regions of the Visayas and Mindanao are ideal for growing sugarcane. According to SRA Production Bulletin dated August 31, 2013 Mindanao accounted for 20% of the Philippines' sugarcane production in CY2012–13.

Sugarcane is delivered by farmers to DSCC and CSCC for milling and, in return, the farmers receive a portion of the sugar produced. As a result, DSCC and CSCC do not record any costs for the sugarcane. PSHC sources approximately 85% to 88% of its sugarcane from approximately 5,500 contract farmers within proximity to the DSCC and CSCC factories, and the remainder is supplied by PSHC's corporate farm, HYSFC.

PSHC generally enters into milling contracts with its contract farmer for terms of 15 years. Under a typical milling contract the farmer agrees to deliver all sugarcane grown on a specified area of land to the PSHC mills during the milling season, and is obligated to deliver a minimum volume of sugarcane or cultivate sugarcane on a minimum area of land. The time of delivery is based on a delivery program which is determined on the basis of the age of the sugarcane crops. Typically, the farmer receives approximately 62% of the raw sugar and molasses from the raw sugar produced by the mill, with the remainder being retained by the mill. The mills issue a receipt, or *quedan*, to each farmer that specifies the amount of sugar or molasses that is due to the farmer. Upon presentation of the receipt, the farmer can withdraw the sugar or molasses from the warehouses at the mill. Approximately 50% to 60% of the farmers sell their share of sugar and molasses to the PSHC mills. Each of PSHC's mills manage their sugarcane farmers through a designated cane supply office which has crop advisors and management programs in place to train, manage and support farmers with technical advice for best farming practices. In addition to farmer training and seminars, the cane supply office provides financial assistance programs, including subsidies and loans for crops, cane points, fertilizer and tractors.

#### *Competition*

According to the SRA Production Bulletin dated August 31, 2013, as of CY2012-13, there were 29 operating sugar mills in the Philippines with an aggregate raw sugar production of 2.4457 million MT for CY2012–13. These mills are located in the Luzon, Visayas and Mindanao regions. There are four sugarmills in Mindanao, including DSCC and CSCC, which are owned and operated by PSHC.

The following table below sets out the amount of sugarcane crushed and the quantity of sugar produced by PSHC compared to its main competitors in Mindanao in CY2012–13.

	Sugarcane crushed ('000 MT)	Sugar production ('000 MT)
PSHC	1,118	108
Bukidnon Sugar Central	2,320	229
Crystal Sugar Central	1,640	161
Total	5,078	498

Source: SRA Production Bulletin dated August 31, 2013

PSHC believes that it currently does not face significant competition from international sugar producers in the Philippines sugar market because there are generally limited imports of sugar in the Philippines due to high freight costs and import tariffs. This situation can change depending on the government's actions with the expected full effectivity of the AFTA in 2015.

### *Insurance*

PSHC maintains insurance covering all PSHC's inventory of sugar, packing material, consumables, buildings and equipment in all of PSHC's mills and facilities, against fire, lightning, storms and allied perils in an aggregate amount equal to ₱4,173 million. PSHC maintains business interruption insurance in an aggregate amount equal to ₱10 million.

PSHC does not anticipate having any difficulties in renewing any of its insurance policies and believes that its insurance coverage is consistent with industry standards in the Philippines.

### *Environment*

The sugar production process generates waste such as soot and dust, water and solid materials as well as noise at various stages of the production process. PSHC aims to develop its business without compromising environmental protection. The primary waste produced in PSHC's production facilities is bagasse, which is fed to a boiler as fuel to produce steam which is then used to generate electricity and to provide the steam necessary for the sugar production process. In addition, water treatment and scrubber systems are installed in PSHC's production facilities to control wastewater discharge and clean waste gases that are emitted during the production process. PSHC has obtained all environmental licenses from the relevant authorities in the Philippines that are necessary to conduct its business. The environmental licenses obtained by PSHC are annually renewed. As of the date of this Offering Circular, PSHC has not been subject to any material fines or legal action involving non-compliance with any relevant environmental laws and regulations in the Philippines.

## **HOSPITALITY**

The Group's hospitality business is operated through both FHI and FHC. FHI is a joint venture of FDC (60.0%) and AIPL (40.0%), which was created in 2008 to manage the Group's hospitality projects. AIPL is an affiliate of Aston International, which manages hotels, resorts, residences, spas and villas under the Aston, Alana, Quest, Fave and Kamuela brands. FHI's principal purpose is to provide a comprehensive range of design, consulting, technical, marketing, training, operations and management services for hotels, serviced apartments, villas, condotels, and boutique resorts. Pursuant to agreement entered into in 2009, FHI agreed to provide management services with respect to CRSM and technical services for FLI's Grand Cenia Hotel and Residences, which launched its soft opening operations in February 2012 and had its grand opening in September 2012 and FAI's CHFC, Manila in Alabang, which launched its soft opening operations in December 2012. In August 2012, FDC formed its wholly-owned subsidiary, FHC. The primary role of FHC is to evaluate potential hospitality projects and acquire viable properties to develop into hotels, resorts or condotels. FHC is currently in the planning and designing stage for a 5-star Crimson Resort and Spa development with 190 keys on the island of Boracay in Aklan. It plans to break ground in the first quarter of 2014.

### *Competition*

The Company faces significant competition in the Philippine Hospitality market. By not only developing hotel projects but also having hotel management capability, the Company believes that it is strongly positioned to take advantage to the expected emergence of a robust tourism market in the Philippines. The Company believes that success in the Philippine Hospitality market depends on a mix of external factors and internal capabilities.

External factors which can greatly affect the Philippine Hospitality include political and economic stability, climate change and general security. These external factors affect the attractiveness of the Philippines for both local and domestic, leisure and business travelers. Internally the Company is confident due to Filinvest's background in real estate development in its ability to acquire, lease or joint venture the right pieces of property and execute the right type of hospitality development. Also the Company believes that it has a strong management capability gained through its partnership with Archipelago International. Despite the short operating history of the Company, its hotel assets have been able to compete with even entrenched players as evidenced by the strong performance of the operating hotel properties.

The Company competes with local and foreign hospitality developers, owners and operators to acquire, lease or joint-venture appropriate hotel locations the main tourist and business destinations. Its hotel assets also compete for room and banquet business among the hospitality or hospitality like products serving the markets where these assets are located. Major competitor includes – SM, Ayala, Waterfront, Shangri-la, Bellevue, Movenpick.

## **POWER GENERATION**

The Group, through FDCUI, is developing a 405 MW clean coal thermal power plant in Mindanao and 13 MW hydropower plant in Luzon. Offtake agreements for 252 MW with 17 distribution utilities in Mindanao are already on hand and an additional 26 MW are still being negotiated. It is currently negotiating with potential engineering, procurement and construction contractors for its Mindanao power plant project. The Group intends to use aportion of the net proceeds it receives from the issue of the Bonds as well as bank facilities and cashflows from operations to finance the required capital expenditures in connection with the potential power projects.

Mr. Jesus Alcorido joined the Group, effective January 1, 2011, as President of FDC Utilities Inc., to implement potential power generation projects. Mr. Alcorido previously served as Commissioner of the ERC and President and Chief Executive Officer of Napocor. He also previously served as Chairman, President and Chief Executive Officer of East Asia Power Resources Corporation. Most recently, he was concurrent President of Global Business Power Corporation and Cebu Energy Development Corporation, where he led the development, construction and commissioning of two greenfield clean coal power projects, a 246 MW plant in Cebu and 164 MW plant in Panay. The Company has previous experience in the power sector, having owned 25% of East Asia Power Corp. from 1995–2000, owned 100.0% of East Asia Utilities Corp. and Cebu Private Power Corp. in 1998–2000, and bid for PNOC Energy Development Corporation in November 2007.

### *Supply*

- To ensure security of supply and plant requirement, a long term contract for a minimum of 5 years up to 10 years will be sourced from reliable suppliers (with track record of supplying coal plants in the Philippines) such as:PT Adaro with measured reserves of 861 million tons
- PT Kideco with measured reserves of 192 millllion tons

Further, FDCUI has executed memorandums of understanding with the following Indonesian suppliers:

- PT Avra Asia
- PT Pevensy – Indexim Coal

Negotiations with other suppliers are currently ongoing.

### *Competition*

At present, three major players dominate the power industry and accounts for about 51% of the total generation capacity in the country. These are First Gen Power Corporation, San Miguel Energy Corporation and Aboitiz Power Corporation. First Gen Power Corporation, which owns and operates natural gas, geothermal and hydro power plants throughout the country has a market share of 18%. San Miguel Energy Corporation which is the IPP administrator of the three (3) of the largest power plants in Luzon, namely: Ilijan Natural Gas, Sual Coal and San Roque Hydro accounts for about 17% of the country’s total capacity. Aboitiz, on the other hand, which owns and operates the most varied portfolio of power plants (coal, hydro, geothermal and diesel) accounts for 16% of the market share.

## **INTELLECTUAL PROPERTY**

The Group has registered Philippine Intellectual Property Office (IPO) a variety of marks including“FILINVEST LAND, INC”, the Filinvest logo, “One Oasis”, “One Oasis Ortigas”, “The Linear Makati”, “Crimson Hotel and Resorts”, “Crimson” and “Crimson Hotels and Resorts”. Generally, the registration of these marks and/or trademarks are effective for a period of ten years from the date of

original registration and may be renewed for periods of ten years at its expiration upon the filing of appropriate requests with the IPO. With these IPO registrations, the Group is confident that it has now sufficient protection over the “Filinvest” name and its logo, as well as aforesaid marks and/or trademarks. Such protection includes, among others, the exclusive right of the Group to prevent all third parties not having their consent from using any sign or mark which is similar to the above-registered marks and/or trademarks.

EWBC uses a variety of names and marks, including the name “East West Banking Corporation” and EWBC’s logo, in connection with its business. EWBC is in the process of registering intellectual property rights in such names and marks.

On January 25, 2012, EWBC obtained a certification from the BSP regarding a U.S.-based bank using a similar name. As certified by BSP, the U.S. based bank has not been issued a license to operate as a banking institution in the Philippines. The BSP also certified that EWBC is among the banks it supervises.

## **REGULATORY AND ENVIRONMENTAL MATTERS**

### **REGULATION OF REAL ESTATE DEVELOPMENT IN THE PHILIPPINES**

PD 957, Batas Pambansa Bilang 220 (“BP 220”) and RA 4726 are the principal statutes which regulate the development and sale of real property as part of a condominium project or subdivision. PD 957, BP 220, RA 4726 and RA 7279 cover subdivision projects for residential, commercial, industrial or recreational purposes and condominium projects for residential or commercial purposes. The HLURB is the administrative agency of the Government which, together with LGUs, enforces these decrees and has jurisdiction to regulate the real estate trade and business.

All subdivision and condominium plans for residential, commercial, industrial and other development projects are required to be filed with and approved by the HLURB and the relevant LGU of the area where the project is situated. Approval of such plans is conditional on, among other things, the developer’s financial, technical and administrative capabilities. Alterations of approved plans which affect significant areas of the project, such as infrastructure and public facilities, also require the prior approval of the relevant government body or agency.

The development of subdivision and condominium projects can commence only after the relevant government body has issued the required development permit. The issuance of a development permit is dependent on, among other things: (i) compliance with required project standards and technical requirements which may differ depending on the nature of the project and (ii) issuance of the barangay clearance, the locational clearance, DENR permits and DAR conversion or exemption orders, as discussed below.

Developers who sell lots or units in a subdivision or a condominium project are required to register the project with and obtain a license to sell from the HLURB. Subdivision or condominium units may be sold or offered for sale only after a license to sell has been issued by the HLURB. As a requisite for the issuance of a license to sell by the HLURB, developers are required to file with the HLURB any of the following to guarantee the construction and maintenance of the roads, gutters, drainage, sewerage, water system, lighting systems, and full development of the subdivision or condominium project and compliance with the applicable laws, rules and regulations:

- a surety bond callable upon demand equivalent to 20.0% of the development cost of the unfinished portion of the approved plan, issued by a duly accredited surety company (whether private or government), and acceptable to the HLURB;
- a real estate mortgage executed by the developer as mortgagor in favour of the Republic of the Philippines as mortgagee, represented by the HLURB, over property other than the land used for the project for which the license to sell is being obtained, free from any liens and encumbrance and the value of such property, computed on the basis of the zonal valuation of the BIR, must be at least 20.0% of the total development cost; or
- other forms of security equivalent to 10.0% of the development cost of the unfinished portion of the approved plan which may be in the form of the following:
  - a cash bond;
  - a fiduciary deposit made with the cashier and/or disbursing officer of the HLURB;
  - a certificate of guaranty deposit issued by any bank or financing institution of good standing in favour of the HLURB for the total development cost;

- a letter from any bank of recognized standing certifying that so much has been set aside from the bank account of the developer in favour of the HLURB, which amount may be withdrawn by the Chief Executive Officer of HLURB or his authorized representative, at any time the developer fails or refuses to comply with his duties and obligations under the bond contract; or
- any irrevocable credit line to be utilized in the development of the project from any bank of recognized standing and a refinancing re-structuring program indicating sources of funding from duly accredited funding institutions.

Real estate dealers, brokers and salesmen are also required to register and secure a certificate of registration with the HLURB before they can sell lots or units in a registered subdivision or condominium project. The certificate of registration will expire on the first day of December of each year.

Project permits and licenses to sell may be suspended, cancelled or revoked by the HLURB, by itself or upon a verified complaint from an interested party, for reasons such as involvement in fraudulent transactions, misrepresentation about the subdivision project or condominium project in any literature which has been distributed to prospective buyer. A license or permit to sell may only be suspended, cancelled or revoked after a notice to the developer has been served and all parties have been given an opportunity to be heard in compliance with the HLURB's rules of procedure and other applicable laws.

There are essentially two different types of residential subdivision developments, which are distinguished by different development standards issued by the HLURB. The first type of subdivision, aimed at low-cost housing, must comply with BP 220, a Philippine statute regulating the development and sale of real property as part of a condominium project or subdivision, which allows for a higher density of building and relaxes some construction standards. Other subdivisions must comply with PD 957, which sets out standards for lower density developments. Both types of development must comply with standards regarding the suitability of the site, road access, necessary community facilities, open spaces, water supply, the sewage disposal system, electrical supply, lot sizes, the length of the housing blocks and house construction.

Under current regulations, a developer of a residential subdivision, with an area of one hectare or more, is required to reserve at least 30.0% of the gross land area of such subdivision for open space for common uses, which include roads, parks, playgrounds and recreational facilities.

Further, RA 7279 requires developers of proposed subdivision projects to develop an area for socialized housing equivalent to at least 20.0% of the total subdivision area or total subdivision project cost, at the option of the developer; within the same city or municipality, whenever feasible, and in accordance with the standards set by the HLURB and other existing laws and regulations. Alternatively, the developer may opt to choose any of the following:

- development of new settlement;
- slum upgrading or renewal of areas for priority development either through zonal improvement programs or slum improvement and resettlement programs;
- joint-venture projects with either the LGU or any of the housing agencies; or
- participation in the community mortgage program.

The Group has benefited from providing low-income housing or projects of such types which are financially assisted by the Government. These policies and programs may be modified or discontinued in the future. The Government may also adopt regulations which may have the effect of increasing the cost of doing business for real estate developers. Under current law, income derived by domestic corporations from the development and sale of socialized housing which currently, among other things, must have a basic selling price of no more than ₱400,000.00, is exempt from project related income taxes. Sale of residential lots with a gross selling price of ₱1.9 million or less where the instrument of sale, transfer, disposition was executed and notarized on or after January 1, 2012 are exempt from VAT. However, for instruments of sales executed and notarized on or after November 1, 2005 but prior to January 1, 2012, the threshold amounts are ₱1.5 million and ₱2.5 million, respectively, and excess thereof is subject to 10.0% output VAT, and starting February 1, 2006, to 12% output VAT. Sale, transfer or disposal of two or more adjacent residential lots dwelling by the same seller to the same buyer within a 12-month period, even if covered by separate titles or tax declarations, will be considered as one residential area for purposes of computing the threshold levels for VAT purposes. Under the 2011 and 2012 Investment Priorities Plan issued by the BOI and approved by the President on July 5, 2011 and June 13, 2012, respectively, mass housing projects including development and fabrication of housing components, are eligible for government incentives subject to certain policies and guidelines.

EO 45 prescribes specific period for a government agency and the LGUs to act on application for certifications, clearances and permits for housing projects. It also provides an option for the applicant-developer where the government agency or LGU refuses or fails to dispose an application for said housing permit, in which case an affidavit may be submitted with supporting technical studies and documents, in lieu of the certification, clearance or permit.

### **Real Estate Sales on Installments**

The provisions of the Maceda Law apply to all transactions or contracts involving the sale or financing of real estate on installment payments (including residential condominium units but excluding industrial lots and commercial buildings and sales to tenants under RA 3844). Under the provisions of the Maceda Law, where a buyer of real estate has paid at least two years of installments, the buyer is entitled to the following rights in case of a default in the payment of succeeding installments:

- To pay, without additional interest, the unpaid installments due within the total grace period earned by him, which is fixed at the rate of one month for every one year of installment payments made. However, this right may be exercised by the buyer only once every five years during the term of the contract and its extensions, if any.
- If the contract is cancelled, the seller shall refund to the buyer the cash surrender value of the payments on the property equivalent to 50.0% of the total payments made, and in cases where five years of installments have been paid, an additional 5.0% every year (but with a total not to exceed 90.0% of the total payments). However, the actual cancellation of the contract shall take place after thirty days from receipt by the buyer of the notice of cancellation or the demand for rescission of the contract by a notarial act and upon full payment of the cash surrender value to the buyer.

Buyers who have paid less than two years of installments are given a 60-day grace period to pay all unpaid installments before the sale can be cancelled, but without right of refund.

### **Shopping Malls**

Shopping mall centers are regulated by the LGU of the city or municipality where the establishment is located. In line with this, mall operators must secure the required mayor's permit or municipal license before operating. In addition, no mall shall be made operational without complying first with the provisions of RA 9514, otherwise known as the "Fire Code" and other applicable local ordinances. Furthermore, shopping malls with food establishments must obtain a sanitary permit from the Department of Health. It is also compulsory for shopping malls discharging commercial wastewater to apply for a wastewater discharge permit from the DENR and to pay the fee incidental to the permit.

As a tourism-related establishment, shopping malls may obtain accreditation from the Philippine Department of Tourism ("DOT"). A shopping mall can only be accredited upon conformity with the minimum physical, staff and service requirements promulgated by the DOT.

### **Zoning and Land Use**

Under the agrarian reform law currently in effect in the Philippines and the regulations issued thereunder by the DAR, land classified for agricultural purposes as of or after June 15, 1988, cannot be converted to nonagricultural use without the prior approval of DAR.

Land use may be also limited by zoning ordinances enacted by LGUs. Once enacted, land use may be restricted in accordance with a comprehensive land use plan approved by the relevant LGU. Lands may be classified under zoning ordinances as commercial, industrial, residential or agricultural. While a procedure for change of allowed land use is available, this process may be lengthy and cumbersome.

## **Special Economic Zone**

The PEZA is a government corporation that operates, administers and manages Ecozones around the country. Ecozones, which are generally created by proclamation of the President of the Philippines, are areas earmarked by the Government for development into balanced agricultural, industrial, commercial, and tourist/recreational regions.

An Ecozone may contain any or all of the following: industrial estates, export processing zones, free trade zones, and tourist/recreational centers. PEZA-registered enterprises located in an Ecozone are entitled to fiscal and non-fiscal incentives such as income tax holidays and duty free importation of equipment, machinery and raw materials.

Enterprises offering IT services (such as call centers and other BPO firms using electronic commerce) are entitled to fiscal and non-fiscal incentives if they are PEZA-registered locators in a PEZA-registered IT Park, IT Building, or Ecozone. An IT Park is an area which has been developed into a complex capable of providing infrastructures and other support facilities required by IT enterprises, as well as amenities required by professionals and workers involved in IT enterprises, or easy access to such amenities. An IT Building is an edifice, a portion or the whole of which provides such infrastructure, facilities and amenities.

PEZA requirements for the registration of an IT Park or IT Building differ depending on whether it is located in or outside Metro Manila. These PEZA requirements include clearances or certifications issued by the city or municipal legislative council, the DAR, the National Water Resources Board, and the DENR.

Certain of the Group's investment properties are registered with PEZA, and this provides significant benefits to the Group's tenants. PEZA registration provides significant tax incentives to those of the Group's customers that are PEZA-registered (they can, for example, avail themselves of income tax incentives such as income tax holidays or a 5.0% gross income taxation), thereby making tenancy in the Group's PEZA-registered buildings potentially more attractive to them. As of September 30, 2010, PBCom Tower is a PEZA-registered IT building while the Filinvest Technology Park-Calamba and the Northgate Cyberzone were PEZA-accredited Ecozones.

## **PROPERTY REGISTRATION AND NATIONALITY RESTRICTIONS**

The Philippines has adopted the Torrens System of land registration which conclusively confirms land ownership which is binding on all persons, including the Government. Once registered, title to registered land becomes indefeasible after one year from the date of entry of the decree of registration except with respect to claims noted on the certificate of title. Title to registered lands cannot be lost through adverse possession or prescription. Presidential Decree No. 1529, as amended, codified the laws relative to land registration and is based on the generally accepted principles underlying the Torrens System.

After proper surveying, application, publication, service of notice and hearing, unregistered land may be brought under the system by virtue of judicial or administrative proceedings. In a judicial proceeding, the Regional Trial Court within whose jurisdiction the land is situated confirms title to the land. Persons opposing the registration may appeal the judgment to the Court of Appeals within 15 days from receiving notice of judgment. After the lapse of the period of appeal, the Register of Deeds may issue an Original Certificate of Title. The decree of registration may be annulled on the ground of actual fraud within one year from the date of entry of the decree of registration. Similarly, in an administrative proceeding, the land is granted to the applicant by the DENR by issuance of a patent and the patent becomes the basis for issuance of the Original Certificate of Title by the Register of Deeds. All land patents (i.e. homestead, sales and free patent) must be registered with the appropriate registry of deeds since the conveyance of the title to the land covered thereby takes effect only upon such registration.

Any subsequent transfer of encumbrance of the land must be registered in the system in order to bind third persons. Subsequent registration and a new Transfer Certificate of Title in the name of the transferee will be granted upon presentation of certain documents and payment of fees and taxes.

All documents evidencing conveyances of subdivision and condominium units should also be registered with the Register of Deeds. Title to the subdivision or condominium unit must be delivered to the purchaser upon full payment of the purchase price. Any mortgage existing

thereon must be released within six months from the delivery of title. To evidence ownership of condominium units, a Condominium Certificate of Title is issued by the Register of Deeds.

While the Philippine Constitution prescribes nationality restrictions on land ownership, there is generally no prohibition against foreigners owning buildings and other permanent structures. However, with respect to condominium developments, the foreign ownership of units in such developments is limited to 40.0%.

## **PROPERTY TAXATION**

Real property taxes are payable annually or quarterly based on the property's assessed value. The assessed value of property and improvements vary depending on the location, use and nature of the property. Land is ordinarily assessed at 20.0% to 50.0% of its fair market value; buildings may be assessed at up to 80.0% of their fair market value; and machinery may be assessed at 40.0% to 80.0% of its fair market value. Real property taxes may not exceed 2.0% of the assessed value in municipalities and cities within Metro Manila or in other chartered cities and 1.0% in all other areas. An additional special education fund tax of 1.0% of the assessed value of the property is also levied annually.

## **SUGAR REGULATORY ADMINISTRATION**

In 1986, Executive Order No. 18 ("EO 18") dated May 28, 1986 created the SRA. The SRA has the following powers and functions: (i) to recommend the establishment of a sugar production, coefficient and production quota which is attached the land for each planter; (ii) to institute regulations for implementing, controlling and monitoring the production quotas; (iii) to establish domestic, export and reserve allocations; (iv) to explore and expand the domestic market and foreign markets for sugar and its by-products; (v) to assure mutual benefits to consumers and producers, to promote and maintain proper balance of production of sugar and its by-products; (vi) to institute, implement and regulate an orderly system of Quedanning, disposition and withdrawals of various forms of sugar from warehouses; (vii) to evaluate and recommend to the President new projects involving the production of sugar and its by-products and other products derived from sugarcane and sugar; (viii) to issue permits and licenses and collect corresponding fees and levies on the processing and manufacture of sugar and its by-products and other products derived from sugarcane and sugar; (ix) to enter, make and execute routine contracts that may be necessary for, or incidental to, the attainment of its purposes between any persons, firm, public or private, and the Government; and (x) to do all such other things, transact such other businesses and perform such functions directly or indirectly necessary incidental or conducive to the attainment of the purposes of the SRA.

All corporate powers of the SRA are vested in, and exercised by, the Sugar Board, which has the power, among others: (i) to establish policies pertaining to sugar and sugarcane production control and Quedanning of sugar produced; withdrawals from sugar warehouses; issuance of permits and licenses in the processing and manufacture of raw sugar, refined and other classes of sugar; issuance of permits and licenses and other related issues pertaining to the specific and general powers prescribed in EO 18; and (ii) to enter into contracts, transactions, or undertakings of whatever nature which are necessary or incidental to its functions and objectives.

Under Executive Order No. 338 dated January 10, 2001, the SRA became an attached agency of the DA. Under Memorandum Order No. 134 dated February 9, 2004, the Philippine Department of Finance and its attached bureaus, particularly, the Philippine Bureau of Customs ("BOC") and the BIR, were mandated to consult and coordinate with the SRA in the determination of the appropriate classification of sugar products for certain purposes including, but not limited to, imposing the proper import duties, and/or assessing value added or other taxes thereon. The BOC is required to notify the SRA in case of any importation, exportation or withdrawal from customs bonded warehouses, of sugar, and all forms thereof, prior to their release and allow the SRA to inspect the shipment or warehouse to verify compliance with its rules and regulations. The entry to and exit from special economic zones of sugar products is also covered by Memorandum Order No. 134.

Sugar, molasses, and muscovado traders and processors of sugar-based products for export are required to register with the SRA pursuant to SRA Order No. 006 dated June 24, 2005. Moreover, importers and exporters are required to secure a clearance from the SRA for the export of sugar and molasses and the importation of refined sugar, raw sugar and molasses.

The SRA periodically issues a list of sugar traders registered with the SRA for a particular crop year and only persons and entities duly registered with the SRA as sugar traders are authorized to withdraw sugar for export and domestic use from the warehouses of mill companies and sugar refineries in accordance with the existing rules and regulations promulgated by the SRA. Sugar producers are allowed

to withdraw their respective shares of their own sugar production from mill and refinery warehouses for domestic consumption in the Philippines only.

The SRA also issues a listing of registered molasses and muscovado traders with the SRA for a particular crop year and only persons and entities duly registered with the SRA as molasses traders are authorized to withdraw molasses for export and domestic use from the storage tanks of mill companies and sugar refineries in accordance with the existing rules and regulations promulgated by the SRA. Sugar producers are allowed to withdraw their respective shares of their own molasses production from mill and refinery warehouses for domestic consumption in the Philippines only.

## **ENVIRONMENTAL LAWS**

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an ECC prior to commencement. The DENR through its regional offices or through the Environmental Management Bureau (“EMB”), determines whether a project is environmentally critical or located in an environmentally critical area. As a requisite for the issuance of an ECC, an environmentally critical project is required to submit an Environmental Impact Statement (“EIS”) to the EMB while a project in an environmentally critical area are generally required to submit an Initial Environmental Examination (“IEE”) to the proper DENR regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is required. The construction of major roads and bridges are considered environmentally critical projects for which EISs and ECCs are mandatory.

The EIS refers to both the document and the study of a project’s environmental impact, including a discussion of the direct and indirect consequences to human welfare and ecological as well as environmental integrity. The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the EIS or an IEE may vary from project to project, as a minimum, it contains all relevant information regarding the project’s environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a Government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System and that the proponent is committed to implement its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund (“EGF”) when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The EGF is intended to meet any damages caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are required to include a commitment to establish an Environmental Monitoring Fund (“EMF”) when an ECC is eventually issued. In any case, the establishment of an EMF must not be later than the initial construction phase of the project. The EMF shall be used to support the activities of a multi-partite monitoring team which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

Aside from the EIS and IEE, engineering geological and geo-hazard assessment are also required for ECC applications covering subdivisions, housing and other land development and infrastructure projects.

All development projects, installations and activities that discharge liquid waste into and pose a threat to the environment of the Laguna de Bay Region are also required to obtain a discharge permit from the Laguna Lake Development Authority.

In compliance with environmental laws, the Group’s subdivision developments are equipped with sewage treatment plants. The average cost to construct each such plant has been approximately ₱19.9 million.

## **Legal Framework of Hazardous Waste Management**

Presidential Decree No. 1152 (“PD 1152”), “the Philippine Environmental Code,” which took effect in 1977, provides a basis for an integrated waste management regulation starting from waste source to methods of disposal. PD 1152 has further mandated specific guidelines to manage municipal wastes (solid and liquid), sanitary landfill and incineration, and disposal sites in the Philippines.

In 1990, the Philippine Congress enacted the Toxic Substances, Hazardous and Nuclear Wastes Control Act, commonly known as RA 6969, a law designed to respond to increasing problems associated with toxic chemicals and hazardous and nuclear wastes. RA 6969 mandates control and management of import, manufacture, process, distribution, use, transport, treatment, and disposal of toxic substances and hazardous and nuclear wastes in the Philippines. RA 6969 seeks to protect public health and the environment from unreasonable risks posed by these substances in the Philippines.

Apart from the basic policy rules and regulations of RA 6969, hazardous waste management must also comply with the requirements of other specific environmental laws, such as Presidential Decree No. 984 (Pollution Control Law), Presidential Decree No. 1586 (Environmental Impact Assessment System Law), RA 8749 (Clean Air Act) and RA 9003 (Ecological Solid Waste Management Act) and their implementing rules and regulations.

Hazardous Waste Generators are required to register with and pay a registration fee to the EMB Regional Office having jurisdiction over the location of the waste generator.

Waste generators are required to: (1) notify the DENR of the type and quantity of wastes generated in accordance with the form and in a manner approved by the DENR and pay the prescribed fee; (2) provide the DENR, on a quarterly basis, with information to include the type and quantity of the hazardous waste generated, produced or transported outside in a form approved by the DENR; (3) continue to own and be responsible for the hazardous waste generated or produced in the premises until the hazardous waste has been certified by the waste treater as adequately treated, recycled, reprocessed or disposed of; (4) prepare and submit to the DENR comprehensive emergency contingency plans to mitigate spills and accidents involving hazardous wastes. These plans shall conform with the guidelines issued by the DENR; (5) train/inform its personnel and staff on: (a) the implementation of the plan, and (b) the hazards posed by the improper handling, storage, transport, and use of hazardous wastes and their containers.

## **Clean Water Act of 2004**

RA 9275 applies to water quality management in all water bodies in the Philippines particularly to the abatement and control of pollution from land based sources. It provides for water quality standards and regulations and civil and criminal penalties for violations thereof. The DENR, in coordination with the National Water Resources Board (“NWRB”) shall designate certain areas as water quality management areas (“Management Areas”) which have similar hydrological, hydrogeological, meteorological or geographic conditions which affect the physicochemical, biological and bacteriological reactions and diffusions of pollutants in the water bodies, or otherwise share common interest or face similar development programs, prospects, or problems.

The DENR implements a wastewater charge system in all Management Areas through the collection of wastewater charges/fees. The system is established on the basis of payment to the government for discharging wastewater into the water bodies. Wastewater charges is established taking into consideration the following: (a) To provide strong economic inducement for polluters to modify the production or management processes or to invest in pollution control technology in order to reduce the amount of water pollutants generated; (b) To cover the cost of administering water quality management or improvement programs; (c) Reflect damages caused by water pollution on the surrounding environment, including the cost of rehabilitation; (d) Type of pollutant; (e) Classification of the receiving water body, and (f) Other special attributes of the water body.

The DENR requires owners or operators of facilities that discharge regulated effluents pursuant to the law to secure a permit to discharge. The discharge permit is the legal authorization granted by the DENR to discharge wastewater. Provided, that the discharge permit must specify, among others, the quantity and quality of effluent that said facilities are allowed to discharge into a particular water body, compliance schedule and monitoring requirement.

As part of the permitting procedure, the DENR must encourage the adoption of waste minimization and waste treatment technologies when such technologies are deemed cost effective. The DENR must also develop procedures to relate the current water quality guideline or the projected water quality guideline of the receiving water body with total pollution loadings from various sources, so that effluent quotas can be properly allocated in the discharge permits. Effluent trading may be allowed per Management Area.

Fiscal and non-fiscal incentives are provided for compliance with RA 9275 such as: (1) inclusion in the Investment Priorities Plan; (2) tax and duty exemption on imported capital equipment within 10 years of the effectivity of RA 9275; (3) tax credit on domestic capital equipment within 10 years of the effectivity of RA 9275; (4) tax and duty exemption of donations, legacies and gifts for the support of the waste management program.

### **Philippine Clean Air Act of 1999**

RA8794 was enacted to provide for a comprehensive management program for air pollution and enforce a system of accountability for short and long-term adverse environmental impact of a project, program or activity. This shall include the setting up of a funding or guarantee mechanism for clean-up and environmental rehabilitation and compensation for personal damages. The DENR, in case of industrial dischargers, and the Department of Transportation and Communications, in case of motor vehicle dischargers, designs, imposes and collects, based on environmental techniques, regular emission fees from said dischargers as part of the emission permitting system or vehicle registration renewal system, as the case may be. The system encourages the industries, and motor vehicles to abate, reduce, or prevent pollution. The basis of the fees include, but is not limited to, the volume and toxicity of any emitted pollutant. Industries, which must install pollution control devices or retrofit their existing facilities with mechanisms that reduce pollution are entitled to tax incentives such as but not limited to tax credits and/or accelerated depreciation deductions. The DENR has the authority to issue permits as it may determine necessary for the prevention and abatement of air pollution. Said permits cover emission limitations for the regulated air pollutants to help attain and maintain the ambient air quality standards. These permits serve as management tools for the LGUs in the development of their action plan. The DENR or its duly accredited entity must, after proper consultation and notice, require any person who owns or operates any emission source or who is subject to any requirement of RA8794 to: (a) establish and maintain relevant records; (b) make relevant reports; (c) install, use and maintain monitoring equipment or methods; (d) sample emission, in accordance with the methods, locations, intervals, and manner prescribed by the DENR; (e) keep records on control equipment parameters, production variables or other indirect data when direct monitoring of emissions is impractical; and (f) provide such other information as the DENR may reasonably require. The DENR, through its authorized representatives, has the right to (a) enter or access any premises including documents and relevant materials; (b) inspect any pollution or waste source, control device, monitoring equipment or method required; and (c) test any emission. Any record, report or information obtained under RA8794 must be made available to the public, except upon a satisfactory showing to the DENR by the entity concerned that the record, report, or information, or parts thereof, if made public, would divulge secret methods or processes entitled to protection as intellectual property. Such record, report or information must likewise be incorporated in the DENR's industrial rating system. RA 8794 provides for civil and criminal penalties for violations thereof.

### **BANKING REGULATION AND SUPERVISION**

RA 7653, the New Central Bank Act (the "New Central Bank Act") and RA 8791, the General Banking Law, vest the Monetary Board with the power to regulate and supervise financial intermediaries in the Philippines. Financial intermediaries include banks or banking institutions such as universal banks, commercial banks, thrift banks (composed of savings and mortgage banks, private development banks, and stock savings and loan associations), rural banks, cooperative banks as well as branches and agencies of foreign banks in the Philippines. Entities performing quasi-banking functions, trust companies, non-stock savings and loan associations and certain other non-deposit accepting entities, while not considered banking institutions, are also subject to regulation by the Monetary Board.

The BSP Manual of Regulations for Banks (the "Manual") is the principal source of rules and regulations to be complied with and observed by banks in the Philippines. The Manual contains regulations that include those relating to the organization, management and administration, deposit and borrowing operations, loans, investments and special financing program, and trust and other fiduciary functions, of the relevant bank. Supplementing the Manual are rules and regulations promulgated in various circulars, memoranda, letters and other directives issued by the Monetary Board.

The Manual and other BSP rules and regulations are principally implemented by the Supervision and Examination Sector (the “SES”) of the BSP. The SES is responsible for ensuring the observance of applicable laws and rules and regulations by banking institutions operating in the Philippines (including Government credit institutions, their subsidiaries and affiliates, non-bank financial intermediaries, and subsidiaries and affiliates of non-bank financial intermediaries performing quasi-banking functions).

### **Permitted Activities**

A commercial bank, such as EWBC, in addition to the general powers incident to corporations and those provided in other laws, has the authority to exercise all such powers as may be necessary to carry on the business of commercial banking, such as accepting drafts and issuing letters of credit; discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; accepting or creating demand deposits; receiving other types of deposits and deposit substitutes; buying and selling foreign exchange and gold or silver bullion; acquiring marketable bonds and other debt securities; and extending credit, subject to such rules as the Monetary Board may promulgate. These rules may include the determination of bonds and other debt Securities eligible for investment, the maturities and aggregate amount of such investment. It may also exercise or perform any or all of the following: (i) invest in the equities of allied enterprises as provided in Sections 31 and 32 of the General Banking Law; (ii) purchase, hold and convey real estate as specified under Sections 51 and 52 of the General Banking Law; (iii) receive in custody funds, documents and valuable objects; (iv) act as financial agent and buy and sell, by order of and for the account of its customers, shares, evidences of indebtedness and all types of securities; (v) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business; (vi) upon prior approval of the Monetary Board, act as managing agent, adviser, consultant or administrator of investment management/advisory/consultancy accounts; (vii) rent out safety deposit boxes; and (viii) engage in quasi-banking functions.

Financial allied undertakings include leasing companies, banks, investment houses, financial companies, credit card companies, and financial institutions catering to small- and medium-scale industries, including venture capital companies, companies engaged in stock brokerage, securities dealership and brokerage and companies engaged in foreign exchange dealership/brokerage.

The equity investments of a commercial bank in any single enterprise must not exceed 25.0% of the bank’s net worth. The total amount of investments in equities in all enterprises must not exceed 35.0% of the bank’s net worth.

### **Regulations**

The Manual and various BSP regulations impose the following restrictions on commercial, universal and thrift banks.

#### **Minimum Capitalization**

Under the Manual, commercial banks are required to have capital accounts of at least ₱2,800 million. Thrift banks with a head office in Metro Manila are required to have capital accounts of at least ₱400.0 million. These minimum levels of capitalization may be changed by the Monetary Board from time to time. Currently, the BSP requires only minimum capital accounts of ₱2,400 million for commercial banks and ₱325.0 million for thrift banks with a head office in Metro Manila.

#### **Capital Adequacy Requirements**

The Manual provides that the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, must not be less than 10.0%. The ratio is required to be maintained daily on both a solo basis (head office plus branches) and a consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies). The qualifying capital refers to the sum of Tier 1 and Tier 2 or supplementary capital of the bank, less deductions of the value of certain assets. The risk-weighted assets, on the other hand, are determined by assigning risk weights to amounts of on-balance sheet assets and to credit equivalent amounts of off-balance sheet items (inclusive of derivative contracts), subject to certain deductions.

The BSP issued a Memorandum to All Banks on December 13, 2004, mandating commercial and universal banks to comply with the Basel Committee on Banking Supervision's Revised International Convergence of Capital Management and Capital Standards, or Basel II, by July 2007. Basel III which was adopted by the Basel Committee on Banking Supervision in September 2010 and is expected to be implemented by the BSP, will require a more stringent capital adequacy structure to be adopted in stages prior to 2019.

### **Reserve Requirements**

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to the BSP on the amount of any deficiency.

Commercial banks (including EWBC) are required to maintain regular reserves of 8.0% against peso demand, savings and time deposits, negotiable order of withdrawal accounts, deposit substitutes, and UITFs and other similarly managed funds.

In addition to the foregoing regular reserve requirements, commercial banks are required to set up liquidity reserves against peso demand, savings and time deposits and deposit substitute liabilities, UITFs and Trust and Other Fiduciary Activities equivalent to 11.0%.

### **Loan Limit to a Single Borrower**

Under the General Banking Law and its implementing regulations, the total amount of loans, credit accommodations and guarantees that may be extended by a bank to any borrower shall at no time exceed 25.0% of the net worth of such bank (or 35.0% of the net worth of the bank in the event that certain types and levels of security are provided). This ceiling may be adjusted by the Monetary Board from time to time.

Pursuant to the General Banking Law, the basis for determining compliance with the single borrower's limit is the total credit commitment of the bank to or on behalf of the borrower, which includes outstanding loans and other credit accommodations, deferred letters of credit less margin deposits, and guarantees. Except as specifically provided in the Manual, total credit commitment is determined on a credit risk-weighted basis consistent with existing regulations. Other credit accommodations refer to credit and specific market risk exposures of banks arising from accommodations other than loans such as receivables (sales contract receivables, accounts receivables and other receivables), and debt securities booked as investments. Among the items excluded from determining the loan limit are: (a) loans and other credit accommodations secured by obligations of the BSP or of the Government, (b) loans and other credit accommodations fully guaranteed by the Government as to payment of principal and interest, (c) loans and other credit accommodations secured by U.S. treasury notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally accepted rating agencies, (d) loans and other credit accommodations to the extent covered by hold-out on or assignment of deposits maintained in the lending bank and held in the Philippines, (e) loans, credit accommodations and acceptances under letters of credit to the extent covered by margin deposits, and (f) other loans or credit accommodations which the Monetary Board may from time to time specify as non-risk items.

### **Trust Regulation**

The Manual contains the regulations governing the grant of authority to and the management, administration and conduct of trust, other fiduciary business and investment management activities of, trust corporations and financial institutions allowed by law to perform such operations. Trust corporations, banks and investment houses may engage in trust and other fiduciary business after complying with the requirements imposed by the Manual.

### **Foreign Currency Deposit System**

A FCDU is a unit of a local bank or of a local branch of a foreign bank authorized by the BSP to engage in foreign currency-denominated transactions. Commercial banks which meet the net worth or combined capital accounts and profitability requirements prescribed by the Monetary Board may be authorized to operate an expanded FCDU, and thrift banks with a net worth or combined capital accounts of at least ₱325.0 million if they are located in Metro Manila, and ₱52.0 million if they are located outside Metro Manila, may be authorized to operate FCDUs. In general, FCDUs of such banks may, in any acceptable foreign currency: (a) accept deposits and trust accounts from residents and non-residents, (b) deposit with foreign banks abroad, offshore banking units ("OBUs") and other FCDUs, (c) invest in foreign

currency-denominated debt instruments, (d) grant foreign currency loans as may be allowed by the BSP, (e) borrow from other FCDUs, from non-residents and OBUs, subject to existing rules on foreign borrowings and (f) engage in foreign currency to foreign currency swaps with the BSP, OBUs and FCDUs. In addition to the foregoing, FCDUs of commercial banks and universal banks may: (a) engage in foreign exchange trading and, with prior BSP approval, engage in financial futures and options trading, (b) on request/instruction from their foreign correspondent banks, and provided that the foreign correspondent banks deposit sufficient foreign exchange with the FCDU: (i) insure letters of credit for a non-resident importer in favour of a non-resident exporter, (ii) pay, accept, or negotiate drafts/bills of exchange drawn under the letter of credit and (iii) make payment to the order of the non-resident exporter, and (c) engage in securities lending activities subject to certain conditions. FCDUs are required to maintain a 100.0% cover for their foreign currency liabilities, of which 70.0% should be denominated in the same currency of such liability. FCDUs of universal and commercial banks have the option to maintain, while thrift banks are required to maintain, foreign currency deposits with the BSP equivalent to 15.0% of their foreign currency deposit liabilities as a form of foreign exchange cover.

### **Lending Policies: Secured and Unsecured Lending**

Banks are generally required to ascertain the purpose of a proposed loan, and the proceeds of the loan are to be used for that purpose only. Under the Manual, commercial banks are generally prohibited from extending loans and other credit accommodations against real estate in an amount exceeding 60.0% of the appraised value of the real estate security, plus 60.0% of the appraisal value of the insured improvements, except for residential loans in an amount not exceeding ₱3.5 million, housing loans extended by or guaranteed under the Government's "National Shelter Program," which shall be allowed a maximum value of 70.0% of the appraisal value of the insured improvements and subject to certain conditions, loans for house building and sub-division development for low- and middle-income families and other housing loans, which shall be allowed a maximum value of 80.0% of the appraised value of the real estate security. Similarly, loans and other credit accommodations on security of chattels and intangible properties shall not exceed 75.0% of the appraisal value of the security. Prior to lending on an unsecured basis, a bank must investigate the borrower's financial condition and ability to service the debt and must obtain certain documentation from the borrower, such as financial statements and tax returns. Any unsecured lending should be only for a time period essential for completion of the operations to be financed.

### **Priority Lending Requirements**

In 2010, RA 10000 (Agri-Agra Reform Credit Act) required commercial banks to set aside 25.0% of loanable funds for loans to the agricultural and fisheries credit in general, with 10.0% of such funds being made available exclusively to agrarian reform beneficiaries. The total loanable funds referred to pertain to funds generated from the effectivity of the Agri-Agra Reform Credit Act. However, a bank may temporarily meet all or a portion of its agrarian reform and agriculture lending requirements by investing in certain Government securities under certain conditions.

BSP regulations also provide that until June 16, 2018, banks are required to set aside at least 8.0% for micro- and small-sized enterprises and 2.0% for medium-sized enterprises, of their total loan portfolio based on their balance sheet as of the previous quarter for lending to such enterprises. Investments in Government securities, other than instruments offered by the Government controlled small business corporations will not satisfy such obligation.

In addition, branches or agencies of commercial and universal banks located within certain geographical groupings outside Metro Manila must lend at least 75.0% of total deposits, net of required reserves and total cash in vault, at such branches to businesses in their locality. This policy is deemed to be complied with if, in the relevant geographical grouping, EWBC's lending for the financing of agricultural and export industries constitutes 60.0% of its deposits. However, for the purposes of compliance with this requirement, loans granted at the head office or other offices to customers in that area may be assigned to the branch in the geographic area in which the customer is located.

With the enactment of the Barangay Micro Business Enterprises ("BMBEs") Act, or RA 9178, private banking and other financial institutions were encouraged to lend to BMBEs. Among the incentives of the law is that all loans granted to BMBEs shall be considered as part of alternative compliance to the rules on reservation of funds for the agricultural sector and SMEs.

## **Number and Qualifications of Directors and Officers**

Pursuant to RA 8791, a bank shall have at least five and not more than 15 members of the Board of Directors at least two of whom shall be independent directors. However in case of a bank merger or consolidation, the number of directors shall not exceed 21.

Bank directors and officers must meet certain minimum qualifications. For instance, directors must be at least 25 years old, have a college degree or have at least five years' business experience, while officers must be at least 21 years old, have a college degree, or have at least five years' banking or trust experience.

Certain persons are disqualified from acting as bank directors, including (a) persons who have been convicted of an offence involving moral turpitude or have been declared insolvent or incapacitated, (b) persons who have been removed by the Monetary Board, (c) persons who refuse to disclose business interests, (d) resident directors who have been absent for more than half of directors' meetings, (e) persons who are delinquent in their obligations, (f) persons who have been found to have wilfully refused to comply with applicable banking laws or regulations and (g) persons who have been dismissed for cause from any institution under the supervision of the BSP. In addition, except as permitted by the Monetary Board, directors or officers of banks are also generally prohibited from simultaneously serving as directors or officers of other banks or non-bank financial intermediaries.

Under the Manual, an independent director shall have the additional qualifications that he: (a) is not or has not been an officer or employee of the bank, its subsidiaries or affiliates within three years from his election; (b) is not a director or officer of the related companies of the bank's majority stockholder; (c) is not a majority stockholder of the bank; (d) is not a relative within the fourth degree of consanguinity or affinity, legitimate or common-law of any director, officer or majority shareholder of the bank or any of its related companies; (e) is not acting as a nominee or representative of any director or substantial shareholder or any of its related companies; and (f) is not retained as a professional adviser, consultant or counsel of the bank and is independent of the management and free from any business or other relationship.

## **Loans to DOSRI**

The amount of individual outstanding loans, other credit accommodations and guarantees to DOSRI should not exceed an amount equivalent to their unencumbered deposits and book value of DOSRI's paid-in capital investment in EWBC. In the aggregate, outstanding loans, other credit accommodations and guarantees to DOSRI generally should not exceed 100.0% of EWBC's net worth or 15.0% of the total loan portfolio of EWBC, whichever is lower. In no case shall the total unsecured loans, other credit accommodations and guarantees to DOSRI exceed 30.0% of the aggregate ceiling or of the outstanding loans, other credit accommodations and guarantees, whichever is lower. For the purpose of determining compliance with the ceiling on unsecured loans, other credit accommodations and guarantees, banks shall be allowed to average their ceiling on unsecured loans, other credit accommodations and guarantees every week.

On January 31, 2007, the BSP issued Circular No. 560, which provides that total outstanding loans, other credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed 10.0% of the net worth of the bank and the unsecured loans, other credit accommodations and guarantees to each of said subsidiaries and affiliates shall not exceed 5.0% of the bank's net worth. In the aggregate, outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.0% of the net worth of the bank. BSP Circular No. 560 further provides that these subsidiaries and affiliates should not be a related interest of any of the directors, officers and/or stockholders of the lending institution, except where such director, officer, or stockholder sits in the board of directors or is appointed as an officer of such corporation as representative of the bank. However, loans, other credit accommodations and guarantees secured by assets considered as non-risk under existing BSP regulations as well as interbank call loans shall be excluded in determining compliance with these prescribed ceilings.

The credit card operations of banks shall not be subject to these regulations where the credit cardholders are EWBC's DOSRI, subject to certain conditions.

## Valuation Reserves for Impairments Against Loans

As a general rule, banking regulations define past due accounts of a bank as referring to all accounts in a bank's loan portfolio, all receivable components of trading account securities, and other receivables that are not paid at maturity. In the case of loans or receivables payable in installments, banking regulations consider the total outstanding obligation past due in accordance with the following schedule:

<b>Mode of payment</b>	<b>Minimum number of installments in arrears</b>
Monthly.....	3
Quarterly.....	1
Semester.....	1
Annually.....	1

However, when the total amount of arrears reaches 20.0% of the total outstanding balance of the loan or receivable, the total outstanding balance of the loan or receivable is considered past due notwithstanding the number of installments in arrears.

BSP regulations allow loans and advances to be written off as bad debts only if they have been past due for six months or more, and can be justified to be uncollectible. The board of directors of a bank has discretion as to the frequency of write-off, provided that these are made against provisions for impairment or against current operations. The prior approval of the Monetary Board is required to write off loans to the bank's DOSRI.

On January 26, 2003, the Special Purpose Vehicle Act of 2002 ("SPV Act") came into force. The SPV Act provides the legal framework for the creation of private management companies that will acquire NPLs, real estate and other assets from financial institutions in order to encourage new lending to support economic growth. The Congress of the Philippines passed the SPV Act's implementing rules and regulations on March 19, 2003 and they came into force on April 12, 2003. Under the SPV Act, the original deadline for the creation of asset management companies entitled to tax breaks was September 19, 2004. On April 24, 2006, the Philippine president signed into law an amendment to the SPV Act extending the deadline for the creation of asset management companies entitled to tax breaks to 18 months after May 14, 2006, the date the amended SPV Act took effect.

## Guidelines on General Reserves

Under existing BSP regulations, a general provision for loan losses shall also be set up as follows: (i) 5.0% of the outstanding balance of unclassified restructured loans less the outstanding balance of restructured loans which are considered non-risk under existing laws and regulations; and (ii) 1.0% of the outstanding balance of unclassified loans other than restructured loans less loans which are considered non-risk under existing laws and regulations.

## Restrictions on Branch Openings

Section 20 of the General Banking Law provides that commercial banks may open branches within or outside the Philippines upon prior approval of the BSP. The same provision of law allows banks, with prior approval from the Monetary Board, to use any or all of their branches as outlets for the presentation and/or sale of financial products of their allied undertakings or investment house units. In line with this, the Manual provides various minimum capitalization requirements for branches of commercial banks, depending on the location of the branch, ranging from a minimum of ₱15.0 million for branches of commercial banks to be located in fourth and sixth class municipalities to a maximum of ₱50.0 million for the same to be located in the National Capital Region. A bank must first comply with this minimum capital requirement in order to be given authority to establish more branches.

Generally, only universal/commercial and thrift banks may establish branches on a nationwide basis. Once approved, a branch must be opened within six months from the date of approval (extendable for another six-month period, upon the presentation of justification therefor). Pursuant to BSP Circular No. 624, issued on October 13, 2008, banks shall be allowed to establish branches in the Philippines, except in the cities of Makati, Mandaluyong, Manila, Parañaque, Pasay, Pasig and Quezon and the municipality of San Juan, Metro Manila.

However, branches of microfinance-orientated banks, microfinance-orientated branches of regular banks and branches that will cater primarily to the credit needs of BMBEs duly registered under RA 9178 may be established anywhere upon the fulfillment of certain conditions.

### **Anti-Money Laundering Law**

The Anti-Money Laundering Act was passed on September 29, 2001 and was amended on March 23, 2003. Under its provisions, as amended, (i) certain financial intermediaries including banks, OBUs, quasi-banks, trust entities, non-stock savings and loan associations, and all other institutions including their subsidiaries and affiliates supervised and/or regulated by the BSP, (ii) insurance companies and/or institutions regulated by the Insurance Commission and (iii) securities brokers, dealers, salesmen, associated persons of brokers and dealers, investment banks, mutual funds, foreign exchange corporations, and certain other entities regulated by the Philippines SEC, are required to submit a “covered” transaction report involving a single transaction in cash or other equivalent monetary instruments in excess of ₱0.5 million within one banking day.

These institutions are also required to submit a “suspicious” transaction report if there is a reasonable ground to believe that any amounts processed are the proceeds of money laundering activities pursuant to the circumstances under the Anti-Money Laundering Act.

BSP regulations also require all universal and commercial banks in the Philippines to have an electronic money laundering transaction monitoring system in place by October 2007. Each system will be required to detect and bring to the relevant institution’s attention all transactions and/or accounts that either qualify as “covered transactions” or “suspicious transactions.”

These transactions are reported to the AMLC created under the law within five banking days of discovery of that transaction by the covered institution. The Court of Appeals, upon application by the AMLC, has the authority to order the freezing of any accounts which it suspects are being used for money laundering to be frozen.

Institutions that are subject to the Anti-Money Laundering Act are also required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for five years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

### **RISKS RELATING TO THE GROUP’S REAL ESTATE BUSINESS**

Because the Real Estate Companies’ real estate business is concentrated in the Philippine residential property market, reduced levels of economic growth, adverse changes in the country’s political or security situation, or weaker performance of the country’s property development market generally could materially adversely affect the Group’s profitability. The property development business involves significant risks distinct from those involved in the ownership and operation of established properties, including the risk that the Real Estate Companies may invest significant time and money in a project that may not attract sufficient levels of demand in terms of anticipated sales and which may not be commercially viable. The Real Estate Companies’ results of operations are therefore dependent, and are expected to continue to be dependent, on the continued success of their residential and land development projects.

Additionally, the Philippine residential real estate industry is highly competitive. The Real Estate Companies’ projects are largely dependent on the popularity of their projects when compared to similar types of projects in their geographic areas, as well as on the ability of the Real Estate Companies to correctly gauge the market for their projects. Important factors that could affect the Real Estate Companies’ ability to effectively compete include a project’s relative location versus that of its competitors, particularly to transportation facilities and commercial centres, as well as the quality of the residences and related facilities offered by the Real Estate Companies, pricing and the overall attractiveness of the project. The time and costs involved in completing the development and construction of residential projects can be affected by many factors, including shortages of materials, equipment and labour, adverse weather conditions, depreciation of the peso, natural disasters, labour disputes with contractors and subcontractors, and the occurrence of other unforeseeable circumstances. Any of these factors could result in project delays and cost overruns, which could negatively affect the Real Estate Companies’ margins. Moreover, failure by the Real Estate Companies to complete construction of a project to its planned specification or schedule may result in contractual liabilities to purchasers and lower returns, all of which could have a material adverse effect on the Real Estate Companies’ business, financial condition and results of operations.

The Real Estate Companies' portfolio of residential property development projects exposes the Group to sector-specific risks:

- The Real Estate Companies are exposed to risks associated with the operation of their investment properties and the development of their office space and retail leasing business and the integration of such investment properties with its core housing and land development business.
- A significant portion of the demand for the Real Estate Companies' residential real estate projects is from OFWs and expatriate Filipinos, which exposes the Group to risks relating to the performance of the economies of the countries where these potential customers are based.
- The Real Estate Companies' residential real estate projects are exposed to risks associated with their in-house financing activities, including the risk of customer default, and the Real Estate Companies may not be able to sustain their in-house financing program.
- Certain residential real estate customers rely on financing from Government-mandated funds, which may not always be available.
- The Real Estate Companies face certain risks related to the cancellation of sales involving their residential real estate projects and if the Real Estate Companies were to experience a material number of sales cancellations, the Group's historical revenues from real estate operations would be overstated.
- Fluctuations in interest rates, changes in Government borrowing patterns and Government regulations could have a material adverse effect on the Real Estate Companies and their customers' ability to obtain financing.
- The Real Estate Companies face risks relating to the management of their land bank, which could adversely affect their margins.
- Titles over land owned by the Real Estate Companies may be contested by third parties.
- The Real Estate Companies face risks relating to its property development business, including risks relating to project cost, completion time frame and development rights.
- The Group's reputation may be adversely affected if projects are not completed on time or if projects do not meet customers' requirements.
- Independent contractors may not always be available, and once hired by the Real Estate Companies, may not be able to meet quality standards and/or may not complete projects on time and within budget.
- The loss of certain tax exemptions and incentives will increase the Real Estate Companies' tax liability and decrease any profits the Real Estate Companies might have in the future.
- The interests of the Company's and the Real Estate Companies' joint venture partners may differ from those of the Real Estate Companies and such partners may take actions that adversely affect the Real Estate Companies.
- Construction defects and other building-related claims may be asserted against the Real Estate Companies, and the Real Estate Companies may be subject to liability for such claims.
- The Real Estate Companies are dependent on third-party brokers to sell their residential housing and land development projects and to lease their commercial and office properties.
- Infringement of the Real Estate Companies' intellectual property rights could have a material adverse effect on the Group's real estate operations.

## **RISKS RELATING TO THE GROUP'S BANKING BUSINESS**

- EWBC is subject to credit, market and liquidity risk which may have an adverse effect on its credit ratings and its cost of funds.
- A downgrade of EWBC's credit rating could have a negative effect on its business, financial condition and results of operations.
- EWBC may not be successful in implementing its strategies.
- The business of lending carries the risk of default by borrowers and EWBC may face increasing levels of NPLs and provisions for impairment and credit losses on loans.
- Increased exposure to consumer debt could result in increased delinquencies in EWBC's loan portfolios.
- EWBC's allowance for impairment and credit losses may be insufficient to cover future losses and to the extent EWBC increases such allowances, its financial performance will be adversely affected.
- EWBC's provisioning policies in respect of classified loans require significant subjective determinations which may increase the variation of application of such policies and affect EWBC's financial condition and results of operations. Such policies may also be less stringent than those in other countries.
- EWBC's trading and investment banking activities are subject to volatility.
- EWBC may be unable to recover the assessed value of its collateral when its borrowers default on their obligations, which may expose EWBC to significant losses.

- EWBC has significant credit exposure to certain borrowers and industries. Deterioration in the performance of any of these industry sectors or the non-performance of a substantial portion of these loans could adversely impact the asset quality of EWBC's loan portfolio and business.
- EWBC's funding is primarily short-term and if depositors do not roll over deposited funds upon maturity, or if other banks do not lend short term funds to EWBC as they have in the past, EWBC's liquidity and business could be adversely affected.
- EWBC may fail to upgrade or effectively operate its information technology systems.
- EWBC's failure to manage risks associated with its information and technology systems could adversely affect its business.
- EWBC is subject to interest rate risk and foreign currency risk.
- EWBC's business, reputation and prospects may be adversely affected if EWBC is not able to detect and prevent fraud or other misconduct committed by EWBC's employees or outsiders on a timely basis.
- EWBC's ability to assess, monitor and manage risks inherent in its business differs from the standards of its counterparts in more developed countries as well as larger banks in the Philippines.
- If the Philippine banking sector experiences significant difficulties or sudden changes, it could materially and adversely affect EWBC.
- EWBC does not have any registered intellectual property rights.

## **RISKS RELATING TO THE GROUP'S SUGAR BUSINESS**

- Farmers are not required to grow sugarcane and may cultivate other crops.
- Contract farmers may not repay their crop loans to PSHC.
- Adverse weather conditions, crop disease, substandard sugarcane quality and certain sugarcane crop varieties grown by farmers may adversely affect sugarcane crop yields and sugar recovery rates for any given harvest.
- The Sugar Subsidiaries may be adversely affected by price fluctuations in sugar and related markets, such as ethanol, oil and corn.
- The Sugar Subsidiaries' business is dependent on certain principal customers and the loss of, or a significant reduction in, purchases by such customers could adversely affect the Sugar Subsidiaries' business.
- The Sugar Subsidiaries sell the majority of their output to traders who are not under any obligation to purchase the Sugar Subsidiaries' products.
- Because the Sugar Subsidiaries' contracts to cultivate sugarcane are based on the amount of land the farmer cultivates rather than a set quantity or quality of sugarcane, the yield per 10,000 sq.m. of land determines in large part the quantity of sugarcane the Sugar Subsidiaries receive and the Sugar Subsidiaries cannot guarantee that the supply their mills receive in a given year will be sufficient to meet their needs.
- Because DSCC and CSCC contract with sugarcane farmers to cultivate sugarcane under long term contracts, DSCC and CSCC may be obligated to mill the sugarcane produced, even if they will be unable to sell the resulting sugar.
- In the event that existing barriers to the import of sugar to the Philippines are lifted, the Sugar Subsidiaries may face significant competition from international sugar manufacturers which may adversely affect their profitability.
- The Sugar Subsidiaries are potentially subject to price competition from illegally imported sugar.
- The Sugar Subsidiaries' results of operations could be adversely affected by a disruption of operations at their manufacturing facilities.
- The collective bargaining agreement which governs most DSCC employees expired on June 30, 2015.
- The Sugar Subsidiaries' turnover is subject to seasonality and price volatility.

## **RISKS RELATING TO THE GROUP'S POWER GENERATION BUSINESS**

**FDCUI faces risks relating to its future power generation projects, including risks relating to project cost, completion time frame and development rights.**

The time and costs involved in completing the development and construction of power generation projects can be adversely affected by many factors, including but not limited to shortages of materials, equipment and labor, such as a limited supply of skilled labor, adverse weather conditions, peso depreciation, natural disasters, labor disputes with contractors and subcontractors, accidents, changes in laws or in government priorities and other unforeseen problems or circumstances. Where land to be used for a project is occupied by tenants and/or squatters, FDCUI may have to take steps, and incur additional costs, to remove such occupants and, if required by law, to provide relocation facilities for them. Any of these factors could result in project delays and cost overruns, which could negatively affect the

Group's business, financial condition and results of operations. This may also result in sales and resulting profits from a particular power project not being recognized for the year. There can be no assurance that such events will not occur in a manner that could materially and adversely affect the Group's business, financial condition and results of operations.

## EMPLOYEES

As of December 31, 2013, FDC's 7,995 employees can be categorized by function as follows:

	As of December 31, 2013
<b>Real Estate Development</b>	
Operations.....	372
Administrative.....	490
Technical.....	312
Marketing.....	274
Total.....	<u>1,448</u>
<b>Financial and Banking Services</b>	
Operations.....	2,802
Sales.....	983
Support.....	965
Total.....	<u>4,750</u>
<b>Sugar Business</b>	
Operations.....	501
Administrative.....	88
Technical.....	55
Marketing.....	4
Total.....	<u>648</u>
<b>Hotel Business</b>	
Operations.....	860
Administrative.....	120
Technical.....	69
Marketing.....	42
Total.....	<u>1,091</u>
<b>Power Generation Business</b>	
Operations.....	0
Administrative.....	26
Technical.....	30
Marketing.....	2
Total.....	<u>58</u>

The Company does not expect a substantial change in the number of its employees in the next 12 months, other than with respect to EWBC, which expects to take on substantial new employees to staff new branches which are targeted to be opened during 2013.

FDC provides managers, supervisors and general staff the opportunity to participate in both in-house and external training and development programs which are designed to help increase efficiency and to prepare employees for future assignments. FDC has also provided a mechanism through which managers and staff are given feedback on their job performance, which FDC believes will help to ensure continuous development of its employees' knowledge base.

FDC also offers employee benefits and salary packages that it believes are in line with industry standards in the Philippines and which are designed to help it compete in the marketplace for quality employees. It is FDC's goal to position itself as an employer of choice in the Philippines. FDC currently does not have an employee stock option plan.

PSHC provides canteen facilities, medical clinic and other benefits. DSCC has a retirement plan for its regular employees while CSCC and HYSFC are currently reviewing the retirement plans of its regular employees.

Most of DSCC's employees are members of the trade union Nagkakaisang Mamumuo sa DASUCECO, which is affiliated with the Philippine National Federation of Labour. The collective bargaining agreement between DSCC and the National Federation of Labour will expire on June 30, 2015. The current labor union has been representing DSCC's rank and file workers for more than 30 years and has had not experienced work disruptions even when negotiations were not proceeding smoothly. Management does not anticipate problems in the next negotiations. The requirement of allocating a certain volume of production for exports is also an advantage because it gives producers governmental protection from work disruption.

CSCC's and HYSFC's employees are not subject to trade unions or collective bargaining agreements.

## **Item 2. Properties and Equipment**

### *Filinvest Development Corporation*

FDC itself has two projects utilizing its land bank; it is currently developing The Beaufort, a residential condominium in Bonifacio Global City, Taguig City, Metro Manila and has developed Seascapes Resort Town on Mactan Island, Cebu.

### *The Beaufort*

FDC launched a premier residential condominium in Bonifacio Global City, Metro Manila in 2007 under the Filinvest Premiere Brand. The condominium is located on a lot adjacent to the Manila Golf Club Two luxury residential towers rising atop a six-level banking podium, with a total of 41 stories and between four and six residential units per floor. The Beaufort is designed by an international team of architects and interior decorators led by Arquitectonica, Teixeira Design, Inc., DQA Environmental Design and Integrated Lighting Design. Construction of the East and West Tower is ongoing and is expected to be completed by 2014.

### *Seascapes Resort Town*

FDC has developed Seascapes Resort Town, a 120,000-sq.m. seaside property designed to be Cebu's premier seaside residential resort. Seascapes Resort Town includes residential lots, all of which have been sold as of 2010, and the CRSM, a hotel complex also completed in 2010.

The CRSM, owned and operated by SRI, comprises 39 buildings on 60,000 sq.m. of land at Seascapes Resort Town. In addition to the main club building, which houses the amenities and facilities of the hotel, the design includes 20 single-story buildings to house 134 garden suites, eight two-story buildings to house 116 deluxe rooms, 11 buildings to house 40 villas, each of which has a private entry and pantry and either a private plunge pool or private terrace. The CRSM, which has a total of 290 room keys, is registered with the BOI under Tourism activities, which entitles the project to incentives including a six-year corporate income tax holiday and exemption from import duties.

### *FilArchipelago Hospitality, Inc.*

FHI is a joint venture of FDC (60.0%) and AIPL (40.0%), which was created in 2008 to manage the Group's hospitality projects. AIPL is an affiliate of Aston International, which manages hotels, resorts, residences, spas and villas under the Aston, Alana, Quest, Fave and Kamuela brands. FHI's principal purpose is to provide a comprehensive range of design, consulting, technical, marketing, training, operations and management services for hotels, serviced apartments, villas, condotels, and boutique resorts.

CRSM, the Group's first completed hospitality project, opened in October 2010 and is a 5-star resort developed and owned by FDC. CRSM sits on a sprawling sea front development and features four outlets, three infinity pools, and 290 "keys" or units, including 250 deluxe and garden rooms and 40 villas (of which 38 have their own private plunge pools). CHFC is a 5-star hotel developed and owned by FAI. CHFC is strategically located by the southern entry point of the elevated highway of the South Luzon Expressway and is also near Festival Supermall and Asian Hospital. CHFC's offerings include large meeting rooms and banquet facilities in addition to 345 guest rooms and suites. CHFC's soft opening operations began in December 2012 and its grand opening was last March 2013. QHCC is a 3-star hotel condotel developed by FLI at its Grand Cenia Residences in Cebu City that launched its soft opening in February and grand opening in September 2012. QHCC's 432 rooms are owned by third parties as part of a 25-year rental pool scheme while QHCC's restaurants and meeting facilities are owned by FHC.

The properties of FDC and its subsidiaries are not subject to any material mortgage, lien or encumbrance

## Land Bank

Since its incorporation, the Company has invested in properties situated in what the Company believes are prime locations across the Philippines for existing and future housing and land development projects. It is important for the Company to have access to a steady supply of land for future projects. In addition to directly acquiring land for future projects, the Company has also adopted a strategy of entering into joint venture arrangements with land owners for the development of raw land into future project sites for housing and land development projects to allow FLI to reduce its capital expenditures for land and to substantially reduce the financial holding costs resulting from owning land for development.

Under the joint venture agreements, the joint venture partner contributes the land free from any lien, encumbrance, tenants or informal settlers and the Company undertakes the development and marketing of the products. The joint venture partner is allocated either the developed lots or the proceeds from the sales of the units based on pre-agreed distribution ratio.

Potential land acquisitions and participation in joint venture projects are evaluated against a number of criteria, including the attractiveness of the acquisition price relative to the market, the suitability or the technical feasibility of the planned development. The Company identifies land acquisitions and joint venture opportunities through active search and referrals.

As of December 31, 2013, the Company had a land bank of approximately 2,379 hectares of raw land for the development of its various projects, including approximately 324 hectares of land under joint venture agreements, which the Company's management believes is sufficient to sustain at least several years of development and sales. Details of the Company's raw land inventory as of December 31, 2013 are set out in the table below (area in hectares).

Location	Company Owned	Under Joint Ventures	Total	% to Total
<b>Luzon</b>				
Metro Manila	43.8	-	43.8	1.8%
Rizal	778.6	86.2	864.8	36.4%
Bulacan	259.2	-	259.2	10.9%
Pampanga	-	59.0	59.0	2.5%
Tarlac	0.0	0.1	0.1	0.0%
Cavite	374.4	89.0	463.4	19.5%
Tagaytay	5.2	-	5.2	0.2%
Laguna	282.1	1.3	283.4	11.9%
Batangas	140.6	43.4	184.1	7.7%
Palawan	-	6.0	6.0	0.3%
<b>Sub-total</b>	<b>1,884.0</b>	<b>285.1</b>	<b>2,169.1</b>	<b>91.2%</b>
<b>Visayas</b>				
Cebu	23.5	31.6	55.2	2.4%
Iloilo	0.9	-	0.9	0.0%
<b>Sub-total</b>	<b>24.4</b>	<b>31.6</b>	<b>56.1</b>	<b>2.4%</b>
<b>Mindanao</b>				
General Santos	99.6	-	99.6	4.2%
Cagayan de Oro City	2.8	-	2.8	0.1%
Davao	43.8	7.7	51.5	2.2%
<b>Sub-total</b>	<b>146.1</b>	<b>7.7</b>	<b>153.8</b>	<b>6.5%</b>
<b>Total</b>	<b>2,054.6</b>	<b>324.4</b>	<b>2,379.0</b>	<b>100.0%</b>
<b>% to Total</b>	<b>86.4</b>	<b>13.6</b>	<b>100.0%</b>	

The Company does not intend to acquire properties for the next 12 months except as needed in the ordinary course of business.

### Current Development Projects

The following table sets out FLI's projects with ongoing housing and/or land development as of December 31, 2013.

Category / Name of Project	Location
<b>SOCIALIZED</b>	
Belvedere Townhomes	Tanza, Cavite
Belmont Hills	Tanza, Cavite
Blue Isle	Sto. Tomas, Batangas
Sunrise Place	Tanza, Cavite
Castillion Homes	Gen. Trias, Cavite
Mistral Plains	Gen. Trias, Cavite
Sunrise Place Mactan	Mactan, Cebu
<b>AFFORDABLE</b>	
Alta Vida	San Rafael, Bulacan
Bluegrass County	Sto. Tomas, Batangas
Brookside Lane	Gen. Trias, Cavite
Crystal Aire	Gen. Trias, Cavite
Fairway View	Dasmaringas, Cavite
Palmridge	Sto. Tomas, Batangas
Springfield View	Tanza, Cavite
Summerbreeze Townhomes	Sto. Tomas, Batangas
Westwood Place	Tanza, Cavite
Woodville	Gen. Trias, Cavite
Aldea Real	Calamba, Laguna
Costas Villas (Ocean Cove 2)	Davao City
Primrose Hills	Angono, Rizal
The Glens at Park Spring	San Pedro, Laguna
Sommerset Lane	Tarlac City
Claremont Village	Mabalacat, Pampanga
Westwood Mansions	Tanza, Cavite
Tierra Vista	San Rafael, Bulacan
Aldea del Sol	Mactan, Cebu
Raintree Prime Residences	Dasmaringas, Cavite
La Brisa Townhomes	Calamba, Laguna
Alta Vida Prime	San Rafael, Bulacan

Category / Name of Project	Location
Amare Homes	Tanauan, Batangas
Anila Park	Taytay, Rizal
Austine Homes	Pampanga
The Residences at Castillon Homes	Tanza, Cavite
Valle Dulce Phase 1B	Calamba, Laguna
Primrose Townhomes	Havila, Angono, Rizal
Futura Homes	Puerto Princesa, Palawan
Futura Homes San Pedro	San Pedro, Laguna
Anila Park Townhomes	Angono, Rizal
Villa Montserrat	Angono Rizal
<b>MIDDLE-INCOME</b>	
Corona Del Mar	Pooc, Talisay, Cebu City
Filinvest Homes Tagum	Tagum City, Davao
NorthviewVillas	Quezon City
Ocean Cove	Davao City
Orange Grove	Matina, Pangi, Davao City
Spring Country	Batasan Hills, Quezon City
Spring Heights	Batasan Hills, Quezon City
Southpeak	San Pedro, Laguna
The Pines	San Pedro, Laguna
Villa San Ignacio	Zamboanga City
Highlands Pointe	Taytay, Rizal
Manor Ridge at Highlands	Taytay, Rizal
Ashton Fields	Calamba, Laguna
Montebello	Calamba, Laguna
Hampton Orchards	Bacolor, Pampanga
The Enclave at Filinvest Heights	Quezon City
Escala (La Constanera)	Talisay, Cebu
West Palms	Puerto Princesa, Palawan
Filinvest Homes - Butuan	Butuan, Agusan Del Norte
La Mirada of the South	Binan, Laguna
Tamara Lane (formerly Imari)	Caloocan City
Viridian at Southpeak	San Pedro, Laguna
Nusa Dua (Residential)	Tanza, Cavite
The Tropics	Cainta, Rizal
Princeton Heights	Molino, Cavite
The Enclave at Highlands Pointe	Havila, Taytay, Rizal
The Glades	Timberland Heights, San Mateo Rizal
The Villas	Taytay, Rizal
<b>MID-RISE BUILDINGS</b>	
One Oasis – Ortigas	Pasig, Metro Manila

Category / Name of Project	Location
One Oasis – Davao	Davao City
Bali Oasis 1	Pasig, Metro Manila
One Oasis Cebu	Mabolo, Cebu City
Maui Oasis	Sta. Mesa, Manila
Capri Oasis	Pasig, Metro Manila
Sorrento Oasis	Pasig, Metro Manila
Amalfi Oasis	South Road Properties, Cebu
San Remo Oasis	South Road Properties, Cebu
Asiana Oasis	Paranaque, Metro Manila
Bali Oasis 2	Pasig City, Metro Manila
One Spatial	Pasig City, Metro Manila
One Oasis Cagayan De Oro	Cagayan de Oro
<b>CHINESE PROJECTS</b>	
Fortune Hill	San Juan, Metro Manila
The Signature	Balintawak, QC
<b>HIGH-RISE BUILDINGS</b>	
The Linear	Makati City
Studio City	Filinvest City, Alabang
The Levels	Filinvest City, Alabang
Studio Zen	Pasay City, Metro Manila
Vinia Residences & Versaflats	Edsa, Quezon City
The Terraces Ph 1B & Ph 2	Havila, Taytay, Rizal
The Enclave at Highlands Pointe	Havila, Taytay, Rizal
Studio A	Quezon City
<b>HIGH-END</b>	
Brentville International	Mamplasan, Binan, Laguna
Prominence 2	Mamplasan, Binan, Laguna
Treviso	Quezon City
Village Front	Binan, Laguna
Mission Hills - Sta. Catalina	Antipolo, Rizal
Mission Hills - Sta. Isabel	Antipolo, Rizal
Mission Hills - Sta Sophia	Antipolo, Rizal
Banyan Ridge	San Mateo, Rizal
The Ranch	San Mateo, Rizal
The Arborage at Brentville Int'l	Mamplasan, Binan, Laguna
Banyan Ridge	San Mateo, Rizal
Banyan Crest	San Mateo, Rizal
Arista	Talisay, Batangas
Orilla	Talisay, Batangas
Bahia	Talisay, Batangas
Highlands Pointe	Havila, Taytay, Rizal

<b>Category / Name of Project</b>	<b>Location</b>
Kembali Arista	Samal Island, Davao
<b>LEISURE - FARM ESTATES</b>	
Forest Farms	Angono, Rizal
Mandala Residential Farm	San Mateo, Rizal
Nusa Dua	Tanza, Cavite
<b>LEISURE – PRIVATE / MEMBERSHIP CLUB</b>	
Timberland Sports and Nature Club	San Mateo, Rizal
<b>LEISURE – RESIDENTIAL / RESORT DEVELOPMENT</b>	
Kembali Coast	Samal Island, Davao
Laeuna De Taal	Talisay, Batangas
<b>ENTREPRENEURIAL - MICRO SMALL &amp; MEDIUM ENTERPRISE VILLAGE</b>	
Asenso Village - Calamba	Calamba, Laguna
<b>INDUSTRIAL/COMMERCIAL</b>	
Filinvest Technology Park	Calamba, Laguna
The Mercado	Havila, Taytay, Rizal
<b>CONDOTEL</b>	
Grand Cenia Hotel & Residences	Cebu City
The Leaf	Timberland Heights, San Mateo Rizal

On-going developments of the abovementioned projects are expected to require additional capital expenditures but FLI believes that it will have sufficient financial resources for these anticipated requirements.

#### **Investment in foreign securities**

The Company does not have any investment in foreign securities.

#### **Investment Properties**

FLI's acquisition of major assets and equity interests in September 2006 involved three strategic investment properties, namely: Festival Supermall, PBCOM Tower and Northgate Cyberzone.

Festival Supermall is a four-story regional shopping complex situated on a total land area of 10 hectares and is located within Filinvest City, a development of Filinvest Alabang, Inc. Festival Supermall is approximately 15 kilometers south of the Makati City central business district and is near the juncture of three major road networks – the South Expressway, the old National Highway and the Alabang-Zapote Road which links the South Expressway to the Coastal Road that connects Metro Manila to Cavite province. Its location allows it to attract customers from offices located in the Filinvest City, the subdivision developments of southern Metro Manila such as the high-end Ayala Alabang subdivision, and from nearby provinces such as Batangas, Cavite and Laguna.

FLI has leased from FAI the 10 hectares of land on which the mall and its adjoining structures (such as parking lots) are situated. The lease is for a term of 50 years from 01 October 2006, renewable for another 25 years, with FLI required to pay monthly rent equivalent to 10.0% of the monthly gross rental generated by the mall. Festival Supermall was designed to allow the construction of an additional wing to the current two-wing structure on two adjacent hectares of land available for development, which would increase the mall's GFA by up to

57,000 sq.m. The lease between FAI and FLI allows FLI to construct additions or extensions to the current mall structure, which will revert to FAI upon termination of the lease. As of the date of this Prospectus, FLI has no plans to acquire any additional shopping mall. However, in order to strengthen the mall's position as southern Manila's biggest mall that offers the most diverse shops and services, construction is ongoing to expand the mall wherein an additional GLA of 57,000 sq.m. will be added to the approximately 135,163 sq.m. Construction is targeted to be completed in phases, from the fourth quarter of 2013. The Company also completed the design stage of the expansion, which is expected to occupy an additional ten hectares of land adjacent to the existing mall. The additional leasable space is intended to cater to the Broad C (lower end) market, while also providing an enclave for affluent communities in southern Metro Manila.

Festival Supermall has a GFA of approximately 200,000 sq.m., with a GLA of approximately 135,163 sq.m. FLI believes that Festival Supermall is one of the largest shopping malls in the southern Metro Manila area in terms of GFA and caters to a variety of market segments.

Festival Supermall's current anchor tenants include stores operated by some of the Philippines' largest retailers, such as the J.G. Summit group of companies (Robinsons Department Store and Handyman Do It Best), SM Investments Corporation (SaveMore Supermarket and Ace Hardware) and the Rustan's Group (Shopwise Supercenter). Festival Supermall also has a group of tenants that are well-known international and domestic retailers, restaurant chains and service companies, such as Bose, Levi's, Bench, Giordano, The Body Shop, National Bookstore, McDonald's, Jollibee and KFC. In addition, in 2010, Festival Supermall was able to open several new fashion stores, including Payless Shoe Source, Terranova, 101 New York, DC Shoes, Hot Flopzz, Res-Toe-Run, Free Tag, Banana Peel, Sandugo, Pinoy Lab, Lavish Lashes and Etude House, among others. Festival Supermall currently has a total of 789 tenants.

In addition to having over 700 retail stores and outlets, Festival Supermall also features amenities such as a ten-theater movie multiplex with digital surround sound systems and two themed amusement centers. The mall also has exhibit, trade and music halls which are leased out to organizers of events such as trade fairs sponsored by the Philippine Department of Trade and Industry.

FAC owns 50% of the PBCom Tower (currently the tallest office building in the Philippines), a 52 floor, Grade A, PEZA-designated I.T./office building in Ayala Avenue, Makati City, Metro Manila. FLI earns 60% of revenues from the 36,000 sq.m. leasable space in this building. At present, Citigroup Business Process Solutions, Daksh eServices, EastWest Banking Corporation, ESS Manufacturing Co., Sony Life Insurance, The Nomad Offices (Phils.), Inc. and New York Life Insurance are among its major tenants. Day-to-day operations are handled by FAI, pursuant to an existing agreement.

CPI owns and operates the IT buildings in Northgate Cyberzone; a PEZA registered BPO Park within Filinvest City. FLI earned 60% of revenues from leasable space for 2008 and 2009 prior to FLI's acquisition of the 40.0% interest of AIIPI in 2010. Among others, Northgate's major tenants are Convergys, APAC, GenPact Services LLC, e-Telecare Global Solutions, ICICI Bank Limited, Flour Daniel and Infosys. Its day-to-day operations are now handled by FAI. A significant amount of leasable space is planned to be made available so as to meet some of the significant demand of the BPO industry in the next few years. Vector One was completed in 2010, while Vector Two was completed in October 2011. With the addition of Filinvest One Building (formerly Filinvest Building Alabang), Plaz@E, Filinvest Building, EDSA Ortigas and two more buildings in Northgate Cyberzone will increase the number of operational BPO office buildings within the Northgate Cyberzone to sixteen (16) with a total GLA 212,000 sq. m.

## **Rental and Others**

FLI is renting office spaces located at San Juan, Metro Manila with an aggregate floor area of 4,369sq.m. for its head office. The term of the lease is 5 years, subject to renewal upon mutual agreements between FLI and the lessors. On 30 October 2012 FLI transferred to its new corporate headquarters located along EDSA, Mandaluyong City effectively ending the lease on FDC land and building in San Juan. FLI is also renting spaces for its sales offices in Alabang, Quezon City, Pasig City, Rizal, Laguna, Pampanga, Tarlac, Palawan, Cebu City, Davao City, Butuan, Tagum and Zamboanga City. The term of the leases is usually for one year, and thereafter, the term of the lease shall be on a month-to-month basis, or upon the option of both parties, a new contract is drawn. The Company does not intend to acquire properties for the next 12 months except as needed in the ordinary course of business.

## **Banking and Financial Services**

The Bank also leases several premises occupied by its branches with annual escalation of 5% to 10% and for periods ranging from 5 to 15 years, renewable upon mutual agreement of both parties. EWBC has 347 branches as of December 31, 2013 including its rural bank branches.

The Company does not intend to acquire properties for the next 12 months except as needed in the ordinary course of business.

## Sugar

### *Milling and Refining Facilities*

The annual sugarcane harvesting period in Mindanao generally begins during the dry season in November and ends in April the following year. Once sugarcane is harvested, farmers in the vicinity of the mills are responsible for transporting the harvest directly to the mills, generally by truck. PSHC grants certain subsidies to assist most of its contract farmers with their transportation costs. PSHC monitors and coordinates harvesting and transportation operations among farmers to achieve an orderly and uninterrupted schedule of cane supply to its sugar mills. At the beginning of each milling season, PSHC surveys the size of the farmers' crops and organizes the farmers' harvesting and supply schedules, amounts of sugarcane delivered and payments through an electronic database. Data is gathered for PSHC's entire production process, including data relating to sugarcane supply and PSHC's factory operations.

The tables below set out PSHC's harvested area and sugarcane yield for each of its mills. Sugarcane yield is the amount of sugarcane per 10,000 sq.m. of harvested area.

	Harvested Area (10,000 sq. m.)		
	CY 2010-11	CY 2011-12	CY 2012-13
<b>Mill</b>			
DSCC	11,020	11,803	11,978
CSCC	6,731	9,714	10,466
Total	17,751	21,517	22,444
	Sugarcane yield (MT/10,000 sq. m.)		
	CY 2010-11	CY 2011-12	CY 2012-13
<b>Mill</b>			
DSCC	46	47	49
CSCC	63	52	50
Average PSHC	52	49	50

Each of DSCC and CSCC has on-site packaging, distribution capabilities and inventory storage facilities. Each mill operates on the basis of three eight-hour shifts during the milling season. Once every two weeks, the mills are shut down for 16 hours to allow for cleaning of the evaporators.

### *Factory Equipment*

DSCC owns and operates one sugar mill and one refinery. The sugar mill equipment includes the following: cane preparation equipment (cane knives and shredder), three four-roller mills and one five-rollermill, boiling house equipment (heaters, clarifiers, vacuum filters, evaporators, vacuum pans, crystallizers and centrifugals), turbo generators, two boilers and other accessories. The refinery equipment includes the following: melters, affination centrifugals, talo-clarifiers, deep-bed filters, ion-exchange decolorization equipment, refinery evaporator, vacuum pans, crytallizers, centrifugals, a dryer and cooler and other accessories. Steam and electricity are provided by three units of bagasse-fired steam boilers and three units of turbo generators.

CSCC owns and operates one sugar mill and a refinery. The sugar mill equipment includes the following: cane preparation equipment (cane knives and shredder), three four-roller mills and two five-roller mills, boiling house equipment (heaters, clarifiers, vacuum filters, evaporators, vacuum pans, crystallizers and centrifugals), four turbo generators, two boilers and other accessories. The refinery equipment includes the following: melters, affination centrifugals, clarifiers, pressure filters, ion-exchange decolorization equipment, refinery evaporator, vacuum pans, crystallizers, centrifugals, a dryer and cooler and other accessories. Steam and electricity are provided by three units of bagasse-fired steam boilers and three units of turbo generators.

### *Properties*

PSHC leases its corporate office which is located at San Juan, Metro Manila from FDC. The following table lists land owned and leased by the other Sugar Subsidiaries:

<b>Sugar Subsidiary</b>	<b>Area (sq. m.)</b>
DSCC	
Mill site compound	539,000
CSCC	
Mill site compound	222,000
Truck yard and access road	391,000
Other	120,000
HYSFC	
Proposed office site	49,000
Total	1,321,000

HYSFC has development agreements for a total area of 1,922 hectares with various landowners remaining as of CY 2012-13 after a management decision to drop 405 hectares of low yielding and high cost areas and approved a landowner's request for pre-termination of 98 hectares but with a pre-termination compensation. Other reductions were expired agreements that were not renewed by the landowner or renewal not pursued due to due to unfavourable location. The agreements are generally based on a fixed annual payment from HYSFC to the landowners with terms ranging from 10 years to 15 years. HYSFC develops these areas into sugarcane farms.

### **Power**

FDCUI is developing a 405 MW clean coal thermal power plant in Mindanao. Offtake agreements for 252 MW with 17 distribution utilities in Mindanao are already on hand and an additional 26 MW are still being negotiated.

The proposed power plant will be built inside the 3,000 hectare PHIVIDEC Industrial Estate in Villanueva, Misamis Oriental and will be connected to the new Villanueva Substation. The intended 84.4-hectare plant site is located approximately 500 meters from the proposed 300 hectare steel plant of JFE Steel Corporation, a subsidiary of the Philippine Sinter Corporation, which is anticipated to be the biggest locator in the PHIVIDEC Industrial Estate.

The plant is expected to occupy 30 hectares of land to accommodate all the structures that will be constructed including the boiler building, turbine building, switchyard and substation and the coal storage building.

For the proposed plant site, FDC Misamis has signed in November 2012 a 25-year lease contract with PHIVIDEC Industrial Authority (PIA) which is exclusive of a three (3) year construction period.

### Item 3. Legal Proceedings

The Group is subject to lawsuits and legal actions in the ordinary course of its real estate development and other allied activities. However, the Group does not believe that any such lawsuits or legal actions will have a significant impact on the financial position or result of operations of the Group. Noteworthy are the following cases involving the Company and its subsidiaries, Filinvest Land, Inc. ("FLI") and Pacific Sugar Holdings, Inc. ("PSHC"):

- a. *FLI vs. Abdul Backy, et al.*  
G.R. No. 174715  
Supreme Court

This is a civil action for the declaration of nullity of deeds of conditional and absolute sales of certain real properties located in Tambler, General Santos City covered by free patents and executed between FLI and the plaintiffs' patriarch, Hadji Gulam Ngilay. The Regional Trial Court ("RTC") of Las Piñas City (Br. 253) decided the case in favor of FLI and upheld the sale of the properties. On appeal, the Court of Appeals rendered a decision partly favorable to FLI but nullified the sale of some properties involved. FLI filed petition for review on *certiorari* with the Supreme Court to question that portion of the decision declaring as void the deeds of sale of properties covered by patents issued in 1991. The Supreme Court resolved with finality the aforesaid petition in favor of FLI, and Abdul Backy was ordered to return the amount of ₱14 million to FLI.

- b. *Emelita Alvarez, et al. vs. FDC*  
DARAB Case No. IV-RI-010-95  
Adjudication Board, Department of Agrarian Reform

On or about March 15, 1995 certain persons claiming to be beneficiaries under the Comprehensive Agrarian Reform Program (CARP) of the National Government filed an action for annulment/cancellation of sale and transfer of titles, maintenance of peaceful possession, enforcement of rights under CARP plus damages before the Regional Agrarian Reform Adjudicator, Adjudication Board, Department of Agrarian Reform. The property involved, located in San Mateo, Rizal, was purchased by FDC from the Estate of Alfonso Doronilla. A motion to dismiss is still pending resolution.

- c. *Republic of the Philippines vs. Rolando Pascual, et al.*  
Civil Case No. 7059  
Regional Trial Court

The National Government through the Office of the Solicitor General filed suit against Rolando Pascual, Rogelio Pascual and FLI for cancellation of title and reversion in favor of the Government of properties subject of a joint venture agreement between the said individuals and FLI. The Government claims that the subject properties covering about 73.33 hectares are not alienable and disposable being forest land. The case was dismissed by the RTC of General Santos City (Br. 36) on November 16, 2007 for lack of merit. The Office of the Solicitor General has appealed the dismissal to the Court of Appeals, where it is still pending.

- d. *FLI vs. Eduardo Adia, et al*  
G.R. 192929  
Supreme Court

Various CLOA holders based in Brgy. Hugo Perez, Trece Martirez City filed a complaint with the RTC of Trece Martirez against FLI for recovery of possession with damages, claiming that in 1995 they surrendered possession of their lands to FLI so that the same can be developed pursuant to a joint venture arrangement allegedly entered into with FLI. They now seek to recover possession of said lands pending the development thereof by FLI. The RTC rendered a decision ordering FLI to vacate the subject property. FLI appealed the decision to the Court of Appeals which affirmed the RTC decision. FLI filed a petition for review on *certiorari* before the Supreme Court.

On 10 January 2011, the Supreme Court granted FLI's motion to admit a supplemental petition and required respondent to comment on the supplemental petition within 10 days from notice. The case is pending resolution at the Supreme Court.

- e. *Antonio E. Cenon and Filinvest Land, Inc. vs. San Mateo Landfill, Mayor Jose Rafael Diaz, Brgy. Pintong Bukawe, Director Julian Amador and the Secretary, Department of Environment and Natural Resources*  
Civil Case No. 2273-09

On February 9, 2009, FLI filed an action for injunction and damages against the respondents to stop and enjoin the construction of a 19-hectare landfill in a barangay in close proximity to Timberland Heights in San Mateo, Rizal. FLI sought preliminary and permanent injunctive reliefs and damages and is seeking the complete and permanent closures of the dump site. Trial in this case is ongoing.

- f. *Coca-Cola Bottlers Philippines, Inc. vs. Pacific Sugar Holdings Corporation*  
Civil Case No. 10-1067  
RTC Makati City, Br. 146

On October 28, 2010, Coca-Cola filed a civil case against Pacific Sugar Holdings Corporation demanding the amount of ₱347,410,104.66 allegedly representing damages sustained by Coca-Cola due the supposed failure by PSHC to deliver certain bags of sugar products. PSHC, accordingly filed its Answer on April 13, 2011 to refute the claims of Coca-Cola. Trial of the case is ongoing, with Coca-Cola still presenting its evidence-in-chief.

The Company is not aware of any other information as to any other legal proceedings known to be contemplated by government authorities or any other entity.

#### **Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of security holders during the fourth quarter of the calendar year covered by this report.

## **PART II - OPERATIONAL AND FINANCIAL INFORMATION**

#### **Item 5. Market for Registrant's Common Equity and Related Stockholder Matters**

##### **Cash Dividend**

A ₱0.0536 per share dividend was declared in 2013. The payment of cash dividends depends upon the Company's earnings, cash flow, financial condition, capital investment requirements and other factors (including certain restrictions on dividends imposed by the terms of loan agreements). Pursuant to the loan agreements entered into by the company and certain financial institutions, the Company needs the lenders' prior consent in cases of cash dividend declaration.

## Market Price Information

The Shares are traded on the PSE under the symbol “FDC.” The Shares were listed on the PSE on December 22, 1982.

The high and low sales prices for the Shares as reported on the PSE for each quarter in 2011, 2012 and 2013 were as follows:

	<u>High</u>	<u>Low</u>	<u>Period End</u>
<b>2011</b>			
First Quarter.....	6.35	4.00	4.42
Second Quarter.....	5.20	4.31	4.87
Third Quarter.....	5.25	3.34	3.85
Fourth Quarter.....	3.90	3.30	3.35
<b>2012</b>			
First Quarter.....	4.80	3.30	4.69
Second Quarter.....	5.20	3.87	3.87
Third Quarter.....	4.33	3.90	4.17
Fourth Quarter.....	5.10	4.11	4.94
<b>2013</b>			
First Quarter.....	6.32	4.63	5.80
Second Quarter.....	6.99	4.30	5.94
Third Quarter.....	5.10	4.08	4.57
Fourth Quarter.....	4.49	4.00	4.40

As of December 31, 2013 and March 31, 2014, the closing price of the Company’s shares on the PSE was ₱4.40 per share and ₱5.0 per share, respectively. The number of shareholders of record as of December 31, 2013 and March 31, 2014 were 4,266 and 4,257, respectively. Total common shares issued and outstanding as of December 31, 2013 were 9,319,872,387 and 9,317,473,987, respectively.

## Top 20 Stockholders

### As of December 31, 2013

Shareholders	Class of Securities	No. of Shares held	% to Total Outstanding
1 ALG Holdings Corporation	Common	8,219,373,037	88.21%
2 PCD Nominee Corp. (Filipino)	Common	904,349,169	9.71%
3 Michael Edward T. Gotianun	Common	47,131,422	0.51%
4 PCD Nominee Corp. (Non-Filipino)	Common	37,039,851	0.40%
5 Andrew Gotianun, Sr &/or Mercedes T. Gotianun	Common	33,697,190	0.36%
6 Ricardo Alonzo	Common	28,627,534	0.31%
7 Henry Sy, Sr.	Common	6,272,055	0.07%
8 Mercedes T. Gotianun	Common	3,796,472	0.04%
9 Joseph M. &/or Lourdes Josephine G. Yap	Common	2,817,311	0.03%
10 Helen Reyes	Common	2,692,544	0.03%
11 Emily Benedicto	Common	2,466,400	0.03%
12 H. K. Hedinger	Common	2,023,508	0.02%
13 Allied Banking Corporation	Common	1,885,562	0.02%
14 Santiago Go	Common	1,707,066	0.02%
15 Lino Sy	Common	616,600	0.01%
16 AMA Rural Bank of Mandaluyong, Inc.	Common	616,600	0.01%
17 Manuel Benipayo	Common	527,141	0.01%
18 Salud Borromeo	Common	501,655	0.01%
19 Francisco Benedicto	Common	493,280	0.01%
20 Edan Corporation	Common	387,224	0.01%
Total		<u>9,297,021,621</u>	<u>99.78%</u>

## Recent Sale of Unregistered Securities

There are no securities sold by the Company in the past three (3) years, which were not registered under the Code.

## Item 6. Management's Discussion and Analysis of Financial Condition and Plan of Operations

### RESULTS OF OPERATIONS

#### Year ended December 31, 2013 compared with year ended December 31, 2012

#### Revenues and Other Income

##### *Real Estate Operations*

##### *Sale of Lots, Condominium and Residential Units and Club Shares*

Sale of lots, condominium and residential units and club shares increased by 9.1% to ₱12,638.0 million in 2013 from ₱11,579.1 million in 2012, mainly attributable to higher sales of middle income residential projects, largely from High-Rise Buildings (HRBs). FLI's sale of HRBs increased by 125.4% to ₱2,147.8 million in 2013 from ₱953.0 million in 2012, while sale of affordable housing and other middle-income projects increased by 43.8% and 17.1%, respectively.

##### *Mall and Rental Revenues*

Mall and rental revenues grew by 9.5% to ₱2,326.4 million in 2013 compared to ₱2,124.9 million in 2012, primarily due to FLI's higher rental revenues generated by CPI from Northgate Cyberzone buildings resulting from higher take-up of Filinvest One in 2013. Other sources of revenue from rental services include the ready-built-factories in Filinvest Technology Park in Calamba, Laguna, and commercial and office spaces in Alabang, Muntinlupa City and Makati City.

##### *Other income — real estate operations*

Other income from real estate operations increased by 5.8% to ₱1,528.6 million in 2013 from ₱1,444.4 million in 2012, primarily due to higher interest derived from contracts receivable.

##### *Financial and Banking Services*

##### *Net Interest Income*

##### *Financial and Banking Services Interest Income*

The Group's interest income from financial and banking services bagged a 26.8% increase to ₱9,828.7 million in 2013 from ₱7,751.4 million in 2012 primarily due to the 27.6% growth (net of elim) in loans and receivables, driven largely by credit cards, auto loans and corporate lending.

##### *Costs of Financial and Banking Services*

Costs of financial and banking services increased by 7.1% to ₱1,801.4 million in 2013 from ₱1,681.2 million in 2012 because of the Group's interest on US-Dollar-denominated bonds issued in the second quarter of 2013. Excluding the finance cost of the bonds, interest cost of the Bank decreased by 18.5% to ₱1,370.7 million in 2013 from ₱1,681.2 million in 2012 primarily due to strong growth of low cost funds and the reduction in the cost of term deposits.

### *Net Interest Income*

Net interest income increased by 32.2% to ₱8,027.3 million in 2013 from ₱6,070.2 million in 2012 as a result of the double digit growth in lending coupled with the decline in funding costs. Excluding the finance cost of the US-Dollar-denominated bonds, net interest income increased by 39.3% from ₱6,070.2 million in 2012 to ₱8,458.0 million in 2013.

### *Other Income — Financial and Banking Services*

Other income from financial and banking services rose by 29.2% to ₱4,772.3 million in 2013 from ₱3,695.1 million in 2012. The increase primarily came from higher service charges, fees, commissions and other charges on account of increasing CASA base and consumer loan portfolio which are composed of transactional and service fees. Securities trading gain was 24.7% higher than last year, as the Bank took a conservative position at the back of volatility in the financial markets during the last half of 2013.

### *Sugar Operations*

#### *Sugar Sales*

The Group's sugar sales increased by 13.6% to ₱2,691.8 million in 2013 from ₱2,369.3 million in 2012 primarily due to a higher volume of sales in 2013 from the improvement in sugarcane production as a result of favourable climate conditions. For CY2012–13, the supply of sugarcane milled reached 1,117.7 thousand MT, compared to 1,055.9 thousand MT milled in CY2011–12, which resulted in an increase of sugar production to 2.2 million bags in 2013 from 1.9 million bags in 2012.

#### *Other Income — Sugar*

Other income from sugar operations decreased by 35.3% to ₱64.3 million in 2013 from ₱99.4 million in 2012 mainly due to lower write-off of long outstanding payables in 2013.

### *Hotel Operations*

#### *Hotel Revenues and Other Income*

The Group's hotel revenues and other income increased by 39.6% to ₱986.5 million in 2013 from ₱706.8 million in 2012 due to Crimson Mactan's higher occupancy rates and average room rates of 73% and ₱10,965, respectively, in 2013 compared with 67% and ₱10,860, respectively, in 2012. The increase in hotel revenues was also contributed by the revenues generated by the newly opened hotel, Crimson Alabang, which formally started its commercial operations in March 2013.

### **Costs**

#### *Costs of Sale of Lots, Condominium and Residential Units and Club Shares*

Costs of sale of lots, condominium and residential units and club shares increased by 7.2% to ₱6,709.4 million in 2013 from ₱6,259.5 million in 2012 primarily due to the increase in sales volume.

#### *Costs of Mall and Rental Services*

Costs of mall and rental services increased by 4.7% to ₱397.1 million in 2013 from ₱379.1 million in 2012 primarily on account of higher depreciation. This year's costs of rent included the depreciation of EDSA Transcom Building which started only in the fourth quarter of 2012.

#### *Costs of Financial and Banking Services*

Costs of financial and banking services are accounted for under net interest income. See “— Revenues — Financial and Banking Services — Net interest income.”

#### *Costs of Sugar Sales*

Costs of sugar sales increased by 11.9% to ₱2,144.6 million in 2013 from ₱1,916.5 million in 2012 on account of increase in sales volume.

### *Costs of Hotel Operations*

Costs of hotel operations increased by 52.1% to ₱351.2 million in 2013 from ₱230.9 million in 2012 on account of higher hotel revenues and additional cost this year attributable to the new hotel, Crimson Hotel, Alabang, as mentioned in the preceding section.

### **Expenses**

#### *Real Estate Operations*

The Group's real estate operating expenses increased slightly by 0.2% to ₱3,734.9 million in 2013 from ₱3,727.5 million in 2012. This was primarily due to (a) a 7.0% increase in general and administrative expenses to ₱1,987.9 million in 2013 from ₱1,857.2 million in 2012 because of (i) higher business volume and (ii) 12.3% increase in depreciation to ₱194.7 million in 2013 from ₱173.4 million in 2012; and (b) a 7.1% increase in selling and marketing expenses to ₱1,011.0 million in 2013 from ₱943.8 million in 2012 resulting from increase in broker's commission, sales office direct cost and other sales generation expenses as a result of increasing sales volume and activities. The above increase was offset, however, by decrease in interest expense due to higher interest capitalized to projects.

#### *Financial and Banking Services Operations*

The Group's financial and banking services operating expenses increased by 39.4% to ₱10,861.5 million in 2013 from ₱7,791.4 million in 2012, primarily due to (a) a 102.4% increase in provision for impairment and credit losses to ₱3,097.6 million in 2013 from ₱1,530.8 million in 2012, as the Bank accelerated loan loss provisions on account of rapid growth in consumer loans, particularly unsecured portfolio of credit cards; and (b) 27.9% increase in depreciation and amortization to ₱717.6 million and increase in rent expense by 32.3%, both on account of the new branch stores that were opened throughout the period; and 35.1% increase in compensation and benefits to ₱2,612.2 million in 2013 from ₱1,934.2 million in 2012, on account of 12.3% increase in headcount, to end 2013 with 4,754 employees from 4,233 last year.

#### *Sugar Operations*

The Group's sugar operating expenses increased slightly by 1.8% to ₱208.6 million in 2013 from ₱205.0 million in 2012.

#### *Hotel Operations*

The Group's hotel operating expenses increased by ₱374.9 million or 147.6% to ₱629.0 million in 2013 from ₱254.0 million in 2012 primarily due to (a) higher business volume, which led to an increase in utilities, maintenance and credit card charges; (b) increase in selling and marketing expenses as a result of new promotional activities; and (c) the operating expenses of Crimson Hotel Alabang.

#### *Power Generation Operations*

The Group's power generation operating expenses increased by 42.7% to ₱78.9 million in 2013 from ₱55.3 million in 2012 primarily due to higher personnel costs brought about by additional employees hired given the increased level of activity for the Misamis Oriental project, training and education, professional and outside services, depreciation and amortization, sponsorships and bid fees.

### **Provision for Income Tax**

Current income tax increased by 22.0% to ₱1,226.3 million in 2013 from ₱1,005.3 million in 2012, primarily due to higher taxable income. On the other hand, provision for deferred income tax decreased by 44.0% due to higher realized gross profit on capitalized interest through cost of sales.

### **Net Income**

As a result of the foregoing, the Group's net income increased by 10.5% to ₱6,457.2 million in 2013 from ₱5,842.9 million in 2012.

## FINANCIAL CONDITION

### As at December 31, 2013 Compared with As at December 31, 2012

#### Assets

As of December 31, 2013, total consolidated assets amounted to ₱270.8 billion, total stockholder's equity at ₱84.7 billion (including minority interest) while total liabilities at ₱186.1 billion. The year-end (long-term) debt-to-equity ratio was 0.70:1.00. Total long-term debt as of December 31, 2013 amounted to ₱59.1 billion, higher by ₱16.9 billion compared to ₱42.2 billion as of December 31, 2012.

Total assets grew by ₱30.7 billion, from ₱240.1 billion to ₱270.8 billion as of year-end 2013.

Cash and cash equivalents increased to ₱30.8 billion or 8.6% higher than the December 2012 level of ₱28.4 billion, coming mainly from the proceeds of FLI bonds issued in November 2013.

Loans and receivables of the financial and banking services jumped by ₱18.9 billion or 27.6%. The Bank remains focused in growing its consumer and mid-market corporate loans. Consumer loans grew by 23.5% from end 2012, at the back of consistent growth in credit cards and auto loans portfolio, as well as salary loans to public school teachers of the rural bank. Large corporate and middle market loans grew 27.8% from end 2012.

Loans and receivables of real estate operations grew by ₱2.4 billion or 14.3% which primarily came from additional booked sales of condominium and residential units of FLI, particularly the middle-income projects mostly from HRBs.

Loans and receivables of sugar operations was lower by ₱54.0 million or 32.4% mainly due to collection of trade receivables.

Loans and receivables of hotel and power generation operations went up by ₱8.1 million or 14.5% mainly from higher receivables from credit cards and authorized customer credits.

Financial assets at fair value through profit or loss (FVTPL) decreased to ₱1.9 billion or by 54.3%. The bank took a conservative position and disposed of a sizable portion of its financial assets at FVTPL.

Financial assets at fair value through other comprehensive income decreased by 13.8% due to FLI's return of investments received from certain shares from an electric power distributor.

Investment securities at amortized cost decreased by 5.6% largely due to the maturity and sale of various government securities and private bonds.

Sugar and molasses inventories decreased by ₱252.2 million or 60.6% to ₱163.8 million from ₱415.9 million, as the sugar milled and refined during the current milling period were almost fully sold as of end of reporting period.

Land and land development costs grew by 18.2% from 2012 year-end balance of ₱21,683.8 million to ₱25,622.9 million, due to FLI's acquisition of parcels of land in Cavite, and in the cities of Pasig, Quezon, Taguig, Valenzuela and Manila.

Investment properties and property and equipment grew by 7.5% and 15.6%, respectively, due to (i) FLI's additional construction costs for Plaza E, Vector 1-3, FLI Edsa Transcom, Filinvest One, Two & Three buildings, Megablock and FLI EDSA Transcom building; (ii) Construction in progress - FSI mall expansion and SRP Land Property account; (iii) EW's aggressive expansion of business line and growth in branches; and (iv) Capital expenditures from newly opened hotel, Crimson Hotel at Filinvest City.

Deferred income tax assets increased by 9.5% or ₱114.1 million at the back of increase in allowance for impairment and credit losses.

Other assets rose by ₱2.1 billion or 36.3%, which substantially came from 1) FLI's additional creditable withholding tax, input vat and various deposits; 2) FDCUI's increase in input vat from purchase of goods and services and payment of consultancy fees; 3) EWBC's additional branch license and advances to contractors; and 4) FDC's increase in creditable withholding tax.

## Liabilities

Total liabilities grew by ₱25.4 billion from ₱160.7 billion as of December 31, 2013 to ₱186.1 billion as of December 31, 2012. This increase was principally due to increase in deposit liabilities and long-term debt.

Deposit liabilities stretched to ₱95.1 billion from ₱87.9 billion or by ₱7.2 billion or 8.2% mainly attributable to the expanded branch store network as reflected in the 27.9% growth of low cost deposits (CASA). High cost deposits (inclusive of LTNCDs) on the other hand increased by only 14.4%. As a result, low cost (CASA) to total deposits ratio improved further to 58%, up from 55% last year.

Bills and acceptances payable decreased by 41.0% mainly as the Bank tapped other sources of funding such as CASA and LTNCD.

Accounts payable and accrued expenses increased by 16.0% due to higher level of payables, retention fee, and customers' deposits.

Deferred tax liabilities went up by 4.8% or ₱314.9 million due to FLI's additional capitalized borrowing costs slightly offset by the realized portions due to sales.

Short-term and long-term debt amounted to a total of ₱59.6 billion from the end-2012 level of ₱42.5 billion. The Group issued during the current year a total of about ₱20.0 billion bonds (offshore and local bonds) and availed of additional bank loans to finance the ongoing projects and developments of the Group.

## Equity

Cash dividends were declared by the Parent and its subsidiary, FLI out of their respective unappropriated retained earnings. On May 30, 2013, the Parent Company's BOD approved the declaration and payment of cash dividends of ₱499.5 million or P0.0536 per share for every common share payable on July 17, 2013 to stockholders of record as of June 27, 2013. On the other hand, on July 3, 2013, the BOD of FLI approved the declaration and payment of cash dividend of P0.0478 per share for all shareholders of record as of June 7, 2013.

The Group has no material commitments for capital expenditures, except for the ongoing development of Beaufort Project inside the Bonifacio Global City in Taguig City, project developments of the real estate subsidiaries, expansion and modernization plans of the sugar manufacturing subsidiaries, the planned development of power plant projects, the intended construction and management of various hotels, and the initial expenses necessary for the new branches of the bank subsidiary which expenditures can be adequately covered by the operating cash flow and availment of medium and long term loans.

## Performance Indicators

	As of And For The Year Ended December 31, 2013		As of And For The Year Ended December 31, 2012	
<b>Earnings per share (basic)</b>	₱0.46	/share	₱0.44	/share
<u>Net Income (Attributable to Equity Holders of the Parent)</u>				
<u>Weighted Average Number of Outstanding Shares</u>				
<b>Price Earnings Ratio</b>	9.58	Times	11.33	Times
<u>Closing Price</u>				
<u>Earnings Per Share</u>				
<b>Return on Revenue</b>	19 %		20 %	
<u>Total Net Income</u>				
<u>Total Revenue</u>				

	<b>As of And For The Year Ended</b>	<b>As of And For The Year Ended</b>
	<b>December 31, 2013</b>	<b>December 31, 2012</b>
<b>Assets to Equity Ratio</b>	3.20 : 1	3.03 : 1
<hr/> Total Assets <hr/> Total Equity		
<b>Debt to Equity Ratio</b>		
a) <hr/> Long-term Debt Total Equity	0.70 : 1	0.53 : 1
b) <hr/> Total Liabilities excluding deposit liabilities and bills and acceptances payable Total Equity	1.03 : 1	0.85 : 1
<b>Current Ratio</b>		
a) Including EW <hr/> Current Assets Current Liabilities	1.26 : 1	1.09 : 1
b) Excluding EW <hr/> Current Assets Current Liabilities	3.84 : 1	2.67 : 1
<b>EBITDA to Total Interest Expense</b>	11.77	9.56
<hr/> EBITDA <hr/> Total Interest Expense	Times	Times

Earnings per share was P0.46 while Price Earnings (PE) Ratio was 9.58 times as of end-2013. The increase in EPS was due to higher income attributable to equity holders of the Parent Company, while lower PE ratio was on account of lower closing share price as of December 31, 2013, with the stock closing at ₱4.40 per share in December 2013 versus ₱4.94 per share in December 2012. Return on Revenue was slightly lower while the ratio of EBITDA to Total Interest Expense increased from 9.56 times in 2012 to 11.77 times on account of higher EBITDA in 2013.

#### Notes to Financial Statements

1. The attached consolidated financial statements are prepared in compliance with Philippine Financial Reporting Standards (PFRS). The accounting policies and methods of computation followed in the financial statements for the year ended December 31, 2013 are the same as those followed in the annual financial statements of the Company for the year ended December 31, 2012.
2. Except for the sugar business, the operating activities of the Company are carried out uniformly over the calendar year. The sugar milling season of the Company's sugar subsidiaries is usually from November to June of the following year. Except for this milling season, there are no other unusual operating cycles or seasons during the year.
3. Except as disclosed in the Management's Discussion and Analysis of Financial Condition and Results of Operation, there are no unusual items affecting assets, liabilities, equity, net income or cash flows for the current period. There are no known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.

4. There are no changes in estimates of amounts reported in the previous period that have material effects in the current period.
5. Except for those discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations, there are no issuances, repurchases and repayments of debt and equity securities.
6. There were no other dividends paid (aggregate or per share) separately for ordinary shares and other shares during the current period, except as discussed in the previous sections.
7. The Company derives its revenues from the following reportable segments:

Real estate which involves acquisition of land, planning and development of large-scale fully integrated residential and commercial communities; development and sale of residential and commercial lots and the development and leasing of retail and office space and land; construction and sale of residential housing and condominiums and office buildings; development of farm estates, industrial and business parks; operation of cinema and mall; and property management.

Banking and financial services which involve commercial and banking operations, including generations of savings, current and time deposits in pesos and foreign currencies; commercial mortgage and agribusiness loans; payment services, provision of credit card facilities, fund transfer, international trade settlements and remittances from overseas workers; trust and investment services including portfolio management, unit funds, trust administration and estate planning; and safety deposit facilities.

Sugar milling operations which involve planting and harvesting of sugar cane, milling of canes into raw sugar, conversions of raw sugar into refine sugar and trading of the products.

Hotel operations which involve management of hotel suites, villas, food and beverage outlets, resort and banquet facilities, and spa.

Financial information on the operations of these business segments as of and for the years ended December 31, 2013 and 2012 are summarized and included in the accompanying Notes to Consolidated Financial Statements.

8. Except as discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations, there are no material events subsequent to December 31, 2013 up to the date of this report that have not been reflected in the financial statements for the current period.
9. There have been no changes in the composition of the Company during the current period, such as business combination, acquisition or disposal of subsidiaries and long-term investments, restructurings and discontinuing operations, except as discussed in the Developments of the Company and Management Discussion on its Results of Operations.
10. There are no changes in contingent liabilities or contingent assets since December 31, 2013.
11. There are no material contingencies and any other events or transactions affecting the current period.
12. There are no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.
13. There are no known material off-balance sheet transactions, arrangements, obligations including contingent liabilities, and other relationships of the Company, with unconsolidated entities or other persons created during the reporting period.
14. There are no significant elements of income or loss, except as discussed in the Management Discussion on the Results of Operations that did not arise from the Company's continuing operations.
15. There are no known seasonal aspects that had a material effect on the financial condition or results of operations.
16. Aside from the possible material increase in interest rates on the outstanding floating – rate term loans, there are no known trends, events or uncertainties or any material commitments that may result to any cash flow or liquidity problems of the Group within the next 12 months. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangements requiring it to make payments or any significant amount in its accounts payable that have not been paid within the stated terms.

## **Year ended December 31, 2012 compared with year ended December 31, 2011**

### **Revenues and Other Income**

#### *Real Estate Operations*

##### *Sale of Lots, Condominium and Residential Units and Club Shares*

Sale of lots, condominium and residential units and club shares increased by 35.8% to ₱11,579.1 million in 2012 from ₱8,524.6 million in 2011, principally due to increased sales of FLI's middle income residential projects, including MRB. Sales of MRBs increased by 73.9% to ₱4,855.9 million in 2012 from ₱2,791.6 million in 2011 and sales of other middle-income projects increased by 37.7% to ₱2,620.8 million in 2012 from ₱1,903.1 million in 2011. The increase was also contributed by the higher sales of commercial lots in Filinvest City, ₱1,315.8 million in 2012 compared with ₱210.1 million in 2011.

##### *Mall and Rental Revenues*

Mall and rental revenues increased by 16.1% to ₱2,015.1 million in 2012 compared to ₱1,735.3 million in 2011, primarily due to higher occupancy rates and an increase in rental rates. Other sources of rental income included the factories in Filinvest Technology Park in Calamba, Laguna and commercial spaces in Brentville, Mamlasan, Laguna.

##### *Other income — real estate operations*

Other income from real estate operations decreased by 25.5% to ₱1,432.1 million in 2012 from ₱1,922.6 million in 2011, primarily due to a reduction in amortization of deferred income to ₱54.1 million in 2012 from ₱457.4 million in 2011, partly offset by higher service and other fees and foreign exchange gains in 2012 than in 2011. The deferred income came from an exchange of a parcel of land for share of FLI in 1996 with respect to which the resulting gain was deferred until the development and sale of lots to third parties.

#### *Financial and Banking Services*

##### *Net Interest Income*

##### *Financial and Banking Services Interest Income*

The Group's interest income from financial and banking services increased by 15.3% to ₱7,751.4 million in 2012 from ₱6,725.1 million in 2011 primarily due to the 48% growth in loans and receivables, with all business segments posting double-digit year-on-year growth.

##### *Costs of Financial and Banking Services*

Costs of financial and banking services decreased by 7.4% to ₱1,681.2 million in 2012 from ₱1,816.2 million in 2011 primarily due to higher proportion of low cost deposits to total deposits. Low cost deposits grew by 51% while high cost deposits (or time deposits) declined by 6%.

##### *Net Interest Income*

Net interest income increased by 23.7% to ₱6,070.1 million in 2012 from ₱4,908.9 million in 2011 due to higher net interest margin resulting from a combined expansion in credit portfolio and lower funding mix.

##### *Other Income — Financial and Banking Services*

Other income from financial and banking services increased by 54.6% to ₱3,695.1 million in 2012 from ₱2,390.2 million in 2011. This was primarily due to an increase in EWBC's trading and securities gains and foreign exchange gains. Service charges, fees and commissions coming from deposits and consumer loans, which are businesses rich in transaction related fees, also contributed to the increase in other income for EWBC.

## *Sugar Operations*

### *Sugar Sales*

The Group's sugar sales increased by 10.3% to ₱2,369.3 million in 2012 from ₱2,148.3 million in 2011 primarily due to a higher volume of sales in 2012 from the improvement in sugarcane production as a result of favourable climate conditions. For CY2011–12, the supply of sugarcane milled reached 1,051.2 thousand MT, compared to 931.3 thousand MT milled in CY2010–11, which resulted in an increase of sugar production to 1.9 million bags in 2012 from 1.6 million bags in 2011.

### *Other Income — Sugar*

Other income from sugar operations decreased by 24.1% to ₱99.4 million in 2012 from ₱131.0 million in 2011 primarily due to receipt of proceeds from the settlement of an insurance claim in 2011 amounting to ₱27.3 million.

## *Hotel Operations*

### *Hotel Revenues*

The Group's hotel revenues increased by 25.0% to ₱692.3 million in 2012 from ₱554.0 million in 2011 primarily due to higher occupancy rates and average room rates of 67% and ₱6,335, respectively, in 2012 compared with 64% and ₱5,762, respectively, in 2011.

## **Costs**

### *Costs of Sale of Lots, Condominium and Residential Units and Club Shares*

Costs of sale of lots, condominium and residential units and club shares increased by 33.7% to ₱6,259.5 million in 2012 from ₱4,681.2 million in 2011 primarily due to an increase in sales volume.

### *Costs of Mall and Rental Services*

Costs of mall and rental services increased by 6.0% to ₱356.7 million in 2012 from ₱336.6 million in 2011 primarily on account of higher costs related to maintenance, management and agency costs and utilities expenses.

### *Costs of Financial and Banking Services*

Costs of financial and banking services are accounted for under net interest income. See “— Revenues — Financial and Banking Services — Net interest income.”

### *Costs of Sugar Sales*

Costs of sugar sales decreased by 11.0% to ₱1,916.5 million in 2012 from ₱2,154.0 million in 2011 due to lower costs of production and purchased sugar.

### *Costs of Hotel Operations*

Costs of hotel operations increased by 20.3% to ₱230.9 million in 2012 from ₱191.9 million in 2011 on account of higher hotel revenues.

## **Expenses**

### *Real Estate Operations*

The Group's real estate operating expenses increased by 15.0% to ₱3,700.9 million in 2012 from ₱3,217.4 million in 2011. This was primarily due to (a) a 27.6% increase in general and administrative expenses to ₱1,844.3 million in 2012 from ₱1,445.9 million in 2011 because of (i) higher business volume and (ii) 11.6% increase in depreciation to ₱173.4 million in 2012 from ₱155.4 million in 2011; and (b) a 8.8% increase in selling and marketing expenses to ₱943.0 million in 2012 from ₱867.0 million in 2011 resulting from additional

costs of new advertising and promotional materials related to new marketing campaigns featuring a new celebrity endorse, higher incentives commissions and service fees paid to brokers and other sellers as a consequence of higher sales.

#### *Financial and Banking Services Operations*

The Group's financial and banking services general and administrative expenses increased by 50% to ₱7,791.4 million in 2012 from ₱5,193.5 million in 2011, primarily due to (a) a 109.2% increase in provision for impairment and credit losses to ₱1,530.8 million in 2012 from ₱731.8 million in 2011, as a result of loan growth, largely on credit costs for cards; and (b) a 39.3% increase in compensation and benefits to ₱1,934.2 million in 2012 from ₱1,388.4 million in 2011, on account of larger manpower base as a result of EWBC's expansion program.

#### *Sugar Operations*

The Group's sugar operating expenses decreased by 4.6% to ₱205.0 million in 2012 from ₱214.9 million in 2011 primarily due to lower shipping expenses and taxes.

#### *Hotel Operations*

The Group's hotel operating expenses increased by 41.0% to ₱251.2 million in 2012 from ₱178.2 million in 2011 primarily due to (a) higher business volume, which led to an increase in utilities, maintenance and credit card charges; and (b) increase in selling and marketing expenses as a result of new promotional activities.

#### *Power Generation Operations*

The Group's power generation operating expenses decreased by 23.1% to ₱55.3 million in 2012 from ₱71.9 million in 2011 primarily due to significant decreases in taxes and license fees, transportation and travel expenses and outside services, which were capitalized as project costs. These costs were partially off-set by increases in compensation and benefits, depreciation and amortization, rental expense and the cost of repairs and maintenance. The similar costs of research, traveling and professional fees incurred in 2011 were expended because they pertain to the Group's plans to develop LNG powered plants. The Group changed its plan to develop coal fired plants instead of LNG powered plants in 2012.

### **Provision for Income Tax**

Current income tax decreased by 1.2% to ₱987.6 million in 2012 from ₱1,000.1 million in 2011, primarily due to higher proportions of tax-free gross profit on sales of BOI-registered projects and nontaxable income.

### **Net Income**

As a result of the foregoing, the Group's net income increased by 17.8% to ₱5,787.1 million in 2012 from ₱4,913.2 million in 2011.

## **FINANCIAL CONDITION**

### **As at December 31, 2012 Compared with As at December 31, 2011**

#### **Assets**

As of December 31, 2012, total consolidated assets amounted to ₱239.4 billion, stockholder's equity at ₱79.0 billion (including minority interest) while total liabilities at ₱160.4 billion. The year-end (short-term and long-term) debt-to-equity ratio was 0.53:1.00 which was slightly higher than 2011 year-end of 0.48:1. Total short-term and long-term debt as of December 31, 2012 amounted to ₱42.3 billion, higher by ₱8.7 billion compared to ₱33.6 billion as of December 31, 2011.

Total assets grew by ₱39.4 billion, from ₱200.0 billion to ₱239.4 billion as of year-end 2012.

Cash and cash equivalents increased to P28.4 billion or 19.9% higher than the December 2011 level of P23.4 billion, mainly due to EWBC's higher year-end cash level as a result of higher requirements and increase in the number of branches.

Loans and receivables of the financial and banking services went up by ₱21.5 billion or 45.5% mainly from EWBC's successful auto loan and credit card campaigns and growth in corporate lending.

Receivables of real estate operations increased by ₱3.9 billion or 31.2% which came primarily from the sale of condominium and residential units of FLI, mostly from the middle-income projects including MRBs, from sale of commercial lots of FAI, and from sale of Beaufort condominium units of FDC, the Parent Company.

Receivables of hotel and power generation operations went up by ₱31.8 million or 130.0% mainly from higher hotel revenues settled through credit cards and authorized customer credits.

The Group's financial assets at fair value through profit or loss (FVTPL) decreased by 29.2% to ₱4,260.3 million as at December 31, 2012 from ₱6,016.6 million as at December 31, 2011; financial assets at fair value through other comprehensive income (FVTOCI) decreased by 19.3% to ₱159.0 million as at December 31, 2012 from ₱197.3 million as at December 31, 2011; and investment securities at amortized cost decreased by 19.5% to ₱9,620.5 million as at December 31, 2012 from ₱11,947.0 million as at December 31, 2011. EWBC took advantage of the favorable market conditions and disposed sizable portion of its Financial Assets at Fair Value through profit and loss, while Investment Securities at Amortized Cost decreased by 19% to ₱9.6 billion due to the maturity and sale of various government securities and private bonds. On June 25, 2012, the BOD approved the change in the Group's business model. Management deemed it necessary to change the way it manages its investment securities because of significant changes in its strategic plans, funding structure and cash flow profile brought about by the Bank's IPO and branch expansion program. Accordingly, the Group made certain reclassifications pursuant to the new business model effective July 1, 2012, resulting in ₱711.9 million of trading and securities gain, recognized in the other income of financial and banking services in the consolidated statements of income, representing the difference between the aggregate amortized cost of certain securities amounting to ₱5.6 billion and their aggregate fair value of ₱6.3 billion at the reclassification date.

Subdivision lots, condominium and residential units for sale expanded by ₱3.0 billion or 12.6% with the additional residential development projects of FLI particularly the MRBs and other middle-income residential projects.

Sugar and molasses inventories grew by ₱217.5 million or 9.7% to ₱415.9 million from ₱198.4 million, because of higher level of sugar milled and refined during the current milling period which remained unsold as of end of reporting period.

Investment properties and property and equipment likewise grew by 14.3% and 42.2%, respectively, due to capital expenditures during the current period brought about by a) EWBC's expansion of business line and growth in branches; b) opening of Crimson Hotel at Filinvest City; c) acquisition of land at Boracay, Aklan; and d) various capital expenditures of the real estate, hotel and power generation segments.

Deferred income tax assets was reduced by 6.1% or ₱77.9 million when the provision for deferred income tax increased due to decrease of NOLCO.

Other assets rose by ₱2.3 billion or 64.0%, which substantially came from a) EWBC's additional branch license, deposits, capitalized software costs and miscellaneous assets; and b) FLI's additional creditable withholding tax, input vat and deposits made to acquire certain properties.

## **Liabilities**

Total liabilities grew by ₱30.0 billion from ₱130.4 billion as of December 31, 2012 to ₱160.4 billion as of December 31, 2011. This increase was principally due to increase in funding sources in support of asset growth, particularly in deposits and bills and acceptances payable.

Deposit liabilities stretched to ₱87.9 billion from ₱73.7 billion or by ₱14.2 billion or 19.3% mainly due to increase in deposit taking activities, particularly CASA, coming from branch expansion.

Bills and acceptances payable rose to ₱5.6 billion from ₱2.2 million, as EWBC tapped other sources of lower cost funding, through collateralised short-term borrowing in the repo market.

Accounts payable and accrued expenses increased by ₱3.3 billion from ₱14.6 billion to ₱17.9 billion mainly due to higher liabilities arising from new acquisition of rawland, rental and security deposits received from tenants and deposits from real estate buyers for insurance and registration, and higher withholding taxes.

Short-term and long-term debt amounted to a total of ₱42.3 billion from the end-2011 level of ₱33.6 billion. FLI issued ₱7.0 billion bonds during the current year and additional loans of ₱9.8 billion were obtained to finance the ongoing property projects and developments and additional capitalization of EWBC.

## Equity

Cash dividends were declared by the Parent and its subsidiary, FLI out of their respective unappropriated retained earnings. On May 25, 2012, the Parent Company's Board of Directors (BOD) approved the declaration and payment of cash dividends of ₱419.3 million or P0.045 per share for every common share payable on July 16, 2012 to stockholders of record as of June 22, 2012. On the other hand, on April 27, 2012, the BOD of FLI approved the declaration and payment of cash dividend of P0.0475 per share for all shareholders of record as of May 25, 2012.

The Group has no material commitments for capital expenditures, except for the ongoing development of Beaufort Project inside the Bonifacio Global City in Taguig City, project developments of the real estate subsidiaries, expansion and modernization plans of the sugar manufacturing subsidiaries, the planned development of power plant projects, the intended construction and management of various hotels, and the initial expenses necessary for the new branches of the bank subsidiary which expenditures can be adequately covered by the operating cash flow and availment of medium and long term loans.

## Performance Indicators

	<u>As of And For The Year Ended December 31, 2012</u>		<u>As of And For The Year Ended December 31, 2011</u>	
<b>Earnings per share (basic)</b>	₱0.44	/share	₱0.40	/share
<u>Net Income (Attributable to Equity Holders of the Parent)</u> Weighted Average Number of Outstanding Shares				
<b>Price Earnings Ratio</b>	11.32	Times	8.44	Times
<u>Closing Price</u> Earnings Per Share				
<b>Return on Revenue</b>	20 %		20 %	
<u>Total Net Income</u> Total Revenue				
<b>Assets to Equity Ratio</b>	3.03 : 1		2.88 : 1	
<u>Total Assets</u> Total Equity				
<b>Debt to Equity Ratio</b>				
a) <u>Long-term Debt</u> Total Equity	0.53 : 1		0.48 : 1	
b) <u>Total Liabilities excluding deposit liabilities and bills and acceptances payable</u> Total Equity	0.85 : 1		0.78 : 1	

	<u>As of And For The Year Ended December 31, 2012</u>	<u>As of And For The Year Ended December 31, 2011</u>
<b>Current Ratio</b>		
a) Including EW		
Current Assets	1.09 : 1	1.17 : 1
Current Liabilities		
b) Excluding EW		
Current Assets	2.67 : 1	2.88 : 1
Current Liabilities		
<b>EBITDA to Total Interest Expense</b>	9.56	8.38
EBITDA	Times	Times
Total Interest Expense		

Earnings per share was P0.44 while Price Earnings (PE) Ratio was 11.32 times as of end-2012. The increase in EPS was due to higher net income in 2012 as earlier discussed. Higher PE ratio was on account of higher share price as of December 31, 2012, with the stock closing at ₱ 4.94 per share in December 2012 versus ₱3.35 per share in December 2011. Return on Revenue was flat while the ratio of EBITDA to Total Interest Expense increased in 2012 from 8.38 times in 2011 to 9.56 times on account of higher EBITDA in 2012.

#### Notes to Financial Statements

1. The attached consolidated financial statements are prepared in compliance with Philippine Financial Reporting Standards (PFRS). The accounting policies and methods of computation followed in the financial statements for the year ended December 31, 2012 are the same as those followed in the annual financial statements of the Company for the year ended December 31, 2011.
2. Except for the sugar business, the operating activities of the Company are carried out uniformly over the calendar year. The sugar milling season of the Company's sugar subsidiaries is usually from November to June of the following year. Except for this milling season, there are no other unusual operating cycles or seasons during the year.
3. Except as disclosed in the Management's Discussion and Analysis of Financial Condition and Results of Operation, there are no unusual items affecting assets, liabilities, equity, net income or cash flows for the current period. There are no known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.
4. There are no changes in estimates of amounts reported in the previous period that have material effects in the current period.
5. Except for those discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations, there are no issuances, repurchases and repayments of debt and equity securities.
6. There were no other dividends paid (aggregate or per share) separately for ordinary shares and other shares during the current period, except as discussed in the previous sections.
7. The Company derives its revenues from the following reportable segments:

Real estate which involves acquisition of land, planning and development of large-scale fully integrated residential and commercial communities; development and sale of residential and commercial lots and the development and leasing of retail and office space and land; construction and sale of residential housing and condominiums and office buildings; development of farm estates, industrial and business parks; operation of cinema and mall; and property management.

Banking and financial services which involve commercial and banking operations, including generations of savings, current and time deposits in pesos and foreign currencies; commercial mortgage and agribusiness loans; payment services, provision of credit card

facilities, fund transfer, international trade settlements and remittances from overseas workers; trust and investment services including portfolio management, unit funds, trust administration and estate planning; and safety deposit facilities.

Sugar milling operations which involve planting and harvesting of sugar cane, milling of canes into raw sugar, conversions of raw sugar into refined sugar and trading of the products.

Hotel operations which involve management of hotel suites, villas, food and beverage outlets, resort and banquet facilities, and spa.

Financial information on the operations of these business segments as of and for the years ended December 31, 2012 and 2011 are summarized and included in the accompanying Notes to Consolidated Financial Statements.

8. Except as discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations, there are no material events subsequent to December 31, 2012 up to the date of this report that have not been reflected in the financial statements for the current period.
9. There have been no changes in the composition of the Company during the current period, such as business combination, acquisition or disposal of subsidiaries and long-term investments, restructurings and discontinuing operations, except as discussed in the Developments of the Company and Management Discussion on its Results of Operations.
10. There are no changes in contingent liabilities or contingent assets since December 31, 2012.
11. There are no material contingencies and any other events or transactions affecting the current period.
12. There are no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.
13. There are no known material off-balance sheet transactions, arrangements, obligations including contingent liabilities, and other relationships of the Company, with unconsolidated entities or other persons created during the reporting period.
14. There are no significant elements of income or loss, except as discussed in the Management Discussion on the Results of Operations that did not arise from the Company's continuing operations.
15. There are no known seasonal aspects that had a material effect on the financial condition or results of operations.
16. Aside from the possible material increase in interest rates on the outstanding floating – rate term loans, there are no known trends, events or uncertainties or any material commitments that may result to any cash flow or liquidity problems of the Group within the next 12 months. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangements requiring it to make payments or any significant amount in its accounts payable that have not been paid within the stated terms.

## **RESULTS OF OPERATIONS**

### **Year ended December 31, 2011 compared with year ended December 31, 2010**

#### **Revenues and Other Income**

##### *Real Estate Operations*

##### *Sale of Lots, Condominium and Residential Units and Club Shares*

Sale of lots, condominium and residential units and club shares increased by 23.7% to ₱8,524.6 million in 2011 from ₱6,888.8 million in 2010, primarily due to higher sales of FLI's middle-income residential projects, including MRBs. Sales of MRBs increased by 27.6% to ₱2,791.6 million in 2011 from ₱2,187.2 million in 2010 and sales of other middle-income projects increased by 7.3% to ₱1,903.1 million in 2011 from ₱1,773.6 million in 2010.

### *Mall and Rental Revenues*

Mall and rental revenues increased by 8.0% to ₱1,735.3 million in 2011 compared to ₱1,607.0 million in 2010, primarily due to higher rental revenues generated from the Northgate Cyberzone buildings, the Company's acquisition of the remaining 40.0% interest in CPI in February 2010, resulting in the consolidation of 100.0% of CPI rental income starting February 2010, and rental income from Festival Supermall in Filinvest City in Alabang, PBCom tower in Makati City and ready-built-factories in Filinvest Technology Park in Calamba, Laguna.

### *Other income — real estate operations*

Other income from real estate operations increased by 43.0% to 1,922.6 million in 2011 from 1,344.8 million in 2010, primarily due to amortization of deferred income of 457.4 million in 2011, related to an exchange of parcels of land for shares in FLI in 1996 with respect to which the resulting gain was deferred until the development and sale of the lots to third parties.

### *Financial and Banking Services*

#### *Net Interest Income*

##### *Financial and Banking Services Interest Income*

The Group's interest income from financial and banking services increased by 14.6% to ₱6,725.1 million in 2011 from ₱5,866.4 million in 2010 primarily due to an increase in loans and receivables, largely driven by credit cards, auto loans and corporate lending growth.

##### *Costs of Financial and Banking Services*

Costs of financial and banking services increased by 20.0% to ₱1,816.2 million in 2011 from ₱1,513.4 million in 2010 primarily due to an increase in EWBC's funding base in support of its balance sheet growth.

#### *Net Interest Income*

Net interest income increased by 12.8% to ₱4,908.9 million in 2011 from ₱4,353.0 million in 2010 due to higher loan volume supported by stable growth in EWBC's cost of funding.

#### *Other Income — Financial and Banking Services*

The Group's other income from financial and banking services decreased by 23.3% to ₱2,390.2 million in 2011 from ₱3,118.3 million in 2010. This was primarily due to trading and securities gain and foreign exchange gain normalizing from the results of a banner year in 2010. Trading and securities gain decreased by 61.3% to ₱447.2 million in 2011 from ₱1,155.3 million in 2010. However, service charges and fees increased by 14.5% to ₱1,536.8 million in 2011 from ₱1,341.8 million in 2010, resulting from the expansion of EWBC's business, particularly with respect to fees generated by retail banking and consumer lending.

### *Sugar Operations*

#### *Sugar Sales*

The Group's sugar sales decreased by 8.6% to ₱2,148.3 million in 2011 from ₱2,351.3 million in 2010 primarily due to unfavourable price variance as the Group's realized prices of raw sugar, refined sugar and molasses decreased by 13%, 9% and 44%, respectively, in 2011 compared to in 2010, due to decrease in the market price of sugar and related commodities.

#### *Other Income — Sugar*

Other income from sugar operations increased by 73.1% to ₱131.0 million in 2011 from ₱75.7 million in 2010 primarily due to the settlement of an insurance claim in 2011 amounting to ₱27.3 million.

### *Hotel Operations*

#### *Hotel Revenues*

The Group's hotel revenues increased by 298.0% to ₱554.0 million in 2011 from ₱139.2 million in 2010 primarily due to the revenues generated from a full year of operations in 2011 of Crimson Resort and Spa, Mactan (CRSM) compared to the shorter period of eight months of its operations in 2010.

## Costs

### *Costs of Sale of Lots, Condominium and Residential Units and Club Shares*

Costs of sale of lots, condominium and residential units and club shares increased by 21.7% to ₱4,681.2 million in 2011 from ₱3,846.2 million in 2010 primarily due to corresponding higher recorded sales in 2011 compared to in 2010.

### *Costs of Mall and Rental Services*

Costs of mall and rental services increased by 6.6% to ₱336.6 million in 2011 from ₱315.7 million in 2010 primarily due to the depreciation of additional leased properties and higher costs of mall operations.

### *Costs of Financial and Banking Services*

Costs of financial and banking services are accounted for under net interest income. See “— Revenues — Financial and Banking Services — Net interest income.”

### *Costs of Sugar Sales*

Costs of sugar sales increased by 26.0% to ₱2,154.0 million in 2011 from ₱1,710.2 million in 2010 due to higher costs of production and purchased sugar in 2011 compared with 2010.

### *Costs of Hotel Operations*

Costs of hotel operations increased by 92.1% to ₱191.9 million in 2011 from ₱99.9 million in 2010 due to the associated costs of CRSM becoming fully operational in 2011, compared to eight month operation in 2010.

## Operating Expenses

### *Real Estate Operations*

The Group's real estate operating expenses increased by 5.6% to ₱3,217.4 million in 2011 from ₱3,045.7 million in 2010. This was primarily due to (a) a 5.6% increase in general and administrative expenses to ₱1,445.9 million in 2011 from ₱1,369.2 million in 2010 because of (i) higher business volume, (ii) a 39.0% increase in depreciation resulting from a full year of depreciation of certain investment properties, and (iii) a 127.8% increase in provision for probable losses on doubtful receivables; and (b) a 16.9% increase in selling and marketing expenses to ₱867.0 million in 2011 from ₱741.4 million in 2010 resulting from higher sales volume, intensive selling and marketing campaigns and additional sales offices set up throughout the country to improve the Group's customer-based geographic profile.

### *Financial and Banking Services Operations*

The Group's financial and banking operations expenses decreased by 2.1% to ₱5,193.5 million in 2011 from ₱5,307.4 million in 2010, primarily due to a 40.9% decrease in provision for probable losses to ₱731.8 million in 2011 from ₱1,239.1 million in 2010. The lower provisioning was a result of the combined improvement in credit quality and excess provisions booked the previous year.

### *Sugar Operations*

The Group's sugar operating expenses decreased by 27.4% to ₱214.9 million in 2011 from ₱295.9 million in 2010 primarily due to write-off of receivables in 2010.

### *Hotel Operations*

The Group's hotel operating expenses increased by 107.5% to ₱178.2 million in 2011 from ₱85.9 million in 2010 primarily due to a full year of operations of CRSM in 2011 compared to 2010, which is only eight months, inclusive of five months of soft opening.

### *Power Generation Operations*

The Group's power generation operating expenses increased to ₱71.9 million in 2011 from ₱0.2 million in 2010 primarily due to the incurrence of initial costs when starting up a new business. FDCUI was incorporated in December 2009 and 2010 was a year with limited set-up costs only. In 2011, FDCUI became operational and incurred administrative and research related costs.

## Provision for Income Tax

### *Provision for Current Income Tax*

Current income tax increased by 14.2% to ₱1,000.1 million in 2011 from ₱876.1 million in 2010, primarily due to the Group's real estate business having higher taxable income and EWBC's higher tax provisions as a consequence of a BIR tax ruling issued in 2011 regulating EWBC's allocation of deductible expenses between FDCU and non-FDCU operations.

### *Provision for Deferred Income Tax*

Deferred income tax increased by 242.7% to ₱164.1 million in 2011 from ₱(115.0) million in 2010, primarily due to EWBC's higher write-offs and unrealized foreign exchange gains for the period.

### *Net Income*

As a result of the foregoing, the Group's net income decreased by 0.5% to ₱4,913.2 million in 2011 from ₱4,937.5 million in 2010.

## FINANCIAL CONDITION

### As at December 31, 2011 Compared with As at December 31, 2010

#### Assets

As of December 31, 2011, total consolidated assets amounted to ₱200.0 billion, stockholder's equity at ₱69.5 billion (including minority interest) while total liabilities at ₱130.4 billion. The year-end (long term) debt-to-equity ratio was 0.48:1 which was slightly higher than 2010 year-end of 0.40:1. Total short-term and long-term debt as of December 31, 2011 amounted to ₱33.6 billion, higher by ₱7.3 billion compared to ₱26.3 billion as of December 31, 2010.

Total assets grew by ₱19.8 billion, from ₱180.2 billion to ₱200.0 billion as of year-end 2011.

Cash and cash equivalents increased to ₱23.6 billion or 27.7% higher than the December 2010 level of ₱18.5 billion, mainly due to EWBC's higher cash level as a result of growth in deposits.

Loans and receivables of the financial and banking services went up by ₱7.7 billion or 19.4% mainly from EWBC's successful auto loan and credit card campaigns and growth in corporate lending.

Receivables of real estate operations increased by ₱1.8 billion or 16.2% which came primarily from the sale of condominium and residential units of FLI, mostly from the middle-income projects including MRBs, and from sale of Beaufort condominium units of FDC, the Parent Company.

Receivables of sugar manufacturing operations grew by ₱56.6 million or 48.3% mainly from the sale of sugar and molasses and advances to sugar planters during the period.

Receivables of hotel and power generation operations went up by ₱8.9 million or 57.3% mainly from higher hotel revenues settled through credit cards and authorized customer credits.

The Group's financial assets at fair value through profit or loss (FVTPL) decreased by 45.6% to ₱6,016.6 million as at December 31, 2011 from ₱11,050.9 million as at December 31, 2010; financial assets at fair value through other comprehensive income (FVTOCI) decreased by 48.7% to ₱197.3 as at December 31, 2011 from ₱384.7 million as at December 31, 2010; while investment securities at amortized cost increased by 23.3% to ₱11,947.0 million as at December 31, 2011 from ₱9,687.9 million as at December 31, 2010.

The movement in Group's FVTPL, FVTOCI and investment securities at amortized cost was largely due to early adoption of PFRS 9 effective January 1, 2011. The background on PFRS 9 and Group's early adoption are as follows:

The International Accounting Standards Board (IASB) issued International Financial Reporting Standards 9, Financial Instruments in November 2009 and October 2010 relating to the classification and measurements of financial assets and financial liabilities, respectively. It was approved for adoption by the Financial Reporting Standards Council (FRSC) as PFRS 9, Financial Instruments (PFRS 9) in March 2010. The FRSC adopted requirements on the classification and measurement of financial assets in March 2010 and the requirements on the accounting for financial liabilities in November 2010. The Monetary Board of Bangko Sentral ng Pilipinas (BSP) approved the guidelines governing the implementation and early adoption of PFRS 9 on December 23, 2010, and issued the

implementing guidelines under BSP Circular Nos. 708 and 733 on January 10, 2011 and August 5, 2011, respectively. The SEC has also issued guidelines on the implementation of PFRS 9 on May 16, 2011 under SEC Memorandum Circular No. 3. The standard was originally effective for annual periods beginning on or after January 1, 2013, with early application permitted, but was amended to defer mandatory effective date to January 1, 2015. When adopted, the standard is applied retrospectively. For annual reporting periods beginning before January 1, 2012, an entity can choose not to restate the comparative periods.

The Group has earlier adopted PFRS 9 with a date of initial application of January 1, 2011. Although PFRS 9 is effective for annual periods beginning on or after January 1, 2015, the Group opted to early adopt the said standard for the following merits:

- a. Adoption of PFRS 9 is inevitable, hence, adopting in 2011 rather than later is operationally more efficient, particularly with the need to restate prior year financial statements for comparative purposes, if adopted in periods beginning on or after January 1, 2012;
- b. This puts the Group in a position to manage better its earnings and capital as the business model approach introduced by PFRS 9 aims to align the accounting standards with the Bank's risk, capital, and asset-liability management practices; and
- c. Corollary to better managed earnings and capital is stability in the Group's earnings.

Subdivision lots, condominium and residential units for sale expanded by ₱5.0 billion or 27.3% with the additional residential development projects of FLI particularly the MRBs and middle-income residential projects, and FAI, specifically the Entrata project.

Sugar and molasses inventories grew by ₱37.4 million or 23.2% to ₱198.4 million from ₱161.0 million, because of higher level of sugar milled and refined during the current milling period which remained unsold as of end of reporting period.

Property and equipment likewise grew by 8.9% or ₱495.3 million due to EWBC's expansion of business line and growth in branches.

Deferred income tax assets was reduced by 22.6% or ₱372.3 million when the provision for deferred income tax increased due to higher write-offs and unrealized foreign exchange gains for the period, as mentioned in the preceding section.

Goodwill grew by ₱374.0 million to ₱11.7 billion from ₱11.3 billion as a result of EWBC's acquisition of its new subsidiary – GBI.

Other assets rose by ₱1.2 billion or 52.4%, which substantially came from additional miscellaneous assets of the Bank and FLI's additional creditable withholding tax, input vat and deposits made to acquire certain properties.

## **Liabilities**

Total liabilities grew by ₱16.7 billion from ₱113.7 billion as of December 31, 2010 to ₱130.4 billion as of December 31, 2011. This increase was principally due to increase in funding sources in support of asset growth, particularly in deposits and bills and acceptances payable.

Deposit liabilities stretched to ₱73.7 billion from ₱64.9 billion or by ₱8.7 billion or 13.4%. The higher combined growth in demand and savings deposits as against time deposits was primarily due to EWBC's efforts to manage its low cost funding by improving its current and savings account ("CASA") to deposits ratio through its branch sales management strategy.

Bills and acceptances payable rose to ₱2.2 billion from ₱161.1 million, as EWBC tapped other sources of lower cost funding, through collateralised short-term borrowing in the repo market.

Accounts payable and accrued expenses declined by ₱1.3 billion from ₱15.9 billion to ₱14.6 billion mainly due to lower bills purchased (contra) of EWBC as of end-2011 as compared to end-2010.

Short-term and long-term debt increased to total of ₱33.6 billion from the ₱26.3 billion level as of end-2010. Additional loans of ₱11.9 billion were obtained to finance the various development projects and support the financial plans of the Company. A total of ₱4.6 long-term debt was paid during the current year.

## Equity

In 2011, the Parent Company purchased from outside investors a total of 1.3 billion common shares of FLI. The transaction increased the Parent Company's effective ownership in FLI to 59% from 53%. The transaction also resulted to a gain recognized in retained earnings amounting to ₱0.8 billion.

On May 27, 2011, the stockholders of the Parent Company approved the declaration of stock dividend equivalent to 23.32% of the issued and outstanding shares of the Corporation. The stock dividend was issued out of the ₱7.0 billion increase in the authorized capital stock of the Corporation from ₱10.0 billion to ₱17.0 billion. The increase in authorized capital stock and stock dividend totaling 1,761,948,535 shares were approved by the Securities and Exchange Commission on August 26, 2011. The 23.32% stock dividend constituted the minimum subscription and paid-in capital requirement for the P7.0 billion increase in the authorized capital stock of the Corporation, as aforesaid. This was paid on October 12, 2011, to stockholders of record as of September 18, 2011.

Cash dividends were declared by the Parent and its subsidiary, FLI out of their respective unappropriated retained earnings. On May 27, 2011, the Parent Company's Board of Directors approved the declaration and payment of cash dividends of ₱356.5 million or ₱0.0475 per share to shareholders of record as of June 22, 2011, payable on July 14, 2011. FLI, on the other hand, paid on June 7, 2011 a cash dividend of ₱0.039 per share to shareholders of record as of May 13, 2011.

The Group has no material commitments for capital expenditures, except for the ongoing development of Beaufort Project inside the Global City in Fort Bonifacio, Taguig City, project developments of the real estate subsidiaries, expansion and modernization plans of the sugar manufacturing subsidiaries, the planned development of power plant projects, the intended construction and management of various hotels, and the initial expenses necessary for the new branches of the bank subsidiary which expenditures can be adequately covered by the operating cash flow and availment of medium and long term loans.

## Performance Indicators

	<b>As of And For The Year Ended December 31, 2011</b>		<b>As of And For The Year Ended December 31, 2010</b>	
<b>Earnings per share (basic)</b>	₱0.40	/share	₱0.39	/share
<u>Net Income (Attributable to Equity Holders of the Parent)</u>				
Weighted Average Number of Outstanding Shares				
<b>Price Earnings Ratio</b>	8.44	Times	13.12	Times
<u>Closing Price</u>				
Earnings Per Share				
<b>Return on Revenue</b>	20%		23%	
<u>Total Net Income</u>				
Total Revenue				
<b>Assets to Equity Ratio</b>	2.88 : 1		2.71 : 1	
<u>Total Assets</u>				
Total Equity				
<b>Debt to Equity Ratio</b>				
a) <u>Long-term Debt</u>	0.48 : 1		0.39 : 1	
Total Equity				
b) <u>Total Liabilities excluding deposit liabilities and bills and acceptances payable</u>	0.78 : 1		0.73 : 1	
Total Equity				

	<b>As of And For The Year Ended December 31, 2011</b>	<b>As of And For The Year Ended December 31, 2010</b>
<b>Current Ratio</b>		
a) Including EW		
Current Assets	1.17 : 1	1.07 : 1
Current Liabilities		
b) Excluding EW		
Current Assets	2.88 : 1	2.37 : 1
Current Liabilities		
<b>EBITDA to Total Interest Expense</b>	8.38	6.85
EBITDA	Times	Times
Total Interest Expense		

Earnings per share was P0.40 while Price Earnings (PE) Ratio was 8.44 times as of end-2011. The increase in EPS was due to higher net income in 2011 as earlier discussed. Lower PE ratio was primarily due to lower share price as of December 31, 2011 as a result of the global economic issues, particularly the macro-economic issues in Europe, USA and China which have impacted our local stock market, with the stock closing at ₱ 3.35 per share in December 2011 versus ₱5.05 per share in December 2010. Return on Revenue was lower by 3% while the ratio of EBITDA to Total Interest Expense increased in 2011 from 6.85 times in 2010 to 8.37 times because of higher EBITDA and slightly lower interest payments made in 2011.

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3. Except as disclosed in the Management's Discussion and Analysis of Financial Condition and Results of Operation, there are no unusual items affecting assets, liabilities, equity, net income or cash flows for the current period. There are no known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.
4. There are no changes in estimates of amounts reported in the previous period that have material effects in the current period.
5. Except for those discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations, there are no issuances, repurchases and repayments of debt and equity securities.
6. There were no other dividends paid (aggregate or per share) separately for ordinary shares and other shares during the current period, except as discussed in the previous sections.
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Banking and financial services which involve commercial and banking operations, including generations of savings, current and time deposits in pesos and foreign currencies; commercial mortgage and agribusiness loans; payment services, provision of credit card facilities, fund transfer, international trade settlements and remittances from overseas workers; trust and investment services including portfolio management, unit funds, trust administration and estate planning; and safety deposit facilities.

Sugar milling operations which involve planting and harvesting of sugar cane, milling of canes into raw sugar, conversions of raw sugar into refine sugar and trading of the products.

Hotel operations which involve management of hotel suites, villas, food and beverage outlets, resort and banquet facilities, and spa.

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8. Except as discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations, there are no material events subsequent to December 31, 2011 up to the date of this report that have not been reflected in the financial statements for the current period.
9. There have been no changes in the composition of the Company during the current period, such as business combination, acquisition or disposal of subsidiaries and long-term investments, restructurings and discontinuing operations, except as discussed in the Developments of the Company and Management Discussion on its Results of Operations.
10. There are no changes in contingent liabilities or contingent assets since December 31, 2011.
11. There are no material contingencies and any other events or transactions affecting the current period.
12. There are no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.
13. There are no known material off-balance sheet transactions, arrangements, obligations including contingent liabilities, and other relationships of the Company, with unconsolidated entities or other persons created during the reporting period.
14. There are no significant elements of income or loss, except as discussed in the Management Discussion on the Results of Operations that did not arise from the Company's continuing operations.
15. There are no known seasonal aspects that had a material effect on the financial condition or results of operations.
16. Aside from the possible material increase in interest rates on the outstanding floating – rate term loans, there are no known trends, events or uncertainties or any material commitments that may result to any cash flow or liquidity problems of the Group within the next 12 months. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangements requiring it to make payments or any significant amount in its accounts payable that have not been paid within the stated terms.

## **INFORMATION ON INDEPENDENT ACCOUNTANT**

### **Audit and Audit-Related Fees**

The aggregate fees billed to the Group for professional services rendered by the external auditor for the examination of the annual financial statements amounted to ₱7.3 million and ₱6.1 million, net of VAT in 2013 and 2012, respectively.

In 2012, additional fees for the external auditor's security risk assessment and IPO amounted to ₱1.0 million and P6.5 million respectively, for EWBC.

### **Tax Fees**

The Group has not engaged the services of the external auditor for tax accounting, compliance, advice, planning and any other form of tax services.

## All Other Fees

There are no other fees billed in each of the last two (2) years for products and services provided by the external auditor, other than the services reported under items mentioned above.

The Audit Committee based on the recommendation by the Internal Audit and management, evaluates the need for such professional services and approves the engagement and the fees to be paid for the services.

## Item 7. Financial Statements

The consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules (page 100) are filed as part of this Form 17-A.

## Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

There have been no changes during the two most recent fiscal years or any subsequent interim period in independent accountant who was previously engaged as principal accountant to audit the Company's financial statements.

There have been no disagreements with the Company's independent accountants on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

## PART III - CONTROL AND COMPENSATION INFORMATION

### Item 9. Directors and Executive Officers of the Registrant

The following are the Directors and Executive Officers of FDC:

<b>Andrew L. Gotianun Sr.</b> <i>Chairman Emeritus</i>	Mr. Gotianun, 86, Filipino, is the founder of the Filinvest Group of Companies and is presently serving in various capacities in the member companies of the group. He is Chairman and Director of FLI, EWBC, and a Director of FDCUI. He is also the Chairman and President of PSHC. He has been a director of the Company for more than five (5) years).
<b>Jonathan T. Gotianun</b> <i>Chairman and Director</i>	Mr. Gotianun, 60, Filipino, is a director of FDC since 1990. He also serves as Director of FLI. He is the the President of DSCC, and CSCC, and Chairman of EWBC. He serves as Director and Chairman of the Executive Committee of FDCUI and some of its subsidiary power companies. He served as director and Senior Vice President of Family Bank & Trust Co. until 1984. He obtained his Master's Degree in Business Administration from Northwestern University in 1976. He has been a director of the Company for more than five (5) years).
<b>Lourdes Josephine G. Yap</b> <i>President, Chief Executive Officer and Director</i>	Mrs. Yap, 58, Filipino, is also a Director, Co-Vice Chairman, President and Chief Executive Officer of FLI. She is also the President of FAI and The Palms Country Club, Inc. and a Director in FDCUI. She obtained her Master's Degree in Business Administration from the University of Chicago in 1977. She has been President of the Company since 2000.
<b>Mercedes T. Gotianun</b> <i>Senior Adviser to the Board and Director</i>	Mrs. Gotianun, 85, Filipino, is also a Director of FLI and served as its Chairman and Chief Executive Officer from 1997 to 2007. She is also a director of FAI, TPCCI, PSHC, FDCUI and its subsidiary power companies. She obtained her university degree from the University of the Philippines. She was appointed as Senior Adviser to the Board of Directors of the Company on February 16, 2011.

- Andrew T. Gotianun Jr.**  
*Director*
- Mr. Gotianun, 62, Filipino, is also a director of FLI and FAI and serves as Chairman of FDCUI. He serves as director of Family Bank from 1980 to 1984. He has been in realty business for more than sixteen (16) years. He obtained his Bachelor of Science (Major in Accounting) degree from the Republican College in 1981. He has been a Director of the Company for over five (5) years.
- Jesus N. Alcordo**  
*Director*
- Mr. Alcordo, 78, Filipino, is the President of FDC Utilities, Inc. and a Director of the Company since February 16, 2011. He is an energy sector professional and previously served as Commissioner of the Energy Regulatory Commission (ERC) and as President and CEO of National Power Corporation (Napocor). He also served as Chairman, President and CEO of East Asia Power Resources Corporation. Prior to joining FDC, he was concurrent President of Global Business Partner Power Corporation and Cebu Energy Development Corporation.
- Lamberto U. Ocampo**  
*Independent Director*
- Mr. Ocampo, 88, Filipino, is also an independent director of FLI. He is a Civil Engineer by profession. He served as director of DCCD Engineering Corporation from 1957 to April 2001, as its Chairman of the Board from 1993 to 1995, and as its President from 1970 to 1992. He obtained his Master's Degree in Engineering from the University of California-Berkeley. He has been a director of the Company for over five (5) years.
- Cirilo T. Tolosa**  
*Independent Director*
- Mr. Tolosa, 74, Filipino, is also an independent director of FLI. He was a partner at Sycip Salazar Hernandez and Gatmaitan, retiring from the said law firm in February 2005. He is at present a partner in the law firm Tolosa Romulo Agabin and Flores. He has been the chairman of the boards of Daystar Commercial Enterprises, Inc., Daystar Development Corporation, Lou-Bel Development Corporation and GMA Lou-Bel Condominium Corporation for at least 10 years, and corporate secretary of De La Salle University System, Inc. and De La Salle Philippines, Inc. since 2003 and 2005, respectively.
- Michael Edward T. Gotianun**  
*Vice President*
- Mr. Gotianun, 55, Filipino, is a Director of FAI and Festival Supermall, Inc. He served as the general manager of Filinvest Technical Industries from 1987 to 1990 and as loans officer at Family Bank from 1979 to 1984. HE obtained his Bachelor's Degree in Business Management from the University of San Francisco in 1979. He has been serving the Company as Vice President for more than five (5) years.
- Eleuterio D. Coronel**  
*EVP and COO*
- Mr. Coronel, 60, Filipino, is the EVP and COO of the Company starting April 2013. He was formerly a President and Chief Executive Officer of a property company and has previously served as a President and Chief Operating Officer of a leading investment bank in the country where he spent bulk of his professional career. Mr. Coronel holds a Bachelor Degree in Arts, Major in Mathematics (Cum Laude) from De La Salle University, Manila. He likewise has attended the TMP of Asian Institute of Management and the executive development program of the World Bank Group.
- Bernadette M. Ramos**  
*VP- Marketing*
- Ms. Ramos, 48, Filipino, rejoined FDC as Vice President for Real Estate Marketing in 2011. She was head of FLI's Corporate and Creative Communications Office from 2005-2007 and Special Assistant to the CEO for Advertising from 2002 to 2005. Prior to that, she held executive positions in various advertising agencies and a major property developer in a career spanning over 20 years of experience in the field.
- Pablito A. Perez**  
*Corporate Secretary*
- Mr. Perez, 57, Filipino, joined the Company in 2005. He is also the Corporate Secretary and General Counsel of FLI. He served for two terms as Vice Dean of the San Beda College of Law. Admitted to the Philippine Bar in 1984, he holds a law degree from San Beda College of Law and a Master of Laws degree from the University of Pennsylvania.

The members of the Nomination Committee of FDC are Mercedes T. Gotianun (Chair), L. Josephine G. Yap and Lamberto U. Ocampo. Rizangela L. Reyes, the head of FDC's Human Resources Department sits in the ex-officio capacity. The Audit Committee of FDC is composed of Cirilo T. Tolosa (chair), Lamberto U. Ocampo, Mercedes T. Gotianun and Jonathan T. Gotianun.

Mr. Andrew L. Gotianun, Sr. is the spouse of Ms. Mercedes T. Gotianun and the father of Mr. Andrew T. Gotianun, Jr., Mr. Jonathan T. Gotianun and Mr. Michael Edward T. Gotianun, and Mrs. Josephine Gotianun-Yap. Mrs. Yap is married to Mr. Joseph M. Yap.

The directors of the Company are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been appointed or elected and qualified. Officers are appointed or elected by the Board of Directors typically at its first meeting following the annual stockholders' meeting, each to hold office until a successor shall have been elected, appointed or shall have qualified.

The Company is not aware of any legal proceedings where its directors or executive officers have been impleaded in their capacity as directors or executive officers of the Company.

The Company is not aware of the occurrence of any of the following events within the past five years up to the date of this annual report: (a) any bankruptcy petition filed by or against any business in which any of its directors or officers was a general partner or officer either at the time of the bankruptcy or within two years prior to that time; (b) any conviction by final judgment in a criminal proceeding, domestic or foreign, of, or any criminal proceeding, domestic or foreign, pending against, any of its directors or officers in his capacity as such director or officer; (c) any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the involvement of any of its directors or officers in any type of business, securities, commodities or banking activities, and (d) any finding by a domestic or foreign court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self regulatory organization that any of its directors or officers has violated a securities or commodities law, and the judgment has not been reversed, suspended or vacated, which occurred during the past five years.

There is no person, not being an executive officer of the Company, who is expected to make a significant contribution to its business. The Company, however, occasionally engages the services of consultants.

There were no transactions during the last two years or any proposed transactions, to which the Company was or is to be a party, in which any director or officer, any security holder or any member of the immediate family of any of the foregoing persons had or is to have a direct or indirect material interest.

#### Item 10. Executive Compensation

Information as to the aggregate compensation paid or accrued during the last two fiscal years and to be paid in the ensuing fiscal year to the Group's executive officers and other officers are as follows:

#### COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation	TOTAL
Josephine G. Yap (President /CEO) Jonathan T. Gotianun (Chairman) Mercedes T. Gotianun (Senior Adviser to the Board) Andrew L. Gotianun, Sr. (Chairman Emeritus) Eleuterio D. Coronel (EVP/COO)					
	2014-Estimated	₱30.2M	₱4.7M	-	₱34.9M
CEO and top four (4) highest compensated officers	2013	₱28.8M	₱4.5M	-	₱33.2M
	2012	₱24.3M	₱4.0M	-	₱28.3M
	2014-Estimated	₱48.7M	₱7.8M	-	₱56.5M
	2012	₱46.4M	₱7.4M	-	₱53.8M
All officers and directors as a group unnamed	2011	₱49.5M	₱7.8M	-	₱57.3M

Except for a per diem of ₱50,000 being paid to each independent director for every meeting attended, no other compensation or remuneration is paid to the directors in their capacity as such.

There is no employment contract between the Company and the above named executive officers. There are no outstanding warrants or options held by the Company's CEO, the above named executive officers, and all officers and directors as a group.

## Item 11. Security Ownership of Certain Beneficial Owners and Management

### (1) Security Ownership of Certain Record and Beneficial Owners

The names, addresses, citizenship, number of shares held, and percentage to total of persons owning more than five percent (5%) of the outstanding voting shares of the Company (all common) as of December 31, 2013 are as follows:

Title of Class	Name and Address of Record Owner/ Relationship with Company	Name of Beneficial Owner/ Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage Held
Common	A.L. Gotianun Inc. (formerly ALG Holdings Corporation) <sup>1</sup> 6/F The Beaufort 5 <sup>th</sup> Avenue corner 23 <sup>rd</sup> Street, BGC, Taguig City Majority Owner of the Company	ALGI <sup>2</sup>	Filipino	8,219,373,037	88.21%
Common	PCD Nominee Corporation (Filipino) G/F, Philippine Stock Exchange Tower, Ayala Avenue, Makati City	(No single shareholder beneficially owns at least 5% of the total shares)	Filipino	904,349,169	9.71%

Except as stated above, the board of directors and management of the Company have no knowledge of any person who, as of the date of the annual report was directly or indirectly the beneficial owner of more than five percent (5%) of the Company's outstanding shares of common stock or who has voting power or investment power with respect to shares comprising more than five percent (5%) of the Company's outstanding common stock.

### 2) Security Ownership of Management

The names, citizenship, number of shares held and percentage to total of persons forming part of the management of the Company as of December 31, 2013 are as follows:

Title of Class	Name	Citizenship	Amount and Nature of Record/Beneficial Owner	% of Ownership
Common	Andrew L. Gotianun, Sr.	Filipino	1,798 (D)	Negligible
Common	Mercedes T. Gotianun	Filipino	3,796,472 (D)	Negligible
Common	Andrew T. Gotianun, Jr.	Filipino	1,916 (D)	Negligible
Common	Jonathan T. Gotianun	Filipino	12 (D)	Negligible
Common	Josephine G. Yap <sup>3</sup>	Filipino	2,817,323 (D) 7,191,022 (I)	Negligible
Common	Andrew L. Gotianun, Sr. and/or Mercedes T. Gotianun	Filipino	33,697,190 (D)	0.36%
Common	Michael Edward T. Gotianun	Filipino	47,131,422 (D)	0.51%
Common	Jesus N. Alcordo	Filipino	1 (D) 2,885,688 (I)	Negligible
Common	Lamberto U. Ocampo	Filipino	1 (D)	Negligible

<sup>1</sup> Mr. Andrew L. Gotianun Sr. and/or Mrs. L. Josephine G. Yap are typically named by ALGI as its proxy to vote at the annual meeting of stockholders the shares owned and held by it in the Company.

<sup>2</sup> Stockholders are the beneficial owners.

<sup>3</sup> 2,817,311 shares are registered under the name Joseph M. yap &/or Lourdes Josephine G. Yap

Title of Class	Name	Citizenship	Amount and Nature of Record/Beneficial Owner	% of Ownership
Common	Cirilo T. Tolosa	Filipino	1 (D)	Negligible
N.A.	Eleuterio D. Coronel	Filipino	0	N.A.
N.A.	Bernadette M. Ramos	Filipino	0	N.A.
N.A.	Pablito A. Perez	Filipino	0	N.A.

Total ownership of directors and officers as a group is 97,522,846 shares or 1.05% of total outstanding shares.

### 3) Voting, Trust Holders of 5% or more

There is no person who holds more than five percent (5%) of the common stock under any voting trust or similar agreement.

### 4) Changes in Control

The Company is not aware of any agreement, which may result in a change in control of the registrant.

## Item 12. Certain Relationships and Related Transactions

In the normal course of business, the Company and other members of the Filinvest Group of Companies enter into certain related-party transactions. Kindly refer to Note 23 of the Notes to the Audited Consolidated Financial Statements for the summary of related-party transactions among members of the Filinvest Group.

There were no transactions during the last two (2) years, or any proposed transactions, to which the Company was or is to be a party, in which any director or executive officer, any nominee for election as a director, any security holder or any member of the immediate family of any of the foregoing persons, had or is to have a direct or indirect material interest.

## PART IV. COMPLIANCE WITH LEADING PRACTICES ON CORPORATE GOVERNANCE

The Company is in substantial compliance with its Revised Manual for Corporate Governance as demonstrated by the following: (a) the election of two (2) independent directors to the Board; (b) the appointment of members of the audit, nomination and compensation committees of the Company; (c) the conduct of regular quarterly board meetings and special meetings, the faithful attendance of the directors at these meetings and their proper discharge of duties and responsibilities as such directors; (d) the submission to the SEC of reports and disclosures required under the Securities Regulation Code; (e) the Company's adherence to national and local laws pertaining to its operations; and (f) the observance of applicable accounting standards by the Company.

In order to keep itself abreast with the leading practices on corporate governance, the Company encourages the members of top-level management and the Board to attend and participate at seminars on corporate governance initiated by accredited institutions.

The Company welcomes proposals, especially from institutions and entities such as the SEC, PSE and the Institute of Corporate Directors, to improve corporate governance.

There is no known material deviation from the Company's Revised Manual on Corporate Governance.

## PART V. EXHIBITS AND SCHEDULES

### Item 14. Exhibits and Reports on SEC Form 17-C

(a) Exhibits - see accompanying Index to Exhibits

The following exhibits are filed as a separate section of this report:

The other exhibits, as indicated in the Index to Exhibits are either not applicable to the Company or require no answer.

## **(b) Reports on SEC Form 17-C**

Reports on SEC Form 17-C were filed during the year covered by this report and are listed below:

SEC FORM 17-C dated January 30, 2013 – advised that the BOD approved the: (i) fixing of the date of the annual stockholders’ meeting on May 31, 2013 and the record date on April 26, 2013; and (ii) Corporation’s plan to issue and float bonds in the offshore market with an aggregate principal amount between US\$200 million to US\$300 million.

SEC FORM 17-C dated February 28, 2013 – disclosed that Mr. Oscar Torres has resigned his position as Chief Finance Officer.

SEC FORM 17-C dated March 14, 2013 – informed that in a special meeting, the BOD approved the Corporation’s Audited Financial Statements for the period ended December 31, 2012, to be released on March 15, 2013. The BOD also approved the clarificatory resolution authorizing the Company to offer and issue the bonds or notes in the offshore market through an offshore special purpose vehicle, and to guarantee such bonds or notes under the terms and conditions deemed by management to be beneficial to the Company. This is in relation to the January 30, 2013 approval by the BOD of the offer and issue of bonds or notes by the Corporation in the offshore market that was disclosed to the PSE and SEC.

SEC FORM 17-C dated March 22, 2013 – reported that the Company, through its subsidiary, Filinvest Development Cayman Island (“FDCI”), will be issuing guaranteed offshore notes in the aggregate amount of US\$300 Million at an interest rate of 4.25% with a tenor of 7 years, ASG Hongkong as the sole global coordinator of UBS and Joint Lead Managers are UBS ASG and HSBC Limited., and under such terms and conditions provided in the relevant agreements for such notes. Also reported that the Company and FDCI signed the the relevant Pricing Supplement and Subscription Agreement on March 22, 2013.

SEC FORM 17-C dated April 24, 2013 – advised that Mr. Eleuterio D. Coronel has been appointed as Executive Vice President and Chief Operating Officer of FDC effective April 23, 2013.

SEC FORM 17-C dated May 31, 2013 – advised that its meeting, the BOD of the Corporation declared a cash dividend for all stockholders of record as of June 27, 2013, in the amount of ₱0.0536 per share and fixed the payment date on July 17, 2013.

SEC FORM 17-C dated May 31, 2013 – advised that at the annual stockholders’ meeting of the Corporation, matters taken up and favorably considered are the approval of minutes of the stockholders meeting held on May 25, 2012, approval of the audited financial statements for the year ended 2012;, ratification of the acts and resolutions of the BOD and corporate officers for the year 2012 to date and the appointment of SGV & Co. as the Corporation’s external auditor for the year 2013-2014. Also informed that the elected directors in the meeting were Mercedes T. Gotianun, Josephine G. Yap, Jonathan T. Gotianun, Andrew T. Gotianun, Jr., Jesus N. Alcordo, Lamberto Ocampo (independent director) and Cirilo T. Tolosa (independent director).

SEC FORM 17-C dated June 28, 2013 – advised that at its organizational meeting, the BOD elected the officers and committee members of the Company for year 2013-2014 to serve as such until their successors have been elected and qualified. Also informed that after its organization, the BOD constituted the committees with their respective chairmen and members, with such powers and duties as provided in the Corporation Code of the Philippines, Securities Regulation Code and the Company’s By-Laws. Finally advised that the BOD of the Corporation duly delegated all its powers to the Executive Committee, except those powers which are reserved by the Corporation Code of the Philippines to the BOD.

SEC FORM 17-C dated October 30, 2013 – furnished the press release of the Corporation on the awarding by FDC Misamis Power Corporation (FMPC) of the Engineering & Procurement (EP) and Construction (C) contracts for FMPC’s 405 MW powerplant in Mindanao. FMPC is a subsidiary of FDC Utilities, Inc., which in turn is a wholly owned subsidiary of FDC.

SEC FORM 17-C dated November 12, 2013 – furnished the press releases of FDC and Philippine Rating Services Corporation (Philratings) related to the FDC’s proposed issuance of ₱10 Billion worth of bonds. The proposed bond issuance of FDC was assigned an issue credit rating of PRS Aaa by PhilRatings.

SEC FORM 17-C dated November 15, 2013 – reported the official press statement on the financial results of the Corporation for the period ended September 30, 2013: FDC’s Net Income Rose 26% in 3Q 2013.

SEC FORM 17-C dated November 27, 2013 – informed that the Company’s Senior Manager, Atty. Sharon P. Pagaling-Refuerzo, has been appointed as the new Corporate Information Officer of FDC effective immediately to replace Atty. Aileen Paulette De Jesus.

SEC FORM 17-C dated January 10, 2014 – furnished the press release: Filinvest Clarifies Changi Airport Ownership.

SEC FORM 17-C dated January 13, 2014 – furnished the press release: Filinvest Development Corporation Gets SEC Approval for Php 7 Billion Fixed Rate Bonds


SEC FORM 17-C dated January 24, 2014 – advised that In relation to the issuance of Filinvest Development Corporation’s (“FDC”) Php7.0 billion unsecured fixed-rate peso retail bonds due 2024 (the “Bonds”) covered by Permit to Sell dated January 10, 2014, the Offer Period for the Seven Billion Peso (Php7,000,000,000.00) Bond Offer with option for oversubscription of up to Ten Billion Pesos (Php10,000,000,000.00) with coupon rate of 6.1458% p.a. due 2024 ended on January 17, 2014. The Bonds were subscribed up to Php8,800,000,000.00 at the end of the Offer Period. The said Bonds were issued on January 24, 2014 and was listed with the Philippine Dealing and Exchange Corporation (PDEX) organized secondary market on the same date.

SEC FORM 17-C dated January 29, 2013 – advised that the BOD approved the fixing of the date of the annual stockholders’ meeting on May 30, 2014 and the record date on April 25, 2014.


**SIGNATURES**

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned duly authorized, in the City of MAKATI CITY, Metro Manila on MAR 28 2014.

  
Jonathan T. Gotianun  
Chairman

  
Josephine G. Yap  
President & CEO


  
Eleuterio D. Coronel  
EVP and COO *so.*

  
Sharon P. Pagaling-Refuerzo  
Corporate Information Officer

SUBSCRIBED AND SWORN to before me this MAR 28 2014 affiants exhibiting to me their Community Tax Certificates, as follows:

<u>Names</u>	<u>Competent evidence of Identity</u>	<u>Date of Issue</u>	<u>Expiry Date</u>	<u>Place of Issue</u>
Jonathan T. Gotianun	Passport No. XX3804503	May 27, 2009	May 26, 2014	DFA Manila
Josephine G. Yap	Passport No. EB6037431	July 27, 2012	July 26, 2017	DFA Manila
Eleuterio D. Coronel	Passport No. EA0007585	Nov 24, 2009	Nov 23, 2014	DFA Manila
Sharon P. Pagaling-Refuerzo	Driver's License No.A10-10-000513	May 31, 2012	June 18, 2015	LTO QC

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Book No. J  
Series of 2014

  
**ATTY. LOURDES ABILLAR-ONA**  
**NOTARY PUBLIC FOR MAKATI CITY**  
Appointment No. M-284 until December 31, 2015  
2264 Pasong Tamo Extension, Makati City  
Roll No. 38397 / IBP Lifetime No. 02701  
PTR No. 4225604, January 2, 2014

**FILINVEST DEVELOPMENT CORPORATION  
CONSOLIDATED**

**INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES  
FORM 17-A, Item 7**

**Consolidated Financial Statements**

Statement of Management's Responsibility for Financial Statements  
Report of Independent Public Accountants  
Consolidated Statements of Financial Position as of December 31, 2013 and 2012 and  
January 1, 2012  
Consolidated Statements of Income and Retained Earnings for the years ended  
December 31, 2013, 2012 and 2011  
Consolidated Statements of Changes in Stockholders' Equity  
Consolidated Statements of Cash Flows for the years ended  
December 31, 2013, 2012 and 2011  
Notes to Consolidated Financial Statements

**Supplementary Schedules**

<b>A.</b>	<b>MARKETABLE SECURITIES - (CURRENT MARKETABLE SECURITIES AND OTHER SHORT-TERM CASH INVESTMENTS)</b>	*
<b>B.</b>	<b>AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN AFFILIATES)</b>	*
<b>C.</b>	<b>NON-CURRENT MARKETABLE EQUITY SECURITIES, OTHER LONG-TERM INVESTMENTS, AND OTHER INVESTMENTS</b>	*
<b>D.</b>	<b>INDEBTEDNESS TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES</b>	*
<b>E.</b>	<b>PROPERTY, PLANT AND EQUIPMENT</b>	*
<b>F.</b>	<b>ACCUMULATED DEPRECIATION</b>	*
<b>G.</b>	<b>INTANGIBLE ASSETS / OTHER ASSETS</b>	*
<b>H.</b>	<b>LONG-TERM DEBT</b>	*
<b>I.</b>	<b>INDEBTEDNESS TO AFFILIATES AND RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)</b>	*
<b>J.</b>	<b>GUARANTEES OF SECURITIES OF OTHER ISSUERS</b>	NA
<b>K.</b>	<b>CAPITAL STOCK</b>	*

\* These schedules which are required by Part IV of SRC Rule 12 are contained in the Company's Audited Consolidated Financial Statements, in the accompanying Notes to Consolidated Financial Statements, or in Supplementary Information and Disclosures Required on SRC Rule 68 and 68.1 As Amended.

## INDEX TO EXHIBITS

### Form 17- A

<u>No.</u>		<u>Page No.</u>
(3)	Plan of Acquisition, Reorganization, Arrangement, Liquidation, or Succession	*
(5)	Instrument Defining the Rights of Security Holders, Including Indentures	*
(8)	Voting Trust Agreement	*
(9)	Material Contracts	*
(10)	Annual Report to Security Holders, Form 17-Q or Quarterly Report to Security Holders	*
(13)	Letter re Change in Certifying Accountant	*
(16)	Report Furnished to Security Holders	*
(18)	Subsidiaries of the Registrant	A
(19)	Published Report Regarding Matters Submitted to Vote of Security Holders	*
(20)	Consent of Experts and Independent Counsel	*
(21)	Power of Attorney	*
(29)	Additional Exhibits	*

\* These exhibits are either not applicable to the Company or require no answer.

A This schedule is contained in Note 1 of the Company's 2013 Audited Consolidated Financial Statements

# FILINVEST DEVELOPMENT CORP.

6th Floor, The Beaufort  
5th Avenue corner 23rd Street  
Bonifacio Global City  
1634 Taguig City, Philippines  
Trunk line: (632) 798-3977  
www.filinvestgroup.com

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS


The management of **Filinvest Development Corporation** (the Company) is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2013 and 2012, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.

**SyCip, Gorres, Velayo & Company**, the independent auditors, appointed by the stockholders has examined the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.



JONATHAN T. GOTIANUN  
Chairman of the Board



LOURDES JOSEPHINE G. YAP  
Chief Executive Officer



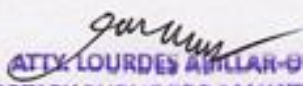
ELEUTERIO D. CORONEL  
Chief Operating Officer

Signed this 14th day of March 2014.

SUBSCRIBED AND SWORN to before me this MAR 28 2014, affiants exhibiting to me their Community Tax Certificate, as follows:

Names	CTC No.	Date of Issue	Place of Issue
Jonathan T. Gotianun	22809086	Feb. 20, 2014	Mandaluyong City
Josephine G. Yap	22809089	Feb. 20, 2014	Mandaluyong City
Eleuterio D. Coronel	28882626	Feb. 18, 2014	Las Piñas City

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**ATTY. LOURDES AMILLAR-GUA**  
**NOTARY PUBLIC FOR MAKATI CITY**  
Appointment No. M-284 until December 31, 2015  
2264 Paving Tamo Extension, Makati City  
Roll No. 38397 / IBP Lifetime No. 02701  
PTR No. 4225604, January 2, 2014