



104012015000732



## SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

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### Company Representative

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Doc Source

### Company Information

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SEC Registration No. 0000051048  
Company Name FILINVEST DEV. CORP.  
Industry Classification  
Company Type Stock Corporation

### Document Information

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Document ID 104012015000732  
Document Type 17-A (FORM 11-A:AANU)  
Document Code 17-A  
Period Covered December 31, 2014  
No. of Days Late 0  
Department CFD  
Remarks W/PARENT CONSO & ACGR

COVER SHEET

5 1 0 4 8  
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  
  
  
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(Business Address; No. Street City / Town / Province)

ATTY. ELMA CHRISTINE R. LEOGARDO

918-8188

Contact Person  
1 2 3 1  
Month Day  
Fiscal Year

1 7 - A  
FORM TYPE

Company Telephone Number  
Month Day  
Annual Meeting

Secondary License Type; If Applicable

C F D  
Dept. Requiring this Doc.

Amended Articles Number / Section

4,207  
Total No. of Stockholders

9,287,571,414 shares  
Domestic

29,902,573 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

Filinvest Development Corporation (FDC or the "Parent Company") 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, 2014, 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, Muntinlupa City. With its development of Filinvest City, the Group started to be a central business district developer and has successfully ventured into retail, office, high-rise residential and leisure club development. As of December 31, 2014, 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 (EW) in March 1994. On May 7, 2012, EW was publicly listed on the PSE. FDC remains EW's largest shareholder. As of the December 31, 2014, FDC beneficially owns 75.0% of EW'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) on June 29, 2007. PSHC wholly owns three Mindanao-based sugar companies, DSCC, CSCC and HYSFC.

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 where off-take agreements for 283 MW with 17 distribution utilities and 1 industrial customer in Mindanao are already in place and an additional 39 MW are still being negotiated. In 2014, FDCUI has been awarded by the Power Sector Assets and Liabilities Management Corporation (PSALM Corp.) the administration of the 40 MW capacity from the Unified Leyte Geothermal power plants in Tongonan, Leyte and the 100MW capacity from the Mindanao I and II (Mt. Apo 1 and 2) Geothermal Power Plants in Kidapawan City, North Cotabato. FDCUI has successfully assumed control of the geothermal power plants' output in December 2014 and has effectively provided capacity allocation to all its contracted customers. To further strengthen its market presence and structural position in the power industry, FDCUI is actively participating in the government's privatization of power generation assets and Independent Power Producer Administration ("IPPs"). It is also looking into potential renewable energy projects all over the country to be included in its pipeline of power projects.

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 in 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), the groundbreaking of which has occurred in the 1<sup>st</sup> Quarter of 2014. Site development works are substantially complete and structural and architectural work is on-going.

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, hotel operations and energy operations, and from the various 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. (FSI) .....	March 21, 1997
FSM Cinemas, Inc. ....	April 23, 1998
Pro Excel Property Managers, Inc. ....	November 28, 2001
Proplus, Inc. ....	February 16, 2000
Northgate Convergence Corporation .....	October 14, 1999
Filinvest Cyberparks, Inc. (FCI) .....	February 4, 2014
<b>Financial and Banking Services</b>	
EW .....	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

\*merged with EW effective July 2014

### **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 Restaurants, 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 (FDC Misamis) . . . . .	November 16, 2009
FDC Danao Power Corporation . . . . .	March 10, 2011
FDC Camarines Power Corporation . . . . .	March 23, 2011
FDC Casecanan 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

### **Other Segment**

Countrywide Water Services, Inc. (CWSI) . . . . .	May 18, 2012
Filinvest Development Cayman Islands (FDCI) . . . . .	March 12, 2013

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, fund managers, other global institutional investors, and the international financial community.

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.

### Real Estate Operations

On February 4, 2014, FCI, a wholly-owned subsidiary of Filinvest Land, Inc. (FLI), a 59% owned subsidiary of FDC, was incorporated. Its primary purpose is to acquire by purchase, lease, donate and/or to own, use, improve, develop, subdivide, sell, mortgage, exchange, hold for investment and deal with real estate of all kinds.

### Banking and Financial Services

In 2012, EW acquired additional shares from the noncontrolling shareholder of GBI 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.

In April 2012, EW 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. EW operates as a universal bank as approved by the Bangko Sentral ng Pilipinas (BSP) in July 2012 and provides a wide range of financial services to consumer and corporate clients. EW's principal banking products and services include deposit-taking loan and trade finance, treasury, trust services, credit cards, cash management and custodial services.

In various dates in 2012, FDC sold its 12.5% ownership in EW, while another 12.5% of EW shares were sold to the public from the primary shares offering in the IPO of EW, resulting to a retained controlling interest of 75% in the bank. The change in Group's ownership interest in EW from 100% to 75% was accounted for as equity transactions in accordance with Philippine Accounting Standards (PAS) 27, *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 Financial Statements.

On July 11, 2012, EW acquired 83.2% voting shares of FinMan Rural Bank, Inc. (FRBI). FRBI's primary purpose is to accumulate deposit and grant loans to various individuals and small-scale corporate entities as well as government and private employees (see Note 4). Subsequently, EW acquired additional shares of FRBI from its unissued capital stock amounting to ₱20.0 million. The acquisition of FRBI resulted to a goodwill of ₱23.5 million.

In 2013, EW subscribed to 441,000,000 common shares of GBI amounting to ₱700.0 million. In addition, EW contributed additional capital amounting to ₱1.3 million and acquired noncontrolling interest amounting to ₱0.2 million, thereby increasing its ownership to 99.8% as of December 31, 2013. EW's investment in GBI amounted to ₱888.5 million and ₱187.0 million as of December 31, 2013 and 2012, respectively.

On January 23, 2013, EW acquired the remaining shares of 8% of the noncontrolling interest in FRBI increasing its ownership to 100%. On May 21, 2013, the BSP also approved the change to FRBI's corporate name to East West Rural Bank, Inc. (EWRB).

In May 2013, GBI and EWRB entered into an asset purchase agreement with assumption of liabilities (the Purchase and Assumption Agreement) for the transfer of certain assets and liabilities of GBI to EWRB. The transfer of the assets and liabilities took effect on October 31, 2013 after the receipt of the required approvals from the regulators. The transfer of the assets and liabilities of GBI to EWRB was part of EW's plan to combine the rural banking business of its two subsidiaries into a single entity. After the transfer, EWRB will continue the rural banking business of GBI and the remaining assets and liabilities of GBI will be merged to EW, with the latter as the surviving entity. The merger of EW and GBI will enable EW to achieve branding leverage and economy in management and operations.

On November 8, 2013, the Philippine Deposit Insurance Corporation approved the proposed merger of EW and GBI. Subsequently on March 28, 2014 and June 05, 2014, the BSP and the SEC, respectively, approved the merger of EW and GBI. Finally, on July 31, 2014, EW completed its merger with GBI. With the merger, EWRB becomes the only subsidiary of EW as of December 31, 2014.

On July 4, 2014, EW completed its issuance of Basel III- compliant Tier 2 unsecured subordinated notes with a total face value of ₱5.0 billion at a coupon rate of 5.5% maturing in January 2025. Total cost related to the issuance amounted to ₱37.6 million, which consisted mainly of underwriting fees and documentary stamp taxes.

#### Hotel Operations

On February 22, 2012, FDC Hotels Corporation (FHC) filed an application with the SEC for the incorporation of its 100% owned subsidiary, Quest Restaurants, Inc. (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 the SEC on March 12, 2012.

On November 20, 2012, Filinvest Alabang, Inc. (FAI) filed an application with the SEC for the incorporation of its 100% owned subsidiary, Entrata Hotel Services, Inc. (EHSI), whose primary purpose, among others, is to own, lease, operate and/or manage one or more hotels, resorts, villas, service apartments and condotels, and all adjuncts and accessories and other related activities. Such application was approved by the SEC on November 28, 2012.

On December 17, 2012, FHC filed an application with the SEC for the incorporation of its 100% owned subsidiary, Boracay Seascapes Resort, Inc. (BSRI), whose primary purpose, among others is to develop and administer hotels and resorts and entertainment of all kinds and all related activities. Such application was approved by the SEC on December 28, 2012.

On September 30, 2012, the BOD approved the application of FHC for the increase in authorized capital stock from ₱16.0 million to ₱1.5 billion consisting of 15.16 million shares with par value of ₱100 per share. As of December 31, 2014, the Parent Company had subscribed to the proposed increase in FHC's authorized capital stock amounting to ₱513.1 million.

On March 22, 2013 and April 12, 2013, the SEC approved the incorporation of Chinatown Cityscapes Hotel, Inc. (CCHI) and Duawon Seascapes Resort, Inc. (DSRI), respectively, both subsidiaries of FHC. The primary purpose, among others, is to develop and administer

hotels and resorts and entertainment of all kinds and all related activities.

#### Power Generation Operations

On May 22, 2012 and July 17, 2012, the 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 August 17, 2012, FDC Danao Power Corporation (FDC Danao) filed an application with the SEC for the increase in authorized capital stock 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 the increase and paid ₱103.9 million for which 1.0 million shares were issued. On the same day, an application was filed with the SEC for the increase in authorized capital stock of FDC Camarines Power Corporation (FDC Camarines) from ₱4.0 million to ₱1.2 billion consisting of 12.0 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 or 0.8 million shares were issued and paid. The authorized paid up capital stock of FDC Misamis Power Corporation (FDC Misamis), FDC Retail Electricity Sales Corporation (FDC Retail Electricity Sales) and FDC Casecnan Hydro Power Corporation (FDC Casecnan) 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 December 3, 2013, the BOD of FDCUI approved the subscription of FDC to additional 12.5 million common shares of FDCUI at ₱100.0 per share. As of December 31, 2014 and 2013, the subscribed capital stock of FDCUI is ₱2.2 billion and ₱1.0 billion, respectively.

On December 3, 2013, the BOD and stockholders of FDC Misamis approved the increase in its authorized capital stock from ₱16.0 million to ₱4 billion divided into 20.0 million common shares with par value of ₱100 and 20.0 million preferred shares with a par value of ₱100. As of December 31, 2014, FDC Misamis has received total of ₱3.6 billion from FDC which was recorded as deposit for future subscriptions (nil as of December 31, 2013).

On January 29, 2014, FDCUI was declared by the Power Sector Assets and Liabilities Management Corporation (PSALM) as one of the winning bidders for the selection and appointment of Independent Power Producer (IPP) Administrators for the strips of energy, equivalent to 40 MW (40 strips of energy), of the Unified Leyte geothermal power plants (ULGPP) in Tongonan, Leyte. Through its wholly owned subsidiary, FDC Misamis, it also recently won the bidding for the right to manage around 100 MW of the Mt. Apo 1 and 2 geothermal power plants (see Note 42).

#### Other Operations

On May 18, 2012, Countrywide Water Services, Inc. (CWSI), was incorporated and started its operations on June 6, 2012. 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.

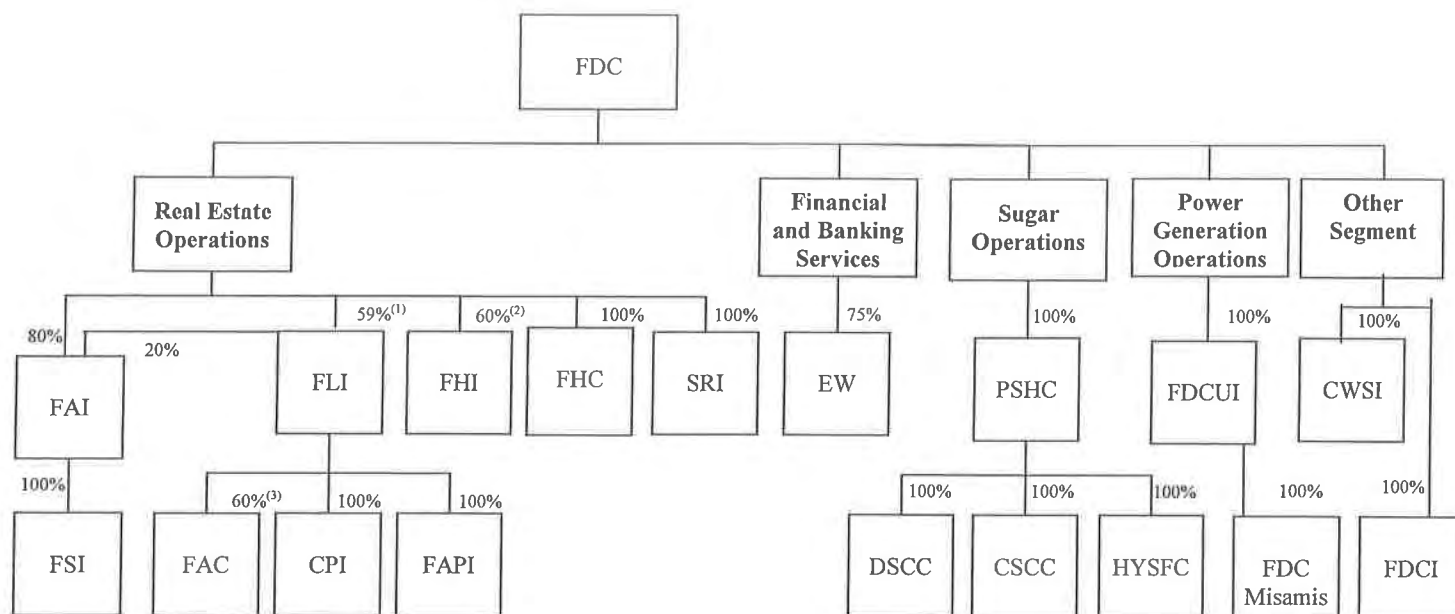
On March 12, 2013, the Parent Company incorporated Filinvest Development Cayman Island (FDCI) under the laws of Cayman Islands. FDCI was incorporated to facilitate the Group's issuance of foreign currency-denominated bonds (see Note 21).

On September 29, 2014, the Parent Company subscribed to the remaining unissued 7.5 million common shares of CWSI, giving the Parent Company 75% ownership over CWSI for a total consideration at par of ₱7.5 million. Furthermore, on October 31, 2014, the Parent Company purchased from FLI its investment in CWSI for a total consideration of ₱2.5 million. The sale resulted to the Parent Company having 100% equity interest in CWSI.

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, 2014. A detailed breakdown of FDC's subsidiaries and joint ventures was presented in the preceding section.



### Notes:

(1) The remaining shares of FLI and EW 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 EW, which is currently one of the fastest growing universal banks in the Philippine banking industry with a nationwide presence of 405 branches (consolidated) as of December 31, 2014 compared with 347 branches as of December 31, 2013. The Group opened its hospitality projects in Mactan, Cebu City and Muntinlupa City in 2010, 2012, and 2013, respectively. 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 the construction of the 405 MW CFB Coal-Fired Power Project in Misamis Oriental, Mindanao in full swing. FDCUI has also successfully assumed control of the 40 MW capacity from the Unified Leyte Geothermal power plants in Tongonan, Leyte and the 100 MW capacity of the Mindanao I and II (Mt. Apo 1 and 2) Geothermal Power Plants in Kidapawan City, North Cotabato through the competitive selection process conducted by the Power Sector Assets and Liabilities Management Corporation (PSALM Corp.). 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, 2014, the Group had a land bank of 2,408 hectares of raw land (of which 2,083 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. EW focuses on the high margin consumer lending segments with high returns, and has expanded its lending portfolio in the consumer and middle-market banking sector through the acquisition of AIG PhilAm in 2009, which included substantial auto loan and credit card businesses. EW's 2011 acquisition of GBI enabled EW 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 EW, 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 2013, the Group's real estate, financial and banking services, sugar businesses, and other operations (hotel, power and other operations) accounted for 47.3%, 41.8%, 7.9% and 2.9% respectively, of the Group's consolidated revenues and other income. In 2014, the Group's real estate, financial and banking services, sugar businesses, and other operations (hotel, power and other operations) accounted for 48.9%, 41.6%, 6.3%, and 3.2%, respectively, of the Group's consolidated revenues and other income. It is likewise expected that the power generation operation will start contributing to the Group's revenues in 2015, with the assumption of the operations of the Unified Leyte geothermal power plants and the Mt. Apo 1 and 2 geothermal power plants in December 2014.

### **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 Philippines' 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 Medium-Rise Building (MRB) 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.

**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, 2014, the Group owned or controlled a land bank of 2,408 hectares of raw land (of which 2,079 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. 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 463,000 sq.m., with recurring income from these properties accounting for 24% 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 office buildings in Northgate Cyberzone which has consistently enjoyed high occupancies. 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 Alabang, Muntinlupa City.

**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 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, the Bank has experienced strong growth. The Bank believes it is well-positioned in the Philippine market due to the following principal strengths:

**Strong Focus on and Growing Market Position in High Growth Consumer Segment.** The Bank is primarily focused on the consumer banking segment which accounted for 53.9% of the Bank's gross loans as of December 31, 2014. The Bank's proportion of consumer lending as a percentage of total gross loans is among the highest in the Philippine banking sector. It is the fifth largest credit card issuer based on receivables and one of the largest auto credit providers in the country with a market share of 10.5% based on data from the BSP.

The Bank 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, Philippine real GDP grew at 6.8%, 7.2% and 6.1% in 2012, 2013 and 2014, respectively, and gross national income per capita grew at 4.7%, 5.6% and 4.5% in 2012, 2013 and 2014, respectively. Similarly, household expenditures grew by 6.6%, 5.7% and 5.4% in 2012, 2013 and 2014, respectively. The Bank successfully grew its consumer lending portfolio, which includes residential mortgages, at a CAGR of 29.3% from December 31, 2012 through December 31, 2014. The Bank believes it is well-positioned to benefit from further consumer demand driven by the expected growth of this segment of the Philippine population.

***Tailored Services to Retail Customers and Mid-Market Corporates.*** The Bank 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, the Bank 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 the Bank's access to a large source of low cost deposits for funding. While deposit liabilities grew at a CAGR of 27.2% from December 31, 2012 through December 31, 2014, the Bank's cost of funds ratio (which is the ratio of interest expense to average interest bearing liabilities) decreased from 2.2% in 2012 and 1.4% in 2013 to 1.2% in 2014. The Bank's investments in its IT infrastructure is expected to result in improved efficiencies in its operations and provide corporate accounts with convenience through the adoption of mobile/ internet banking and IT-integrated cash management services.

***Strategically Located Branch Store Network.*** The Bank has the seventh largest consolidated branch store network in the Philippines, with total of 405 branches in the Philippines as of December 31, 2014. EW's branch store network has rapidly grown from 122 branches as of December 31, 2011 to 358 branches as of December 31, 2014. The Bank's branch store network is strategically located to effectively distribute products and services across the Philippines to take advantage of the economic growth throughout the country. The Bank, through its subsidiary EWRB, has a network of 47 rural branches, mostly located in Visayas and Mindanao region serving the unbanked and underserved Filipinos such as farmers, pensioners and small scale businessman. Its strong branch store network in the Visayas and Mindanao allows EWRB to gain entry into the microfinance business in the Philippines.

***Maintaining Strong Financial Performance in Terms of Profitability and Growth.*** The consolidated net income attributable to equity holders of EW for the year ended December 31, 2012, 2013 and 2014 amounted to ₱1,817 million, ₱2,056 million, and ₱2,073 million, respectively. Despite heavy investments as a result of the branch expansion, the Bank has been able to maintain profitability at approximately the industry average rate, as measured by the Bank's consolidated return on average assets, which was 1.3% for the year ended December 31, 2014, compared with industry return on average assets of 1.3% for the year ended December 31, 2014. Likewise, it has sustained strong balance sheet growth with its total assets, gross loans (receivables from customers) and deposit liabilities increasing at compounded annual growth rates ("CAGR") of 24.5%, 28.5% and 27.2%, respectively, from December 31, 2012 through December 31, 2014 compared with industry CAGR of 17.7%, 18.0% and 21.7%, respectively, for the same period.

***Prudent Balance Sheet Management to Manage a Predominantly Consumer Loan Portfolio.*** In recent years the Bank has grown its business without compromising prudent balance sheet management practices. The Bank believes that prudent balance sheet management practices can provide flexibility to react to market uncertainties. As of December 31, 2014, the Bank had an NPL ratio of [3.1%], with an NIM of 8.1% and return on assets of 1.28%. The Bank manages its 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 82.7% as of December 31, 2014. The Bank believes it is well-capitalized with a CET1 capital adequacy ratio of 9.3% and total capital adequacy ratio of 13.1% (reported to the BSP) as of December 31, 2014, and a CET1 capital adequacy ratio of 14.3% and total capital adequacy ratio of 18.1% after the Offer. Furthermore, the Bank believes it maintains a conservative treasury portfolio, with 78.1% of the Bank's trading and investment securities invested in government securities as of December 31, 2014.

***Strong Management Team.*** The Bank has an experienced management team with an average of more than two decades of operational and management experience in banking and finance. The Bank's management team has extensive experience 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, the Bank benefits from FDC's strong reputation in the Philippines and the support of FDC's 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 11,500 TCD and refining capacity to 550 MT of refined sugar per day for 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 EW. 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.

**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. 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.

***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**

The Bank intends to continue to grow as a significant competitor in the financial services industry in the Philippines. The Bank is focused on increasing its asset base, targeting the retail and mid-market segments, expanding its deposit base, optimizing its expanded branch store network, developing new revenue streams, improving its information technology, risk management and operational processes, diversifying its distribution channels, strengthening its risk management and internal controls, and enhancing the professional capabilities of its employees.

***Optimizing Expanded Branch Store Network.*** The Bank is focused on growing its asset base to achieve economies of scale and benefit from cost efficiencies thereby improving returns on capital. The Bank believes its strong growth in the last few years, with a total of 405 branches as of December 31, 2014, places the Bank in a favorable position to further expand its overall scale. The Bank will continue to focus on optimizing its expanded branch store network by expanding the range of products for its target market of corporate mid-market and consumer segments, deepening and broadening relationships with existing customers and marketing its products and services to new and existing customers. The Bank plans to open approximately 20 to 30 branch stores per year for the next five years, selectively focusing on potentially profitable locations in Metro Manila and other key cities in Luzon, Visayas and Mindanao. In addition, the Bank 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.*** The Bank will continue to focus on the consumer and mid-market corporate client segments with large corporations as a secondary focus. The Bank plans to target a loan portfolio mix consisting approximately 40% consumer loans, approximately 40% mid-market corporate loans and approximately 20% large corporate loans. The Bank 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 optimizes its expanded distribution network.

***Enhance Customer Experience.*** The Bank will continue to invest in initiatives to enhance its information technology and improve its operational processes to achieve customer service excellence. The Bank recently implemented a new core banking system, which is intended to enhance the Bank's efficiency and facilitate an expedient and seamless customer experience by effectively connecting the various elements of the Bank. The Bank is in the process of upgrading its information technology platform to establish a more advanced digital banking platform to meet the growing needs of its customers. The state of the art core banking system, together with the Bank's planned enhancement of its digital banking platform, is intended to improve the overall experience of the Bank's customers.

***Continue to Strengthen Risk and Governance Framework.*** The Bank will continue to 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 the Bank's success is its ability to attract, retain, train and develop talented and experienced professionals. The Bank 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, the Bank plans to incentivize performance by implementing an employee stock option

plan. The Bank 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 commenced commercial operations in CY2013–14.

The plan to further increase the combined milling and refining capacity of DSCC and CSCC is being held in abeyance until measures to counter the effects of tariff reduction under AFTA and ASEAN integration are in place. For the meantime, efforts will be concentrated on improving 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.

### **Hotel Operations Strategy**

The Group intends to grow its recently established hospitality business through FHI and FHC.

**Continue to Diversify Income Streams.** 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.

### **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 2014, the Company’s consolidated revenues amounted to ₱38.6 billion with revenue contribution from the following:



## REAL ESTATE

### Overview

#### Filinvest Land, Inc

Filinvest Land Inc. (“FLI” or “the Parent Company”) is one of the leading real estate developers in the country, providing a wide range of real estate products to residential and commercial customers. FLI (including its predecessor’s operations) has over 50 years of real estate expertise and has developed over 2500 hectares of land, having provided home/home sites for over 200,000 families.

FLI is one of the largest nationwide residential developers in 45 cities and towns in 18 provinces in the Philippines. It is the largest mid-rise building (MRB) developer in the country today and the market leader in the affordable and middle-income residential segments. It currently owns a land bank of 2,403 hectares for sustainable future growth.

FLI owns and operates Festival Supermall and owns a 60% ownership interest in Filinvest Asia Corp. (FAC) and 100% interest in Cyberzone Properties, Inc. (CPI).

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 fourteen office buildings with a gross leasable area of 164,959 sq.m. as of December 31, 2014.

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.

Festival Supermall is a four-storey 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. The lease allows FLI to construct additions or extensions to the current mall structure, which will revert to FAI upon termination of the lease. 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.

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 56,705 sq.m. of GLA and 100,255 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. At present the project is 54% complete and target completion for the project is during the last quarter of 2015.

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.

In 2009, the Parent Company signed an agreement with the Cebu City Government to develop 50.6 hectares of the South Road Properties, a 300-hectare reclaimed land project located in Cebu City. The agreement involves purchase by FLI of the 10.6 hectares of the property to be developed into a modern urban center consisting of residential, office, commercial, hotel and leisure buildings and a public promenade which is a one kilometer long waterfront lifestyle strip that will offer a range of seaside leisure activities and the development of the remaining 40 hectares of the property under a profit-sharing arrangement with the Cebu City Government.

In 2012, FLI started operating its condotel operations (Grand Cenia) and hotel project (Quest Hotel). The operation is being managed by Prosper, a wholly-owned subsidiary of FLI.

On February 4, 2014, Filinvest Cyberparks, Inc. (FCI), a wholly-owned subsidiary of the FLI was incorporated to manage FLI's BPO leasing operations in Cebu, Pasay, Quezon City and Pasig City. Development of these BPO sites are currently on going.

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 (FDC), 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. FLI was listed on the PSE on October 25, 1993.

As of December 31, 2014, 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. The ultimate parent company of FLI is A. L. Gotianun, Inc.

#### **Subsidiaries**

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

##### Wholly-Owned Subsidiaries

1. Promax, incorporated on October 3, 1997
2. Prosper, incorporated on June 10, 2002 and started commercial operations on 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, and Leisurepro are engaged in real estate marketing business and handle the marketing and sale of socialized, affordable, middle income, high-end and farm estate property development projects of FLI while Prosper is engaged in the purchase, lease, and management of hotel and resort properties. Prosper is currently managing the condole operations of a high-rise condominium (Grand Cenia) and hotel project (Quest hotel) of FLI.

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, Muntinlupa City.
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) 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 September 26, 2014, FDC subscribed the remaining unissued shares of CWSI. Furthermore, FLI agreed to sell its investment in CWSI to FDC for a total consideration of P2.5 million, thereby resulting to 100% ownership of FDC in CWSI. No gain or loss was recognized from the transaction.
8. On February 4, 2014, Filinvest Cyberparks, Inc. a wholly-owned subsidiary of FLI was incorporated. Its primary purpose is to acquire by purchase, lease, donate and/or to own, use, improve, develop, subdivide, sell, mortgage, exchange, hold for investment and deal with real estate of all kinds.

*Cyberzone Properties, Inc.*

CPI was incorporated on January 14, 2000 and began commercial operations on May 1, 2001. 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 four hectares are available for future development. CPI's current buildings are as follows:

- 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 and was substantially fully leased to Genpact Services LLC and Convergys.
- 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 and Plaz@ C was substantially fully leased. Tenants for Plaz@ B 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.
- 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 had been leased 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.
- Plaza E: This is a twelve-storey building, situated between Plaza A and Plaza D, with approximate GFA of 16,281 sq.m. and an approximate GLA of 14,859 sq.m. The building is 100% leased out with tenants Arvato Corp., Hinduja and EXL Service Phils.
- Convergys Building: This is a three-story building with an approximate GFA of 6,466 sq.m. and an approximate GLA of 5,839 sq. m. Completed in 2004, it was "built-to-suit" to meet the requirements of Convergys.
- 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. The building is currently occupied by Capital One.
- 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 and Informatics.
- Building 5132: This is a six-story building with an approximate GFA of 10,560 sq. m. and GLA of 9,408 sq. m. Building 5132 has been fully taken up by GenPact Services LLC.
- iHub 1 and iHub 2: This a two-tower complex (one with six stories and the other with nine stories) iHub I has an approximate GLA of 9,474 sq.m. and has been leased out to numerous tenant which includes 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 AIG Shared Services.
- Vector One: This is an 11-story building with an approximate GFA of 19,545 sq.m. and GLA of 17,764 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 Firstsource and Flour Daniel.

- Vector Two: This building has the same configuration as Vector One and has an approximate GLA of 17,884. It was completed in October 2011. Tenants of the building include Infosys, Genpact, GE Money and Fluor Daniel.
- Filinvest One (formerly called AZ Building): This is a 10-story building with a GLA of approximately 19,637Sq.m. Tenants of the buildings include HSBC, Ford Philippines, Denso Phil., AMEC Services, and PHL Center.

Construction is ongoing for the following new BPO office buildings located at Northgate Cyberzone:

- Filinvest Two and Three: This is a twin-tower project located along Alabang Zapote Road each building with 14 storeys and GLA of approximately 23,784 sqms each. Target completion is February 2015.

With about four hectares of land available for the construction of additional buildings within the Northgate Cyberzone, FLI expects to be able to provide an additional 240,000 sq.m. of leasable office space 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.

#### EDSA Transcom Building

This five-storey BPO building is located along EDSA in Mandaluyong City and have approximately 7,358 sq.m. of GLA. This is FLI's first BPO office building outside Northgate Cyberzone. EDSA Transcom Building is fully leased out to Anthem Solutions, Inc.

To tap lucrative opportunities in the BPO sector, FLI is expanding its office portfolio in more areas to meet the demands of the industry. The following are the ongoing new BPO office buildings located in various locations:

- *Filinvest Cyberzone Pasay* is the first development of Filinvest Cyberparks, Inc. and will be the Filinvest Group's first LEED-certified project in Metro Manila outside of Northgate Cyberzone. Rising nine stories within the Bay Reclamation Area in Pasay City, it will provide a total of 80,000 sqm of office space, supported by street-level retail facilities. Designed by H1 Architecture, the project will add another sleek and modern structure to the growing number of establishments in the vicinity. To be developed in three phases, it is meant to cater to the office accommodation needs of the still growing outsourcing sector, and address retail support requirements of companies and government agencies that will set up shop in the surrounding area. Phase 1 excavation commenced last September 2014. Foundation works are already ongoing in 2015, and the structure completion is expected by 2016. Phase 1 is comprised of Towers 1 and 2 that will offer approximately 36,807 sqm of office GLA.
- In Cebu, construction of the *Filinvest Cebu Cyberzone Tower 1* is almost complete, first BPO building located at the 1.2 - hectare joint venture project with the Provincial Government of Cebu. This is the first building of the four-building complex with 13 storeys and approximate GLA of 19,937 sqms. When completed, the project is projected to have a GLA of almost 100,000 square meters.
- Meanwhile, in Quezon City, planning activities are presently ongoing for two sites along Epifanio delos Santos Avenue for the development of mixed use complexes that both contain BPO office accommodation. *Studio 7*, a mixed-use project in South Triangle near GMA, will have a BPO office component, aside from residential and retail facilities, and will break ground this 4th quarter of 2015. Its office portion, called *Studio 7 Cyberzone*, will provide 36,594 sqm of GLA by 2018. Another dynamic mixed-use development located at the corner of EDSA and Aurora Boulevard, which shall be called *Activa*, will also play host to BPO offices by providing an estimated 49,700 sqm of GLA. Excavation works are projected to commence by 2016 for this project.

To further augment the Group's recurring income stream in the retail segment, land development has commenced on the expansion of Festival Mall at Filinvest Corporate City. The expansion project will add over 56,705 square meters of GLA, and is targeted to be completed in phases, from first quarter of 2013 to the last quarter of 2015. FLI is also developing the first phase of Il Corso lifestyle strip of City di Mare (previously called Citta di Mare), in the South Road Properties in Cebu, which will contribute a GLA of around 36,346 sq.m. and GFA of 56,613 square meters when fully completed. FLI also started construction of two (2) malls. Fora mall in Tagaytay City started construction during the second quarter of 2014 and will contribute 31,037 square meters in GLA and 47,756 square meters of GFA. Another project which started construction during the second quarter of 2014 is the Center Square Molino. Located at its Princeton Heights residential projects located in Molino, Bacoor, Cavite, the project will have a GLA of 19,057 square meters and GFA of 27,965 square meters.

The Group will continue to carry out an intensive marketing campaign so as to maintain a high occupancy rate in Festival Supermall, PBCOM Tower and Northgate Cyberzone properties, thereby maximizing its leasing revenues.

### *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 ₱100 million. Previously, AIIPI contributed ₱250 million to FAPI to have a 40.0% ownership interest in FAPI.

Timberland Heights is a 677-hectare township project anchored by the Timberland Sport and Nature Club, which was 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 master plan for Timberland Heights includes Banyan Ridge, a middle income subdivision; Mandala Farm Estates; The Ranch and Banyan Crest, a high end subdivision, The Glades, also a middle- income subdivision, The Leaf, a four-building 3-story condotel development; and, a 50-hectare linear greenway that straddles the entire development which will provide a large outdoor open space for residents.

### *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 registered 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 30%. PBCom Tower's occupancy rate reached 99.5% as of December 31, 2014. 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.

Leases at the PBCom Tower are typically for periods ranging from three to five years, with the lease agreements generally requiring tenants to make 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. FAI's current project is the master-planned development of Filinvest City, a 244-hectare premier satellite city development project which has been designed using modern and state of the art, ecological, urban planning with a mixed-use integrated development with office, retail, residential, institutional, leisure and hospitality projects in southern Metro Manila. Located at the southern end of Metro Manila and adjacent to the South Expressway, Filinvest City is approximately 16 kilometers south of Makati, the central business district in Manila and 10 kilometers from the Ninoy Aquino International Airport. Filinvest City is surrounded by over 2,800 hectares of developed high-end and middle-income residential subdivisions and commercial developments. The said project is under a joint venture agreement with the Government.

## **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:

- *Socialized housing:* These developments are marketed and sold under FLI's Pabahay brand and consist of projects where lots typically sell for ₱160,000 or less per lot and housing units typically sell for ₱450,000 or less per unit. Buyers for these projects are eligible to obtain financing from the Government-mandated PAGIBIG Fund. Maximum sale prices for the Company's specialized housing products do not exceed the Government-mandated ceiling of ₱ 450,000 per unit. Any income realized from the development and improvement of socialized housing sites are exempt from taxation.
- *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 P160,000 to ₱750,000 and housing units from above ₱450,000 to ₱1,500,000. 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.
- *Middle-income housing:* These developments are marketed and sold under FLI's Filinvest brand and consist of projects where lots are typically sold at prices ranging from above ₱750,000 to ₱1,200,000 and housing units from above ₱1,500,000 to ₱4,000,000. 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, Davao, and Zamboanga.
- *High-end housing:* Marketed under Filinvest Premiere brand, these developments consist of projects where lots are sold at prices above ₱1,200,000 and housing units for above ₱4,000,000. FLI's high-end projects are 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 launched an entrepreneurial community under its "Asenso Village" brand in Laguna province, which forms part of the Company's Ciudad de Calamba township development. 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 Asenso Village. At present, sales in Asenso Village consist of subdivision lot sales as well as shophouses 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 township projects which are respectively located along the southern, northern and eastern boundaries of Metro Manila. FLI has also launched a township project in Cebu called City 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 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. 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 Parent 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 that 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 which has a total developed area of approximately 9.7 hectares. Development work for Punta Altezza 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 is located within the Ciudad de Calamba and is expected to have a total developed area of approximately 20.2 hectares.
- 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 Solana, this 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.

#### *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 Rosehill School. The master plan for Havila provides for a mix of affordable, middle-income and high-end subdivisions on rolling terrain overlooking Metro Manila at an elevation of 200 meters above sea level. Below are the developments completed and ongoing in Havila:

- *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) were developed as high-end projects while another four (Santa Isabel, Santa Cecilia, Santa Clara and Sta. Sophia) have been developed as middle-income projects. Development works for all seven subdivisions have been completed.
- Two subdivision projects were developed in the municipality of Taytay, which has a total developed area of approximately 80 hectares. Development works for one mid-high subdivision (*Highlands Pointe*-60 hectares) and an affordable-segment subdivision (*Villa Montserrat*-20 hectares) have been completed. These subdivision projects are almost sold out.
- *Forest Farms*, which is situated in the municipality of Angono, is a farm estate subdivision project that has a total developed area of 34.9 hectares.
- *Anila Park* expanded Havila's affordable range in Antipolo, with its first phase having 1.4 hectares and its on-going townhouse phase having another 1.6 hectares.
- In 2014, a middle-income subdivision (*Amarilyo Crest*) and a high-end subdivision (*The Peak*) was launched in Taytay and Antipolo, Rizal having a total area of 16.7 hectares. Land development for these projects is expected to be completed in 2015.

#### Timberland Heights

Timberland Heights is a 677-hectare township project anchored by the Timberland Sports and Nature Club. It is located in the municipality of San Mateo, 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:

- *Banyan Ridge*, a middle-income subdivision which has a total developed area of approximately 6.4 hectares.

- *Mandala II Farm Estates*, a farm estate subdivision which has a total developed area of approximately 39.7 hectares.
- *The Ranch*, a high-end subdivision which has a total developed area of approximately 5.7 hectares.
- *Banyan Crest*, a 14.8 hectare high-end subdivision. Land development for Banyan Crest has been completed.
- *The Glades*, a mountainside open lot development consisting of an 11 hectare middle-income subdivision lots with size ranging from 192 to 300 square meters. The lots are sold inclusive of a share at Timberland Sports and Nature Club. The master plan for The Glades has been completed.
- *The Leaf*, a condotel located beside the Timberland Sports and Nature Club, consisting of four (4) mid-rise buildings of three (3) floors each with an average size of 31 sq.m. each unit. The lots are sold inclusive of a share at Timberland Sports and Nature Club.

Around 73 hectares have been earmarked for middle-income housing within Timberland Heights. The first phase covering approximately 11 hectares was launched in 2012 with the introduction to the market of *The Glades* and *The Leaf*.

#### *City di Mare (previously called Citta di Mare)*

In August 2010, FLI gave Cebu a preview of its most ambitious seaside development when it launched Citta di Mare at the Grand Ballroom of Crimson Resort and Spa in Mactan, Cebu. In 2014, it was rebranded as City di Mare, the Lifestyle Capital of Cebu.

Inspired by the world's best-loved coastal cities, City 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 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 school, church, shops, and restaurants within the neighborhood. City 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.

The 8-hectare retail development known as Il Corso shall have a gross leasable area of approximately 32,000 square meters. The whole construction shall be completed in 2015 but FLI already opened the Central Piazza to allow the public to have a glimpse of the exciting things one can expect in City di Mare.

City 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, City 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 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 and second building was completed in October 2012 and March 2013, respectively, while the third building was substantially completed as of December 31, 2014.
- San Remo Oasis, the second recently opened residential enclave in City 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, 2014. 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.
- *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.
- *Forest Farms Residential Farm Estate ("Forest Farms")* located in Rizal province as 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.

#### *Private membership club*

FLI, through FAPI, developed the Timberland Sports and Nature Club and Phase 2 of Timberland Heights in 2006. 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.

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*

*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 beach line that offers unobstructed view of the sea. To enable buyers and guests to enjoy the facilities at an early stage, three overnight facilities, a multi-purpose hall, changing and shower areas, welcome huts and the guardhouse have been constructed. The swimming pool was completed in 2014. *Kembali Horizons*, three-storey residential buildings, are currently being offered for sale and for public use.

*Laeuna de Taal ("Laeuna")* is located in Talisay Batangas with a view of the Taal lake and a lakeside residential community, about a ten minute drive from the popular tourist destination of Tagaytay. *Laeuna* is an Asian Tropical-inspired community which offers three (3) residential enclaves (*Arista*, *Bahia* and *Orilla*) with a range of property choices for every family. Located on the water front is the *Lake Club*, a lakeside amenity designed for wellness, recreation and celebration.

#### **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. FLI currently has seventeen (17) ongoing MRB projects in Luzon, Visayas and Mindanao. FLI is targeting to launch new MRB projects and additional buildings in key cities particularly in Iloilo, Valenzuela, Taguig, Dumaguete and Davao.

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

<b>Project Name</b>	<b>Location</b>
<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

Project Name	Location
Asiana Oasis	Paranaque City
Girin Oasis	Cainta, Rizal
Fortune Hill	San Juan City
The Signature	Balintawak, Quezon City
<b>Visayas</b>	
One Oasis Cebu	Mabolo, Cebu City
Amalfi Oasis	City di Mare, Cebu
San Remo Oasis	City di Mare, Cebu
<b>Mindanao</b>	
One Oasis Davao	Davao City
One Oasis Cagayan de Oro	Cagayan de Oro
Eight Spatial	Maa, Davao

(d) High-Rise Buildings

The Linear

FLI started to develop *The Linear* in 2009, a master-planned residential and commercial hub in Makati City. Two-L-shaped towers, each 24 storeys high, comprise this dynamic condominium community that perfectly caters to the needs of young urban professionals.

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 story per building with commercial units at the ground floor. All residential floors will have 25 studio units per floor.

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. The high-rise sections will be set in lush greenery, providing residents with views of the gardens.

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 single tower 34-story hi-rise residential condominium located in Loyola Heights in Quezon City. A community conveniently situated near premier universities, the LRT 2 line and other commercial establishments.

100 West

100 West is a single tower 38-storey high-rise commercial and residential condominium with office spaces located in Gen. Gil Puyat Avenue corner Washington St. in Makati City. 100 West is beside the Makati Business District and accessible to both north and south of Metro Manila.

(e). Condotel

Grand Cenia

The *Grand Cenia* Hotel and Residences is a 25-storey development located along Archbishop Reyes Avenue in Banilad, Cebu, on the 4,211 sq.m. property strategically located close to the Cebu Business Park. *Grand Cenia* features two products – “condotel” and residential condominium units. Starting November 2011, units were turned over to the condotel buyers in preparation for hotel operations. In January 2012, the hotel started operating as the Quest IIotel and Conference Center, a three-star hotel complete with business and conference facilities. The 25-storey structure has 432 condotel rooms and 119 residential condominium units. One and a half floors have been earmarked for BPO office space with gross leasable area of 3,227 sq.m.

The Leaf

The Leaf is a condotel type development strategically located on a mountainside setting beside the Timberland Sports and Nature Club in Timberland Heights. *The Leaf* consists of eight (8) low density mid-rise buildings of three (3) floors each with an average size of 31 sq.m. each unit. *The Leaf* is approximately 300 meters above sea level with a 180 degrees view of Metro Manila.

**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, 2014, 2013 and 2012 (in ₱ millions, except for percentages).

Category	2014		2013		2012	
	Amount	%	Amount	%	Amount	%
Residential Lots and House & Lot Packages						
Socialized	408.3	3.1%	243.7	2.3%	220.34	2.5%
Affordable	1,368.0	10.4%	1,119.7	10.7%	778.75	8.9%
Middle income	10,490.1	79.4%	8,439.4	80.6%	7,136.36	81.1%
High end and others	367.0	2.8%	277.0	2.6%	333.35	3.8%
Industrial Lots	342.6	2.6%	241.5	2.3%	187.31	2.1%
Residential Farm Lots	202.2	1.5%	140.1	1.3%	131.49	1.5%
Leisure	26.3	.2%	17.1	0.2%	10.76	0.1%
Total	13,204.4	100.0%	10,478.5	100.0%	8,798.36	100.0%

**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 December 31, 2014, 2013, and 2012 (in ₱ millions) :

	2014	2013	2012
Land acquisition cost	1,644.85	1,251.42	1,044.27
Land development and construction cost	5,866.72	4,627.34	3,779.03
Housing construction cost	189.47	157.06	102.01
Cost of club share	5.13	0.26	2.14
Total	7,726.16	6,036.08	4,927.45

\*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**

The Festival Supermall is a four-storey shopping complex located within FAI's Filinvest City, a commercial business district near the juncture of three major road networks – the South Expressway, the old National Highway and the Alabang-Zapote. In addition to having over 700 retail stores and outlets, the 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.

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, Starbucks, Seattle's Best Coffee, McDonald's, Chowking, Jollibee and KFC.

To further augment the Group's recurring income stream in the retail segment, land development has commenced on the expansion of Festival Mall at Filinvest Corporate City. The expansion project will add over 56,705 square meters of GLA, and is targeted to be completed in phases, from first quarter of 2013 to the last quarter of 2015. FLI is also developing the first phase of Il Corso lifestyle strip of City di Mare, in the South Road Properties in Cebu, which will contribute a GLA of around 36,346 sq.m. and GFA of 56,613 square meters when fully completed. FLI also started construction of two (2) malls. Fora Mall in Tagaytay City started construction during the second quarter of 2014 and will contribute 31,037 square meters in GLA and 47,756 square meters of GFA. Another project which started construction during the second quarter of 2014 is the Center Square Molino. Located at its Princeton Heights residential projects located in Molino, Bacoor, Cavite, the project will have a GLA of 19,057 square meters and GFA of 27,965 square meters.

## **PBCom Tower**

The PBCom Tower, 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. FLI earns revenues from approximately 131,000 sq.m. leasable space with Convergys, HSBC, Convergys, APAC, GenPact Services LLC, eTelecare Global Solutions, Inc., Capital One, AIG Shared Services, First Source, Verizon Business, Lattice Semiconductor, and Flour Daniel as major tenants, among others. Of the 10 hectares of land on which the Northgate Cyberzone is situated, approximately four hectares are available for future development.

Construction is ongoing for the following new BPO office buildings located at Northgate Cyberzone:

- **Filinvest Two and Three:** This is a twin-tower project located along Alabang Zapote Road each building with 14 storeys and GLA of approximately 23,784 sqms each. Target completion is February 2015.

Current buildings with leases are the following:

- **Plaza A:** This is a six-storey building with an approximate GFA of 11,575 sq.m. and an approximate GLA of 10,860 sq.m. Plaza A was substantially fully leased to GenPact Services LLC and Convergys.
- **Plaza B and Plaza C:** Plaza B and Plaza C are four-storey buildings, each with an approximate GFA of 7,150 sq.m. and an approximate GLA of 6,540 sq.m. for a combined GLA of 13,080 sq.m. Plaza B and Plaza C were substantially fully leased. Tenants for Plaza B include goFluent, AMS Express, Team Asia, Outboundphil, APPCO Direct Int'l., Treadyne and Seven Seven Global Services, Inc. All of Plaza C has been leased by APAC Customer Services, Inc.
- **Plaza D:** This is a six-storey building with the same specifications as Plaza A and with an approximate GFA of 11,575 sq.m. and an approximate GLA of 10,860 sq.m. Plaza D had been leased 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.

- Plaza E: This is a twelve-storey building, situated between Plaza A and Plaza D, with approximate GFA of 16,281 sq.m. and an approximate GLA of 14,859 sq.m. The building is 100% leased out with tenants Arvato Corp., Hinduja and EXL Service Phils.
- Convergys Building: This is a three-storey building with an approximate GFA of 6,466 sq.m. and an approximate GLA of 5,839 sq.m. It was a "built-to-suit" (BTS) building to meet the requirements of Convergys.
- HSBC Building: This is another building that was constructed on a BTS basis to meet the requirements of HSBC. The HSBC building has an approximate GLA of 18,000 sq.m. The building is currently occupied by Capital One.
- IT School: This is a three-storey building with an approximate GFA of 3,297 sq.m. and an approximate GLA of 2,595 sq.m. Its major tenants are currently Genpact Services LLC and Informatics.
- Building 5132: This is a six-storey building with an approximate GFA of 10,560 sq.m. and an approximate GLA of 9,408 sq.m. Building 5132 has been fully taken up by GenPact Services LLC.
- iHub I and iHub II: This is a two-tower complex (one with six storeys and the other with nine storeys) iHub I has an approximate GLA of 9,474 sq.m. and has been leased out to numerous tenants which includes GenPact, HSBC, W.R. Grace Philippines and Lattice Semiconductor and Cape East Philippines. iHub II has an approximate GLA of 14,166 sq.m. and has been leased out primarily to Convergys and AIG Shared Services.
- Vector One : an 11-storey building with an approximate GFA of 19,545 sq.m. and an approximate GLA of 17,764 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 Firstsource and Flour Daniel.
- Vector Two: This building has the same configuration as with Vector One. It is also 11 storeys high with an approximate GLA of 17,884 sq.m. It was completed in October 2011. Tenants of the building include Infosys, Genpact, GE Money and Flour Daniel.
- Filinvest One (formerly called AZ Building): This is a 10-storey building with a GLA of approximately 19,637 sq.m. Tenants of the building include HSBC, Ford Philippines, Denso Phil., AMEC Services, and PIIL Center.

With about four hectares of land available for the construction of additional buildings within the Northgate Cyberzone, FLI expects to be able to provide an additional 240,000 sq.m. of leasable office space to accommodate expected increases 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.

#### EDSA Transcom Building

This five-storey BPO building is located along EDSA in Mandaluyong City and have approximately 7,358 sq.m. of GLA. This is FLI's first BPO office building outside Northgate Cyberzone. EDSA Transcom Building is fully leased out to Anthem Solutions, Inc.

To tap lucrative opportunities in the BPO sector, FLI is expanding its office portfolio in more areas outside of Northgate to meet the demands of the industry. The following are the ongoing new BPO office buildings located in various locations:

- Filinvest Cyberzone Pasay is the first development of Filinvest Cyberparks, Inc. and will be the Filinvest Group's first LEED-certified project in Metro Manila outside of Northgate Cyberzone. Rising nine storeys within the Bay Reclamation Area in Pasay City, it will provide a total of 80,000 sqm of office space, supported by street-level retail facilities. Designed by H1 Architecture, the project will add another sleek and modern structure to the growing number of establishments in the vicinity. To be developed in three phases, it is meant to cater to the office accommodation needs of the still growing outsourcing sector, and address retail support requirements of companies and government agencies that will set up shop in the surrounding area. Phase 1 excavation commenced last September 2014. Foundation works are already ongoing this 2015, and the structure completion is expected by 2016. Phase 1 is comprised of Towers 1 and 2 that will offer approximately 36,807 sqm of office GLA.
- In Cebu, construction of the Filinvest Cebu Cyberzone Tower 1 is almost complete, first BPO building located at the 1.2 - hectare joint venture project with the Provincial Government of Cebu. This is the first building of the four-building complex with 13 storeys and approximate GLA of 19,937 sqms. When completed, the project is expected to have a GLA of almost 100,000 square meters.
- Meanwhile, in Quezon City, planning activities are presently ongoing for two sites along Epifanio delos Santos Avenue for the development of mixed use complexes that both contain BPO office accommodation. Studio 7, a mixed-use project in South Triangle near GMA Network, will have a BPO office component, aside from residential and retail facilities, and will break ground this 4th quarter of 2015. Its office portion, called Studio 7 Cyberzone, will provide 36,594 sqm of GLA by 2018. Another dynamic mixed-use development located at the corner of EDSA and Aurora Boulevard, which shall be called Activa, will also play host to BPO offices by providing an estimated 49,700 sqm of GLA. Excavation works are projected to commence by 2016 for this project.

- Demolition works of the Philcomcen building in Ortigas Ave, Pasig City is ongoing and is expected to be completed by 2nd half of 2015. Planning activities for the development of a 48,000 sqm GFA structure with traditional office, hotel and retail components are currently underway.

The Group will continue to carry out an intensive marketing campaign so as to maintain a high occupancy rate in Festival Supermall, PBCom Tower and Northgate Cyberzone properties, thereby maximizing its leasing revenues.

The table below shows a breakdown of FLI's recorded gross leasing revenues for the year ended December 31, 2014 & 2013 (amounts in Thousands of Pesos, except percentages).

	Years ended December 31			
	2014		2013	
	Amount	% to total	Amount	% to total
Festival Supermall	875,706	38.69%	867,953	42.67%
Northgate Cyberzone	998,411	44.11%	831,989	40.90%
PB Com Tower	322,093	14.23%	272,262	13.39%
Others	67,341	2.98%	61,874	3.04%
<b>Total</b>	<b>2,263,551</b>	<b>100.00%</b>	<b>2,034,078</b>	<b>100.00%</b>

## Marketing and Sales

### *Real Estate Segment*

FLI 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.

FLI 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.

FLI 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 100% 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.

### *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 11.5% 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.

### *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 2012, FLI launched 20 new projects and phases totaling 3,454 housing units equivalent to around ₱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 ₱7.48 billion worth of sales located in Cavite, Laguna, Alabang, Rizal, Bulacan, Pampanga, Metro Manila, Cebu and Cagayan de Oro.

In 2014, FLI launched a total of 18 new projects and phases with an estimated sales value of ₱12.46 billion. This brought to 147 the number of ongoing projects and phases FLI has as of end of 2014.

### **Employees and Labor**

As of December 31, 2014, FLI had a total (consolidated) manpower of 939 employees broken by function into 178 operations, 289 administrative, 237 technical and 235 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.

FLI anticipates a 19% increase in the number of its employees in 2015.

FLI 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. 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.

### **Research and Development**

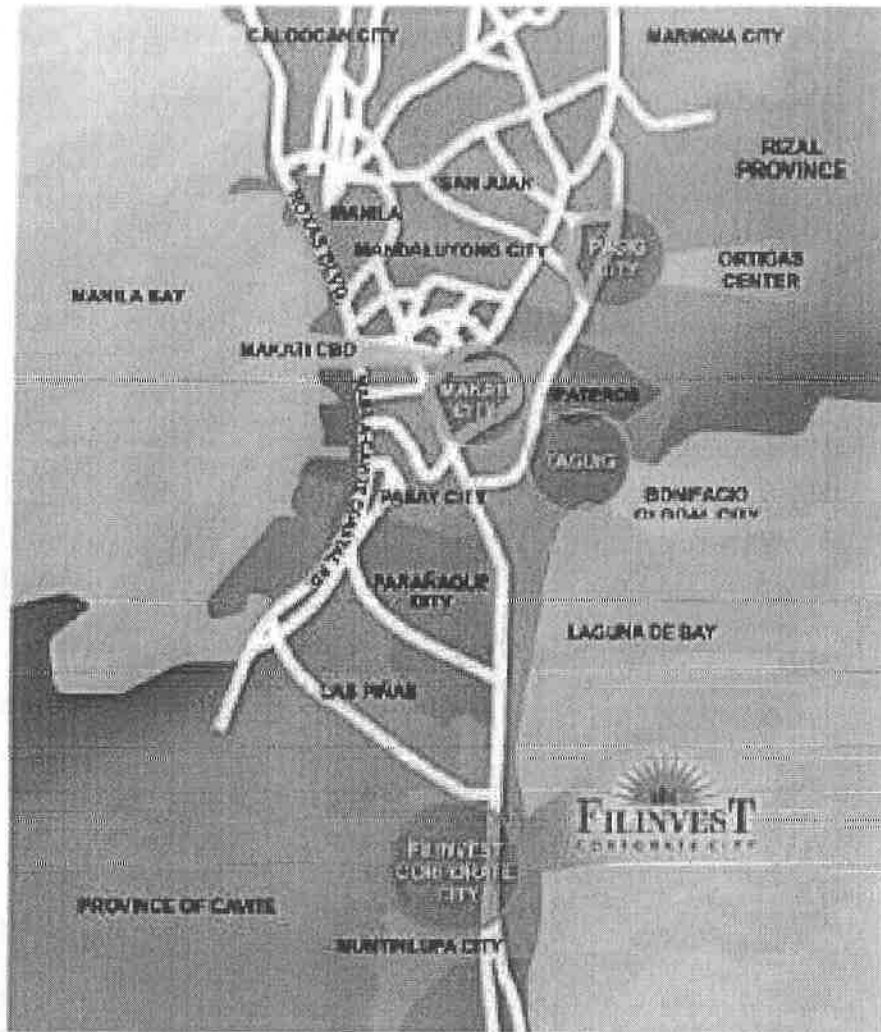
Although the Company engages in research and development activities focusing on the types of construction materials used for its housing units, construction methodology, value-engineering for its projects and quality assurance, the expenses incurred by the Company in connection with these activities 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, 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 ₱186,000 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.

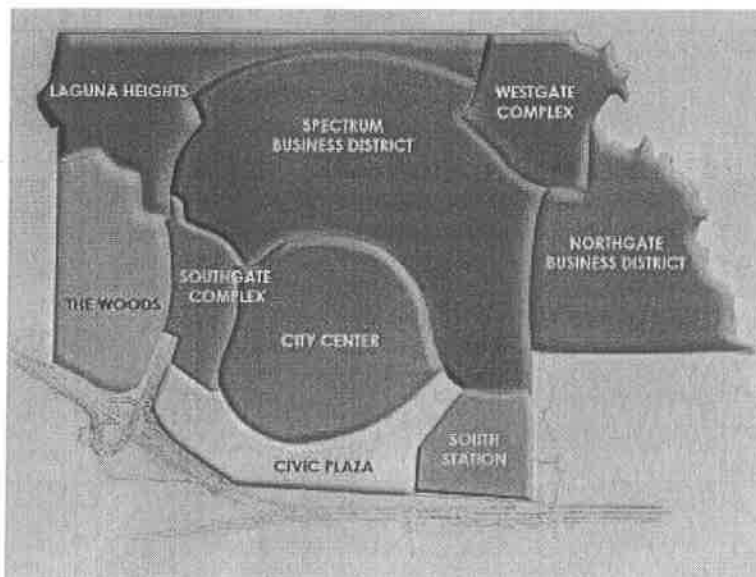
*Location*

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, 2014. 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.

Land Use	Lot area allocated (sq.m.)	Expected gross floor area (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 . . . . .	835,539	—
Total . . . . .	<u>2,447,543</u>	<u>7,788,090</u>

As of December 31, 2014, FAI beneficially owns 83 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 57 hectares of unsold lots owned directly by FAI. Of the 57 hectares, 23 hectares remain unused. Thirty four 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, 2014, FSI had approximately 173 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, 2014, FAI's land bank included 2.1 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. FLI believes it is strongly positioned in the affordable housing income to middle-income residential subdivision market and in the farm estates. Success in these market segments depends on acquiring well-located land at attractive prices often in anticipation of the direction of urban growth. FLI believes that its 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. 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, Robinsons Land, and DMCI.

FLI faces significant competition in the Philippine property development market. In particular, FLI 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.

FLI'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 FLI's current development plans, it 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, it 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 Parent Company's assets dedicated to office space leasing and shopping mall operations, the Parent Company competes with property companies such as Ayala Land Inc., Robinsons Land Corp. and SM Prime Holdings in retail space leasing. In office space leasing, particularly to call centers and other BPO operators, the Parent Company competes with companies such as Robinsons Land, Inc., Ayala Land, Inc., Eton Corporation, and Megaworld Corporation.

## **FINANCIAL AND BANKING SERVICES**

The Bank commenced operations in 1994 and is a medium-sized universal bank in the Philippines primarily focused on providing banking services to retail customers and mid-market corporate customers. The Bank's principal banking products and services include consumer loans, deposit products, corporate banking, treasury and trust products, credit card, and cash management solutions among other services. As of December 31, 2014, the Bank was ranked the tenth largest Philippine bank by total assets among the privately owned domestic universal banks, with total assets of ₱189,307 million, based on the Fourth Quarter Banking Report published by Business World on February 26, 2015. The Bank was also the seventh largest Philippine bank by branch store network as of December 31, 2014. According to information published by the BSP, the Bank's total consumer loans, credit card, and auto loans market share was 6.2%, 10.6%, and 9.3%, respectively, as of September 30, 2014. According to an industry survey conducted by Credit Cards Association of the Philippines, an industry association, the Bank ranked fifth among the Philippines' 13 major credit card issuers in terms of credit card receivables for the fourth quarter of 2014.

As of December 31, 2014, EW had a network of 358 branches, including 204 branches strategically located in Metro Manila, compared with 300 branches as of December 31, 2013. EW also provides 24-hour banking services through its network of 533 ATMs as of December 31, 2014, compared with 427 ATMs as of December 31, 2013. In addition to EW's branches, EW's subsidiary, EWRB, had 47 branches and 5 ATMs as of December 31, 2014. The Bank has also made significant investments in its information technology, operational processes and governance to facilitate its growth and competitiveness.

For 2014, the Bank generated ₱14,886 million of total operating income and ₱2,073 million of net income, compared to ₱13,165 million of total operating income and ₱2,056 million of net income in 2013. For the year ended December 31, 2014, the Bank's return on average equity and return on average assets were 10.2% and 1.3%, respectively. In addition, for the year ended December 31, 2014, the Bank had a cost-to-income ratio of 60.0%.

The Bank has been listed on the PSE since May 2012. Its market capitalization as of December 31, 2014 was ₱27,025 million. The Bank is approximately 76% owned by FDC. FDC is the listed holding company of the Filinvest Group, one of the largest conglomerates in the Philippines.

### **History and Recent Developments**

EW was registered with the SEC as a domestic corporation on March 22, 1994 and was granted authority by the BSP to operate as a commercial bank under Monetary Board Resolution No. 101 dated July 6, 1994. In November 2010, EW obtained conditional approval from the BSP to operate as a Universal Bank.

EW is a majority-owned subsidiary of FDC. FDC is the listed holding company of the Filinvest Group. Incorporated on April 27, 1973, FDC started out as a consumer finance and banking business established by FDC's patriarch, Andrew L. Gotianun, Sr. and has historically engaged in, among other lines of business, real estate development, banking and financial services, hospitality and tourism, sugar farming and milling and power generation. On February 17, 2014, the SEC approved the application of EW to change its registration from a "Government Securities Eligible Dealer" (with broker-dealer of securities functions) to an "Underwriter of Securities Engaged in Dealing Government Securities" (with broker-dealer of securities functions), in accordance with the SRC and other applicable laws, rules and regulations. EW's registration as an "Underwriter of Securities Engaged in Dealing Government Securities" had an initial validity of up to December 31, 2014, and has been extended to November 2015. EW has been listed on the PSE since May 7, 2012.

#### *Mergers and Acquisitions*

In 2003, EW acquired Ecology Savings Bank, Inc., while in 2009, EW acquired AIG PhilAm. In 2011, EW acquired GBI. Its most recent acquisition was in 2012, when it acquired FRBI.

On August 19, 2011, EW 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 EW. On July 11, 2012, EW acquired an 83.17% interest in FRBI, a rural bank engaged in the business of extending credit to farmers, tenants, and rural enterprises. EW subsequently increased its ownership in FRBI to 100.00% through additional share acquisitions and capital contributions in 2012 and 2013. In May 2013, FRBI changed its name to East West Rural Bank, Inc. (“EWRB”) and entered into an asset purchase agreement with GBI, effectively consolidating all of the Bank’s rural banking business in EWRB. On March 28 and June 5, 2014, the BSP and the SEC respectively, approved the proposed merger between EW and GBI. On July 31, 2014, the merger between EW and GBI was completed.

#### *Securities Issuances*

On July 2, 2010, the Bank issued Lower Tier 2 unsecured subordinated notes with par value of ₱1.50 billion and a coupon rate of 7.50% , maturing on January 2, 2021 with a call option date of January 2, 2016. On July 25, 2008, the Bank issued Lower Tier 2 unsecured subordinated notes with par value of ₱1.25 billion and a coupon rate of 8.63%, maturing on January 26, 2019 with an optional redemption date on January 25, 2014. On January 25, 2014, the Bank exercised its call option on the said notes. The redemption was approved by EW’s Board on August 29, 2013 and by the BSP on November 7, 2013. On July 4, 2014, the Bank completed its issuance of Basel III-compliant Tier 2 unsecured subordinated notes with a total face value of ₱5 billion with a coupon rate of 5.5% and maturing in January 2025.

In February 2014, the Bank issued the fourth tranche of its 3.25% fixed coupon rate unsecured LTNCDs (“Series 2 LTNCDs”) maturing on September 9, 2019 amounting to ₱0.83 billion. Subsequently, in April 2014, the Bank issued the fifth tranche of the Series 2 LTNCDs with a face value of ₱0.91 billion.

On July 4, 2014, the Bank issued Basel III-compliant Tier 2 unsecured subordinated notes with a total face value of ₱5 billion at a coupon rate of 5.5% maturing in January 2025.

On March 12, 2008, GBI issued Lower Tier 2 unsecured subordinated notes in favor of Land Bank of the Philippines, with par value of ₱112.50 million and coupon rate of 9.72%, maturing on March 13, 2018 with a call option date of March 23, 2013.

#### *Change of Business Address*

On October 8, 2012, EW filed a change in business address with the SEC from its previous location at 20<sup>th</sup> floor PBCOM Tower, 6795 Ayala Avenue, corner V.A. Rufino St., Makati City to its new principal place of business at East West Corporate Center, The Beaufort, 5<sup>th</sup> Avenue, corner 23<sup>rd</sup> Street, Fort Bonifacio Global City, Taguig City.

#### *Principal Business Activities*

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

#### *Retail Banking*

The retail banking segment mainly covers traditional branch banking products and services such as deposits, back-to-back/emerging market loans and other over-the-counter (“OTC”) transactions. It also caters to the needs of high net-worth clients for alternative investment channels and cash management requirements of mid-market corporates. It includes entire transaction processing, service delivery and infrastructure consisting of the Bank’s network of branch stores, ATMs, as well as its internet banking platform.

#### *Deposit Products*

The Bank 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 deposits, Renminbi savings and time deposits and non-interest bearing checking accounts. As of December 31, 2012, 2013, and 2014, the Bank’s total deposits were ₱91,209 million, ₱111,176 million and ₱147,687 million, respectively. As of the same dates, 87.6%, 83.5% and 85.6% of the Bank’s deposits were Peso denominated, with the remainder denominated in foreign currencies, principally U.S. Dollars.

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

The Bank 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.

#### *Access to Investment Products*

The Bank 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.

#### *Cash Management Services*

The Bank offers a wide range of cash management solutions to assist mid-market corporates, composed primarily of entrepreneurial and family-owned businesses, 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 the Bank 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 the Bank 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 the Bank sends an armored vehicle to pick up cash and check deposits at the customer's premises.

#### *Consumer Lending*

The Bank offers various types of consumer lending products to individuals, which consist principally of credit cards, auto loans, residential mortgage loans and personal loans. The Bank 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 the Bank.

#### *Credit Cards*

In 2004, the Bank began issuing MasterCard credit cards under the name "East West Bank MasterCard" in partnership with AIG. In 2009, the Bank acquired the Philam Savings Bank, which issues Visa credit cards. After the acquisition, the Bank integrated its Visa and MasterCard businesses into a single business unit. From an initial base of 10,000 credit cards issued during 2004, the Bank has since grown to have issued 971,000 and 1,037,000 credit cards, comprising 15.3% and 15.2% of the total market share for credit cards in the Philippines (excluding Banco de Oro Unibank, Inc. which ceased to be member of the Credit Cards Association of the Philippines since 2013), as of December 31, 2013 and 2014, respectively. As of December 31, 2014, credit card receivables represented ₱21,481 million or [32.7]% of the Bank's total consumer loan portfolio.

Revenues from the credit card operations consist principally of annual fees paid by cardholders, interest on deferred and installment payments, cash advance fees, interchange fees paid by service establishments and late payment charges. Annual cardholder fees range from ₱1,200 to ₱2,500. As of December 31, 2014, the interest rate on deferred payments range from 2.75% to 3.50% per month and the interest rate on installment payments range from zero to 3.50% per month. One-time fees for cash advances are approximately 7.0% of the total cash advance amount, and interchange fees range from 0.3% to 2.3% of the purchased amount. Revenues relating to the credit card business are reflected in the Bank's financial statements as interest income and other operating income from service charges, fees and commissions.

The Bank seeks to diversify its distribution channels, form alliances with merchants and manage its product portfolio in order continue to grow its credit card business. The Bank currently markets and sells its credit cards directly to customers, as well as 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. The Bank attempts to identify and capitalize on gaps in the market by offering products tailored to meet the needs of underserved markets. The Bank's credit card products come in different grades, from regular cards to premium class cards at different annual membership fees.

#### *Auto Loans*

The Bank's auto loans are offered through car dealerships (including second-hand car dealers), independent sales agents and the Bank's branches. The Bank provides economic incentives to car dealerships and independent 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 the Bank offers a three-hour auto loan approval process, which the Bank believes is an important aspect to its success in growing its auto loan portfolio. The Bank's auto loan business also engages in strategic partnerships with major car

brands to develop exclusive programs. Additionally, the Bank cross-sells its auto loans with the products of other units and offers special plans for existing and repeat customers.

All of the Bank's auto loans are secured by a chattel mortgage over the car being purchased. In addition to being subject to the Bank's internal credit checks, the Bank 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. Depending on whether the car being purchased is a new car or a second-hand car, the interest rate of the Bank's auto loans can range from 8.5% to 18.0%, with an average maturity of 55 months. Generally, when an installment payment falls 90 days past due, the Bank may commence foreclosure proceedings. Foreclosed cars are generally sold by the Bank through public auction. As of December 31, 2014, the Bank has an outstanding auto loan balance of ₱22,301 million.

#### *Residential Mortgage Loans*

The large majority of EW's residential mortgage loans are extended to property buyers in the Philippines who intend to occupy residential units in the form of house and lot, townhouse or condominiums, with a small proportion being extended to individuals purchasing lots for investment purposes or for future dwelling via house construction loans. All of EW's home mortgage loans are secured by a first mortgage on the property and each applicant undergoes a stringent credit evaluation process. EW requires its borrowers 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. EW also refinances existing housing loans. EW offers loans at adjustable and fixed interest rates. EW uses its branch store network as a key distribution channel and maintains marketing campaigns to attract property buyers independently from real estate developers, which serve as distribution channels for mortgage loan providers. The average maturity of EW's home mortgage loans is ten years. In line with industry practice in the Philippines, interest rate on EW's home mortgage loan portfolio is set at a fixed rate applicable for an initial period of between one and five years, depending on the maturity of the loan. Upon expiry of the initial period, the interest rate is reset at a fixed rate applicable for succeeding periods.

When a borrower falls in arrears with its mortgage payments, the buyer can either agree to a voluntary disposition of the property to EW, or EW may commence foreclosure proceedings. EW sells mortgaged collateral that has been foreclosed, primarily in public auctions or by brokers on behalf of EW. Foreclosure of the mortgaged collateral generally takes between six and 24 months.

EW currently offers various home financing products with differentiating features, which included a mix of competitive interest rates and what the Bank believes to be the longest payment term in the market of up to 30 years. As most residential mortgage loans available in the market only allow up to a maximum payment term of 20 years, EW's longer payment term means lower and consequently lighter amortization payments for the borrower. EW also gives the borrowers the option to adopt a fixed-term pricing scheme to protect borrowers against the risk of fluctuating interest rates.

EW's home loans are available in different loan packages, tailored to fit the needs of specific markets. LotAcquire is a loan specifically designed for the acquisition of a vacant lot. Other products offered by EW include HomeAcquire, HomeConstruct and HomeImprove. As of December 31, 2014, the Bank has an outstanding mortgage loan balance of ₱9,188 million.

#### *Personal Loans*

The Bank's personal loans business provides unsecured, uncollateralized consumer loans to qualified individuals for multi-purpose personal use. The primary distribution channel for personal loans is the Bank's branches and third party sales agencies. The Bank offers personal loans to employed and self-employed individuals with annual income of not less than ₱180,000. As of December 31, 2014, the Bank has an outstanding personal loan balance of ₱2,609 million. The monthly add-on interest rates for a personal loan ranges from 1.5% to 1.7% and is payable in fixed equal monthly installments from six to 36 months. The primary distribution channel for personal loans is the Bank's branches and third party sales agencies.

#### *Corporate Banking*

The Bank's corporate banking activities are primarily focused on offering loans to mid-market corporate customers, which are predominantly entrepreneurial or family-owned businesses. The Bank also offers cash management services to its corporate customers through its retail banking group. See "—Retail Banking—Cash Management Services". The Bank's corporate banking activities focus on developing and managing relationships with its corporate clients, providing an opportunity for the Bank to offer products and services from other business segments to such clients. The Bank believes that the development and expansion of its mid-market customer base is essential to the growth and success of the Bank and intends to concentrate on growing its mid-market portfolio as its core target customer group.

#### *Loan Products*

The Bank provides a wide range of loan products and services to its corporate customers, including revolving credit lines, bills purchased, acceptances, trade finance facilities and term loans. In line with its strategy to create a balanced and diversified portfolio, the Bank'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, 2014, the balance of the Bank's corporate lending was ₱56,349 million, which represented [46.1]% of the Bank's total gross loans. The Bank 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.

### ***Rural Banking***

To extend its reach to underserved segments of the market that have the potential for growth, the Bank has established a rural bank arm. Backed by the strong track record of its predecessor entities, EWRB is capable of catering to the banking needs of customers outside the urban areas in the country and provide wider access to innovative products and delivery channels. EWRB currently offers the following products:

- DepEd Teacher Loan – Allows public school teachers (permanent personnel of the Philippine Department of Education) to borrow a maximum of ₱450,000 up to a maximum term of 3 years.
- Small Business Loan – Intended for all Small-Medium Enterprises (SMEs), with a maximum loan limit of ₱5.0 million.
- Social Security System (“SSS”) Pensioners’ Loan – Intended for all SSS retirees, survivorship and total disability pensioners whose SSS pension is directly credited to savings accounts with EWRB.

As of December 31, 2014, EWRB has a network of 47 branches and five ATMs, most of which are located in the Visayas and Mindanao.

### ***Treasury and Trust***

#### ***Treasury***

The Bank's treasury has primary responsibility for managing the Bank's liquidity, interest rate and foreign exchange exposures. The Bank 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. The Bank'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. The Bank is an accredited Government Securities Eligible Dealer.

As of December 31, 2014, the Bank had ₱18,992 million of trading and investment securities, which included ₱8,745 million and ₱10,247 million of Peso and U.S. dollar-denominated securities, respectively, and accounted for 10.1% of the Bank's total assets. As of December 31, 2014, 78.1% of the Bank's trading and investment securities portfolio was invested in government securities.

#### ***Trust Products***

The Bank 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), the Bank provides retail customers with alternative investment opportunities through its unit investment trust funds (UITFs), which are available in Peso and U.S. 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. For the year ended December 31, 2014, total assets held in trust amounted to ₱6,810 million and total revenue from the Bank's trust products amounted to ₱20 million.

### ***Branch Store Network***

The Bank's branch store 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, the Bank seeks to maximize the number of transactions and deposits per branch by strategically positioning its branches in key business and commercial centers, 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, the Bank emphasizes Metro Manila.

#### ***EW Branch Stores***

Over the past three years, EW has expanded its branch store network, opening 123 additional branches in 2012, 55 additional branches in 2013 and 58 additional branches in 2014. As of December 31, 2014, EW had 204 branches in Metro Manila and 154 branches in the other areas of Luzon, Visayas and Mindanao.

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

	As of December 31,		
	2012	2013	2014
Metro Manila .....	145	174	204
Other areas of Luzon .....	51	64	84
Visayas .....	28	34	36
Mindanao .....	21	28	34
<b>Total Branches</b> .....	<b>245</b>	<b>300</b>	<b>358</b>
ATMs .....	261	427	533

Each of EW's branches is managed by a branch head who is responsible for the sales functions of the branch. To ensure adequate controls, operational functions are managed through a service head and separate reporting lines. The 358 branches of EW are organized into 19 divisions and grouped geographically. Three deputy group heads manage the operations of the divisions, with one for Metro Manila, one for other parts of Luzon and one for both Visayas and Mindanao. Of these branches, five are owned by EW while the remainder are leased from various lessors.

#### *EWRB Branch Store Network*

As of December 31, 2014, EWRB, a wholly owned subsidiary of EW, has a network of 47 branches mostly located in Visayas and Mindanao.

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

	As of December 31,		
	2012	2013	2014
Metro Manila .....	1	1	1
Other areas of Luzon .....	7	7	7
Visayas .....	15	15	15
Mindanao .....	24	24	24
<b>Total Branches</b> .....	<b>47</b>	<b>47</b>	<b>47</b>
ATMs .....	45	45	5

#### *ATM Network*

EW provides 24-hour banking services through its network of 533 ATMs as of December 31, 2014, compared with 261 ATMs as of December 31, 2013. Of these 533 ATMs, 350 are located at EW's branches while 183 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. As of December 31, 2014, EWRB, EW's subsidiary, has five ATMs in addition to EW's network of 533 ATMs.

The Bank 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 the Bank that use ATMs operated by other banks must pay a service charge for accessing these networks.

#### **Information Technology Management**

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

Over the years, the Bank has implemented various automation projects and technology infrastructure upgrades. Projects implemented in 2012 include, among others, establishing an IT command center; tools for network performance monitoring and analysis and monitoring server memory, disk and CPU utilization; a disaster recovery site and data replication system; and a repository of branch store, corporate and loan documents and credit card SOA.

Projects implemented in 2013 include, among others, a call center system, a collection system, a business intelligence application, an intranet website, an internal payroll system, a remittance system for the operations group, IT service desk portal, team foundation server and Tandberg video conference, replacement of production and DR network core switch and upgrades in firewall, Citrix, GSM and PABX.

In 2014, EW implemented a new core banking system, T-24 Enterprise Solution, to support the growth in EW's branch store network and loan business. The new system is expected to contribute to the development of more products and services as well as result in the reduction of operational costs related to software licenses, maintenance and enhancements. The new core banking system currently covers the entire deposit portfolio of the EW, and its automobile, home mortgage and corporate loans businesses. EW has also implemented E-learning modules supplemented by classroom sessions to train its employees to use the new system.

Delivery channels, such as phone banking, internet banking and ATMs, are continuously enhanced to cater to customer needs and preference. The enhancement of the delivery channels is expected to encourage the Bank's deposit and credit card customers to use such channels more frequently, which in turn would allow the Bank's branch banking operations to focus on the Bank's lending and investment services businesses. Such automation of various delivery channels is also expected to reduce the Bank's manpower requirements and operational expenses. Projects involved for this strategy are the new corporate, retail and mobile internet banking systems which are expected to be launched in April 2015. Telecom infrastructures were also upgraded in response to call center operational expansion.

For 2015, the Bank has various IT initiatives designed to (i) apply IT control objectives and the IT Infrastructure Library for designing its processes, (ii) virtualize its servers, (iii) enhance its network security infrastructure and design an access management process, (iv) continuously upgrade the Bank's IT systems and (v) ensure IT workforce productivity.

### Subsidiary

The following table sets out summary information in respect of EW's subsidiary as of December 31, 2014:

Subsidiary	Primary operations	EW's ownership (%)	Investment (₱ in millions)	EW share in net income (₱ in millions)
EWRB .....	Banking and Finance	100.00%	521	417

### *East West Rural Bank, Inc. (formerly FinMan Rural Bank, Inc.)*

EWRB (formerly FRBI) consolidated, through an asset acquisition effective November 1, 2013, the rural banking business of GBI and FRBI, the two rural banks that EW earlier acquired in 2011 and 2012, respectively. FRBI was incorporated and registered with the SEC on November 5, 1997, with the purpose of accumulating deposits and granting loans to various individuals and corporate entities as well as government and private employees. In May 2013, its name was changed to EWRB. 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.

As of December 31, 2014, EWRB had 47 branches and five ATMs. The following ratios measure the financial performance of EWRB as of and for the year ended December 31, 2014:

Total assets .....	₱6,732,354,746
Net income.....	₱416,777,50
Return on average assets.....	7.1%
Net interest margin.....	7.2%

### *Purchase and Assumption Agreement between East West Rural Bank and Green Bank (A Rural Bank, Inc.)*

In May 2013, GBI and EWRB entered into an asset purchase agreement with assumption of liabilities for the transfer of certain assets and liabilities of GBI to EWRB. Under this agreement, EWRB acquired certain assets and properties of GBI, which include the licenses for GBI's 46 branches, cash deposits in other banks, selected loan portfolio, information technology software and hardware, branch premises, furniture, fixtures and equipment, and other assets necessary for the branch business operations. In addition, EWRB assumed certain liabilities of GBI, which include deposit liabilities, bills payable, accrued interest on financial liabilities, other taxes and licenses payable, other accrued expenses and other liabilities incidental to the branch business and operations. The transfer of assets and liabilities was effective on October 31, 2013, subsequent to the receipt of required regulatory approvals. After the transfer, EWRB continued the rural banking business of both banks while the remaining assets and liabilities of GBI was merged into EW effective July 31, 2014.

## **Risk Management**

EW is exposed to risks that are particular to all its business activities and the environment within which it operates. EW's Risk Management Division's primary role is to ensure that EW 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 EW.

The Board of Directors is primarily responsible for approving the risk parameters, credit policies and the overall risk management of EW. The Board of Directors, through its Risk Management Committee oversees the risk management activities of EW. 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. EW's credit risk and loan portfolio are managed at the transaction, borrower, product and portfolio levels. EW 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 EW's risk assessment process to ensure consistency. It also strives to ensure that EW'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 EW'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 EW's adjusted capital accounts which includes only qualifying capital.

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

The consumer loan portfolio of EW 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***

EW 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, EW 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.

EW 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, EW 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 EW.

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 EW, 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 EW. 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 EW.

### *Credit Monitoring and Review Process*

Pursuant to the BSP's regulations, EW 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 EW 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. EW 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.

EW also has an independent Credit Review Unit that is responsible for independently reviewing EW'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. EW 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 EW, (b) unsecured loans, other credit accommodations and guarantees to each of EW'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 EW's total loan portfolio or 100.0% of EW'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 EW. The primary source of market risk for EW is price risk. Price risk is the risk of a decrease in EW'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. EW 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 EW'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 EW's trading, position-taking, lending, borrowing and other transactional activities; (iv) conducting stress tests and sensitivity analysis on EW'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***

EW 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 EW'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 EW 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 EW 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 EW'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 EW's risk management program consists of measuring and monitoring the risks associated with fluctuations in market interest rates on EW's net interest income. EW 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 EW'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 EW's net interest income.

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

EW 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.

EW'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 EW, its foreign exchange exposure is primarily limited to the day-to-day, over-the-counter buying and selling of foreign exchange in EW's branches as well as foreign exchange trading with corporate accounts and other financial institutions. EW is permitted to engage in proprietary trading to take advantage of foreign exchange fluctuations.

EW's foreign exchange exposure during the day is guided by the limits set out in EW's Market Risk Policy Manual. These limits are within the prescribed ceilings mandated by the BSP. At the end of each banking day, EW reports to the BSP on its compliance with the mandated foreign currency exposure limits. As of December 31, 2014, EW's net foreign exchange asset exposure was U.S.\$12.8 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 EW's liquidity risks lies with the ALCO. The ALCO's primary responsibilities include (i) ensuring that EW holds sufficient liquid assets of appropriate quality and in appropriate currencies to meet short-term funding and regulatory requirements, (ii) managing EW's balance sheet and ensuring that EW's business strategies are consistent with its liquidity, capital and funding strategies, (iii) establishing asset and/or liability pricing policies that are consistent with EW'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 EW has sufficient liquidity at all times, the ALCO and the Treasurer of EW 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 EW and the circumstances under which EW may use such funds. The Treasurer periodically performs simulated stress tests that evaluate EW'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 EW to determine the liquidity status of each business unit and EW 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 EW's reputation is tarnished. The Treasurer also determines the amount of committed credit lines that should be available to EW during a liquidity crisis.

EW 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, EW 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.

### ***Operations Risk***

EW 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. EW 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***

EW 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, EW requires the new customer to complete a relationship form, which details the terms and conditions for providing various banking services. EW enters into a relationship with a customer only after it verifies the customer's identity. EW 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.

EW's banking software has multiple security features to protect the integrity of applications and data. EW 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 EW with documentation to prove the customer's identity. After verification of this documentation, EW 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*

EW uses technology to monitor risk limits and exposures. EW'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.

EW's front office treasury transactions consist of transactions relating to fixed income, interbank transactions, foreign exchange, swaps, money market and derivatives. EW'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.

EW'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 EW'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 EW. 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, EW 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. EW 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. EW 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 EW, 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 EW’s exposure to legal risk and to ensure that contracts and other transaction documentation entered into by EW provide an acceptable level of legal protection, EW’s counsel reviews transaction documentation in accordance with established policies and procedures. EW 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. EW 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 and cooperative banks.

As of December 31, 2014, the universal and commercial banking sector consisted of 36 banks, of which 21 were universal banks and 15 were commercial banks. Of the 21 universal banks, 12 were private domestic banks, three were government banks and six were branches of foreign banks. Of the 15 commercial banks, five were private domestic banks, two were subsidiaries of foreign banks and eight were branches of foreign banks.

Commercial banks have all the general powers incident to corporations and all powers that may be necessary to carry on the business of commercial banking, such as the power to accept drafts and to issue letters of credit, discount and negotiate promissory notes, drafts, bills of exchange and other evidences of indebtedness, accept or create demand deposits, receive other types of deposits and deposit substitutes, 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 business 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 capital 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 small and medium-sized enterprises and individuals. As at December 31, 2014, there were 69 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. As of December 31, 2014, there were 545 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 small- and medium-sized enterprises. 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 of 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 decade, 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 ten 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.

The Monetary Board of the Philippines is endorsing to the Philippines’ Congress a bill to amend the Republic Act to be in line with the preparations for the ASEAN Banking Integration Framework (“ABIF”). Under the ABIF, so-called Qualified ASEAN Banks can operate within ASEAN jurisdictions on equal terms as domestic banks of that jurisdiction subject to certain prudential and governance standards.

On July 15, 2014, President Benigno Aquino, Jr. signed into law Republic Act No. 10641 or “An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act No. 7721” (“RA 10641”). Under RA 10641, established, reputable and financially sound foreign banks may be authorized by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (a) by acquiring, purchasing or owning up to one hundred percent (100%) of the voting stock of an existing bank; (b) by investing in up to one hundred percent (100%) of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches with full banking authority. The foreign bank applicant must also be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. A foreign bank branch authorized to do banking business in the Philippines under RA 10641 may open up to five sub-branches as may be approved by the Monetary Board. Locally incorporated subsidiaries of foreign banks authorized to do banking business in the Philippines under RA 10641 shall have the same branching privileges as domestic banks of the same category.

Under RA 10641, the Monetary Board was authorized to issue such rules and regulations as may be needed to implement the provisions of RA 10641. On November 6, 2014, the Monetary Board issued Resolution No. 1794 providing for the implementing rules and regulations of RA10641 and on November 21, 2014, the BSP issued Circular No. 858, amending the relevant provisions of the Manual of Regulations for Banks, accordingly.

Under RA 10641, in the exercise of the authority to approve entry applications, the Monetary Board shall adopt such measures as may be necessary to ensure that control of at least sixty percent (60%) of the resources or assets of the entire banking system is held by domestic banks which are majority-owned by Filipinos. Based on BSP Circular No. 858, such measures may include (a) suspension of entry of additional foreign bank subsidiaries and branches; and (b) suspension of license upgrade or conversion to subsidiary of existing foreign bank branches. Other measures may also be implemented by the Monetary Board, provided that such measures (a) shall be consistent with Republic Act No. 7721 as amended by RA10641 and (b) shall consider vested rights and non-impairment of contracts.

As of December 31, 2014, there were 14 foreign banks with branches and two foreign banks with subsidiaries in the Philippines.

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. On October 11, 2012, BSP Circular No. 771 was issued in order to grant incentives for investors who purchase a controlling stake in a bank. Accordingly, the coverage of relief incentives for mergers and consolidations now includes the purchase and acquisition of a majority of or all of the outstanding shares of stock in a bank. Based on BSP data, since the new package of incentives took effect in September 1998, there have been at least 49 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 SEC reports and published statements of condition of the leading private domestic banks in terms of total assets as at September 30, 2014:

Name	Market Capitalization	Total Capital	Total Assets	Net Loans	Total Deposits	No. of Branches
	(₱ millions)					
BDO Unibank, Inc.....	393,180	173,039	1,750,993	1,156,198	1,424,862	876
Metropolitan Bank & Trust Co.....	227,818	150,526	1,506,674	697,304	1,106,816	920
Bank of the Philippine Islands.....	369,334	138,774	1,296,305	701,645	1,044,107	825
Philippine National Bank.....	99,931	99,208	614,515	303,519	436,271	657
China Banking Corporation.....	80,671	54,299	456,222	274,643	385,204	470
Name	Market Capitalization	Total Capital	Total Assets	Net Loans	Total Deposits	No. of Branches
Rizal Commercial Banking Corporation.....	61,232	49,105	433,032	247,041	301,852	414
Security Bank Corporation.....	91,630	47,141	366,327	181,400	231,699	256
Union Bank of the Philippines.....	70,539	49,023	388,402	123,476	300,722	253
United Coconut Planters Bank*.....	n/a	19,419	276,594	105,577	232,624	228
East West Banking Corporation**.....	27,025	21,448	188,263	121,423	147,687	405

*Note:*

(1) Data provided above are consolidated amounts. SEC reports and published statements of condition are prepared using different accounting standards, and the data presented above may not be directly or exactly comparable.

\* As at December 31, 2013.

\* As at December 31, 2014.

**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.

As of December 31, 2014, the ten largest commercial banks account for approximately 80.8% of total assets and 81.9% of total deposits of the commercial banking system based on published statements of condition.

Certain factors arising from the 1997 Asian crisis and 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 apply such liquidity in the lending market, greater competition for corporate, commercial and consumer loans is expected. As of December 31, 2014, the ten largest commercial banks account for approximately 85.1% of the net customer loan portfolio of the commercial banking system, based on published statements of condition.

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 PSIIC. PSIIC 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 2013 and 2014, total revenues and other income from the Sugar Subsidiaries was ₱2,756.1 million and ₱2,423.4 million, respectively, and contribution to the Group's consolidated revenues and other income was 8.2% and 6.3%, respectively.

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

Subsidiary	Nature of Business	Summary features
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 1,600 hectares in Davao del Sur and North Cotabato (as of October 1, 2014).

### 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 CY2013–14, PSHC's total sugarcane crushing capacity at its two sugar mills was 11,500 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 2011- 2012	CY 2012- 2013	CY 2013- 2014	CY 2011- 2012	CY 2012- 2013	CY 2013- 2014	CY 2011- 2012	CY 2012- 2013	CY 2013- 2014
Sugarcane Crushed ('000 MT)	549	592	479	507	526	429	1,056	1,118	908
Sugar Production ('000 MT)	53	60	49	43	48	43	96	108	92
Average Recovery rate (% of sugarcane crushed)	9.67	10.10	10.23	8.48	9.19	10.02	9.09	9.67	10.13

The decrease in PSHC's sugar production during CY2013-14 compared with CY2012-13 and CY2011-12 is primarily attributable to the unfavorable weather during the growing months. Two major typhoons affected Mindanao plus a series of low pressure situations that brought too much rainfall which prevented proper cultivation of the sugarcane farms. An increase in the area planted to sugarcane improved farm yields from better farm practices and higher level of inputs. The two other Mindanano mills also suffered from volume decline although at lower percentage because their district is at a higher elevation and most of the farms have natural drainage.

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 11,500 TCD, PSHC's total sugarcane crushing capacity would be 2,978 thousand MT, and at an average 10% sugar recovery rate, it would be able to produce 297,850 MT of sugar in a crop year.

#### *Raw and Refined Sugar Production*

PSHC currently produces raw and refined sugar at its DSCC mill and CSCC mill. 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 2011-12	% of Total	CY 2012-13	% of Total	CY 2013-14	% of Total
Raw sugar	51.17	81%	73.13	80%	58.01	76%
Refined sugar	11.86	19%	18.48	20%	18.46	24%
Total	63.03	100%	91.61	100%	76.47	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 CY2013-14, PSHC exported 9.5 thousand MT of sugar, with a value of ₱143.7 million. 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 2011-12	CY 2012-13	CY 2013-14
Traders	91%	95%	99%
Industrial users	9%	5%	1%

#### *Sales and Distribution*

For CY2013-14, the Group's sugar sales amounted to ₱2,362.9 million compared to sales of ₱2,691.8 million for the CY2012-13. The following table sets out the Group's sales of sugar by destination as a percentage of total sales.

	PSHC		
	CY 2011-12	CY 2012-13	CY 2013-14
Mindanao	4%	17%	48%
Luzon	16%	29%	19%
Visayas	49%	42%	27%
Export Sales (primarily to United States)	31%	12%	6%

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, 2014 Mindanao accounted for 18% of the Philippines' sugarcane production in CY2013-14.

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 88% to 90% of its sugarcane from approximately 6,000 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, 2014, as of CY2013-14, there were 27 operating sugar mills in the Philippines with an aggregate raw sugar production of 2,457 million MT. These mills are located in the Luzon, Visayas and Mindanao regions. There are four sugar mills 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 CY2013-14.

	Sugarcane crushed ('000 MT)	Sugar production ('000 MT)
PSHC	908	92
Bukidnon Sugar Central	2,108	215
Crystal Sugar Central	1,607	159
Total	4,623	466

Source: SRA Production Bulletin dated August 31, 2014

Until the close of crop year 2013-14, there has not been significant impact of the gradual tariff reduction under AFTA. However, this situation can change depending on the government's actions with the full effectivity of the AFTA in 2015 where tariff on sugar imports will be down to 5%. There is also a possible impact of ASEAN integration which will also take effect in 2015. The major threat under ASEAN is Thailand which is a major sugar producer and can dump excess sugar if not absorbed by the industrialized nations.

#### *Insurance*

PSHC maintains insurance covers for all its PSHC's inventory of sugar, packing material, consumables, buildings and equipment in all its mills and facilities, against fire, lightning, storms and allied perils in an aggregate amount equal to ₱4,173.2 million. PSHC maintains business interruption insurance in an aggregate amount equal to ₱10.0 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 3 x 135 MW circulating fluidized bed coal thermal power plant in Mindanao where off-take agreements for 283 MW with 17 distribution utilities and 1 industrial customer in Mindanao are already in place and an additional 39 MW are still being negotiated. The project has been in full swing with construction progressing steadily ever since it awarded the contract for Engineering, Procurement and Construction (EPC) in 2013, the project has been continuously moving toward the development stage with the construction in full swing. Aside from its Mindanao power project, FDCUI has also been awarded as independent power producer administrator by the Power Sector Assets and Liabilities Management Corporation (PSALM Corp.), the administration of the 40 strips of energy (equivalent to 40 MW) of the Unified Leyte Geothermal power plants in Tongonan, Leyte and the 100 MW output of the Mindanao I and II (Mt. Apo 1 and 2) Geothermal Power Plants in Kidapawan City, North Cotabato. It has successfully assumed control of the power

plants' output in December 2014 and has effectively provided capacity allocation to all its contracted customers. The Group intends to use a portion 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, Chairman and CEO, joined the Group effective January 1, 2011. 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.

Mr. Mario Pangilinan, President and COO, started his career in the energy sector at the National Power Corporation (NPC) where he worked in Systems Operation and Systems Planning for 19 years. After his stint in NPC, he spent over two years at the National Transmission Corporation (TransCo) where he pioneered the design and development of the Philippine Wholesale Electricity Spot Market (WESM) and the Philippine Grid Code. He was Executive Vice President at the Philippine Electricity Market Corporation (PEMC) for over five years where he oversaw the preparations for the establishment of the WESM before joining FDCUI.

#### *Supply*

- To ensure security of supply and ensure continuous operation of the power plant by providing adequate and economic inventory level of quality fuel, a long term contract for a minimum of 5 years up to 10 years will be sourced from the pre-qualified potential suppliers based on its supply capability, reliability for timely delivery and track record on fulfilling its contractual obligation in the Philippines among other criteria. Two of the largest coal mining/suppliers of Indonesian coal are PT Adaro with measured reserves of 900 million tons and PT Kideco with measured reserves of 651 million tons.

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

- PT Avra Asia
- PT Pevensy – Indexim Coal

As part of FDCUI's fuel sourcing, continuous conduct of pre-qualification and evaluation of nominated coal mine source/s and potential suppliers are currently ongoing.

#### *Competition*

At present, three major players dominate the power industry and accounts for about 50% 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 16%. San Miguel Energy Corporation which is the IPP administrator of the three (3) 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 17% of the market share.

#### **Corporate Social Responsibility (CSR) Programs**

Committed to continuing the Gotianun tradition of making a difference in the lives of Filipinos, FDCUI through its subsidiary, FDC Misamis, started implementing social development programs in partnership with host communities. Programs that promote environmental stewardship, economic enhancement, enhanced health services, and education for empowerment were implemented to help create a positive impact on the communities surrounding the project site. These CSR interventions, where employees also actively participate and volunteer, are done in phases parallel to project implementation and are based on real needs of the community residents as gathered through a socio-economic baseline study of the host and affected villages.

#### **Related Party Transactions**

The Group has entered into various transactions with related parties. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions or the parties are subject to common control or common significant influence (referred to as 'Affiliates'). Related parties may be individuals or corporate entities.

Significant transactions with related parties are as follows:

- a. EW has loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). These transactions usually arise from normal banking activities such as lending, borrowing, deposit arrangements and trading of securities, among others. Under existing policies of EW, these transactions are made substantially on the same terms as with other

individuals and businesses of comparable risks.

Under current banking regulations, the aggregate amount of loans to DOSRI should not exceed the total capital funds or 15% of the total loan portfolio of EW, whichever is lower. In addition, the amount of direct credit accommodations to DOSRI, of which 70% must be secured, should not exceed the amount of their respective regular and/or quasi-deposits and book value of their respective investments in EW.

BSP Circular No. 560 provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.0% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.0% of such net worth.

Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.0% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank. As of December 31, 2014 and 2013, the EW is in compliance with these requirements.

On May 12, 2009, BSP issued Circular No. 654 allowing a separate individual limit of twenty-five (25.0%) of the net worth of the lending bank/quasi-bank to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation. As of December 31, 2014 and 2013, the Group is in compliance with these requirements.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said circular and new DOSRI loans, other credit accommodations granted under said circular:

	2014	2013
Total outstanding DOSRI accounts (in thousands)	₱7,759,327	₱6,394,361
Percent of DOSRI accounts granted under regulations existing prior to BSP Circular No. 423	0.000%	0.000%
Percent of DOSRI accounts granted under BSP Circular No. 423	6.283%	6.494%
Percent of DOSRI accounts to total loans	6.283%	6.495%
Percent of unsecured DOSRI accounts to total DOSRI accounts	3.315%	2.499%
Percent of past due DOSRI loans to total DOSRI loans	0.001%	0.067%

- b. Loans guaranteed by the Parent Company obtained by FLI amounted to ₱225.0 million and ₱675.0 million as of December 31, 2014 and 2013, respectively. The Parent Company has also guaranteed the \$300.0 million fixed-rate bonds issued by FDCI in 2013.
- c. The compensation of key management personnel consists of short-term employee salaries and benefits amounting to ₱51.6 million, ₱53.7 million and ₱57.3 million in 2014, 2013 and 2012, respectively. Post-employment benefits of key management personnel amounted to ₱8.8 million in 2013 and ₱5.4 million in 2012 (nil in 2014).

There are no agreements between the Group and any of its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's retirement plan.

- d. Other transactions with related parties include non-interest bearing cash advances and various charges to and from non-consolidated affiliates for management fees, rent, share of expenses and commission charges. Transactions with related parties are normally settled in cash.

The amounts and the balances arising from the foregoing significant related party transactions are disclosed in the Notes to Financial Statements.

**INTELLECTUAL PROPERTY**

The “Filinvest” trademark was registered with the Intellectual Property Office on September 15, 2011. “Filinvest” is the brand FLI uses and by which it is known to the public.

Below are FLI servicemarks registered with the Intellectual Property Office:

<b>TRADEMARK</b>	<b>DATE OF REGISTRATION</b>
The Linear Makati & Design	12 Aug 2010
One Oasis Ortigas	10 Dec 2009
One Oasis Ortigas and Design	10 Dec 2009
We Build the Filipino Dream (Slogan)	10 Dec 2009
One Oasis	10 Dec 2009
Filinvest (New Logo)	15 Sept 2011
Studio A	20 Dec 2012
The Signature	17 Apr 2014
Fortune Hill	22 May 2014
Fora Rotunda Tagaytay	14 Aug 2014

FLI has filed an application with the World Intellectual Property Office (WIPO) for the international registration of the “Filinvest” trademark under the Madrid Protocol for the following countries: Austria, Australia, Benelux, Denmark, France, Italy, Norway, Spain, Sweden, Switzerland, United Kingdom and the United States of America. It has also filed separate applications for international registration in UAE, Qatar, Kuwait and Malaysia. FLI has also registered “Filinvest Land, Inc.” as a business name with the Department of Trade and Industry.

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

The Glades	Serulyan Mactan
100 West	Citi Di Mare (Logo and Tagline)
Timberland Heights (Horizontal Orientation)	I-Go
Timberland Heights (Stacked Orientation)	Kembali (Reversed Logo)
One Binondo	Kembali
The Leaf	The Veranda
Vinia	

In 1994, EW obtained a Certificate of Registration and bank license from the SEC to operate under the corporate name "East West Banking Corporation." The Bank uses a variety of names and marks, including the name "East West Banking Corporation" and the Bank's logo, in connection with its business. [The Bank has registered such names and marks with the Intellectual Property Office of the Philippines.] On January 25, 2012, the Bank obtained a certification from the BSP on a US-based bank using a similar name. As certified by BSP, the US-based bank has not been issued a license to operate as a banking institution in the Philippines. The BSP also certified that the Bank is among the commercial banks it supervises. On October 10, 2013, the Intellectual Property Office of the Philippines issued a decision in favor of the Bank, cancelling the mark "EAST WEST BANK & COMPASS LOGO" previously registered in the name of a US-based bank.

## **REGULATORY AND ENVIRONMENTAL MATTERS**

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. A substantial majority of FLI's existing landbank is 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. Evidently, the Parent 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 for each project.

FLI 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. 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.

## **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 in 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 P450,000.00, is exempt from project related income taxes. Sale of residential lots with a gross selling price of P1.9 million or less and residential houses and lots or condominium units with a gross selling price of P3,199,200.00 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 P1.5 million and P2.5 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 EW, 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 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. BSP Circular No. 538, as amended by BSP Circular No. 781, setting out the Basel II implementing guidelines and the reforms introduced by the Basel III framework, impacts, among other things, the Bank's capital adequacy structure, investment policies and risk management procedures. In particular, the Basel III framework which took effect on January 1, 2014, requires a more stringent capital adequacy structure.

## **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 EW) 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, EW'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 EW. In the aggregate, outstanding loans, other credit accommodations and guarantees to DOSRI generally should not exceed 100.0% of EW's net worth or 15.0% of the total loan portfolio of EW, 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 EW'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, Parafiaque, 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.

## **REGULATION OF POWER PROJECTS**

### **Laws Affecting the Power Industry**

The **Electricity Power Industry Reform Act (EPIRA)**, which signaled the changes need in the power industry since the National Power Corporation (NPC) was established in 1936, is now on its 14<sup>th</sup> year of implementation. The goal of the EPIRA is to overhaul the power industry. Among its thrusts are (1) the deregulation of the generation sector; (2) creation of a government-owned transmission company and the eventual privatization of the operation of the transmission system; (3) unbundling of supply activities from the regulated distribution sector; (4) elimination of cross-subsidies within and among various grids, and among various classes of consumers; (5) Creation of an independent regulatory body (Energy Regulatory Commission) and a Joint Congressional Power Commission to oversee implementation of the law. The EPIRA also called for the privatization and sale of NPC assets and contracts with Independent Power Producers (IPPs) which would help the government pay off NPC’s debts and invite the participation of private sector in the industry, creation of a wholesale electricity spot market for the trading of energy and the implementation of retail competition and open access.

**Renewable Energy (RE) Act of 2008.** The RE Law aims to accelerate the development and use of renewable energy resources and reduce the country’s dependence on fossil fuels. The law provides for a set of incentives to RE businesses such as income tax holiday (ITH), duty-free importation and special realty tax rates on equipment and machinery, corporate tax rate of 10% after seven years of ITH and zero percent value added tax rate on the sale of fuel or power generated from RE.

The RE Law also creates the Renewable Portfolio Standards which sets a minimum percentage of generation from eligible RE resources and the Feed-in Tariff System, which determines the fixed tariff to be paid to electricity from emerging RE technologies and gives priority connection, purchase and transmission of electricity generated from RE.

**Energy Regulatory Commission (ERC).** The enactment of the EPIRA law created the Energy Regulatory Commission to replace the Energy Regulatory Board. The ERC is an independent regulatory body with quasi-judicial, quasi-legislative and administrative functions in the electric industry. The primary responsibilities of the ERC is to ensure consumer education and protection and to promote competitive operations in the electricity market.

**Department of Energy (DOE).** The DOE was created under Republic Act 7638 in 1992. Its mandate is to “prepare, integrate, coordinate, supervise and control all plans, programs, projects and activities of the Government relative to energy exploration, development, utilization, distribution and conservation.”

The DOE has been tasked to develop a 10-year Philippine Energy Plan with the goal of enhancing energy security/independence and implementing market sector reforms to enable a more efficient sector’s operation and ensure proper supply of a growing energy demand.

## **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**

- Increased exposure to consumer debt could result in increased delinquencies in EW's loan portfolios.
- The Bank has notable exposure to certain sectors in the Philippine economy. Any decline in the performance of any of these industry sectors may result in a substantial portion of these loans to become non-performing, adversely affecting the quality of the Bank's loan portfolio.
- The Bank may not be successful in implementing its growth strategies.
- The Bank'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 the Bank as they have in the past, the Bank's liquidity and business could be adversely affected.
- The Bank may be unable to recover the assessed value of its collateral when its borrowers default on their obligations, which may expose the Bank to significant losses.
- The Bank is subject to interest rate risk and foreign currency risk.
- The Bank's provisioning policies in respect of classified loans require significant subjective determinations which may increase variation in the application of such policies.
- The Bank is involved in many businesses subject to a variety of regulatory regimes and guidelines, and any changes in the relevant regulatory regimes or guidelines may adversely affect the Bank's businesses, financial condition and results of operations.
- The Bank is subject to credit, market, and liquidity risks which may adversely affect the Bank's credit ratings and its cost of funds.
- A downgrade in the Bank's credit rating could adversely affect its business, financial condition and results of operations.
- The Bank may face increasing levels of NPLs and the Bank's allowance for impairment and credit losses may be insufficient to cover future losses. To the extent the Bank increases such allowances or fails to recover expected amounts from NPLs, its financial performance will be adversely affected.
- The Bank's trading activities are subject to volatility.
- The Bank may fail to effectively operate its information technology systems and manage risks associated with such systems, which could adversely affect its business.
- The Bank may be subject to intellectual property rights disputes with respect to certain names and marks.
- The Bank is effectively controlled by the Gotianun Family and its interests may differ significantly from the interests of other shareholders.
- The Bank relies on certain key personnel and the loss of any such key individuals or the inability to attract and retain other highly capable individuals may negatively affect its business.
- The Bank may be unable to continue to attract and retain skilled professionals.

## 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 will expire 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, 2014, FDC's 8,650 employees (including 28 consultants) can be categorized by function as follows:

	As of December 31, 2014
<b>Real Estate Development</b>	
Operations.....	361
Administrative.....	523
Technical .....	334
Marketing.....	340
Total.....	<u>1,558</u>

As of  
December 31, 2014

<b>Financial and Banking Services</b>	
Operations.....	3,012
Sales.....	1,157
Support.....	1,090
<b>Total.....</b>	<b>5,259</b>
<b>Sugar Business</b>	
Operations.....	494
Administrative.....	81
Technical.....	25
Marketing.....	3
<b>Total.....</b>	<b>603</b>
<b>Hotel Business</b>	
Operations.....	835
Administrative.....	136
Technical.....	81
Marketing.....	38
<b>Total.....</b>	<b>1,090</b>
<b>Power Generation Business</b>	
Administrative.....	34
Technical.....	37
Marketing.....	5
<b>Total.....</b>	<b>76</b>
<b>Other Operations</b>	
Operations.....	20
Administrative.....	26
Technical.....	17
Marketing.....	1
<b>Total.....</b>	<b>64</b>

The Company does not expect a substantial change in the number of its employees in the next 12 months, other than with respect to EW, which expects to take on substantial new employees to staff new branches which are targeted to be operational during 2015. FLI, on the other hand anticipates a 19% increase in the number of employees in 2015.

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.

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 which utilized its land bank; The Beaufort, a residential condominium in Bonifacio Global City, Taguig City, Metro Manila and the 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 substantially completed in 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.

### **Land Bank**

Since its incorporation, the Group has invested in properties situated in what the Group 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 reduce the 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, 2014, the Group had a land bank of approximately 2,408 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, 2014 are set out in the table below (area in hectares).

Location	Company Owned	Under Joint Ventures	Total	% to Total
<b>Luzon</b>				
Metro Manila	55.8	-	55.8	2.3%
Rizal	774.3	86.2	860.5	35.7%
Bulacan	234.8	-	234.8	9.8%
Pampanga	-	59.2	59.2	2.5%
Cavite	387.5	89.0	476.5	19.8%
Laguna	282.1	1.3	283.4	11.8%
Batangas	140.6	43.4	184.1	7.6%
Palawan	-	6.0	6.0	0.3%
<b>Sub-total</b>	<b>1,875.1</b>	<b>285.1</b>	<b>2,160.3</b>	<b>89.7%</b>
<b>Visayas</b>				
Cebu	9.7	31.6	41.3	1.7%
Iloilo	0.9	-	0.9	0.0%
Bacolod	50.9	-	50.9	2.1%
Dumaguete	2.1	-	2.1	0.1%
<b>Sub-total</b>	<b>63.6</b>	<b>31.6</b>	<b>95.2</b>	<b>4.0%</b>
<b>Mindanao</b>				
General Santos	99.6	-	99.6	4.1%
Davao	45.0	7.7	52.7	2.2%
<b>Sub-total</b>	<b>144.6</b>	<b>7.7</b>	<b>152.2</b>	<b>6.3%</b>
<b>Total</b>	<b>2,083.3</b>	<b>324.4</b>	<b>2,407.7</b>	<b>100.0%</b>
<b>% to Total</b>	<b>86.5</b>	<b>13.5</b>	<b>100.0%</b>	

The Group 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 or marketing as of December 31, 2014.

Category / Name of Project	Location
<b>SOCIALIZED</b>	
Bellevue Meadows	Tanza, Cavite
Belmont Hills	Gen. Trias, Cavite
Belvedere Townhomes	Tanza, Cavite
Blue Isle	Sto. Tomas, Batangas
Castillion Homes	Gen. Trias, Cavite
Melody Plains	San Jose del Monte, Bulacan
Mistral Plains	Gen. Trias, Cavite
Sandia Homes Ph 1	Tanauan, Batangas
Southern Heights	San Pedro, Laguna
Sunny Brooke	Gen. Trias, Cavite

Sunrise Place	Tanza, Cavite
Sunrise Place Mactan	Mactan, Cebu
<b>AFFORDABLE</b>	
Aldea del Sol	Mactan, Cebu
Aldea Real	Calamba, Laguna
Alta Vida Expansion	San Rafael, Bulacan
Alta Vida Prime	San Rafael, Bulacan
Amare Homes	Tanauan, Batangas
Amarilyo Crest	Taytay, Rizal
Anila Park	Taytay, Rizal
Anila Park Townhomes	Taytay, Rizal
Austine Homes	Pampanga
Bluegrass County	Sto. Tomas, Batangas
Brookside Lane	Gen. Trias, Cavite
Claremont Village	Mabalacat, Pampanga
Costas Villas (Ocean Cove 2)	Davao City
Crystal Aire	Gen. Trias, Cavite
East Bay Palawan	Puerto Princesa, Palawan
Fairway View	Dasmaringas, Cavite
Futura Homes – San Pedro	San Pedro, Laguna
La Brisa Townhomes	Calamba, Laguna
Meridian Place	Gen. Trias, Cavite
Palmridge	Sto. Tomas, Batangas
Parkspring	San Pedro, Laguna
Primrose Hills	Angono, Rizal
Primrose Hills	Angono, Rizal
Primrose Townhomes	Angono, Rizal
Raintree Prime Residences	Dasmaringas, Cavite
Savannah Fields	Gen. Trias, Cavite
Sommerset Lane	Tarlac City
Springfield View	Tanza, Cavite
Summerbreeze Townhomes	Sto. Tomas, Batangas
The Glens at Park Spring	San Pedro, Laguna
The Peak	Taytay, Rizal
The Residences @ Castillon Homes	Tanza, Cavite
The Villas	Taytay, Rizal
Tierra Vista	San Rafael, Bulacan
Valle Dulce Ph1	Tanza, Cavite
Villa Alegre	Calamba, Laguna
Villa Mercedita	Davao City
Villa Montseratt 1D	Taytay, Rizal
Villa Montseratt 3C	Taytay, Rizal
Villa Montseratt Expansion	Taytay, Rizal
Westwood Mansion Expansion	Tanza, Cavite
Westwood Place	Tanza, Cavite

Woodville	Gen. Trias, Cavite
<b>MIDDLE-INCOME</b>	
Amalfi Oasis	South Road Properties, Cebu
Ashton Fields	Calamba, Laguna
Asiana Oasis	Paranaque, Metro Manila
Bali Oasis 1	Pasig City, Metro Manila
Bali Oasis 2	Pasig City, Metro Manila
Capri Oasis	Pasig City, Metro Manila
Corona Del Mar	Talisay, Cebu
Eight Spatial	Maa, Davao
Escala (La Constanera)	Talisay, Cebu
Filinvest Homes - Butuan	Butuan, Agusan Del Norte
Filinvest Homes- Tagum	Tagum City, Davao
Fuente de Villa Abrille	Davao City
Hampton Orchards	Bacolor, Pampanga
Highlands Pointe	Taytay, Rizal
La Mirada of the South	Binan, Laguna
Manor Ridge at Highlands	Taytay, Rizal
Maui Oasis	Sta. Mesa, Manila
Montebello	Calamba, Laguna
Northview Villas	Quezon City
Nusa Dua (Residential)	Tanza, Cavite
Ocean Cove	Davao City
One Oasis Cagayan de Oro	Cagayan de Oro City
One Oasis Cebu	Mabolo, Cebu City
One Oasis Davao	Davao City
One Oasis Ortigas	Pasig City, Metro Manila
One Spatial	Pasig City, Metro Manila
Orange Grove	Davao City
Princeton Heights	Molino, Cavite
Sanremo Oasis	South Road Properties, Cebu
Somerset Lane, Ph 2	Tarlac City
Sorrento Oasis	Pasig City, Metro Manila
Southpeak	San Pedro, Laguna
Spring Country	Batasan Hills, Quezon City
Spring Heights	Batasan Hills, Quezon City
Studio A	Quezon City
Studio City	Filinvest Corporate City, Alabang
Studio Zen	Pasay City, Metro Manila
Tamara Lane (formerly Imari)	Caloocan City
The Enclave at Filinvest Heights	Quezon City
The Enclave at Highlands Pointe	Taytay, Rizal
The Glades	Timberland Heights, San Mateo, Rizal

The Levels	Filinvest Corporate City, Alabang
The Linear	Makati City
The Pines	San Pedro, Laguna
The Terraces Ph 1B & Ph 2	Taytay, Rizal
The Tropics	Cainta, Rizal
Villa San Ignacio	Zamboanga City
Vinia Residences & Versaflats	Edsa, Quezon City
Viridian at Southpeak	San Pedro, Laguna
West Palms	Puerto Princesa, Palawan
<b>HIGH-END</b>	
Arista	Talisay, Batangas
Bahia	Talisay, Batangas
Banyan Crest	San Mateo, Rizal
Banyan Ridge	San Mateo, Rizal
Brentville International	Mamplasan, Binan, Laguna
Fortune Hill	San Juan City
Highlands Pointe	Taytay, Rizal
Kembali Arista	Samal Island, Davao
Mission Hills - Sta Sophia	Antipolo, Rizal
Mission Hills - Sta. Catalina	Antipolo, Rizal
Mission Hills - Sta. Isabel	Antipolo, Rizal
Orilla	Talisay, Batangas
Prominence 2	Mamplasan, Binan, Laguna
Sunshine Place	Mamplasan, Binan, Laguna
The Arborage at Brentville Int'l	Mamplasan, Binan, Laguna
The Meridien	Mamplasan, Binan, Laguna
The Ranch	San Mateo, Rizal
The Signature	Quezon City
Village Front	Mamplasan, Binan, Laguna
Woodmore Spring A	Mamplasan, Binan, Laguna
<b>LEISURE - FARM ESTATES</b>	
Forest Farms	Angono, Rizal
Mandala Residential Farm	San Mateo, Rizal
Nusa Dua	Tanza, Cavite
<b>LEISURE PRIVATE</b>	
<b>MEMBERSHIP CLUB</b>	
Timberland Sports and Nature Club	San Mateo, Rizal
<b>LEISURE - RESIDENTIAL</b>	
<b>RESORT DEVELOPMENT</b>	
Kembali Coast	Samal Island, Davao

Laeuna De Taal	Talisay, Batangas
<b>INDUSTRIAL/COMMERCIAL</b>	
Filinvest Technology Park	Calamba, Laguna
The Mercado	Taytay, Rizal
<b>CONDOTEL</b>	
100 West	Makati City
Grand Cenia Hotel & Residences	Cebu City
The Leaf	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. In 2015, FLI intends to retain its dominant position as the leader in MRB projects by launching four (5) new projects nationwide and nine (4) additional buildings of existing projects, with an estimated sales value of ₱ 4.21 billion. This will bring the Company's total MRB projects to 21 (excluding condotel). These new MRB projects are part of the total ₱16.19 billion estimated sales value of new projects slated for launch by FLI in 2015. In 2014, FLI launched the following new MRB/HRB and horizontal projects, and additional buildings/phases of its existing projects with estimated sales value of ₱12.46 billion:

<b>Horizontal</b>	
Valle Alegre Ph 1	Calamba Laguna
Tropics 3	Cainta Rizal
Villa Monserrat 1D	Taytay Rizal
Villa Montserrat 3C	Taytay Rizal
Amarilyo Crest	Taytay Rizal
East Bay	Palawan
Balis Oasis 2 Bldg 4	Pasig City
Somerset Lane 2	Tarlac
The Peak	Taytay, Rizal
<b>MRB</b>	
Eight Spatial Bldg 1	Maa, Davao
Capri Oasis Bldg Vento	Pasig City
Maui Oasis Bldg 4	Sta. Mesa, Manila
One Spatial Hamstead	Pasig City
Sanremo Oasis Bldg 2	South Road Properties, Cebu
Sorrento Oasis Bldg J	Pasig City
<b>HRB</b>	
100 West	Makati City
Studio City 3	Muntinlupa City

In 2015, FLI plans to launch new projects in Tagaytay, two (2) new and nine (4) additional buildings of existing "Oasis" projects. These projects will follow the success of One Oasis Ortigas, Bali Oasis, Bali Oasis 2, Sorrento Oasis and Capri Oasis in Pasig City, Maui Oasis in Manila, Asiana Oasis in Paranaque City, One Oasis Cebu, Amalfi Oasis and Sanremo Oasis in Cebu, One Oasis Davao and One Oasis Cagayan de Oro. Also, the Parent Company plans to launch two (2) new "Spatial" projects in Dumaguete, and Valenzuela City following the success of One Spatial in Pasig City and 8 Spatial Davao which is recently launched in 2014. Estimated sales value of these planned launches is Php7.06 billion.

Aside from the MRB's, FLI has initially pipelined 10 horizontal residential projects with an estimated revenue of about Php 3.90 billion and 3 high-rise buildings (mixed-use) with an estimated sales value of Php6.52 billion.

## Banking and Financial Services

The Bank's head office is located in East West Corporate Center, The Beaufort, Fort Bonifacio Global City, Taguig City, Philippines. The following table provides details of certain branches that the Bank owns as of December 31, 2014.

Metro Manila .....	4
Mindanao .....	1
<b>Total</b> .....	<b>5</b>

The Bank believes all its facilities and properties are currently in good condition. As of the date of this Prospectus, there are no liens or encumbrances on any of the properties of the Bank.

## 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 2011-12	CY 2012-13	CY 2013-14
<b>Mill</b>			
DSCC	11,803	11,978	11,354
CSCC	9,714	10,466	11,067
<b>Total</b>	<b>21,517</b>	<b>22,444</b>	<b>22,421</b>
	Sugarcane yield (MT/10,000 sq. m.)		
	CY 2011-12	CY 2012-13	CY 2013-14
<b>Mill</b>			
DSCC	47	49	42
CSCC	52	50	39
Average PSHC	49	50	40

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-roller mill, 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, 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.

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*

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
IIYSFC	
Proposed office site	49,000
<b>Total</b>	<b>1,321,000</b>

HYSFC has development agreements for a total area of 1,710 hectares with various landowners remaining as of CY 2013-14 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 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, through FDC Misamis, is developing a 405 MW clean coal thermal power plant in Mindanao. Off-take agreements for 283 MW with 17 distribution utilities and 1 industrial customer in Mindanao are already in place and an additional 39 MW are still being negotiated.

The proposed power plant is being constructed inside the 3,000 hectare PHIVIDEC Industrial Estate in Villanueva, Misamis Oriental and will be connected to the new Villanueva Substation. The 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.

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

With construction in full swing, FDC Misamis expects to complete the project by the 1<sup>st</sup> quarter of 2016. FDC Misamis is also in the process of finalizing coal supply contracts for the power plant's fuel requirements and securing approval of power supply agreements from the Energy Regulatory Commission. Aside from the said activities, FDC Misamis has been continuously undertaking community relations related activities for the host communities and concerned barangays affected by the project as well as undertaking various environmental compliances set out by the National Government. FDCUI has also been awarded by the Power Sector Assets and Liabilities Management Corporation (PSALM Corp.), through a competitive selection process, the administration of the 40 strips of energy (equivalent to 40 MW) of the Unified Leyte Geothermal power plants in Tongonan, Leyte and the 100 MW output of the Mindanao I and II (Mt. Apo 1 and 2) Geothermal Power Plants in Kidapawan City, North Cotabato.

To further strengthen its market presence and increase competitive advantage over existing power industry players, FDCUI is actively participating in the government's privatization of power generation assets and Independent Power Producer Administrators ("IPPs") and exploring potential renewable energy projects to add in its pipeline of power projects.

### Investment in foreign securities

The Company does not have any investment in foreign securities.

### Investment Properties

FLI's acquisition and construction of major assets and equity interests involved four strategic investment properties, namely: Festival Supermall, PBCOM Tower, Northgate Cyberzone and EDSA Transcom Building. Please refer to Item 1 for a detailed discussion of these properties.

In 2013, FLI purchased a total of 3.25 hectares of land in various strategic locations in Pasay City, Quezon City, and Pasig City.

### Rentals

#### *Real Estate*

FLI is renting spaces for its sales offices in Quezon City, Rizal, Pampanga, Tarlac, Puerto Princesa City, Cebu City, Davao City, Butuan, Tagum and Zamboanga City. The terms of the leases are usually for one year, and thereafter, the terms of the lease shall be on a month-to-month basis or upon the option of both parties, a new contract is drawn. Total rental expense in 2014 and 2013 amounted to ₱37.38 million and ₱35.35 million, respectively. The Parent 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. EW has 405 branches as of December 31, 2014 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.

### 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, FLI and 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 plaintiff's 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 a petition for review on certiorari 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 affirmed the decision of the Court of Appeals but declared with finality that FLI's purchase of sales patents issued in 1991 was void and ordered the Ngilays to return P14,000,000.00 to FLI. A motion for execution is still pending resolution before the Regional Trial Court.

- 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. *In the matter of: Filinvest Development Corporation*  
SEC-EIPD Case No. 03-2754  
(CED-AA-CASE-05-03-25)

On 27 May 2003, FDC was the respondent to an administrative complaint filed by the Compliance and Enforcement Department (“CED”) of the Securities and Exchange Commission (“SEC”) before the Commission En Banc for the alleged violation of Section 27.1 of the Securities Regulation Code. The case was remanded by the Commission En Banc to the Enforcement and Investor Protection Department (“EIPD”) for appropriate action.

- d. *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.

- e. *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 with modification. FLI filed a petition for review on certiorari before the Supreme Court. On January 10, 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.

- f. *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 closure of the dump site. Trial for this case is ongoing.

- g. *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 (PSHC) demanding the amount of P347,410,104.66 allegedly representing damages sustained by Coca-Cola due to 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. Plaintiff Coca-Cola has finished presenting its evidence. PSHC is scheduled to present its evidence on February 16, 2015 and March 18, 2015.

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 Dividends

On May 30, 2013, the Parent Company's BOD approved the declaration and payment of cash dividends of ₱499.4 million or ₱0.0536 per share to shareholders of record as of June 27, 2013, payable on July 17, 2013.

On May 30, 2014, the Parent Company's BOD approved the declaration and payment of cash dividends of ₱511.5 million or ₱0.0549 per share to shareholders of record as of June 26, 2014, payable on July 16, 2014.

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	3.90
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
<b>2014</b>			
First Quarter.....	5.34	4.16	5.00
Second Quarter.....	5.14	4.50	4.76
Third Quarter.....	4.89	4.45	4.72
Fourth Quarter.....	4.75	4.28	4.32

As of December 31, 2014 and February 28, 2015, the closing price of the Company's shares on the PSE was ₱4.32 per share and ₱ 4.58 per share, respectively. The number of shareholders of record as of December 31, 2014 and February 28, 2015 were 4,207 and 4,204, respectively. Total common shares issued and outstanding as of December 31, 2014 were 9,319,872,387 and 9,317,473,987, respectively.

**Top 20 Stockholders  
As of December 31, 2014**

	Shareholders	Class of Securities	No. of Shares held	% to Total Outstanding
1	ALG Holdings Corporation	Common	8,219,373,036	88.21%
2	PCD Nominee Corp. (Filipino)	Common	918,300,784	9.86%
3	Michael Edward T. Gotianun	Common	47,131,422	0.51%
4	Andrew Gotianun, Sr &/or Mercedes T. Gotianun	Common	33,697,190	0.36%
5	PCD Nominee Corp. (Non-Filipino)	Common	29,408,995	0.32%
6	Ricardo Alonzo	Common	28,627,534	0.31%
7	Mercedes T. Gotianun	Common	3,796,472	0.04%
8	Joseph M. &/or Lourdes Josephine G. Yap	Common	2,817,311	0.03%
9	Helen Reyes	Common	2,692,544	0.03%
10	Emily Benedicto	Common	2,466,400	0.03%
11	H. K. Hedinger	Common	2,023,508	0.02%
12	Santiago Go	Common	1,707,066	0.02%
13	Dennis G. Baguyo	Common	800,000	0.01%
14	Lino Sy	Common	616,600	0.01%
15	AMA Rural Bank of Mandaluyong, Inc.	Common	616,600	0.01%
16	Manuel Benipayo	Common	527,141	0.01%
17	Salud Borromeo	Common	501,655	0.01%
18	Francisco Benedicto	Common	493,280	0.01%
19	Edan Corporation	Common	387,224	0.00%
20	Ma. Consuelo R. Medrano &/or Victoriano S. Medrano	Common	308,300	0.00%
			<b>9,296,293,062</b>	<b>99.75%</b>

**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.

**Bond Issuance**

On January 24, 2014, the Parent Company issued and listed ₱8,800.0 million unsecured fixed-rate peso retail bonds due 2024 with annual coupon rate of 6.1458%. Interest is payable quarterly in arrears starting April 24, 2014. The proceeds from the bond issuance were used to finance capital requirements and refinance debt obligations.

Net proceeds from the local bonds amounting to ₱8,754.9 million were used for repayments of loans amounting to ₱4,877.1 million and the balance was used for the capital expenditures of the Hotel and Power operations.

**Item 6. Management's Discussion and Analysis or Plan of Operations**

**RESULTS OF OPERATIONS**

**Year ended December 31, 2014 compared with year ended December 31, 2013**

**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 went up by 11.5% to ₱14,093.7 million in 2014 from ₱12,638.0 million in 2013, mainly attributable to higher sales of MRBs & HRBs, other middle-income projects and affordable housing. FLI's sale of MRBs and

HRBs increased by 20.9% year-on-year, while sale of other middle-income projects and affordable housing increased by 37.4% and 20.5% respectively.

#### *Mall and Rental Revenues*

Mall and rental revenues increased by 11.2% to ₱2,586.8 million in 2014 from ₱2,326.4 million in 2013 primarily due to higher rental income of CPI from Northgate Cyberzone buildings resulting from higher take up rate of “Filinvest One” and “Plaza E” in 2014. FLI currently operates 14 buildings and is completing construction of three more office buildings, “Filinvest Two” and “Filinvest Three” at Northgate Cyberzone and Filinvest Cebu Cyberzone Tower 1, which will increase its office portfolio to 274,971 sq.m.

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

Other income from real estate operations went up by 41.6% to ₱2,182.2 million in 2014 from ₱1,541.3 million in 2013, due to higher interest income derived from contract receivables, higher processing fees, and amortization of deferred income in 2014.

#### *Financial and Banking Services*

##### *Net Interest Income*

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

The Group’s interest income from financial and banking services jumped by 16.3% to ₱11,435.7 million in 2014 from ₱9,828.7 million in 2013 on account of increase in customer loans, with increase of 20.6% in interest income from loans and receivables, largely driven by higher consumer lending.

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

Costs of financial and banking services increased in lower rate by only 7.8% to ₱1,477.7 million in 2014 from ₱1,370.7 million in 2013 primarily due to strong growth in core low-cost deposits, and other borrowings.

##### *Net Interest Income*

Net interest income increased by 17.7% to ₱9,958.0 million in 2014 from ₱8,458.0 million in 2013 as a result of the double digit growth in interest income and lower growth rate in interest expense.

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

Other income from financial and banking services was slightly lower by 3.7% to ₱ 4,596.3 million in 2014 from ₱4,772.3 million in 2013 due to lower trading and securities gain, as the Bank took a conservative position until end of 2014, on account of market volatility.

#### *Sugar Operations*

##### *Sugar Sales*

The Group’s sugar sales was lower by 12.2% to ₱2,362.9 million in 2014 compared to ₱2,691.8 million in 2013 primarily due to lower sales volume in 2014 attributable to the decline in sugarcane production as a result of unfavourable climate conditions. For CY2013–14, the supply of sugarcane milled reached 908 thousand MT compared to 1,118 thousand MT milled in CY2012–13, which resulted to decrease in sugar production to 1.838 million bags in 2014 from 2.163 million bags in 2013.

##### *Other Income — Sugar*

Other income from sugar operations increased by 24.3% to ₱79.9 million in 2014 from ₱64.3 in 2013 mainly due to miscellaneous income derived from sale of conversion rights.

##### *Hotel Operations – Hotel Revenues and Other Income*

The Group’s hotel revenues and other income improved by 13.0% to ₱1,115.0 million in 2014 from ₱986.5 million in 2013 due mainly to additional hotel revenues generated by the newly opened hotel, Crimson Alabang, which formally started its commercial operations in March 2013.

##### *Power Generation Operations - Power Revenues and Other Income*

The Group’s power revenues and other income amounted to ₱104.5 million in 2014 on account of revenues from Unified Leyte and Mt. Apo 1 and 2 geothermal power plants which were turned over to the Group on December 26, 2014.

#### *Other Operations - Other Income*

The Group's other income from other operations decreased by ₱40.6 million due mainly to the gain on repurchase of bonds in 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 was higher by 22.1% to ₱8,195.1 million in 2014 compared to ₱6,709.4 million in 2013 primarily due to higher volume of sales booked during the current period as well as the increased share of sales of MRBs and HRBs which historically has carried relatively lower profit margins.

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

Costs of mall and rental services declined to ₱173.9 million in 2014 from ₱397.1 million in 2013 or by 56.2% primarily on account of lower mall expenses and adjustment in depreciation.

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

Costs of financial and banking services was accounted for under net interest income in the "Revenues and Other Income".

##### *Costs of Sugar Sales*

Costs of sugar sales was lower by 14.0% to ₱1,844.7 million in 2014 from ₱2,144.6 million in 2013 on account of decrease in sales volume.

##### *Costs of Hotel Operations*

Costs of hotel operations was higher by 4.8% at ₱368.0 million in 2014 from ₱351.2 million in 2013 due to increase in hotel revenues and additional cost this year attributable to the Crimson Alabang, as mentioned in the preceding section.

##### *Cost of Power*

Cost of power of ₱85.5 million in 2014 was on account of the cost related to the Unified Leyte and Mt. Apo 1 and 2 geothermal power plants, as mentioned in the preceding section.

##### *Costs of Other Operations*

Costs of other operations increased by 31.7% due mainly to full-year financing costs incurred in 2014 compared to 9-month financing costs in 2013, as the bonds were issued by FDCI on April 2, 2013.

#### **Expenses**

##### *Real Estate Operations*

The Group's real estate operations expenses increased by 14.8% to ₱3,791.2 million in 2014 from ₱3,303.1 million in 2013. This was due to higher repairs and maintenance, business taxes and licenses, salaries and wages, rental, transportation and outside services; offset by decrease in communications, light and water, insurance, provision for doubtful accounts, and office supplies recorded for the current period. Selling and marketing expenses went up due to increase in broker's commission, service fees, sales office direct cost and other sales generation expenses as a result of increasing sales volume and activities.

##### *Financial and Banking Services Operations*

The Group's financial and banking services expenses increased by 13.0% to ₱12,254.3 million in 2014 from ₱10,843.7 million in 2013, as the full effect of the branch expansion in 2013 and branch stores opened in 2014 have reflected on expenses. Compensation and fringe benefit was higher by 10.7% in connection with EW's expansion of business lines and establishment of new branches. Taxes and licenses, depreciation and amortization, rent, and miscellaneous expenses increased by 12.7%, 16.4%, 16.0% and 17.4%, respectively, on account of the EW's business expansion. EW's provision for impairment and credit losses increased on account of the growth in consumer loans, particularly credit cards and personal loans.