INVESTMENTS CORPORATION

SM INVESTMENTS CORPORATION

(A corporation duly organized and existing under Philippine laws)

Shelf Registration in the Philippines of
Debt Securities in the aggregate principal amount
of ₱30,000,000,000

to be offered within a period of three (3) years
or such period as the Securities and Exchange Commission may allow
at an Offer Price of 100% of Face Value

with an initial Offer of up to [₱5,000,000,000] Fixed Rate Bonds
with an Over-Subscription Option of up to ₱5,000,000,000

consisting of

[●]% p.a. Series H Bonds due 2024

at an Offer Price of 100% of Face Value

to be listed and traded through
The Philippine Dealing and Exchange Corp.

Joint Lead Underwriters for the Series H Bonds

BDO Capital | Chinabank Capital

BPI Capital Corporation | First Metro Investment Corporation (Metrobank Group) | SB Capital (A Subsidiary of Security Bank)

Prospectus dated [25 August 2020]

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.

SM INVESTMENTS CORPORATION

10th Floor, One E-Com Center
Harbor Drive, Mall of Asia Complex
CBP-IA, Pasay City 1300 Philippines
Telephone No.: +63 2 8857 0100
Website: www.sminvestments.com

This Prospectus relates to the shelf registration and each offer and sale in the Philippines within the Shelf Period as defined below (each a "Tranche") of Debt Securities with an aggregate principal amount of up to ₱30,000,000,000.00 by SM Investments Corporation (the "Issuer" or "SMIC" or the "Company").

The Debt Securities shall be issued in tranches within a period of three (3) years from the effective date of the Registration Statement of the Debt Securities, subject to applicable regulations (the "Shelf Period"). The offer and sale of the Debt Securities, including the terms and conditions for each Tranche shall be at the sole discretion of the Company. The specific terms of the Debt Securities for each Tranche will be determined by the Company considering the prevailing market conditions and shall be provided in a supplement to be circulated at the time of the offer of the relevant tranche (the "Offer Supplement").

For the first tranche of the Debt Securities to be issued out of the shelf-registration, SMIC is offering Fixed Rate Bonds in the aggregate principal amount of ₱5,000,000,000 comprised of 3.5-year Series H Bonds due in 2024 with an Over-subscription Option of up to ₱5,000,000,000 (the "Bonds" or the "Offer"). Assuming the Over-subscription Option is fully exercised, up to ₱10,000,000,000 in aggregate principal amount of the Debt Securities will be issued by the Company pursuant to the Offer.

The Series H Bonds shall have a term of three (3) years and six (6) months from the Issue Date, with a fixed interest rate equivalent to [●]% p.a. Interest on the Bonds shall be payable semi-annually in arrears on [● March] and [● September] of each year for each Interest Payment Date at which the Bonds are outstanding, or the subsequent Business Day without adjustment if such Interest Payment Date is not a Business Day. The Maturity Date of the Series H Bonds shall be on [● March] 2024, which will also be the last Interest Payment Date for the series.

The Bonds will be repaid at 100% of Face Value on the Maturity Date, unless otherwise redeemed, cancelled or purchased prior to the Maturity Date, or as otherwise set out in "Description of the Bonds – Redemption and Purchase" and "Description of the Offer – Payment in the Event of Default" sections on pages [74] and [79], respectively, of this Prospectus.

The Series H Bonds have been rated PRS Aaa by Philippine Rating Services Corporation ("PhilRatings"). PhilRatings assigned a Stable outlook for the ratings of the proposed Series H Bonds. Obligations rated PRS Aaa are of the highest quality with minimal credit risk. The Issuer's capacity to meet its financial commitment is extremely strong. PRS Aaa is the highest credit rating assigned by PhilRatings. A Stable outlook, on the other hand, indicates that the ratings are likely to be maintained or to remain unchanged in the next twelve (12) months. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

For succeeding Tranches, the Company shall distribute an Offer Supplement along with this Prospectus. The relevant Offer Supplement will contain the final terms for an offer of the Debt Securities and must be read in conjunction with this Prospectus and other Securities Agreements. Full information on the Issuer and such offer of the Debt Securities is only available through this Prospectus, the relevant Offer Supplement, and the other Securities Agreements. All information contained in this Prospectus are deemed incorporated by reference in an Offer Supplement.

For the Bonds, SMIC expects to raise gross proceeds amounting to at least ₱5,000,000,000, and up to a maximum of ₱10,000,000,000 assuming full exercise of the Over-subscription Option. Without such Over-subscription Option being exercised, the net proceeds are estimated to be at least [₱4,940.3] million after deducting fees, commissions and expenses relating to the issuance of the Offer. Assuming the Over-subscription Option is fully exercised, total net proceeds of the Offer is expected to amount to approximately [₱9,886.8] million. In the event that the Over-subscription Option is not fully exercised, the unexercised portion shall be placed under shelf registration to be issued within the period prescribed by relevant regulations. Proceeds of the Offer shall be used to refinance existing indebtedness (see Use of Proceeds on page [64] of this Prospectus). The Joint Lead Underwriters shall receive a fee of 0.30% on the total face value of the Bonds issued. The fee is inclusive of the fees to be ceded to participating underwriters and selling agents, if any. The use of proceeds for each of the succeeding tranches will be set out in the relevant Offer Supplement.

Upon issuance, the Debt Securities shall constitute the direct, unconditional, unsubordinated, and unsecured obligations of SMIC and shall at all times rank pari passu and rateably without any preference or priority amongst themselves and at least pari passu with all other present and future unsubordinated and unsecured obligations of SMIC, other than obligations preferred by law. The Bonds shall effectively be subordinated in right of payment to all of SMIC's secured debts, if any, to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines.

On 15 July 2020, SMIC filed a Registration Statement with the Philippine Securities and Exchange Commission ("SEC") in connection with the offer and sale to the public of debt securities with an aggregate principal amount of up to ₱30,000,000,000 under shelf registration, inclusive of the Offer. The SEC is expected to issue an order rendering the Registration Statement effective, and a corresponding permit to offer securities for sale covering the Offer.

The Company is allowed under Philippine laws to declare dividends, subject to certain requirements. The Company's Board of Directors is authorized to declare dividends only from its unrestricted retained earnings, except with respect to ₱246.5 billion, representing accumulated equity in net earnings of subsidiaries, associate companies and joint ventures as of 31 March 2020. Dividends may be payable in cash, shares or property, or a combination of the three, as the Board of Directors shall determine. The declaration of stock dividends is subject to the approval of shareholders holding at least two-thirds of the Company's outstanding capital stock. The Company's Board of Directors may not declare dividends which will impair its capital.

SMIC confirms that this Prospectus contains all material information relating to the Company, its affiliates and the Debt Securities which are in the context of the issue and offering of the Debt Securities (including all material information required by the applicable laws of the Republic of the Philippines). There are no other facts the omission of which would make any statement in this Prospectus misleading in any material respect. SMIC confirms that it has made all reasonable inquiries in respect of the information, data and analysis provided to it by its advisors and consultants or which is otherwise publicly available for inclusion into this Prospectus. SMIC, however, has not independently verified any such publicly available information, data or analysis.

The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. An investment in the Bonds described in this Prospectus involves a certain degree of risk. A prospective purchaser of the Bonds should carefully consider several risk factors inherent to the Company (detailed in "Risk Factors" on pages [32] to [63] of this Prospectus), in addition to the other information contained in this Prospectus, in deciding whether to invest in the Debt Securities.

This Prospectus contains certain "forward-looking statements". These forward-looking statements can generally be identified by use of statements that include words or phrases such as SMIC or its management "believes", "expects", "anticipates", "intends", "plans", "projects", "foresees", and other words or phrases of similar import. Similarly, statements that describe SMIC's objectives, plans, and goals are also forward-looking statements. All forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statements. Nothing in this Prospectus is or should be relied upon as a promise or representation as to the future. The forward-looking statements included herein are made only as of the date of this Prospectus, and SMIC undertakes no obligation to update such forward-looking statements publicly to reflect subsequent events or circumstances.

Neither the delivery of this Prospectus nor any sale made pursuant to the Offer shall, under any circumstance, create any implication that the information contained or referred to in this Prospectus is accurate as of any time subsequent to the date hereof. The Underwriters do not make any representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Prospectus.

The contents of this Prospectus are not to be considered as definitive legal, business or tax advice. Each prospective purchaser of the Debt Securities receiving a copy of this Prospectus acknowledges that he has not relied on the Underwriters in his investigation of the accuracy of such information or in his investment decision. Prospective purchasers should consult their own counsel, accountants or other advisors as to legal, tax, business, financial and related aspects of the purchase of the Debt Securities, among others. Investing in the Debt Securities involves certain risks. For a discussion of certain factors to be considered in respect of an investment in the Debt Securities, see the section entitled "Risk Factors".

No dealer, salesman or other person has been authorized by SMIC and the Underwriters to give any information or to make any representation concerning the Debt Securities other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorized by SMIC or the Underwriters.

SMIC is organized under the laws of the Philippines. Its principal office address is at the 10th floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300, Philippines, with telephone number +632 8857 0100 and fax number +632 8857 0132.

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE THEREBY, AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF ANY KIND, AT ANY TIME PRIOR TO THE NOTICE OF ITS ACCEPTANCE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR BE CONSIDERED A SOLICITATION OF AN OFFER TO BUY.

SM Investments Corporation

By:

FREDERIC C. DYBUNCIO

President & Chief Executive Officer

SUBSCRIBED AND SWORN to before me this __________ day of ___________________ 2020, affiant exhibiting to me his Philippine Passport no. ___________________________ issued on ______________ at ___________________.

Doc. No. _______
Book No. _______
Page No. _______
Series of 2020.

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DEFINITIONS

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

Aggregate Consolidated Indebtedness	the total of bank loans, current and noncurrent portions of long-term debt, net of pledged time deposits
Anchor Tenant	the primary tenants in any given Mall
Articles of Incorporation	the Articles of Incorporation of SMIC as amended to date
BDO or Bank	BDO Unibank, Inc.
BDO Capital	BDO Capital & Investment Corporation, an investment house and a wholly-owned subsidiary of BDO
BIR	the Bureau of Internal Revenue of the Philippines
BPI Capital	BPI Capital Corporation
Board or Board of Directors	the Board of Directors of SMIC
Bondholder	a person or entity whose name appears, at any time, as a holder of the Bonds in the Register of Bondholders
Bond Agreements	the Trust Indenture Agreement, the Registry and Paying Agency Agreement, the Issue Management and Underwriting Agreement, and the Master Certificate of Indebtedness (inclusive of the Terms and Conditions), including any amendment or supplement thereto, or any document, certificate or writing contemplated thereby
Bonds	refers to the bonds in the aggregate principal amount of up to ₱10,000,000,000, to be issued by SMIC and which will be registered with the SEC under shelf-registration
BSP	Bangko Sentral ng Pilipinas, the Philippine Central Bank
Business Day	means a day, other than Saturday, Sunday and public holidays, on which facilities of the Philippine banking system are open and available for clearing and banks are generally open for the transaction of business in the cities of Pasay and Makati
By-laws	the By-laws of SMIC as amended to date
China Bank	China Banking Corporation
China Bank Capital	China Bank Capital Corporation, an investment house and a wholly-owned subsidiary of China Bank
Company, Issuer or SMIC	SM Investments Corporation
Debt-equity ratio	the ratio of Aggregate Consolidated Indebtedness compared to the sum of such Aggregate Consolidated Indebtedness and total stockholders' equity
Directors	the directors of SMIC
DOSRI	Directors, officers, stockholders and related interests
Financial Statements	SMIC's audited consolidated financial statements and related notes as at 31 December 2017, 2018 and 2019, and for each of the three years in the period ended 31 December 2017, 2018 and 2019; its unaudited consolidated financial statements and related notes as at 31 March 2020, and for the three-month periods ended 31 March 2019 and 2020.

First Metro	First Metro Investment Corporation
GFA	gross floor area
Government	the Government of the Philippines
Group	SMIC, its subsidiaries and associated companies
GSIS	Government Service Insurance System
Hedging Transactions	"Hedging Transactions" means any transaction pursuant to which: (i) a bank deposit held in a currency other than Pesos; or (ii) securities or instruments denominated in a currency other than Pesos issued or guaranteed by (a) the Republic of the Philippines (or any agency, instrumentality, ministry, department or other authority thereof) or (b) entities which are rated at least 'A' (long-term) by Standard & Poor's Ratings Services (or any successor) or 'A2' (long-term foreign currency senior unsecured debt rating) by Moody's Investors Service Inc. (or any successor), relating to, or acquired with, the proceeds of non-Peso denominated indebtedness for borrowed monies, that is pledged for the purposes of raising an equivalent amount of Peso denominated indebtedness for borrowed monies, such transaction being for the sole purpose of limiting the currency exchange risk of such non-Peso denominated indebtedness for borrowed monies in the ordinary course of business
HPI	Highlands Prime, Inc.
Homeworld	Homeworld Shopping Corporation
Joint Issue Managers	BDO Capital & Investment Corporation and China Bank Capital Corporation
Joint Lead Underwriters	BDO Capital & Investment Corporation,BPI Capital Corporation, China Bank Capital Corporation, First Metro Investment Corporation, and SB Capital Corporation pursuant to the Issue Management and Underwriting Agreement
Kultura	Kultura Store, Inc.
Majority Bondholders	Bondholders representing not less than 51% of the outstanding Bonds
Malls	SM City North EDSA, SM Mall of Asia, SM Megamall, SM Aura Premier, SM City Southmall, SM City BF Paranaque, SM City Fairview, SM City San Lazaro, SM City Marikina, SM City Manila, SM City Sta. Mesa, SM City Bicutan, SM City Sucat, SM Center Valenzuela, SM City Novaliches, SM Center Muntinlupa, SM Center Sangandaan, SM Center Las Piñas, SM Center Pasig, Cherry Foodarama Shaw Boulevard, SM Seaside City Cebu, SM City Cebu, SM City Dasmariñas, SM Cabanatuan, SM Lanang Premier, SM City Clark, SM City Pampanga, SM City Davao, SM City General Santos, SM City Bacoor, SM City Baguio, SM City Iloilo, SM City Consolacion, SM City Tarlac, SM City Taytay, SM City Marilao, SM City Masinag, SM City Cagayan de Oro, SM City Sta. Rosa, SM City Batangas, SM City Lucena, SM City Lipa, SM City Naga, SM City San Mateo, SM City Cauayan, SM City Bacolod, SM City Calamba, SM City Rosales, SM City Baliwag, SM City Rosario, SM City San Pablo, SM Center Molino, SM Megacenter Cabanatuan, SM City Olongapo, SM City San Fernando, SM Center Angono, SM City San Jose del Monte, SM City Trece Martires, SM Cherry Congressional, SM City East Ortigas, SM CDO Downtown Premier, S Maison, SM Cherry Antipolo, SM Puerto Princesa, SM Center Tuguegarao Downtown, SM Center Pulilan, SM Center Lemery, SM

	Center Imus, SM Urdaneta Central, SM City Telabastagan, SM City Legazpi, SM Center Ormoc, SM Olongapo Central and SM Center Dagupan
Management Companies	Prime_Commercial Property Management Corporation and Subsidiaries include entities that manage and operate the Malls, including the provision of manpower, maintenance and engineering, security and promotional activities; and are wholly owned subsidiaries of SM Prime
Master Certificate of Indebtedness	the certificate to be issued by the Issuer to the Trustee evidencing and covering such amount corresponding to the Bonds
Material Subsidiary	SM Prime Holdings, Inc., SM Retail Inc., and any Subsidiary of the Issuer: (a) whose gross revenues or (in the case of a Subsidiary which itself has subsidiaries) consolidated gross revenues, as shown by its latest audited income statement are at least 10% of the consolidated gross revenues as shown by the latest published audited consolidated income statement of the Issuer and its Subsidiaries; or (b) whose net income or (in the case of a Subsidiary which itself has subsidiaries) consolidated net income before taxation and extraordinary items, as shown by its latest audited income statement is at least 15% of the consolidated net income before taxation and extraordinary items, as shown by the latest published audited consolidated income statement of the Issuer and its Subsidiaries; or (c) whose gross assets or (in the case of a Subsidiary which itself has subsidiaries) gross consolidated assets, as shown by its latest audited balance sheet are at least 10% of the amount which equals the amount included in the consolidated gross assets of the Issuer and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Issuer and its Subsidiaries; provided that, in relation to paragraphs (a), (b) or (c) above: (i) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Issuer relate, the reference to the then latest consolidated audited accounts of the Issuer for the purposes of the calculation above shall, until consolidated audited accounts of the Issuer for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published, be deemed to be a reference to the then latest consolidated audited accounts of the Issuer adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts; (ii) if at any relevant time in relation to the Issuer or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, revenues, net income or gross assets of the Issuer and/or any such Subsidiary shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by the Issuer and reviewed by the auditors for the purposes of preparing a certificate thereon to the Trustee; (iii) if at any relevant time in relation to any Subsidiary, no accounts are audited, its revenues, net income or gross assets (consolidated, if appropriate) shall be determined on the basis of

	pro forma accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Issuer and reviewed by the auditors for the purposes of preparing a certificate thereon to the Trustee; and (iv) if the accounts of any Subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Issuer, then the determination of whether or not such Subsidiary is a Material Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Issuer; or (d) to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Material Subsidiary, provided that the Material Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Material Subsidiary and the Subsidiary to which the assets are so transferred shall cease to become a Material Subsidiary as at the date on which the first published audited accounts (consolidated, if appropriate) of the Issuer prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Material Subsidiary on the basis of such accounts by virtue of the provisions of (a), (b) or (c) above.
Metro Manila	the metropolitan area comprising the cities of Caloocan, Las Piñas, Makati, Malabon, Mandaluyong, Manila, Marikina, Muntinlupa, Navotas, Parañaque, Pasay, Pasig, Quezon, San Juan, Taguig and Valenzuela and the municipality of Pateros, which together comprise the "National Capital Region" and are commonly referred to as "Metropolitan Manila"
Mountain Bliss	Mountain Bliss Resort & Development Corporation
MORB	Manual of Regulations for Banks
MRDC	Multi-Realty Development Corporation
Offer	the offer of the Series H Bonds to the public by the Issuer under the terms and conditions as herein contained
Offer Period	the period commencing within ten Business Days from the date of the issuance of the SEC Permit to Sell Securities, during which the Bonds shall be offered to the public
PAS	Philippine Accounting Standards
Paying Agent	Philippine Depository & Trust Corp., the party which shall receive the funds from the Issuer for payment of principal, interest and other amounts due on the Bonds and remit the same to the Bondholders based on the records shown in the Register of Bondholders
Payment Date	each of the dates when payment of principal, interest and other amounts due on the Bonds are due and payable to the Bondholders; provided that, in the event any Payment Date falls on a day that is not a Business Day, the Payment Date shall be automatically extended without adjustment to interest accrued to the immediately succeeding Business Day
PDEx	Philippine Dealing & Exchange Corp.
PDTC	the Philippine Depository & Trust Corp., the central depository and clearing agency of the Philippines which provides the infrastructure for handling the lodgment of the scripless Bonds and the electronic book-entry transfers of

	the lodged Bonds in accordance with the PDTC Rules, and its successor-in-interest
PDTC Rules	the SEC-approved rules of the PDTC, including the PDTC Operating Procedures and PDTC Operating Manual, as may be amended, supplemented, or modified from time to time
Person	any individual, firm, corporation, partnership, association, joint venture, tribunal, limited liability company, trust, government or political subdivision or agency or instrumentality thereof, or any other entity or organization
Pesos or PHP or ₱	the lawful currency of the Philippines
PFRS	Philippine Financial Reporting Standards which includes statements named PFRS and PAS issued by the Financial Reporting Standards Council and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC)
Philippines	the Republic of the Philippines
PSE	The Philippine Stock Exchange, Inc.
Public Debt	means any present or future indebtedness in the form of, or represented by bonds, notes, debentures, loan stock or other securities that are at the time, or are of the type customarily quoted, listed or ordinarily dealt in on any stock exchange, over the counter or other securities market
R.A. No. 8799	Republic Act No. 8799, The Securities Regulation Code of the Philippines
Register of Bondholders	the electronic record of the issuances, sales and transfers of the Bonds to be maintained by the Registrar pursuant to and under the terms of the Registry and Paying Agency Agreement
Registrar	the Philippine Depository & Trust Corp., being the registrar appointed by the Issuer to maintain the Register of Bondholders pursuant to the Registry and Paying Agency Agreement
Retail Affiliates	retail companies including ACE Hardware Philippines, Inc., Homeworld Shopping Corporation, International Toyworld, Inc., Nursery Care Corporation, Kultura Store, Inc., Star Appliance Center, Inc., CK_Fashion Collection Corp., Signature Lines, Inc., Supplies Station, Inc., Sports Central (Manila), Inc., H&B, Inc., Fitness Health & Beauty Holdings Corp. among others, which are now subsidiaries of SM Retail
Retail Subsidiaries	the Group's retail and merchandising business, including The SM Stores, SM Supermarkets, SM Hypermarkets, Savemore, WalterMart Supermarket, Alfamart and several specialty stores
SB Capital	SB Capital Investment Corporation
SEC	the Securities and Exchange Commission of the Philippines
Shares	common shares of the Issuer, which have a par value of ₱10 per share
SM Mart	SM Mart, Inc., a 50.2% owned subsidiary through SM Retail
SMDC	SM Development Corporation
SM Hotels	SM Hotels and Conventions Corp.
SM Malls in China	SM Xiamen and Xiamen/Lifestyle Center, SM City Jinjiang, SM City Chengdu, SM City Zibo, SM City Chongqing, SM City Suzhou and SM City Tianjin
SM Prime or SMPH	SM Prime Holdings, Inc.

SM Retail	SM Retail, Inc. and its subsidiaries including the absorbed companies which originally held the ownership in the Retail Affiliates
SME	small and medium enterprise
Sports Central	Sports Central (Manila), Inc.
SSMI	Super Shopping Market, Inc.
SSS	Social Security System, the Philippines' state pension fund for retired private sector employees
Store Suppliers	suppliers who are allocated portions of the selling areas within the relevant departments of SM Department Stores within which to sell their merchandise. See "Description of the Issuer and the Group — Retailing and Merchandising — The SM Stores - SM Department Stores"
Subsidiary	at any particular time, any company or other business entity which is then directly or indirectly controlled, or more than 50%, of whose issued equity share capital (or equivalent) is then beneficially owned, by the Issuer and/or one or more of its Subsidiaries. For a company to be "controlled" by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has a power to control the affairs and policies of that company and control shall be construed accordingly.
Supplies Station	Supplies Station, Inc.
SVI	Supervalue, Inc. (formerly Supermarket, Inc.)
Sy Family	Felicidad T. Sy and her children Teresita T. Sy, Elizabeth T. Sy, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy and Harley T. Sy
Tax Code	the amended Philippine National Internal Revenue Code of 1997 and its implementing rules and regulations
The SM Stores	the retail department stores operated by the Group under the "SM" name which presently include SM Makati, SM Cubao, SM North EDSA, SM Sta. Mesa, SM Quiapo, SM Megamall, SM Cebu, SM Southmall, SM Bacoor, SM Fairview, SM Iloilo, SM Manila, SM Pampanga, SM Davao, SM Cagayan de Oro, SM Bicutan, SM Lucena, SM Baguio, SM Marilao, SM Dasmariñas, SM Batangas, SM Delgado, SM San Lazaro, SM Sucat, SM Sta. Rosa, SM Clark, SM Mall of Asia, SM Lipa, SM Bacolod, SM Taytay, SM Marikina, SM Baliwag, SM Naga, SM Rosales, SM Rosario, SM Tarlac, SM San Pablo, SM Calamba, SM Novaliches, SM Masinag, SM Olongapo, SM Consolacion, SM Lanang, SM General Santos City, SM San Fernando, SM Aura, SM BF Parañaque, SM Cauayan, SM Megacenter Cabanatuan, SM San Mateo, SM Cabanatuan, SM Seaside Cebu, SM San Jose Del Monte, SM Trece Martires, SM Molino, SM East Ortigas, SM Cagayan de Oro Downtown Premier, SM Puerto Princesa, SM Urdaneta, SM Telabastagan, SM Legazpi, SM Valenzuela, SM Olongapo Central and The SM Store at Estancia Mall
Total Assets	consolidated total assets of the Issuer and its subsidiaries
Total Liabilities	the aggregate of consolidated total current and consolidated total noncurrent liabilities of the Issuer as derived from the balance sheet, excluding any Peso-denominated indebtedness for borrowed monies entered into with respect to any Hedging Transaction

Total Equity	the total consolidated equity of the Issuer as derived from the balance sheet
Trustee	Philippine National Bank Trust Banking Group, the entity appointed by the Issuer which shall act as the legal title holder of the Bonds and shall monitor compliance and observance of all covenants of and performance by the Issuer of its obligations under the Bonds and enforce all possible remedies pursuant to such mandate
Underwriters	the entities appointed as the Underwriters for the Bonds pursuant to the Issue Management and Underwriting Agreement
US Dollar, USD or US$	United States Dollars, the lawful currency of the United States of America
Watsons	Watsons Personal Care Stores (Philippines), Inc.
WalterMart	Waltermart Supermarket, Incorporated

SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Prospectus. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Prospectus shall have the same meanings when used in this summary. Prospective investors should therefore read this Prospectus in its entirety.

The Issuer and the Group

Overview

The Issuer is the holding company of the Group, one of the largest conglomerates in the Philippines. The Issuer was incorporated in the Philippines on 15 January 1960. On December 27, 2019, the SEC approved the amendment of the Issuer's Articles of Incorporation changing its corporate life to perpetual. Its registered office is at the 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City, Metro Manila, Philippines.

The Issuer is the largest publicly listed company in the Philippines that is invested in market leading businesses in retail, banking and property. It also invests in ventures that capture high growth opportunities in the emerging Philippine economy.

The Group's business activities and interests are divided into three principal business segments:

- Its Retail arm, SM Retail Inc., operates department stores under The SM Store brand, and several food retail formats including Supermarkets, Hypermarkets and Savemore Stores. It also operates specialty stores focused on DIY, furniture, appliances and toys among others;
- Its Property arm, SM Prime Holdings Inc., is engaged in building and operating shopping malls both in the Philippines and China. It is also engaged in Residential property development under its SM Development Corporation subsidiary, commercial property development, as well as various hotels and convention centers; and
- Its Financial Services and Others segment is composed of the following:
  - The Banking Group comprised of BDO Unibank, Inc., the country's largest bank by resources, and China Banking Corporation; and
  - The Issuer's equity investments in other sectors such as premium commercial buildings, leisure, logistics and mining.

As at 30 June 2020, the Issuer had two principal consolidated subsidiaries namely SM Prime and SM Retail, and two principal equity-accounted associates, namely BDO and China Bank, each of whose shares (except for SM Retail) are listed on the PSE, in which the Issuer had effective interests of 49.7%, 77.3%, 45.3%, and 22.6%, respectively.

For the years ended 31 December 2017, 2018 and 2019, the Issuer's audited consolidated revenues were ₱397,948.2 million, ₱449,788.2 million and ₱501,651.9 million, respectively, and its audited consolidated net income attributable to equity holders of the parent were ₱32,923.5 million, ₱37,078.3 million and ₱44,568.2 million, respectively. For the three months ended 31 March 2020, the Issuer's unaudited consolidated revenues was ₱111,152.5 million and its unaudited consolidated net income attributable to equity holders of the parent was ₱9,007.3 million.

As at 31 December 2017, 2018 and 2019, the Issuer's audited consolidated total assets were ₱960,080.7 million, ₱1,060,642.3 million and ₱1,144,164.6 million, respectively, and its audited total equity was

₱453,812.2 million, ₱492,290.0 million and ₱536,151.5 million, respectively. As at 31 March 2020, the Issuer's unaudited consolidated total assets was ₱1,154,722.3 million and its unaudited total equity was ₱538,234.1 million.

The principal source of consolidated revenue of the Issuer is from the Retail Group which contributed ₱300,043.1 million, ₱336,263.8 million, ₱370,700.6 million, ₱79,691.0 million and ₱81,787.1 million, respectively, or 75%, 75%, 74%, 73% and 74%, respectively, of its consolidated revenues for the years ended 31 December 2017, 2018, 2019 and the three months ended 31 March 2019 and 2020. Property contributed ₱83,198.2 million, ₱96,537.2 million, ₱107,798.3 million, ₱24,383.6 million and ₱24,713.0 million or 21%, 21%, 21%, 22% and 22%, respectively, of the Issuer's consolidated revenues for the years ended 31 December 2017, 2018, 2019 and the three months ended 31 March 2019 and 2020. The Property Group and Retail Group contributed ₱20,488.4 million, ₱22,928.8 million, ₱25,508.6 million, ₱6,244.5 million and ₱4,885.8 million, respectively, of the Issuer's consolidated net income attributable to equity holders of the parent for the years ended 31 December 2017, 2018, 2019 and the three months ended 31 March 2019 and 2020.

History

Mr. Henry Sy, Sr., the founder of the Group, embarked upon his retailing career immediately after the Second World War when, in 1945, he established a small shoe store in Carriedo, Metro Manila. Having opened six shoe stores, Mr. Sy diversified the business into clothing and soft goods. In 1958, the first Shoe Mart store opened in Rizal Avenue, Metro Manila and, following the incorporation of Shoemart in March 1960, additional stores opened in Makati Commercial Center in 1962, in Cebu in 1965 and in Cubao in 1967. Four department stores were opened during the 1970s and, with the intention that one-stop shopping convenience be provided to customers, the new stores featured fast food centers and entertainment areas.

Shoemart operated six The SM Stores until November 2001, when five stores were transferred to SM Mart. As at 30 June 2020, SM Mart is a 65% owned subsidiary through SM Retail, with the remaining 35% held by the Sy Family. Pursuant to a restructuring of the Issuer's department store business in 2002, SM Mart took over most of Shoemart's functions in managing its department store business, such as merchandising, marketing, advertising and certain other services for The SM Stores as well as for its Retail Affiliates. The Group acquired its supermarket and hypermarket operations in June 2006. Shoemart was renamed SM Land, Inc. As at 30 June 2020, the Issuer, through SM Retail, operates 64 The SM Stores, 58 SM Supermarkets, 206 Savemore stores, 52 SM Hypermarkets, 60 WalterMarts, 846 Alfamarts and 1,596 Specialty stores.

Capitalizing upon the success of the The SM Stores and as an extension of the concept of one-stop shopping, the first shopping mall, SM City — North EDSA, commenced operations in Quezon City in 1985. By January 1994, four shopping malls had been opened, including SM Megamall, the largest shopping mall in the Philippines. SM Prime was incorporated in 1994 for the primary purpose of acquiring from other members of the Group, as well as companies affiliated with the Sy Family, the shopping malls and land intended for the development of shopping malls and, henceforth, to be the Group vehicle for commercial center operations. SM Prime undertook its initial public offering on the PSE in July 1994, raising approximately ₱6.0 billion. SM Prime currently owns and operates, with the assistance of certain Management Companies, 74 shopping malls in the Philippines. In November 2007, SM Prime approved the acquisition from the Sy Family of three malls in the southern and western parts of China, namely Xiamen, Jinjiang and Chengdu and completed the acquisition in May 2008. SM Suzhou, SM Chongqing, SM Zibo, and SM Tianjin in China opened in September 2011, December 2012, September 2015 and December 2016, respectively.

The Issuer's expansion into real estate development commenced in October 1974 with the incorporation of MRDC. MRDC was formed to develop high-rise condominiums and townhouse units in the prime district of Makati.

In November 1976, Mr. Henry Sy, Sr. acquired Acme Savings Bank, which was renamed Banco de Oro Savings and Mortgage Bank in August 1977 and then as Banco de Oro Commercial Bank in December 1994. The Bank initially provided services predominantly to suppliers of Shoemart, but has subsequently developed into a full-service commercial bank. In August 1996, the Bank was renamed Banco de Oro Universal Bank when the BSP granted approval for the Bank to operate as an expanded commercial bank. Banco De Oro undertook its initial public offering and was listed on the PSE in May 2002, raising ₱2.1 billion. In May 2007, the Bank merged with EPCIB and was subsequently renamed Banco De Oro Unibank, Inc. on 6 February 2008. On 04 November 2011, the Bank was renamed to BDO Unibank, Inc. as part of the company's re-branding initiatives. In January 2017, BDO completed its stock rights offering and issued ₱60.0 billion worth of new common shares. Consequently, the common shares held by the Group increased by 349.9 million shares.

In 1986, the Group obtained majority ownership of SM Fund, Inc., a closed-end investment company listed on the PSE. In May 1996, the SEC approved a change of name of the company to SM Development Corporation and a change of its purpose to property holding and development. The Group has also diversified into tourism and entertainment with plans for the development of mixed-use complexes in Cebu, Tagaytay, Batangas, Baguio and Metro Manila, which include hotels, convention centers, shopping malls and leisure and entertainment facilities. On 1 August 2007, the Issuer approved to rationalize Shoemart as the holding entity for the various property projects of the Group. On 8 October 2007, the Issuer and Shoemart entered into an agreement whereby the Issuer agreed to swap its 1,823,841,965 common shares in SMDC in exchange for 372,212 common shares in Shoemart based on an independent valuation of the respective shares by Macquarie Securities (Asia) Pte Limited. On 24 January 2008, the SEC approved the valuation of the shares of stock of SMDC as consideration for the additional issue of 372,212 shares.

On 2 April 2008, SM Hotels was incorporated to further focus on and develop the Group's hotel business, and rationalize the Group's hotel and convention assets under one entity. On 29 March 2010, the SEC approved the change in the corporate name of SM Hotels and Entertainment Corp. to SM Hotels and Conventions Corp.

On 31 May 2013 the Group embarked on a highly transformational transaction to consolidate all of its real estate interests under SM Prime in line with the Group's vision to create a leading integrated real estate company in Asia, increase synergies and organizational efficiencies among the Group's various real estate business units and further enhance the value of the SM Group's real estate businesses. The reorganization was approved by the SEC on 10 October 2013, resulting to SM Prime becoming one of the largest real estate companies in South East Asia with total assets of ₱688,664.0 million as of March 31, 2020 and an aggregate land bank of more than 1,933.0 hectares.

On 7 July 2016, the Company obtained the approval of the SEC for the merger of Sy Family-owned specialty stores into SM Retail, with SM Retail as the surviving entity. This enabled the Group to consolidate all its retail businesses under SM Retail, Inc. 1,476 outlets were folded into SM Retail in exchange for shares of stock in SM Retail. These include popular brands such as Watsons, Toy Kingdom, SM Appliances, Ace Hardware, Our Home, Sports Central, Kultura, Pet Express, Baby Company and other specialty retailers. The merger resulted in SMIC owning 77.3% in a larger and more diverse SM Retail group.

The Company has also made strategic investments in various businesses that have the potential to become leaders in their respective sectors.

In 2017, the Company acquired a 34.5% stake in Negros Navigation, the parent company of 2GO Group, Inc. ("2GO"), which was subsequently merged with 2GO as the surviving entity. 2GO offers a wide array of logistics solutions that enables it to move small items such as documents to large items such as 20ft containers.

The Company also acquired a 61.2% stake in Philippines Urban Living Solutions ("PULS") in April 2017.

PULS owns and manages MyTown, a young professional rental housing brand that currently has 16 operating buildings.

Between September to October 2017, the Company acquired 34.0% equity interest each in N-Park BGC Properties, Inc., N-Lima BGC Properties, Inc., and N-Park BGC Land, Inc, which forms part of the NEO Group.

In June 2018, the Company acquired 34.1% of Goldilocks Bakeshop, Inc., the Philippines' leading bakeshop chain.

In 2019, the Company acquired 34.5% of GPay Network PH, Inc. ("GrabPay"). GrabPay is the electronic wallet platform of the ride-hailing app Grab.

SMIC was listed on the PSE on 22 March 2005, and as at [19 August] 2020, had a market capitalization of ₱[1,084.1] million, based on a price of ₱[900.00] per common share on such date.

Businesses of the Issuer

Retail

SM Retail, Inc. is the holding company of the Group's retail and merchandising operations where SMIC has a 77.3% effective stake as of 30 June 2020. SM Retail organizes its operations into three categories: The SM Store, Specialty Stores and Food Stores:

The SM Store

"The SM Store", in operation since 1958, is SM Retail's department store format, a leading player in the Philippines and an anchor tenant in SM malls nationwide. The SM Store serves a wide customer base and is committed to providing an extensive range of up to date fashion.

SM Retail currently has 64 department stores in operation. These stores are located in Metro Manila and key provincial cities. Of these, 60 stores are based inside SM malls, while four stores in Makati, Cubao, Quiapo, and Delgado are stand-alone stores. In 2019, two new stores were opened in Metro Manila and Olongapo. As of 30 June 2020, the GSA of The SM Store is 813,355 sqm.

Specialty Stores

In July 2016, several leading specialty retail stores were merged with SM Retail. These included ACE Hardware, SM Appliances, Homeworld, Toy Kingdom, Watsons, Kultura, Baby Company, Sports Central, Pet Express and others. These formats are located in SM and non-SM malls with several also growing as stand-alone stores.

Specialty stores provide SM Retail with a range of leading brands in various fast-growing categories of discretionary spending.

As of 30 June 2020, there were 1,596 specialty stores in operation.

Food Stores

SM Retail has five food store formats varying by size, namely SM Supermarket, SM Hypermarket, Savemore, WalterMart and Alfamart. These formats enable SM Retail to serve many different local markets nationwide.

SM Supermarket is a large format anchor tenant in SM malls. It has been in operation since 1985. There are currently 58 stores nationwide totaling to 361,285 sqm of GSA with each store carrying 30,000 to 35,000 SKUs.

SM Hypermarket is a large format food retailer store with both stand-alone and in-mall locations. It has been in operation since 2001 and provides a shopping experience that combines the features of a supermarket with those of a department store. There are currently 52 stores in operation totaling 362,166 sqm of GSA with each store carrying over 35,000 SKUs.

Savemore is a mid-sized format introduced in 1998. It is located in community malls or as a stand-alone store. Savemore is a modernized neighborhood or community store, providing food and grocery items in residential locations with extended opening hours. Among SM Retail's food formats, Savemore has the largest footprint with 552,204 sqm of GSA across 206 stores as of 30 June 2020. These stores carry 20,000 to 25,000 SKUs.

WalterMart is a mid-sized format that provides food and non-food shopping as an anchor tenant in WalterMart community malls, located primarily in Luzon. SM Retail acquired a controlling stake in WalterMart in 2013. It has 60 Department Stores and Supermarkets as at 30 June 2020, with an aggregate GSA of 164,176 sqm.

Alfamart is a small format minimart grocery store situated primarily in residential neighborhoods and offering a range of essential groceries with supermarket pricing. It is a joint venture with Indonesia-based minimart operator, PT Sumber Alfaria Trijaya Tbk, which started operations in the Philippines in 2014. Alfamart Philippines has a network of 846 stores as of 30 June 2020, mostly located outside Metro Manila, each carrying up to 3,500 SKUs.

Property

SM Prime Holdings, Inc. is one of the largest integrated property developers in Southeast Asia that develops innovative and sustainable lifestyle cities, comprising malls, residences, offices, hotels and convention centers. SMIC's effective ownership in SM Prime is 49.7% as of 30 June 2020.

Malls

SM Prime's mall business unit operates and maintains modern commercial shopping malls. Its main sources of revenue include rental income from leased shopping spaces, cinema tickets sales and other amusement income. As at 30 June 2020, there were 74 malls in the Philippines with a total GFA of 8.5 million sqm and seven malls in China with a total GFA of 1.3 million sqm.

Residential

SM Prime's residential development arm, **SM Development Corporation** ("SMDC"), derives development revenues largely from the sales of condominium units. As at 30 June 2020, the primary residential business unit had 50 residential projects in the market worth ₱500 billion.

SMDC's primary residential business unit typically launches 15,000 to 20,000 units annually, including high-rise, mid-rise and single detached housing. Projects are located in Metro Manila and key provincial cities.

SM Prime owns leisure and resort developments including properties in the vicinity of Tagaytay Highlands and Tagaytay Midlands golf clubs in Laguna, Tagaytay City and Batangas. It is also the developer of Pico de Loro Cove residential community within Hamilo Coast.

Commercial

SM Prime's commercial properties business unit is engaged in the development and leasing of office buildings in prime locations in Metro Manila. As at 30 June 2020, there were twelve office buildings with a total GFA of more than 695,000 sqm. These are located in the cities of Quezon, Pasay, Makati, Taguig and Las Piñas. Their assets outside Metro Manila are located in Clark, Pampanga, Taytay, Rizal, and Sta. Rosa, Laguna.

Hotels and Convention Centers

SM Prime's hotel and convention centers business unit manages eight hotels located in Tagaytay City, Batangas, Pampanga, Cebu City, Davao City, Pasay City, Iloilo City and Quezon City with more than 1,900 rooms. It also operates four convention centers located in the Mall of Asia Complex in Pasay City, SM Lanang Premier in Davao City, SM Aura in Taguig City and SM City Bacolod in Bacolod City, and three trade halls located in SM Megamall, SM City Cebu and SM Seaside City Cebu.

Financial Services

BDO Unibank, Inc. is a full-service universal bank in the Philippines. It provides a complete array of industry-leading products and services including lending, deposit-taking, foreign exchange, brokering, trust and investments, credit cards, corporate cash management and remittances. Through its local subsidiaries, it offers leasing and financing, investment banking, private banking, rural banking, life insurance, insurance brokerage and stock brokerage services.

BDO has one of the largest distribution networks with over 1,400 branches, and more than 4,400 ATMs nationwide.

BDO is the country's largest bank in terms of consolidated resources, customer loans, deposits, assets under management and capital, as well as branch and ATM network.

As at 30 June 2020, BDO had a strong balance sheet with total resources of ₱3.3 trillion. The Group's effective ownership in BDO is 45.3%.

China Banking Corporation ("China Bank") was incorporated in 1920 as among the first privately owned banks in the Philippines. It has historical strength in catering to the Chinese-Filipino commercial sector, as well as local corporate and retail banking segments. China Bank offers a complete range of deposit, lending, international and investment products. Through its local subsidiaries, it offers investment banking, securities broking, insurance broking, and thrift bank services. China Bank services its customers through its 631 bank branches with 1,013 ATMs nationwide.

The Bank boasts a strong balance sheet, with total resources at ₱982.0 billion as at 30 June 2020. SMIC's effective ownership in China Bank is 22.6%.

Equity Investments

SMIC invests in ventures that capture high growth opportunities in the emerging Philippine economy, looking for market leaders that offer synergies, attractive returns and cash flows.

Belle Corporation ("Belle") is a developer of tourism and leisure destinations in the Philippines. Its principal asset is the City of Dreams Manila in Parañaque City, which is leased on a long-term basis to Melco Resorts and Entertainment (Philippines) Corporation ("Melco"). In addition to lease income, Belle is accorded a share in revenues or earnings from City of Dreams Manila's gaming operations through the operating agreement between its 79.8%-owned subsidiary, Premium Leisure Corporation ("PLC"), and Melco.

South of Metro Manila, Belle owns significant real estate assets and develops premium residential resort projects around Tagaytay City and Batangas. Among its exclusive destinations are the club and golf facilities and residential communities of Tagaytay Highlands and Tagaytay Midlands, as well as around 800 hectares of land for future development.

The Group's effective ownership in Belle is 26.4%.

Atlas Consolidated Mining and Development Corporation ("Atlas Mining") is primarily engaged in metallic mineral exploration and mining. It operates the Toledo copper mine in the province of Cebu through its wholly-owned subsidiary Carmen Copper Corporation ("Carmen Copper"). The Toledo copper mine is one of the Philippines' largest exporters of copper concentrate and also markets by-products from copper concentrate processing such as gold, silver and magnetite.

Atlas Mining also has a stake in the nickel laterite mining project of Berong Nickel Corporation ("Berong Nickel") in Palawan. Berong Nickel has been engaged in the direct shipping of nickel laterite ore since 2007.

The Group's effective ownership in Atlas Mining is 34.1%.

NEO Group has seven commercial buildings within the largest and only PEZA certified IT park in Bonifacio Global City, Metro Manila. The seven buildings have a total gross leasable area of approximately 266,936 sqm, with a tenant base that includes top tier local and multinational companies.

SMIC effectively owns 95% of the first five properties and 34% of the latest two properties in the NEO portfolio.

2GO Group, Inc. ("2GO") is the country's largest end-to-end logistics solutions provider whose businesses include shipping, logistics, and distribution services to SMEs, large corporations and government agencies throughout the Philippines.

SMIC's effective ownership in 2GO is 30.5%.

Philippines Urban Living Solutions, Inc. ("PULS") is a developer and operator of modern dormitories under the MyTown brand. It provides affordable living spaces to young urban professionals within walking distance of the central business districts of Metro Manila. As at 30 June 2020, there were 16 buildings in operation with two more buildings under development.

SMIC's effective ownership in PULS is 63.3%.

CityMall Commercial Centers Inc. ("CityMalls") is a mall developer and operator that specializes in developing community malls in second and third cities across the Philippines. SMIC acquired a 34.0% stake in CityMalls in 2014 with the balance owned by Double Dragon Properties Corporation.

Goldilocks Bakeshop, Inc. ("Goldilocks") is the largest bakeshop chain in the Philippines with over 700 stores and selected operations overseas. Now on its 53rd year, Goldilocks continues to provide its customers with a wide array of baked goods and home cooked food.

SMIC's effective ownership in Goldilocks is 34.1%.

GPay Network PH, Inc. ("GrabPay") is a strategic partnership combining the strength of Grab's user base and tech platform with SM's nationwide retail and banking portfolio. The partnership will collaborate on: universal acceptance of the GrabPay wallet as a payment option, offer greater convenience by expanding wallet top-up channels through SM subsidiaries and affiliates, and enhance GrabPay user experience in SM Retail subsidiaries and affiliates.

SMIC has a 34.5% participation in the joint venture.

Ownership and Corporate Structure

As of 30 June 2020, the Sy Family holds 52.5% of the outstanding issued and paid-up share capital of the Issuer.

The conglomerate map found elsewhere in this Prospectus sets forth the Issuer's simplified corporate structure, organized by business segment, including its principal subsidiaries and associates and the direct ownership of each as at 30 June 2020.

Insurance, Environment, Health and Safety

The Group's insurance arrangements are procured through BDO Insurance Brokers, Inc. (as broker). The Issuer believes that each of its subsidiaries is adequately insured, both in terms of the insured risks and the amount which is covered. The Group's current commercial all risks insurance policy is underwritten by Prudential Guarantee & Assurance, Inc.

The Group's commercial all risk insurance policy covers any potential loss of property. Loss of income under the loss of rent coverage resulting from fire, water damage and acts of God including earthquake, typhoon and flood is provided for SM Prime as a mall operator. The SM Stores and Supervalue Inc., operating inside the Malls, have their own loss of revenue/business interruption insurance cover. However, Retail Subsidiaries operating inside the Malls do not have such insurance cover.

In addition, the comprehensive general liability insurance coverage extends to third-party liabilities, including loss of life and its corresponding litigation expenses.

The Issuer and each of its principal subsidiaries is in material compliance with all applicable environmental, health and safety regulations.

Investments and Property

The Issuer's current assets, consisting of cash and cash equivalents, time deposits, financial assets, receivables and contract assets, merchandise inventories – at cost, and other current assets, amounted to ₱241,725.5 million, ₱248,357.0 million and ₱249,447.1 million as at 31 December 2018, 2019 and 31 March 2020, respectively.

As at 31 December 2018, 2019 and 31 March 2020, the Issuer's investments in associate companies and joint ventures amounted to ₱259,795.1 million, ₱280,971.6 million and ₱282,259.1 million, respectively. These investments pertain to investments in shares of stock of associates and joint ventures such as, but not limited to, BDO, China Bank, Belle Corporation, Atlas Mining, Sodexo Benefits and Rewards Services Philippines, Inc., Fast Retailing Philippines, Inc., CityMalls, Premium Leisure Corp., OCLP Holdings, Inc., Feihua Real Estate (Chongqing) Company Ltd. and WalterMart Malls.

The Issuer's investment properties amounted to ₱309,264.3 million, ₱338,075.3 million and ₱342,622.0 million as at 31 December 2018, 2019 and 31 March 2020, respectively. These investments consist mainly of land, shopping malls and improvements.

The carrying amount of the Issuer's consolidated property and equipment was ₱23,201.7 million, ₱24,720.9 million and ₱25,189.7 million as at 31 December 2018, 2019 and 31 March 2020, respectively. The Issuer's consolidated noncurrent time deposits amounted to ₱2,392.6 million and ₱2,413.0 million and ₱2,413.0 million as at 31 December 2018, 2019 and 31 March 2020, respectively. The Issuer leases from SM Prime the lands on which its offices in SM Mall of Asia Complex and its warehouses in Asinan, Parañaque are located. The leases cover a total area of 61,071 square meters.

Intellectual Property

The Issuer is the registered owner of the trademark "SM" which has been registered with the Intellectual Property Office since the year 1977. To date, the SM trademark is actively used to identify the Issuer's core businesses such as retail, real estate development and management, hotels, leisure and entertainment, among others.

The Issuer has allowed use of the "SM" trademark by some of its subsidiary and affiliate companies. The trademark "SM" has been incorporated in the in-house brands and service marks belonging to the SM Group. As of 30 June 2020, the Issuer is the holder of 30 Philippine trademark registrations and 15 foreign trademark registrations, including its legacy trademarks, "SHOEMART", "SM SHOEMART" and the "SM STORE".

Competition

The Group's subsidiaries compete with other local companies in the industry segments in which they operate. The Group believes that each of its subsidiaries has strong competitive advantages over the other industry players. In addition, the strong synergy created by the complementary nature of the business of each of its subsidiaries has further reinforced each subsidiary's preparedness to face stiff competition in the coming years.

Employees

As of 30 June 2020, the Issuer had 464 regular employees. Its employees are not subject to any Collective Bargaining Agreements.

Capital Expenditure

The Group has made, and expects to continue to make, substantial capital expenditures in connection with the construction of new Malls, opening of new stores, development of SM Mall of Asia Complex, and its residential developments.

Legal Proceedings

Neither SMIC nor any of its subsidiaries is a party to nor its properties subject of, any material pending legal proceeding that could be expected to have a material adverse effect on the Offer and on the results of the financials and the operations of SMIC.

Strategy

The Issuer's strategy is focused on growing its retail, property and financial services businesses, and maintaining or attaining market leadership in each of their respective sectors. The Issuer will continue to target the mass market in the Philippines by offering essential goods and services such as food, clothing, housing and financial services.

The Issuer is responsible for setting Group policy and strategy. The Issuer establishes the financial and operating policies for the Group and supervises and monitors the performance of its subsidiaries and associates.

Key elements of the Issuer's strategy are to:

- maintain its leading market share in the shopping mall sector by continuing to expand the Group's mall and retail activities into major centers of population in Metro Manila and particularly in the provinces where there are opportunities for growth, and capture strategic opportunities overseas particularly China;

- continue to capture a significant share of retail spending in the Philippines by providing the most attractive retail and leisure facilities to Philippine mass market consumers;

- continue to grow its financial services businesses, including through acquisitions by BDO, and develop further synergies between financial services and its shopping malls and the Retail Subsidiaries by providing its suppliers and retail customers their required banking facilities and services;

- diversify and expand the businesses of the Group (including through acquisition) in the property development, tourism and leisure sectors as the Philippines becomes a more attractive tourist destination, by leveraging the Group's strategically located land bank;

- integrate all land banking functions into a centralized department while retaining the highly successful culture that allowed the Group to reach its strong current land bank position, and continue acquiring land bank that is suitable for mid-to-large scale mixed-use master planned projects in fast growing areas of the Philippines;

- supervise a range of related businesses and investments, providing support, expertise and funding to its developing businesses and encouraging further growth in its more established businesses; and

- promote the independence of its various businesses in terms of executing set strategies and encouraging financial independence in terms of external funding.

Strengths

The Issuer believes that the key strengths of the Group are as follows:

- a well-established platform providing quality services from retail to real estate development to financial services to cater for the domestic consumption growth in the Philippines;

- its 62 years of retail experience, which has created significant goodwill among its customers and suppliers, a well-known brand and image and a reputation for providing value for customers;

- its leading market share positions in providing one-stop experience through shopping malls, department stores and supermarkets and the largest bank in the Philippines in terms of assets;

- fast growing residential development expertise that is sitting at the sweet spot of the local real estate markets, well-supported by SM-branded shopping malls nearby;

- prudent financial management and a strong balance sheet with stable recurring cash flows by focusing on diverse businesses which are relatively less cyclical;

- its experienced management team, which has consistently focused on related businesses that promote synergies; and

- its overall corporate reputation in the Philippines and abroad, which has brought the Group numerous awards for corporate excellence, corporate governance and financial management.

Future Plans and Prospects

The Issuer as well as its major business segments, Property and Retail, have appropriated certain portions of Retained Earnings to cover expansion plans which include corporate projects, expansions, new development projects, land acquisitions and/or investment in new business ventures.

These projects would be funded through internally generated sources and other capital raising initiatives such as bond issuances and loan availments.

The COVID-19 pandemic has caused disruptions to the various businesses of the Group. Given the uncertain environment, the Group will continually adapt its business model to serve and fulfill the needs of its customers. The Group's priorities are:

- Keep our businesses operating safely to support the national agenda and serve affected communities with essential products and services while urging our partners to do the same;
- Expand our customer access channels while synergizing our businesses on various modes of delivery;
- Assure our employees, customers and partners with the aim to maintain their economic well-being; and,
- Mobilize medical donations, relief missions and other forms of support swiftly and on time in areas which need them most.

Risk Factors

Before making an investment decision, investors should carefully consider the risks associated with an investment in the Debt Securities. These risks include:

Risks Relating to the Company

- The Issuer is primarily a holding company and payments under the Debt Securities are structurally subordinated to all liabilities of the Issuer's subsidiaries and associates.
- Any restriction or prohibition on the Issuer's subsidiaries' and associates' ability to distribute dividends would have a negative effect on its financial condition and results of operations.
- The Issuer is controlled by the Sy Family, whose interests may not be the same as those of other shareholders.
- The Issuer's businesses have significant levels of related party transactions and are interdependent, and any material adverse change in one member of the Group could adversely affect the results of operations of other members of the Group, including SMIC.
- The Issuer has conducted and may continue to conduct acquisitions, the impact of which could be less favorable for its activities and results than anticipated, or which could affect its financial situation.
- Infringement of the SM intellectual property rights would have a material adverse effect on the Group's business.
- The Group's debt leverage will be increased following the issue of the Debt Securities.

Risks Relating to the Group's Malls and Property Businesses

- The Philippine property market is cyclical and can be affected by domestic and global economic conditions.

- SM Prime will continue to compete with other mall operators and commercial and residential developers.
- SM Prime is exposed to risks associated with the operation of its malls and commercial businesses.
- SM Prime faces numerous risks including reputational risk and operational risks relating to its residential and commercial businesses.
- SM Prime is exposed to general risks associated with the ownership and management of real estate.
- SM Prime generates a portion of its rental revenues from affiliated companies.
- SM Prime faces risks relating to the management of its land bank.
- SM Prime operates in a highly regulated environment and it is affected by the development and application of regulations in the Philippines.
- Zoning restrictions and local opposition may delay or preclude construction.
- Infringement of intellectual property rights could have a material adverse effect on SM Prime's business.
- Land and/or real property may be subject to compulsory acquisition.
- SM Prime faces risks inherent in joint venture structures and/or funds.
- Construction defects and other building-related claims may be asserted against SM Prime, and SM Prime may be subject to liability for such claims.
- SM Prime may suffer material losses in excess of insurance proceeds.
- SM Prime faces property development risk.
- SM Prime will continue to face certain risks related to the cancellation of sales involving its residential projects.
- The loss of certain tax exemptions and incentives for residential home sales may increase the price of SM Prime's residential units and may lead to a reduction in sales.

Risks Relating to the Retail Operations

- The success of SM Retail is premised upon its ability to satisfy consumer preferences and spending trends in the markets it serves as well as its ability to retain its existing supplier base and secure new ones.
- Non-renewal of leases or substantial increases in rent for the Issuer's retail stores may have a material adverse effect on the Issuer.
- The future growth of SM Retail will be largely driven by the effectiveness and success of its expansion strategy.
- SM Retail may be subject to increasing competitive pressures.
- There can be no assurance that SM Retail is fully insured against unexpected losses.
- SM Retail's business activities are subject to seasonality and timing.
- The food retailing industry is highly competitive and characterized by narrow profit margins.
- As a result of selling food products, the Group faces the risk of exposure to product liability claims and adverse publicity.

Risks Relating to the Banks

- The Philippine banking industry is highly competitive and increasing competition may result in declining margins in the banks' principal businesses.
- An increase in interest rates could decrease the value of banks' securities portfolio and raise their funding costs.
- Philippine banks are generally exposed to higher credit risks and greater market volatility than banks in more developed countries.
- The Philippine banking sector may face another downturn, which could materially and adversely affect the banks.
- Philippine banks' ability to assess, monitor and manage risks inherent in its business differs from the standards of its counterparts in more developed countries.
- Philippine banks face regulatory pressure to comply with new and stricter capital standards, liquidity and leverage standards, as well as meet prudential limits for real estate exposures.
- Any future changes in Philippine taxation may materially and adversely affect the banks' business, financial condition and results of operations.
- Non-compliance with FATCA may cause material and adverse impact on the bank's business, financial conditions and results of operations.
- Any future changes in PFRS may affect the financial reporting of the banks' business.

Risks Relating to the Philippines

- Substantially all of the Group's operations and assets are based in the Philippines; a slowdown in economic growth in the Philippines could have a material adverse effect on its businesses.
- Any political instability in the future may have a negative effect on the Group's financial results.
- SM Group's businesses may be disrupted by terrorist acts, crime, natural disasters and outbreaks of infectious diseases or fears of such occurrences in Metro Manila or other parts of the Philippines.
- Volatility in the value of the Peso against the U.S. dollar and other currencies could adversely affect the Group's businesses.
- Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries.

Risks Relating to the Debt Securities

- The priority of debt evidenced by a public instrument.
- An active trading market for the Debt Securities may not develop.
- The Issuer may be unable to redeem the Debt Securities.

Recent Developments

Impact of COVID-19 on the Operations of the Group

Amidst the COVID-19 pandemic, the SM Group, with businesses in Retail, Banking, and Property, has continued operations while in compliance with government mandated quarantine and regulatory guidelines.

For the duration of the Enhanced Community Quarantine (ECQ), only businesses classified as 'essential' were allowed to operate. Despite the difficulties brought about by the government's suspension of public transportation, all formats (SM Supermarket, SM Hypermarket, Savemore, Waltermart, Alfamart) of our SM Retail Food Stores, Watson's, and commercial properties continued to operate. Banking operations were sporadic due to difficulties accessing the branches, while operations in our malls, department stores, specialty stores, hotels and convention centers, were halted in compliance with the strict quarantine. To assist our mall tenants, the Company waived rent for the duration of the ECQ. BDO and China Bank deferred collection of amortizations for 60 days.

COVID-19 Mitigation Efforts by the Group

The Group is fully committed in the country's battle against COVID-19 and has implemented measures to ensure customer safety as well as workplace safety in our establishments to curb the spread of this disease. Aside from enforcing the minimum health standards set by the government, the Company has put in place prevention mechanisms such as temperature checking, frequent sanitation and disinfection in all of its properties.

In the workplace, the Company screened its employees using a combination of rapid tests and swab tests prior to allowing them to report to the office. It provided PPEs to its employees and took every opportunity to constantly remind its employees of measures to take to protect themselves and others through email and bulletin boards. Shuttle services were provided as well for the duration when public transportation services were suspended. Work from home arrangements were available for employees and workplace headcounts were managed allowing only a maximum of 50% at any given time to ensure physical distancing.

As mobility has been curtailed by prevailing government regulations in response to COVID-19, access to SM's physical establishments has been limited. To address this, the Company has adapted its strategies in malls, retail stores and bank branches to increase both safety and customer convenience.

SM Retail has had three main areas of focus during this pandemic: Call to Deliver ("CTD") services, Online Markets and in-store adjustments such as signage, social distancing and sanitation to ensure employee and customer safety. CTD is a service that allows customers to place orders in the SM Store branch of their choice via Viber. This service covers both food and non-food items and fulfillment can be done by in-store pickup, curbside pick-up or door-to-door delivery. SM Retail has also increased the product selection made available in popular online marketplaces such as Lazada and Shopee, as well as boosted the coverage of its own specialty retail websites and online platforms such as ShopSM.com (Department Store), shop.smmarkets.ph and waltermartdelivery.com.ph (Grocery). These efforts aim to provide effective ways of meeting customers' ongoing shopping needs in the current environment, while ensuring customers can have confidence in a safe in-store shopping environment.

At SM Prime, the aim is to bring foot traffic in its malls back to pre-ECQ levels as soon as possible subject to restrictions imposed by the government that would determine the level of both business and consumer mobility. To achieve this, the Malls Group's focus is to institutionalize the system of hygiene and operating protocols being implemented not only to ensure a safe workplace and mall destination but to give all its stakeholders – employees, tenant partners, suppliers and customers – a high level of comfort while at its malls. The Malls Group is also assisting its tenant partners in preparing for an increase in online transactions by offering logistics solutions tailored to their customer preferences. For its residential component, SM Prime has an adequate supply of existing inventory to cushion the effect of construction delays in its projects. For the Commercial Property Group, with 90% of its tenants being business process outsourcing (BPO) offices, businesses located in its properties were allowed to operate by the Philippine Inter-Agency Task Force. At its hotels, employees and staff are being oriented and trained on new operating protocols to ensure their well-being and that of its guests.

At its banks, both BDO and China Bank fully complies with the government's occupational health and safety standards to ensure the well-being of its employees and clients. Sanitation and disinfection measures, temperature checks and "no mask, no entry" policies, and physical distancing and work station reconfiguration are being implemented in all offices and branches. Both banks are pushing forward with their respective digital initiatives, scaling up capabilities and enhancing transaction options. Concurrently, both banks are addressing possible online security issues to ensure the protection of its customers' data and transactions.

BDO has likewise instituted service upgrades to allow increased remote access across different channels thereby limiting in-person interactions. BDO is also continuing with its NextGen IT upgrade for a more robust, scalable, efficient, and secure IT platform that will allow the Bank to quickly respond to shifts in customer demands and behavior, and deliver banking services more reliably and accessibly.

SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary consolidated financial information of the Issuer as at and for the periods indicated. The selected financial information presented below as at 31 December 2017, 2018, 2019 and 31 March 2020, for the years ended 31 December 2017, 2018 and 2019 and for the three-month periods ended 31 March 2019 and 2020 have been derived from the Issuer's consolidated financial statements. The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant consolidated financial statements of the Issuer, including the notes thereto, included elsewhere in this Prospectus.

Consolidated Balance Sheets

	As at 31 December			**As at 31 March**
(*in ₱ thousands*)	2017 Audited	2018 Audited	2019 Audited	2020 Unaudited
ASSETS				
Current Assets				
Cash and cash equivalents	74,318,190	79,313,215	76,213,774	70,828,712
Time deposits	13,237,886	25,842,829	30,488	30,739
Financial assets	1,347,926	639,316	659,077	567,102
Receivables and contract assets	32,352,574	33,755,192	53,617,200	55,152,663
Merchandise inventories – at cost	27,778,741	31,836,333	33,157,622	34,402,700
Other current assets	63,478,186	70,338,577	84,678,819	88,465,218
Total Current Assets	212,513,503	241,725,462	248,356,980	249,447,134
Noncurrent Assets				
Financial assets – net of current portion	25,590,162	26,702,764	24,229,560	18,038,688
Investments in associate companies and joint ventures	242,114,427	259,795,077	280,971,638	282,259,117
Time deposits – net of current portion	26,688,721	2,392,622	2,412,972	2,412,972
Property and equipment	21,339,407	23,201,667	24,720,873	25,189,679
Investment properties	289,018,265	309,264,274	338,075,303	342,622,033
Right-of-use assets	-	-	37,664,176	36,900,513
Land and development – net of current portion	40,180,145	53,928,447	74,946,694	74,980,002
Intangibles	25,591,232	25,470,696	25,289,609	25,227,078
Deferred tax assets	2,489,814	2,726,155	3,121,117	3,661,613
Other noncurrent assets	74,555,033	115,435,107	84,375,645	93,983,511
Total Noncurrent Assets	747,567,206	818,916,809	895,807,587	905,275,206
Total Assets	960,080,709	1,060,642,271	1,144,164,567	1,154,722,340

	As at 31 December			As at 31 March
(*in ₱ thousands*)	2017 Audited	2018 Audited	2019 Audited	2020 Unaudited
LIABILITIES AND EQUITY				
Current Liabilities				
Bank loans	24,172,965	18,885,465	18,710,465	35,731,174
Accounts payable and other current liabilities	106,561,455	124,777,719	141,451,764	124,957,682
Income tax payable	1,883,871	3,641,379	3,273,872	3,936,601
Current portion of long-term debt	40,297,133	61,480,887	29,077,719	50,151,469
Dividends payable	2,939,590	3,906,476	4,204,962	3,957,888
Total Current Liabilities	175,855,014	212,691,926	196,718,782	218,734,814
Noncurrent Liabilities				
Long-term debt – net of current portion	292,555,868	305,555,356	327,358,208	310,574,467
Lease liabilities – net of current portion	-	-	27,600,392	27,397,531
Deferred tax liabilities	8,029,579	8,810,862	9,604,043	10,534,929
Tenants' deposits and others	29,828,024	41,294,115	46,731,664	49,246,457
Total Noncurrent Liabilities	330,413,471	355,660,333	411,294,307	397,753,384
Total Liabilities	506,268,485	568,352,259	608,013,089	616,488,198
Equity Attributable to Owners of the Parent				
Capital stock	12,045,829	12,045,829	12,045,829	12,045,829
Additional paid-in capital	76,439,288	75,815,520	75,815,923	75,815,923
Equity adjustments from common control transactions	(5,424,455)	(5,424,455)	(5,424,455)	(5,424,455)
Cost of Parent common shares held by subsidiaries	(25,386)	(25,386)	(25,386)	(25,386)
Cumulative translation adjustment	1,402,623	2,014,573	1,308,228	1,190,386
Net fair value changes on cash flow hedges		62,444	(1,406,026)	(1,291,152)
Re-measurement loss on defined benefit asset/obligation	(701,255)	(2,063,358)	(8,633,269)	(8,633,269)
Net unrealized gain on financial assets	15,324,123	11,748,980	14,399,640	3,772,845
Retained earnings:				
Appropriated	37,000,000	37,000,000	37,000,000	37,000,000
Unappropriated	192,071,968	222,213,054	257,546,591	266,553,868
Total Equity Attributable to Owners of the Parent	328,132,735	353,387,201	382,627,075	381,004,589
Non-controlling Interests	125,679,489	138,902,811	153,524,403	157,229,553
Total Equity	453,812,224	492,290,012	536,151,478	538,234,142
Total Liabilities and Equity	960,080,709	1,060,642,271	1,144,164,567	1,154,722,340

Consolidated Statements of Income

(*in ₱ thousands*)	For the years ended 31 December 2017 Audited	 2018 Audited	 2019 Audited	For the three months ended 31 March 2019 Unaudited	 2020 Unaudited
Revenue					
Sales:					
Merchandise	288,532,163	323,740,170	354,088,848	76,059,266	78,289,599
Real estate	29,567,021	35,967,663	44,499,529	9,109,799	11,293,965
Rent	42,067,892	47,555,061	51,573,157	12,471,507	11,076,148
Equity in net earnings of associate companies and joint ventures	16,640,597	19,164,345	26,038,426	5,535,151	5,298,309
Cinema ticket sales, amusement and others	6,578,362	7,286,654	7,739,761	1,692,754	955,640
Management and service fees	5,820,571	6,379,831	7,348,479	1,599,977	1,474,881
Gain on sale of financial assets - net	110,234	1,337	27,812	-	-
Dividend income	495,582	421,914	480,513	103,628	31,261
Others	8,135,798	9,271,192	9,855,370	2,475,563	2,732,690
	397,948,220	449,788,167	501,651,895	109,047,645	111,152,493
Costs and Expenses					
Cost of sales:					
Merchandise	214,494,703	238,902,107	262,434,661	55,790,186	59,434,998
Real estate	15,260,313	17,852,270	20,806,612	4,357,150	4,964,036
Selling, general and administrative expenses	92,342,430	106,419,699	113,257,931	25,619,860	26,550,681
	322,097,446	363,174,076	396,499,204	85,767,196	90,949,715
Other Income (Charges)					
Interest expense	(15,580,819)	(16,574,388)	(19,194,311)	(4,294,118)	(4,192,716)
Interest income	4,003,501	3,754,141	3,881,156	998,947	764,626
Gain (loss) on disposal of investments and properties - net	22,702	64,034	193,878	8,279	(19,326)
Gain on fair value changes on derivatives – net	296,334	454,941	6,379	55,278	472
Impairment loss on investment	-	-	(3,987,000)	-	-
Foreign exchange gain (loss) – net	698,742	(182,483)	561,705	260,995	9,229
	(10,559,540)	(12,483,755)	(18,538,193)	(2,970,619)	(3,437,715)
Income Before Income Tax	65,291,234	74,130,336	86,614,498	20,309,830	16,765,063
Provision for (benefit from) income tax					
Current	13,616,519	15,115,326	16,218,229	3,710,093	2,727,400
Deferred	156,198	460,442	951,955	223,689	260,770
	13,772,717	15,575,768	17,170,184	3,933,782	2,988,170
Net Income	51,518,517	58,554,568	69,444,314	16,376,048	13,776,893
Attributable to:					
Owners of the Parent	32,923,455	37,078,325	44,568,244	10,690,220	9,007,277
Non-controlling interests	18,595,062	21,476,243	24,876,070	5,685,828	4,769,616
	51,518,517	58,554,568	69,444,314	16,376,048	13,776,893
Basic/Diluted Earnings Per Common Share Attributable to Owners of the Parent	₱27.33	₱30.78	₱37.00	₱8.87	₱7.48

Consolidated Statements of Comprehensive Income

	For the years ended 31 December			For the three months ended 31 March	
(*in ₱ thousands*)	2017 Audited	2018 Audited	2019 Audited	2019 Unaudited	2020 Unaudited
NET INCOME	51,518,517	58,554,568	69,444,314	16,376,048	13,776,893
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that will be reclassified to profit or loss in subsequent periods					
Net unrealized gain on financial assets	4,973,426	-	-	-	-
Share in unrealized gain (loss) on financial assets of associates	354,028	(3,502,992)	4,505,589	2,206,223	(2,860,183)
Cumulative translation adjustment	1,243,928	326,536	(1,011,736)	309,992	(231,447)
Net fair value changes on cash flow hedges	(1,266,333)	2,589	(1,712,763)	(482,068)	(184,091)
Income tax relating to items to be reclassified to profit or loss in subsequent periods	(147,803)	-	-	-	-
	5,157,246	(3,173,867)	1,781,090	2,034,147	(3,275,721)
Items not to be reclassified to profit or loss in subsequent periods					
Re-measurement loss on defined benefit obligation	(416,283)	(2,080,805)	(8,209,190)	-	-
Net unrealized gain (loss) on financial assets	-	(520,230)	(176,975)	2,083,652	(8,991,818)
Income tax relating to items not to be reclassified to profit or loss in subsequent periods	124,884	(84,499)	553,736	301,361	(129,618)
	(291,399)	(2,685,534)	(7,832,429)	2,385,013	(9,121,436)
TOTAL COMPREHENSIVE INCOME	56,384,364	52,695,167	63,392,975	20,795,208	1,379,736
Attributable to:					
Owners of the Parent	36,916,903	31,112,015	40,223,919	14,766,701	(1,622,486)
Non-controlling interests	19,467,461	21,583,152	23,169,056	6,028,507	3,002,222
	56,384,364	52,695,167	63,392,975	20,795,208	1,379,736

OVERVIEW OF THE DEBT SECURITIES PROGRAM

The detailed terms and conditions of each succeeding Tranche of the Debt Securities shall be set out in the relevant Offer Supplement to be issued at the relevant time.

Any discussion of SMIC's Debt Securities Program contained herein does not purport to be a complete listing of all the rights, obligations, or privileges of the Debt Securities. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the Articles of Incorporation, By-Laws and resolutions of the Board of Directors of the Company, the information contained in this Prospectus, the relevant Offer Supplement and other agreements relevant to the offer of a particular tranche of the Debt Securities and to perform their own independent investigation and analysis of the Issuer and the Debt Securities. Prospective investors must make their own appraisal of the Company and the offer, and must make their own independent verification of the information contained herein and the other aforementioned documents and any other investigation they may deem appropriate for the purpose of determining whether to participate in the offer of the Debt Securities. They must not rely solely on any statement or on the significance, adequacy or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective investor's independent evaluation and analysis. Prospective investors are likewise encouraged to consult their legal counsels and accountants in order to be better advised of the circumstances surrounding the Debt Securities being offered.

SMIC is offering debt securities under its Debt Securities Program in the aggregate principal amount of up to Thirty Billion Pesos (₱30,000,000,000.00) to be issued in tranches within a period of three (3) years from the effective date of the Registration Statement. The following sections outline the description of the Debt Securities Program.

Issuer	SM Investments Corporation
Issue	Debt Securities constituting the direct, unconditional, unsecured and unsubordinated obligations of SM Investments Corporation
Use of Proceeds	The intended use of proceeds for each tranche of the Debt Securities being offered shall be set in the relevant Offer Supplement under "Use of Proceeds"
Facility	₱30,000,000,000
Availability	The Debt Securities Program shall be continuously available until the expiration of the Shelf Period and the Permit to Sell Securities to be issued by the SEC
Governing Law	Philippine Law

SUMMARY OF THE OFFER

The "Summary of the Offer" for each succeeding Tranche shall be set out in the relevant Offer Supplement. However, any such summary should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus and such Offer Supplement, including, but not limited to, the discussion on the "Description of the Offer" and "Plan of Distribution", and agreements executed in connection with a particular offer as a whole. Such overview may not contain all of the information that prospective investors should consider before deciding to invest in the Debt Securities. Accordingly, any decision by a prospective investor to invest in the Debt Securities should be based on a consideration of this Prospectus, such Offer Supplement and agreements executed in connection with a particular offer as a whole.

The following summary of the Offer with respect to the Bonds is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Prospectus.

Issuer	SM Investments Corporation
Issue	Fixed rate bonds constituting the direct, unconditional, unsecured and unsubordinated obligations of SM Investments Corporation
Issue Size	Up to ₱5,000,000,000 with an over-subscription option of up to ₱5,000,000,000
Oversubscription Option	The Issuer, in consultation with the Joint Issue Managers and Joint Lead Underwriters, shall have the option to increase the Offer Size by up to ₱5,000,000,000 in the event of oversubscription. In the event that the Over-subscription Option is not fully exercised, the unexercised portion shall be placed under shelf registration to be issued within the period prescribed by relevant regulations
Manner of Offer	Public offering
Use of Proceeds	The net proceeds of the Issue shall be used primarily to refinance existing indebtedness (see "Use of Proceeds")
Issue Price or Offer Price	100% of the face value of the Bonds
Form and Denomination of the Bonds	The Bonds shall be issued in scripless form in minimum denominations of ₱20,000.00, and in multiples of ₱10,000.00 thereafter, and traded in denominations of ₱10,000.00 in the secondary market

Offer Period	The offer of the Bonds shall commence at 9:00 am on [●] and end at 12:00 pm on [●]
Issue Date	[● September] 2020
Maturity Date	Series H : Three (3) years and six (6) months from Issue Date
Interest Rate	Series H : [●]% per annum
Interest Computation & Payment	Interest on the Bonds shall be calculated on a 30/360 day count basis commencing on [● March 2021]. Interest on the Bonds shall be paid semi-annually in arrears on [● March] and [● September] of each year.
Final Redemption	The Bonds shall be redeemed at 100% of face value on the Maturity Date.
Trustee	Philippine National Bank Trust Banking Group
Registrar & Paying Agent	Philippine Depository & Trust Corp.
Taxation	<u>Bond Interest</u> Interest income derived from the Bonds by Philippine citizens or resident foreign individuals is subject to income tax, which is withheld at source, at the rate of 20%. Interest on the Bonds received by non-resident foreign individuals engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident foreign individuals not engaged in trade or business is subject to a 25% final withholding tax. Interest income received by domestic corporations and resident foreign corporations is taxed at the rate of 20%. Interest income received by non-resident foreign corporations is subject to a 30% final withholding tax. The tax withheld constitutes a final settlement of Philippine income tax liability with respect to such interest. Bondholders who are exempt from or are not subject to final withholding tax on interest income or are covered by a lower final withholding tax rate by virtue of a tax treaty or an applicable law may claim such exemption or lower rate, as the case may be, by submitting the necessary documents as required by the Bureau of Internal Revenue and the Issuer.
Listing	The Bonds are intended to be listed in the Philippine Dealing & Exchange Corp., or such other securities exchange licensed as such by the SEC on which the trading of debt securities in significant volume occurs.

RISK FACTORS

The Issuer is primarily a holding company and payments under the Debt Securities are structurally subordinated to all liabilities of the Issuer's subsidiaries and associates.

The Issuer is primarily a holding company and its ability to make payments in respect of the Debt Securities or to fund payments by the Issuer depends largely upon the receipt of dividends, distributions, interest payments, management fees, or advances from its subsidiaries and associates. The ability of such companies to pay dividends and other amounts to the Issuer may be subject to their profitability and to applicable laws and restrictions on the payment of dividends and other amounts contained in relevant financing and other arrangements. Payments under the Debt Securities are effectively subordinated to all existing and future liabilities and obligations of each of the Issuer's subsidiaries, jointly controlled entities, and associates. Claims of creditors of such companies will have priority as to the assets of such companies over the Issuer and its creditors, including holders of the Debt Securities. As at 31 March 2020, the Group had aggregate indebtedness (comprising bank loans, current portion of long-term debt, and long-term debt - net of current portion) of ₱396,457.1 million.

The Issuer, as the parent holding company, is actively involved in the planning and financing activities of its subsidiaries. Also, the Issuer has majority control of these subsidiaries' boards of directors, thereby allowing it to exercise significant influence in the management and policy formulation processes of these subsidiaries in terms of, among others, business strategy, profit generation and dividend declaration.

Any restriction or prohibition on the Issuer's subsidiaries' and associates' ability to distribute dividends would have a negative effect on its financial condition and results of operations.

The Issuer is a holding company that conducts all of its operations through its subsidiaries and associates. As a holding company, the Issuer's revenues are derived from, among other sources, dividends and management fees paid to the Issuer by its subsidiaries and associates. The Issuer is reliant on such sources of funds with respect to its obligations and in order to finance its subsidiaries. The ability of the Issuer's direct and indirect subsidiaries and associates to pay dividends to their shareholders (including the Issuer) is subject to applicable law and may be subject to restrictions contained in loans and/or debt instruments of such subsidiaries and may also be subject to the deduction of taxes.

In addition, the declaration of dividends by Philippine banks is subject to approval by the BSP, thereby affecting the payment of dividends from BDO and China Bank to the Issuer.

Any restriction or prohibition on the ability of some or all of the Issuer's subsidiaries or associates to distribute dividends or make other distributions to the Issuer, either due to regulatory restrictions, debt covenants, operating difficulties or other limitations, could have a negative effect on the Issuer's cash flow and therefore its financial condition and results of operations.

As aforementioned, the Issuer, as a parent holding company, has majority control in the management and in the boards of directors of its subsidiaries. The Issuer can thus exert its influence on matters relating to these subsidiaries' respective managements, compliance with applicable regulatory and contractual restrictions and dividend declaration.

The Issuer is controlled by the Sy Family, whose interests may not be the same as those of other shareholders.

As of 30 June 2020, the Sy Family, directly or indirectly, controls approximately 52.5% of the outstanding shares. Accordingly, the Sy Family is able to elect members of the Board and pass shareholder resolutions which, under the By-laws, generally require a majority vote by its shareholders. In addition, members of the Sy Family hold three out of eight seats on the Board. Accordingly, the Sy Family exercises control over major policy decisions of the Issuer, including its overall strategic and investment decisions, dividend plans, issuances of securities, adjustments to its capital structure, mergers, liquidation or other reorganization and amendments to its Articles of Incorporation and By-laws. If the interests of the Sy Family conflict with the interests of other shareholders of the Issuer, there can be no assurance that the Sy Family would not cause the Issuer to take action in a manner which might differ from the interests of other shareholders.

The Issuer has in place a corporate governance structure which is consistent with requirements set forth by Philippine regulations. Furthermore, it has three independent directors in its Board who actively participate in enforcing the governance structures' mandate to protect the interests of all shareholders, including the minorities. The Issuer is also professionally managed by executives and officers with expertise in their respective fields.

The Issuer's businesses have significant levels of related party transactions and are interdependent, and any material adverse change in one member of the Group could adversely affect the results of operations of other members of the Group, including SMIC.

A significant part of the business undertaken by members of the Group is conducted with other members of the Group, as well as other affiliated companies owned by the Sy Family which are not within the Group. The operations of many members of the Group are interdependent. These transactions include those described under "Related Party Transactions" and the notes to the Financial Statements appearing elsewhere in this Prospectus. In addition, the Issuer expects that in the future, Group companies will continue to enter into transactions with each other as well as other companies directly or indirectly controlled by or associated with the Sy Family. These transactions may involve conflicts of interest, which, although not contrary to law, may be detrimental to the Issuer. Conflicts of interest may also arise between the Sy Family and the Issuer in a number of other areas relating to the Issuer's businesses, including:

- major business combinations involving the Group, including transfers of affiliated companies into the Group (see "Related Party Transactions");
- plans to develop the respective businesses of the Group and of other entities within the Group; and
- business opportunities that may be attractive to both the Sy Family and SMIC.

Such interdependence may mean that any material adverse change in one member of the Group, or companies which are controlled by the Sy Family, could adversely affect the results of operations of other members of the Group, including the Issuer.

In addition, certain members of the Group, such as SM Prime, have contractual arrangements with companies controlled by the Sy Family. The Issuer's policy is that transactions between Group companies and companies which are controlled by the Sy Family are undertaken on an arm's length commercial basis.

While there are related party transactions which provide synergy between the various subsidiaries, these are made on arm's length commercial market terms. Each subsidiary is managed and operated independently in these transactions and each company is responsible for its results of operations.

The Issuer has conducted and may continue to conduct acquisitions, the impact of which could be less favorable for its activities and results than anticipated, or which could affect its financial situation.

As part of its business strategy, the Issuer has conducted and continues to carry out acquisitions of varying sizes, some of which are significant at the Group level. These acquisitions involve numerous risks, including the following: (i) the assumptions used in the underlying business plans may not prove to be accurate, in particular with respect to synergies and expected commercial demand; (ii) the Issuer may not integrate acquired businesses, technologies, products, personnel and operations effectively; (iii) the Issuer may fail to retain key employees, customers and suppliers of the companies acquired; (iv) the Issuer may be required or wish to terminate pre-existing contractual relationships, which could be costly and/or on unfavorable terms; and (v) the Issuer may increase its indebtedness to finance these acquisitions. As a result, it is possible that the expected benefits of completed or future acquisitions may not materialize within the time periods or to the extent anticipated, or affect the Issuer's financial condition.

Prior to pursuing acquisition opportunities, the Issuer undertakes a comprehensive evaluation of these opportunities' fit with the Group's overall business strategy. Part of this process involves, aside from determining potential synergies, a determination of the appropriate integration strategies and plans to adopt in order to effectively realize these potential benefits in efficiencies and synergies. It likewise undertakes a comprehensive due diligence evaluation of potential acquisition or investee companies in order to determine the necessary governance, strategic and operating plans to adopt in order to mitigate acquisition risks.

Depending on the circumstances of the transaction, such merger and/or acquisition may require the submission of a written notification with the Philippine Competition Commission ("PCC") in compliance with the requirements of Republic Act No. 10667 (the "Philippine Competition Act"). There is a risk that the notification process may delay the completion of any proposed merger/acquisition or that the PCC may find that the proposed merger/acquisition has an "anti-competitive effect".

Infringement of the SM intellectual property rights would have a material adverse effect on the Group's business.

The Group utilizes trademarks and other intellectual properties in the conduct of its business. Over the years, the tradename SM, its logos, including its in-house brands have gained public goodwill and popularity. Hence, these trademarks are important to the Group's success and competitive position.

The Group registers its brands to ensure that their intellectual property rights are duly protected. Apart from actively monitoring and maintaining the validity of these registrations, the Group is also active in brand enforcement and protection. The Issuer believes that it is still good management expertise that determines the success of its business undertakings and the strength of these brands. While the Group takes a proactive approach to protect its intellectual property rights, there can be no assurance that there will be no infringement committed against these brands, including the tradename SM. There can be no assurance that others will not assert their rights or claims against the Group's intellectual property. The Group's business, financial condition and results of operations may be materially and adversely affected by intellectual property infringements and/or disputes with others.

The Group's debt leverage will be increased following the issue of the Bonds.

As at 31 March 2020, the Group had aggregate indebtedness (comprising bank loans, current portion of long-term debt, and long-term debt - net of current portion) of ₱396,457.1 million, on a consolidated basis and total equity of ₱538,234.1 million, resulting in a debt-equity ratio of approximately 42:58. Following the issue of the Bonds, the Group's indebtedness on a consolidated basis will increase to ₱401,457.1, and its debt-equity ratio will increase to approximately 43:57 (see "Capitalization and Indebtedness"). The increase in the Group's level of outstanding debt following this Offer will increase the Group's exposure to a number of risks associated with debt financing, including the risk that cash flows from the Group's operations will be insufficient to meet required payments of principal, the risk that the repayment of the Group's foreign currency loans may be adversely affected if the peso depreciates against the US dollar, the risk that the Group will become more vulnerable to general adverse economic and industry conditions and the risk that it may not be possible to obtain refinancing on favorable terms when required or if at all. Although the Group anticipates that it will be able to repay or refinance existing debt, and any other indebtedness when it matures, there can be no assurance that it will be able to do so.

The Group's resulting gross debt-equity ratio of 43:57, subsequent to the issue of the Bonds, shall remain well within its maximum permissible ratio of 80:20 as set out in the Group's debt covenants.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

Risks Relating to the Group's Malls and Property Businesses

The Philippine property market is cyclical and can be affected by domestic and global economic conditions.

SM Prime derives a substantial portion of its revenue from rents and sales relating to its portfolio of malls, residential and commercial property developments and other leisure and mixed-use properties, substantially all of which are located in the Philippines. Accordingly, SM Prime is heavily dependent on conditions in the Philippine property market. In the past, the Philippine property market has been cyclical, and property values have been affected by the supply of and demand for comparable properties, the rate of economic growth in the Philippines and political and social developments.

Since the second half of 2008, the global financial markets have experienced, and may continue to experience, significant dislocations, which originated from the liquidity disruptions in the United States and the European Union credit and sub-prime residential mortgage markets. These disruptions and other events, such as rising government deficits and debt levels, the sovereign credit ratings downgrades and ensuing public deficit and debt reduction measures of the United States and certain member states of the European Union, the risk of a partial collapse of the Eurozone and slower rates of growth in the Chinese economy have had and continue to have a significant adverse effect on the global financial markets. In particular, the global financial crisis in 2008 and 2009 resulted in a generally negative effect on real estate property prices globally, including in the Philippines, and continued uncertainty and volatility in global economic conditions may result in further adverse impacts to SM Prime. These adverse effects can result in, among others, lower demand and values for real estate in the Philippines, increased difficulties on the part of tenants in meeting their lease and other financial obligations, and greater difficulties for SM Prime in obtaining financing where necessary to fund the acquisition and development of their real estate projects.

SM Prime's growth is largely dependent on its ability to construct profitable malls in new locations in the Philippines. The substantial majority of the aggregate net leasable area in these malls is dedicated to retail use, exposing SM Prime to risks relating to economic conditions in the Philippines such as trends in consumer spending, exchange rates and spending patterns of OFWs and their dependents, and the supply of, or demand from, tenants for retail space and other competing commercial malls. Declines in consumer spending and other factors that may result in lower demand for retail space could have a material adverse effect on SM Prime's ability to successfully operate and develop existing and future malls.

In addition, demand for new residential projects in the Philippines has fluctuated in the past as a result of prevailing economic conditions in both the Philippines and in other countries, such as the United States (including overall growth levels and interest rates), the strength of overseas markets (as a substantial portion of demand comes from Overseas Filipino Workers ("OFWs") and expatriate Filipinos), the political and security situation in the Philippines and other related factors.

General cyclical trends in the Philippines and international property markets, as well as significant uncertainties and volatilities in the domestic, regional and global economic conditions affecting those property markets, are expected to continue, and accordingly SM Prime's results of operations may fluctuate from period to period in accordance with those fluctuations. There can be no assurance that such variances will not have a material adverse effect on the business, financial condition and results of operations of

SM Prime.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

SM Prime will continue to compete with other mall operators and commercial and residential developers.

SM Prime competes with other developers and operators of shopping malls and other commercial properties and residential properties for tenants, sales customers and land acquisition opportunities, among others.

SM Prime's malls compete with other similar malls. Increased competition could adversely affect income from, and the market values of, the malls. The income from, and market values of, the malls are largely dependent on the ability of the malls to compete against other retail malls in their area in attracting and retaining tenants. In addition, tenants at the malls face increasing competition from specialty stores, general merchandise stores, discount stores, warehouse outlets and street markets, which may affect the ability or willingness of such tenants to continue renewing their leases. Important factors that affect the ability of retail malls to attract or retain tenants include the popularity of the malls with retail customers, which is a function of the quality of the malls' existing tenants and the attractiveness of the building and the surrounding area. Attracting and retaining tenants and customers often involves refitting, repairing or making improvements to mechanical and electrical systems and outward appearance. If competing malls of a similar type are built in the areas where the malls are located or similar malls in the vicinity of the malls are substantially updated and refurbished, the value and net income of the malls could be reduced.

SM Prime's income from, and market values of, its residential development projects is largely dependent on these projects' popularity when compared to similar projects in their areas, as well as on the ability of SM Prime to gauge correctly the market for its projects. Important factors that could affect SM Prime's ability to compete effectively include a project's relative location versus that of its competitors, particularly proximity to transportation facilities and commercial centers, as well as the quality of the housing and related facilities offered by SM Prime and the overall attractiveness of the project.

SM Prime's commercial investment property business competes with a number of commercial developers. Competition from other developers of neighboring commercial centers and office spaces may adversely affect SM Prime's ability to operate successfully its investment properties or attract and retain tenants, and continued development by these and other market participants could result in saturation of the market for office space. In addition, SM Prime's major competitors may have greater experience, financial resources and more expertise in developing commercial properties and commercial leasing operations.

SM Prime's future growth and development will also depend, in part, on its ability to acquire or enter into agreements to develop additional tracts of land suitable for the types of mall, residential and commercial real estate projects that SM Prime has developed over the years. SM Prime may experience difficulty locating parcels of land of suitable size in locations and at prices acceptable to SM Prime, particularly parcels of land located in areas surrounding Metro Manila and in other urban areas throughout the Philippines. In the event SM Prime is unable to acquire suitable land at acceptable prices, or at all, its growth prospects could be limited and its business and results of operations could be adversely affected.

As a result of the foregoing, historical operating results of the malls may not be indicative of future operating results and historical market values of the malls may not be indicative of future market values. A failure by SM Prime to compete effectively against other developers and operators of malls and other commercial properties and residential properties could result in a loss of market share in the relevant sectors and corresponding decreases in revenues from rentals and property sales, which would in turn negatively impact SM Prime's businesses, financial condition and results of operations and, consequently, the financial condition and results of operations of the Issuer.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

SM Prime is exposed to risks associated with the operation of its malls and commercial businesses.

The operations of SM Prime's malls and commercial businesses are subject to risks relating to the ownership of properties for lease and the management of mall and commercial tenants. The performance of SM Prime's malls and commercial properties could be affected by a number of factors, including:

- the national and international economic climate;
- trends in the Philippine commercial and retail industry;
- ability to attract leading names in the retail market to SM Prime's mall and commercial developments;
- ability to anticipate the future technological and infrastructure needs of BPO tenants and effectively design properties to meet those needs;
- efficiency in collection, property management and tenant relations;
- non-renewal of expiring tenancies;
- amount of disposable income and consumer preference;
- competition for tenants;
- changes in market rental rates;
- the need to periodically renovate, repair and re-let space and the costs thereof;
- the quality and strategy of the management services provided; and
- SM Prime's ability to provide adequate security, maintenance and insurance.

In particular, SM Prime's commercial development projects comprise twelve office buildings catering primarily to tenants operating in the BPO industry. Adverse trends in the Philippines' BPO industry and competitive environment could result in the inability of existing BPO tenants to honor their lease commitments, as well as lower demand among potential BPO clients for vacant space.

If SM Prime is unable to lease its mall and commercial properties in a timely manner or collect rent at profitable rates or at all, this could materially and adversely affect SM Prime's business, financial condition and results of operations, as well as the financial condition and results of operations of the Issuer.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

SM Prime faces numerous risks including reputational risk and operational risks relating to its residential and commercial businesses.

Prime's operations include the development and sale of residential properties and the development and lease of office and commercial properties. The property development business involves significant risks distinct from those involved in the ownership and operation of established properties, including the risk that SM Prime may invest significant time and money in a project that may not attract sufficient levels of demand in terms of anticipated sales or rentals at the expected take-up rate and which may not yield target returns as anticipated. In addition, obtaining required approvals and permits from various Philippine regulatory agencies may take substantially more time and resources than anticipated and construction of projects may not be completed on schedule or within budget.

The time and the costs involved in completing the development and construction of projects can be adversely affected by many factors, including shortages of materials, equipment and 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. Any of these factors could result in project delays and cost overruns, which could negatively affect SM Prime's margins.

SM Prime's reputation could also be adversely affected if projects are not completed on time or if projects do not meet customers' requirements. If any of SM Prime's projects experiences construction or infrastructure failures, design flaws, significant project delays, quality control issues or otherwise, this could negatively affect its brand image and its ability to pre-sell its residential development projects. This would reduce cash flow and impair its ability to meet funding requirements.

Project delays, cost overruns and construction issues could also result in sales and resulting profits from a particular development not being recognized in the year in which it was originally expected to be recognized, which could adversely affect SM Prime's results of operations. Further, the failure by SM Prime to complete construction of a project to its planned specifications or schedule may result in cost overruns and possible abandonment of projects by contractors, as well as lower returns. Moreover, orders of the Philippine Department of Agrarian Reform (the "DAR") allowing conversion of agricultural land for development may require a project to complete construction by a prescribed deadline. If SM Prime fails to complete construction of a project by the stated deadline, the DAR may revoke its order allowing the use of agricultural land for SM Prime's intended purpose.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

SM Prime is exposed to general risks associated with the ownership and management of real estate.

Real estate investments are generally illiquid, limiting the ability of an owner or a developer to convert property assets into cash on short notice with the result that property assets may be required to be sold at a discount in order to ensure a quick sale. Such illiquidity will also limit the ability of SM Prime to manage its portfolio in response to changes in economic, real estate market or other conditions.

Property investment is also subject to risks incidental to the ownership and management of residential and commercial properties including, among other things: competition for tenants; oversupply of, or reduced demand for, retail, office and residential space; changes in market rents; inability to renew leases at favorable rates or at all; inability to collect rents due to insolvency of tenants, or otherwise as a result of their inability or refusal to comply with lease commitments as a result of adverse business conditions or other factors; inability to dispose of major investment properties for the values at which they are recorded; increased operating costs; the need to renovate, repair and re-let space periodically and to pay the associated costs; wars, terrorist attacks, riots, civil commotions and natural disasters; and other events beyond SM Prime's control.

SM Prime's activities may also be impacted by changes in laws and governmental regulations in relation to real estate, including those governing usage, zoning, taxes and government charges. Such revisions may lead to an increase in management expenses or unforeseen capital expenditure to ensure compliance. Rights related to the relevant properties may also be restricted by legislative actions, such as revisions to the laws relating to building standards or town planning laws, or the enactment of new laws relating to government appropriation, condemnation and redevelopment. For example, several of SM Prime's properties are registered as a Philippine Economic Zone ("PEZ"), which entitles them to certain benefits for the tenants that are located there, including tax advantages. If such properties were to lose their favorable

PEZ status, these benefits may be lost. Any of these events could materially and adversely affect SM Prime's businesses, financial condition and results of operations.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

SM Prime generates a portion of its rental revenues from affiliated companies.

SM Prime derives a substantial portion of its rental income from affiliated and anchor tenants, most of whom are affiliates of the SM Group, to maintain sufficient foot traffic at its malls and other retail properties. There can be no assurance that, despite their longstanding and symbiotic relationship with SM Prime, certain anchor tenants would not terminate their lease, which could adversely affect SM Prime's total rental revenue, nor can there be any assurance that SM Prime would be able to locate similar, suitable replacement tenants. Furthermore, there can be no assurance that such affiliated tenants will not relocate to another space or renegotiate leases on terms more favorable to them. A partial or total loss of these tenants could have a material adverse effect on SM Prime's businesses, financial condition and results of operations and, consequently, adversely affect the financial condition and results of operations of the Issuer.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

SM Prime faces risks relating to the management of its land bank.

SM Prime will need to acquire land for replacement and expansion of land inventory within its current markets. However, it may not be possible to acquire land in suitable locations and on commercially reasonable terms. These challenges are exacerbated by the highly competitive real estate industry in Metro Manila and its surrounding areas, where SM Prime competes with other real estate companies, some of which may have more resources than SM Prime, for land acquisition and the right to participate in land reclamation projects. There can be no assurance of reaching agreement in respect of the lease or purchase of any specific property or properties. In the event that SM Prime is unable to acquire suitable land, its growth prospects could be limited.

The risks inherent in purchasing and developing land increase as consumer demand for residential real estate decreases. The market value of land, subdivision lots and housing inventories can fluctuate significantly as a result of changing market conditions. There can be no assurance that measures employed to manage land inventory risks will be successful. In the event of significant changes in economic, political or market conditions, SM Prime may have to sell subdivision lots and housing and condominium units at significantly lower margins or at a loss. Changes in economic or market conditions may also require SM Prime to defer the commencement of housing and land development projects, which would require carrying the cost of acquired but undeveloped land on-balance sheet, as well as reducing the amount of property available for sale. Any of the foregoing events would have a material adverse effect on SM Prime's business, financial condition and results of operations and, consequently, adversely affect the financial condition and results of operations of the Issuer.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

SM Prime operates in a highly regulated environment and it is affected by the development and application of regulations in the Philippines.

The Philippines property development industry is highly regulated. The development of condominium, subdivision and other residential projects, commercial projects and land reclamation projects is subject to a wide range of government regulations, which, while varying from one locality to another, typically include zoning considerations as well as the requirement to procure a variety of environmental and construction-related permits. In addition, projects that are to be located on agricultural land, must get clearance from the DAR so that the land can be reclassified as non-agricultural land and, in certain cases, tenants occupying agricultural land may have to be relocated at a developer's expense. Presidential Decree No. 957, as amended, ("P.D. 957"), Republic Act No. 4726, as amended, ("R.A. 4726"), Republic Act No. 6552 (the "Maceda Law") and Batas Pambansa Blg. 220 ("B.P. 220") are the principal statutes which regulate the development and sale of real property as part of a condominium or subdivision project. P.D. 957, R.A. 4726 and B.P. 220 cover subdivision projects for residential, commercial, industrial or recreational purposes and condominium projects for residential or commercial purposes. The Maceda Law governs the sale of property on installment. The Housing and Land Use Regulatory Board ("HLURB") is the administrative agency of the Government which enforces these statutes. Regulations applicable to SM Prime's operations include among others:

- the suitability of the site;
- road access;
- necessary community facilities;
- open spaces and common areas;
- water supply;
- sewage disposal systems;
- electricity supply; and
- unit/lot sizes.

Since 2008, HLURB has required all property developers in the Philippines to partake in the development of socialized housing projects. Under Section 18 of the Republic Act No. 7279, developers of subdivision projects are required to develop an area for socialized housing equivalent to at least 20% 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 HLURB and other existing laws. Property developers are not allowed to buy credits from property firms already involved in socialized housing development, rather, they are required to comply with the rule by participating in: a) development of settlement; b) slum upgrading or renewal of areas for priority development either through zone improvement programs or slum improvement and resettlement programs; c) joint venture projects with either local government units ("LGUs") or any of the housing agencies; or d) participation in the community mortgage program. If SM Prime does not comply with this requirement, it may be subject to fines or other sanctions which would adversely impact its business and results of operations.

All condominium and subdivision development plans are also required to be filed with and approved by the LGU with jurisdiction over the area where the project is located. 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. Alterations of approved plans that affect significant areas of the project, such as infrastructure and public facilities, also require prior approval of the relevant LGU. There can be no assurance that SM Prime will be able to obtain governmental approvals for its projects or that, when given, such approvals will not be revoked.

In addition, developers, owners of or dealers in real estate projects are required to obtain licenses to sell before making sales or other dispositions of condominium units, subdivision lots and housing units.

Project permits and any license to sell may be suspended, cancelled or revoked by HLURB based on its own findings or upon complaint from an interested party, and there can be no assurance that SM Prime will in all circumstances receive the requisite approvals, permits or licenses or that such permits, approvals or licenses will not be cancelled or suspended. Any of the foregoing circumstances or events could affect SM Prime's ability to complete projects on time, within budget or at all, and could materially and adversely affect SM Prime's business, financial condition and results of operations.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

Zoning restrictions and local opposition may delay or preclude construction.

In order to develop a property on a particular site, the zoning of such site must permit the development of the intended type of residential, office and/or retail activities. In instances where the existing zoning is not suitable or in which the zoning has yet to be determined, SM Prime will be required to apply for the required zoning classifications. This procedure may be protracted, particularly where the bureaucracy is cumbersome and inefficient, and there can be no assurance that the process of obtaining proper zoning will be completed with sufficient speed to enable the residential, office and/or retail developments to be completed ahead of any competitor development, or at all. Opposition by local residents to zoning and/or building permit applications may also cause considerable delays. SM Prime's plans to build on reclaimed land in the future may also face public opposition. In addition, arbitrary changes to applicable zoning by the relevant authorities may jeopardize projects that have already commenced. Therefore, a failure by SM Prime to receive zoning approvals, or delays in the receipt of such zoning approvals, could result in increased costs, which could have a material adverse effect on SM Prime's businesses, financial condition and results of operations and, consequently, adversely affect the financial condition and results of operations of the Issuer.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

Infringement of intellectual property rights could have a material adverse effect on SM Prime's business.

Upon commencement of development of new projects, SM Prime generally files applications for the registration of intellectual property rights with respect to the names of certain of its real estate products, as well as for trademarks.

There can be no assurance that such applications will be approved or that the actions SM Prime has taken will be adequate to prevent third parties from using its corporate brands and logos, or from naming brands or developments using the same brands that SM Prime will use. In addition, there can be no assurance that third parties will not assert rights in, or ownership of, the trademarks and other intellectual property rights of SM Prime. SM Prime believes that the reputation and track record established under its intellectual property rights such as the "SM" name (which, together with other SM trademarks and logos, is owned by SMIC and its affiliated companies) is a key to future growth, and accordingly, SM Prime's business, financial condition and results of operations may be materially and adversely affected by the infringing use of the "SM" and related brand names by third parties, or if in any way SM Prime is restricted from using such marks.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

Land and/or real property may be subject to compulsory acquisition.

Under Philippine law, the Government has the power to acquire any land in the Philippines if such acquisition is for public benefit or utility or any other public interest. Accordingly, in the event that land is compulsorily acquired from SM Prime, SM Prime's businesses, financial condition and results of operations could be adversely affected.

In addition, real property and/or land owned by SM Prime and located outside of the Philippines may be compulsorily acquired by the respective governments of the countries in which they are located for public use or for public interest.

The owner of such real property that has been compulsorily acquired may be compensated in accordance with the laws of the respective jurisdictions, which compensation may be less than its market value. Any instance of land being compulsorily acquired from SM Prime may materially and adversely affect SM Prime's business, financial conditions and results of operations and, consequently, the financial condition and results of operations of the Issuer.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

SM Prime faces risks inherent in joint venture structures and/or funds.

SM Prime has interests in joint venture entities and/or funds in connection with its property development and investment plans, including integrated developments. Disagreements may occur between SM Prime, on the one hand, and their joint venture partners and/or third-party fund investors, as the case may be, regarding the business and operations of the joint ventures and/or funds which may not be resolved amicably. In addition, joint venture partners and/or third-party fund investors may (i) have economic or business interests or goals that are inconsistent with those of SM Prime; (ii) take actions contrary to SM Prime's instructions, requests, policies or objectives; (iii) be unable or unwilling to fulfill their obligations; (iv) have financial difficulties; or (v) have disputes as to the scope of their responsibilities and obligations.

Additionally, in light of the current economic climate, joint venture partners or third-party fund investors (i) may not be able to fulfill their respective contractual obligations (for example, they may default in making payments during future capital calls or capital raising exercises); or (ii) may experience a decline in their creditworthiness. The occurrence of any of these events may materially and adversely affect the performance of joint ventures and/or funds, which in turn may materially and adversely affect SM Prime's performance.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

Construction defects and other building-related claims may be asserted against SM Prime, and SM Prime may be subject to liability for such claims.

Philippine law provides that property developers, such as SM Prime, warrant the structural integrity of residential developments that were designed or built by them for a period of 15 years from the date of completion of the development. SM Prime may also be held responsible for hidden (i.e. latent or non-observable) defects in a residential property sold by it when such hidden defects render the property unfit for the use for which it was intended or when its fitness for such use is diminished to the extent that the buyer would not have acquired it or would have paid a lower price had the buyer been aware of the hidden defect.

This warranty may be enforced within six months from the delivery of the residential property to the buyer. In addition, Republic Act No. 6541, as amended, or the National Building Code of the Philippines (the "Building Code"), which governs, among other things, the design and construction of buildings, sets certain requirements and standards with which SM Prime must comply. SM Prime or its officials may be held liable for administrative fines or criminal penalties in the case of any violation of the Building Code.

There can be no assurance that SM Prime will not be held liable for damages, the cost of repairs, and/or the expense of litigation surrounding possible claims or that claims will not arise out of uninsurable events, such as landslides or earthquakes, or circumstances not covered by SM Prime's insurance. If these damages are not covered by warranty and indemnification clauses in SM Prime's agreements with contractors, the resulting liabilities could have an adverse effect on SM Prime's business, financial condition and results of operations and, consequently, adversely affect the financial condition and results of operations of the Issuer.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

SM Prime may suffer material losses in excess of insurance proceeds.

SM Prime's portfolio of malls, residential properties and other real estate assets could suffer physical damage caused by fire, flooding, typhoons, earthquakes or other causes, or third-party liability claims, any of which could result in losses (including loss of rent) which may not be fully compensated for by insurance. SM Prime may also be exposed to liability for damages or injuries from accidents occurring on its properties. In addition, certain types of risks and insurance cover (such as war risk and acts of terrorism) may be uninsurable or the cost of insurance may be prohibitive when compared to the risk. Should an uninsured loss or a loss in excess of insured limits occur, SM Prime could lose capital invested in the affected property as well as any anticipated future revenue from such property, and may also remain liable for any debt or other financial obligation related to such property. No assurance can be given that material losses in excess of insurance proceeds will not occur in the future.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

SM Prime faces property development risk.

The property development business involves significant risks distinct from those involved in the ownership and operation of established properties, including the risks that Government approvals may take more time and resources to obtain than expected; that construction may not be completed on schedule or budget; and that the properties may not achieve anticipated sales, rents or occupancy levels.

In addition, development projects typically require substantial capital expenditure during construction and it may take years before property projects generate cash flows. There is the risk that financing for development may not be available under favorable terms, or that construction may not be completed on schedule or within budget. The time and the costs involved in completing construction can be adversely affected by many factors, including shortages of materials, equipment and labor; adverse weather conditions; natural disasters; labor disputes with contractors and subcontractors; accidents; changes in Government priorities; and unforeseen problems or circumstances. The occurrence of any of these factors could give rise to delays in the completion of a project and result in cost overruns. This may also result in the profit on development for a particular property not being recognized in the year in which it was originally anticipated to be recognized, which could adversely affect SM Prime's profits recognized for that year. Further, the failure by SM Prime or any of its subsidiaries to complete construction of a project to its planned specifications or schedule may result in liabilities, reduced project efficiency and lower returns. No assurance can be given that such events will not occur in a manner that would adversely affect the results of operations or financial condition of SM Prime and, consequently the results of operations and financial condition of the Issuer.

Furthermore, properties presently in the name of SM Prime or those acquired in the future may be subject to various lawsuits and/or claims, which, if resolved against SM Prime, will result in the loss or reduction in size of the particular property subject of the lawsuit.

To mitigate these risks, SM Prime ensures that its project developments are carefully planned. SM Prime relies on the services of reputable, high quality, independent contractors for their projects and maintains good business relationships with these contractors. SM Prime adheres to the strategy of developing each project in phases to minimize exposure to such risks. Further, each company keeps within a conservative level of leverage. Although the current liquidity and depth of the Philippine credit market renders funding risk as unlikely, the companies have unutilized credit lines as buffer for unanticipated requirements. The companies also ensure that all required governmental approvals are obtained and kept updated on any developments in regulations concerning the real estate industry.

SM Prime will continue to face certain risks related to the cancellation of sales involving its residential projects.

SM Prime's operations involving the development and sale of residential real estate could be adversely affected in the event that a material number of condominium unit, subdivision lot or house and lot sales are cancelled. SM Prime's transactions are subject to the Maceda Law, which applies to all transactions or contracts involving the sale or financing of real estate through installment payments paid to the developer, including residential condominium units (but excluding industrial and commercial lots). Under the Maceda Law, buyers who have paid at least two years of installments are granted a grace period of one month for every year of paid installments to cure any payment default. A buyer is given such a right only once every five years during the life of the contract and its extensions, if any. If the contract is cancelled, the buyer is entitled to receive a refund of at least 50% of the total payments made by the buyer. Buyers who have paid less than two years of installments and who default on installment payments are given a 60 day grace period to pay all unpaid installments before the sale can be cancelled, but without the right of refund.

While historically SM Prime has not experienced a material number of cancellations to which the Maceda Law has applied, there can be no assurance that SM Prime will not experience a material number of cancellations in the future, particularly during slowdowns or downturns in the Philippine economy, periods when interest rates are high or similar situations or if SM Prime fails to meet the construction schedules of launched projects. In the event SM Prime does experience a material number of cancellations, it may not have enough funds on hand to pay the necessary cash refunds to buyers, or it may have to incur indebtedness in order to pay such cash refunds. In addition, particularly during an economic slowdown or downturn, there can be no assurance that SM Prime would be able to resell the same property at an acceptable price or at all. Any of the foregoing events would have a material adverse effect on SM Prime's business, financial condition and results of operations and, consequently, adversely affect the financial condition and results of operations of the Issuer.

From time to time SM Prime will commence construction of a condominium project or house even before the full amount of the required down payment is made and thus, before the sale is recorded as revenue. SM Prime will therefore risk having expended cash to begin construction of the condominium project or the house before being assured that the sale will eventually be booked as revenue, particularly if the buyer is unable to complete the required down payment and SM Prime is unable to find another purchaser for such property.

There can be no assurance that SM Prime will not suffer from substantial sales cancellations and that such cancellations will not materially and adversely affect SM Prime's business, financial condition and results of operations and, consequently, the financial condition and results of operations of the Issuer.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

The loss of certain tax exemptions and incentives for residential home sales may increase the price of SM Prime's residential units and may lead to a reduction in sales.

SM Prime's customers benefits from provisions under Philippine law and regulations which exempt sales of residential lots with a gross selling price of ₱1,919,500 and below and sales of residential houses and lots with a gross selling price of ₱3,199,200 and below from the value-added tax ("VAT") of 12.0%. Unless amended, beginning January 1, 2021, the VAT exemption shall only apply to sale of real properties not primarily held for sale to customers or held for lease in the ordinary course of trade or business, sale of real property utilized for socialized housing as defined by Republic Act No. 7279, sale of house and lot and other residential dwellings with selling price of not more than ₱2,000,000, and subject to readjustment every three (3) years thereafter. However, if two or more adjacent lots, or houses and lots, are sold to one buyer from the same seller for the purpose of utilizing them as one residential area, the sale shall be exempt from VAT only if the aggregate value of the properties does not exceed the threshold prices for exemption. Adjacent lots or houses and lots sold to the same person shall be presumed to be a sale of one residential area although covered by separate titles and/or tax declarations and by separate deeds of conveyance. In the event that sales become subject to VAT, due to a change in Government policy or otherwise, the purchase prices for SM Prime's subdivision lots and housing and condominium units will increase and this could adversely affect its sales. Because taxes such as the VAT are expected to have indirect effects on SM Prime's results of operations by affecting general levels of spending in the Philippines and the prices of subdivision lots and houses, any adverse change in the Government's VAT-exemption policy could have an adverse effect on SM Prime's results of operations and, consequently, on the results of operations of the Issuer.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

Risks Relating to the Retail Operations

The success of SM Retail is premised upon its ability to satisfy consumer preferences and spending trends in the markets it serves as well as its ability to retain its existing supplier base and secure new ones.

The success of SM Retail partially depends on its ability to anticipate and respond to changing consumer preferences in a timely manner. However, it is often difficult to predict changes in consumer preferences, particularly in the area of apparel where fashion trends can be subject to rapid change. The SM Stores carry a wide selection of basic merchandise which may be less subject to fashion trends. The SM Stores believe they lead mass-market fashion trends in the Philippines by introducing apparel that has proved popular in places such as Hong Kong and Taiwan, as well as the United States. The SM Stores also tend to introduce more mainstream apparel fashion compared to that introduced by other retailers. Nevertheless, there can be no assurance that consumers in the Philippines will continue to prefer shopping in department stores over other retail formats such as specialty stores. Furthermore, SM Retail depends to a significant extent on Philippine spending trends. The sentiments of the Philippine retail industry, consumer preferences and spending patterns are influenced by external factors including, among others, the state of the Philippine economy and its political environment, the disposable income of Philippine consumers and the market's demographic profile. Failure to accurately predict constantly changing consumer tastes, preferences and spending patterns could adversely affect the short-term and long-term results of SM Retail.

While the Group regularly conducts market research to forecast changes in consumer preferences, and reviews the performance and viability of its portfolio of brands to ensure continued market acceptance, there is no assurance that its efforts can prepare it adequately to meet changing consumer preferences or spending habits. An inaccurate assessment of, or an untimely response to, changing consumer preferences could have a material adverse effect on the Issuer's financial condition and results of operations.

SM Retail has developed close relationships with a large number of suppliers in the Philippines. However, it does not have any long-term supply agreements with any supplier. SM Retail seeks to source its outright merchandise from a broad range of suppliers at competitive prices, and the Issuer continues to source merchandise from new suppliers to cover larger areas within its department stores and to respond to changes in consumer preference. A significant adverse change in the relationships and contract arrangements between SM Retail and suppliers could also have a material adverse impact on the Issuer's financial condition and results of operations.

The Group believes that its focus on quality, variety and value-for-money is its main competitive advantage. It is the objective of The SM Stores to maintain its leadership in the marketplace, to be at the forefront of retail technology, and to grow through effective consumer marketing and product diversification. The SM Stores' strategies involve providing value-for-money through their wide variety of competitively priced quality merchandise, thereby achieving high sales turnover. The Group's supermarkets carry extensive lines of both local and imported food and household products sourced from a diversified group of suppliers. Furthermore, the Group continuously upgrades its retail facilities to keep up with the prevailing trends in the department store business. The Group's suppliers are treated as partners in business. The Group ensures that its business partners' receivables are settled on time, and strives to continuously maintain good and close relationships with its suppliers. At the same time, SM Retail is constantly in search for good and reliable suppliers.

Non-renewal of leases or substantial increases in rent for the Issuer's retail stores may have a material adverse effect on the Issuer.

Some of the retail space in which the Issuer's retail stores are located is leased from independent third parties. There is no assurance that each of these leases will be renewed upon expiry or on terms and conditions that are acceptable to the Issuer. If such leases cannot be extended or renewed, the Issuer will have to find other appropriate premises and this may have a material adverse effect on its business, financial condition and results of operations if the new premises are not as appropriate to the Issuer's needs as the existing leased premises. Alternatively, if the existing leases can only be renewed on less favorable terms, this will increase the Issuer's operating expenses and thus its business, financial condition and results of operations may be materially and adversely affected.

The majority of the Group's retail facilities are located in its Malls owned by the Group. Those facilities located in properties not owned by the Group have renewable long-term lease contracts.

The future growth of SM Retail will be largely driven by the effectiveness and success of its expansion strategy.

The expansion strategy of SM Retail involves opening new stores as well as renovating and expanding existing stores. The successful implementation of such expansion plans depends upon many factors, including the Issuer's ability to:

- identify, negotiate, finance, obtain, lease or refurbish suitable store sites which may also be largely dependent on the expansion plans of SM Prime;

- integrate new stores into existing information systems and operations;
- hire, train and retain qualified personnel; and
- manage the diversion of resources.

The Issuer cannot guarantee that SM Retail will achieve its targets for opening new stores or for renovating or expanding existing stores, or that such stores will operate profitably when opened. Failure by SM Retail to implement its expansion strategy effectively could materially and adversely affect the Issuer's financial condition and results of operations.

The Group's expansion strategy involves the identification of strategic locations for SM Retail. Also, in each Mall owned by the Group, SM Retail is actively involved. In addition, the Group's strategy requires that the necessary management for expanded operations, as well as viable financing plans for these expansions, are well in place prior to any store opening.

SM Retail may be subject to increasing competitive pressures.

SM Retail is among the leading participants in the Philippine retail industry with a significant market share in department store and supermarket sales. There are few barriers to prevent new participants, including major international retailers or wholesalers who are ready to invest the necessary time and resources, from entering the retail industry. If an existing or new competitor in the market is successful in developing and marketing a retail concept that is comparable or more acceptable to the market, the Issuer's market share in the relevant market segment will decline and this may result in its future turnover and profitability being adversely affected.

The Retail Trade Liberalization Act, approved by the Government in March 2000, liberalizes foreign ownership restrictions in the retail sector and may encourage industry consolidation and greater competition. Any increase in competition could have an adverse effect on the operations of SM Retail in future periods, including, for instance, slower growth in their sales, lower margins and higher expenses as they seek to compete for new business or in new markets. See "Description of the Issuer and the Group - Retailing and Merchandising".

The Group believes that it has a strong franchise in the retail market due to its goodwill, locations, and strategy of regularly diversifying its product mix, upgrading its stores and facilities, and maintaining a diversified group of suppliers.

There can be no assurance that SM Retail is fully insured against unexpected losses.

The operations of SM Retail carry an inherent risk of loss caused by fire, resulting water damage, disruptions to electricity supply, terrorist attacks and other circumstances or events affecting their stores or the properties where their stores are located. Any such event, if it were to occur, may result in loss of life or property, loss of revenues or increased costs and could potentially result in significant litigation against SM Retail. In line with industry practice in the Philippines, the current insurance coverage does not cover any loss of revenues that SM Retail may suffer as a result of any disruption to their business. Although SM Retail seeks to maintain the most comprehensive insurance coverage that is available at commercially reasonable rates, there can be no assurance that their insurance coverage will adequately compensate them for all damage and economic losses resulting from any of the events noted above or that they will be able to procure adequate insurance coverage at commercially reasonable rates in the future.

The Group's existing insurance coverage is sufficient to cover for any possible losses in SM Retail. The Group annually reviews its existing insurance policies to ensure adequacy of coverage. Furthermore, the locations of the retail stores are widely spread throughout the country.

SM Retail's business activities are subject to seasonality and timing.

SM Retail's business experiences seasonal fluctuations in its turnover and operating income and generally records higher turnover in December, due to traditionally higher consumer spending around the Christmas season, and May, prior to schools opening in June. As a result of these fluctuations, comparisons of sales and operating results between different periods within a single financial year, or between different periods in different financial years, are not necessarily meaningful and cannot be relied on as indicators of the Issuer's financial and operating performance. Any seasonal fluctuations reported in the future may not match the expectations of investors.

Since the Issuer's business operates largely on a seasonal cycle, if SM Retail's business is unsuccessful in selecting the right product mix for a particular season, sales for that entire season could be significantly affected. In addition, any consequent reputational damage could have a negative impact on SM Retail's business sales in future seasons. The Issuer's results of operations may also fluctuate significantly as a result of a number of other factors, including, but not limited to, the timing of opening of new stores, merchandise mix and the timing of advertising and promotional campaigns depending on each season.

The Group believes that seasonality is typical in the retail industry. The Group therefore focuses on providing the correct product mix and maintaining its leadership in determining consumer preferences and upcoming product trends.

The food retailing industry is highly competitive and characterized by narrow profit margins.

The supermarket and hypermarket industry is highly competitive and characterized by narrow profit margins. The Issuer's competitors include national and regional supermarket and hypermarket chains, independent and specialty grocers, drug and convenience stores, warehouse club stores, deep discount drug stores and supercenters. Supermarket and hypermarket chains and Savemore stores generally compete on the basis of location, quality of products, service, price, product variety and store condition. The Issuer regularly monitors its competitors' prices and adjusts its prices and marketing strategy as management deems appropriate in light of existing conditions. There can be no assurance that new competitors will not enter the supermarket and hypermarket industry or that the Issuer can maintain its current market share. The Issuer's profitability could be impacted by the pricing, purchasing, financing, advertising or promotional decisions made by competitors.

Narrow profit margins are typical in the supermarket and hypermarket industries. Thus, the Group continuously expands its operations to increase volume turnover and enhance economies of scale, thereby improving the profitability of its supermarket and hypermarket operations.

As a result of selling food products, the Group faces the risk of exposure to product liability claims and adverse publicity.

The packaging, marketing, distribution and sale of food products purchased from others entail an inherent risk of product liability, product recall and resultant adverse publicity. Such products may contain contaminants that may be inadvertently redistributed by SM Supermarkets, SM Hypermarkets and Savemore. These contaminants may, in certain cases, result in illness, injury or death if processing at the foodservice or consumer level does not eliminate the contaminants. Even an inadvertent shipment of adulterated products is a violation of law and may lead to an increased risk of exposure to product liability claims. There can be no assurance that such claims will not be asserted against the Group or that the Group will not be obliged to perform such a recall in the future. If a product liability claim is successful, the Group's insurance may not be adequate to cover all liabilities it may incur, and it may not be able to continue to maintain such insurance, or obtain comparable insurance at a reasonable cost, if at all. If the Group does not have adequate insurance or contractual indemnification available, product liability claims relating to defective products could have a material adverse effect on the Group's ability to successfully market its products and on the Group’s business, financial condition and results of operations. In addition, even if a product liability claim is not successful or is not fully pursued, the negative publicity surrounding any assertion that the Group’s products caused illness or injury could have a material adverse effect on the Group’s reputation with existing and potential customers and on the Group’s business, financial condition and results of operations.

The Group’s typical insurance coverage includes potential losses from product liability claims. In addition, the Group actively selects appropriate suppliers which are carefully evaluated as reliable in providing quality products.

Risks Relating to the Banks

The Philippine banking industry is highly competitive and increasing competition may result in declining margins in the banks’ principal businesses.

BDO and China Bank are subject to significant levels of competition from many other Philippine banks and branches of international banks, including competitors which in some instances have greater financial and other capital resources, a greater market share and greater brand name recognition than the banks.

The recent mergers and consolidations in the banking industry, as well as the liberalization of foreign ownership regulations in banks, have allowed the emergence of foreign and bigger local banks in the market. For example, there has been increased foreign bank participation in the Philippines following the Monetary Board’s lifting of the ban on granting of new licenses, as well as the amendment of banking laws with respect to the limit on the number of foreign banks. This has led to Sumitomo Mitsui Banking Corporation, Cathay United Bank, Industrial Bank of Korea, Shinhan Bank, Yuanta Bank, United Overseas Bank, First Commercial Bank of Taiwan, Hua Nan Commercial Bank, Ltd. and Chang Hwa Commercial Bank, being granted new licenses, and also equity investments by Bank of Tokyo-Mitsubishi UFJ into Security Bank, Cathay Life into Rizal Commercial Banking Corporation and Woori Bank into Wealth Development Bank. In addition, the establishment of the ASEAN Economic Community in 2015 may enhance cross-border flows of financial services (in addition to goods, capital, and manpower) among member nations. This is expected to increase the level of competition both from Philippine banks and branches of international banks. This may impact the Philippine banks’ operating margins, but this would also enhance the industry’s overall efficiency, business opportunities and service delivery. As at 31 December 2019, according to data from the BSP, there were a total of 46, universal and commercial banks, domestic and foreign, operating in the Philippines.

In the future, BDO and China Bank may face increased competition from financial institutions offering a wider range of commercial banking services and products, larger lending limits, greater financial resources and stronger balance sheets than the banks. Increased competition may arise from:

- Other large Philippine banks and financial institutions with significant presence in Metro Manila and large country-wide branch networks;
- Full entry of foreign banks in the country through any of the following modes allowed under Republic Act No. 10641 (approved on 15 July 2014): a) the acquisition, purchase or ownership of up to 100% of the voting stock of an existing bank; b) investment in up to 100% of the voting stock of a new banking subsidiary incorporated under Philippine law; or c) establishment of branches with full banking authority;
- Domestic banks entering into strategic alliances with foreign banks with significant financial and management resources, and in some cases, resulting in excess capital that can be used as leverage for asset growth and market share gains;
- Continued consolidation and increased mergers and acquisitions in the banking sector involving domestic and foreign banks, driven in part by the gradual removal of foreign ownership restrictions;
- The emergence of financial technology (“FinTech”), or new technology that seeks to improve and

automate the delivery and use of financial services, including businesses such as an all-digital bank set up by CIMB and ING Direct and mobile payment tools or e-wallet applications such as GCash and PayMaya, and the growing popularity of peer-to-peer lending through digital platforms; and
- As banks venture into micro-finance and other consumer financing products, other consumer focused payers, including informal lenders.

There can be no assurance that BDO and China Bank will be able to compete effectively in the face of such increased competition, which also may make it difficult for the banks to continue to increase the size of their loan portfolio and deposit base. This could likewise result in increased pricing competition, which could have a material adverse effect on their growth plans, margins, results of operations and financial condition and, consequently, on the financial condition and results of operations of the Issuer.

An increase in interest rates could decrease the value of banks' securities portfolio and raise their funding costs

Domestic interest rates have remained low since 2009, with the monetary policy directed towards stimulating the economy. In 2018, however, domestic interest rates started to rise following the BSP's staggered 175 basis point hike in policy rates to subdue inflationary pressures from higher taxes under the R.A. 10963 or the Tax Reform for Acceleration and Inclusion ("TRAIN Law") (implemented in January 2018), rising global oil prices, an acute rice shortage, and a weaker peso. In 2019, the BSP has cumulatively cut its rates by 75 basis points to help bolster economic growth back to the government's target and with inflation on a downtrend.

At the Monetary Board meeting on 11 May 2018, the BSP increased its key policy rates for the first time since September 2014 by 25 basis points to 3.25% for overnight borrowing and 3.75% for overnight lending rates. The BSP further increased key policy rates by 25 basis points at the Monetary Board meeting on 20 June 2018 to 3.50% for overnight borrowing and 4.00% for overnight lending rates. On 9 August 2018 the BSP delivered its largest rate hike in a decade, raising rates by 50 basis points to 4.00% for overnight borrowing and 4.50% for overnight lending rates. The BSP further raised overnight borrowing and lending rates by 25 basis points to 4.25% and 4.75%, respectively, on 15 November 2018. Effective 10 May 2019, the Monetary Board decided to reduce the interest rate on the BSP's overnight borrowing to 4.5%; on 8 August 2019, to 4.25%; on 26 September 2019, to 4.00%; and on 6 February 2020, to 3.75%. The interest rates on the overnight lending and deposit facilities were reduced accordingly. However, there is no assurance that interest rates in the Philippines will not increase in the future, including in response to inflationary pressures resulting from strong economic growth, tax reforms and global developments.

An increase in interest rates could lead to a decline in the value of securities in the Bank's portfolio and the Bank's ability to earn excess trading gains as revenue. A sustained increase in interest rates will also raise the Bank's funding costs without a proportionate increase in loan demand (if at all). Rising interest rates will therefore require the Bank to re-balance its assets and liabilities in order to minimise the risk of potential mismatches and maintain its profitability. In addition, rising interest rate levels may adversely affect the economy in the Philippines and the financial position and repayment ability of its corporate and retail borrowers, including holders of credit cards, which in turn may lead to a deterioration of the Bank's credit portfolio in addition to lower levels of liquidity in the system which may lead to an increase in the cost of funding. Lower levels of liquidity in the system may likewise lead to an increase in the cost of funding as banks actively compete for funds by raising the interest rates they charge on deposits.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

Philippine banks are generally exposed to higher credit risks and greater market volatility than banks in more developed countries.

Philippine banks are subject to the credit risk that Philippine borrowers may not make timely payment of principal and interest on loans and, in particular that, upon such failure to pay, Philippine banks may not be able to enforce the security interest they may have. The credit risk of Philippine borrowers is, in many instances, higher than that of borrowers in developed countries due to:

- The greater uncertainty associated with the Philippine regulatory, political, legal and economic environment;
- The vulnerability of the Philippine economy in general to a severe global downturn as it impacts on its export sector, employment in export-oriented industries, and OFW remittances;
- The foreign debt of the Government and the corporate sector, relative to the gross domestic product ("GDP") of the Philippines; and
- Volatility of interest rates and US Dollar/Philippine Peso exchange rates.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including BDO and China Bank, to more potential losses and higher risks than banks in more developed countries. In addition, higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on BDO's and China Bank's financial condition, liquidity and results of operations. According to data from the BSP, the average NPL ratios exclusive of interbank loans in the Philippine banking system were 2.0%, 1.9%, and 1.9% as at the years ended 31 December 2017, 2018 and 2019.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

The Philippine banking sector may face another downturn, which could materially and adversely affect the banks.

Although the Philippine banking sector has generally recovered from past regional and global economic crises, the Philippine banking industry may face significant financial and operating challenges. These challenges may include, among other things, a sharp increase in the level of NPLs, variations of asset and credit quality, significant compression in bank net interest margins, low loan growth and potential or actual under-capitalization of the banking system. Fresh disruptions in the Philippine financial sector, or general economic conditions in the Philippines, in Asia or globally, may cause the Philippine banking sector in general, and BDO and China Bank in particular, to experience similar problems to those faced in the past, including substantial increases in NPLs, problems meeting capital adequacy requirements, liquidity problems and other challenges.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

Philippine banks' ability to assess, monitor and manage risks inherent in its business differs from the standards of its counterparts in more developed countries.

Philippine banks are exposed to a variety of risks, including credit risk, market risk, portfolio risk, foreign exchange risk and operational risk. The effectiveness of their risk management is limited by the quality and timeliness of available data in the Philippines in relation to factors such as the credit history of proposed borrowers and the loan exposure borrowers have with other financial institutions. In addition, the information generated by different groups within each bank, including BDO and China Bank, may be incomplete or obsolete. BDO and China Bank may have developed credit screening standards in response to such inadequacies in quality of credit information that are different from, or inferior to, the standards used by its international competitors. As a result, their ability to assess, monitor and manage risks inherent in their business would not meet the standards of their counterparts in more developed countries. If BDO and China Bank are unable to acquire or develop in the future the technology, skills set and systems available to meet such standards, it could have a material adverse effect on their ability to manage these risks and on their financial condition, liquidity and results of operations and, consequently, on the financial condition and results of operations of the Issuer.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

Philippine banks face regulatory pressure to comply with new and stricter capital standards, liquidity and leverage standards as well as meet prudential limits for real estate exposures.

The BSP Monetary Board approved major revisions to the country's risk-based capital adequacy framework on 1 July 2007, to align the current framework with the Basel II standards as issued by the Basel Committee on Banking Supervision (BCBS), which is an international committee of banking supervisory authorities. Basel II standards make regulatory capital requirements more risk sensitive and reflective of all, or at least most, of the risks financial institutions are exposed to. In terms of minimum capital requirements, Basel II standards include the addition of specific capital requirements for credit derivatives, securitization exposures, counterparty risk in the trading book, and operational risk.

In December 2010, a new update to the Basel Accords, known as Basel III, was issued by the BCBS containing new standards that modify the structure of regulatory capital. The Basel III regulations include tighter definitions of Tier 1 capital and Tier 2 capital, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios. The revised standards also distinguish further (i) Tier 1 capital, which is also referred to as Going-Concern Capital, and is composed of Common Equity and Additional Tier 1 capital; and (ii) Tier 2 capital, which is also referred to as Gone-Concern capital and establish new eligibility criteria for such capital instruments previously not implemented in regulatory capital instruments.

In response to Basel III, the BSP and Monetary Board imposed a number of new requirements, including a capital surcharge to banks deemed as Domestic Systemically Important Banks ("D-SIB"), with compliance to be phased in starting from January 2017, as well as increased minimum capital requirements for banks in all categories and new liquidity requirements for local banks such as the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). In March 2016, the Monetary Board announced that it had approved the LCR framework which requires universal and commercial banks to hold sufficient High Quality Liquid Assets (HQLAs) that can be easily converted into cash to service liquidity requirements over a 30-day stress period. The approval of the LCR framework by the Monetary Board provides for an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. On 1 January 2018, the LCR threshold that banks will be required to meet will be 90%, which will be increased to 100% commencing on 1 January 2019. Banks are required to publicly disclose information related to the LCR on solo and consolidated bases beginning 1 January 2019. This is required to be disclosed in single currency, to be published in the quarterly published balance sheet, as well as in the annual reports or published financial reports.

In January 2018, the Monetary Board approved the adoption of a minimum leverage ratio requirement for universal banks, commercial banks and their subsidiary banks and quasi-banks. Beginning on 1 July 2018, covered institutions must maintain a leverage ratio of no lower than 5%. The leverage ratio is a non-risk based measure, which serves as a backstop to the capital adequacy ratio ("CAR"). The BSP introduced the leverage ratio framework in June 2015, under Circular No. 881 with the implementation limited to monitoring purposes. With the Monetary Board's recent decision, the leverage ratio will form part of Basel III minimum capital requirements, along with the 6% common equity tier 1 ("CET1") ratio, 7.5% tier 1 ("Tier 1") ratio and the 10% CAR.

On 6 June 2018, the BSP issued Circular No. 1007, which imposed a NSFR framework on all universal and commercial banks, including subsidiary banks and quasi-banks, on both solo and consolidated basis. The NSFR Framework seeks to limit overreliance on short-term wholesale funding and to promote enhanced assessment of funding risk across all on- and off- balance sheet accounts. Said covered entities are required to maintain an NSFR of at least 100% at all times. The BSP issued the implementing guidelines, template and details on the submission of the NSFR report, with an observation period that ran from 1 July 2018 to 31 December 2018. Actual implementation began on 1 January 2019. Covered banks are required to submit an NSFR report, monthly on a solo basis, and quarterly on a consolidated basis, accompanied by a certification on compliance with the NSFR requirement for all calendar days.

In December 2018, the Monetary Board approved the Philippine adoption of the Basel III countercyclical buffer ("CCyB"), completing the BSP's implementation of international standards for banks in terms of capital. The BSP under Circular No. 1024 initially set the CCyB at 0%, citing that the ongoing buildup of credit does not pose an imminent risk. The CCyB is subject to upward adjustment to a rate determined by the BSP when systemic conditions warrant but not to exceed 2.5%. Any increase in the CCyB rate shall he effective 12 months after its announcement. Meanwhile, reductions in the buffer take effect immediately.

As a result of these directives, the Bank is exposed to the risk that the BSP may increase applicable capital requirements and other supplementary requirements from time to time. Any incremental capital requirement may adversely impact the Bank's ability to grow its business and may even require the Bank to withdraw from or curtail some of its business operations. There can also be no assurance that the Bank will be able to raise adequate additional capital in the future on terms favorable to it.

In December 2017, the BCBS came out with a document finalizing the reforms which will amend the methodology to banks' calculation of their risk weighted assets ("RWAs"), as well as sets a capital floor of 72.5% using the standardized approach that includes credit risk, counterparty credit risk, credit valuation adjustment ("CVA") risk, securitization, market risk and operational risk. The implementation date for the Basel IV amendments begins on 1 January 2022, except for the capital floor which shall be phased in over five years (i.e., 50% effective 1 January 2022, and gradually increased to "fully loaded" 72.5% beginning 1 January 2027). The BSP has not set any timetable for implementation for Philippine banks, thus the impact remains uncertain.

In addition, the BSP issued BSP Circular No. 855 (Series of 2014) regarding guidelines on sound credit risk management practices, including the amendment on loan loss provisions on loans secured by real estate mortgages. Under the new regulations, loans may be considered secured by collateral to the extent the estimated value of net proceeds at disposition of such collateral can be used without legal impediment to settle the principal and accrued interest of such loan, provided that such collateral has an established market and a sound valuation methodology. Under the new rules, the maximum collateral value for real estate collateral shall be 60% of the value of such collateral, as appraised by an appraiser acceptable to the BSP. While this maintains existing regulations already applicable to universal and commercial banks, the collateral value cap will be particularly relevant in securing DOSRI transactions and in potentially accelerating the setting up of allowable loan for losses in case a loan account gets distressed.

The BSP also clarified that the collateral cap on real estate mortgages is not the same as a loan-to-value ("LTV") ratio limit. Even under the new rules, the minimum borrower equity requirement remains a bank-determined policy (which, according to the BSP, averages 20% under current industry practice). Under the enhanced guidelines of the BSP however, the bank's internal policy as to minimum borrower equity will be subject to closer regulatory scrutiny as to whether the borrower equity requirement of a bank is prudent given the risk profile of its target market.

Although intended to strengthen banks' capital positions and thwart potential asset bubbles, the new BSP and Monetary Board regulations will add pressure to local banks to meet these additional capital adequacy requirements, which may effectively create greater competition among local banks for deposits and temper bank lending in the commercial property and home mortgage loan sectors given that banks' ability to lend to these sectors depends on their exposure to the sector and the capital levels they maintain. Stricter lending and prudential regulations may reduce the lending appetite of the Bank or cause the Bank to alter its credit risk management systems, which may adversely affect the Bank's business, financial condition and results of operations. Further, through its compliance with these regulations, the Bank's business, financial position and results of operations may be adversely affected.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

Any future changes in Philippine taxation may materially and adversely affect the banks' business, financial condition and results of operations.

The Bank is subject to the taxation laws and regulations in effect in the Philippines. In the event of any changes to existing laws, the Bank's business, financial condition and results of operations could be materially affected.

The TRAIN Law, which was the first package of the Comprehensive Tax Reform Program ("CTRP") of the Duterte administration, brought about extensive changes to individual income taxation. Among the amendments from the TRAIN Law included increasing the rate of documentary stamp tax ("DST") on the original issue of shares of stock and debt instruments. The original issue of shares is now subject to documentary stamp tax of ₱2.00 for each ₱200.00, or a fractional part thereof, of the par value of the shares issued. Meanwhile, all such affected debt instruments are generally subject to DST at the rate of ₱1.50 on each ₱200.00, or fractional part thereof, of the issue value of such instruments. The TRAIN Law (including the increase in documentary stamp taxes) was one of the reasons for the increase in the Bank's operating expenses for the year ended 31 December 2018.

Meanwhile, the second package of the tax reform package, also known as CITIRA, was passed by the Philippine House of Representatives on 13 September 2019 and has been approved by the Ways and Means Committee of the Philippine Senate on 19 February 2020. CITIRA proposes to lower corporate income tax and rationalize fiscal incentives. If CITIRA is approved in its current form, the corporate income tax rate for domestic corporation, resident foreign corporations, and non-resident foreign corporations shall be reduced by 1% point every year beginning 1 January 2020 until 1 January 2029; the income tax rate of resident foreign corporations on interest income derived from a depository bank under the expanded foreign currency deposit system will be increased from 7.5% to 15%; the 10% special income tax rates of offshore banking units will be repealed; and the tax provisions granting incentives to banks and financial institutions will be repealed effective two years from the implementation of the CITIRA.

The other tax reform packages that the government hopes to implement include tax amnesty (estate, general), as well as "sin" (e.g., alcohol, gaming), property, passive income and financial intermediaries, and luxury taxes. The fourth package under the CTRP relating to passive income and financial intermediaries proposes to impose (i) a single final withholding tax rate of 15% on interest income regardless of currency, maturity, issuer and other differentiating factors, (ii) a single rate of 15% on interest income, dividends and capital gains, (iii) a single gross receipt tax of 5% on banks, quasi-banks, and certain non-bank financial intermediaries across all types of income (lending and nonlending), except dividends, equity shares and net income of subsidiaries, (iv) uniform taxation of 2% of premium for pre-need, pension, life and HMO insurance, (v) removal of IPO tax, and (vi) gradually reduce the stock transaction tax until it reaches zero by 2026 and removal of the transaction tax on listed and traded debt instruments by 2026, and exemption of non-monetary documents from DST.

While the tax reform program ensures fiscal sustainability, the dampening impact of higher taxes on consumer demand and affected industries (in terms of added costs), could slow down the country's growth pace and affect the business of BDO and China Bank. Further, the new regulations (such as the fourth package of the CTRP) may directly affect the business and results of operations of the banks. If BDO and China Bank are unable to comply with existing and new rules and regulations applicable to them, they could incur penalties and their business reputation may suffer, which could have a material adverse effect on their business, financial position and results of operations, and consequently on the business, financial position and results of operations of the Issuer.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

Non-compliance with FATCA may cause material and adverse impact on the banks' business, financial conditions and results of operations.

FATCA is the Foreign Account Tax Compliance Act enacted into law in the U.S. on 18 March 2010 as part of the Hiring Incentives to Restore Employment Act. It is a new regime for finding income overseas as a response to a landmark court case in which a large international bank agreed to pay $780 million in fines for their role in assisting U.S. citizens in evading income taxes.

FATCA impacts a number of organisations and individuals. It first affects U.S. persons with income abroad. Secondly, foreign financial institutions ("FFIs") that invest in U.S. markets will be impacted as well as U.S. financial institutions that do business with FFIs. Additionally, local government and taxing authorities in each country will see the effects of the act as well. It also brought forth an expansion of tax reporting for non-resident aliens. An FFI will have to set up a process to identify U.S. accounts as part of its on boarding procedures. Once that is in place, it will also have to identify any current accounts with U.S. indicia. Additionally, there is a need to set up a process to monitor account changes for indicia of U.S. status.

After the identification of impacted accounts, an FFI will have to collect documentation on each of these accounts to prove whether or not they are a U.S. person. If they are not a U.S. person and the FFI has the appropriate documentation, the FFI's obligations have been fulfilled. If they are a U.S. person, the FFI's next move will depend on the country that has jurisdiction over the FFI. By default, the Participating Foreign Financial Institutions ("PFFIs") in countries without an intergovernmental agreement will directly report to the US Internal Revenue Service ("IRS").

There is a requirement for PFFIs to withhold 30% of income from recalcitrant account holders in order to comply with FATCA. A recalcitrant account holder is one who fails to comply with reasonable requests pursuant to IRS mandated verification and due diligence procedures to identify U.S. accounts, to provide a name, address and TIN or fails to provide a bank secrecy waiver upon request.

Under the IGA, the local tax authority and the BIR are the competent authority to receive FATCA information for reporting to the IRS. FATCA reporting will not take place until the PH-US FATCA IGA has been concurred by the Philippine Senate and has entered into force.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

Any future changes in PFRS may affect the financial reporting of the banks' business.

PFRS continues to evolve as new standards and interpretations come into effect.

PFRS 9, the local adoption of International Financial Reporting Standards ("IFRS") 9 Financial Instruments, originally issued in 2009, reflects the first and third phases of the three-phase improvement project by the International Accounting Standards Board to replace International Accounting Standards ("IAS") 39 Financial Instruments: Recognition and Measurement. Phases 1 and 3 of the project apply to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. It requires entities to classify and subsequently measure financial assets at either amortised cost or fair value on the basis of both (a) the entities' business model for managing the financial assets and (b) the contractual cash flow characteristics of the financial assets. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of BDO's and China Bank's financial assets, but will potentially have no impact on the classification and measurement of their financial liabilities. On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. PFRS 9 also requires enhanced disclosures to help the users of financial statements better understand the risks and the likely cash flows from the financial assets. Guidelines on the early adoption of PFRS 9 by banks and other BSP-supervised financial institutions of PFRS 9 were approved by the BSP in 2011 under Circular No. 708 s. 2011.

IFRS 9, issued in July 2014, replaces previously published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010), a new hedge accounting model (in 2013) and PAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The adoption of IFRS 9 with the approval of Philippine Financial Reporting Standards Committee ("FRSC") and Board of Accountancy primarily has an effect on the classification and measurement of BDO's and China Bank's financial assets and liabilities, hedge accounting and impairment methodology of the Bank. Full provisions of PFRS 9 include the implementation of a credit loss model for impairment requirements on an expected loss basis that replaces the currently adopted model on an incurred loss basis as per IAS 39. The Bank opted not to undertake early adoption of PFRS 9 for its 2014 and 2015 financial reporting.

Financial statements of Philippine banks are prepared in accordance with financial reporting standards in the Philippines for banks which requires the use of certain critical accounting estimates. Following the issuance of BSP Circular No. 912 dated 27 May 2016 citing the mandatory implementation date and closure of the early adoption window of PFRS 9 Financial Instruments, BDO and China Bank no longer conducted impact evaluation study on the early adoption of PFRS 9 for the second quarter of 2016. Instead, BDO and China Bank adopted the full provisions of PFRS 9 on its mandatory effectivity date of 1 January 2018.

PFRS 16, Leases is a new standard which came into effect on 1 January 2019, under which lessees will no longer classify leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees are required to report leases on the balance sheet as assets and liabilities, subject to depreciation. Leases with terms of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. BDO and China Bank have adopted PFRS 16.

BDO and China Bank believe that other amendments and improvement to PFRS issued effective after 31 December 2019 have no material impact on their respective financial statements.

Risks Relating to the Philippines

Substantially all of the Group's operations and assets are based in the Philippines; a slowdown in economic growth in the Philippines could have a material adverse effect on its businesses.

Historically, the Group has derived a large majority of its revenue and operating profits from the Philippines and, as such, is highly dependent on the state of the Philippine economy. Demand for retail, commercial and residential real estate are all directly related to the strength of the Philippine economy (including its overall growth and income levels), the overall levels of business activity in the Philippines, as well as the amount of remittances received from OFWs and overseas Filipinos.

Factors that may adversely affect the Philippine economy include:

- decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- exchange rate fluctuations;
- inflation or increases in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government or of the Government's fiscal and regulatory policies;
- diseases that may evolve into regional or global pandemic;
- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other social, political or economic developments in or affecting the Philippines.

There can be no assurance that the Philippines will achieve strong economic fundamentals in the future. Changes in the conditions of the Philippine economy could materially and adversely affect the Group's business, financial condition and results of operations.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

Any political instability in the future may have a negative effect on the Group's financial results.

The Philippines has from time to time experienced political, social and economic instability. On 9 May 2016, the Philippines held its sixteenth national elections for president, vice president, members of the Senate and local government officials. On 30 June 30 2016, Rodrigo Roa Duterte was sworn in as the 16th president of the Republic of the Philippines, succeeding Benigno Aquino III. There can be no assurance that President Duterte will continue to implement the economic, development and regulatory policies of President Aquino, including those policies that have a direct effect on the Group's assets and operations.

On 11 May 2018, the Supreme Court of the Philippines rendered a decision to grant the Petition for Quo Warranto and found Maria Lourdes P.A. Sereno, then the Chief Justice of the Supreme Court of the Philippines, disqualified from and adjudged guilty of unlawfully holding and exercising the office of the Chief Justice. On 19 June 2018, the Supreme Court issued a resolution denying the motion for reconsideration filed by Maria Lourdes P.A. Sereno with finality. In June 2018, former President Benigno Aquino III was indicted for usurpation of legislative powers concerning the Disbursement Acceleration Program during his term. Moreover, several individuals who were highranking officers under the administration of President Aquino have also been indicted for graft and corruption charges and drug trafficking among other offenses.

In addition, since the commencement of the current administration, more than 1,000 alleged drug dealers and users have been killed in police operations, and more than 1,300 drug dealers and drug users have been killed by supposed vigilantes.

A new version of the Bangsamoro Basic Law ("BBL") was crafted under the Duterte administration, 40 which was finally signed into law by President Rodrigo Duterte on July 26, 2018. The Bangsamoro Organic Law ("BOL") abolished the Autonomous Region in Muslim Mindanao, and created the Bangsamoro Autonomous Region in Muslim Mindanao ("BARMM"). The BARMM will be parliamentary-democratic in form, and will be headed by a chief minister, who will preside over an 80-member parliament. The BOL, however, still has to be cleared by a plebiscite and overcome possible legal challenges.

The Duterte administration has been pushing for a shift to a federal form of government. For this purpose, the President created a consultative committee to review the 1987 Constitution and draft a federal constitution.

In May 2019, the Philippine legislative and local elections were held. Majority of the senatorial candidates endorsed by the administration won the 2019 elections. The senators elected in the 2019 elections will join the senators elected in the 2016 elections. There are allegations of fraud and voter disenfranchisement in the conduct of the 2019 elections.

On February 11, 2020, the Philippine government, through the Department of Foreign Affairs, sent a notice to the U.S. Embassy on the termination of the Visiting Forces Agreement ("VFA") between the Philippines and the U.S., which termination shall take effect within 180 days from such notice. On the same day, Palace Spokesperson Salvador Panelo issued a public statement that President Rodrigo Duterte may also consider abrogating the other defense agreements between the U.S. and Philippines, including the Enhanced Defense Cooperation Agreement ("EDCA") and Philippines and U.S. Mutual Defense Treaty ("MDT"), but no formal notice or announcement has yet been made as of date. Furthermore, on June 1, 2020, the Philippine government sent another notice to the U.S. government informing the latter that the abrogation of the VFA is suspended for six months, extendible by the Philippine government for another six months, after which the tolling of the initial period for the termination of the VFA shall resume.
In February and March 2019, journalist Maria Ressa was ordered arrested on charges for cyber libel and violations of the anti-dummy law, respectively. Her arrest elicited concern from the international community and has been criticized by various groups as an attempt by the government to silence critical press coverage against President Duterte and his administration. On June 15, 2020, the Manila Regional Trial Court, Branch 46, issued its order convicting Maria Ressa over the cyber libel charges, with an indeterminate sentence corresponding to a maximum of 6 years of imprisonment. On June 29, 2020, Maria Ressa filed a motion for partial reconsideration before the Manila Regional Trial Court to appeal her cyber libel conviction, which remains pending for resolution of the court.

On 3 July 2020, President Duterte signed into law Republic Act No. 11479 or the Anti=Terrorism Act of 2020. Several groups had filed Supreme Court petitions challenging the constitutionality of provisions of the law aiming to declare the entire law unconstitutional.

No assurance can be given that the future political environment in the Philippines will be stable or that current or future Governments will adopt economic policies conducive to sustaining economic growth. Political instability in the Philippines could negatively affect the general economic conditions in the Philippines which could have a material impact on the financial results of the Group. In addition, such adverse factors may affect the Philippine tourism industry, which is the focus of one element of the Group's growth strategy.

Historically, the Group has remained apolitical and cooperates with the country's duly constituted government. The Group supports and contributes to nation-building.

SM Group's businesses may be disrupted by terrorist acts, crime, natural disasters and outbreaks of infectious diseases or fears of such occurrences in Metro Manila or other parts of the Philippines.

The Philippines has been subject to a number of terrorist attacks in the past several years. The Philippine army has been in conflict with the Abu Sayyaf organization which has been responsible for kidnapping and terrorist activities in the Philippines, and is alleged to have ties to the Al-Qaeda terrorist network. There have also been sporadic bombings and prominent kidnappings and slayings of foreigners in the Philippines, including the hijacking of a tourist bus carrying Hong Kong tourists that resulted in the deaths of several passengers.

There can be no assurance that the Philippines will not be subject to further acts of terrorism and violence in the future. Terrorist attacks have, in the past, had a material adverse effect on investment and confidence in, and the performance of, the Philippine economy and, in turn, the Company's business. The Company's current insurance policies do not cover terrorist attacks. Any terrorist attack or violent acts arising from, and leading to, instability and unrest, could cause interruption to parts of the Company's businesses and materially and adversely affect the Company's financial condition, results of operations and prospects.

The Philippines has experienced natural disasters over the years. A number of climate experts believe that climate change is affecting the intensity and severity of these natural calamities. The potential future effects of global climate change may include longer periods of drought in some regions and an increase in the number, duration and intensity of tropical storms in the country. Authorities may not be prepared or equipped to respond to such disasters. On 26 September 2009, Typhoon Ketsana (Ondoy) resulted in 341.3 millimeters of rainfall in six hours, causing massive flooding that submerged several areas of Metro Manila and adjacent provinces. The typhoon caused 464 deaths and approximately ₱86 billion in property damage. On 6 August 2012, a monsoon hit Metro Manila and other nearby provinces which also caused severe flooding and landslides.

Other regions of the Philippines have also experienced severe natural disasters. In December 2011, Typhoon Washi (Sendong) caused massive flooding in the southern Philippine city of Cagayan de Oro, claiming thousands of lives and displacing tens of thousands of residents. On 3 December 2012, Typhoon Bopha struck the southern island of Mindanao as a category five typhoon, triggering widespread flash flooding and landslides throughout the region. Typhoon Bopha killed over 1,000 people and caused an estimated ₱42 billion in property damage.

In October 2013, an earthquake occurred in Central Visayas, Philippines. The magnitude of the earthquake was recorded at Mw 7.2 at the epicenter which was located six kilometers southwest of Sagbayan town, at a depth of 12 kilometers. The seismic event affected the whole Central Visayas region, particularly Bohol and Cebu. According to recent official reports by the National Disaster Risk Reduction and Management Council, 198 people were reported dead, 11 were missing, and 651 were injured as a result of the earthquake, making it the deadliest earthquake in the Philippines in 23 years. In all, more than 53,000 structures were damaged or destroyed, including commercial buildings, malls, public edifices, hotels and churches. SM Prime's Radisson Blu Cebu sustained cosmetic damages on tiles and walls, however, the structural integrity of the building has been certified by three structural engineering companies. As a result, total business lost was estimated at approximately ₱60 million and forecasted year end occupancy of 74% had dropped to 66%.

In addition, the Central Philippines experienced a severe typhoon, Typhoon Haiyan (Yolanda), in November 2013 which caused extensive damage to infrastructure and properties, claimed 6,268 lives and displaced thousands of residents.

On 12 January 2020, a phreatic eruption of Taal Volcano in Batangas, Philippines occurred thus releasing ashes across the CALABARZON, Metro Manila, and some parts of Central Luzon. The ash fall and the earthquakes related to the volcanic activity of Taal did not cause material damage to infrastructure and properties.

The Philippines may also be subject to outbreaks of contagious diseases, such as Avian flu, Ebola, MERS-CoV, and COVID-19. In April 2015, the Government, through the Department of Health ("DOH"), issued a Bureau of Quarantine alert bulletin after a Filipino citizen tested positive for MERS-CoV before his departure from the United Arab Emirates and arrival to Manila. The said individual has tested negative in follow-up findings of the DOH Research Institute for Tropical Medicine. As of July 31, 2015, South Korea had reported a total number of 186 cases of MERS-CoV, while there were reports of two cases in Hong Kong and one case in Thailand. To date, while reported cases of MERS-CoV have decreased substantially worldwide in 2016 and 2017 and while there have been no indications of the presence of such diseases in the Philippines, the DOH continues to monitor disembarking passengers suspected to be carriers of MERS-CoV, Ebola or Avian flu. In August 2017, an outbreak of bird flu from a poultry farm in Central Luzon was confirmed, and the avian influenza strain was later found to be transmissible to humans. In response to the outbreak, restrictions on the transport and sale of birds and poultry outside a seven-kilometer radius surrounding the affected site were imposed. The Philippines has since been cleared of any human infection of the avian influenza virus.

In January 2020, an outbreak of COVID-19 in China was confirmed, and a few cases of COVID-19 have been confirmed in the Philippines. In response to the outbreak, the Philippine Government has put in place travel restrictions which prohibit Philippine nationals from traveling to China, Hong Kong and Macau, as well as prohibiting any foreign national coming from any of such territories from entering the Philippines.

President Duterte declared placed the entire Luzon under total lockdown (Enhanced Community Quarantine or ECQ) on beginning 17 March 2020, which restricted the movement of the population with certain exceptions, in response to the increasing number of COVID-19 cases in the Philippines. The ECQ was originally set to end by 12 April 2020 but was extended to a number of other regions, provinces and areas until 15 May 2020. From 15 May 2020 until 31 May 2020 certain cities and provinces were placed under Modified ECQ (MECQ) and the list of industries that were allowed to operate although at a reduced capacity was expanded. Despite the increase in the number of COVID-19 cases, the government placed the cities and provinces in the Philipines under either a General Community Quarantine (GCQ) or Modified GCQ from 1 June 2020 until 15 July 2020, and further increased the industries and businesses that are allowed to operate. The number of COVID-19 cases has grown at a rapid pace from the first case of local infection being recorded in 6 March 2020, with [173,774] confirmed cases and [2,795] casualties as of [19 August] 2020.

Amidst the COVID-19 pandemic, the SM Group, with businesses in Retail, Banking, and Property, has continued operations while in compliance with government mandated quarantine and regulatory guidelines.

For the duration of the Enhanced Community Quarantine (ECQ), only businesses classified as 'essential' were allowed to operate. Despite the difficulties brought about by the government's suspension of public transportation, all formats (SM Supermarket, SM Hypermarket, Savemore, WalterMart, Alfamart) of our SM Retail Food Stores, Watson's, and commercial properties continued to operate. Banking operations were sporadic due to difficulties accessing the branches, while operations in our malls, department stores, specialty stores, hotels and convention centers, were halted in compliance with the strict quarantine. To assist our mall tenants, the Company waived rent for the duration of the ECQ. BDO and China Bank deferred collection of amortizations for 60 days.
On 03 August 2020, the government placed Metro Manila, Laguna, Cavite, Rizal and Bulacan under MECQ from 04 August 2020 to 18 August 2020. Upon the lapse of the period, the five areas were placed under GCQ.

It is not possible to predict the extent to which the Group's various businesses will be affected by any future occurrences of natural calamities such as those described above or fears that such occurrences will take place, and there can be no assurance that any disruption to its businesses will not be protracted, that property will not be damaged and that any such damage will be completely covered by insurance or at all. Any such occurrences may disrupt the operations of the Group's businesses and could materially and adversely affect their business, financial condition and results of operations. Further, any such occurrences may also destabilize the Philippine economy and business environment, which could also materially and adversely affect the Group's financial position and results of operations.

To mitigate the above risk, the Company utilizes and takes advantage of its strengths and strategies as discussed in sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategy".

Volatility in the value of the Peso against the US dollar and other currencies could adversely affect the Group's businesses.

During the last decade, the Philippine economy has from time to time experienced volatility in the value of the Peso and limited availability of foreign exchange. In July 1997, the BSP announced that it would allow market forces to determine the value of the Peso. Since 30 June 1997, the Peso experienced periods of significant depreciation and declined from approximately ₱29.00 = US$1.00 in July 1997 to a low of ₱49.90 = US$1.00 for the month ended (period average) December 2000. In recent years, the Peso has generally depreciated and the exchange rate (period average) was ₱50.40 in 2017, ₱52.66 in 2018 and ₱51.80 in 2019. Reduced risk appetite for emerging market assets could also result in a decline in value of the Peso as investors move their portfolios out of emerging markets. Intervention in the currency markets as well as changes in demand for the Peso could result in volatility in the value of the Peso against the US dollar and other currencies

The revenues of the Group are predominantly denominated in Pesos, while certain expenses, including fixed debt obligations, are denominated in currencies other than Pesos. Certain of the Group's borrowings are denominated in US dollars and China renminbi and accordingly, the Group is exposed to fluctuations in the Peso to US dollar and other foreign currency exchange rates. A depreciation of the Peso against the US dollar and other foreign currencies will increase the amount of Peso revenue required to service foreign currency denominated debt obligations.

There can be no assurance that the Peso will not depreciate further against other currencies and that such depreciation will not have an adverse effect on the Philippine economy and on the Group's businesses.

In addition, changes in currency exchange rates may result in significantly higher domestic interest rates, liquidity shortages and capital or exchange controls. This could result in a reduction of economic activity, economic recession, sovereign or corporate loan defaults, lower deposits and increased cost of funds. The foregoing consequences, if they occur, would have a material adverse effect on the Group's financial condition, liquidity and results of operations.

As a policy, the Group does not engage in foreign currency speculation. Furthermore, the Group minimizes foreign exchange exposure and fully hedges its foreign currency liabilities.

Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries.

While a principal objective of the Philippine securities laws, SEC regulations and PSE disclosure rules is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies, such as the Issuer, than is regularly made available by public companies in the United States and other countries. The Philippines securities market is generally subject to less strict regulatory oversight than securities markets in more developed countries. Improper trading activities could affect the value of securities and concerns about inadequate investor protection may limit participation by foreign investors in the Philippine securities market. Furthermore, although the Issuer complies with the requirements of the SEC and PSE with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. For example, the Philippine Securities Regulation Code requires the Issuer to have at least two independent directors or such number of independent directors as is equal to 20% of the Board, whichever is the lower number. The Issuer currently has three independent directors. Many other jurisdictions require significantly more independent directors.

As a policy, the Group adheres to international standards of corporate governance and disclosure. The Group has hired a Vice President for Corporate Governance to formulate policies and monitor compliance thereof, as well as a consultant at the Board level. The Group has received numerous awards for good corporate governance from international publications.

Risks Relating to the Debt Securities

The priority of debt evidenced by a public instrument.

Under Philippine law, in the event of liquidation of a company, unsecured debt of the company (including guarantees of debt) which is evidenced by a public instrument as provided in Article 2244 of the Civil Code of the Philippines will rank ahead of unsecured debt of the company which is not so evidenced. Under Philippine law, a debt becomes evidenced by a public instrument when it has been acknowledged before a notary or any person authorized to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a jurat (which is a statement of the circumstances in which an affidavit was made) may be sufficient to constitute a debt evidenced by a public instrument. So far as the Issuer is aware, none of its debt is evidenced by a public instrument and the Issuer will undertake in the Terms and Conditions of the Debt Securities to use its best endeavors not to incur such debt. Any such debt evidenced by a public instrument may, by mandatory provision of law, rank ahead of the Debt Securities in the event of the liquidation of the Issuer.

As a policy, the Group's borrowings are clean and are not collateralized by its assets, except for debts that are required by law to be secured.

An active trading market for the Debt Securities may not develop.

The Debt Securities are a new issue of securities for which there is currently no trading market. Even if the Debt Securities are listed on the PDEx, trading in securities such as the Debt Securities may be subject to extreme volatility at times, in response to fluctuating interest rates, developments in local and international capital markets and the overall market for debt securities among other factors. Although the Debt Securities are intended to be listed on PDEx as soon as reasonably practicable, no assurance can be given that an active trading market for the Debt Securities will develop and, if such a market were to develop the Joint Issue Managers are under no obligations to maintain such a market. The liquidity and the market prices for the Debt Securities can be expected to vary with changes in market and economic conditions, the financial position and prospects of the Company and other factors that generally influence the market prices of securities.

The Company has no control over this risk as active trading of the Debt Securities is highly dependent on the bondholders. The Group actively cooperates in efforts aimed at improving the capital markets in the Philippines.

The Issuer may be unable to redeem the Debt Securities.

At maturity, the Issuer will be required to redeem all of the Debt Securities. If such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Debt Securities in time, or on acceptable terms, or at all. The ability to redeem the Debt Securities in such event may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem tendered Debt Securities by the Issuer would constitute an event of default under the Debt Securities, which may also constitute a default under the terms of other indebtedness of the Group.

The Group has a very strong business franchise in the Philippines. It has strong recurring cash flows and maintains a low debt-equity ratio and a high level of liquidity in its balance sheet. The Group believes that it has sufficient resources which will allow it to service the principal and interest of the Debt Securities.

USE OF PROCEEDS

The use of proceeds for each succeeding Tranche shall be set out in the relevant Offer Supplement.

The net proceeds from the issue of the Bonds, without the Oversubscription Option (after deduction of commissions and expenses) is approximately ₱4,940.3 million and is presently intended to be used by the Issuer to refinance existing debt obligations of the Issuer. Assuming the Oversubscription Option of up to ₱5,000.0 million is fully exercised, the Company expects total net proceeds of approximately ₱9,886.8 million after fees, commissions and expenses.

Net proceeds from the Offer are estimated to be at least as follows:

For a ₱5.0 billion Issue Size		
		Total
Estimated proceeds from the sale of Bonds		₱5,000,000,000.00
Less: Estimated expenses		
Documentary Stamp Tax	37,500,000.00	
SEC Registration	3,093,125.00	
Underwriting and Other Professional Fees		
Underwriting and Legal Fee	16,300,000.00	
Rating Fee	1,000,000.00	
Listing Application Fee	50,000.00	
Listing Maintenance Fee	150,000.00	
Trustee Fees	225,000.00	
Paying Agency and Registry Fees	860,000.00	
Miscellaneous fees	500,000.00	59,678,125.00
Estimated net proceeds for ₱5.0 billion Issue		₱4,940,321,875.00
For the ₱5.0 billion Oversubscription Option		
		Total
Estimated proceeds from the sale of Bonds		₱5,000,000,000.00
Less: Estimated expenses		
Documentary Stamp Tax	37,500,000.00	
Underwriting Fees	15,000,000.00	
Rating Fee	1,000,000.00	53,500,000.00
Estimated net proceeds for ₱5.0 billion Oversubscription Option		₱4,946,500,000.00

Total Net Proceeds (inclusive of Oversubscription Option of ₱5.0 billion) --- ₱9,886,821,875.00

Aside from the foregoing one-time costs, SMIC expects the following annual expenses related to the Bonds:

1. The Issuer will be charged the first year Annual Maintenance Fee of ₱150,000 in advance upon the approval of the Listing;
2. The Issuer will pay a yearly retainer fee to the Trustee amounting to ₱200,000 per annum; and
3. After the Issue Date, a Paying Agency fee amounting to ₱100,000 is payable every interest payment date. The Registrar will charge a monthly maintenance fee based on the face value of the Bonds and the number of Bondholders.

The net proceeds of the Issue of approximately ₱4,940.3 million, assuming an Issue Size of ₱5,000.0 million, or ₱9,886.8 million if the Oversubscription Option is exercised, shall be used to refinance existing debt obligations of the Issuer as set out below.

(*in million ₱*)	**₱5.0 billion Issue Size**	**With Oversubscription Option**	**Schedule of Disbursement**
Debt refinancing	4,940.3		3rd quarter 2020
Debt refinancing		4,946.0	3rd quarter 2020 to 1st quarter 2021
	₱ 4,940.3	**₱ 4,946.0**	

The Issuer intends to use the net proceeds to fully pay its maturing loans. These are short-term loans which were utilized to fund the working capital requirements of the Company and other corporate purposes. These short-term loans are extended on a monthly basis. The details of these loans are set out below.

Lender	**Outstanding Loan Amount** (*in million ₱*)	**Interest Rate**	**Maturity Date**
MUFG Bank Ltd.	2,000.0	2.9000%	4 August 2020
Citibank NA	2,250.0	3.4000%	9 August 2020
Mizuho Bank Ltd.	300.0	3.3750%	11 September 2020
The Hongkong & Shanghai Banking Corp.	1,200.0	3.2500%	16 September 2020
Cathay United Bank	1,250.0	2.8100%	24 September 2020
Development Bank of the Philpines	2,000.0	5.2375%	18 January 2021
	₱ 9,000.0		

Any shortfall in the net proceeds for the intended uses described above shall be funded by the Issuer from internal sources.

Pending the above uses, the Company intends to invest the net proceeds from the Issue in short-term and medium-term liquid investments including but not limited to short-term government securities, bank deposits and money market placements which are expected to earn prevailing market rates.

The Company undertakes that it will not use the net proceeds from the Issue for any purpose, other than as discussed above. However, the Company's plans may change, based on factors including changing macroeconomic and market conditions, or new information regarding the cost or feasibility of these plans. The Company's cost estimates may also change as these plans are developed further, and actual costs may be different from budgeted costs. For these reasons, timing and actual use of the net proceeds may vary from the foregoing discussion and the Company's management may find it necessary or advisable to reallocate the net proceeds within the categories described above, or to alter its plans, including modifying the projects described in the foregoing and/or pursuing different projects. In the event of any substantial deviation/adjustment in the planned uses of proceeds, the Company shall inform the SEC and the stockholders within 30 days prior to its utilization.

DETERMINATION OF THE OFFER PRICE

The determination of the Offer Price for each succeeding Tranche being offered shall be set out in the relevant Offer Supplement under "Determination of Offer Price".

The Bonds shall be issued at 100% of principal amount or face value.

PLAN OF DISTRIBUTION

The detailed plan of distribution and underwriting arrangement for each succeeding Tranche shall be set out in the relevant Offer Supplement.

SMIC plans to issue the Bonds to institutional and retail investors in the Philippines through a public offering to be conducted through the Underwriters. The Offer does not include an international offering.

BDO Capital, BPI Capital, China Bank Capital, First Metro, and SB Capital, pursuant to an Issue Management and Underwriting Agreement with SMIC executed on [● September 2020] (the "Underwriting Agreement"), have agreed to act as the Joint Lead Underwriters for the Offer and as such, distribute and sell the Bonds at the Offer Price, and have also committed to underwrite up to ₱5,000,000,000 on a firm basis, in either case subject to the satisfaction of certain conditions and in consideration for certain fees and expenses, with a ₱5,000,000,000 Over-subscription Option. In the event that the Over-subscription Option is not fully exercised, the unexercised portion shall be placed under shelf registration to be offered and issued over a period of three (3) years from the effective date of the registration statement of the Bonds.

Each of the Joint Lead Underwriters has committed to underwrite the Offer on a firm basis up to the amount indicated below:

Joint Lead Underwriters	Amount
BDO Capital	₱1,000,000,000
BPI Capital	₱1,000,000,000
China Bank Capital	₱1,000,000,000
First Metro	₱1,000,000,000
SB Capital	₱1,000,000,000
Total	₱5,000,000,000

There is no arrangement for the Underwriters to return to SMIC any unsold Bonds. The Underwriting Agreement may be terminated in certain circumstances prior to payment of the net proceeds of the Bonds being made to SMIC. There is no arrangement as well giving the Underwriters the right to designate or nominate any member to the Board of SMIC.

SMIC will pay the Joint Lead Underwriters a fee of 0.30% on the final aggregate nominal principal amount of the Bonds issued, which is inclusive of the fee to be ceded to participating underwriters and selling agents, if any. No fees will be given to Broker-Dealers selling the Bonds.

The Underwriters are duly licensed by the SEC to engage in underwriting and distribution of securities to the public. The Underwriters may, from time to time, engage in transactions with and perform services in the ordinary course of business with SMIC or other members of the Group.

BDO Capital is the wholly-owned investment banking subsidiary of BDO Unibank, Inc., which, in turn, is an associate of the Issuer. BDO Capital is a full-service investment house primarily involved in securities underwriting and trading, loan syndication, financial advisory, private placement of debt and equity, project finance, and direct equity investment. Incorporated in December 1998, BDO Capital commenced operations in March 1999.

BPI Capital is the wholly-owned investment banking subsidiary of the Bank of the Philippine Islands and is duly licensed by the SEC to engage in the underwriting and distribution of securities. BPI Capital offers investment banking services in the areas of financial advisory, mergers and acquisitions, debt and equity underwriting, private placement, project finance and loan syndication. It began operations as an investment house in December 1994.

China Bank Capital, a subsidiary of China Banking Corporation which is an associate of the Issuer, provides a wide range of investment banking services to clients across different sectors and industries. Its primary business is to help enterprises raise capital by arranging or underwriting debt and equity transactions, such as project financing, loan syndications, bonds and notes issuances, securitizations, initial and follow-on public offerings, and private equity placements. China Bank Capital also advises clients on structuring, valuation, and execution of corporate transactions, including mergers, acquisitions, divestitures, and joint ventures. It was established and licensed as an investment house in 2015 as the spin-off of China Bank's investment banking group, which was organized in 2012.

First Metro is a leading investment bank in the Philippines with over fifty years of service in the development of the country's capital markets. It is the investment banking arm of the Metrobank Group, one of the largest financial conglomerates in the country. First Metro and its subsidiaries offer a wide range of services, from debt and equity underwriting to loan syndication, project finance, financial advisory, investment advisory, government securities and corporate debt trading, equity brokering, online trading, asset management, and research. First Metro has established itself as a leading bond house with key strengths in origination, structuring, and execution.

SB Capital is a Philippine corporation organized in October 1995 as a wholly-owned subsidiary of Security Bank Corporation. It obtained its license to operate as an investment house in 1996 and is licensed by the SEC to engage in underwriting and distribution of securities to the public. SB Capital provides a wide range of investment banking services including financial advisory, underwriting of equity and debt securities, project finance, privatizations, mergers and acquisitions, loan syndications and corporate advisory services. SB Capital is also involved in equity trading through its wholly-owned stock brokerage subsidiary, SB Equities, Inc. Its senior executives have extensive experience in the capital markets and were involved in a lead role in a substantial number of major equity and debt issues, both locally and internationally.

Sale and Distribution

The distribution and sale of the Bonds shall be undertaken by the Underwriters who shall sell and distribute the Bonds to third party buyers/investors. Nothing herein shall limit the rights of the Underwriters from purchasing the Bonds for their own respective accounts.

There are no persons to whom the Bonds are allocated or designated. The Bonds shall be offered to the public at large and without preference.

The obligations of each of the Underwriters will be several, and not solidary, and nothing in the Underwriting Agreement shall be deemed to create a partnership or joint venture between and among any of the Underwriters. Unless otherwise expressly provided in the Underwriting Agreement, the failure by an Underwriter to carry out its obligations thereunder shall neither relieve the other Underwriters of their obligations under the same Underwriting Agreement, nor shall any Underwriter be responsible for the obligation of another Underwriter.

Offer Period

The Offer Period shall commence at 9:00 am of [●] 2020, and end at 12:00 pm of [●] 2020.

Application to Purchase

Applicants may purchase the Bonds during the Offer Period by submitting to the Underwriters properly completed Applications to Purchase, together with two signature cards, and the full payment of the purchase price of the Bonds in the manner provided in the said Application to Purchase.

Corporate and institutional applicants must also submit, in addition to the foregoing, a copy of their SEC Certificate of Registration of Articles of Incorporation and By-Laws, Articles of Incorporation, By-Laws, and the appropriate authorization by their respective boards of directors and/or committees or bodies authorizing the purchase of the Bonds and designating the authorized signatory(ies) thereof.

Individual applicants must also submit, in addition to accomplished Applications to Purchase and its required attachments, a photocopy of any one of the following valid identification cards (ID), subject to verification with the original ID: passport, driver's license, postal ID, company ID, SSS/GSIS ID and/or Senior Citizen's ID.

A corporate and institutional investor who is exempt from or is not subject to withholding tax shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance: (i) certified true copy of the tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue; (ii) a duly notarized undertaking, in the prescribed form, declaring and warranting its tax exempt status, undertaking to immediately notify the Issuer of any suspension or revocation of the duly-accepted tax exemption certificates and agreeing to indemnify and hold the Issuer free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and (iii) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities or by the Issuer; provided that, all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar.

Completed Applications to Purchase and corresponding payments must reach the Underwriters prior to the end of the Offer Period, or such earlier date as may be specified by the Underwriters. Acceptance by the Underwriters of the completed Application to Purchase shall be subject to the availability of the Bonds and the acceptance by SMIC. In the event that any check payment is returned by the drawee bank for any reason whatsoever or the nominated bank account to be debited is invalid, the Application to Purchase shall be automatically canceled and any prior acceptance of the Application to Purchase shall be deemed revoked.

Minimum Purchase

A minimum purchase of Twenty Thousand Pesos (₱20,000.00) of the Bonds shall be considered for acceptance. Purchases of the Bonds in excess of the minimum shall be in multiples of Ten Thousand Pesos (₱10,000.00).

Allotment of the Bonds

If the Bonds are insufficient to satisfy all Applications to Purchase, the available Bonds shall be allotted in accordance with the chronological order of submission of properly completed and appropriately accomplished Applications to Purchase on a first-come, first-served basis, without prejudice and subject to SMIC's exercise of its right of rejection.

Acceptance of Applications

SMIC and the Joint Lead Underwriters reserve the right to accept or reject applications to purchase the Bonds, and in case of oversubscription, allocate the Bonds available to the applicants in a manner they deem appropriate.

Refunds

If any application is rejected or accepted in part only, the application money or the appropriate portion thereof shall be returned without interest to such applicant through the relevant Underwriter with whom such application to purchase the Bonds was made.

Payments

The Paying Agent shall open and maintain a Payment Account, which shall be operated solely and exclusively by the said Paying Agent in accordance with the Registry and Paying Agency Agreement, provided that beneficial ownership of the Payment Account shall always remain with the Bondholders. The Payment Account shall be used exclusively for the payment of the relevant interest and principal on each Payment Date.

The Paying Agent shall maintain the Payment Account for six (6) months from Maturity Date or date of early redemption. Upon closure of the Payment Account, any balance remaining in such Payment Account shall be returned to the Issuer and shall be held by the Issuer in trust and for the irrevocable benefit of the Bondholders with unclaimed interest and principal payments.

Purchase and Cancellation

The Issuer may purchase the Bonds at any time in the open market or by tender or by contract at market price without any obligation to make pro-rata purchases from all Bondholders. Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Upon listing of the Bonds on PDEx, the Issuer shall disclose any such transactions in accordance with the applicable PDEx disclosure rules.

Secondary Market

SMIC intends to list the Bonds in the PDEx. SMIC may purchase the Bonds at any time without any obligation to make pro-rata purchases of Bonds from all Bondholders.

Registry of Bondholders

The Bonds shall be issued in scripless form. A Master Certificate of Indebtedness representing the Bonds sold in the Offer shall be issued to and registered in the name of the Trustee, on behalf of the Bondholders.

Legal title to the Bonds shall be shown in the Register of Bondholders to be maintained by the Registrar. Initial placement of the Bonds and subsequent transfers of interests in the Bonds shall be subject to applicable prevailing Philippine selling restrictions. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered into the Register of Bondholders. Transfers of ownership shall be effected through book-entry transfers in the scripless Register of Bondholders.

DESCRIPTION OF THE DEBT SECURITIES

The detailed terms and conditions of each succeeding Tranche shall be set out in the relevant Offer Supplement.

Description of the Bonds

The following does not purport to be a complete listing of all the rights, obligations, or privileges of the Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the Articles of Incorporation, By-Laws and resolutions of the Board of Directors and Shareholders of SMIC, the information contained in the Prospectus, the Bond Agreements, and other agreements relevant to the Offer.

The initial offering of up to ₱5,000,000,000 Series H Bonds with an over-subscription option of up to ₱5,000,000,000, and the shelf registration of ₱30,000,000,000 Debt Securities Program was authorized by a resolution of the Board of Directors of SMIC dated 13 July 2020.

The Bonds shall be constituted by a Trust Indenture Agreement executed on [●] (the "Trust Agreement") entered into between the Issuer and Philippine National Bank Trust Banking Group (the "Trustee"), which term shall, wherever the context permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Agreement. The description of the terms and conditions of the Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Agreement. A registry and paying agency agreement was executed on [●] (the "Registry and Paying Agency Agreement") in relation to the Bonds among the Issuer, Philippine Depository & Trust Corp. as registrar and paying agent. The Bonds shall be offered and sold through a general public offering in the Philippines, and issued and transferable in minimum principal amounts of Twenty Thousand Pesos (₱20,000.00) and in multiples of Ten Thousand Pesos (₱10,000.00) thereafter, and traded in denominations of Ten Thousand Pesos (₱10,000.00) in the secondary market. The Bonds will be repaid at 100% of Face Value on the Maturity Date of the Bonds, unless SMIC exercises its early redemption option according to the conditions therefore. See "Description of the Bonds — Redemption and Purchase".

The Registrar and Paying Agent has no interest in or relation to SMIC which may conflict with its role as Registrar for the Offer. The Trustee has no interest in or relation to SMIC which may conflict with its role as Trustee for the Bonds.

Copies of the Trust Agreement and the Registry and Paying Agency Agreement are available for inspection during normal business hours at the specified offices of the Trustee. The holders of the Bonds (the "Bondholders") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Agreement and are deemed to have notice of those provisions of the Registry and Paying Agency Agreement applicable to them.

Form, Denomination and Title

Form and Denomination

The Bonds are in scripless form, and shall be issued in denominations of Twenty Thousand Pesos (₱20,000.00) each as a minimum, in multiples of Ten Thousand Pesos (₱10,000.00) thereafter, and traded in denominations of Ten Thousand Pesos (₱10,000.00) in the secondary market.

Title

Legal title to the Bonds shall be shown in the Register of Bondholders maintained by the Registrar. A notice confirming the principal amount of the Bonds purchased by each applicant in the Offer shall be issued by the Registrar to all Bondholders following the Issue Date. Upon any assignment, title to the Bonds shall pass by recording of the transfer from the transferor to the transferee in the electronic Register of Bondholders maintained by the Registrar. Settlement in respect of such transfer or change of title to the Bonds, including the settlement of any cost arising from such transfers, including, but not limited to, documentary stamps taxes, if any, arising from subsequent transfers, shall be for the account of the relevant Bondholder.

Bond Rating

The Bonds have been rated PRS Aaa by PhilRatings. PhilRatings assigned a Stable outlook for the ratings of the proposed Bonds. Obligations rated PRS Aaa are of the highest quality with minimal credit risk. The Issuer's capacity to meet its financial commitment is extremely strong. PRS Aaa is the highest credit rating assigned by PhilRatings. A Stable outlook, on the other hand, indicates that the ratings are likely to be maintained or to remain unchanged in the next twelve (12) months.

The rating was arrived at after considering the following factors: SMIC's solid financial profile, backed by strong liquidity and a sound capital structure; its focused growth, supported by strong synergies between SMIC's businesses and its well-qualified management; its core companies with very strong market position, sustained earnings, and recurring cash flows; and the beneficial impact of the strong growth of the domestic economy on the industries of SMIC's core businesses.

The rating is subject to regular annual reviews, or more frequently as market developments may dictate, for as long as the Bonds are outstanding. After the Issue Date, the Trustee shall monitor the compliance of the Bonds with the regular annual reviews.

Transfer of Bonds

Register of Bondholders

The Issuer shall cause the Register of Bondholders to be kept by the Registrar, in electronic form. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all the transfers of Bonds shall be entered into the Register of Bondholders. As required by Circular No. 428-04 issued by the BSP, the Registrar shall send each Bondholder a written statement of registry holdings at least quarterly (at the cost of the Issuer), and a written advice confirming every receipt or transfer of the Bonds that is effected in the Registrar's system (at the cost of the relevant Bondholder). Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Bondholder as of the date thereof. Any requests of Bondholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Bondholder. No transfer of the Bonds may be made during the period commencing on a Record Date as defined in this Section on "Interest Payment Dates".

Transfers; Tax Status

The Bonds may be transferred upon exchange of confirmation of sale and confirmation of purchase, or by book entry in recording platforms maintained by approved securities dealers. The Registrar shall ultimately and conclusively determine all matters regarding the evidence necessary to effect any such transfers. Settlement in respect of such transfers or change of title to the Bonds, including the settlement of any documentary stamps taxes, if any, arising from subsequent transfers, shall be settled directly between the transferee and/or the transferor Bondholders.

Subject to the provisions of the Registry and Paying Agency Agreement, Bondholders may transfer their Bonds at any time, regardless of tax status of the transferor vis-à-vis the transferee.

Transfers across tax categories shall not be allowed except on Interest Payment Dates that fall on a Business Day. Restricted transfers include, but are not limited to, transfers between taxable and non-taxable entities, between taxable entities of different tax categories (where tax-withheld entities with different final withholding tax rates (e.g. 20%, 25%, 30%) are considered as belonging to different tax categories), or between parties who claim the benefit of a tax treaty; provided, however, that transfers from a tax-exempt category to a taxable tax category on a non-Interest Payment Date shall be allowed using the applicable tax-withheld series name to ensure that the computation is based on the final withholding tax rate of the taxable party to the trade. For such transactions, the tax-exempt entity shall be treated as belonging to the same tax category as its taxable counterpart for the interest period within which such transfer occurred. A Bondholder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Trustee and the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified under the Registry and Paying Agency Agreement within three days from the settlement date for such transfer. Transfers taking place in the Register of Bondholders after the Bonds are listed on PDEx shall be allowed between tax-exempt and non tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if and/or when so allowed under and in accordance with the relevant rules, conventions and guidelines of PDEx and PDTC.

Secondary Trading of the Bonds

The Issuer intends to list the Bonds on PDEx for secondary market trading. The Bonds will be traded in a minimum board lot size of ₱10,000.00, and in multiples of ₱10,000.00 in excess thereof for so long as any of the Bonds are listed on PDEx. Secondary market trading in PDEx shall follow the applicable PDEx rules and conventions and guidelines, including rules, conventions and guidelines governing trading and settlement between Bondholders of different tax status, and shall be subject to the relevant fees of PDEx and PDTC.

Ranking

The Bonds shall constitute the direct, unconditional, unsubordinated and unsecured obligations of the Issuer ranking at least *pari passu* and ratably without any preference or priority among themselves and with all its other present and future direct, unconditional, unsubordinated and unsecured obligations (other than subordinated obligations and those preferred by mandatory provisions of law).

Interest

Interest Payment Dates

The Series H Bonds bear interest on its principal amount from and including Issue Date at the rate of [●]% p.a., payable semi-annually in arrears starting on [● March] for the first Interest Payment Date, and on [● March] and [● September] of each year for each subsequent Interest Payment Date at which the Series H Bonds are outstanding, or the subsequent Business Day, without adjustment for accrued interest, if such Interest Payment Date is not a Business Day.

The cut-off date in determining the existing Bondholders entitled to receive interest or principal amount due shall be two (2) Business Days prior to the relevant Interest Payment Dates (the "Record Date"), which shall be the reckoning date in determining the Bondholders entitled to receive interest, principal or any other amount due under the Bonds. No transfers of the Bonds may be made during this period intervening between and commencing on the Record Date and the relevant Interest Payment Dates.

The Final Interest Rate for the Series H Bonds will be based on the sum of a) the simple average of the interpolated 3.5-year PHP Philippine Government BVAL reference rate at 5:00 p.m. for three business days preceding and inclusive of the Interest Rate Setting Date and b) the Final Spread.

Interest Accrual

The Bonds shall cease to bear interest from and including the Maturity Date, as defined in the discussion on "Final Redemption" below, unless, upon due presentation, payment of the principal in respect of the Bonds then outstanding is not made, is improperly withheld or refused, in which case the Penalty Interest (see "Penalty Interest" below) shall apply.

Determination of Interest Amount

The interest shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

Redemption and Purchase

Final Redemption

Unless otherwise earlier redeemed or previously purchased and cancelled, the Bonds shall be redeemed at par or 100% of the face value on the Maturity Date. However, if the Maturity Date is not a Business Day, payment of all amounts due on such date will be made by the Issuer through the Paying Agent, without adjustment for accrued interest, on the succeeding Business Day.

Redemption for Taxation Reasons

If payments under the Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Bonds in whole, but not in part, on any Interest Payment Date (having given not more than 60 nor less than 30 days' notice) at par plus accrued interest.

Purchase and Cancellation

Upon listing of the Bonds on PDEx, the Issuer shall disclose any such transactions in accordance with the applicable PDEx disclosure rules.

The Issuer may at any time purchase any of the Bonds at any price in the open market or by tender or by contract at market price, without any obligation to purchase Bonds pro-rata from all Bondholders. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Change in Law or Circumstance

The following events shall be considered as changes in law or circumstances as it refers to the obligations of the Issuer and the rights and interests of the Bondholders under the Trust Agreement and the Bonds:

(a) Any government and/or non-government consent, license, authorization, registration or approval now or hereafter necessary to enable the Issuer to comply with its obligations under the Trust Agreement or the Bonds shall be modified, withdrawn or withheld in a manner which, in the reasonable opinion of the Trustee, will materially and adversely affect the ability of the Issuer to comply with such obligations; or

(b) Any provision of the Trust Agreement or any of the related documents is or becomes, for any reason, invalid, illegal or unenforceable to the extent that it becomes for any reason unlawful for the Issuer to give effect to its rights or obligations thereunder, or to enforce any provisions of the Trust Agreement or any of the related documents in whole or in part; or any law is introduced or any applicable existing law is modified or rendered ineffective or inapplicable to prevent or restrain the performance by the parties thereto of their obligations under the Trust Agreement or any other related documents; or

(c) Any concessions, permits, rights, franchise or privileges required for the conduct of the business and operations of the Issuer shall be revoked, cancelled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, in such manner as to materially and adversely affect the financial condition or operations of the Issuer.

Payments

The principal of, interest on, and all other amounts payable on the Bonds shall be paid to the Bondholders by crediting of the settlement accounts designated by each of the Bondholders. The principal of, and interest on, the Bonds shall be payable in Philippine Pesos. SMIC shall ensure that so long as any of the Bonds remains outstanding, there shall at all times be a Paying Agent for purposes of disbursing payments on the Bonds. In the event the Paying Agent shall be unable or unwilling to act as such, SMIC shall appoint a qualified financial institution in the Philippines authorized to act in its place. The Paying Agent may not resign its duties or be removed without a successor having been appointed.

Payment of Additional Amounts - Taxation

Interest income derived on the Bonds is subject to a withholding tax at rates of between 20% and 30% depending on the tax status of the relevant Bondholder under relevant law, regulation or tax treaty. Except for such withholding tax and as otherwise provided, all payments of principal and interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of Republic of the Philippines, including, but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties, if any. If such taxes or duties are imposed, the same shall be for the account of the Issuer; provided however that, the Issuer shall not be liable for the following:

a) The withholding tax applicable on interest earned on the Bonds prescribed under the Tax Code, as amended, and its implementing rules and regulations as may be in effect from time to time. An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance:

    (i) certified true copy of the tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue confirming the exemption or preferential rate;

    (ii) a duly notarized undertaking, in the prescribed form, declaring and warranting its tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Issuer and the Registrar free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax;

    (iii) for those who are claiming benefits under tax treaties, duly accomplished Certificate of Residence for tax Treaty Relief (CORTT) Form (Part I and II) or the prescribed certificate of residency with Part I (A, B and C) and II of the CORTT Form before the interest in paid or credited as required under BIR Revenue Memorandum Order No. 8-2017; and

(iv) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities which for purposes of claiming tax treaty withholding rate benefits, shall include evidence of the applicability of a tax treaty and consularized proof of the Bondholder's legal domicile in the relevant treaty state, and confirmation acceptable to the Issuer that the Bondholder is not doing business in the Philippines; provided further that, all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar;

b) Gross Receipts Tax under Section 121 of the Tax Code;

c) Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding; and

d) Value Added Tax ("VAT") under Sections 106 to 108 of the Tax Code, and as amended by Republic Act No. 9337.

Documentary stamp tax for the primary issue of the Bonds and the execution of the Bond Agreements, if any, shall be for the Issuer's account.

Financial Ratios

Similar to the covenants contained in other debt agreements of the Issuer, the Issuer shall maintain a Debt-Equity Ratio of not more than 80:20.

There are no other regulatory ratios that the Issuer is required to comply with.

Negative Pledge

So long as any Bond remains outstanding (as defined in the Trust Agreement):

(i) the Issuer will not create or permit to subsist any lien upon the whole or any part of its undertaking, assets or revenues present or future to secure any Indebtedness or any guarantee of or indemnity in respect of any Indebtedness;

(ii) the Issuer shall procure that its Material Subsidiaries will not create or permit to subsist any lien upon the whole or any part of any Material Subsidiary's undertaking, assets or revenues present or future to secure any Public Debt or any guarantee of or indemnity in respect of any Public Debt; and

(iii) the Issuer will procure that no other Person creates or permits to subsist any lien or gives any guarantee of, or indemnity upon the whole or any part of the undertaking, assets or revenues present or future of that other Person to secure any Public Debt of the Issuer, or any Material Subsidiary or to secure any guarantee of or indemnity in respect of the Public Debt of the Issuer or any Material Subsidiary unless, at the same time or prior thereto, the Issuer's obligations under the Bonds and the Trust Indenture Agreement, (a) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Bondholders or as shall be approved by the Majority Bondholders.

provided that this paragraph shall not apply to liens (aa) arising by operation of law; or (bb) created in respect of Indebtedness (for the avoidance of doubt, including Indebtedness in respect of which there is a preference or priority under Article 2244 of the Civil Code of the Philippines as the same may be amended from time to time) in aggregate principal amount not exceeding 20% of Total Consolidated Assets as determined in the Issuer's latest audited consolidated financial statements; or (cc) created in respect of Hedging Transactions; and unless, at the same time or prior thereto, the Issuer's obligations under the Bonds and the Trust Agreement, (x) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, in each case to the satisfaction of the Trustee, or (y) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Bondholders or as shall be approved by the Majority Bondholders.

Events and Consequences of Default

If any of the following events occurs (the "Events of Default") and is continuing, the Trustee at its discretion may give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at their principal amount together with accrued interest:

(a) **Payment Default**: there is failure to pay the interest on any of the Bonds within fourteen (14) days from the due date for payment; or

(b) **Breach of Other Obligations**: the Issuer defaults in the performance or observance of, or compliance with, any one or more of its other obligations set out in the Bonds or the Trust Agreement and (except where the Trustee considers, and so notifies in writing to the Issuer, that such default is not capable of remedy, when no such notice or grace period as mentioned below shall be required) such default continues for a period of thirty (30) days after notice of such default shall have been given to the Issuer by the Trustee; or

(c) **Cross-Default**: (i) any other present or future Indebtedness of the Issuer or any of its Material Subsidiaries or Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such Indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or any of its Material Subsidiaries or Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds 20% of the Issuer's Total Consolidated Assets; or

(d) **Judgement, Decree or Order**: a final judgment, decree or order has been entered against the Issuer or any Material Subsidiary by a court of competent jurisdiction from which no appeal may be made or is taken for the payment of money in excess of 20% of the Issuer's Total Consolidated Assets and any relevant period specified for payment of such judgment, decree or order shall have expired without it being satisfied, discharged or stayed; or

(e) **Enforcement Proceedings**: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against (in the opinion of the Trustee) any material part of the property, assets or revenues of the Issuer or any Material Subsidiary and is not discharged or stayed within sixty (60) days (or such longer period as the Issuer satisfies the Trustee is appropriate in relation to the jurisdiction concerned) of having been so levied, enforced or sued unless and for so long as the Trustee is satisfied that it is being contested in good faith and diligently; or

(f) **Security Enforced**: any lien, present or future, created or assumed by the Issuer or any Material Subsidiary becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person) and the Indebtedness secured by the lien is not discharged or such steps stayed within 60 days (or such longer period as the Issuer satisfies the Trustee is appropriate in relation to the jurisdiction concerned) of such steps being so taken unless and for so long as the Trustee is satisfied that it is being contested in good faith and diligently; or

(g) **Insolvency**: the Issuer or any Material Subsidiary (i) is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, (ii) stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, (iii) proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), (iv) proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts, or (v) a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any Material Subsidiary; or

(h) **Winding-up**: an order of a court of competent jurisdiction is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any Material Subsidiary, or the Issuer or any Material Subsidiary ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganization, merger or consolidation (i) on terms approved by the Trustee or by a resolution of the Bondholders, or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Issuer or another Material Subsidiary pursuant to a merger of the Material Subsidiary with the Issuer or such other Material Subsidiary or by way of a voluntary winding-up or dissolution where there are surplus assets in such Material Subsidiary and such surplus assets attributable to the Issuer and/or any other Material Subsidiary are distributed to the Issuer and/or any such other Material Subsidiary; or

(i) **Bankruptcy Proceedings**: proceedings shall have been initiated against the Issuer or any Material Subsidiary under any applicable bankruptcy, insolvency or reorganization law and such proceedings shall not have been discharged or stayed within a period of sixty (60) days (or such longer period as the Issuer satisfies the Trustee is appropriate in relation to the jurisdiction concerned) unless and for so long as it is being contested in good faith and diligently; or

(j) **Validity**: the Issuer shall contest in writing the validity or enforceability of the Trust Agreement or the Bonds or shall deny generally in writing the liability of the Issuer, under the Trust Agreement or the Bonds; or

(k) **Expropriation:** any step is taken by any person with a view to the seizure, compulsory acquisition, or expropriation of all or a material part of the assets of the Issuer or any of its Material Subsidiaries; or

(l) **Illegality:** it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Agreement; or

(m) **Analogous Events**: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs provided that in the case of paragraph (c), (h) and (i) in relation to a Subsidiary or the Material Subsidiary (as the case may be), the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Bondholders.

Notice of Default

The Trustee shall, within five (5) days after the occurrence of any Event of Default, give to the Bondholders written notice of such default known to it, unless the same shall have been cured before the giving of such notice; provided that, in the case of payment default, as described in item (a) of *"Events and Consequences of Default"* above, the Trustee shall immediately notify the Bondholders upon the occurrence of such payment default. The existence of a written notice required to be given to the Bondholders hereunder shall be published in a newspaper of general circulation in the Philippines for two (2) consecutive days, further indicating in the published notice that the Bondholders or their duly authorized representatives may obtain an important notice regarding the Bonds at the principal office of the Trustee upon presentment of sufficient and acceptable identification.

Penalty Interest

In case any amount payable by the Issuer under the Bonds, whether for principal, interest, fees due to Trustee or Registrar or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest and other amounts, pay penalty interest on the defaulted amount(s) at the rate of 2% p.a. (the "Penalty Interest") from the time the amount falls due until it is fully paid.

Payment in the Event of Default

The Issuer covenants that upon the occurrence of any Event of Default, the Issuer shall pay to the Bondholders, through the Paying Agent, the whole amount which shall then have become due and payable on all such outstanding Bonds with interest at the rate borne by the Bonds on the overdue principal and with Penalty Interest as described above, and in addition thereto, the Issuer shall pay to the Trustee such further amounts as shall be determined by the Trustee to be sufficient to cover the cost and expenses of collection, including reasonable compensation to the Trustee, its agents, attorneys and counsel, and any reasonable expenses or liabilities incurred without negligence or bad faith by the Trustee hereunder.

Application of Payments

Any money collected or delivered to the Paying Agent, and any other funds held by it, subject to any other provision of the Trust Agreement and the Registry and Paying Agency Agreement relating to the disposition of such money and funds, shall be applied by the Paying Agent in the order of preference as follows: *first,* to the payment to the Trustee, the Paying Agent and the Registrar, of the costs, expenses, fees and other charges of collection, including reasonable compensation to them, their agents, attorneys and counsel, and all reasonable expenses and liabilities incurred or disbursements made by them, without negligence or bad faith; *second,* to the payment of the interest in default, in the order of the maturity of such interest with Penalty Interest; *third,* to the payment of the whole amount then due and unpaid upon the Bonds for principal, and interest, with Penalty Interest; and *fourth,* the remainder, if any shall be paid to the Issuer, its successors or assigns, or to whoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct. Except for any interest and principal payments, all disbursements of the Paying Agent in relation to the Bonds shall require the conformity of the Trustee. The Paying Agent shall render a monthly account of such funds under its control.

Prescription

Claims in respect of principal and interest or other sums payable hereunder shall prescribe unless made within seven (7) years (in the case of principal or other sums) or five (5) years (in the case of interest) from the date on which payment becomes due.

Remedies

All remedies conferred by the Trust Agreement to the Trustee and the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Trustee or the Bondholders of any legal remedy by judicial or extra judicial proceedings appropriate to enforce the conditions and covenants of the Trust Agreement, subject to the discussion below on *"Ability to File Suit".*

No delay or omission by the Trustee or the Bondholders to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy given by the Trust Agreement to the Trustee or the Bondholders may be exercised from time to time and as often as may be necessary or expedient.

Ability to File Suit

No Bondholder shall have any right by virtue of or by availing of any provision of the Trust Agreement to institute any suit, action or proceeding for the collection of any sum due from the Issuer hereunder on account of principal, interest and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless (i) such Bondholder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Bonds; (ii) the Majority Bondholders shall have decided and made the written request upon the Trustee to institute such action, suit or proceeding in the latter's name; (iii) the Trustee for sixty (60) days after the receipt of such notice and request shall have neglected or refused to institute any such action, suit or proceeding; and (iv) no directions inconsistent with such written request shall have been given under a waiver of default by the Bondholders, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no one or more Bondholders shall have any right in any manner whatever by virtue of or by availing of any provision of the Trust Agreement to affect, disturb or prejudice the rights of the holders of any other such Bonds or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Agreement, except in the manner herein provided and for the equal, ratable and common benefit of all the Bondholders.

Waiver of Default by the Bondholders

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or the Majority Bondholders may decide for and in behalf of the Bondholders to waive any past default, except the events of default defined as a payment default, breach of representation or warranty default, expropriation default, insolvency default, or closure default, and its consequences. In case of any such waiver, the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder; provided however that, no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Bonds.

Substitution

Substitution of the Bonds is not contemplated.

Trustee; Notices

Notice to the Trustee

All documents required to be submitted to the Trustee pursuant to the Trust Agreement and this Prospectus and all correspondence addressed to the Trustee shall be delivered to:

To the Trustee:	Philippine National Bank Trust Banking Group
Attention:	Atty. Josephine Jolejole
Address:	3rd Floor, PNB Financial Center D. Macapagal Boulevard, Pasay City
Subject:	SMIC Series H Bonds
Facsimile:	+63 2 8526 3379

All documents and correspondence not sent to the above-mentioned address shall be considered as not to have been sent at all.

Notice to the Bondholders

The Trustee shall send all notices to Bondholders to their mailing address as set forth in the Register of Bondholders. Except where a specific mode of notification is provided for herein, notices to Bondholders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) surface mail; (iii) by one-time publication in a newspaper of general circulation in the Philippines; or (iv) personal delivery to the address of record in the Register of Bondholders. The Trustee shall rely on the Register of Bondholders in determining the Bondholders entitled to notice. All notices shall be deemed to have been received (i) ten (10) days from posting if transmitted by registered mail; (ii) fifteen (15) days from mailing if transmitted by surface mail; (iii) on date of publication, or; (iv) on date of delivery, for personal delivery.

Binding and Conclusive Nature

Except as provided in the Trust Agreement, all notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained by the Trustee for the purposes of the provisions of the Trust Agreement, shall (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, and all Bondholders and (in the absence as referred to above) no liability to the Issuer, the Paying Agent or the Bondholders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions under the Trust Agreement.

Duties and Responsibilities of the Trustee

(a) The Trustee is appointed as trustee for and on behalf of the Bondholders and accordingly shall perform such duties and shall have such responsibilities as provided in the Trust Agreement. The Trustee shall, in accordance with the terms and conditions of the Trust Agreement, monitor the compliance or non-compliance by the Issuer with all its representations and warranties, and the observance by the Issuer of all its covenants and performance of all its obligations, under and pursuant to the Trust Agreement. The Trustee shall observe due diligence in the performance of its duties and obligations under the Trust Agreement. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Bondholders, and to whom the Bondholders shall communicate with in respect to any matters that must be taken up with the Issuer.

(b) The Trustee shall, prior to the occurrence of an Event of Default or after the curing of all such defaults which may have occurred, perform only such duties as are specifically set forth in the Trust Agreement. In case of default, the Trustee shall exercise such rights and powers vested in it by the

Trust Agreement, and use such judgment and care under the circumstances then prevailing that individuals of prudence, discretion and intelligence, and familiar with such matters exercise in the management of their own affairs.

(c) The Trustee, in the performance of its duties, shall exercise such rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in its exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs under similar circumstances. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Bondholders, and to whom the Bondholders shall communicate with in respect to any matters that must be taken up with the Issuer.

(d) None of the provisions contained in the Trust Agreement or Prospectus shall require or be interpreted to require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

Resignation and Change of Trustee

(a) The Trustee may at any time resign by giving ninety (90) days' prior written notice to the Issuer and to the Bondholders of such resignation.

(b) Upon receiving such notice of resignation of the Trustee, the Issuer shall immediately appoint a successor trustee by written instrument in duplicate, executed by its authorized officers, one (1) copy of which instrument shall be delivered to the resigning Trustee and one (1) copy to the successor trustee. If no successor shall have been so appointed and have accepted appointment within thirty (30) days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor, or any Bondholder who has been a *bona fide* holder for at least six months (the "*bona fide* Bondholder") may, for and in behalf of the Bondholders, petition any such court for the appointment of a successor. Such court may thereupon after notice, if any, as it may deem proper, appoint a successor trustee.

(c) A successor trustee should possess all the qualifications required under pertinent laws, otherwise, the incumbent trustee shall continue to act as such.

(d) In case at any time the Trustee shall become incapable of acting, or has acquired conflicting interest, or shall be adjudged as bankrupt or insolvent, or a receiver for the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its properties or affairs for the purpose of rehabilitation, conservation or liquidation, then the Issuer may within thirty (30) days from there remove the Trustee concerned, and appoint a successor trustee, by written instrument in duplicate, executed by its authorized officers, one (1) copy of which instrument shall be delivered to the Trustee so removed and one (1) copy to the successor trustee. If the Issuer fails to remove the Trustee concerned and appoint a successor trustee, any Bona Fide Bondholder may petition any court of competent jurisdiction for the removal of the Trustee concerned and the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper, remove the Trustee and appoint a successor trustee.

(e) The Majority Bondholders may at any time remove the Trustee for cause, and appoint a successor trustee, by the delivery to the Trustee so removed, to the successor trustee and to the Issuer of the required evidence of the action in that regard taken by the Majority Bondholders.

(f) Without prejudice to any liabilities of the Trustee which have accrued, any resignation or removal of the Trustee and the appointment of a successor trustee pursuant to any of the provisions of this

Subsection shall become effective upon the earlier of: (i) acceptance of appointment by the successor trustee as provided in the Trust Agreement; or (ii) the effectivity of the resignation notice sent by the Trustee under the Trust Agreement (a) (the "Resignation Effective Date") provided, however, that after the Resignation Effective Date and, as relevant, until such successor trustee is qualified and appointed (the "Holdover Period"), the resigning Trustee shall discharge duties and responsibilities solely as a custodian of records for turnover to the successor Trustee promptly upon the appointment thereof by SMIC.

Successor Trustee

a) Any successor trustee appointed shall execute, acknowledge and deliver to the Issuer and to its predecessor Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor trustee, without further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusteeship with like effect as if originally named as trustee in the Trust Agreement. The foregoing notwithstanding, on the written request of the Issuer or of the successor trustee, the Trustee ceasing to act as such shall execute and deliver an instrument transferring to the successor trustee, all the rights, powers and duties of the Trustee so ceasing to act as such. Upon request of any such successor trustee, the Issuer shall execute any and all instruments in writing as may be necessary to fully vest in and confer to such successor trustee all such rights, powers and duties. Upon effectivity of the removal or resignation of the Trustee as provided above, and except as otherwise provided in the Terms and Conditions, the Trustee's liabilities and obligations shall immediately cease.

b) Upon acceptance of the appointment by a successor trustee, the Issuer shall notify the Bondholders in writing of the succession of such trustee to the trusteeship. If the Issuer fails to notify the Bondholders within ten (10) days after the acceptance of appointment by the trustee, the latter shall cause the Bondholders to be notified at the expense of the Issuer.

Reports to the Bondholders

The Trustee shall submit to the Bondholders on or before February 28 of each year from the relevant Issue Date, until full payment of the Bonds, a brief report dated December 31 of the immediately preceding year with respect to:

(i) The funds, if any, physically in the possession of the Paying Agent held in trust for the Bondholders on the date of such report; and

(ii) Any action taken by the Trustee in the performance of its duties under the Trust Agreement which it has not previously reported and which in its opinion materially affects the Bonds, except action in respect of a default, notice of which has been or is to be withheld by it.

The Trustee shall submit to the Bondholders a brief report within ninety (90) days from the making of any advance for the reimbursement of which it claims or may claim a lien or charge which is prior to that of the Bondholders on the property or funds held or collected by the Paying Agent with respect to the character, amount and the circumstances surrounding the making of such advance; provided that, such advance remaining unpaid amounts to at least ten percent (10%) of the aggregate outstanding principal amount of the Bonds at such time.

Inspection of Documents

The following pertinent documents may be inspected during regular business hours on any Business Day at the principal office of the Trustee:

1. Trust Indenture Agreement;
2. Registry and Paying Agency Agreement;
3. Articles of Incorporation and By-Laws of the Issuer; and
4. Registration Statement of the Issuer with respect to the Bonds.

Meetings of the Bondholders

A meeting of the Bondholders may be called at any time for the purpose of taking any actions authorized to be taken by or in behalf of the Bondholders of any specified aggregate principal amount of Bonds under any other provisions of the Trust Agreement or under the law and such other matters related to the rights and interests of the Bondholders under the Bonds.

Notice of Meetings

The Trustee may at any time call a meeting of the Bondholders, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of Bonds may direct in writing the Trustee to call a meeting of the Bondholders, to take up any allowed action, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Issuer and to each of the registered Bondholders not earlier than forty-five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting. However, the Trustee shall send notices in respect of any meeting called by SMIC to obtain consent of the Bondholders to an amendment of the Trust Agreement in the following manner: a notice shall be sent to Bondholders detailing the amendments proposed and consents requested by SMIC not earlier than sixty (60) days nor later than forty-five (45) days prior to the date fixed for the meeting, if the Bondholder fails to respond as required by such notice, the Trustee shall send a second notice to such Bondholder not later than fifteen (15) days prior to the date fixed for the meeting. Each of such notices shall be published in a newspaper of general circulation as provided in the Trust Agreement. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Issuer within ten (10) days from receipt of the duly supported billing statement.

Failure of the Trustee to Call a Meeting

In case at any time the Issuer, pursuant to a resolution of its board of directors or executive committee, or the holders of at least twenty five percent (25%) of the aggregate outstanding principal amount of the Bonds shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, in accordance with the notice requirements, the notice of such meeting, then the Issuer or the Bondholders in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof.

Quorum

The Trustee shall determine and record the presence of the Majority Bondholders, personally or by proxy. The presence of the Majority Bondholders shall be necessary to constitute a quorum to do business at any meeting of the Bondholders except for any meeting called by SMIC solely for the purpose of obtaining the consent of the Bondholders to an amendment of the Trust Agreement, where the failure of any Bondholder to transmit an objection to such proposal of SMIC after at least two (2) notices to such Bondholder have been sent by the Trustee, will be considered by the Trustee as an affirmative vote (and such Bondholder will be considered present for quorum purposes by the Trustee) for the proposal of SMIC.

Procedure for Meetings

(a) The Trustee shall preside at all the meetings of the Bondholders, unless the meeting shall have been called by the Issuer or by the Bondholders, in which case the Issuer or the Bondholders calling the meeting, as the case may be, shall in like manner move for the election of the chairman and secretary of the meeting.

(b) Any meeting of the Bondholders duly called may be adjourned for a period or periods not to exceed in the aggregate of one (1) year from the date for which the meeting shall originally have been called and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

Voting Rights

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of one (1) or more Bonds or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting. Bondholders shall be entitled to one vote for every Ten Thousand Pesos (₱10,000.00) interest. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the persons entitled to vote at such meeting and any representatives of the Issuer and its legal counsel.

Voting Requirement

All matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders present or represented in a meeting at which there is a quorum except as otherwise provided in the Trust Agreement (please refer to the discussion on "Quorum"). Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Issuer as if the votes were unanimous.

Role of the Trustee in Meetings of the Bondholders

Notwithstanding any other provisions of the Trust Agreement, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Bondholders, in regard to proof of ownership of the Bonds, the appointment of proxies by registered holders of the Bonds, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit.

Amendments

SMIC and the Trustee may amend these Terms and Conditions or the Bonds without notice to any Bondholder but with the written consent of the Majority Bondholders (including consents obtained in connection with a tender offer or exchange offer for the Bonds). However, without the consent of each Bondholder affected thereby, an amendment may not:

(1) reduce the amount of Bondholder that must consent to an amendment or waiver;

(2) reduce the rate of or extend the time for payment of interest on any Bond;

(3) reduce the principal of or extend the Maturity Date of any Bond;

(4) impair the right of any Bondholder to receive payment of principal of and interest on such Bondholder's Bonds on or after the due dates therefore or to institute suit for the enforcement of any payment on or with respect to such Bondholders;

(5) reduce the amount payable upon the redemption or repurchase of any Bond under the Terms and Conditions or change the time at which any Bond may be redeemed;

(6) make any Bond payable in money other than that stated in the Bond;

(7) subordinate the Bonds to any other obligation of SMIC;

(8) release any Bond interest that may have been granted in favor of the Bondholders;

(9) amend or modify the Payment of Additional Amounts, Taxation, the Events of Default of the Terms and Conditions or the Waiver of Default by the Bondholders; or

(10) make any change or waiver of this Condition.

It shall not be necessary for the consent of the Bondholders under this Condition to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof. After an amendment under this Condition becomes effective, SMIC shall send a notice briefly describing such amendment to the Bondholders in the manner provided in the section entitled "Notices of Meetings".

Evidence Supporting the Action of the Bondholders

Wherever in the Trust Agreement it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of the Bonds may take any action (including the making of any demand or requests and the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith or (iii) a combination of such instrument and any such record of meeting of the Bondholders.

Non-Reliance

Each Bondholder also represents and warrants to the Trustee that it has independently and, without reliance on the Trustee, made its own credit investigation and appraisal of the financial condition and affairs of the Issuer on the basis of such documents and information as it has deemed appropriate and that he has subscribed to the Issue on the basis of such independent appraisal, and each Bondholder represents and warrants that it shall continue to make its own credit appraisal without reliance on the Trustee. The Bondholders agree to indemnify and hold the Trustee harmless from and against any and all liabilities, damages, penalties, judgments, suits, expenses and other costs of any kind or nature against the Trustee in respect of its obligations hereunder, except for its gross negligence or wilful misconduct.

Governing Law

The Bond Agreements are governed by and are construed in accordance with Philippine law.

MARKET INFORMATION FOR THE ISSUER'S DEBT SECURITIES

As of the date of this Prospectus, all of the debt securities of the Issuer which are registered with the SEC are listed for secondary trading on the Fixed Income Exchange Board of the Philippine Dealing and Exchange Corp.

PDEx was incorporated in 2003 to provide trading infrastructure for the fixed-income (FI) market. As an SEC-registered FI Securities Market, PDEx operates the organized secondary market for the trading of fixed income securities which includes both government and corporate securities.

PDEx, as a Self Regulatory Organization, has been given authority by the SEC to create and enforce its own rules, monitor and enforce compliance with securities laws and regulations, and enforce fair, ethical and efficient practices in the securities market with the primordial objective of investor protection. It enables the maintenance of a level playing field among players in the market, to assure investors of fairness and safety in the marketplace.

Everyday is a trading day in PDEx except for Saturdays, Sundays, legal holidays, and days when the Philippine Clearing House Corporation operations are suspended. Trading in PDEx consists of two main sessions, the pre-open session and the trading session. Trading sessions shall be the hours when Trading Participants may transact and conclude trades on the PDEx platform. Currently, trading session opens at 9:00 a.m. and ends at 4:00 p.m. Meanwhile, the pre-open session is a set period prior to the trading session where Trading Participants may begin to post quotes. However, no deals can be dealt until the trading session officially begins.

As of the date of this Prospectus, the Issuer has four outstanding debt securities which are listed and traded in PDEx. Details of the latest trades of these securities are set out below.

Trade Date	Security Identification	Last Traded Price
August 20, 2020	SM 23 R21	104.951688
August 20, 2020	SM 21 R19	102.244646
July 27, 2020	SM 22 R19	107.753563
July 22, 2020	SM 24 R21	102.448488

INTERESTS OF LEGAL COUNSEL AND INDEPENDENT AUDITORS

Legal Matters

All legal opinion/matters in connection with the issuance of the Bonds which are subject of this Offer shall be passed upon by Angara Abello Concepcion Regala & Cruz ("ACCRA"), for the Joint Issue Managers and Underwriters, and SMIC's Legal Affairs Division for the Company. ACCRA has no direct and indirect interest in SMIC. ACCRA may, from time to time, be engaged by SMIC to advise in its transactions and perform legal services on the same basis that ACCRA provides such services to its other clients.

Independent Auditors

The audited consolidated financial statements of SMIC as at 31 December 2017, 2018 and 2019 and for the years ended 31 December 2017, 2018 and 2019 have been audited by SyCip Gorres Velayo and Co. ("SGV & Co."), independent auditors, in accordance with Philippine Standards on Auditing as set forth in their report thereon appearing elsewhere in this Prospectus. The unaudited interim condensed consolidated financial statements as at 31 March 2020 and for the three-month periods ended 31 March 2019 and 2020 have been reviewed by SGV & Co. in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. The current Partner in charge of the examination of the Company's financial statements is Julie Christine C. Ong-Mateo. A review is substantially less in scope than an audit conducted in accordance with the Philippine Standards on Auditing. Consequently, it does not enable the independent auditors to obtain assurance that they would become aware of all significant matters that might be identified in an audit. Accordingly, they do not express an audit opinion on the unaudited interim condensed consolidated financial statements.

The Company's Audit Committee of the Board reviews and approves the scope of audit work of the independent auditors and the amount of audit fees for a given year. The financial statements will then be presented for approval by the stockholders in the annual meeting. As regards to services rendered by the external auditor other than the audit of financial statements, the scope of and amount for the same are subject to review and approval by the Audit Committee.

Audit fees for each of the last two fiscal years for professional services rendered by the external auditor to the parent company (SMIC) were ₱2.3 million and ₱2.3 million for 2018 and 2019, respectively. Services rendered include the audit of year end financial statements and supplementary schedules for submission to SEC and review of annual income tax returns.

Except for the members of SMIC's Legal Affairs Division, there is no arrangement that experts shall receive a direct or indirect interest in SMIC or was a promoter, underwriter, voting trustee, director, officer, or employee of SMIC.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS

SMIC has not had any changes in or disagreements with its independent accountants/ auditors on any matter relating to financial or accounting disclosures.

CAPITALIZATION AND INDEBTEDNESS

As at 31 March 2020, the authorized capital stock of the Issuer was ₱28.0 billion divided into 2,790 million common shares and 10 million non-voting cumulative and redeemable preferred shares each with ₱10 par value per share, and its issued capital stock was ₱12.0 billion consisting of 1,204,582,867 common shares of ₱10 par value each.

The following table sets forth the consolidated capitalization and indebtedness of the Group as at 31 March 2020 and as adjusted to give effect to the issue of the Bonds (assuming the Oversubscription Option is not exercised). This table should be read in conjunction with the Issuer's unaudited interim condensed consolidated financial statements as at and for the three months ended 31 March 2020 and notes thereto, included elsewhere in this Prospectus.

	As at 31 March 2020	
	Actual (Unaudited)	**Adjusted** (Unaudited)
(in ₱ millions)		
Short-term debt		
Bank loans	35,731	35,731
Current portion of long-term debt	50,151	50,151
Total short-term debt	85,882	85,882
Long-term debt - net of current portion		
Banks and other financial institutions	310,574	310,574
The Bonds to be issued	-	5,000
Total long-term debt - net of current portion	310,574	315,574
Equity		
Equity Attributable to Equity Owners of the Parent:		
Capital Stock	12,046	12,046
Additional paid-in capital	75,816	75,816
Equity adjustment from common control transactions	(5,424)	(5,424)
Cost of Parent common shares held by subsidiaries	(25)	(25)
Cumulative translation adjustment	1,190	1,190
Net fair value changes on cash flow hedges	(1,291)	(1,291)
Net unrealized gain on financial assets	3,772	3,772
Re-measurement gain on defined benefit asset/obligation	(8,633)	(8,633)
Retained earnings		
Appropriated	37,000	37,000
Unappropriated	266,554	266,554
Total Equity Attributable to Equity Owners of the Parent	381,005	381,005
Non-controlling interests	157,229	157,229
Total Equity	538,234	538,234
Total capitalization	848,808	853,808

Notes:

(1) Adjusted amount as at 31 March 2020 includes proceeds of ₱5,000,000,000 principal amount of the Bonds offered hereunder.

(2) Total capitalization is the sum of long-term debt – net of current portion and equity.

DESCRIPTION OF THE ISSUER AND THE GROUP

Overview

The Issuer is the holding company of the Group, one of the largest conglomerates in the Philippines. The Issuer was incorporated in the Philippines on 15 January 1960. On December 27, 2019, the SEC approved the amendment of the Issuer's Articles of Incorporation changing its corporate life to perpetual. Its registered office is at the 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City, Metro Manila, Philippines.

The Issuer is the largest publicly listed company in the Philippines that is invested in market leading businesses in retail, banking and property. It also invests in ventures that capture high growth opportunities in the emerging Philippine economy.

The Group's business activities and interests are divided into three principal business segments:

- Its Retail arm, SM Retail Inc., operates department stores under The SM Store brand, and several food retail formats including Supermarkets, Hypermarkets and Savemore Stores. It also operates specialty stores focused on DIY, furniture, appliances and toys among others;
- Its Property arm, SM Prime Holdings Inc., is engaged in building and operating shopping malls both in the Philippines and China. It is also engaged in Residential property development under its SM Development Corporation subsidiary, commercial property development, as well as various hotels and convention centers; and
- Its Financial Services and Others segment is composed of the following:
  - The Banking Group comprised of BDO Unibank, Inc. (BDO), the country's largest bank by resources, and China Banking Corporation (China Bank); and
  - The Issuer's equity investments in other sectors such as premium commercial buildings, leisure, logistics and mining.

As at 30 June 2020, the Issuer had two principal consolidated subsidiaries namely SM Prime and SM Retail, and two principal equity-accounted associates, namely BDO and China Bank, each of whose shares (except for SM Retail) are listed on the PSE, in which the Issuer had effective interests of 49.7%, 77.3%, 45.3%, and 22.6%, respectively.

For the years ended 31 December 2017, 2018 and 2019, the Issuer's audited consolidated revenues were ₱397,948.2 million, ₱449,788.2 million and ₱501,651.9 million, respectively, and its audited consolidated net income attributable to equity holders of the parent were ₱32,923.5 million, ₱37,078.3 million and ₱44,568.2 million, respectively. For the three months ended 31 March 2020, the Issuer's unaudited consolidated revenues was ₱111,152.5 million and its unaudited consolidated net income attributable to equity holders of the parent was ₱9,007.3 million.

As at 31 December 2017, 2018 and 2019, the Issuer's audited consolidated total assets were ₱960,080.7 million, ₱1,060,642.3 million and ₱1,144,164.6 million, respectively, and its audited total equity was ₱453,812.2 million, ₱492,290.0 million and ₱536,151.5 million, respectively. As at 31 March 2020, the Issuer's unaudited consolidated total assets was ₱1,154,722.3 million and its unaudited total equity was ₱538,234.1 million.

The principal source of consolidated revenue of the Issuer is from the Retail Group which contributed ₱300,043.1 million, ₱336,263.8 million, ₱370,700.6 million, ₱79,691.0 million and ₱81,787.1 million, respectively, or 75%, 75%, 74%, 73% and 74%, respectively, of its consolidated revenues for the years ended 31 December 2017, 2018, 2019 and the three months ended 31 March 2019 and 2020. Property contributed ₱83,198.2 million, ₱96,537.2 million, ₱107,798.3 million, ₱24,383.6 million and ₱24,713.0 million or 21%, 21%, 21%, 22% and 22%, respectively, of the Issuer's consolidated revenues for the years ended 31 December 2017, 2018, 2019 and the three months ended 31 March 2019 and 2020. The Property Group and Retail Group contributed ₱20,488.4 million, ₱22,928.8 million, ₱25,508.6 million, ₱6,244.5 million and ₱4,885.8 million, respectively, of the Issuer's consolidated net income attributable to equity holders of the parent for the years ended 31 December 2017, 2018, 2019 and the three months ended 31 March 2019 and 2020.

History

Mr. Henry Sy, Sr., the founder of the Group, embarked upon his retailing career immediately after the Second World War when, in 1945, he established a small shoe store in Carriedo, Metro Manila. Having opened six shoe stores, Mr. Sy diversified the business into clothing and soft goods. In 1958, the first Shoemart store opened in Rizal Avenue, Metro Manila and, following the incorporation of Shoemart in March 1960, additional stores opened in Makati Commercial Centre in 1962, in Cebu in 1965 and in Cubao in 1967. Four department stores were opened during the 1970s and, with the intention that one-stop shopping convenience be provided to customers, the new stores featured fast food centers and entertainment areas.

Shoemart operated six The SM Stores until November 2001, when five stores were transferred to SM Mart. As at 30 June 2020, SM Mart is a 65.0% owned subsidiary through SM Retail, with the remaining 35.0% held by the Sy Family. Pursuant to a restructuring of the Issuer's department store business in 2002, SM Mart took over most of Shoemart's functions in managing its department store business, such as merchandising, marketing, advertising and certain other services for the The SM Stores as well as for its Retail Affiliates. The Group acquired its supermarket and hypermarket operations in June 2006. Shoemart was renamed SM Land, Inc. As at 30 June 2020, the Issuer, through SM Retail, operates 64 The SM Stores, 58 SM Supermarkets, 206 Savemore stores, 52 SM Hypermarkets and 60 WalterMarts, 846 Alfamarts, and 1,596 Specialty stores.

Capitalizing upon the success of The SM Stores and as an extension of the concept of one-stop shopping, the first shopping mall, SM City — North EDSA, commenced operations in Quezon City in 1985. By January 1994, four shopping malls had been opened, including SM Megamall, the largest shopping mall in the Philippines. SM Prime was incorporated in 1994 for the primary purpose of acquiring from other members of the Group, as well as companies affiliated with the Sy Family, the shopping malls and land intended for the development of shopping malls and, henceforth, to be the Group vehicle for commercial center operations. SM Prime undertook its initial public offering on the PSE in July 1994, raising approximately ₱6.0 billion. SM Prime currently owns and operates, with the assistance of certain Management Companies, 74 shopping malls in the Philippines. In November 2007, SM Prime approved the acquisition from the Sy Family of three malls in the southern and western parts of China, namely Xiamen, Jinjiang and Chengdu and completed the acquisition in May 2008. SM Suzhou, SM Chongqing, SM Zibo, and SM Tianjin in China opened in September 2011, December 2012, September 2015 and December 2016, respectively.

The Issuer's expansion into real estate development commenced in October 1974 with the incorporation of MRDC. MRDC was formed to develop high-rise condominiums and townhouse units in the prime district of Makati.

In November 1976, Mr. Henry Sy, Sr. acquired Acme Savings Bank, which was renamed Banco De Oro Savings and Mortgage Bank in August 1977 and then as Banco De Oro Commercial Bank in December 1994. The Bank initially provided services predominantly to suppliers of Shoemart, but has subsequently developed into a full-service commercial bank. In August 1996, the Bank was renamed Banco De Oro Universal Bank when the BSP granted approval for the Bank to operate as an expanded commercial bank. BDO undertook its initial public offering and was listed on the PSE in May 2002, raising ₱2.1 billion. In May 2007, the Bank merged with EPCIB and was subsequently renamed Banco De Oro Unibank, Inc. on 6

February 2008. On 04 November 2011, the Bank was renamed to BDO Unibank, Inc. as part of the company's re-branding initiatives. In January 2017, BDO completed its stock rights offering and issued ₱60.0 billion worth of new common shares. Consequently, the common shares held by the Group increased by 349.9 million shares.

In 1986, the Group obtained majority ownership of SM Fund, Inc., a closed-end investment company listed on the PSE. In May 1996, the SEC approved a change of name of the company to SM Development Corporation and a change of its purpose to property holding and development. The Group has also diversified into tourism and entertainment with plans for the development of mixed-use complexes in Cebu, Davao, Tagaytay, Batangas, Baguio and Metro Manila, which include hotels, convention centers, shopping malls and leisure and entertainment facilities. On 1 August 2007, the Issuer approved the rationalization of Shoemart as the holding entity for the real estate and tourism operations of the Group. On 8 October 2007, the Issuer and Shoemart entered into an agreement whereby the Issuer agreed to swap its 1,823,841,965 common shares in SMDC in exchange for 372,212 common shares in Shoemart based on an independent valuation of the respective shares by Macquarie Securities (Asia) Pte Limited. On 24 January 2008, the SEC approved the valuation of the shares of stock of SMDC as consideration for the additional issue of 372,212 shares. The share swap resulted in an increase of the Issuer's ownership in Shoemart from 64.9% to 66.9% while the effective ownership in SMDC was reduced to 43.6% from 59.4%. The shares swap also resulted in SMDC becoming a 65.0%-owned subsidiary of Shoemart. On 3 October 2008, the SEC approved the change in name of Shoemart, Inc. to SM Land, Inc.

On 02 April 2008, SM Hotels was incorporated to further focus on and develop the Group's hotel business, and rationalize the Group's hotel and convention assets under one entity. On 29 March 2010, the SEC approved the change in the corporate name of SM Hotels and Entertainment Corp. to SM Hotels and Conventions Corp.

On 31 May 2013, the Group embarked on a highly transformational transaction to consolidate all of its real estate interests under SM Prime, in line with the Group's vision to create a leading integrated real estate company in Asia, increase synergies and organizational efficiencies among the Group's various real estate business units, and further enhance the value of the Group's real estate businesses. The consolidation involved PSE-listed companies SMDC and HPI, various unlisted Group real estate companies including SM Land and SM Hotels and various real estate properties owned by SMIC.

The Group initiated the consolidation through the simultaneous tender offers made by SM Land to acquire 100% of the outstanding issued and capital stock of SMDC and HPI which it did not yet own by exchanging SM Prime common shares owned by SM Land for SMDC and HPI common shares of the tendering shareholders. This was followed by (i) the merger of SM Land with SM Prime with the latter as the surviving entity, (ii) the issuance of new SM Prime common shares to SMIC, Mountain Bliss Resort & Development Corp. ("Mountain Bliss") and the Sy family in exchange for shares in certain real estate companies of the Group, and (iii) the issuance of new SM Prime common shares to SMIC in exchange for key real estate properties owned by SMIC. The reorganization was approved by the SEC on 10 October 2013, resulting to SM Prime becoming one of the largest real estate companies in South East Asia with total assets of ₱688,664.0 million as of 31 March 2020 and an aggregate land bank of more than 1,933.0 hectares.

On 7 July 2016, the Company obtained the approval of the SEC for the merger of Sy Family-owned specialty stores into SM Retail, with SM Retail as the surviving entity. This enabled the Group to consolidate all its retail businesses under SM Retail, Inc. 1,476 outlets were folded into SM Retail in exchange for shares of stock in SM Retail. These include popular brands such as Watsons, Toy Kingdom, SM Appliances, Ace Hardware, Our Home, Sports Central, Kultura, Pet Express, Baby Company and other specialty retailers. The merger resulted in SMIC owning 77.3% in a larger and more diverse SM Retail group.

The Company has also made strategic investments in various businesses that have the potential to become leaders in their respective sectors.

In 2017, the Company acquired a 34.5% stake in Negros Navigation, the parent company of 2GO Group, Inc. ("2GO"), which was subsequently merged with 2GO as the surviving entity. 2GO offers a wide array of logistics solutions that enables it to move small items such as documents to large items such as 20ft containers.

The Company also acquired a 61.2% stake in Philippines Urban Living Solutions ("PULS") in April 2017. PULS owns and manages MyTown, a young professional rental housing brand that currently has 16 operating buildings.

Between September to October 2017, the Company acquired 34.0% equity interest each in N-Park BGC Properties, Inc., N-Lima BGC Properties, Inc., and N-Park BGC Land, Inc, which forms part of the NEO Group.

In June 2018, the Company acquired 34.1% of Goldilocks Bakeshop, Inc., the Philippines' leading bakeshop chain.

In 2019, the Company acquired 34.5% of GPay Network PH, Inc. ("GrabPay"). GrabPay is the electronic wallet platform of the ride-hailing app Grab.

SMIC was listed on the PSE on 22 March 2005, and as at [19] August 2020, had a market capitalization of [₱1,084.1 million], based on a price of [₱900.00] per common share on such date.

Strategy

The Issuer's strategy is focused on growing its retail, property and financial services businesses, and maintaining or attaining market leadership in each of their respective sectors. The Issuer will continue to target the mass market in the Philippines by offering essential goods and services such as food, clothing, housing and financial services.

The Issuer is responsible for setting Group policy and strategy. The Issuer establishes the financial and operating policies for the Group and supervises and monitors the performance of its subsidiaries and associates.

Key elements of the Issuer's strategy are to:

- maintain its leading market share in the shopping mall sector by continuing to expand the Group's mall and retail activities into major centers of population in Metro Manila and particularly in the provinces, where there are opportunities for growth and capture strategic opportunities overseas particularly China;

- continue to capture a significant share of retail spending in the Philippines by providing the most attractive retail and leisure facilities to Philippine mass market consumers;

- continue to grow its financial services businesses, including through acquisitions by BDO, and develop further synergies between financial services and its shopping malls and the Retail Subsidiaries by encouraging its suppliers and retail customers to take advantage of and utilize the financial services offered by BDO and China Bank;

- diversify and expand the businesses of the Group (including through acquisition) in the property development, tourism and leisure sectors as the Philippines becomes a more attractive tourist destination, by leveraging the Group's strategically located land bank;

- integrate all land banking functions into a centralized department while retaining the highly successful culture that allowed the Group to reach its strong current land bank position, and continue acquiring land bank that is suitable for mid-to-large scale mixed-use master planned projects in fast growing areas of the Philippines;

- supervise a range of related businesses and investments, providing support, expertise and funding to its developing businesses and encouraging further growth in its more established businesses; and

- promote the independence of its various businesses in terms of executing set strategies and encouraging financial independence in terms of external funding.

Strengths

The Issuer believes that the key strengths of the Group and its associates are as follows:

- a well-established platform providing quality services from retail to real estate development to financial services to cater for the domestic consumption growth in the Philippines;

- its 62 years of retail experience, which has created significant goodwill among its customers and suppliers, a well-known brand and image and a reputation for providing value for customers;

- its leading market share positions in providing one-stop experience through shopping malls, department stores and supermarkets and the largest bank in the Philippines in terms of assets;

- fast growing residential development expertise that is sitting at the sweet spot of the local real estate markets, well-supported by SM-branded shopping malls nearby;

- prudent financial management and a strong balance sheet with stable recurring cash flows through focusing on diverse businesses which are relatively less cyclical;

- its experienced management team with a proven track record in the Philippines and abroad, which has consistently focused on related businesses that promote synergies; and

- its overall corporate reputation in the Philippines and abroad, which has brought the Group numerous awards for corporate excellence, corporate governance and financial management.

Ownership and Corporate Structure

As at the date of this Prospectus, the Sy Family holds 52.5% of the outstanding issued and paid-up share capital of the Issuer.

The conglomerate map found in this Prospectus sets forth the Issuer's simplified corporate structure, organized by business segment, including its principal subsidiaries and associates and the direct ownership of each as at 30 June 2020.

The following table sets forth a breakdown on a consolidated basis of the Group's principal businesses in terms of total revenues, total net income attributable to equity holders of the Parent, total assets and total liabilities for the years ended 31 December 2017, 2018 and 2019 and for the three months ended 31 March 2019 and 2020 save as stated otherwise:

	As at and for the year ended December 31						As at and for the three months ended March 31			
(in ₱ millions, except percentages)	**2017**		**2018**		**2019**		**2019**		**2020**	
Revenues										
Property [(1)]	83,198	21%	96,537	21%	107,798	21%	24,384	22%	24,713	22%
Retail [(2)]	300,043	75%	336,264	75%	370,701	74%	79,691	73%	81,787	74%
Banking [(3)]	14,707	4%	16,987	4%	23,153	5%	4,973	5%	4,652	4%
Total	397,948	100%	449,788	100%	501,652	100%	109,048	100%	111,152	100%
Net Income Attributable to Equity Holders of the Parent										
Property [(1)]	13,348	40%	15,341	41%	17,015	38%	4,285	40%	4,010	44%
Retail [(2)]	7,140	22%	7,588	21%	8,494	19%	1,959	18%	875	10%
Banking [(3)]	12,435	38%	14,149	38%	19,059	43%	4,446	42%	4,122	46%
Total	32,923	100%	37,078	100%	44,568	100%	10,690	100%	9,007	100%
Assets (excluding deferred tax)										
Property [(1)]	545,593	57%	618,285	58%	659,570	58%	638,605	59%	687,565	60%
Retail [(2)]	100,358	10%	117,924	11%	143,089	12%	107,296	10%	129,914	11%
Banking [(3)]	311,640	33%	321,707	31%	338,384	30%	342,978	31%	333,582	29%
Total	957,591	100%	1,057,916	100%	1,141,043	100%	1,088,879	100%	1,151,061	100%
Liabilities (excluding deferred tax)										
Property [(1)]	275,606	55%	324,010	58%	358,191	60%	349,971	62%	380,866	63%
Retail [(2)]	59,317	12%	71,667	13%	95,387	16%	58,147	10%	82,046	13%
Banking [(3)]	163,316	33%	163,864	29%	144,831	24%	160,265	28%	143,041	24%
Total	498,239	100%	559,541	100%	598,409	100%	568,383	100%	605,953	100%

Notes:

(1) Property primarily consists of the relevant financial information of SM Prime and its subsidiaries.
(2) Retail primarily consists of the relevant financial information of SM Retail and its subsidiaries.
(3) Banking primarily consists of the equity in net earnings of BDO and China Bank.

The following table sets forth a breakdown of the dividend income from the Issuer's principal subsidiaries and associates for the periods indicated. Under PFRS, dividend income from the Issuer's subsidiaries and associates is eliminated at consolidated level.

	As at and for the year ended December 31			**As at and for the three months ended March 31**	
(in ₱ millions)	**2017**	**2018**	**2019**	**2019**	**2020**
Company					
SM Retail, Inc. and Subsidiaries	6,954	6,568	6,568	-	-
SM Prime Holdings, Inc.	3,732	5,024	5,024	-	-
BDO Unibank, Inc.	2,183	2,183	2,204	607	618
Neo Group	855	1,027	2,314	-	-
Prime Central Limited	-	-	1,145	-	-
China Banking Corporation	344	385	428	-	-
Belleshares Holdings, Inc.	148	330	312	-	-
Multi-Realty Development Corporation	454	-	264	-	-
Others	361	252	370	128	78
Total	**15,031**	**15,769**	**18,629**	**735**	**696**

The Group's operations in China account for a portion of its consolidated revenues and net income. The contribution of the Group's China operations to its consolidated revenues and net income for each of the last three years is set out below.

Year	**Contribution to Revenues**	**Contribution to Net Income**
2017	1.5%	1.1%
2018	1.5%	1.1%
2019	1.3%	2.0%

Malls and Real Estate

SM Prime Holdings, Inc.
Introduction

SM Prime Holdings, Inc. was incorporated in the Philippines and registered with the SEC on 6 January 1994. It is a leading integrated Philippine real estate company with business units focused on mall, residential, commercial, and hotels and convention centers.

As at 31 March 2020, SM Prime's consolidated total assets stood at ₱688.7 billion, consolidated total liabilities were at ₱386.0 billion, with net debt-to-equity ratio (being the ratio of aggregate consolidated interest-bearing indebtedness net of cash and cash equivalent over equity) of 41%.

The Company has four business segments, namely, malls, residential, commercial and hotel and convention centers. The table below sets out each business unit's contribution to SM Prime's consolidated revenue for the years ended 31 December 2017, 2018, and 2019 and the three months ended 31 March 2019 and 2020.

	For the years ended 31 December Audited			For the three months ended 31 March Unaudited[1]	
(*in ₱ million*)	**2017**	**2018**	**2019**	**2019**	**2020**
Malls	53,196	59,277	63,625	15,005	12,244
Residential	30,039	36,519	45,214	9,282	11,414
Commercial	3,060	3,578	4,585	1,066	1,262
Hotels and Convention Centers	4,797	4,868	5,060	1,222	888
Eliminations	(171)	(162)	(173)	(37)	(21)
Consolidated Total	90,921	104,080	118,311	26,538	25,787

As at 30 June 2020, SMIC directly and indirectly owned 49.7% of the issued share capital of SM Prime. SM Prime is listed on the PSE and had a market capitalization of ₱[895.3] billion as at [19 August 2020].

Selected Financial Information

The following table sets forth selected consolidated financial information of SM Prime as at and for the periods indicated. SM Prime's fiscal year end is 31 December.

CONSOLIDATED STATEMENTS OF INCOME

	For the years ended 31 December			For the three months ended 31 March	
(*in ₱ thousands*)	2017 Audited	2018 Audited	2019 Audited	2019 Unaudited	2020 Unaudited
Revenue	90,921,850	104,080,565	118,311,490	26,538,314	25,787,469
Costs and Expenses	50,293,058	55,753,334	61,619,162	13,553,490	13,907,937
Income from Operations	40,628,792	48,327,231	56,692,328	12,984,824	11,879,532
Other Income (Charges)	(4,680,931)	(6,361,056)	(7,530,334)	(1,451,945)	(1,319,915)
Income Before Income Tax	35,947,861	41,966,175	49,161,994	11,532,879	10,559,617
Net Income	28,124,463	32,911,129	38,788,673	8,995,322	8,396,863
Attributable to:					
Equity holders of the Parent	27,573,866	32,172,886	38,085,601	8,796,096	8,320,166
Non-controlling interests	550,597	738,243	703,072	199,226	76,697

CONSOLIDATED BALANCE SHEETS

	As at 31 December			As at 31 March
(*in ₱ thousands*)	2017 Audited	2018 Audited	2019 Audited	2020 Unaudited
ASSETS				
Current Assets				

1 The interim consolidated balance sheet as at 31 March 2020 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for three-month periods ended 31 March 2019 and 2020 have been reviewed by the Independent Auditors of the Issuer.

	As at 31 December			As at 31 March
(*in ₱ thousands*)	2017 Audited	2018 Audited	2019 Audited	2020 Unaudited
Cash and cash equivalents	44,371,534	38,766,467	34,599,959	47,223,106
Financial assets at fair value through other comprehensive income	731,076	-	-	-
Receivables and contract assets	33,990,678	35,229,450	53,636,921	52,948,624
Condominium and residential units for sale	8,733,299	-	-	-
Land and development	22,518,138	-	-	-
Real estate inventories	-	37,575,103	43,946,109	45,170,432
Equity instruments at fair value through other comprehensive income	641,300	639,316	659,077	567,102
Derivative assets	-	432,898	-	744,784
Prepaid expenses and other current assets	14,590,015	15,147,029	19,485,542	21,635,252
Total Current Assets	125,576,040	127,790,263	152,327,608	168,289,300
Noncurrent Assets				
Equity instruments at fair value through other comprehensive income – net of current portion	30,464,845	22,892,937	20,420,959	13,035,238
Property and equipment – net	1,493,427	1,419,111	1,383,320	-
Investment properties – net	273,084,146	343,418,862	410,639,578	414,917,437
Land and development – net of current portion	36,148,036	-	-	-
Investments in associates and joint ventures	24,566,239	26,199,380	27,214,398	27,545,176
Deferred tax assets – net	1,114,291	1,083,670	903,845	857,579
Derivative assets – net of current portion	3,546,694	420,035	826,315	89,946
Other noncurrent assets	42,423,880	80,910,060	53,563,651	63,929,274
Total Noncurrent Assets	412,841,558	476,344,055	514,952,066	520,374,650
Total Assets	**538,417,598**	**604,134,318**	**667,279,674**	**688,663,950**

	As at 31 December			As at 31 March
(*in ₱ thousands*)	2017 Audited	2018 Audited	2019 Audited	2020 Unaudited
LIABILITIES AND EQUITY				
Current Liabilities				
Loans payable	744,400	39,400	100,000	16,200,000
Accounts payable and other current liabilities	51,084,082	61,767,086	70,125,750	70,960,780
Current portion of long-term debt	25,344,035	25,089,624	23,521,373	40,986,692
Derivative liabilities	-	-	-	86,949
Income tax payable	1,035,215	1,383,742	1,509,657	1,745,486
Total Current Liabilities	78,207,732	88,279,852	95,256,780	129,979,907
Noncurrent Liabilities				
Long-term debt – net of current portion	167,509,484	197,682,262	214,333,050	199,414,075
Tenants' and customers' deposits – net of current portion	16,376,024	18,676,022	21,646,217	21,822,391
Liability for purchased land – net of current	2,170,998	6,044,220	4,214,234	4,038,972

portion				
Deferred tax liabilities – net	2,877,971	3,527,501	4,179,154	4,446,866
Derivative liabilities	777,408	335,008	711,617	644,005
Other noncurrent liabilities	7,624,067	10,511,491	24,422,348	25,703,180
Total Noncurrent Liabilities	197,335,952	236,776,504	269,506,620	256,069,489
Total Liabilities	275,543,684	325,056,356	364,763,400	386,049,396
Equity Attributable to Equity Holders of the Parent				
Capital stock	33,166,300	33,166,300	33,166,300	33,166,300
Additional paid-in capital - net	39,662,168	39,953,218	38,007,668	38,007,668
Cumulative translation adjustment	2,110,745	1,955,999	1,344,274	1,118,235
Net fair value changes of equity instruments at fair value through other comprehensive income	25,489,705	19,084,597	17,840,990	10,363,295
Net fair value changes on cash flow hedges	(311,429)	(842,098)	(1,328,167)	(1,923,016)
Re-measurement gain (loss) on defined benefit obligation	(199,126)	(348,480)	(913,390)	(913,390)
Retained earnings:				
Appropriated	42,200,000	42,200,000	42,200,000	42,200,000
Unappropriated	120,125,945	143,118,153	173,583,191	181,903,357
Treasury stock	(3,287,087)	(2,984,695)	(2,984,695)	(2,984,695)
Total Equity Attributable to Equity Holders of the Parent	258,957,221	275,302,994	300,916,171	300,937,754
Non-controlling Interests	3,916,693	3,774,968	1,600,103	1,676,800
Total Equity	262,873,914	279,077,962	302,516,274	302,614,554
Total Liabilities and Equity	**538,417,598**	**604,134,318**	**667,279,674**	**688,663,950**

MALLS

SM Prime develops, operates and maintains modern commercial shopping malls and is involved in all related businesses, such as the operation and maintenance of shopping spaces for rent, amusement centers and cinema theaters within the compound of the shopping malls. As of the date of this Prospectus, SM Prime owns 74 malls (as listed below) covering a total GFA of approximately 8.5 million sq. m. located across the Philippine archipelago, attracting an average of approximately 4.4 million visitors daily. SM Prime is the leading owner and operator of shopping malls in the Philippines. SM Prime plans to continue to expand its existing malls and develop new ones, with a target of opening approximately five to seven new malls in the Philippines each year for the near term, subject to market conditions.

SM Prime has in the past concentrated on the development of its malls in the Metro Manila area, where it currently operates 23 malls. As the Metro Manila area becomes increasingly well served by shopping malls, SM Prime's strategy is to expand its activities in the provinces, where it currently operates 51 malls.

SM Prime has also expanded its shopping mall operations outside of the Philippines. SM Prime owns seven operational malls located in the cities of Xiamen, Jinjiang, Chengdu, Suzhou, Chongqing, Zibo, and Tianjin in the southern and western parts of China with a total GFA of approximately 1.3 million sq. m. SM Prime is targeting the acquisition of additional properties in China in the future as it prepares for opportunistic expansion into second and third tier cities. SM Prime plans to build one mall in China per year for the near term, subject to market conditions.

The principal sources of mall revenue for SM Prime comprise rental income payable by tenants (including its retail subsidiaries) within the malls, ticket sales derived from the operations of cinemas, and fees payable for the use of SM Prime's parking facilities, bowling, ice skating and other leisure facilities. Approximately

54% of SM Prime's gross leasable space is currently leased by members of the SM Group or companies who are affiliated with the Sy family. Such tenants contributed approximately 34% of SM Prime's consolidated mall revenues for the six months ended 30 June 2020.

SM Prime retains ownership of all of the sites on which the SM Prime malls are built, with the exception of SM City Bacoor, SM City Manila, SM Center Valenzuela, SM Center Molino, SM City Clark, SM City Taytay, SM Center Muntinlupa, SM City Naga, SM City Tarlac, SM City San Pablo, SM City Calamba, SM City Olongapo, SM City Consolacion, SM City General Santos, SM Aura Premier, SM San Mateo, SM City Xiamen, SM City Jinjiang, SM City Chengdu, SM City Suzhou, SM City Chongqing, SM City Zibo and SM City Tianjin which are held under long term leases. SM China malls have 40-70 years land use rights. In addition, the land where SM City Baguio is constructed is owned by SMIC, the land where SM City San Lazaro is constructed is owned by San Lazaro Holdings Corporation, a 100%-owned subsidiary and the land where SM Center Pasig is constructed is owned by OCLP Holdings, Inc., a 39.96% owned associate. Lease renewal options are subject to mutual agreement of the parties. SM Megamall is owned by First Asia Realty Development Corporation, a 74.2% owned subsidiary and SM by the Bay is owned by First Leisure Ventures Group, Inc., a 50% owned subsidiary.

The following is a brief discussion of each of SM Prime's current malls.

Metro Manila Malls

SM City North EDSA

Year opened – 1985. SM City North EDSA is located on a 16.1-hectare site in the corners of EDSA and North Avenues, Quezon City. The very first and currently the country's largest shopping mall of SMPH has a GFA of 497,213 sq. m. and features 8 cinemas including a 3D IMAX theater with seating capacity of 6,093, a 24-computerized synthetic lane bowling center, food court, amusement centers and multi-level carpark which provides a total capacity of 4,022 vehicles. The mall also launched The Block and renovation of The Annex and unveiled the Sky Garden. It is a 400-meter elevated walkway shaded by a long sketch of white canopy connecting building to another, with a park-like ambiance and green architecture, and includes the roof garden, water features, food and retail outlets and sky dome that is a 1,000-seat amphitheater for shows and special events. The anchor tenants for SM City North EDSA are The SM Store, SM Hypermarket and SM Supermarket, Ace Builders Center, SM Appliance Center, Our Home, Uniqlo and, Forever 21 and Miniso.

SM Megamall

Year opened – 1991. SM Megamall is located on a 10.5-hectare property in the Ortigas business district, Mandaluyong City. It stands along the main EDSA thoroughfare and is near the Metro Rail Transit. SM Megamall has two main buildings, Mega A and Mega B, eventually launched the Mega Atrium, Building C and Mega Fashion Hall. It has a total GFA of 474,225 sq. m. and features 14 cinemas including the IMAX theatre and Director's Club with total seating capacity of 7,253, a fully computerized 14-lane bowling center, an Olympic-sized ice skating rink, a mega fashion hall, event center and carpark for 2,792 vehicles. The anchor tenants for SM Megamall are The SM Store, SM Supermarket, Ace Hardware, Toy Kingdom, Our Home, Uniqlo and, Forever 21 and Crate & Barrel.

SM Mall of Asia

Year opened – 2006. SM Mall of Asia is located on a 19.5-hectare property overlooking Manila Bay, the biggest structure within the Mall of Asia Complex in Pasay City. The mall consists of four buildings linked by elevated walkways—Main Mall, the North Parking Building, the South Parking Building, and the Entertainment Center Building. The mall houses the country's first IMAX theatre, a special Director's Club screening room for exclusive film showings, 7 state-of-the art cinemas with seating capacity of 2,490, 24-

lane bowling facility, an Olympic-sized ice skating rink and fine dining restaurants and bars. The mall has a total GFA of 432,891 sq. m. with 3,984 parking slots for vehicles. The anchor tenants for SM Mall of Asia are The SM Store, SM Hypermarket, Forever 21, Uniqlo, Ace Hardware and SM Appliance Center.

SM Aura Premier

Year opened – 2013. SM Aura Premier is a state of the art civic center at 26th Street corner McKinley Parkway, Global City, Taguig City. As an integrated development, SM Aura Premier incorporates office towers, a chapel, a convention center and mini-coliseum, supported by a retail podium with an upscale look and feel. The mall has a GFA of 198,257 sq. m. and features Sky Garden, food court, two digital cinemas, two Director's Clubs and an IMAX Theater with a total seating capacity of 927 and carpark with 1,771 slots. The anchor tenants for SM Aura Premier are The SM Store, SM Supermarket, Forever 21 and Uniqlo.

SM Southmall

Year opened – 1995. SM Southmall, with a GFA of 197,561 sq. m., was the first shopping mall in the southern region of Metro Manila located Alabang-Zapote Road in Las Piñas City. As major renovations completed, SM Southmall became one of the premier malls and it features 8 state-of-the-art cinemas, including an IMAX theatre, with seating capacity of 4,436, an ice skating rink, 14-lane bowling center, food court and a carpark with 3,401 slots. The anchor tenants for SM Southmall are The SM Store, SM Supermarket, SM Appliance Center, Ace Hardware and Toy Kingdom.

SM City Fairview

Year opened – 1997. SM City Fairview is situated on a 20.0-hectare site located in Quirino Highway corner Regalado Avenue, Quezon City. It has main building and two Annexes with a total GFA of 312,749 sq. m. The mall features six cinemas with a seating capacity of 3,113, 12-lane bowling center, food court, amusement areas and parking for 4,348 vehicles. The anchor tenants for SM City Fairview are The SM Store, SM Hypermarket, SM Supermarket, Ace Builders Center and Teleperformance.

SM City Marikina

Year opened – 2008. SM City Marikina in Marcos Highway, Brgy. Calumpang, Marikina City has a GFA of 178,178 sq. m. Marikina is a key city for the SM Group, as its shoemakers became vital partners during its growth years in the sixties as a shoe store in Carriedo, Manila. It features a food court, eight cinemas with a 3,050 seating capacity and carpark for 813 vehicles. The anchor tenants for SM City Marikina are The SM Store, SM Supermarket and Ace Hardware.

SM City San Lazaro

Year opened – 2005. SM City San Lazaro is located at the center of a densely populated residential area with bustling commercial activities in Sta. Cruz, Manila. The four-storey mall has a GFA of 176,159 sq. m. The mall features a food court, amusement center, six cinemas with a seating capacity of 3,085, and carpark slots of 1,256. The anchor tenants for SM City San Lazaro are The SM Store, SM Supermarket, SM Appliance Center and Ace Hardware.

SM City Manila

Year opened – 2000. SM City Manila is a five-level mall with a GFA of 161,107 sq. m. The mall is located in downtown Manila, corners of Concepcion, Arrocero and Marcelino Streets, next to Manila City Hall. It has become a major destination for shoppers, given its strategic location and easy accessibility by the Light Railway Transit and other public transportation. The mall has 12 cinemas with a seating capacity of 7,092, a food court and a carpark available for 920 vehicles. The anchor tenants for SM City Manila are The SM Store, SM Supermarket, SM Appliance Center and Ace Hardware.

SM City Sta. Mesa

Year opened – 1990. SM City Sta. Mesa, located in Ramon Magsaysay Blvd. Corner Araneta Avenue, Quezon City, is a seven level complex with a GFA of 133,894 sq. m. The mall features two cinemas with seating capacity of 1,893, a food court, an amusement center and carpark with a capacity of 1,052 vehicles. The anchor tenants for SM City Sta. Mesa are The SM Store, SM Supermarket, SM Appliance Center and Ace Hardware.

SM City BF Parañaque

Year opened – 2013. SM City BF Parañaque, with a GFA of 125,582 sq. m., is strategically located at the main gate of Parañaque's prime residential village. Its design and construction features three skylight domes in its main atrium to reduce the use of electricity by fully maximizing the use of sunlight, while air conditioning is automatically regulated to help ensure efficient energy consumption. The mall is the first mall to have four Director's Club cinemas equipped with electronic recliner (lazyboy type) seats that can accommodate up to 156 moviegoers and houses two premier cinemas with 186 seats each and parking space for 1,420 vehicles. The anchor tenants for SM City BF Parañaque are The SM Store, SM Supermarket, Ace Hardware and Uniqlo.

SM City Bicutan

Year opened – 2002. SM City Bicutan is a two-building mall located along Doña Soledad Ave. corner West Service Road, Bicutan, Parañaque City. SM City Bicutan serves numerous residents within a 3-kilometer radius. This mall has a GFA of 114,214 sq. m. It features a food court, four cinemas with seating capacity of 1,268 and carpark for 1,257 vehicles. The anchor tenants for SM City Bicutan are The SM Store, SM Supermarket, Ace Hardware and SM Appliance Center.

SM City Sucat

Year opened – 2001. SM City Sucat is a two-building mall located on a 10.1-hectare site along Dr. A. Santos Ave. (Sucat Road), Brgy. San Dionisio, Parañaque City. The mall has a GFA of 96,277 sq. m. featuring four cinemas with seating capacity of 1,821, a food court and carpark with 1,475 slots. The anchor tenants for SM City Sucat are The SM Store, SM Supermarket and Ace Hardware.

SM City East Ortigas

Year opened – 2016. SM City East Ortigas joins SM's roster of malls in the eastern portion of Metro Manila with a GFA of 80,127 sq. m., situated in Ortigas Avenue Extension, Brgy. Sta. Lucia, Pasig City. The two-level mall houses its flagship retail brands and specialty stores, also features eight cinemas, Digital and Director's club with 1,179 seating capacity and carpark with 658 slots. The anchor tenants for SM City East Ortigas are The SM Store, SM Supermarket, SM Appliance Center and Ace Hardware.

SM Center Valenzuela

Year opened – 2005. SM Center Valenzuela has a GFA of 70,681 sq. m., situated in Brgy. Karuhatan, Valenzuela City. The mall caters to the bustling industrial areas that surround the property. The mall features four cinemas with a 1,898 seating capacity, a food court and parking for 557 vehicles. It also features the Fashion Avenue, a multi-shop style center that houses a wide array of apparel, shoes and accessory picks. The anchor tenants for The SM Store, SM Center Valenzuela are SM Hypermarket, SM Appliance Center and Ace Hardware.

SM City Novaliches

Year opened – 2010. SM City Novaliches, having a GFA of 60,044 sq. m., is located along Quirino Highway in Brgy. San Bartolome, Novaliches, Quezon City. Novaliches, being the largest district in the city, is growing with residential subdivisions and industrial companies. The amenities of the mall include a food court, four cinemas with 1,484 seats and parking for 1,206 vehicles. The anchor tenants for SM City Novaliches are The SM Store, SM Supermarket, Banco de Oro and Ace Hardware.

SM Center Muntinlupa

Year opened – 2007. SM Center Muntinlupa is situated in National Road, Brgy. Tunasan, Muntinlupa City. The two-level mall has a GFA of 57,060 sq. m. that caters the residents of Muntinlupa City and the growing municipality of San Pedro, Laguna. The mall features four cinemas with 1,582 seating capacity, an entertainment plaza for shows and events located at the center of the mall and parking slots of 290 vehicles. The anchor tenants for SM Center Muntinlupa are SM Hypermarket, SM Appliance Center and Ace Hardware.

SM Center Sangandaan

Year opened – 2015. SM Center Sangandaan, strategically located along the busy intersection of Samson Road and M.H Del Pilar Street, Brgy. Sangandaan, Caloocan City, is providing SM Prime access to the northern tip of Metro Manila that is bringing a unique shopping experience closer to the highly dense cities of Malabon, Navotas and Caloocan City. It has a GFA of 43,626 sq. m. with three levels of prime spaces, which includes four digital cinema with seating capacity of 824 and parking slots of 524 vehicles. The anchor tenants for SM Center Sangandaan are SM Supermarket, Ace Hardware and Watsons.

S Maison

Year opened – 2017. S Maison is an upscale mall located on the first two floors of Conrad Manila, Seaside Boulevard corner Coral Way, Mall of Asia Complex, Pasay City. The mall has a GFA of 42,107 sq. m. and features upscale global retail brands, international restaurants, a three state-of-the-art Director's Club cinemas with seating capacity of 120 and carpark for 445 vehicles. Major tenants for S Maison are The Dessert Museum, Hard Rock Café, Buffalo Wild Wings, Paradise Dynasty and Texas Roadhouse.

SM Center Las Piñas

Year opened – 2009. SM Center Las Piñas is located along the Alabang-Zapote Road in Brgy. Talon, Pamplona, Las Piñas City. SM Center Las Piñas serves customers in the western section of the city and the nearby provinces of Laguna and Cavite. The mall has a GFA of 39,727 sq. m. with carpark for 415 vehicles. The anchor tenants for SM Center Las Piñas are SM Hypermarket, Banco de Oro and Ace Hardware.

SM Center Pasig

Year opened – 2006. SM Center Pasig is located in Frontera Verde, Pasig City serving residents of the neighboring upscale subdivisions and customers who regularly pass through the C5 route. Its GFA is 29,602 sq. m. including its basement parking for 282 vehicles. The anchor tenants for SM Center Pasig are SM Hypermarket, Ace Hardware and Watsons.

SM Cherry Shaw Boulevard

Year opened – 2015. SM Cherry Shaw Boulevard is located in Old Wack-wack Road, Mandaluyong City, reopened and now looking refreshed and a bit more modernized while still keeping the classic Cherry feel.

It has a GFA of 35,669 sq. m. with parking for 344 vehicles. The anchor tenants for SM Cherry Shaw Boulevard are SM Supermarket, Banco de Oro and Sports Central Outlet.

SM Cherry Congressional

Year opened – 2016. SM Cherry Congressional is located in Congressional Avenue Extension, Brgy. Bahay Toro, Quezon City, reopened with wider offerings of fresh-food favorites and new assortments of groceries, both local and imported. It has a GFA of 13,469 sq. m. with parking for 206 vehicles. The anchor tenants for SM Cherry Congressional is SM Supermarket and Watsons.

Malls Outside of Metro Manila

Luzon

SM City Dasmariñas

Year opened – 2004. SM City Dasmariñas sits on a 12.4-hectare property situated along Governor's Drive, approximately 100 meters from the Aguinaldo Highway junction in Dasmariñas, Cavite. The mall has a GFA of 201,645 sq. m. The mall features a food court, six cinemas with a seating capacity of 2,656 and carpark for 2,555 vehicles. The mall launched its Annex. The anchor tenants for SM City Dasmariñas are The SM Store, SM Supermarket, SM Appliance Center and Ace Hardware.

SM City Cabanatuan

Year opened – 2015. SM City Cabanatuan is strategically located along Maharlika Highway in Cabanatuan City, which is the largest city in Nueva Ecija. It has a GFA of 145,947 sq. m. featuring a food court, six cinemas with seating capacity of 1,807 and parking slots for 2,077 vehicles. The four-level mall also includes two Gardens namely, the Garden Park, which provides covered shelter; and the Roof Park located at the fourth level. The anchor tenants for SM City Cabanatuan are The SM Store, SM Supermarket, Ace Hardware, SM Appliance Center and Uniqlo.

SM City Clark

Year opened – 2006. The two-storey SM City Clark is located along M.A. Roxas Avenue and is approximately 80 kilometers north of Manila and 60-kilometers east of Subic Bay Freeport, within close proximity of the Clark Special Economic Zone in Pampanga. The mall has a GFA of 144,484 sq. m., features a food court, seven cinemas with a seating capacity of 2,933, 12-lane bowling center and parking for 3,814 vehicles. With its unique design resembling a coliseum, this mall offers tourists and shoppers a variety of retail, dining, and entertainment establishments. The anchor tenants for SM City Clark are The SM Store, SM Hypermarket, Ace Hardware and Forever 21.

SM City Lipa

Year opened – 2006. SM City Lipa occupies 10.3 hectares of land and is a two-level mall strategically located along Lipa's Ayala Highway, Lipa City, Batangas. It has 141,283 sq. m. of GFA. Lipa City features natural attractions and is a commercial, educational and industrial destination. The mall features a food court, four cinemas with 2,098 seating capacity and 1,236 carpark slots. The anchor tenants for SM City Lipa are The SM Store, SM Supermarket and Ace Hardware.

SM City Pampanga

Year opened – 2000. SM City Pampanga is a shopping mall with three Annexes totaled 132,484 sq. m. of GFA, straddling the municipalities of San Fernando and Mexico in Pampanga. The mall is strategically located at the Olongapo Gapan Road to serve the city's residents as well as those in the provinces of Bulacan, Tarlac, Bataan, Zambales and Nueva Ecija. It features six state-of-the-art cinemas with seating capacity of 2,603, a food court, Sky Ranch and 2,586 parking slots. The anchor tenants for SM City Pampanga are The SM Store, SM Supermarket, Ace Hardware and SM Appliance Center.

SM City Bacoor

Year opened – 1997. SM City Bacoor is a five level complex with a GFA of 120,202 sq. m. located in General Emilio Aguinaldo Highway corner Tirona Highway, Brgy. Habay, Bacoor City, Cavite. It is the very first SM mall in the entire Luzon region (outside Metro Manila) and the very first in the Cavite province. The mall features eight cinemas with 4,388 seating capacity, a food court, amusement areas and parking for 1,420 vehicles. The anchor tenants of SM City Bacoor are The SM Store, SM Supermarket, Ace Hardware and SM Appliance Center.

SM City Baliwag

Year opened – 2008. SM City Baliwag is located on an 11.3-hectare property in Brgy. Pagala, Baliwag, Bulacan, approximately 40 kilometers from the EDSA—Balintawak interchange of the North Luzon Expressway. It has a GFA of 116,632 sq. m. and among the facilities included are four cinemas with a seating capacity of 1,117, a food court and parking for 1,518 vehicles. The anchor tenants for SM City Baliwag are The SM Store, SM Hypermarket, Ace Hardware and SM Appliance Center.

SM City San Jose Del Monte

Year opened – 2016. SM City San Jose Del Monte is strategically located along Quirino Hi-way, Tungkong Mangga, City of San Jose Del Monte, Bulacan, topped with commendable architectural design making it the vibrant urban hub in the north of Metro Manila. It has three floors giving a total GFA of 114,186 sq. m. and its prime spaces are allocated to local and international retail brands and well-loved food outlets, also features four state-of-the-art cinemas with seating capacity of 1,069 and multilevel basement parking with 945 slots. The anchor tenants for SM City San Jose Del Monte are The SM Store, SM Supermarket, Ace Hardware, Watsons and Banco de Oro.

SM City Baguio

Year opened – 2003. SM City Baguio is situated along Session Road in Baguio City. Baguio City is a promising site for SM Prime to develop its presence in the northern part of Luzon. Known for its cool climate, beautiful scenery and historic culture, the city offers multifold opportunities for entrepreneurs, retailers and service oriented establishments. SM City Baguio has a GFA of 107,950 sq. m. It has a food court, Sky Ranch, four cinemas with seating capacity of 1,942 and carpark slots of 765. The anchor tenants for SM City Baguio are The SM Store, SM Supermarket and Ace Hardware.

SM City Tarlac

Year opened – 2010. SM City Tarlac is located along MacArthur Highway, San Roque, Tarlac City. It is the very first SM mall in the province of Tarlac. The four-level mall has a GFA of 101,369 sq. m. The mall features a food court, four cinemas with 1,868 seating capacity, and parking for 1,122 vehicles. The anchor tenants for SM City Tarlac are The SM Store, SM Supermarket and Ace Hardware.

SM City Taytay

Year opened – 2007. SM City Taytay is a two-building mall located in Brgy. Dolores, Taytay, Rizal. SM City Taytay is situated as a stopover for travelers, especially those coming from Laguna via the Marikina Infanta Road. The mall has a GFA of 97,467 sq. m. that features a food court, three cinemas with 1,095 seating capacity and a carpark for 985 vehicles. The anchor tenants for SM City Taytay are The SM Store, SM Hypermarket and Ace Hardware.

SM City Masinag

Year opened – 2011. SM City Masinag is a three-floor mall located along Brgy. Mayamot, Marcos Highway, Antipolo City. It has a GFA of 96,313 sq. m. SM City Masinag houses a food court, four cinemas with seating capacity of 1,148, and parking for 454 vehicles. The anchor tenants for SM City Masinag are The SM Store, SM Supermarket and Ace Hardware.

SM City Marilao

Year opened – 2003. SM City Marilao is located at MacArthur Highway, Brgy. Ibayo, Marilao, Bulacan. It is the first SM mall in the Bulacan province with a land area of 13.0 hectare and a GFA of 93,910 sq. m. The four-level mall features a food court, event center, four cinemas with seating capacity of 1,172 and parking for 851 vehicles. The anchor tenants for SM City Marilao are The SM Store, SM Supermarket and Ace Hardware.

SM City Olongapo Central

Year opened – 2019. SM City Olongapo Central is located along Rizal Avenue, Brgy. East Tapinac, Olongapo City, Zambales. It is a four-story shopping, dining and entertainment mall with a GFA of 92,345 sq. m. The mall has modern amenities including a Food Hall, convention center, sports entertainment venue, six digital cinemas with seating capacity of 736, and carpark for 769 vehicles. The anchor tenants for SM City Olongapo Central are The SM Store, SM Supermarket, SM Appliance Center, Ace Hardware, Our Home and Banco de Oro.

SM City Legazpi

Year opened – 2018. SM City Legazpi is located along Imelda Roces Avenue, Brgy. 37 Bitano, Legazpi City, Albay. SM City Legazpi has three levels of well-curated mix of shopping, dining and entertainment concepts with a GFA of 87,049 sq. m. The mall features green architecture, accentuated by a vast glass-walled Food Hall that overlooks the splendor of Mayon Volcano, six digital cinemas with seating capacity of 654 and 922-slot carpark. The anchor tenants for SM City Legazpi are The SM Store, SM Supermarket, Uniqlo, Our Home, SM Appliance Center and Ace Hardware.

SM City Sta. Rosa

Year opened – 2006. SM City Sta. Rosa is located on a 14.1-hectare site in Barrio Tagapo, National Road, Sta. Rosa, Laguna. Sta. Rosa is the first SM mall in the Laguna province, a 10-minute drive from the Mamplasan exit. With 86,463 sq. m. of GFA, the two-level mall houses a variety of retail establishments, a food court, four cinemas with seating capacity of 1,803 and parking area for 3,351 vehicles. The anchor tenants for SM City Sta. Rosa are The SM Store, SM Supermarket and Ace Hardware.

SM City Trece Martires

Year opened – 2016. SM City Trece Martires is another premier destination opened to the public after the success of the first four malls in the populated province of Cavite, situated in Governor's Drive corner Capitol Road, San Agustin (Pob.), Trece Martires City. It has a GFA of 83,783 sq. m., furnished with well-chosen retail outlets, cozy dining outlets, forefront recreation and entertainment facilities including four cinemas with a seating capacity of 948 and carpark for 645 vehicles. The anchor tenants for SM City Trece Martires are The SM Store, SM Supermarket, Ace Hardware and SM Appliance Center.

SM City Batangas

Year opened – 2004. SM City Batangas is situated along the National Highway, Brgy. Pallocan West, Batangas City. The mall is approximately 3.7 kilometers from the Batangas International Port. SM City Batangas has a GFA of 80,350 sq. m. It has four cinemas with seating capacity of 1,609 and parking for 810 vehicles. The anchor tenants for SM City Batangas are The SM Store, SM Supermarket and Ace Hardware.

SM City Lucena

Year opened – 2003. SM City Lucena is located along Maharlika Highway corner Dalahican Road, Brgy. Ibabang Dupay, Lucena City, Quezon. It is the first SM mall in the province of Quezon. This four-level mall has a GFA of 78,655 sq. m. It features four cinemas with seating capacity of 1,965 and carpark slots of 830. The anchor tenants for SM City Lucena are The SM Store, SM Supermarket and Ace Hardware.

SM City San Mateo

Year opened – 2015. SM City San Mateo is located in Gen. Luna Avenue, Brgy. Ampid 1, San Mateo, Rizal. It is the fourth SM supermall in Rizal Province and has a GFA of 77,593 sq. m. The mall has its disaster resilient features which include expansion joints for mitigating earthquake damage and rainwater catchment basin for prevention of flood within its perimeter and surrounding community. The mall offers four cinemas with seating capacity of 1,232 and carpark for 537 vehicles. The anchor tenants for SM City San Mateo are The SM Store, SM Supermarket and Ace Hardware.

SM City Naga

Year opened – 2009. SM City Naga is located in Central Business District II of Brgy. Triangulo, Naga City. It is the first SM mall in the Bicol region and has a GFA of 75,651 sq. m. The mall offers a food court, four cinemas with seating capacity of 1,346 and carpark for 701 vehicles. The anchor tenants for SM City Naga are The SM Store, SM Supermarket and Ace Hardware.

SM City Calamba

Year opened – 2010. SM City Calamba is located at National Road, Brgy. Real, Calamba City, approximately 70 meters from the intersection of Maharlika Highway and Manila South Road. The mall has a GFA of 73,632 sq. m. and features a food court, four cinemas with seating capacity of 1,268 and parking for 320 vehicles. The anchor tenants for SM City Calamba are The SM Store, SM Supermarket and Ace Hardware.

SM City Cauayan

Year opened – 2014. SM City Cauayan, the first mall in Region II known as Cagayan Valley, is located along National Highway, District II, Cauayan City, Isabela. The mall serves customers from the country's second largest province Isabela as well as the nearby provinces of Cagayan, Nueva Vizcaya, and Quirino. SM City Cauayan has a GFA of 70,946 sq. m., features a variety of retail establishments, six cinemas with seating capacity of 1,122 and parking space for 552 vehicles. The anchor tenants for SM City Cauayan are The SM Store, SM Supermarket and SM Appliance Center.

SM City Rosales

Year opened – 2008. SM City Rosales stands on a 12.1-hectare lot located in Brgy. Carmen East, Rosales, Pangasinan with a GFA of 63,330 sq.m. It is the first SM mall in the province of Pangasinan and contains a public transport terminal that serves as a bus stop of various inter provincial bus lines. The amenities of the mall include a food court, four cinemas with seating capacity of 1,544 and parking for 1,748 vehicles. The anchor tenants for SM City Rosales are The SM Store, SM Hypermarket and Ace Hardware.

SM City Rosario

Year opened – 2009. SM City Rosario is located in Brgy. Tejeros in Rosario, Cavite. Rosario is the site of the Cavite Economic Zone. The mall serves customers in the north and northwestern parts of Cavite and neighboring provinces as well. It has a GFA of 60,657 sq. m. and features four cinemas with seating capacity of 1,560 seats and parking for 380 vehicles. The anchor tenants for SM Rosario are The SM Store, SM Supermarket and Ace Hardware.

SM City San Pablo

Year opened – 2010. SM City San Pablo is located along Maharlika Highway in Brgy. San Rafael, San Pablo City, Laguna. The mall has a GFA of 59,776 sq. m. and features a business center, an atrium for various events, four cinemas with seating capacity of 1,302 and parking for 783 vehicles. The anchor tenants for SM City San Pablo are The SM Store, SM Supermarket and Ace Hardware.

SM Center Molino

Year opened – 2005. SM Center Molino is located at the southern end of Molino Road, Bacoor, Cavite and has a GFA of 59,069 sq. m. SM Center Molino is the first to have the Service Lane, which comprises of different shops that offer a wide array of services situated outside the mall across the covered parking. The mall features four cinemas with 1,708 seating capacity and parking for 1,194 vehicles. The anchor tenants for SM Center Molino are The SM Store, SM Hypermarket, SM Appliance Center and Ace Hardware.

SM City Urdaneta Central

Year opened – 2018. SM City Urdaneta Central is located at the center of Barangay Nancayasan and Poblacion along MacArthur Highway, Urdaneta City, Pangasinan. SM City Urdaneta Central is a second SM mall in the province of Pangasinan which is the gateway to Northern Luzon and urban shopping. The mall has a GFA of 58,574 sq. m., with two-floors bringing in shopping, dining and entertainment experiences and parking for 706 vehicles. The anchor tenants for SM City Urdaneta Central are The SM Store, SM Supermarket, Our Home, SM Appliance Center and Ace Hardware.

SM City Telabastagan

Year opened – 2018. SM City Telebastagan is located at MacArthur Highway, Barangay Telebastagan, San Fernando, Pampanga. SM City Telebastagan, fourth SM mall in the highly urbanized Pampanga, offers 55,094 sq. m. of GFA, with two-floors of shopping, multi-cultural dining and entertainment zones adorned by indoor pocket gardens, and also features a food court, six digital cinemas with 654-seating capacity and 1,397 parking slots. The anchor tenants for SM City Telebastagan are The SM Store, SM Supermarket, Uniqlo, Ace Hardware and Miniso.

SM City Puerto Prinsesa

Year opened – 2017. SM City Puerto Prinsesa, the first premier mall in the largest province in the country, is strategically located at Malver Street corner Lacao Street, Puerto Prinsesa, Palawan. Designed to complement the tropical vibe of the island, the mall is set to be a cost-efficient and energy saving building. The three-level mall has a GFA of 53,203 sq. m. that will house favored food and retail shops, three digital cinemas and two Director's Club cinemas with a combined seating capacity of 591 and parking space for 398 vehicles. The anchor tenants for SM City Puerto Prinsesa are The SM Store, SM Supermarket, Ace Hardware, SM Appliance Center and BDO.

SM Megacenter Cabanatuan

Year opened – 2015. SM Megacenter Cabanatuan is located in Gen. Tinio and Melencio Streets, Cabanatuan City, Nueva Ecija. The mall is re-branded to SM Megacenter Cabanatuan after acquisition of SM Prime from CHAS Realty and Development Corporation in 2013. It is the first SM supermall in Cabanatuan City and has a GFA of 49,688 sq. m. The mall offers four cinemas with seating capacity of 1,521 and 208 parking slots. The anchor tenants for SM Megacenter Cabanatuan are The SM Store, SM Savemore and Ace Hardware.

SM City Olongapo

Year opened – 2012. SM City Olongapo, the very first mall in the province of Zambales, has a GFA of 49,096 sq. m. that is strategically located in Magsaysay Drive Corner Gordon Avenue in the city's Central Business District. The mall serves customers in Zambales, Bataan, and other nearby provinces. SM City Olongapo's major amenities consist of an al fresco dining area, which offers a view of Olongapo's mountain landscape, three state-of-the-art digital cinemas with seating capacity of 758 and parking for 303 vehicles. The anchor tenants for SM City Olongapo are The SM Store, SM Supermarket and SM Appliance Center.

SM City San Fernando

Year opened – 2012. SM City San Fernando is a seven-storey mall located at the Downtown Heritage District, Barangay Sto. Rosario, San Fernando, Pampanga. It has a GFA of 43,130 sq. m. and features a unique facade, a distinctive exterior design which complies with the architectural theme of a heritage area. The mall's amenities include three cinemas with seating capacity of 1,058 and parking slots of 321. The anchor tenants for SM City San Fernando are The SM Store, SM Supermarket and Ace Hardware.

SM Center Angono

Year opened – 2014. SM Center Angono, located along Manila East Road and Quezon Avenue in Barangay San Isidro, Angono, Rizal, is marked as the fiftieth SM Supermall in the Philippines. It serves customers in Angono and Binangonan as well as other towns in the province of Rizal such as Cardona, Teresa, Morong, Baras, Tanay, and Pililla. It has a GFA of 41,481 sq. m. and features four cinemas with seating capacity of 768 and parking slots for 188 vehicles. The anchor tenants for SM Center Angono are SM Savemore, Banco de Oro and Ace Hardware.

SM Center Tuguegarao Downtown

Year opened – 2017. SM Center Tuguegarao Downtown is strategically located at the corner of Luna and Mabini Streets, Brgy. Ugac Sur, Tuguegarao City. The first SM mall in the urbanized city of Cagayan province offers a number of favored household brands that will give a unique shopping experience to the locals. It has a GFA of 33,301 sq. m. and carpark for 472 vehicles. The anchor tenants for SM Center Tuguegarao Downtown are SM Hypermarket, Ace Hardware, SM Appliance Center, BDO and Miniso.

SM Center Imus

Year opened – 2018. SM Center Imus is located along N.I.A. Road, Barangay Bukandala, Imus, Cavite. The mall provides 12,824 sq. m. of GFA and has unique features such as the Indoor Plaza, a perfect venue for concert and sporting events; 24/7 tenants such as full-service clinic, pharmacy and wellness spa; and the small-medium enterprises popular local concept where top favorite local brands will be made available. The anchor tenants for SM Center Imus are SM Supermarket, SM Appliance Center, Ace Hardware, BDO, Watsons and Miniso.

SM Cherry Antipolo

Year opened – 2017. SM Cherry Antipolo is located along the bustling Marcos Highway, Brgy. Mayamot, Antipolo City. The three-level mall spans 27,225 sq. m. of GFA and features an enhanced shopping environment for the community, offering expanded services beyond the traditional grocery experience. The mall has a Sky Garden on the second level, with dining areas and walking paths and carpark for 207 vehicles. The anchor tenants for SM Cherry Antipolo are SM Supermarket, Ace Hardware, Watsons and BDO.

SM Center Pulilan

Year opened – 2017. SM Center Pulilan is the fourth SM Mall opened in the province of Bulacan, situated along Plaridel-Pulilan Diversion Road, Brgy. Sto. Cristo, Pulilan. The mall is a three-floor building with a GFA of 27,157 sq. m. and parking for 797 vehicles. The mall also features well-loved SM brands, food and retail shops. The anchor tenants for SM Center Pulilan are SM Hypermarket, SM Appliance Center, Ace Hardware, Miniso, Watsons and BDO.

SM Center Lemery

Year opened – 2017. SM Center Lemery is located at Illustre Avenue corner Gomez Street, Brgy. District IV, Lemery, Batangas. The three-level mall has a GFA of 24,877 sq. m. with an exciting mix of offerings including preferred retail and food shops, Wellness zone and Cyberzone that will cater to the distinct and discriminating taste and style of Batanguenos and parking for 382 vehicles. The anchor tenants for SM Center Lemery are SM Hypermarket, SM Appliance Center, Ace Hardware, BDO, Simply Shoes and Miniso.

SM Center Dagupan

Year opened – 2019. SM Center Dagupan, nestled along M.H. Del Pilar in Barangay Herrero-Perez, Dagupan City, Pangasinan, SM Center Dagupan, the third lifestyle mall in the province of Pangasinan, has 37,290 sq. m. of GFA and 278 parking slots. The mall will feature shopping, dining and entertainment destinations for local and international tourists. The anchor tenants for SM Center Dagupan are SM Hypermarkets, SM Appliance Center, Ace Hardware, Watsons, Miniso and Banco de Oro.

Visayas

SM Seaside City Cebu

Year opened – 2015. SM Seaside City Cebu, located within the SM Seaside Complex at the South Road Properties (SRP) in Cebu City, is the first of its kind in urban development in the SRP. It has a GFA of 429,971 sq. m. featuring a centerstage theatre, a large screen cinema, two Director's Club cinemas and four regular cinemas with a combined seating capacity of 2,219, 16-lane bowling center, ice skating rink, amusement center, food court and parking slot for 4,525 vehicles. In addition, the mall features a rooftop Sky Park, an iconic 21-meter by 21-meter centerpiece called the "Cube", food and retail shops including local, national and global brands. The anchor tenants for SM Seaside City Cebu are The SM Store, SM Supermarket, Ace Hardware and Uniqlo.

SM City Cebu

Year opened – 1993. SM City Cebu is located on a 13.8-hectare site in Cebu Port Center, Barrio Mabolo, Cebu City. This mall is a multi-level complex with a GFA of 273,804 sq. m. featuring eight cinemas including a 3D IMAX theatre with seating capacity of 5,812, food court, fully computerized 28-lane bowling center, a trade hall and a carpark with 1,874-vehicle capacity. The anchor tenants for SM City Cebu are The SM Store, SM Supermarket, Ace Hardware and Forever 21.

SM City Iloilo

Year opened – 1999. SM City Iloilo has a GFA of 150,740 sq. m. and stands on a 17.4-hectare property at the juncture of the Northwest and the Northeast of the Iloilo-Jaro West Diversion Road in Manduriao, Iloilo City. Its location is a quick drive from the airport and from the center of the city. It serves the city's residents, as well as those of the rest of Panay Island and the neighboring islands in the Visayas. SM City Iloilo has eight cinemas with a seating capacity of 5,005 and parking for 1,651 vehicles. The anchor tenants for SM City Iloilo are The SM Store, SM Supermarket, Ace Hardware and SM Appliance Center.

SM City Bacolod

Year opened – 2007. SM City Bacolod has a land area of 17.0 hectare located along Rizal Street, Reclamation Area, Bacolod City in Negros Occidental. It is a two-building mall with GFA of 137,229 sq. m. and features a convention center, food court, amusement center and four cinemas with 2,001 seating capacity and carpark slots of 1,800. The anchor tenants for SM City Bacolod are The SM Store, SM Supermarket and Ace Hardware.

SM City Consolacion

Year opened – 2012. SM City Consolacion is located along the Cebu North Road, Barangay Lamac, Consolacion, Cebu. The mall has a GFA of 103,558 sq. m. and its amenities include a food court, four cinemas with seating capacity of 1,475, and parking for 707 vehicles. The anchor tenants for SM City Consolacion are The SM Store, SM Supermarket Ace Hardware and SM Appliance Center.

SM Center Ormoc

Year opened – 2018. SM Center Ormoc is the first SM mall in Eastern Visayas Region, located at Real Street, Brgy. District 14, Ormoc City, Leyte. SM Center Ormoc, with GFA of 32,824 sq. m., has a modern structure with vivid design and covers three floors of mixed recreation, service and entertainment facilities, including alfresco dining area on its second floor, four digital cinemas with seating capacity of 401 and parking for 434 vehicles. The anchor tenants for SM Center Ormoc are SM Hypermarket, Ace Hardware, SM Appliance Center, Miniso and Watsons.

Mindanao

SM CDO Downtown Premier

Year opened – 2017. SM CDO Downtown Premier is located at the intersection of C.M. Recto and Osmeña Street, Cagayan de Oro City (CDO). The mall will have a water catchment beneath, which will be able to hold 13,650 cubic meters of rainwater to help lessen the flooding in the area. This second SM mall in CDO, facing the gateway of Northern Mindanao, has 169,894 sq. m of GFA with five floors of popular stores and top amenities, which include Cyberzone, Food Hall, Sky Hall, Sky Garden, four digital theatres, one large format cinema and two Director's Club cinemas with seating capacity of 1,459, a 14-lane bowling center and carpark for 1,502 vehicles. The anchor tenants for SM CDO Downtown Premier are The SM Store, SM Supermarket, SM Appliance Center, Ace Hardware, Uniqlo and Forever 21.

SM Lanang Premier

Year opened – 2012. SM Lanang Premier sits on a 10-hectare land located at J.P. Laurel Avenue, Brgy. Lanang, Davao City. It is the first premier mall development in Mindanao, with four levels totaled 145,174 sq. m. of GFA. The mall houses a convention center, six cinemas and an IMAX theatre with a combined seating capacity of 2,610, a 16-lane bowling center and parking for 1,660 vehicles. It also features a Sky

Garden with water fountains, art installations, and landscaping. The anchor tenants for SM Lanang Premier are The SM Store, SM Supermarket, Ace Hardware and Forever 21.

SM City General Santos

Year opened – 2012. SM City General Santos is a three level mall located at San Miguel St., cor. Santiago Blvd., Lagao District, General Santos City. The mall has a GFA of 131,818 sq. m. featuring a food court, four cinemas with seating capacity of 1,386, and parking for 1,407 vehicles. The anchor tenants for SM City General Santos are The SM Store, SM Supermarket and Ace Hardware.

SM City Davao

Year opened – 2001. SM City Davao is located on a 13.2-hectare property along Quimpo Boulevard corner Tulip and Eco Drives, Brgy. Matina, Davao City. Its location is walking distance from some of the largest schools in Mindanao such as Ateneo de Davao, University of Mindanao, Philippine Women's College and the Agro-Industrial Foundation College. The mall has a GFA of 126,425 sq. m. It has six cinemas which can accommodate 2,405 movie patrons and parking for 2,201 vehicles. The anchor tenants for SM City Davao are The SM Store, SM Supermarket, Ace Hardware and SM Appliance Center.

SM City Cagayan De Oro

Year opened – 2002. SM City Cagayan De Oro sits along Mastersons Avenue corner Gran Via St., Cagayan de Oro City, Misamis Oriental. The mall has a GFA of 87,837 sq. m. It features four cinemas with seating capacity of 1,538 and carpark for 989 vehicles. The anchor tenants for SM City Cagayan De Oro are The SM Store, SM Supermarket and Ace Hardware.

China Malls

SM City Tianjin

Year opened – 2016. SM City Tianjin in Huanhe North Road, Airport Economic Zone, Tianjin, is situated on a 43.5-hectare lot and has a GFA of 321,641 sq. m. plus a carpark for 8,109 vehicles. A soft opening was held in December 2016 bringing anchor tenants such as The SM Store, Dadi Ifree Cinema, Bravo Yonghui Supermarket, Jiawen Theme Park, Decathlon, Acasia Food Court and Watsons plus several junior anchors.

SM City Xiamen

Year opened – 2001 (SM City Xiamen) & 2009 (SM Xiamen Lifestyle). SM City Xiamen in Xiamen City, Fujian Province is situated on a 10.4-hectare lot and has a GFA of 238,125 sq. m. plus a carpark for 2,090 vehicles. The anchor tenants for SM City Xiamen are Wal-Mart, The SM Store, Watsons, Wanda Cinema, H&M and Uniqlo plus several junior anchors.

SM City Jinjiang

Year opened – 2005. SM City Jinjiang in Jinjiang City, Fujian Province is situated on an 11.5-hectare lot and has a GFA of 167,830 sq. m. plus an open carpark for 1,700 vehicles. The anchor tenants for SM City Jinjiang are Wal-Mart, The SM Store, Wanda Cinema and Watsons plus several junior anchors.

SM City Chengdu

Year opened – 2006. SM City Chengdu in Chengdu City, Sichuan Province is situated on a 4.8-hectare lot and has a GFA of 166,665 sq. m. plus parking space for 810 vehicles. The anchor tenants for SM City Chengdu are Wal-Mart, The SM Store and Wanda Cinema plus several junior anchors.

SM City Zibo

Year opened – 2015. SM City Zibo in Zibo City, Shandong Province is situated on a 7.2-hectare lot and has a GFA of 152,093 sq. m. plus a carpark for 755 vehicles. The anchor tenants for SM City Zibo are The SM Store, Spar Jiajiayue Supermarket, Suning, Watsons, DaDi Cinema plus several junior anchors.

SM City Chongqing

Year opened – 2012. SM City Chongqing, located in the Yubei District, Southwest China, is situated on a 4.4-hectare lot and has a GFA of 149,027 sq. m. plus a carpark for 1,510 vehicles. SM City Chongqing is a one building structure with five levels. The anchor tenants for SM City Chongqing are Vanguard Supermarket, The SM Store and Wanda Cinema plus several junior anchors.

SM City Suzhou

Year opened – 2011. SM City Suzhou in Wuzhong District, Jiangsu Province is situated on a 4.1-hectare lot and has a GFA of 72,552 sq. m. plus a carpark for 560 vehicles. The anchor tenants for SM City Suzhou are Vanguard Supermarket and Wanda Cinema plus several junior anchors.

The Company believes that the seven malls will provide a platform for it to expand in the China market. It intends to continue to develop the SM malls in China through synergies with its existing mall operations and other management expertise. The Company intends to continue seeking opportunities for mall developments in second and third tier cities in China, where the mall can serve to anchor the city center. Although SM Prime is still developing its expansion plans in China, subject to the availability of suitable locations, SM Prime may initially build one new mall and one expansion project over the next five years in China.

The following table sets forth certain information regarding the contribution of the SM malls in China to SM Prime's total combined revenues and combined net income for the period stated:

	For the year ended 31 December						**For the three months ended 31 March**			
	2017		**2018**		**2019**		**2019**		**2020**	
	(in millions of pesos, except percentage of SM Prime's total)									
Revenue	4,767	5%	5,808	6%	5,808	5%	1,552	6%	948	4%
Net income	387	1%	492	2%	1,347	4%	524	6%	(217)	-3%

Sky Ranch

Sky Ranch Tagaytay

Sky Ranch Tagaytay, a nearly four-hectare property, is an entertainment venue adjacent to the Taal Vista Hotel, and was developed to complement the hotel's strong presence as a well-known destination in the area. To maximize the site's premium views and distinctive natural environment, a social events venue is included which is complemented by casual, family style dining establishments, as well as a mini-amusement theme park for kids and other recreational facilities such as horseback riding.

Sky Ranch Pampanga

Sky Ranch Pampanga is the first amusement park and the newest destination for both local residents and tourists in the North Luzon. The park is embedded in a 10,000 square meter land of SM City Pampanga in the City of San Fernando. It has 27 different rides and attractions, including the Pampanga Eye which is said to be the tallest and biggest Ferris wheel in the Philippines at 65 meters tall and 55 meters in diameter.

Sky Ranch Baguio

Sky Ranch Baguio is the second amusement park and the newest destination for both local residents and tourists in North Luzon. The park is embedded in a 3,000-square meter land of SM City Baguio. It has 13 different rides and attractions, including the Baguio Eye which is said to be the Ferris wheel with the highest elevation in Asia at 52 meters tall and 45 meters in diameter.

Department Store and Supermarket Buildings

SM Prime also owns several department store and supermarket buildings with a total GFA of approximately 300,000 sq. m. The major tenant of these buildings is the SM Retail Group. The following table sets forth certain information regarding SM Prime's department store and supermarket buildings as at 30 June 2020:

Department Store	Location	Gross Floor Area (sq. m.)	Occupancy
SM Cubao	Quezon City	109,253	98%
SM Makati	Makati City	109,667	100%
SM Delgado	Iloilo City	26,390	97%

Supermarkets (Hypermarket and Savemore)	Location	Gross Floor Area (sq. m.)	Occupancy
Adriatico	Manila City	15,823	100%
Monumento	Quezon City	14,479	100%
Novaliches	Quezon City	4,161	100%
Jaro Iloilo	Iloilo City	3,759	100%
Del Monte	Quezon City	2,884	100%
Kamias	Quezon City	2,277	100%
P. Tuazon	Quezon City	2,082	100%
Pedro Gil	Manila City	1,830	100%
Tandang Sora	Quezon City	1,358	100%

Except for the department stores and the Adriatico and Jaro Supermarkets, SM Prime also owns the land on which the retail establishments listed in the table above are situated.

MOA Arena

The MOA Arena is a five-storey, first class multipurpose venue for sporting events, concerts, entertainment shows, and other similar events. The arena has a seating capacity of approximately 16,000 for sporting events, and a full-house capacity of 20,000. It occupies approximately two hectares of land and has a GFA of approximately 68,000 sq. m.

Other Malls Properties

SM Prime acts as a landlord for the following commercial properties leased by SM Retail Food Stores:

Lot Location	Area (sq. m.)
Imelda Ave., Cainta, Rizal & Int. Imelda Ave., Rosario, Pasig City	41,053
East Service Road, Sucat, Muntinlupa City	40,000
Anabu I-B Imus, Cavite	37,307
II-A;II-B & Lot 1;Along H. Cortes Ext., Subangdaku, Mandaue City	35,741
Km. 7 McArthur Highway, Bangkal, Davao City	33,943
Quirino Highway, Talipapa, Balintawak, Quezon City	30,006
Manila Harbor Center, Tondo, Manila City	25,865
Rosario, Batangas	7,189
Malinao Pasig	2,777

Land Bank

The following table sets forth SM Prime's existing land bank owned for development of new malls as at 30 June 2020:

Location	Gross Area (sq. m.)
Luzon	1,288,104
Visayas/Mindanao	547,800
Metro Manila	190,864
Total	**2,026,768**

Principal Tenants

SM Prime enjoys a competitive advantage due to its long-standing retail experience in establishing an appropriate mix of tenants including its associated anchor tenants. SM Prime controls the tenant mix of each of its malls, which has contributed to the profitability of the malls. The principal anchor tenants in the malls include The SM Stores, SM Supermarkets and SM Hypermarkets. Other significant tenants include Jollibee, National Bookstore, KFC, Chowking, Concentrix, Mang Inasal, McDonalds, iQor, Smart and Greenwich.

As at 30 June 2020, The SM Stores occupied in aggregate a gross area of 1,081,450 sq. m. within the malls, or 34% of total leasable area. SVI and SSMI operate the SM Supermarkets and SM Hypermarkets occupying in aggregate a gross area of 460,445 sq. m. as at 30 June 2020, or 16% of total leasable area.

In addition to the anchor tenants associated with SM Prime, other retail operations controlled by or in which the Sy family has a significant interest, such as Ace Hardware, SM Appliance Center, Watsons, Surplus, Our Home, Toy Kingdom, BDO, Kultura, Uniqlo, and Miniso are also tenants in most of the malls.

During the years ended 31 December 2017, 2018, and 2019 and the six months ended 30 June 2020, approximately one third of the aggregate mall rental revenue received by SM Prime was from members of the Group and companies affiliated with the Sy family.

SM Prime believes that all the leases entered into between SM Prime and the Group or companies affiliated to the Sy family have been entered into on an arm's length basis and on commercial terms.

The SM Mall of Asia also hosts some premier tenants, which specialize in higher-end merchandise, such as Mango, Zara, Marks & Spencer, Topshop and Muji.

Leasing Policies

The leasing policy of SM Prime in relation to each of the malls is to screen applicants carefully and to secure an appropriate mix of tenants, both in terms of the nature of their businesses and their size. An average of less than 3% of tenants per mall did not renew their leases upon expiry or had their leases terminated early in each of the three years ended 31 December 2017, 2018, and 2019. The high demand for tenancies within the malls means that SM Prime generally has a waiting list sufficient to cover any vacancies that may arise in the malls.

It is the policy of SM Prime that all leases, whether with members of the SM Group, companies affiliated with the Sy family or unrelated third parties, should be entered into on commercial terms, and SM Prime considers that the current rentals payable by tenants of the malls that are operational at present reflect prevailing market rents.

SM Prime's tenancies are generally granted for a term of one year, with the exception of some of the larger tenants operating nationally, which are granted initial lease terms of two to five years, renewable on an annual basis thereafter. Sixty days' notice is required of SM Prime's tenants for termination of their leases, and a six-month deposit is paid at the commencement of the lease. Upon expiry of a lease, the rental rates are adjusted to reflect the prevailing market rent. SM Prime charges rent as either a fixed rent per sq. m. or a variable rate which is a minimum per sq. m. or a base charge plus a percentage of a tenant's sales, whichever is higher.

Management of the Malls

Management and operation of the malls, including the provision of manpower, maintenance and engineering and security, leasing, marketing and other promotional activities, are assumed by the Management Companies, a wholly owned subsidiary of SM Prime. In addition, the Management Companies negotiate and handle major tenant issues for the malls, while reporting to and under the direction of SM Prime. The Management Companies also adjust the tenant mix according to instructions given by SM Prime, which is based on a variety of factors, including the target market, location of the mall, demographics, size of the retail spaces and market positioning, among others. Each of the Management Companies performs specific functions in relation to each of the malls.

The entertainment and leisure facilities within the malls, including cinemas, bowling centers and ice skating rinks, are primarily owned by SM Prime, and the Management Companies manage the operations of the entertainment and leisure facilities within the malls. Certain entertainment facilities, such as amusement rides, are operated by third parties, whereby SM Prime receives a percentage of the amusement fees.

Competition

SM Prime's malls compete with other shopping malls in the geographic areas in which they operate. The other major shopping mall operators in the Philippines are Robinsons Land Corporation ("RLC") and Ayala Land, Inc. ("ALI"). As of 31 March 2020, RLC owns and operates 52 malls in the Philippines, 9 in Metro Manila and 43 in urban areas outside Metro Manila. RLC's total assets as at and for the years ended 31 December 2017, 2018, and 2019 were ₱148.1 billion, ₱174.2 billion, and ₱189.7 billion, respectively. ALI operates 32 malls and retail spaces in the country. ALI's total assets as at and for the years ended 31 December 2017, 2018, and 2019 were ₱574.0 billion, ₱668.8 billion, and ₱713.9 billion, respectively. SM Prime believes that it is well placed to face increased competition in the shopping mall industry given the competitive advantages it has, including, among others, the location of its existing malls, SM Prime's land bank, its balance sheet strength, a proven successful tenant mix and selection criteria, and the presence of The SM Stores, SM Supermarkets, SM Hypermarkets and retail affiliates of the Group within the malls. SM Prime believes that its experience and understanding of the retail industry has also been a contributing factor to its competitive advantage in the industry.

Subsidiaries

SM Prime has 15 wholly-owned mall related Philippine subsidiaries, namely, Premier Central, Inc., Premier Southern Corp., Consolidated Prime Dev. Corp., San Lazaro Holdings Corporation, Southernpoint Properties Corp., CHAS Realty and Development Corp., Rushmore Holdings, Inc., Prime_Commercial Property Management Corporation, Magenta Legacy, Inc., Associated Development Corporation, Prime Metroestate, Inc., SM Arena Complex Corporation, A. Canicosa Holdings, Inc., AD Canicosa Properties, Inc. and Cherry Realty Development Corporation. SM Prime holds its interests in SM City Batangas and SM City Lipa, SM City Dasmariñas, SM City Clark, SM City Lanang, and SM Megacenter Cabanatuan through Premier Southern Corp., Consolidated Prime Dev. Corp., Premier Central, Inc., Southernpoint Properties Corp., and CHAS Realty and Development Corp., respectively. First Asia Realty Development Corporation is a 74.2% owned subsidiary of SM Prime, through which SM Prime holds its interest in SM Megamall. First Leisure Ventures Group, Inc. is a 50.0% owned subsidiary of SM Prime, through which SM Prime holds its interest in SM by the Bay. All malls not otherwise mentioned in this paragraph are owned directly by SM Prime.

RESIDENTIAL (PRIMARY)

SM Prime's revenue from residential operations is derived largely from the sale of condominium units. As of 30 June 2020, residential business unit has fifty residential projects in the market, thirty-nine of which are in Metro Manila and eleven are outside Metro Manila.

Completed Residential Projects

The following projects have completed their construction but units are still being sold by SM Prime:

Chateau Elysee

Chateau Elysee is a six-cluster, six-storey residential condominium project in a 4.7 hectare lot in Parañaque City, Metro Manila. This project offers one-bedroom and two-bedroom units. Cluster one, comprising 384 units, was launched in 2003 and completed in December 2004. Construction of cluster two with 384 units was completed in May 2006. Construction of cluster three with 400 units was completed in May 2007. Construction of cluster six with 504 units was completed in December 2008. Construction of cluster five, with 560 units was completed in November 2009. Construction of Cluster four with 588 units began in April 2010 and was completed in June 2011. As of 30 June 2020, 99% of the project's 2,820 units in total had been sold.

Mezza Residences

SM Prime's first high-rise project is the Mezza Residences ("Mezza"), which is a mixed-use development project with 38-storey four-tower condominiums and commercial retail area located across from SM City Sta. Mesa, Manila. Each tower has 400 to 800 residential units comprised of one-bedroom to four-bedroom configurations, with floor areas ranging from 21 to 67 sq. m. Mezza consists of 2,332 saleable residential units and 18 commercial units for lease with Savemore store as the anchor tenant. As of 30 June 2020, construction of Mezza towers one to four was 100% complete and SMDC had sold 100% of the units in Mezza.

Berkeley Residences

Berkeley Residences is a 35-storey high-rise condominium project situated just across Miriam College in Quezon City. Berkeley Residences comprises 1,276 units which were completed in June 2011, of which 100% were sold as of 30 June 2020.

Sea Residences

Sea Residences is a 15-storey residential and commercial condominium project comprising of six buildings, located at the Mall of Asia (MOA) Complex, Pasay City. Construction for Phase One of Sea Residences started in January 2009 and was completed in March 2012. As of 30 June 2020, 100% of the units in Phase One were sold. Construction for Phase Two started in December 2009 and was completed in November 2012. As of 30 June 2020, 100% of the units in Phase Two were sold. Phase Three of Sea Residences units were 100% sold as of 30 June 2020. Construction for Phase Three started in March 2010 and was completed in December 2012.

Princeton Residences

Princeton Residences is a 38-storey high-rise condominium project located along Aurora Blvd., Quezon City which was completed in March 2013. Princeton Residences comprises 1,096 units of which 99% were sold as of 30 June 2020.

Sun Residences

Sun Residences is a project comprising two 40-storey towers located along España Blvd., Quezon City near Welcome Rotonda. Sun Residences Tower 1 comprises 2,057 units of which 99% were sold as of 30 June 2020. Tower 2 comprises 1,982 units of which 99% were sold as of 30 June 2020. Construction of Towers 1 and 2 were completed in November 2013 and June 2014, respectively.

Jazz Residences

Jazz Residences is a mixed-use development project comprising four 41-storey towers located at N. Garcia corner Jupiter, Makati City. Towers A, B, C and D of the project consist of 5,367 units of which 99% were sold as of 30 June 2020. Construction of Tower A started in April 2010 and was completed in December 2013 while construction of Tower C started in October 2010 and was completed in May 2014. Construction of Tower D started in July 2011 and was completed in June 2015. Construction of Tower B started in July 2011 and was completed in September 2015.

Blue Residences

Blue Residences is a 40-storey residential condominium situated across from Ateneo De Manila University in Quezon City. Construction of Blue Residences started in October 2010 and was completed in May 2014. It comprises 1,591 units of which 99% were sold as of 30 June 2020.

Grass Residences – Phase 1

Grass Residences – Phase 1 is a three tower 40-storey high-rise condominium project located behind SM City North EDSA, Manila. Tower 1 comprises 1,988 units of which 99% were sold as at 30 June 2020. Construction of Tower 1 started in March 2008 and was completed in October 2011. Tower 2 comprises 2,025 units, of which 98% were sold as at 30 June 2020. Construction of Tower 2 started in November 2010 and was completed in May 2014. Tower 3 comprises 1,990 units, of which 99% were sold as of 30 June 2020. Construction of Tower 3 started in November 2009 and was completed in December 2013.

Light Residences

Light Residences is a mixed-use development project with three 40-storey towers located along EDSA, Mandaluyong City. It has a total of 4,227 units, of which 98% were sold as of 30 June 2020. Construction of Phase 1, which consists of the podium and Tower 1, started in May 2010 and was completed in December 2013. Construction of Phase 2 (Tower 3) started in April 2011 and was completed in December 2013.

Construction of Phase 3 (Tower 2) commenced in July 2011 and was completed in January 2015.

M Place @ South Triangle

M Place @ South Triangle is a four 25-storey tower condominium in South Triangle, Quezon City. Tower A started construction on January 2011 and was completed in December 2013. Tower A comprises 827 units of which 99% were sold as of 30 June 2020. Tower B started construction in July 2011 and was completed in December 2013. Tower B comprises 912 units of which 98% were sold as of 30 June 2020. Tower C comprises 778 units of which 98% were sold as of 30 June 2020. Construction of Tower C began in January 2012 and was completed in 2015. Tower D comprises of 920 units of which 97% were sold as of 30 June 2020. Construction of Tower D was completed in January 2015.

Mezza II Residences

Mezza II Residences is a 38-storey residential condominium located just beside the first Mezza Residences in Quezon City. Construction of Mezza II started in December 2010 and was completed in January 2015. It comprises 1,324 units of which 99% were sold as of 30 June 2020.

Shine Residences

Shine Residences is a 22-storey residential condominium located in Pasig City. Construction of Shine Residences commenced in January 2013 and was completed in December 2015. It comprises 892 units, of which 98% were sold as of 30 June 2020.

Green Residences

Green Residences is a 50-storey residential condominium situated on Taft Avenue, Manila near De La Salle University. Construction of Green Residences started in August 2011 was completed in December 2015. Green Residences comprises 3,378 units of which 99% were sold as of 30 June 2020.

Shell Residences

Shell Residences is a 16-storey residential and commercial condominium project and is located at the MOA Complex in Pasay City. It comprises four buildings with 3,093 residential units of which 100% were sold as of 30 June 2020. Construction of Shell Residences commenced in May 2012 and was completed in December 2015.

Field Residences

Field Residences is a residential condominium project that ultimately consists of ten buildings located behind SM Sucat, Parañaque. Buildings 1, 2, 3, 7 and 8 of Field Residences were 99% sold as of 30 June 2020. Construction of buildings 1, 2, 8, 3 and 7 were completed in April 2010, April 2011, December 2011, December 2012 and September 2013, respectively. Building 4 was 97% sold as of 30 June 2020. Construction of building 4 commenced in July 2014 and was completed in March 2017.

Wind Residences

Wind Residences is a residential condominium development with five 20-storey towers located along Emilio Aguinaldo Highway, Tagaytay City. Towers 1 to 5 have a total of 3,524 units of which 98% were sold as of 30 June 2020 Towers 1-5 are ready for occupancy.

Grace Residences

Grace Residences is a residential condominium development with four towers located along Levi Mariano Avenue in Taguig City. The project was 95% sold as of 30 June 2020. Construction of Tower 1 started in May 2013 and was completed in October 2015. Construction of Tower 2 and 3 commenced in October 2013 and May 2014, respectively, and was completed in September 2016. Construction of Tower 4 started in April 2015 and was completed in July 2018.

Trees Residences Phase 1 and Phase 2 Buildings

Trees Residences is a residential condominium development with nineteen 7-storey towers located near Quezon City. Buildings 1, 2, 3, 5, 6 and 7 ("Phase 1 Buildings") were 90% sold as of 30 June 2020. Construction of the Phase 1 commenced in January 2014 and was completed in March 2016. Phase 2 buildings (Bldgs. 8, 9, 10, 11, 12 and 15) were 81% sold as of 30 June 2020. Construction of Phase 2 commenced in May 2015 and was completed in year 2018.

Breeze Residences

Breeze Residences is a 38-storey residential and commercial condominium project and is located along Roxas Boulevard in Pasay City. As of 30 June 2020, 99% of the units were sold. Construction of Breeze Residences commenced in June 2013 and was completed in September 2017.

Shore Residences

Shore Residences is a residential condominium development with four towers located at the MOA Complex in Pasay City. Construction of Shore Residences commenced on the second quarter of 2014 and was completed in 2019. As of 30 June 2020, 100% of the 5,691 residential units were sold.

Ongoing Residential Projects

Grass Residences – Phase 2

Grass Residences – Phase 2 was launched in March 2013, a two tower 37-storey high-rise condominium project located behind SM City North EDSA, Manila. Tower 4 and Tower 5 are expected to be completed in 2020.

Cool Suites @ Wind Residences

Cool Suites @ Wind Residences is a residential condominium project that will consist of 6 Towers located along Emilio Aguinaldo Highway, Tagaytay City. Cool Suites @ Wind Residences is a Phase 2 Project at the 15-hectare development of Wind Residences. Building 1 was launched in December 2014 and 98% were sold as of 30 June 2020. Construction of Building 1 commenced in January 2015 and was completed in August 2017. Building 2 was launched in August 2016 and 97% of the units were sold as of 30 June 2020.

Air Residences

Air Residences is a residential condominium situated across Ayala Avenue Extension corner Yakal and Malugay Street, Barangay San Antonio, Makati City. Construction of Air Residences commenced on the last quarter of 2015 and is expected to be completed in 2020.

Fame Residences

Fame Residences is a residential condominium project that will ultimately consist of four towers in a common podium located along EDSA and Mayflower Street, Barangay Highway Hills, Mandaluyong City. Construction of the project commenced in November 2015. Tower 1 was completed in 2019 and Tower 2 of Fame Residences is expected to be completed in 2020.

Shore 2 Residences

Shore 2 Residences is a residential condominium development with three towers located just beside Shore Residences in Pasay City. Construction of Shore 2 Residences commenced on the last quarter of 2015 and is expected to be completed in 2020.

Shore 3 Residences

Shore 3 Residences is a residential condominium development located next to Shore 2 Residences in Pasay City. Construction of Shore 3 Residences commenced on the last quarter of 2016.

South Residences Phase 1

South Residences Phase 1 is a residential condominium project that will ultimately consist of four towers located near SM Southmall in Las Piñas City. Construction commenced on the second half of 2015.

Coast Residences

Coast Residences is a residential condominium located at Roxas Boulevard corner of Dapitan St., Pasay City. Construction of Coast Residences commenced on the first quarter of 2016.

Spring Residences

Spring Residences is a residential condominium project that will ultimately consist of four towers located at West Service Road, Bicutan, Parañaque City. Construction of the project commenced on the first half of 2016 and is expected to be completed in 2021.

S Residences

S Residences is a residential condominium development with three towers located at the MOA Complex in Pasay City. Construction of S Residences commenced on the second quarter of 2016 and is expected to be completed in 2021.

Vine Residences

Vine Residences is a residential condominium located at Brgy. San Bartolome, Novaliches, Quezon City. Construction of Vine Residences commenced on the last quarter of 2016 and is expected to be completed in 2021.

Cheer Residences

Cheer Residences is a residential condominium located at Mac Arthur Highway, Brgy Ibayo, Marilao Bulacan. Construction of Cheer Residences commenced in 2017 and is expected to be completed in 2020.

Bloom Residences

Bloom Residences is a residential condominium located along Dr. A. Santos, Sucat, Parañaque. Construction of Bloom Residences commenced on the second half of 2017 and is expected to be completed in 2022.

Green 2

Green 2 Residences is a residential condominium located at Brgy. Burol Main, Dasmariñas, Cavite. Construction of the project commenced on the second half of 2017 and is expected to be completed in 2021.

Hope Residences

Hope Residences is a residential condominium with four buildings located near SM City Trece Martires, Cavite. Construction of Hope Residences started on the second half of 2017 and is expected to be completed in 2020.

Charm Residences

Charm Residences is a residential condominium located at Barangay San Isidro, Cainta, Rizal. Construction of Charm Residences commenced on the second half of 2017.

Cheerful Homes

Cheerful Homes is SM Prime's house and lot project located at Mabalacat, Pampanga. Construction started on the first half of 2017 and is expected to be completed in 2020.

Red Residences

Red Residences is a residential condominium located at Chino Roces Ave. San Lorenzo Village Makati City. Construction of Red Residences started on the second half of 2018 and is expected to be completed in 2023.

Leaf Residences

Leaf Residences is a residential condominium located at Susana Heights, Muntinlupa City. Construction of Leaf Residences started in 2018 and is expected to be completed in 2021.

Park Residences

Park Residences is a residential condominium located at Brgy. Tagapo, Sta. Rosa, Laguna. Construction of Park Residences started in 2018 and is expected to be completed in 2023.

Hill Residences

Hill Residences is a residential condominium located at Novaliches, Quezon City. Construction of Hill Residences started in 2018 and is expected to be completed in 2022.

Lane Residences

Lane Residences is a residential condominium located at Lanang, Davao City. Construction of Lane Residences started in 2018 and is expected to be completed in 2023.

Lush Residences

Lush Residences is a residential condominium located at Bagtikan St. San Antonio Village, Makati City. Construction of Lush Residences started in 2018 and is expected to be completed in 2021.

Sail Residences

Sail Residences is a residential condominium located at MOA Complex Pasay, City. Construction of Sail Residences started in 2019 and is expected to be completed in 2023.

Glam Residences

Glam Residences is a residential condominium located at EDSA and Samar Ave., Brgy South Triangle, Quezon City. Construction of Glam Residences started in 2019 and is expected to be completed in 2023.

Style Residences

Style Residences is a residential condominium located at Benigno Aquino Avenue, Mandurriao, Iloilo City. Construction of Style Residences started in 2019 and is expected to be completed in 2023.

Socialized Residential Projects

Heneral Uno

Heneral Uno is the first horizontal socialized housing project launched in 2012. The project is situated in 25 hectares property in General Trias, Cavite.

Heneral Dos

Launched in 2013 is the second socialized housing project named "Heneral Dos". It is situated in 20 hectares property in General Trias and Trece Martirez, Cavite.

Brisas De Tanza

Brisas De Tanza was launched in 2015 located in Tanza, Cavite. Project gross area is 6.5 hectares with predominantly socialized housing offerings.

Primera Subdivision

Primera Subdivision is a pioneering socialized housing development in Sto. Tomas, Batangas. It was launched in 2015 with an area of 11 hectares.

Paseo Heneral Dos

Paseo Heneral Dos is situated in General Trias, Cavite. It was launched in the first quarter of 2016.

Primerarosa

Primerarosa is the second socialized housing project in Sto. Tomas, Batangas. It was launched in the second quarter of 2016.

Reginarosa

Reginarosa is the third housing project in Sto. Tomas, Batangas. It was launched in the fourth quarter of 2017 largely composed of socialized housing offerings.

Bela Rosa

Belarosa is the fourth housing project in Sto. Tomas, Batangas. It was launched in the first quarter of 2018 largely composed of socialized housing offerings.

Amorrosa

Amorrosa is the fifth housing project in Sto. Tomas, Batangas. It was launched in the fourth quarter of 2018 largely composed of socialized housing offerings.

Belarosa Extension

Belarosa Extension is the sixth socialized housing project in Sto. Tomas, Batangas. It was launched in the first half of 2019.

Primerarosa Phase 2

Primerarosa Phase 2 is composed of socialized and affordable housing project located in Sto. Tomas, Batangas. It was launched in the third quarter of 2019.

Primerarosa Phase 3

Primerarosa Phase 3 is composed of socialized and affordable housing project located in Sto. Tomas, Batangas. It was launched in the third quarter of 2019.

RESIDENTIAL (LEISURE)

SM Prime owns leisure and resort developments including properties located in the Tagaytay Highlands and Tagaytay Midlands golf clubs in Laguna, Tagaytay City and Batangas.

In addition, SM Prime is the developer of Pico de Loro Cove, the first residential community within Hamilo Coast, a master planned coastal resort township development in Nasugbu, Batangas encompassing 13 coves and 31 kilometers of coastline.

Residential Developments in Tagaytay

The Horizon at Tagaytay Midlands

This is a medium-density residential condominium development located inside The Tagaytay Midlands mountain resort community. The development overlooks the Tagaytay Midlands golf course, Taal Lake and Volcano in the west, Mt. Makiling in the south east and the mountain range of Batangas in the south. This has 6 buildings with 108 units of approximately 139 to 152 sq. m. each. The project was launched in 2005 and was 99% sold as at 30 June 2020.

Pueblo Real at Tagaytay Midlands

The development is adjacent to The Horizon, situated on a six-hectare property and has 86 lots with an average lot size of 420 sq. m. The project is fully sold as of 30 June 2020.

Woodridge Place Phase 2

This is a condominium project at Tagaytay Highlands that was introduced to the market in May 2010. This project consists of two mid-rise buildings with 176 condominium residential units with areas ranging from 41 to 241 sq. m. per unit. The project is fully sold as of 30 June 2020.

Sierra Lago

This is a lot subdivision development located at Tagaytay Midlands that was launched in November 2010. This development has 185 lots with sizes of approximately 250 to 435 sq. m. The project is fully sold as of 30 June 2020.

Aspenhills

This is a leisure lot development located at Tagaytay Highlands that was launched in summer of 2012. This development is situated on a 27-hectare property which offers lot sizes from 300 to 800 sq. m. The surrounding village is expected to include the Meadows Community Clubhouse, the Little Ranch playground, the Sunshine Picnic Grove and Spinner's Trail. 100% of the lots had been sold as of 30 June 2020.

The Hillside at Tagaytay Highlands

The Hillside at Tagaytay Highlands is the first lots only subdivision in the Tagaytay Highlands complex which is located near the Sports Center, the Country Club and other recreational facilities. This property boasts of cool year-round climate, gentle rolling terrain, lush greenery and views of the mountainside and Laguna De Bay. On this development, lot cuts range from 400 to 641 square meters. Three model units have been constructed to date. The project is fully sold as of 30 June 2020.

Vireya Phase 1

A tropical-inspired residential subdivision with a total land area of 16.9 hectares located at the Midlands enclave. This is the third lot development at The Midlands and has lot cuts ranging from 250-562 square meter area. The project was launched in July 2016. As at 30 June 2020, 96% of the lots had been sold.

Vireya Phase 2

Vireya Phase 2 is an expansion of the Vireya Phase 1 development with lots ranging from 255-486 sq. m. area. This area features additional amenities that will further enhance the entire subdivision: Treehouse, garden patio and playground. The project was launched in April 2017. The project is fully sold as at 30 June 2020.

Vireya Phase 3

Vireya Phase 3 is the latest expansion of Vireya Project – a tropical-themed community situated in the Midlands. The 3.6 has. property offers 92 lots with sizes ranging from 250 to 612 sq. m. Vireya Phase 3 will utilize and share the current amenities of Vireya Phase 1 & 2. As at 30 June 2020, 89% of the lots had been sold.

The Woodlands Point at Tagaytay Highlands

The Woodlands Point at Tagaytay Highlands is a single detached log cabin condominium community located near Fairway 15 of the Tagaytay Highlands Golf Course. The community is designed to accommodate 60 pads for single detached log cabins carrying the homey atmosphere of North American cedar log cabin living enhanced by Western red cedar accents and elegant detailing of glass and stone. Currently, 28 log cabins have been sold; of which, 25 have been completed and 2 units are ongoing construction.

The Woodridge Place Phase I at Tagaytay Highlands

Located in Tagaytay Highlands adjacent to The Woodridge. The Woodridge Place Phase 1 is a condominium development with the views of The Woodlands, Tagaytay Highlands Golf Course, Canlubang, Laguna De Bay and surrounding mountains. Its architectural theme is inspired by the mountain resorts of the Colorado Region. This development consists of seven mid-rise buildings, all residential units of which are sold.

Horizon Terraces - Garden Suites 1 and Garden Villas 2

Horizon Terraces shall complete the undeveloped area which sits on a 3-hectare property within the 6-hectare land comprising the Horizon project at the Midlands. This will offer a mix of condominium and townhouse residential units both offering condo titles. Garden Suites 1 and Garden Villas Cluster 2 were launched in August 2017. Suites 1 offers 1BR and 2BR units with area ranging from 43 to 68 sq. m; and Villas Cluster 2 offers 3BR units with areas 135 and 153 sq. m. Construction of Suites 1 and Villas Cluster 2 commenced in 2018. Approximately 85% of the condo units in Suites 1 and 57% of Villas 2 Cluster 2 have been sold as at 30 June 2020.

Horizon Terraces – Garden Suites 2

As part of Horizon Terraces development, Garden Suites 2 was launched in November 2018 with 40 units of 1BR & 2BR units with areas ranging from 44 to 102 sq. m. As at 30 June 2020, 70% of the units had been sold.

Horizon Terraces – Garden Suites 3

The latest of the Horizon Terraces development launched in July 2019, Garden Suites 3 is comprised of 45 units of 1BR & 2BR units with areas ranging from 35 to 103 sq. m. As at 30 June 2020, 58% of the units had been sold.

The Pines at Aspenhills

Launched in September 2019, The Pines at Aspenhills is the latest residential subdivision in Tagaytay Highlands situated across the existing Aspenhills subdivision. The total land area of the property is approximately 8.3 hectares with developable area of 1.2 hectares. The village offers 25 lots and is inspired by the colorful happy summers of Aspen, Colorado (following the existing Aspenhills theme). As at 30 June 2020, 88% of the units had been sold.

Residential Developments in Pico de Loro

Jacana

Jacana is a residential condominium project located at Pico De Loro Cove, Nasugbu, Batangas. It is comprised of two buildings, building A with six floors and building B with seven floors. Construction of Jacana commenced in August 2007 and was completed in February 2010. As of 30 June 2020, 100% of the project's units have been sold.

Myna

Myna is a residential condominium project located at Pico De Loro Cove, Nasugbu, Batangas. It comprises two buildings, building A with six floors and building B with seven floors. Construction of Myna commenced in May 2008 and was completed in July 2010. As of 30 June 2020, 100% of the project's units have been sold.

Carola

Carola is a residential condominium project located at Pico De Loro Cove, Nasugbu, Batangas. It comprises two buildings, building A with six floors and building B with seven floors. Construction of Carola commenced in August 2009 and was completed in August 2012. As of 30 June 2020, 100% of the project's units have been sold.

Miranda

Miranda is a residential condominium project located at Pico De Loro Cove, Nasugbu, Batangas. It comprises two buildings, building A with six floors and building B with seven floors. Construction of Miranda commenced in August 2009 and was completed in June 2012. As of 30 June 2020, 100% of the project's units have been sold.

Freia

Freia is a residential condominium project located at Pico De Loro Cove, Nasugbu, Batangas. It comprises three buildings, building A with thirteen floors, building B with eleven floors and building C with nine floors. Freia was launched last July 2017 and construction is on-going. As at 30 June 2020, 55% of the units were sold.

Pico de Loro Beach and Country Club

Pico de Loro Beach and Country Club is a leisure facility located at Pico de Loro Cove. Costa del Hamilo, as developer, executed a deed of conveyance of the titles to the lots and buildings, and in return owns 4,000 shares. The beach club was completed and opened in 2009, while the country club was completed in June 2010.

Land Bank for Residential (Primary) Development

The Company continues to invest in properties that it believes are in prime locations across the Philippines for existing and future property development projects. It is important to the Company to have access to a steady supply of land for future projects.

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

The table below sets forth the locations of SM Prime's residential (primary) undeveloped land inventory as of 30 June 2020:

Location	**Area (sq. m.)**
Metro Manila	942,995
Outside Metro Manila	11,097,218
Total	**12,040,213**

The Company believes this land bank is sufficient to sustain development and sales. Moreover, the Company's residential business unit continually seeks to increase its land bank in various parts of the Philippines for future residential development through direct acquisitions.

Land Bank for Residential (Leisure) Development

SM Prime owns 524 hectares of land located around the vicinity of Tagaytay Highlands International Golf Club in Tagaytay City, Cavite and Tagaytay Midlands Golf Club in Batangas.

The table below sets forth the location and area of SM Prime's land bank as of 30 June 2020:

Location	**Area (sq. m.)**
Batangas	4,055,140
Tagaytay	940,728
Laguna	244,284
Total	**5,240,152**

COMMERCIAL

SM Prime's commercial business unit is engaged in the development and leasing of office buildings in prime locations in Metro Manila, as well as the operations and management of such buildings and other property holdings.

Completed Commercial Properties

Mall of Asia (MOA) Complex

SM Prime's flagship project is the MOA Complex in Pasay City, a 60-hectare master planned bayside development with the renowned SM Mall of Asia as its anchor development and main attraction, among other commercial, business, and entertainment establishments within the Complex. A major attraction in the Complex is the landmark 16,000-indoor seating SM Mall of Asia Arena, as well as its adjacent annex building, MOA Arena Annex Building, that houses additional parking spaces and office levels. The MOA complex is also the site of SM Prime's signature business complex, the E-Com Centers, a series of modern and iconic office buildings mostly targeting technology based industries, BPO and shipping companies.

Three E-Com Center

Year opened – 2018. Three E-com Center is a 15-storey office building with a three level parking podium and the ground level designed to cater the commercial and retail tenants. Similar to Two E-com Center and Five E-com Center, Three E-com Center features architectural designs of Miami based firm Arquitectonica. The GFA is 129,857 sq. m. SM Prime again pioneers development in the bay area by being the first to offer a Gold LEED certified office building with Three E-Com Center.

Five E-Com Center

Year opened – 2015. Similar to its predecessor Two E-com Center, Five E-com Center features architectural designs of Miami based firm Arquitectonica, with FS Lim & Associates as the local architect of record. The 15-level office building covers a GFA of 145,638 sq. m. Five E-com Center also features a mixed-use component on its fourth level podium.

Two E-Com Center

Year opened – 2012. Two E-com Center is a 15-storey office and commercial building housing BPOs and technology intensive businesses, as well as location based firms such as shipping and logistics. This iconic structure located in the MOA complex in Pasay City offers a GFA of 106,682 sq. m. of office and commercial space, and premium views of Manila Bay and the Makati skyline. It is designed by Miami based

Arquitectonica, with FS Lim & Associates as local architect of record. Commercial spaces are located at both the ground floor and the fourth floor podium level called the Prism Plaza.

SM Clark BPO Tech Hub

Year opened – 2016. SM Clark BPO Tech Hub is a 6-storey tech hub with GFA of 72,973 sq. m., located inside the SM City Clark mall complex. It primarily caters office spaces for BPO firms and also offers the first and second level for retail stores.

NU Mall of Asia (NUMA) Building

Year opened – 2019. NU Mall of Asia Building is an addition to the Mall of Asia Masterplan, located inside MOA Complex, Pasay City. It is a 12-storey mixed-use commercial development that houses retail stores at the ground floor, parking slots from the ground to 6th level, office tenants for the next three levels and the last three levels are occupied by National University (NU), as the second campus to open. Space for the office tenants and NU has a total GFA of 53,010 sq. m.

SM Aura Office Tower

Year opened – 2014. SM Aura Office Tower is strategically connected to SM Aura Premier with its structure as "dumbbell" arrangement determined by the narrow site, with the main entry at the north corner, and the office tower located at the southern end. The 30-storey office tower has a GFA of 52,837 sq. m. As part of the Bonifacio Civic Center, government agencies such as Social Security System, Philippine Health Insurance, Philippine Postal Corporation, Pag-IBIG, Bureau of Immigration and LRA-Registry of Deeds of Taguig City and Pateros have occupied office spaces.

SM South Tower

Year opened – 2018. SM South Tower is a BPO and Carpark building located within the SM Southmall complex. The two BPO Towers, with four levels each, rest on a podium with four levels of carpark. The ground floor caters to the retail tenants and the two BPO Towers with GFA of 27,007 sq. m. dedicated for BPO offices.

SM The Core Tower 1

Year opened – 2017. SM The Core Tower 1 is situated on top of a podium with five-level carpark building, of which some spaces on ground floor occupied by retail stores. SM The Core Tower 1 has four floors with GFA of 13,833 sq. m. and offers its leasable area for the BPO offices. This BPO and Carpark building, collectively named as "The Core," is located inside the SM City Sta. Rosa complex.

SM Taytay BPO Tower

Year opened – 2015. SM Taytay BPO Tower, a four-level building, is located just 100-meter away from SM City Taytay Mall. SM Taytay BPO Tower has a GFA of 11,520 sq. m., its ground floor allots for retail stores and other floors offers for BPO offices.

SM Cyber West

Year opened – 2014. A new standalone office building development in the SM Cyber series, SM Cyber West is a 15-level office building development located on a highly visible and prime 2,900 sq. m. owned property at the corner of EDSA and West Avenue. The building covers a GFA of more or less 41,150 sq. m. Additionally, it is linked via bridgeways to the SM City North EDSA mall as well as nearby Metro Rail Transit station.

Makati Cyber One

Year opened – 2008. SM Makati Cyber One is a 4-storey office building located along Gil Puyat Avenue with GFA of 23,491 sq. m.

Makati Cyber Two

Year opened – 2008. SM Makati Cyber Two is a 4-storey office building with GFA of 17,264 sq. m. The development is along corners of Sen. Gil J. Puyat Avenue (Buendia)/Jupiter/Zodiac Streets, Makati City. SM Prime also owns the land where SM Makati Cyber Two is built upon.

Anza Commercial Building

Year opened – 2014. The building is a 2-storey commercial center located on Makati Avenue corner Anza St., Makati City with a GFA of 2,177 sq. m.

Future Commercial Developments

Four E-Com Center

Four E-Com Center in MOA Complex which broke ground last January 2016 is designed to address the demand for office buildings in the country. It will have a GFA of approximately 192,454 sq. m. A 16-storey building, Four E-Com has a full basement, four podium parking, and eleven office levels. Retail spaces are offered at the fifth floor podium and ground levels. The building's design concept will portray crystal formations, with three adjacent towers springing from a common podium. The building will have the distinct rhombic shape as well as flat and inclined surfaces layered over grids to resemble crystals. Like the other E-Com buildings, it will also feature a landscaped deck at the fifth floor podium.

SM Seaside Complex

SM Seaside Complex is a 30-hectare property located at the South Road Properties in Cebu City. With SM Seaside City Cebu as the anchor development, it is slated to transform the city's landscape as SM Prime plans to build residences, offices, an arena, a five-star hotel, and convention centers. It is also the site of Chapel of San Pedro Calungsod, Seaside Tower and Cebu Ocean Park.

Warehouses

SM Prime also owns several warehouses with a total GFA of approximately 38,005 sq. m. that are strategically located in various areas that support the retail operations.

Jetty Terminal

Also in MOA Complex is the jetty terminal that was built in compliance to the sea-based mass transit of the MOA Complex master plan.

MOA Arena Annex Building

MOA Arena Annex Building is an 11-storey with total GFA of 95,273 sq. m. It is designed to serve the parking needs of MOA Arena from ground to 7th floor. The 8th to 11th floor, are leased out as office space.

Corporate Office Buildings B to F

Corporate Offices are composed of Buildings B to F with a total GFA of 38,083 sq. m. All buildings are low-rise developments and are fully leased by the SM Affiliates as of 30 June 2020.

Tagaytay Lot

Tagaytay lot is a vacant lot located along Gen. Emilio Aguinaldo Highway, within Barangays Mahabang Kahoy and Kaybagay, Tagaytay City with total land area of 72,728 sq. m.

Landbank for Commercial Development

The table below sets forth the locations of land inventory as of 31 March 2020:

Location	**Area (sq. m.)**
Luzon	404,581
Metro Manila	46,009
Visayas	344,898
Total	**795,488**

Competition

SM Prime's top competitors for commercial properties are Ayala Land, Inc. ("ALI") and Megaworld Corporation ("MEG"). ALI is involved in the development and lease or sale of office buildings, sale of industrial lots and lease of factory buildings, and fee-based management and operations of office buildings. Megaworld is involved in the development of mixed-use communities comprising high-end residential condominiums and commercial properties located in convenient urban locations in Metro Manila, and has launched approximately 803 residential buildings, office buildings and hotel projects. Megaworld's total assets as at and for the years ended 31 December 2019 and 2018 were ₱349.6 billion and ₱322.3 billion, respectively. SM Prime believes its commercial business unit competes primarily on the location of the properties (proximity to schools, malls and public transportation) and aggressive pricing.

HOTELS AND CONVENTION CENTERS

As of 30 June 2020, the hotels and convention centers business unit is composed of eight hotels with 1,961 saleable rooms and four convention centers and three trade halls with 37,357 sq. m. of leasable space.

Hotels

Completed Hotel Projects

Taal Vista Hotel

Taal Vista Lodge, located in Tagaytay City, was acquired by the SM Group in July 1988. The Hotel re-opened in 2003 under the new name Taal Vista Hotel with the renovated Mountain Wing (128 rooms), Lobby Lounge, and Restaurant. The Lake Wing was constructed in 2008 with 133 rooms and a 1,000-seater ballroom. In 2009, the hotel became fully operational with total inventory of 261 rooms. The Ridge rooms and Mountain Wing were recently renovated in 2018.

Radisson Blu Cebu

SM Prime inaugurated the 400-room Radisson Blu Hotel in November 2010, strategically located beside SM

City Cebu adjacent to the International Port Area. Radisson Blu is the first hotel managed by the Carlson Rezidor Hotel Group in the Asia Pacific Region to be classified under its "Blu" upscale hotel brand category.

The property has been classified under the deluxe hotel category by the Department of Tourism. Its facilities include an in-house spa, fitness center, business center, 800-sq. m. swimming pool, club lounge, two ballrooms and a number of smaller meeting rooms. The Hotel is currently renovating all its 400 room inventory.

Pico Sands Hotel

Formally opened in August 2011, Pico Sands Hotel is a 154-room tropical contemporary hotel located within Pico de Loro Cove, the maiden residential community of Hamilo Coast, the premier seaside development of the SM Group in Nasugbu, Batangas. The spacious rooms are equipped with modern facilities and captivating views of lush mountains and tranquil lagoon. The Hotel has scheduled its renovation in two phases in 2020 and 2021.

Park Inn by Radisson Davao

Park Inn by Radisson Davao is strategically located across the SM Lanang Premier Mall and SMX Conventions Center. The 204-room hotel was formally opened in March 2013. Guests are greeted with contemporary interiors and smart design elements complementing the hotel's service philosophy – Adding Color to Life. Facilities include: Restaurant, Bar and Grill (RBG), 4 meeting rooms, fitness center, swimming pool and bar. Park Inn Davao is the first "next generation" mid-scale Park Inn by Radisson brand to be established in the Asia Pacific region.

Park Inn by Radisson Clark

The 155-room Park Inn by Radisson Clark is located in Mabalacat, Pampanga, about 40 miles (60km) northwest of Metro Manila. It is conveniently located beside SM City Clark and Clark Freeport Zone. Clark Freeport Zone is a redevelopment of the former Clark Air Base, a former United States Air Force base in the Philippines. Park Inn by Radisson Clark is the leading 3-star hotel in its market with facilities that include an all-day dining restaurant with 64-seat capacity, a meeting room for 80 pax and a fitness center. An extension building with 100 rooms is currently being constructed and expected to be completed in 2020.

Conrad Manila

In March 2013, SM Prime signed with Hilton Worldwide an agreement to manage the first "Conrad" brand in the Philippines. The 348-room Conrad Manila that is located within the MOA complex with stunning views of the famed Manila Bay opened to public in June 2016. The eight-storey hotel incorporate two levels of retail and entertainment facilities on the ground floor. It also has other hotel facilities as well as a 1,446 sq. m. ballroom and other function and meeting spaces.

Park Inn by Radisson Iloilo

Park Inn by Radisson Iloilo, the third Park Inn by Radisson hotel in the country, recently opened last April 29, 2019. The 200-room hotel is located next to SM City Iloilo in Madurriao, a 20-minute drive from Iloilo International Airport and is strategically located near the city's main commercial district, tourist attractions, museums, and historical landmarks. Its function room measuring around 291 sq. m. can be divided into three separate rooms or left open to accommodate up to 360 guests which makes it an ideal venue for small to mid-sized events. An al fresco facility by the poolside caters to relaxing early evening functions.

Park Inn by Radisson North EDSA

The 239-room hotel is connected to the SM City North EDSA shopping complex, one of the Philippines' largest commercial centers. The location is within walking distance of a metro rail station (MRT) and only 22 kilometers from Manila Ninoy Aquino International Airport. The 935 sq. m. meeting ballroom can accommodate up to 660 guests. The fourth Park Inn hotel opened last September 1, 2019.

Ongoing Hotel Project

Park Inn by Radisson Bacolod

Following the successful launch in Davao, Clark, Iloilo City and Quezon City, Bacolod will be the next destination for another Park Inn by Radisson hotel. The 151-room Park Inn by Radisson Bacolod will be the fifth Park Inn in SMHCC's portfolio. Facilities include an all-day dining restaurant as well as a lobby bar where family, friends and colleagues can unwind. For recreation, the hotel has a gym as well as a swimming pool for both adults and children. The hotel will be connected to the SM City Bacolod lifestyle mall, providing guests with instant access to extensive retail, F&B and entertainment facilities. It will also adjoin the vast SMX Convention Center, making it ideal for business travelers and MICE delegates. The target for completion is 2021.

Convention Centers and Tradehalls

SM Prime has five SMX convention centers and two trade halls. SMX convention centers are located in the MOA Complex, SM Lanang Premier, SM Aura Premier, SM City Bacolod and in Clark. Trade halls are located in SM Megamall and SM Seaside Cebu. The structure of a convention center is made up of large exhibit floors which can be divided into multiple exhibition and function halls. With its state of the art convention and exhibition facilities, it continues to host major international and local conventions and exhibitions.

Competition

The primary competitors of SM Prime's existing hotels are the Marriott for Radisson Blu Cebu; the Anvaya for Pico Sands Hotel in Batangas; the Seda Hotels for Park Inn Davao, Park Inn North EDSA, and Park Inn Iloilo; Quest Hotel and Conference Center Clark for Park Inn Clark; Anya, Summit Ridge Tagaytay, and Escala Tagaytay for Taal Vista Hotel. Conrad Manila competes with other luxury properties such as: Shangri-La Makati, Shangri-La Fort, Solaire, City of Dreams, Grand Hyatt BGC and the Sofitel Manila. SM Prime's primary competitors for its convention centers and trade halls in Metro Manila are the PICC Convention Center, World Trade Center and the Marriott hotel in Resorts World and the Trade Halls in Ayala Malls in the provinces.

Retailing and Merchandising

SM Retail, Inc. ("SM Retail") was incorporated in June 2002 and started operations in January 2008 and is designated as the holding company for the Group's retail and merchandising operations, where SMIC has a 77.3% effective stake. SM Retail organizes its operations into three categories: The SM Store, Specialty Stores and Food Stores.

As at 30 June 2020, there were 2,882 stores in operation, namely, 64 The SM Stores, 1,596 Specialty Stores, 316 SM Markets (58 SM Supermarkets, 52 SM Hypermarkets, 206 Savemore), 60 WalterMart and 846 Alfamart stores.

For the years ended 31 December 2017, 2018, 2019 and for the three months ended 31 March 2019 and 2020, SM Retail contributed approximately 75%, 75%, 74%, 73% and 74% of the Issuer's consolidated revenues and approximately 22%, 21%, 19%, 18% and 10%, respectively, of its consolidated net income attributable to equity holders of the parent. SM Retail comprised approximately 10%, 11%, 12% and 11%, respectively, of the Issuer's consolidated total assets (excluding deferred tax asset) and approximately 12%, 13%, 16% and 13%, respectively, of its consolidated total liabilities (excluding deferred tax liabilities) as at 31 December 2017, 2018, 2019 and 31 March 2020, respectively.

The SM Store and Specialty Stores

Introduction

SM's deeply-rooted market presence in the Philippines stems from retail. Located in downtown, Manila, Mr. Henry Sy, Sr. opened the first Shoemart Store in 1958 where he offered a variety of shoes from both the country and abroad. He pioneered business systems remembered to this day by his loyal shoppers and employees. His innovative approach to customer service helped build a highly recognized brand which, in turn, enabled Shoemart to grow and evolve into a full-service department store; hence, changing its brand name into the simpler and more appropriate SM.

Always aiming to make life better for his customers, Mr. Sy expanded his merchandise to fulfill his commitment to offer a one-stop shopping experience. SM's tagline, "We've Got It All For You" has become a guiding principle for the level of service that SM lives up to until today and has helped transform it into a household name.

As at 30 June 2020, there were 64 department stores in operation. These stores are located in Metro Manila and key provincial cities. Of these, 60 stores are based inside SM malls, while four stores in Makati, Cubao, Quiapo, and Delgado are stand-alone stores. As at 30 June 2020, the GSA of The SM Store stood at 813,355 sqm.

With the merger of certain related retail entities with SM Retail in 2016, SM Retail was able to establish another business segment, the Specialty Stores. These specialty brands include ACE Hardware, SM Appliance, SM Home, Our Home, Toy Kingdom, Watsons, Uniqlo, Kultura, Baby Company, Sports Central, Stationery, Miniso, Dyson, Under Armour, Pet Express among others. These formats are located in SM and non-SM malls with several also growing as stand-alone stores.

75 years after Mr. Henry Sy, Sr. opened his first store, the SM Group has been a pioneer and in the forefront of the Philippine retail market. It has withstood numerous challenges and crises and emerged stronger and bigger through discipline, adaptability and transformation. It is confident that these same values will allow SM Retail to overcome the current pandemic as it rolls out its online and hybrid channels as an alternative way to reach its customers.

Operations

"The SM Store", in operation since 1958, is SM Retail's department store format, a leading player in the Philippines and an anchor tenant in SM malls nationwide. The SM Store serves a wide customer base and is committed to providing an extensive range of up to date fashion.

For over 60 years, The SM Store has provided quality products and services at competitive prices and the Issuer believes that it has led mass-market fashion trends to meet the ever-changing needs of the Philippine public. It is the objective of The SM Store to maintain its leadership in the marketplace, to be at the forefront of retail technology and to grow through consumer marketing and product diversification. The SM Store's key strategy to achieve high sales turnover is to provide value for money by offering a wide variety of quality merchandise sold at reasonable prices. Beyond merchandising, The SM Store also provides value-added services such as ATM banking, bills payment, ticketing, remittance and money exchange, customer lounges for Prestige cardholders, and others.

Sales in The SM Store are cyclical and driven by seasonality. Historically, sales peak during the Christmas season, with sales in December comprising approximately 17% of sales for the entire year, and in May, prior to the opening of schools in June. A periodic review of sales per store is conducted regularly and, as needed, a right-sizing of GSA is implemented to improve sales productivity. Each of The SM Store is renovated approximately once every seven years.

Operational and Management Support

SM Retail provides operational and administrative support to all of the The SM Stores, as well as to Specialty Stores. These support services may include treasury, credit, procurement through fixed assets and supplies, and merchandise planning. Likewise, the Issuer provides various services as well, including policy directions, legal consultancy, tax advisory and tax audit services, and assistance in the business operations. SM Retail and the Issuer charge fees for these services.

Merchandising

The SM Store and Specialty Stores adopt a localization strategy based on demographic model and operates numerous departments from apparel, shoes, accessories, home furnishings, hardware, stationery supplies, music, cosmetics to native handicrafts.

Part of the merchandise sold is sourced from a pool of suppliers internally categorized as "preferred", "secondary" and "seasonal" and purchased outright. Outright merchandise includes in-house private label brands such as SM Exclusive for Men, SM Basics and SM Smart Buys for basic staple items, Coco Cabana for Women, Gigi Amore Ladies Intimates, Salvatore Mann and Parisian for Men's and Ladies Shoes, respectively, and Hosh for home furnishings. These private label brands provide customers with comparable quality as moderately priced alternatives to the higher priced branded items sold by Store Suppliers, as described below.

Store Suppliers are basically distributors or licensees of national and global brands manufactured or distributed by the suppliers. Store Suppliers are allocated selling space based on their sales per square meter productivity. Some of the main Store Suppliers include globally known brands such as Guess, Wrangler, Lee, Arrow, Triumph, Wacoal, Jockey, Nike, Adidas, Candies, Rayban, Victorinox, Samsonite, Disney, Breville, Cuisinart, Tefal, Philips, Kitchen Aid, Delonghi and others.

Within The SM Store are areas operated and run by the Specialty Stores. These Specialty Stores are allocated areas within The SM Store and essentially allowed to operate and manage their respective stores within The SM Store. Specialty Stores can also be found outside of The SM Store, whether inside SM and non-SM malls and stand-alone stores.

The SM Store and Specialty Stores maintain a good sales mix in terms of outright merchandise or store suppliers merchandise to meet the customers' needs and wants in terms of style, quality and price.

Marketing

The SM Store remains the leading retailer in the Philippines, carrying a full line of merchandise. All stores carry the full fashion merchandise range from Men's, Ladies and Children's apparel and footwear, to bags, accessories, as well as cosmetics, home furnishings and toys.

Meanwhile, most Specialty Store are firmly placed in the Top 3 in their respective categories. These include SM Appliance, Toy Kingdom, SM Home, ACE Hardware, Kultura, Sports Central and Watsons.

The SM Store continues to offer a wide assortment of global and local brands along with private labels. Merchandise remains fashion forward, creating distinction/differentiation while maintaining commitment to a value-for-money proposition through competitive price points across different categories. Strategic focus remains on growth/development of in-house brands and private labels via continuous product innovations and aggressive promotional efforts, as well as strengthening of supplier base. To reinforce The SM Store's position as the preferred one-stop shop for consumers, the SM Business Center Operations has continually been adding to its menu of products and services, as well as through aggressive recruitment of new public-private partners and biller-companies.

The Specialty Stores offer a wide assortment of products in their respective categories through careful selection. They constantly assess and recognize changing needs, tastes and trends, and offer at price points that offer value to their respective target markets.

The SM Store and some Specialty Stores strengthen their fashion image through regular roll-out of fashion collection highlights, seasonal campaigns such as summer, back-to-school, and Christmas, and fashion brand image campaigns. The Group taps select celebrities, media authorities and social media influencers as brand ambassadors to build strong affinity to its target markets. The SM Store and the Specialty Stores engaged their consumers in the digital space via online tools such as Facebook, Twitter, Instagram and communication platforms such as Viber and Messenger.

SM Retail has continued to augment the value proposition of The SM Store and Specialty Stores through integrated "drive-to-store" efforts, using a variety of promotional methods including visual merchandising, multi store events and promotions, and social media engagements. Nationwide promotions across all departments are being implemented to include seasonal promotions and category highlights. Departmental campaigns bundle customer benefits with various purchase incentives. Merchandise themed sale events continue to be initiated in order to give freshness to the promotions calendar. Sale events are purposely timed to capitalise on auspicious calendar dates such as extended weekends due to local and national holidays. In parallel, The SM Store and Specialty Stores have launched credit card promotions to tap the market for more affluent consumers and ease financial strain on the mass-based clientele.

The SM Store remain committed to improve their customer reach through store openings in city neighbourhoods and fast-growing provincial cities, addressing the continued growth in customer demand for convenience and accessibility. The SM Store will continue to support the SM Mall's expansion strategy, with the opening of SM Olongapo Central in late 2019 as the latest. In parallel, we continue to make ongoing improvements to our existing stores, with the aim of both improving aesthetics and increasing customer convenience. Current initiatives include the development of new and exciting store designs and innovative display fixtures meant to enhance the presentation of our merchandise collections.

The Specialty Stores likewise remain committed to customer reach. We open branches in locations where the respective target markets frequently visit, regardless whether the stores are located in SM and non-SM malls or stand-alone stores.

SM Retail also continues to explore and implement new marketing efforts. SM Advantage is a dynamic and innovative loyalty program that rewards members with points every time they shop in The SM Store, any of the Specialty Stores, as well as other SM-owned establishments such as the SM hotels, as well as the Asia Pacific College. The points earned can be used to redeem practically anything sold in any of these retail stores.

SM Advantage also has tie-ups with other non-SM establishments such as Shell to provide members with added benefits such as points earning, discounts and freebies. SM Advantage also offers members-only privileges such as exclusive sales, discounts and freebies in numerous partner establishments both inside and outside SM Malls. The program was launched in 2003 and is currently the country's biggest loyalty program with more than 7 million active members.

Suppliers

SM Retail coordinates and manages the sourcing of merchandise for The SM Store and some of the Speciaty Stores.

Majority of the products carried by The SM Store and some of the Specialty Stores are made in the Philippines. The outright merchandise sold by both are directly sourced from local and foreign importers, distributors and manufacturers.

The Group sources its outright merchandise from over 3,000 active suppliers. SM Retail does not rely on any one supplier or group of suppliers. As at 30 June 2020, no single supplier supplied more than 5% of SM Retail's purchase orders by value.

Customers

The SM Store and Specialty Stores cater to a broad range of customers which are the general consuming public where the stores operate. The stores are not dependent on a single or few customers. As such, there is no customer which accounts for 20% or more of sales.

As a local retailer, there is no percentage of sales and net income contributed by foreign sales.

Competition

The retailing industry is very competitive, and this is no different in the department store and specialty store formats. Strong local players such as Rustans, Robinsons, Landmark and the Gaisano Group in the Southern Philippines have been equally aggressive in their expansion programs in key cities nationwide. These players have built their brand over the years which enabled them to expand their business and better reach their target market. In recent years, we have also seen the entry of large foreign fashion retailers such as H&M, Zara and others.

The competitive landscape in the retailing industry is constantly evolving with the advent of social media and online selling. This development enables retailers, both major and minor players, to take advantage of social media and online selling platforms like Lazada and Shopee to further reach their customers.

For large format department stores, the elements of competition are still focused on price, product selection, location and service. More importantly, location and convenience provide retailers access to customers. The profile of major competitors in this category are as follows:

	No. of Department Stores	Department Store Sales (in Billion Pesos)
Robinsons	49[A]	18[A]
Gaisano	14[B]	[not available]
Rustans	5[C]	[not available]
Landmark	4[D]	[not available]

[A]*RRHI 2019 Annual Report*
[B]*MRSGI SEC17A 2019*
[C]*www.rustans.com*
[D]*www.landmark.com.ph*

In spite of the expansion of established department store chains as well as the entry of foreign brands, SM Retail has maintained its market leadership in the department store format and in several other retail categories. This is accomplished through the understanding of consumer preferences and providing a good balance on the elements of competition. Alongside this, SM Retail continually expands its portfolio of

Specialty Stores, thus increasing product selection to consumers, to include the introduction of successful foreign brands (i.e. Uniqlo, Miniso, Innisfree and Dyson) to the local market; the acquisition of brands from other retailers (i.e. Bodyshop, Crocs, Under Armour); and the development of local brands (i.e. Toy Kingdom, Kultura, SM Home, Our Home, Baby Company and Pet Express). Moreover, innovative store designs, updated customer service and amenities, addition of value-added services, an innovative and encompassing loyalty program, the use of new technologies, the integration of online/hybrid platforms, and strategic partnership with the malls ensure that The SM Store and Specialty Stores are a cut above the rest of the retailers in the country.

The New Frontier

SM Retail recognizes that today's consumers have immersed themselves in technology and have started to utilize the advantages of online shopping. As the "new normal" sets in, SM Retail is leveraging its online connectivity and hybrid platforms: ShopSM and Call to Deliver. These innovative solutions provide customers with shopping choices while on the go or in the comfort of their own home.

ShopSM, launched in 2019, is SM Retail's online shopping platform that showcases a variety of items found in every SM department store. It has introduced the "Click & Collect" concept – a free in-store pickup option enabling shoppers to buy online and select a branch where they can pick up their items. Alternatively, customers can have their order delivered to their nominated address with cash on delivery as a further payment option.

Call to Deliver service provides innovative shopping experience to customers by allowing them to shop safely at their own home, place their orders by calling the hotline or contacting their preferred SM branches, and have the items delivered right at their doorsteps or picked up over the SM malls' curbside pick-up counters. These can be paid with cash or credit and debit cards upon delivery or online. In the coming months, SM Retail will be rolling out other customer programs designed to enhance the retail experience that subscribes to the "new normal".

SM Retail also partnered with end-to-end customer solutions like GrabPay, AliPay, GCash, PayMaya, WeChat Pay, VISA and Mastercard to promote secure and efficient digital cashless transactions.

To take advantage of online retailing platforms such as Lazada and Shopee, The SM Store and some Specialty Stores have also established official stores within these platforms.

Food Stores

Introduction

SM Retail has five food store formats varying by size, namely SM Supermarket, SM Hypermarket, Savemore, WalterMart and Alfamart. These formats enable SM Retail to serve many different local markets nationwide. The SM Retail Food Stores are among the top performing food retailers in the country with their continued expansion, innovation and up-to-date assortment.

As of 30 June 2020, there were 1,222 stores inoperation, namely, 58 SM Supermarkets, 52 SM Hypermarkets, 206 Savemore stores, 60 WalterMart stores and 846 Alfamart stores.

Operations

SM Supermarket is a large format anchor tenant in SM malls. It has been in operation since 1985.

SM Hypermarket is a large format food retailer store with both stand-alone and in-mall locations. It has been in operation since 2001 and provides a shopping experience that combines the features of a supermarket with those of a department store.

Savemore is a mid-sized format introduced in 1998. It is located in community malls or as a stand-alone store. Savemore is a modernized neighborhood or community store, providing food and grocery items in residential locations with extended opening hours.

WalterMart is a mid-sized format that provides food and non-food shopping as an anchor tenant in WalterMart community malls, located primarily in Luzon. WalterMart is the only supermarket in the Philippines to be a member of The Independent Grocers Alliance, a global network of trusted, family-owned local grocers serving local communities. SM Retail acquired a controlling stake in WalterMart in 2013.

Alfamart is the first mini-market chain operating in the country. It is a small format minimart grocery store situated primarily in residential neighborhoods and offering a range of essential groceries with supermarket pricing. Alfamart's 846 stores are all company-owned and are located in Luzon. Alfamart is a joint venture with Indonesia-based minimart operator, PT Sumber Alfaria Trijaya Tbk, which started operations in the Philippines in 2014. Alfamart has steadily expanded its footprint since the opening of its first store in the Philippines in June 2014. The company expects to open its 1,000th store before the end of 2020. Its rapid expansion was made possible by the strong shopper acceptance of its "neighborhood mini-market" concept.

The Food Stores utilize a distribution network to deliver inventory across different branches nationwide.

Aside from selling food and grocery items, the Food Stores also offer value-added services such as prepaid cellular service loading station, bills payment options, money exchange, pharmacy, ATM banking, among others - in its bid to be a one-stop shop for Filipino customers.

Operational and Management Support

SM Retail provides operational and administrative support services to the Food Stores. These support services may include payroll, human resources, information technology and administrative support services. Likewise, the Issuer provides various services as well, including legal documentation, licensing and tax compliance and treasury services. SM Retail and the Issuer charge fees for these services.

Merchandising

The Food Stores carry an extensive line of food and household products. The product mix is generally categorized into fresh, food and dry goods with food comprising two thirds of the mix. The product mix in the stores is a combination of local and imported goods. However, as the majority of imported goods are purchased locally in the Philippines, there is no foreign exchange risk. The stores host other product offerings as well, including pharmacies, bakeries, photo shops, wine and liquor stores, Chinese delicatessens, snack and ice cream kiosks and its growing ready-to-eat offerings. Certain stores also carry furniture, apparel, shoes, books and home centers.

The majority of the merchandise is purchased outright from distributors and manufacturers. The stores' outright merchandise includes in-house "SM Bonus" brands providing customers with quality, moderately-priced alternatives to the more expensive branded items.

The Food Stores also allocate a portion of the selling area to some suppliers for their own branded merchandise enabling suppliers to operate and manage their inventory.

Suppliers

The Food Stores source their outright merchandise from various suppliers. Over the years, the Food Stores have developed close relationships with a large number of suppliers in the Philippines. However, it does not have any long-term supply agreement with any supplier. This gives flexibility to source merchandise from a broad range of suppliers at competitive prices. The Food Stores do not rely on any one supplier or a small group of suppliers for its requirements.

Customers

The Food Stores caters to a broad range of customers which are the general consuming public where the stores operate. The stores are not dependent on a single or few customers. As such, there is no customer which accounts for 20% or more of sales.

As a local retailer, there is no percentage of sales and net income contributed by foreign sales.

Marketing

The Food Stores hold regular as well as seasonal promotions to increase sales and provide additional shopping incentives. The initiatives include the yellow tag special, five-day sale, SWIPE promos and launch pad, among others.

The strategy of keeping up with consumer preferences through relevant assortment boosted by shopper-oriented promotions continues to please consumers in both primary and secondary areas, increasing both transactions and basket sizes. The stores also expanded its offerings to include wider arrays of both local and imported favorites like the privately distributed British brand Tesco.

The Food Stores are also part of the SM Advantage loyalty program where customers can earn points on their purchases.

The Food Stores' pioneering immersion program for Persons with Autism, AutiSM at Work, received the Philippine Quill Award for Corporate Social Responsibility Programs from the International Association of Business Communicators during the 17th Philippine Quill Awards.

Competition

Competition in the food retail industry is characterized by aggressive expansion and intensifying competion among market players. The competitors include national and regional supermarket chains, independent and specialty grocers, convenience stores, warehouse club stores, deep discount drug stores and supercenters. Industry players generally compete on the basis of location, price, quality of products, service, product variety and store condition.

In the supermarket and hypermarket category, the major competitors include Puregold, Robinson's, Super8, Rustans, S&R, Landers and Gaisano. On the other hand, in the mini-market category, major competitors include Puregold Jr, Shopwise, Mercury Drug, 7-Eleven and Mini-stop.

Puregold is regarded as the 2nd largest grocery retailer in the Philippines. As of 31 December 2019, it operates 378 Puregold stores, 18 S&R warehouse clubs and 38 S&R quick service restaurants. It has revenues of ₱154.5 billion for the year ended 2019. For 2020, Puregold plans to open 25 Puregold stores, 4 S&R warehouse clubs, and 7 S&R quick service restaurants.

Robinsons' supermarket segment is the top segment and growth contributor of the Robinsons Retail group. It has 7 formats: Robinsons Supermarket, Robinsons Easymart, Robinsons Selections, The Marketplace by Rustan's, Shopwise, Wellcome and Jaynith's Supermarket. The supermarket segment operates a total of 263 stores with 176 stores from Robinsons Supermarket and 87 stores from Rustan's as of 31 December 2019. Robinsons supermarket segment has revenues of ₱88.5 billion for the year ended 2019.

Super8 operates a chain of grocery retail outlets under the name of Super 8 Grocery Warehouse. It operates 80 branches.

Gaisano's supermarket business is operated under two brand names: Metro Supermarket and Metro Fresh N Easy. It currently operates 30 supermarkets in the Visayas, Metro Manila, and the rest of Luzon.

7-Eleven is the established food retail market leader in the small store format. 7-Eleven ended the first half of 2020 with a nationwide store count of 2,930 stores: 2,222 in Luzon, 425 in Visayas and 283 in Mindanao. Roughly 55% of 7-Eleven stores are owned by franchisees.

Overall, despite the increasing competition in the industry, the Food Stores will continue to grow its business through various combinations of marketing strategies and strategic expansion plans to address consumer needs and preferences. Moreover, the use of e-commerce and new technologies, adoption of innovative marketing concepts, association with the "SM" brand, strategic relationship with suppliers which expands decades, operational flexibility to adjust to competitors' strategies, economies of scale and experienced management team with combined retail experience of more than 30 years, among others, provides the Food Stores with continuous competitive advantage in this ever-growing and challenging industry.

The New Frontier

SM Retail has always recognized the technological advances in retailing and changes in consumer preferences. Even before the pandemic strike, SM Retail has already developed innovative solutions to take advantage of various social media marketing and internet-based online retailing.

As such, SM Retail has developed various online and hybrid platforms across its store formats. As with the development and launching of "ShopSM", "Click & Collect" and "Call to Deliver", the Food Stores has also ventured into e-commerce.

WalterMart Supermarket launched the first grocery delivery service in the Philippines as early as 2015 and has consistently grown ever since. WalterMart Delivery is WalterMart's delivery service aimed at bringing the complete supermarket experience closer to the communities that it serves. It can be accessed at the comfort of the customers' homes, or while on the go via www.waltermartdelivery.com.ph or just by downloading the WalterMart Delivery App in Google Playstore and IOS App Store. With this, customers may access a wide array of supermarket items with just a click and delivered straight to their doorsteps.

In 2018, SM Markets launched Click & Collect which garnered initial positive appreciation in test areas leading to its expansion. The SM Markets Online found at www.shop.smmarkets.ph is the official online store of SM Markets, which includes SM Supermarket, SM Hypermarket and SM Savemore. It is an online grocery store that allows customers to shop groceries easily online from their favorite participating branch of the SM Markets stores.

Financial Services

BDO Unibank, Inc.

BDO Unibank, Inc. ("the Bank") is a universal bank which provides a wide range of corporate and retail banking services. These services include traditional loan and deposit products, as well as treasury, trust and investments, investment banking, private banking, cash management, leasing and finance, remittance, insurance, rural banking, stock brokerage, retail cash cards and credit card services. The Bank is the product of a merger between Banco de Oro Universal Bank, Inc. ("BDO") and Equitable PCIBank ("EPCIB"), which took effect on May 31, 2007. As at March 31, 2020, according to the statements of condition submitted by banks to the BSP, the Bank ranked as the number one bank in the Philippines in terms of total assets, gross customer loans, total deposits, capital and total trust funds under management. The Bank's consolidated total resources stood at ₱3.3 trillion while total equity stood at ₱372.2 billion as of March 31, 2020.

The Bank's strategic focus is to enhance its position as a leading full-service bank in the Philippines and to continue to focus on growing its business and improving operational efficiency. The Bank's principal markets are currently the top-tier corporate market, the middle-market banking segment (consisting of medium-sized corporations and small- and medium-size enterprises ("SMEs")) and the retail/consumer market. The Bank's customers are based primarily in the Philippines and include large multinational corporations with local operations. The Bank has experienced significant growth over the last few years arising from organic growth and as a result of recent mergers and acquisitions.

As at June 30, 2020, the Bank had a network of 1,449 operating domestic branches and offices (including 273 branches and offices of BDO Network Bank, Inc., formerly One Network Bank, Inc.) and two (2) full service branches in Hong Kong and Singapore. As of the same period, its network also includes 14 overseas remittance and representative offices across Asia, North America, Europe and the Middle East, and 4,463 automated teller machines ("ATMs") and 585 cash deposit machines ("CDMs"). As of 30 June 2020, the Group is the Bank's largest shareholder group, with an effective ownership of approximately 45.3%.

As of 30 June 2020, the Bank had a market capitalization on the PSE of approximately ₱429.6 billion.

The Bank has a Baa2 rating for its long-term local currency bank deposits from Moody's Investor Services. The Bank also has an Issuer/Debt Rating (long-term) of BBB- from Fitch Ratings.

Business Strategies

The Bank continues to build on its strong business franchise to maintain leadership positions across most business lines, as well as further strengthen its capabilities to support future growth and actively respond to strategic opportunities and market challenges. Over the long-term, the Bank aims to be the preferred bank in every market it serves and create shareholder value through superior returns. The key elements of the Bank's strategy are as follows:

- Create a Diversified and sustainable earnings stream

The Bank seeks to continue to grow its diversified and sustainable earnings stream generated from its core lending and deposit-generating activities, accrual and trading income from its investment portfolio and fee income from service-based businesses. The Bank intends to continue to pursue focused loan growth to achieve a more balanced loan portfolio and more effectively manage its concentration risk. While the Bank believes it already maintains a diversified loan portfolio across various market segments, it intends to increase lending to the more profitable and growing consumer and middle-market segments. The Bank also expects to continue to leverage on operating synergies with the SM Group to further diversify its earnings stream through product origination capabilities and fee-generating sources.

In addition, to minimize the volatility of the Bank's income sources, the Bank has gradually built its non-interest earnings by increasing its fee-generating services including, among others, asset/wealth management, electronic banking, insurance, credit cards and investment banking.

- Continue to expand its distribution network to improve access to customers and reduce funding costs

The Bank plans to continue building its branch network across the Philippines, to further improve access to its customers, generate more CASA deposits and more efficiently serve their needs. Through its branch network, the Bank intends to drive lending and deposit-taking initiatives, particularly in provincial areas, through its one-stop banking services where customers can avail of a host of lending, deposit, investment products, and other financial services including foreign exchange, insurance and trust services. The Bank believes that the Philippines is still an under-penetrated and underbanked market, given the current level of banking penetration, favorable demographics, rising per capita income and faster growth in provincial areas. Its continuous expansion and investments in market coverage will create the operating leverage that will allow the Bank grow faster, while keeping the growth of its operating expenses at a slower pace.

- Prudent balance sheet management

The Bank intends to continue implementing a prudent and effective risk management culture while also seeking to maintain a strong capital position, good asset quality and a healthy balance sheet. The Bank continues to adopt a conservative provisioning strategy even as its asset quality indicators have remained stable despite healthy loan growth. The Bank believes this approach will insulate the Bank against any downturns in the financial sector or in the domestic or global economies. In addition, the Bank intends to actively reduce its non-performing assets through various methods that include retail sales and joint property development, strengthening of its broker/employee network, and attractive payment and pricing terms.

- Further develop operating systems, branch infrastructure and advertising efforts

The Bank has made, and intends to continue to make, strategic investments in productive capacity to maintain a strong and modern operating infrastructure, allowing the Bank to accommodate future growth, ensure business continuity and enhance efficiency. The Bank expects these investments to generally be in the areas of office and network expansion, IT, operations and risk management. In addition, the Bank intends to continue investing in digital and IT infrastructure to enhance its digital, online and mobile banking capabilities in response to the growing impact of independent financial technology firms globally and increased usage of digital channels. The Bank also expects to continue to invest in analytics and big data to further enhance its cross-selling efforts.

The Bank also intends to maintain its extensive branding campaign to further create customer awareness and market visibility, thus enhancing the potential of its extensive distribution platform across varying media outlets. Accordingly, the Bank intends to implement continuing branch renovations and modernization upgrades to corporate offices consistent with the Bank's enhanced image and branding.

- Complement organic growth with mergers/acquisitions

To complement its organic growth and branch expansion, the Bank intends to consider opportunities for strategic mergers and acquisitions as they arise to further expand its market coverage and tap emerging and potential businesses. The Bank will evaluate potential acquisitions on an opportunistic basis as an alternative means of expanding its coverage and product offering.

Competitive Strengths

The Bank believes it has the following competitive strengths compared to its peers:

- Leading brand name and banking franchise in the Philippines;
- Diversified business model providing full-service operations;
- Customer-centric culture complemented by strategic distribution platform;
- Strong deposit franchise with highest CASA ratio and lowest cost of deposits among peers
- Scalable infrastructure platform for sustained growth;
- Strong and experienced management team; and
- Synergies with its controlling shareholder group.

Selected Financial Information

The following table sets forth selected consolidated financial information of the Bank as at and for the periods indicated:

	For the years ended 31 December			For the three months ended 31 March
(in ₱ millions)	**2017**	**2018**	**2019**	**2020**
Resources	2,668,104	3,022,247	3,188,858	3,286,810
Loans and other receivables – net	1,791,786	2,071,834	2,225,777	2,274,905
Deposit liabilities	2,121,012	2,419,965	2,485,228	2,575,237
Equity	298,340	328,149	370,587	372,216
Net income	28,070	32,708	44,194	8,766

China Bank

China Banking Corporation (China Bank), stock symbol CHIB, is one of the first privately-owned commercial bank in the Philippines. China Bank is a strong player in the Chinese-Filipino commercial sector. It was listed in the local stock exchange in September 1927, became the first bank in Southeast Asia to process deposit accounts online in 1969, the first Philippine bank to offer phone banking in 1991, and acquired its universal banking license in the same year.

China Bank, which is the Philippines' first privately owned commercial bank, celebrates its centennial year in 2020.

It is the country's sixth largest bank based on assets of ₱984.2 billion, as of March 31, 2020. Gross NPL of China Bank was 1.7%, while its NPL cover was more than satisfactory at 109%.

Over the years, China Bank has been involved with strategic alliances to expand and strengthen its operations. China Bank is now one of the largest private domestic universal banks in the Philippines in terms of capital base, assets and market value, and is recognized as one of the most well-governed and most transparent publicly-listed companies in the country.

China Bank offers a complete range of deposit, lending, international and investment banking products and services to corporate, commercial, and retail customers. It also provides capital raising, mergers and acquisition, financial restructuring, debt and securities underwriting, securities brokerage and economic advisory services through its investment house, China Bank Capital Corporation ("CBCC"), offers bancassurance and insurance brokerage services through its associate, Manulife China Bank Life Assurance Corporation ("MCBLife") and subsidiary, China Bank Insurance Brokerage, Inc. ("CIBI"), respectively, and an array of banking of products and services for the retail and small and medium enterprises ("SMEs") markets through thrift bank subsidiary, China Bank Savings, Inc. ("CBS").

With nearly a century of solid financials, strong commitment to personal, quality service, significant contribution to the country's financial landscape, and an enduring legacy of successful partnerships with generations of clients trusting the Bank with their wealth and future, China Bank remains to be one of the most respected, trusted, stable and profitable financial institutions in the country.

In December 2019, Moody's affirmed China Bank's investment grade credit rating of Baa2, citing the Bank's strong capital base and stable asset quality. In May 2020, Fitch Ratings similarly affirmed China Bank's Issuer Default Rating (BB+) with a negative outlook, citing the Bank's strong core operating profitability and declining non-performing loans ratio as the main upside factors.

Others

Belle Corporation

Belle Corporation ("Belle") was incorporated in 1973 as Belle Mining and Oil Exploration, Incorporated ("Belle Resources") and, in 1977, was listed on the Philippine Stock Exchange. In 1989, Belle Resources developed a golf club named Tagaytay Highlands International Golf Club, Incorporated ("Tagaytay Highlands"), which became its initial foray into the property development sector. In 1994, Belle Resources changed its name to Belle Corporation to underscore the shift in its principal activity.

On April 14, 2011, Belle acquired all the shares of PremiumLeisure & Amusement, Inc. ("PLAI") through the issuance of 2.7 billion new common shares. PLAI is a grantee by Philippine Amusement and Gaming Corporation ("PAGCOR") of a Certificate of Affiliation and Provisional License (the "License") to operate integrated resorts, including casinos, in the vicinity of the Bagong Nayong Pilipino Manila Bay Entertainment City ("Entertainment City" or "PAGCOR City"). PLAI"s License runs concurrent with the PAGCOR"s Congressional Franchise, which expires in 2033 unless renewed for another 25 years by the Philippine Congress. Belle started construction of the foundation and structure of the integrated resorts in 2010 on a 6.2-hectare land along the entrance of Entertainment City. In October 2012, Belle and PLAI entered into a Cooperation Agreement with Melco Crown Entertainment Limited, now called Melco Resorts & Entertainment Limited, and its Philippine affiliates (collectively, "Melco"). The Cooperation Agreement placed Belle as a co-licensee and the owner of the land and buildings and Melco's Philippine affiliate, Melco Resorts & Entertainment (Philippines) Corporation ("MRP"), as a co-licensee, developer and operator of all facilities within the integrated resort, which was subsequently branded as "City of Dreams Manila". City of Dreams Manila had its soft opening on December 14, 2014 and its Grand Launch on February 2, 2015. Belle, PLAI and MRP fully complied with all the PAGCOR requirements under the License as of the date of the soft opening and, in May 2015, City of Dreams Manila became the first integrated resort in Entertainment City to have its License converted from Provisional to Regular status by PAGCOR.

As of the date of this Prospectus, the Group beneficially owns 26.4% of Belle.

Atlas Consolidated Mining and Development Corporation

Atlas Consolidated Mining and Development Corporation ("Atlas Mining") is primarily engaged in metallic mineral exploration and mining. It operates the Toledo copper mine in the province of Cebu through its wholly-owned subsidiary Carmen Copper Corporation ("Carmen Copper"). The Toledo copper mine is one of the Philippines' largest copper mines, thus making Carmen Copper a principal producer and exporter of copper concentrate in the country. To optimize its operations and its expanded beneficiation plant, Carmen Copper is pursuing the development and commercial distribution of marketable by-products from its copper concentrate processing such as gold, silver and magnetite.

Atlas Mining also has a stake in the nickel laterite mining project of Berong Nickel Corporation ("Berong Nickel") in Palawan. Berong Nickel has been engaged in the direct shipping of nickel laterite ore since 2007.

As of the date of this Prospectus, the Group beneficially owns 34.1% of Atlas Mining.

The NEO Group

NEO Group concsists of buildings namely, One/NEO, Two/NEO, Three/NEO, Four/NEO, Five/NEO, Six/NEO and Seven/NEO, and land wherein the buildings are located. The portfolio assets are strategically located within the E-square Zone, the largest and only PEZA certified IT park in Bonifacio Global City (BGC), Taguig. The total land area is 22,906 sqm while the gross leasable area is approximately 266,936 sqm. The occupancy rate is at 99%.

NEO Group is made up of "boutique IT office buildings" constructed on prime lots and economic zones, making them the ideal choice for multinationals looking to establish their headquarters in the Philippines. Its tenant base includes top tier local and multinational companies such as JPMorgan Chase & Co., Deutsche Bank, Coca-Cola, Procter and Gamble, QBE, Oracle, Fujitsu, Quisumbing Torres, Ericsson, Infor, GoPro, Anthem Solutions and Intel.

As of the date of this Prospectus, SMIC beneficially owns 95% of the first five properties and 34% of the latest two properties in the NEO portfolio.

2GO Group, Inc.

2GO Group, Inc. ("2GO") is the country's largest integrated supply chain operator whose businesses include shipping, freight forwarding, warehousing and express delivery services.

SMIC's effective ownership in 2GO is 30.5%.

Philippines Urban Living Solutions, Inc.

Philippines Urban Living Solutions, Inc. ("PULS") is a dormitory developer and operator specializing in the development of rental housing communities under the MyTown brand. It provides affordable living spaces to young urban professionals within walking distance of the central business districts of Metro Manila. As at 31 March 2020, there were 16 buildings in operation with 2 more buildings under development.

SMIC's effective ownership in PULS is 63.3%.

CityMall Commercial Centers Inc.

CityMall Commercial Centers Inc. ("CityMalls") is a mall developer and operator that specializes in developing community malls in second and third cities across the Philippines. SMIC acquired a 34.0% stake in CityMalls in 2014 with the balance owned by Double Dragon Properties Corporation.

Goldilocks Bakeshop, Inc.

Goldilocks Bakeshop, Inc. ("Goldilocks") is the largest bakeshop chain in the Philippines with over 700 stores and selected operations overseas. Now on its 53rd year, Goldilocks continues to provide its customers with a wide array of baked goods and home cooked food.

SMIC's effective ownership in Goldilocks is 34.1%.

GPay Network PH, Inc.

GPay Network PH, Inc. ("GrabPay") is a strategic partnership combining the strength of Grab's user base and tech platform with SM's nationwide retail and banking portfolio. The partnership will collaborate on: universal acceptance of the GrabPay wallet as a payment option, offer greater convenience by expanding wallet top-up channels through SM subsidiaries and affiliates, and enhance GrabPay user experience in SM Retail subsidiaries and affiliates.

SMIC has a 34.5% participation in the joint venture.

Insurance, Environment, Health and Safety

The Group's insurance arrangements are procured through BDO Insurance Brokers, Inc. (as broker). The Issuer believes that each of its subsidiaries is adequately insured, both in terms of the insured risks and the amount which is covered. The Group's current commercial all risks insurance policy is underwritten by Prudential Guarantee & Assurance, Inc.

The Group's commercial all risk insurance policy covers any potential loss of property. Loss of income under the loss of rent coverage resulting from fire, water damage and acts of God including earthquake, typhoon and flood is provided for SM Prime as a mall operator. The SM Stores and Supervalue Inc., operating inside the Malls, have their own loss of revenue/business interruption insurance cover. However, Retail Subsidiaries operating inside the Malls do not have such insurance cover.

In addition, the comprehensive general liability insurance coverage extends to third-party liabilities, including loss of life and its corresponding litigation expenses.

The Issuer and each of its principal subsidiaries is in material compliance with all applicable environmental, health and safety regulations.

Legal Proceedings

The Issuer and the Group may be subject to various legal proceedings and claims that arise in the ordinary course of business. Legal proceedings that are considered to be material by the Company and its subsidiaries are those involving amounts equivalent to at least 5% of the Company's and its subsidiaries' earnings before income tax.

SM Prime

As of the date of this Prospectus, SM Prime, a principal subsidiary of the Company, is a party to the certain material legal/quasi-judicial cases set out below. In the event that any of these legal cases are decided against SM Prime, it may have an adverse effect on the financial condition and results of operations of SM Prime and, consequently, on the financial condition and results of operations of the Issuer.

Cordillera Global Network vs. Paje et al.; Adajar vs. Paje et al., SC- GR No. 215988 (Appealing the CA Decision in CA-GR No. 100245; RTC Decision in Civil Case Nos. 7629-R and 7595-R)

This is a civil case filed by Cordillera Global Network, et al. ("Oppositors") against SM Investments Corporation, SM Prime Holdings, Inc. and Shopping Center Management Corporation, together with officials of the Department of Environment and Natural Resources and Department of Public Works and Highways. The Oppositors assailed the expansion of SM City Baguio, specifically, the removal of trees. A Temporary Environmental Protection Order ("TEPO") was issued which prevented the removal of the affected trees.

After a trial on the merits, the Regional Trial Court ("RTC"), in a Decision dated 3 December 2012, upheld the validity of the government issuances and permits, dismissed the cases, and dissolved the TEPO. The RTC Decision was appealed to the Court of Appeals ("CA"). In a Decision dated 12 December 2014, the CA affirmed the RTC Decision. The CA Decision was then appealed to the Supreme Court ("SC") through a Petition for Review dated 23 February 2015. On 24 March 2015, the SC issued a Temporary Restraining Order ("TRO"). As a result, while the affected trees had been removed, the construction works have been stopped. In a Resolution dated 19 April 2016, the SC clarified that the TRO is limited to the cutting of trees in Luneta Hill and consequently, construction works have resumed. The parties have filed their respective Memoranda and the appeal is pending resolution by the SC.

SM Prime Holdings, Inc. vs. Maranon, Jr. et al.
SP Civil Case No. 11-13803

This is a civil case filed by SM Prime in connection with its acquisition of the Capitol Property in Bacolod. SM Prime filed a Petition for Certiorari with Application for Temporary Restraining Order and Preliminary Injunction. It maintains that it legally won the second bidding for the Capitol Property. However, since SM Prime was being required to waive its right to question the proceedings during the second bidding before it can participate in a third round of bidding, it was constrained to file this case. The Regional Trial Court of Bacolod denied the Petition. SM Prime filed a Motion for Reconsideration but the same was also denied by the RTC. SM Prime filed a Notice of Appeal and recently received a Notice from the RTC that the records have been transmitted to the Court of Appeals for proper disposition.

The appeal with the Court of Appeals is docketed as CA-G.R. CEB-SP No. 08549. It was raffled to the Special 20th Division of the Court of Appeals – Cebu City Station. After submission of the respective memoranda, the Court of Appeals declared the case submitted for decision in its Resolution dated April 29, 2015.

In its Decision dated 28 August 2015, the Court of Appeals denied SM Prime's Appeal. The Court of Appeals also denied SM Prime's Motion for Reconsideration in its Resolution dated April 6, 2016.

Thus, SM Prime filed a Petition for Review under Rule 45 of the Rules of Court docketed as G.R. No. 224236. Respondents filed their Comment dated October 24, 2016. SM Prime filed its Reply on August 14, 2017.

The Petition remains pending with the Supreme Court.

SM Prime Holdings, Inc. vs. Maranon, Jr. et al.
Civil Case No. 14-14323

SM Prime filed a civil case with the Regional Trial Court of Bacolod for the Declaration of Nullity of the Deed of Conditional Sale and Contract of Lease between the Province of Bacolod and Ayala Land, Inc. over the Capitol Property. The RTC has ordered Defendants to file their Answer. SM Prime has received a Joint Answer with Counterclaim of Defendants Province and Sangguniang Panlalawigan, but is still awaiting that of Ayala Land, Inc. SM Prime shall file its Reply to the Answers by the Defendants.

Defendant Province of Negros Occidental filed a Motion for Conduct of Hearing on Affirmative Defenses. In an Order dated June 11, 2015, said motion is pending resolution. Other than the JDR which was set on August 14, 2015, no setting has been made pending the resolution of the Province's motion.

In its Resolution dated March 3, 2017, the RTC Bacolod Branch 48 dismissed the complaint on the ground of forum-shopping. The RTC Bacolod Branch 48 also denied SM Prime's Motion for Reconsideration in its Resolution dated July 26, 2017.

SM Prime filed a Petition for Review under Rule 45 with the Rules of Court on pure questions of law assailing the dismissal of the Nullity of Contract Case. The said Petition was docketed as GR No. 233448.

Public Respondents filed their Comment dated March 26, 2018 while Respondent Ayal Land filed its Comment dated April 18, 2016. SM Prime filed its Consolidated Reply on October 8, 2018.

This Petition remains pending with the Supreme Court.

SM Prime Holdings, Inc. vs. Light Rail Transit Authority and Department of Transportation and Communications
Civil Case No. R-PSY-14-16681

SM Prime filed a case with the Regional Trial Court of Pasay for Specific Performance with Damages, asking the Department of Transportation and Communications ("DOTr") and the Light Rail Transit Authority ("LRTA") to honor the terms of the Memorandum of Agreement dated 29 September 2009, regarding the construction of the Common Station across SM City North EDSA. SM Prime's prayer for a Temporary Restraining Order was denied. SM Prime received LRTA's Answers but is still awaiting DOTr's Answer. SM Prime filed an Amended Complaint which removed the application for temporary restraining order and preliminary injunction.

The parties have exchanged drafts of their respective proposed compromise agreement. These drafts are subject of further negotiations. In the meantime, the parties filed a Joint Manifestation and Motion to Suspend Proceedings considering the negotiation of the parties to settle the case amicably. In 2017, the DOTr filed a Manifestation informing the court that the parties reached an agreement, particularly on the location of the Common Station. The parties signed a Memorandum of Agreement on January 18, 2017.

In 2019, the Court ordered the parties to submit their Manifestation as to the status of the ongoing negotiation to settle the case. All parties submitted their respective Manifestations. In the Manifestation dated June 18, 2019, DOTr stated that the latest update on the negotiation sent by the DOTr include: 1) the award and signing of the Design and Building Contract for Area A of the Common station to BF Corporation and surveying Company Consortium ("BF") on December 17, 2018 and February 13, 2018, respectively; 2) coordination meeting between DOTr and SM Prime on the Rail Sector Projects and the interface between Area C and SM North EDSA Mall last February 28, 2019; and 3) another coordination meeting among DOTr, SM. And SMC-MRT7 on March 1, 2019.

Acquisition of property from Gotesco Investments, Inc.

On February 10, 2014, SM Prime purchased a property covered by Transfer Certificate of Title No. 326321 (the "Property") from Gotesco Investments, Inc. ("GII"). The Deed of Absolute Sale was executed on behalf of GII by its duly authorized representative, Mr. Jose C. Go. Mr. Go's authority to execute the Deed of Absolute Sale on behalf of GII was confirmed and validated by corporate filings made by GII with the SEC, including its 2013 General Information Sheet, and GII's duly notarized corporate secretary's certifications of the resolution of GII's Board of Directors appointing Mr. Go as authorized signatory for this transaction.

Upon execution of the Deed of Absolute Sale over the Property, and pursuant to its obligations thereto, GII turned over the Owner's Duplicate of title to the Property, the original Tax Declaration, and a duly notarized Secretary's Certificate executed by its Corporate Secretary. GII also issued an Official Receipt for SM Prime's payment of the purchase price of the Property. The payment of the purchase price was made by SM Prime directly to GII, and not to any individuals connected with GII.

The purchase of the Property was made in good faith, on the basis of negotiations between SM Prime and GII.

On March 19, 2019, the Register of Deeds of Caloocan cancelled the TCT No. 326321 and issued TCT No. 001-2019001491 registered under the name of the Company.

The following encumbrances were cancelled from TCT No. 326321 and were not carried over in TCT No. 001-2019001491:

1. Memorandum
2. Cancelled by Entry No. 2014000544 dated 27 January 2014:
   a. Mortgage – Entry No. 238507/T-54327 Amendment to the Real Estate Mortgage – Entry No. 9317/T-54327
3. Cancelled by Entry No. 2013006572:
   a. Notice of Lis Pendens – Entry No. 3978/T-326321
   b. Notice of Lis Pendens – Entry No. 505/TCT No. 326321
   c. Notice of Lis Pendens – Entry No. 8916/T-No. 326321
4. Cancelled by Entry No. 6147/T-326321 dated 29 August 2000
   a. Notice of Lien – Entry No. 2180/T-326321
5. Cancelled by Entry No. 2019002047 dated 11 March 2019
   a. Notice of Levy – PE No. 6881/326321
   b. Certificate of Forfeiture of Delinquent Property – Entry No. 8118/326321
6. Lease Agreement
   a. Agreement – Entry No. 1236389/T-54327
7. Adverse Claim
   a. Adverse Claim – Entry No. 995 / T-326321
   b. Notice of Adverse Claim – Entry No. 2014001545
8. Consulta raised by the Register of Deeds – Consulta No. 001-2014-000005

Some encumbrances were not cancelled because there is a need to file a Petition to Cancel the Adverse Claims with the appropriate court. For the cancellation of annotation of the Lease Agreement, a document showing the expiration of the Lease Agreement must be submitted to the Register of Deeds of Caloocan. Lastly, the Consulta cannot be cancelled because it is still pending with the Land Registration Authority.

In addition, SM Prime, its Board of Directors and Key Officers are, from time to time, also subject to various civil, criminal and administrative lawsuits and other legal actions arising in the ordinary course of its business. Typical cases include adverse claims over title to land, claims for recovery of money and damages and claims for cancellations of sales agreements and refund of deposits. In the opinion of SM Prime's management, as of the date of this Prospectus, none of the lawsuits or legal actions to which it is currently subject will materially affect the daily operations of its business nor will they have a material adverse effect on SM Prime's consolidated financial position and results of operations.

BDO

As of the date of this Prospectus, BDO, an associate of the Company, is a party to the following legal/quasi-judicial cases. As of March 31, 2020, management believes that no such legal proceedings are expected to have a material adverse effect on BDO’s consolidated financial position.

Applicability of Revenue Regulation 4-2011

On March 15, 2011, the BIR issued Revenue Regulations No. 4-2011 (RR 4-2011) regarding the alleged violation relating to the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes.

RR 4-2011 essentially prescribed the method of allocation of cost and expenses such that when computing the amount allowable as deduction from regular banking unit operations, all costs and expenses should first be allocated between the regular banking unit and Foreign Currency Deposit Unit (FCDU)/expanded FCDU or offshore banking unit.

On April 6, 2015, 19 banks (Petitioners) filed a Petition for Declaratory Relief with Application for Temporary Restraining Order and/or Preliminary Injunction, with the Regional Trial Court (RTC) of Makati. The Bank and BDO Private are among the Petitioners in Civil Case No. 15-287 assailing the validity of RR 4-2011. In the Petition, the Petitioners claimed that there is no provision in the National Internal Revenue Code which justifies the issuance of RR 4-2011 and that the scope of RR 4-2011 unduly expands the power of the BIR to allocate a taxpayer's costs and expenses. The Petitioners also claimed that RR 4-2011 limits their rights to claim ordinary and necessary expenses as deductions.

On April 8, 2015, the RTC of Makati issued a temporary restraining order, enjoining the BIR from enforcing RR 4-2011. Also, on April 27, 2015, the RTC of Makati issued a Writ of Preliminary Injunction also enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR 4-2011 against the Petitioners, including the issuance of preliminary assessment notice or final assessment notice, as the case may be, based on the revenue regulations, pending litigation, unless sooner dissolved.

On May 25, 2018, the RTC declared RR 4-2011 as null and void. The writs of preliminary injunction issued by the RTC on April 25, 2015 and February 28, 2018 were also made permanent, thereby enjoining Department of Finance (DOF) and BIR from implementing RR 4-2011 and prohibiting them from issuing a preliminary assessment notice or final assessment notice, or deciding any administrative matter pending before it, according to or in relation to said regulation.

On July 10, 2018, the DOF and BIR filed a Motion for Extension of Time to File a Petition for Review on Certiorari ("Motion for Extension"). The Supreme Court granted the Motion for Extension.

On August 9, 2018, Petitioners filed a Petition for Review on Certiorari dated August 1, 2018 ("Petition") to assail the RTC decision based on the following grounds: (i) the RTC had no jurisdiction over petitions assailing the constitutionality and validity of tax laws, rules and regulation, and other administrative issuance of the BIR. Allegedly, it is the Court of Tax Appeals that has exclusive jurisdiction to determine the constitutionality or validity of Tax Laws, Rules and Regulations issued by the Commissioner of Internal Revenue; and, (ii) RR 4-2011 is a valid regulation issued pursuant to the rule-making power of the DOF and the BIR.

In a Resolution dated March 27, 2019, the Supreme Court ordered Respondents to file their Comment on the Petition. On August 5, 2019, the Respondents filed its Comment on/Opposition to the Petition for Review on Certiorari.

All other Respondents have their respective Comments and/or Oppositions to the Petition.

The case remains pending as of March 31, 2020.

First e-bank

In 2002, First e-Bank ("FeB") experienced liquidity problems prompting PDIC to invite several banks to propose a solution for FeB's bailout. PDIC entered into contract with the Bank where, in consideration of the assumption by BDO of FeB's liabilities in the maximum amount of P10.0 billion, PDIC will provide BDO P10.0 billion of Financial Assistance and PDIC will receive FeB's assets to recover said financial assistance.

About P5.0 billion of the financial assistance was released to the Bank and the remaining P5.0 billion was deposited in escrow with BDO - TIG in accordance with the escrow agreement dated October 23, 2002 entered into by the Bank, PDIC, and BDO - TIG.

In August 2016, PDIC authorized the release of a total amount of P4.65 billion from escrow inclusive of proportional interest. However, as of August 26, 2016, the amount of P1.224 billion remains in escrow, which includes: (i) P602 million, which covers assets the Bank still considers capable of delivery worth P214 million and the remaining assets PDIC classified as undeliverable; and (ii) all interest earnings thereon. Unable to agree on the release of the remaining amount in escrow, on September 20, 2016, the PDIC filed a Complaint for Specific Performance and Damages against the Bank, which case was raffled to RTC Makati City Branch 60.

On October 14, 2016, the Bank filed its Answer to the Complaint affirming that it has assumed P10.0 billion in liabilities of FeB and is thus entitled to release of the remaining escrow of P1.224 billion.

In a judgement dated May 31, 2018, RTC Makati dismissed the complaint, granted the Bank's counterclaim and ordered BDO - TIG to immediately release the remaining escrow amount, plus interests, to the Bank. PDIC filed Motion for Reconsideration but the same was denied by RTC Makati. PDIC filed Notice of Appeal.

On June 18, 2018, the Bank received an amount of P1.243 billion for the full termination of escrow. As of March 31, 2020, the difference between the amount received and the balance of the amount in escrow amounting to P572 million is presented as part of Others under Other Liabilities account, pending the resolution of the Appeal filed by the counterparty.

The case is still pending before the Court of Appeals as of March 31, 2020.

Others

The BDO Unibank Group is also a defendant in various cases pending in courts for alleged claims against BDO Unibank Group, the outcomes of which are not fully determinable at present. As of 31 March 2020, management believes that, liabilities or losses, if any, arising from these claims would not have a material effect on the financial position and results of operations of BDO Unibank Group and will be recognized if and when a final resolution by the courts is made on each claim.

Aside from the matters above-mentioned, neither SMIC nor any of its subsidiaries is engaged in or subject to any litigation or arbitration proceedings nor, to the knowledge of the Directors, any threatened claims, which is material in the context of the Offer or which, if determined adversely against SMIC or its subsidiaries, would have a material adverse effect on its results of operations or financial position.

As of the date of this Prospectus, SMIC and its principal subsidiaries are not involved in any material legal proceedings involving bankruptcy, receivership or similar proceedings.

Investments and Property

The Issuer's current assets, consisting of cash and cash equivalents, time deposits, financial assets, receivables and contract assets, merchandise inventories – at cost, and other current assets, amounted to ₱241,725.5 million, ₱248,357.0 million and ₱249,447.1 million as at 31 December 2018, 2019 and 31 March 2020, respectively.

As at 31 December 2018, 2019 and 31 March 2020, the Issuer's investments in associate companies and joint ventures amounted to ₱259,795.1 million, ₱280,971.6 million and ₱282,259.1 million, respectively. These investments pertain to investments in shares of stock of associates and joint ventures such as, but not limited to, BDO, China Bank, Belle Corporation, Atlas Mining, Sodexo Benefits and Rewards Services Philippines, Inc., Fast Retailing Philippines, Inc., CityMalls, Premium Leisure Corp., OCLP Holdings, Inc., Feihua Real Estate (Chongqing) Company Ltd. and WalterMart Malls.

The Issuer's investment properties amounted to ₱309,264.3 million, ₱338,075.3 million and ₱342,622.0 million as at 31 December 2018, 2019 and 31 March 2020, respectively. These investments consist mainly of land, shopping malls and improvements.

The carrying amount of the Issuer's consolidated property and equipment was ₱23,201.7 million, ₱24,720.9 million and ₱25,189.7 million as at 31 December 2018, 2019 and 31 March 2020, respectively. The Issuer's consolidated noncurrent time deposits amounted to ₱2,392.6 million and ₱2,413.0 million and ₱2,413.0 million as at 31 December 2018, 2019 and 31 March 2020, respectively. The Issuer leases from SM Prime the lands on which its offices in SM Mall of Asia Complex and its warehouses in Asinan, Parañaque are located. The leases cover a total area of 61,071 square meters.

Intellectual Property

The Issuer is the registered owner of the trademark "SM" which has been registered with the Intellectual Property Office since the year 1977. To date, the SM trademark is actively used to identify the Issuer's core businesses such as retail, real estate development and management, hotels, leisure and entertainment, among others.

The Issuer has allowed use of the "SM" trademark by some of its subsidiary and affiliate companies. The trademark "SM" has been incorporated in the in-house brands and service marks belonging to the SM Group. As of 30 June 2020, the Issuer is the holder of 30 Philippine trademark registrations and 15 foreign trademark registrations, including its legacy trademarks, "SHOEMART", "SM SHOEMART" and the "SM STORE".

The Issuer utilizes trademarks and other intellectual properties in the conduct of its business. Over the years, the tradename SM, its logos, including its in-house brands have gained public goodwill and popularity. Hence, these trademarks are important to the Issuer's success and competitive position.

The Issuer registers its brands to ensure that their intellectual property rights are duly protected. Apart from actively monitoring and maintaining the validity of these registrations, the Issuer is also active in brand enforcement and protection. The details of the trademarks owned by the Issuer are set out below.

A. PHILIPPINE TRADEMARK REGISTRATIONS:

<table>
<tr><th></th><th>Trademark</th><th>Registration/ Application No.</th><th>Date of Validity Registration</th><th>Industry</th></tr>
<tr><td>1</td><td>SHOEMART</td><td>4-1967-400506</td><td>05/11/2021</td><td rowspan="6">Retail</td></tr>
<tr><td>2</td><td>SM SHOEMART</td><td>4-1977-403381</td><td>05/22/2021</td></tr>
<tr><td>3</td><td>SM SHOEMART AND DEVICE</td><td>4-2010-10762</td><td>05/12/2021</td></tr>
<tr><td>4</td><td>SM SHOEMART</td><td>4-2010-0008379</td><td>07/22/2021</td></tr>
<tr><td>5</td><td>SHOEMART</td><td>4-2018-0016177</td><td>04/21/2029</td></tr>
<tr><td>6</td><td>SHOEMART</td><td>4-2019-0006802</td><td>09/05/2029</td></tr>
<tr><td>7</td><td>SM</td><td>4-2003-000290</td><td>10/01/2025</td><td rowspan="5">Retail, property, banking</td></tr>
<tr><td>8</td><td>SM AND DEVICE</td><td>4-2010-010761</td><td>05/19/2021</td></tr>
<tr><td>9</td><td>SM</td><td>4-2010-003925</td><td>11/18/2020</td></tr>
<tr><td>10</td><td>SM INSIDE A CIRCLE DEVICE</td><td>4-2010-00003925</td><td>11/18/2020</td></tr>
<tr><td>11</td><td>SM</td><td>4-2019-0005580</td><td>11/17/2029</td></tr>
</table>

	Trademark	Registration/ Application No.	Date of Validity Registration	Industry
12	**SM INVESTMENTS CORPORATION**	4-2010-0003926	01/13/2021	Retail, property, banking
13	**SM Investments**	4-2019-0005582	11/17/2029	
14	**SM Investments Corporation**	4-2019-0005581	12/08/2029	
15	**SMIC**	4-2019-0005583	12/29/2029	
16	**SM STORE AND DEVICE**	4-2010-00008380	05/11/2022	Retail
17	**SM STORE**	4-2019-0005578	01/12/2030	
18	**SM STORE**	4-2019-0005579	01/12/2030	
19	**THE SM STORE**	4-2020-508440	Pending application	
20	**THE SM STORE**	4-2020-508441	Pending application	
21	**SM HYPERMARKET**	4-2010-00003929	12/31/2020	
22	**SM SUPERMARKET**	4-2010-00003930	12/31/2020	
23	**SM MARKETPLACE AND DEVICE**	4-2011-00009907	06/21/2022	
24	**SM MERIDIAN MARKETPLACE**	4-2017-00014863	05/31/2028	
25	**SM MARKETS**	4-2014-00003626	07/02/2025	
26	**SM APPLIANCE CENTER**	4-2017-00010243	03/29/2028	
27	**SM APPLIANCE CENTER**	4-2017-00010244	03/22/2028	
28	**SHOPSM**	4-2019-00009406	02/27/2030	
29	**SHOPSM W/ 3DS LOGO**	4-2019-00009407	02/27/2030	
30	**M Y S M**	4-2020-00000450	04/06/2030	
31	**M Y S M**	4-2020-00000451	04/06/2030	
32	**MALL OF ASIA ARENA**	4-2016-00006527	12/03/2026	Property
33	**SM MALL OF ASIA ARENA**	4-2020-00003150	Pending application	
34	**SM MALL OF ASIA ARENA**	4-2020-00003151	Pending application	

B. FOREIGN TRADEMARK REGISTRATIONS:

	Trademark	Application/ Registration No.	Country	Status / Date of Validity
1	**SM**	40-2015-15053Y	Singapore	09/24/2024
2	**SM SUPERMARKET**	1390352	Australia	10/25/2020
3	**SM**	1390350	Australia	10/25/2020
4	**SM DEPARTMENT STORE**	1390349	Australia	10/25/2020
5	**SM SUPERMALLS**	1390351	Australia	10/25/2020
6	**SM**	1498785	Canada	10/04/2023
7	**SM DEPARTMENT STORE**	1498791	Canada	02/17/2025
8	**SM**	1262388	Spain	09/24/2024
9	**SM**	1262388	Switzerland	09/24/2024
10	**SHOEMART & SM DEVICES**	301694426	Hong Kong	08/25/2020
11	**SM DEVICES**	301699462	Hong Kong	08/25/2020

	Trademark	Application/ Registration No.	Country	Status / Date of Validity
12	**SUPERMALLS & SM DEVICES**	301699471	Hong Kong	08/25/2020
13	**DEPARTMENT STORE & SM DEVICES**	301699480	Hong Kong	08/25/2020
14	**SUPERMARKET & SM DEVICES**	301699525	Hong Kong	08/25/2020
15	**MALLS & SM DEVICES**	301699534	Hong Kong	08/25/2020
16	**SM**	88839374	USA	Pending application
17	**SM Investments Corporation**	88839397	USA	Pending application
18	**SM Investments**	88839435	USA	Pending application
19	**SMIC**	88839469	USA	Pending application
20	**SM Store**	88839487	USA	Pending application
21	**SM**	40202005289S	Singapore	Pending application
22	**SM Investments Corporation**	40202005291Y	Singapore	Pending application
23	**SM Investments**	40202005292T	Singapore	Pending application
24	**SMIC**	40202005298Q	Singapore	Pending application
25	**SM Store**	40202005299W	Singapore	Pending application
26	**SM**	305214447	Hong Kong	Pending application
27	**SM Investments Corporation**	305214401	Hong Kong	Pending application
28	**SM Investments**	305214393	Hong Kong	Pending application
29	**SMIC**	305214384	Hong Kong	Pending application
30	**SM Store**	305214438	Hong Kong	Pending application
31	**SM**	TM2020005548	Malaysia	Pending application
32	**SM Investments Corporation**	TM2020005551	Malaysia	Pending application
33	**SM Investments**	TM2020005554	Malaysia	Pending application
34	**SMIC**	TM2020005558	Malaysia	Pending application
35	**SM Store**	TM2020005565	Malaysia	Pending application
36	**SM**	40202008572	Vietnam	Pending application
37	**SM Investments Corporation**	40202008573	Vietnam	Pending application
38	**SM Investments**	40202008576	Vietnam	Pending application
39	**SMIC**	40202008577	Vietnam	Pending application
40	**SM Store**	40202008574	Vietnam	Pending application
41	**SM**	2074939	Australia	Pending application
42	**SM Investments Corporation**	2074940	Australia	Pending application
43	**SM Investments**	2074941	Australia	Pending application
44	**SMIC**	2074942	Australia	Pending application
45	**SM Store**	2074943	Australia	Pending application
46	**SM**	2016774	Canada	Pending application
47	**SM Investments Corporation**	2016777	Canada	Pending application
48	**SM Investments**	2016776	Canada	Pending application
49	**SMIC**	2016775	Canada	Pending application
50	**SM Store**	2016778	Canada	Pending application

	Trademark	Application/ Registration No.	Country	Status / Date of Validity
51	**SM**	03428/2020	Switzerland	Pending application
52	**SM Investments Corporation**	0329/2020	Switzerland	Pending application
53	**SM Investments**	03430/2020	Switzerland	Pending application
54	**SMIC**	03431/2020	Switzerland	Pending application
55	**SM Store**	03432/2020	Switzerland	Pending application

Capital Expenditure

The Group incurred capital expenditure amounting to ₱60,765.6 million, ₱71,809.0 million, ₱72,018.6 million, and ₱14,312.2 million, for the years ended 31 December 2017, 2018 and 2019 and three months ended 31 March 2020, respectively, in connection with the construction of shopping malls and landbanking activities, project development cost of condominium buildings, resort facilities and hotel development.

Government Regulations and Authorizations

Our legal department is responsible for ensuring our continued compliance with applicable laws and regulations, including any changes or updates that may materially impact or adversely affect the Issuer and its principal subsidiaries' operations and business.

As of the date of this Prospectus, the Issuer and its principal subsidiaries are in material compliance with applicable regulatory requirements, including permits and licenses which are necessary to its business operations, the failure to possess any of which would have a material adverse effect on the business and operations of the Issuer.

See "Regulatory" beginning on page 198 of this Prospectus for a detailed discussion of the government regulations and environmental laws affecting the Issuer's businesses.

Employees

As at 30 June 2020, the Issuer had 464 regular employees. Its employees are not subject to any Collective Bargaining Agreements. The employees are classified as follows:

	No. of Employees
Rank and file	124
Middle management	225
Senior management	115

The Issuer expects to have 464 regular employees within the next twelve months. Apart from the basic employment compensation package, the Issuer does not and will not have any supplemental benefits or incentive arrangements with its employees.

Related Party Transactions

The Issuer and its subsidiaries have contractual arrangements and transactions with its associate companies and other related parties. The significant transactions with related parties follow:

- Rent

The Group has existing lease agreements for office and commercial spaces with related companies (retail and banking group and other related parties under common stockholders).

- Fees

  The Parent Company and SM Retail receive fees from retail entities under common stockholders for the use of intellectual capital, i.e. human, relationship and structural capital, including among others, provisioning of subject matter expertise in respect of tax, legal and treasury.

- Dividend Income

  The Group earns dividend income from certain related parties under common stockholders.

- Cash Placements and Loans

  The Group has certain bank accounts and cash placements as well as bank loans and debts with BDO and China Bank. Such accounts earn interest at prevailing market rates.

- Notes Receivable

  The Group has certain notes receivable from Carmen Copper Corporation.

- Others

  The Group, in the normal course of business, has outstanding receivables from and payables to related companies which are unsecured and normally settled in cash.

For a discussion of related party transactions concerning the Issuer, see Note 21 to the Issuer's audited consolidated financial statements as at 31 December 2018 and 2019 and for the three years ended 31 December 2017, 2018 and 2019, and Note 19 to the Issuer's unaudited interim condensed consolidated financial statements as at 31 March 2020 and for the three-month periods ended 31 March 2019 and 2020.

Material Contracts

As of the date of this Prospectus, the Company is not a party to any material contracts, except for contracts entered into in the ordinary course of business.

Material Permits and Licenses

As of the date of this Prospectus, the Issuer has the following material permits and licenses:

Government / Issuing Agency	Required Permits / Certificates / Licenses	Permit / License Number	Issuance Date	Expiry Date
Securities and Exchange Commission	Certificate of Incorporation	0000016342	01/15/1960	Not applicable
Bureau of Internal Revenue	Certificate of Registration	000-169-020-000	06/06/1997	Not applicable
Local Government Unit (LGU) of Pasay City	Permit to Operate	11466	02/24/2020	12/31/2020
LGU of Pasay City	Permit to Operate	11467	02/24/2020	12/31/2020
LGU of Pasay City	Permit to Operate	11468	02/24/2020	12/31/2020

Government / Issuing Agency	Required Permits / Certificates / Licenses	Permit / License Number	Issuance Date	Expiry Date
LGU of Pasay City	Permit to Operate	11469	02/24/2020	12/31/2020
LGU of Carmona, Cavite	Mayor's Permit to Operate	1701	01/20/2020	12/31/2020
LGU of Makati City	Business Permit	2551	02/18/2020	12/31/2020
LGU of Makati City	Business Permit	17099	01/30/2020	12/31/2020
LGU of Paranaque City	Mayor's Permit	2006030432	02/14/2020	12/31/2020
LGU of Baguio City	Permit to Engage in Business	10-2-68110-29628	02/11/2020	12/31/2020
LGU of Baguio City	Permit to Engage in Business	10-2-68110-40677	02/12/2020	12/31/2020
LGU of Manila City	Business Permit Renewal	117-00-2004-0029745	02/10/2020	12/31/2020

RECENT DEVELOPMENTS AND PROSPECTS

Recent Developments related to COVID-19

Impact on the Operations of the Group

Amidst the COVID-19 pandemic, the SM Group, with businesses in Retail, Banking, and Property, has continued operations while in compliance with government mandated quarantine and regulatory guidelines.

For the duration of the Enhanced Community Quarantine (ECQ), only businesses classified as 'essential' were allowed to operate. Despite the difficulties brought about by the government's suspension of public transportation, all formats (SM Supermarket, SM Hypermarket, Savemore, Waltermart, Alfamart) of our SM Retail Food Stores, Watson's, and commercial properties continued to operate. Banking operations were sporadic due to difficulties accessing the branches, while operations in our malls, department stores, specialty stores, hotels and convention centers, were halted in compliance with the strict quarantine. To assist our mall tenants, the Company waived rent for the duration of the ECQ. BDO and China Bank deferred collection of amortizations for 60 days.

Mitigation Efforts by the Group

The Group is fully committed in the country's battle against COVID-19 and has implemented measures to ensure customer safety as well as workplace safety in our establishments to curb the spread of this disease. Aside from enforcing the minimum health standards set by the government, the Company has put in place prevention mechanisms such as temperature checking, frequent sanitation and disinfection in all of its properties.

In the workplace, the Company screened its employees using a combination of rapid tests and swab tests prior to allowing them to report to the office. It provided PPEs to its employees and took every opportunity to constantly remind its employees of measures to take to protect themselves and others through email and bulletin boards. Shuttle services were provided as well for the duration when public transportation services were suspended. Work from home arrangements were available for employees and workplace headcounts were managed allowing only a maximum of 50% at any given time to ensure physical distancing.

As mobility has been curtailed by prevailing government regulations in response to COVID-19, access to SM's physical establishments has been limited. To address this, the Company has adapted its strategies in malls, retail stores and bank branches to increase both safety and customer convenience.

SM Retail has had three main areas of focus during this pandemic: Call to Deliver ("CTD") services, Online Markets and in-store adjustments such as signage, social distancing and sanitation to ensure employee and customer safety. CTD is a service that allows customers to place orders in the SM Store branch of their choice via Viber. This service covers both food and non-food items and fulfillment can be done by in-store pickup, curbside pick-up or door-to-door delivery. SM Retail has also increased the product selection made available in popular online marketplaces such as Lazada and Shopee, as well as boosted the coverage of its own specialty retail websites and online platforms such as ShopSM.com (Department Store), shop.smmarkets.ph and waltermartdelivery.com.ph (Grocery). These efforts aim to provide effective ways of meeting customers' ongoing shopping needs in the current environment, while ensuring customers can have confidence in a safe in-store shopping environment.

At SM Prime, the aim is to bring foot traffic in its malls back to pre-ECQ levels as soon as possible subject to restrictions imposed by the government that would determine the level of both business and consumer mobility. To achieve this, the Malls Group's focus is to institutionalize the system of hygiene and operating protocols being implemented not only to ensure a safe workplace and mall destination but to give all its stakeholders – employees, tenant partners, suppliers and customers – a high level of comfort while at its malls. The Malls Group is also assisting its tenant partners in preparing for an increase in online transactions by offering logistics solutions tailored to their customer preferences. For its residential component, SM Prime has an adequate supply of existing inventory to cushion the effect of construction delays in its projects. For the Commercial Property Group, with 90% of its tenants being business process outsourcing (BPO) offices, businesses located in its properties were allowed to operate by the Philippine Inter-Agency Task Force. At its hotels, employees and staff are being oriented and trained on new operating protocols to ensure their well-being and that of its guests.

At its banks, both BDO and China Bank fully complies with the government's occupational health and safety standards to ensure the well-being of its employees and clients. Sanitation and disinfection measures, temperature checks and "no mask, no entry" policies, and physical distancing and work station reconfiguration are being implemented in all offices and branches. Both banks are pushing forward with their respective digital initiatives, scaling up capabilities and enhancing transaction options. Concurrently, both banks are addressing possible online security issues to ensure the protection of its customers' data and transactions.

BDO has likewise instituted service upgrades to allow increased remote access across different channels thereby limiting in-person interactions. BDO is also continuing with its NextGen IT upgrade for a more robust, scalable, efficient, and secure IT platform that will allow the Bank to quickly respond to shifts in customer demands and behavior, and deliver banking services more reliably and accessibly.

SM Retail

ShopSM

SM Retail recognizes that today's consumers have immersed themselves in technology and have started to utilize the advantages of online shopping.

To serve customers in just a few clicks and scrolls, SM Retail launched its online shopping platform, ShopSM, that showcases a variety of items found in every SM department store: from menswear to womenswear, shoes to bags and baby essentials to kids' wear. It also offers popular toys, select cosmetics and beauty products, kitchen appliances, home accessories and even hardware equipment.

ShopSM also makes sure to catch the latest trend in the fashion scene, including products from popular international brands, giving fantastic deals to customers and allowing them to earn points using SM Advantage Card, SM Prestige or BDO Rewards cards.

Aside from providing a wide array of products, ShopSM also gives an accessible, diverse and convenient shopping experience through different payment options, including cash on delivery, credit payments and debit payments. It also introduced the "Click & Collect" concept – a free in-store pickup option enabling shoppers to buy online and select a branch where they can pick up their items.

Alternatively, customers can have their order delivered to their nominated address with cash on delivery as a further payment option. Shipping fees are charged depending on location as well as the dimensions and weight of the items.

SM Markets Online

To address the growing needs of its customers, the SM Markets, which includes SM Supermarket, SM Hypermarket and Savemore launched SM Markets Online, which is an online grocery store made for customers to shop groceries easily online. Customers can select their items in the webapp then either pick their order in the store or have their order delivered to their home through a third party logistics partner. Customers can pay during pick-up, cash on delivery or online using their VISA, Mastercard, JCB, or Amex credit card.

Shifting to cashless

As the company with the most diversified retail portfolio in the country, SM Retail serves all customer segments by continuously investing in new technologies to further improve its services. Through partnerships with several mobile wallet applications and financial services companies, SM facilitates the preference of Filipinos to be more cashless, allowing the use of tap-and-go and prepaid digital methods.

Cashless transactions offer greater efficiencies. It cuts down long queues, promotes convenience for both physical and online transactions and saves time waiting for change.

Currently, SM partners with end-to-end customer solutions like GrabPay, AliPay, GCash, PayMaya, WeChat Pay, VISA and Mastercard to promote secure and efficient digital transactions.

Call to Deliver

In meeting the customer demand, especially during this pandemic time, SM leveraged online connectivity platforms and launched its Call to Deliver service. Customers can shop safely at their homes through online catalogs available in websites, place their orders by calling the hotline or contacting their preferred SM branches, and have these delivered right at their doorsteps. These can be paid upon delivery, credit or debit payment, or online, with no minimum purchase requirement.

BDO

On 28 January 2020, the Bank announced that it had entered into an agreement to sell a controlling stake in its publicly listed subsidiary, BDO Leasing and Finance, Inc. ("BDOLF"), to a third party as part of the Bank's restructuring of its leasing business. The completion of the transaction is subject to closing conditions, including the spin-off and transfer of the leasing business to the Bank, compliance with Philippine Competition Commission notification and regulatory requirements, and the completion of a mandatory tender offer for the shares in BDOLF held by public shareholders in compliance with Philippine securities laws and regulations.

On 1 June 2020, the Bank announced that it has set aside an additional ₱20 billion in upfront provisions in anticipation of the disruptive impact of the COVID-19 pandemic and the Enhanced Community Quarantine (ECQ).

On 22 June 2020, the Bank clarified that Wirecard was not a client of the Bank, and that the document claiming the existence of a Wirecard account with the Bank was a falsified account and carried forged signatures of bank officers. The Bank has reported the matter to the BSP.

On 23 June 2020, the Bank announced an agreement on fundamental principles to buy out Nomura Holdings, Inc.'s ("Nomura") entire holdings in their joint venture arrangement under BDO Nomura. The Bank currently holds 51% of BDO Nomura, with Nomura [through Nomura Asia Investment (Singapore) Pte. Ltd.] holding the remaining 49%. The transaction will enable BDO to consolidate its securities brokerage businesses into BDO Securities, which is being reorganized into a full service brokerage firm with an expanded product offering to include non-equity securities. The transaction is subject to final agreements in addition to any required corporate and regulatory approvals.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Prospective investors should read the following discussion and analysis of the Issuer's consolidated financial position and financial performance together with (i) the report of independent auditors, (ii) the audited consolidated financial statements as at and for the years ended of 31 December 2017, 2018 and 2019 and the notes thereto, and (iii) the unaudited interim condensed consolidated financial statements as at 31 March 2020 and for the three-month periods ended 31 March 2019 and 2020.

Overview

The Issuer is the holding company of the Group, one of the largest conglomerates in the Philippines. The Issuer was incorporated in the Philippines on 15 January 1960. On December 27, 2019, the SEC approved the amendment of the Issuer's Articles of Incorporation changing its corporate life to perpetual. Its registered office is at the 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City, Metro Manila, Philippines.

The Issuer is the largest publicly listed company in the Philippines that is invested in market leading businesses in retail, banking and property. It also invests in ventures that capture high growth opportunities in the emerging Philippine economy.

The Group's business activities and interests are divided into three principal business segments:

- Its Retail arm, SM Retail Inc., operates department stores under The SM Store brand, and several food retail formats including Supermarkets, Hypermarkets and Savemore Stores. It also operates specialty stores focused on DIY, furniture, appliances and toys among others;
- Its Property arm, SM Prime Holdings Inc., is engaged in building and operating shopping malls both in the Philippines and China. It is also engaged in Residential property development under its SM Development Corporation subsidiary, commercial property development, as well as various hotels and convention centers; and
- Its Financial Services and Others segment is composed of the following:
  - The Banking Group comprised of BDO Unibank, Inc. (BDO), the country's largest bank by resources, and China Banking Corporation (China Bank); and
  - The Issuer's equity investments in other sectors such as premium commercial buildings, leisure, logistics and mining.

As at 30 June 2020, the Issuer had two principal consolidated subsidiaries namely SM Prime and SM Retail, and two principal equity-accounted associates, namely BDO and China Bank, each of whose shares (except for SM Retail) are listed on the PSE, in which the Issuer had effective interests of 49.7%, 77.3%, 45.3%, and 22.6%, respectively.

For the years ended 31 December 2017, 2018 and 2019, the Issuer's audited consolidated revenues were ₱397,948.2 million, ₱449,788.2 million and ₱501,651.9 million, respectively, and its audited consolidated net income attributable to equity holders of the parent were ₱32,923.5 million, ₱37,078.3 million and ₱44,568.2 million, respectively. For the three months ended 31 March 2020, the Issuer's unaudited consolidated revenues was ₱111,152.5 million and its unaudited consolidated net income attributable to equity holders of the parent was ₱9,007.3 million.

As at 31 December 2017, 2018 and 2019, the Issuer's audited consolidated total assets were ₱960,080.7 million, ₱1,060,642.3 million and ₱1,144,164.6 million, respectively, and its audited total equity was ₱453,812.2 million, ₱492,290.0 million and ₱536,151.5 million, respectively. As at 31 March 2020, the

Issuer's unaudited consolidated total assets was ₱1,154,722.3 million and its unaudited total equity was ₱538,234.1 million.

The principal source of consolidated revenue of the Issuer is from the Retail Group which contributed ₱300,043.1 million, ₱336,263.8 million, ₱370,700.6 million, ₱79,691.0 million and ₱81,787.1 million, respectively, or 75%, 75%, 74%, 73% and 74%, respectively, of its consolidated revenues for the years ended 31 December 2017, 2018, 2019 and the three months ended 31 March 2019 and 2020. Property contributed ₱83,198.2 million, ₱96,537.2 million, ₱107,798.3 million, ₱24,383.6 million and ₱24,713.0 million or 21%, 21%, 21%, 22% and 22%, respectively, of the Issuer's consolidated revenues for the years ended 31 December 2017, 2018, 2019 and the three months ended 31 March 2019 and 2020. The Property Group and Retail Group contributed ₱20,488.4 million, ₱22,928.8 million, ₱25,508.6 million, ₱6,244.5 million and ₱4,885.8 million, respectively, of the Issuer's consolidated net income attributable to equity holders of the parent for the years ended 31 December 2017, 2018, 2019 and the three months ended 31 March 2019 and 2020.

Basis of Preparation

The consolidated financial statements of the Group have been prepared on the historical cost basis, except for derivative financial instruments and financial assets and liabilities which are measured at fair value. The consolidated financial statements are presented in Philippine Peso, which is the Group's functional and presentation currency under Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest thousand Peso except when otherwise indicated.

Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with PFRS, which include the availment of the relief granted by the SEC under Memorandum Circular No. 14, Series of 2018, Memorandum Circular No. 3, Series of 2019 and Memorandum Circular No. 4, Series of 2020.

The interim condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, Interim Financial Reporting. The interim condensed consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional and presentation currency under Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest thousand Peso except when otherwise indicated.

The accompanying interim condensed consolidated financial statements have been prepared under the going concern assumption. The Group believes that its businesses would remain relevant despite the challenges posed by the COVID-19 pandemic. Whilst the pandemic may adversely impact short-term business results, long-term prospects remain attractive. The Group maintains a conservative Balance Sheet and is confident it would be able to navigate through these challenges and take on opportunities as these arise.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's audited consolidated financial statements as at December 31, 2019.

These interim condensed consolidated financial statements have been prepared for inclusion in the Prospectus to be prepared by the Group for its planned offering transaction.

Changes in Accounting Policies and Disclosures

The following new PFRSs became effective beginning January 1, 2020:

Amendments to PFRS 3, *Definition of a Business*

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments refine the definition of "material" in PAS 1 and align the definitions used across PFRSs and other pronouncements. These are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgement.

The above amendments shall be applied prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Financial Performance

Three months ended 31 March 2020 vs. three months ended 31 March 2019

The Group reported ₱9.0 billion *Net Income Attributable to Owners of the Parent*, 15.7% lower than 2019, and ₱111.1 billion *Revenues*, 1.9% higher than 2019, partly reflecting the effect of COVID-19 global pandemic including that of the enhanced community quarantine (ECQ).

Income from Operations decreased by 13.2% to ₱20.2 billion from ₱23.3 billion in 2019. *Operating Margin* and *Net Margin* is at 18.2% and 12.4%, respectively.

Merchandise Sales, which grew by 2.9% to ₱78.3 billion from ₱76.1 billion in 2019, accounts for 70.4% of total revenues in 2020. The increase is attributable mainly to the opening of 83 stores, partly offset by the effect of temporary closure of certain stores relative to the ECQ.

Real Estate Sales increased by 24.0% to ₱11.3 billion from ₱9.1 billion in 2019 due primarily to higher sales take-up and construction accomplishments during the period for ongoing projects, including *Shore 3*, *Shore 2*, *Fame* and *Leaf Residences* and fast take-up of various Ready-For-Occupancy (RFO) projects, particularly those located in Mall of Asia, and Taguig and Quezon City areas. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized based on percentage of completion.

Rent Revenue, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), decreased by 11.2% to ₱11.1 billion from ₱12.5 billion in 2019. The decrease reflects the impact of COVID-19 pandemic. With the quarantine measures implemented in the Philippines and China, several malls as well as other businesses were closed starting March 16, 2020 in the Philippines and January 25, 2020 in China. The reopening of affected malls is being implemented in phases.

Cinema Ticket Sales, Amusement and Others decreased by 43.5% to ₱1.0 billion from ₱1.7 billion in 2019 due to lower event ticket sales and fewer blockbuster movies screened. The cinema business suspended its operations starting March 15, 2020 relative to the closure of malls as mentioned above.

As of March 31, 2020, SM Prime had 74 malls in the Philippines with total GFA of 8.5 million square meters and 7 malls in China with total GFA of 1.3 million square meters.

*Equity in Net Earnings of Associate Companies and Joint Venture*s decreased by 4.3% to ₱5.3 billion from ₱5.5 billion in 2019 due mainly to the decrease in net income of bank and retail associates which also reflects the impact of decline in market value of their financial assets.

Operating Expenses increased by 3.6% to ₱26.6 billion from ₱25.6 billion in 2019 attributable mainly to new or renovated retail stores and malls and new real estate projects.

Other Charges (net) increased by 15.7% to ₱3.4 billion from ₱3.0 billion in 2019. *Interest Expense* decreased by 2.4% to ₱4.2 billion from ₱4.3 billion in 2019. *Interest Income* also decreased by 23.5% to ₱0.8 billion from ₱1.0 billion in 2019.

Provision for Income Tax decreased by 24.0% to ₱3.0 billion from ₱3.9 billion in 2019 due mainly to decrease in taxable income. The effective income tax rate is 17.8% in 2020 and 19.4% in 2019.

Non-controlling interests decreased by 16.1% to ₱4.8 billion from ₱5.7 billion in 2019 due mainly to the decrease in net income of partly-owned subsidiaries.

Year ended 31 December 2019 vs. year ended 31 December 2018

The Group reported ₱44.6 billion *Net Income Attributable to Owners of the Parent*, 20.2% higher than 2018, and ₱501.7 billion *Revenues*, 11.5% higher than 2018.

Income from Operations increased by 21.4% to ₱105.2 billion from ₱86.6 billion in 2018. *Operating Margin* and *Net Margin* is at 21.0% and 13.8%, respectively.

Merchandise Sales, which grew by 9.4% to ₱354.1 billion from ₱323.7 billion in 2018, accounts for 70.6% of total revenues in 2019. The increase is attributable to the opening of 2 *SM Stores*, 2 *SM Supermarkets*, 9 *Savemore* stores, 1 *SM Hypermarkets*, 8 *WalterMart* stores, 228 Alfamart stores, and 162 Specialty stores.

The sales contribution of Non-food and Food group is 48:52 in 2019 and 2018.

As of December 31, 2019, SM Retail had 2,799 stores nationwide, namely: 65 *SM Stores*, 58 *SM Supermarkets*, 201 *Savemore* stores, 52 *SM Hypermarkets*, 60 *WalterMart* stores, 754 Alfamart stores, and 1,609 Specialty stores.

Real Estate Sales increased by 23.7% to ₱44.5 billion from ₱36.0 billion in 2018 due primarily to higher construction accomplishments of launched projects which include *Cheerful*, *Green 2*, *Trees Ph3*, *Hope*, *Charm*, *and Bloom Residences* and continued increase in sales take-up of various projects, particularly those located in Mall of Asia and Makati Central Business District. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized based on percentage of completion.

Rent Revenue, derived mainly from the mall operations of SM Prime increased by 8.4% to ₱51.6 billion from ₱47.6 billion in 2018. The increase is primarily due to rental rate escalations and expansion of leasable areas. Excluding the new malls, same-mall rental growth is at 7%. Rentals from commercial operations also increased due to the full year revenue of Three E-Com Center and SM Southmall South Tower which opened in 2018.

As of December 31, 2019, SM Prime had 74 malls in the Philippines with total GFA of 8.5 million square meters and 7 malls in China with total GFA of 1.3 million square meters.

Equity in Net Earnings of Associate Companies and Joint Ventures increased by 35.9% to ₱26.0 billion from ₱19.2 billion in 2018 due mainly to the increase in net income of bank, retail, and property associates.

Management and Service Fees increased by 15.2% to ₱7.3 billion from ₱6.4 billion in 2018.

Dividend Income increased by 13.9% to ₱480.5 million from ₱421.9 million in 2018 due to higher dividends received from investees in 2019.

Other Revenues, which comprise mainly of income from promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues, food and beverage income of the Hotel Group, increased by 6.3% to ₱9.9 billion from ₱9.3 billion in 2018.

Operating Expenses increased by 6.4% to ₱113.3 billion from ₱106.4 billion in 2018 due mainly to additional operating expenses associated with new or renovated retail stores and malls and new real estate projects.

Other Charges (net) increased by 48.5% to ₱18.5 billion from ₱12.5 billion in 2018. *Interest Expense* increased by 15.8% to ₱19.2 billion from ₱16.6 billion in 2018 due mainly to new debt availments for working capital and capital expenditure requirements. An *Impairment Loss on Investments* amounting to ₱4.0 billion was recognized in 2019 relative to the impairment test done on the Group's investments. *Interest Income* increased by 3.4% to ₱3.9 billion from ₱3.8 billion in 2018 while *Foreign Exchange Gain (Loss) - net* increased by 407.8% to a gain of ₱561.7 million from a loss of ₱182.5 million in 2018. The PHP to USD foreign exchange rate amounted to PHP50.64 : USD1.00 in 2019 and PHP52.58 : USD1.00 in 2018.

Provision for Income Tax increased by 10.2% to ₱17.2 billion from ₱15.6 billion in 2018 due mainly to increase in taxable income. The effective income tax rate is 19.8% in 2019 and 21.0% in 2018.

Non-controlling interests increased by 15.8% to ₱24.9 billion from ₱21.5 billion in 2018 due mainly to the increase in net income of partly-owned subsidiaries.

Year ended 31 December 2018 vs. year ended 31 December 2017

SM Investments Corporation and Subsidiaries (the Group) reported P37.1 billion *Net Income Attributable to Owners of the Parent*, 12.6% higher than 2017, and P449.8 billion *Revenue*, 13.0% higher than 2017.

Income from Operations increased by 14.2% to P86.6 billion from P75.8 billion in 2017. *Operating Margin* and *Net Margin* is at 19.3% and 13.0%, respectively.

Merchandise Sales, which grew by 12.2% to P323.7 billion from P288.5 billion in 2017, accounts for 72.0% of total revenues in 2018. The increase is attributable to the opening of 4 *SM Stores*, 4 *SM Supermarkets*, 15 *Savemore* stores, 6 *SM Hypermarkets*, 7 *WalterMart* stores, 178 Alfamart stores, and 121 Specialty stores.

The sales contribution of Non-food and Food group is 48:52 in 2018 and 49:51 in 2017.

As of December 31, 2018, *SM Retail* had 2,328 stores nationwide, namely: 63 *SM Stores*, 56 *SM Supermarkets*, 195 *Savemore* stores, 53 *SM Hypermarkets*, 52 *WalterMart* stores, 526 Alfamart stores, and 1,383 Specialty stores.

Real Estate Sales increased by 21.6% to P36.0 billion from P29.6 billion in 2017 due primarily to higher construction accomplishments of projects launched from 2015 to 2017 namely, *Shore 2, Shore 3, Coast,* and *S Residences* in Pasay, *Fame Residences* in Mandaluyong, and *Spring Residences* in Parañaque and continued increase in sales take-up of various projects due to strong demand fueled by international buyers, Overseas Filipino Workers' remittances, and rising disposable income of the emerging middle class. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized based on percentage of completion.

Rent Revenue, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 13.0% to P47.6 billion from P42.1 billion in 2017. The increase in *Rent Revenue* is primarily due to the new malls which opened in 2017 and 2018, namely, *SM CDO Downtown Premier, SM City Puerto Princesa, SM Center Tuguegarao Downtown, SM City Urdaneta Central, SM City Telabastagan, SM City Legazpi, SM Center Ormoc,* and *S Maison* at the Conrad Manila. Excluding the new malls and expansions, same-store rental growth is at 8%. Rentals from commercial operations also increased due to the opening of Three E-Com Center and SM Southmall South Tower in 2018.

As of December 31, 2018, *SM Prime* had 72 malls in the Philippines with total GFA of 8.3 million square meters and 7 malls in China with total GFA of 1.3 million square meters.

*Equity in Net Earnings of Associate Companies and Joint Venture*s increased by 15.2% to P19.2 billion from P16.6 billion in 2017 due mainly to the increase in net income of bank, retail, and property associates.

Management and Service Fees, which is computed based on percentage of sales, increased by 9.6% to P6.4 billion from P5.8 billion in 2017.

Gain on Sale of Financial Assets - net decreased by 98.8% to P1.3 million from P110.2 million in 2017 resulting primarily from the disposal of certain investments in 2017.

Dividend Income decreased by 14.9% to P421.9 million from P495.6 million in 2017 due to lower dividends received from investees in 2018.

Other Revenues, which comprise mainly of income from promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues, food and beverage income of the Hotel Group, increased by 14.0% to P9.3 billion from P8.1 billion in 2017.

Operating Expenses increased by 15.2% to P106.4 billion from P92.3 billion in 2017 due mainly to additional operating expenses associated with new or renovated retail stores and malls and new real estate projects.

Other Charges (net) increased by 18.2% to P12.5 billion from P10.5 billion in 2017. *Interest Expense* increased by 6.4% to P16.6 billion from P15.6 billion in 2017 due mainly to new debt availments for working capital and capital expenditure requirements. *Interest Income* decreased by 6.2% to P3.8 billion from P4.0 billion in 2017 due mainly to lower balance of time deposits in 2018. *Gain on Fair Value Changes on Derivatives - net* increased by 53.5% to P454.9 million from P296.3 million in 2017 resulting mainly from the mark-to-market valuation of outstanding forward swap transactions in 2018. *Foreign Exchange Gain (Loss) - net* decreased by 126.1% to a loss of P182.5 million from a gain of P698.7 million in 2017. This is due mainly to the unfavorable PHP to USD foreign exchange rate, that is, from PHP49.93 : USD1.00 in 2017 to PHP52.58 : USD1.00 in 2018.

Provision for Income Tax increased by 13.1% to P15.6 billion from P13.8 billion in 2017 due mainly to increase in taxable income. The effective income tax rate is 21.0% in 2018 and 21.1% in 2017.

Non-controlling interests increased by 15.5% to P21.5 billion from P18.6 billion in 2017 due to the increase in net income of partly-owned subsidiaries.

Year ended 31 December 2017 vs. year ended 31 December 2016

SM Investments Corporation and Subsidiaries (the Group) reported P32.9 billion *Net Income Attributable to Owners of the Parent*, 5.5% higher than 2016, and P397.9 billion *Revenues*, 8.4% higher than 2016.

Income from Operations increased by 12.8% to P75.8 billion from P67.2 billion in 2016. *Operating Margin* and *Net Margin* is at 19.1% and 12.9%, respectively.

Merchandise Sales, which grew by 7.2% to P288.5 billion from P269.3 billion in 2016, accounts for 72.8% of total revenues in 2017. The increase is attributable to the opening of 2 *SM Stores*, 4 *SM Supermarkets*, 28 *Savemore* stores, 3 *SM Hypermarkets*, 7 *WalterMart* stores, and 159 Specialty stores.

The *Non-Food* and *Food Group* comprised 49% and 51%, respectively, of merchandise sales in 2017 and 2016, respectively.

As of December 31, 2017, *SM Retail* had 1,684 stores nationwide, namely: 59 *SM Stores*, 52 *SM Supermarkets*, 181 *Savemore* stores, 47 *SM Hypermarkets*, 46 *WalterMart* stores and 1,299 Specialty stores.

Real Estate Sales increased by 17.6% to P29.6 billion from P25.1 billion in 2016 due primarily to higher construction accomplishments of projects launched from 2013 to 2016 namely, *Shore, Shore 2 and S Residences* in Pasay City, *Air Residences* in Makati, *Fame Residences* in Mandaluyong and *Silk Residences* in China and continued increase in sales take-up of Ready-for-Occupancy (RFO) projects due to strong demand fueled by OFW remittances, sustained growth of the BPO sector, government spending and rising disposable income of the emerging middle class. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized based on percentage of completion.

Rent Revenues, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 13.1% to P42.1 billion from P37.2 billion in 2016. The increase in *Rent Revenue* is primarily due to the new malls which opened in 2016 and 2017, namely, *SM City San Jose Del Monte*, *SM City Trece Martires, SM City East Ortigas, SM CDO Downtown Premier, SM City Puerto Princesa, SM Center Tuguegarao Downtown* and *S Maison* at the Conrad Manila as well as the expansion of shopping spaces in *SM City San Pablo*, *SM City Sucat* and *SM Center Molino*. Excluding the new malls and expansions, same-store rental growth is at 7%. Rentals from hotels and convention centers also contributed to the increase due to the opening of Conrad Manila in June 2016 and the improvement in average room and occupancy rates of the hotels and convention centers.

As of December 31, 2017, *SM Prime* has 67 malls in the Philippines with total GFA of 8.0 million square meters and 7 malls in China with total GFA of 1.3 million square meters.

Equity in Net Earnings of Associate Companies and Joint Ventures increased by 11.1% to P16.6 billion from P15.0 billion in 2016 due mainly to the increase in net income of bank and property associates.

Gain (Loss) on Sale of Available-for-sale (AFS) Investments and Fair Value Changes on Investments Held for Trading (HFT) - net increased by 1591.5% to a gain of P110.2 million from P6.5 million in 2016 resulting primarily from the disposal of a portion of AFS investments in 2017.

Other Revenues, which comprise mainly of income from promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues, food and beverage income of the Hotel Group, increased by 20.5% to P8.1 billion in 2017 from P6.8 billion in 2016.

Operating Expenses increased by 9.6% to ₱92.3 billion from ₱84.3 billion in 2016 due mainly to additional operating expenses associated with new or renovated retail stores and malls and new real estate projects.

Other Charges (net) increased by 33.7% to P10.5 billion from P7.9 billion in 2016. *Interest Expense* increased by 29.5% to P15.6 billion from P12.0 billion in 2016 due mainly to new debt availments for working capital and capital expenditure requirements net of capitalized interest. *Interest Income* increased by 7.5% to P4.0 billion from P3.7 billion in 2016 due to higher average daily balance of temporary investments in 2017. *Gain on Disposal of Investments and Properties - net* decreased by 95.9% to P22.7 million from P559.0 million in 2016 due mainly to the sale of a certain investment property in 2016. *Gain (Loss) on Fair Value Changes on Derivatives - net* increased by 1845.5% to a gain of P296.3 million from P15.2 million in 2016 due mainly to certain non-deliverable forward transactions in 2017. *Foreign Exchange Gain (Loss) - net* increased by 510.7% to a gain of P698.7 million from a loss of P170.1 million in 2016. This is due mainly to the unfavorable PHP to USD foreign exchange rate, that is, from PHP49.72 : USD1.00 in 2016 to PHP49.93 : USD1.00 in 2017.

Provision for Income Tax increased by 19.2% to P13.8 billion from P11.5 billion in 2016 due mainly to increase in taxable income. The effective income tax rate is 21.1% in 2017 and 19.5% in 2016.

Non-controlling interests increased by 12.3% to P18.6 billion from P16.6 billion in 2016 due to the increase in net income of certain partly-owned subsidiaries.

Financial Condition

31 March 2020 vs. 31 December 2019

Total *Assets* increased by 0.9% to ₱1,154.7 billion from ₱1,144.2 billion in 2019. Likewise, total *Liabilities* increased by 1.4% to ₱616.5 billion from ₱608.0 billion in 2019.

Current Assets

Current Assets increased by 0.4% to ₱249.4 billion from ₱248.4 billion in 2019.

Cash and Cash Equivalents decreased by 7.1% to ₱70.8 billion from ₱76.2 billion in 2019 due mainly to payments for trade, investments and capital expenditures, partially offset by proceeds from issuance of bonds in March 2020.

Receivables and Contract Assets increased by 2.9% to ₱55.2 billion from ₱53.6 billion in 2019 due mainly to the increase in receivables from real estate buyers resulting from the high take-up of residential projects of SM Prime, net of subsequent collections from tenants.

Other Current Assets increased by 4.5% to ₱88.5 billion from ₱84.7 billion in 2019 due mainly to the increase in current portion of Land and development pertaining to development costs on ongoing projects and non-trade receivables.

Noncurrent Assets

Noncurrent Assets increased by 1.1% to ₱905.3 billion from ₱895.8 billion in 2019.

Financial assets decreased by 25.6% to ₱18.0 billion from ₱24.2 billion due mainly to the drop in market prices of financial assets.

Investments in Associate Companies and Joint Ventures increased by 0.5% to ₱282.3 billion from ₱281.0 billion in 2019. The increase mainly represents equity in net earnings of associates and investments in new associates, partly offset by dividends received in 2020 and fair value loss on the financial assets of associates.

Investment Properties increased by 1.3% to ₱342.6 billion from ₱338.1 billion in 2019 due mainly to ongoing new mall projects and commercial building construction as well as the redevelopment of *SM Mall of Asia* and other existing malls, net of depreciation expense for the period.

Other Noncurrent Assets increased by 11.4% to ₱94.0 billion from ₱84.4 billion in 2019 due mainly to additional bonds and deposits for real estate acquisitions and construction for the period.

Current Liabilities

Current Liabilities increased by 11.2% to ₱218.7 billion from ₱196.7 billion in 2019.

Bank Loans increased by 91.0% to ₱35.7 billion from ₱18.7 billion in 2019 due to new loan availments, partly offset by payments during the period.

Accounts Payable and Other Current Liabilities decreased by 11.7% to ₱125.0 billion from ₱141.5 billion in 2019 due mainly to settlement of trade payables partly offset by the increase in payable to contractors and suppliers related to ongoing projects and customers' deposits.

Current Portion of Long-term Debt increased by 72.5% to ₱50.2 billion from ₱29.1 billion in 2019 due mainly to reclassification from noncurrent of maturing loans.

Dividends Payable decreased by 5.9% to ₱4.0 billion from ₱4.2 billion in 2019. This represents dividends due to minority stockholders of certain subsidiaries.

Noncurrent Liabilities

Noncurrent Liabilities decreased by 3.3% to ₱397.8 billion from ₱411.3 billion in 2019.

Long-term Debt - Net of Current Portion decreased by 5.1% to ₱310.6 billion from ₱327.4 billion in 2019 due mainly to payments partly offset by new debt availments.

Deferred tax liabilities increased by 9.7% to ₱10.5 billion from ₱9.6 billion due mainly to unrealized gross profit on sale of real estate for income tax purposes.

Tenants' Deposits and Others increased by 5.4% to ₱49.2 billion from ₱46.7 billion in 2019. This account includes deposits from residential buyers and tenants from new malls and office buildings.

Equity

Total *Equity* increased by 0.4% to ₱538.2 billion from ₱536.2 billion in 2019.

Equity Attributable to Owners of the Parent decreased by 0.4% to ₱381.0 billion from ₱382.6 billion in 2019. This decrease resulted mainly from the *Net Unrealized Gain on Financial Assets at Fair Value* which decreased by 73.8% to ₱3.8 billion from ₱14.4 billion in 2019 due mainly to the depreciation in the market values of certain investments of the Group. This was partially offset by the ₱9.0 billion net increase in Retained Earnings representing the *Net Income Attributable to Owners of the Parent* during the period.

Non-controlling Interests increased by 2.4% to ₱157.2 billion from ₱153.5 billion in 2019 due mainly to the increase in net assets of subsidiaries that are not wholly owned.

One of the immediate and wide-ranging initiatives of the Philippine government is the imposition of enhanced community quarantine (ECQ) from March 16 to May 15, modified ECQ (MECQ) from May 16 to May 31, 2020, and general community quarantine (GCQ) from June 1, 2020 to August 3, 2020. During these quarantine periods, certain stores and malls of the Group had to temporarily stop operations. The malls had to grant waivers on rent and/or extend rental discounts. In anticipation of delinquencies on receivables, the banks recorded significant impairment provisions in the 2nd quarter. The negative impact of these consequences is more manifested in the Group results in the first half of the year.

The COVID-19 pandemic has caused disruptions to the various businesses of the group - retail, property and banking. With the uncertain environment, the Group will continually adapt its business model to serve and fulfill the needs of customers. The Group will continue to prioritize the health and safety of all stakeholders as well as the convenience of customers.

31 December 2019 vs. 31 December 2018

Total *Assets* increased by 7.9% to ₱1,144.2 billion from ₱1,060.6 billion in 2018. Likewise, total *Liabilities* increased by 7.0% to ₱608.0 billion from ₱568.3 billion in 2018.

Current Assets

Current Assets increased by 2.7% to ₱248.4 billion from ₱241.7 billion in 2018.

Cash and Cash Equivalents decreased by 3.9% to ₱76.2 billion from ₱79.3 billion in 2018 due mainly to payments for investments and capital expenditures, net of proceeds from loans.

Merchandise Inventories increased by 4.2% to ₱33.2 billion from ₱31.8 billion in 2018 due mainly to store openings in 2019.

Receivables and Contract Assets increased by 58.8% to ₱53.6 billion from ₱33.8 billion in 2018 due mainly to the 69.6% increase in receivables from real estate buyers resulting from the high take-up of residential projects of SM Prime.

Other Current Assets increased by 20.4% to ₱84.7 billion from ₱70.3 billion in 2018 due mainly to the increase in current portion of Land and development arising from development costs on ongoing projects and higher prepaid taxes and other prepayments.

Noncurrent Assets

Noncurrent Assets increased by 9.4% to ₱895.8 billion from ₱818.9 billion in 2018.

Financial assets decreased by 9.3% to ₱24.2 billion from ₱26.7 billion due mainly to the disposal of certain financial assets.

Investments in Associate Companies and Joint Ventures increased by 8.2% to ₱281.0 billion from ₱259.8 billion in 2018. The increase mainly represents equity in net earnings of associates and investments in new associates, partly offset by dividends received in 2019.

Property and Equipment increased by 6.5% to ₱24.7 billion from ₱23.2 billion due mainly to new stores in 2019.

Investment Properties increased by 9.3% to ₱338.1 billion from ₱309.3 billion in 2018 due mainly to ongoing new mall projects and commercial building construction as well as the redevelopment of *SM Mall of Asia* and other existing malls. The increase is also attributable to landbanking initiatives.

Land and Development increased by 39.0% to ₱74.9 billion from ₱53.9 billion in 2018 due mainly to landbanking and construction accomplishments during the period.

Other Noncurrent Assets decreased by 26.9% to ₱84.4 billion from ₱115.4 billion in 2018. The decrease is attributable to the reclassification of land use rights to *Right-of-Use (ROU)* Assets related to the adoption of *PFRS 16, Leases* and the application of deposits to various land purchases during the year.

Current Liabilities

Current Liabilities decreased by 7.5% to ₱196.7 billion from ₱212.7 billion in 2018.

Bank Loans decreased by 0.9% to ₱18.7 billion from ₱18.9 billion in 2018 due to net payments during the period, partly offset by new loan availments.

Accounts Payable and Other Current Liabilities increased by 13.4% to ₱141.5 billion from ₱124.8 billion in 2018 mainly from higher business volume.

Income Tax Payable decreased by 10.1% to ₱3.3 billion from ₱3.6 billion in 2018 due mainly to higher tax payments and lower income tax for the period.

Current Portion of Long-term Debt decreased by 52.7% to ₱29.1 billion from ₱61.5 billion in 2018 due mainly to payments during the period

Dividends Payable increased by 7.6% to ₱4.2 billion from ₱3.9 billion in 2018. This represents dividends due to minority stockholders of certain subsidiaries.

Noncurrent Liabilities

Noncurrent Liabilities increased by 15.6% to ₱411.3 billion from ₱355.7 billion in 2018.

Long-term Debt - Net of Current Portion increased by 7.1% to ₱327.4 billion from ₱305.6 billion in 2018 due mainly to new debt availments, partly offset by payments.

Lease Liabilities - Net of Current Portion amounting to ₱27.6 billion is the initial measurement of future lease payments discounted at present value, net of amortization for the year. A corresponding *Right-of-use (ROU) Assets - Net* of ₱37.7 billion was recognized, net of depreciation and accrued rent that was previously set up under PAS 17. These two accounts were recognized and presented separately in the consolidated balance sheet relative to the Group's adoption of *PFRS 16, Leases*, effective January 1, 2019.

Tenants' Deposits and Others increased by 13.2% to ₱46.7 billion from ₱41.3 billion in 2018 due mainly to new malls and office buildings and increase in deposits from residential buyers.

Equity

Total *Equity* increased by 8.9% to ₱536.2 billion from ₱492.3 billion in 2018.

Equity Attributable to Owners of the Parent increased by 8.3% to ₱382.6 billion from ₱353.4 billion in 2018. This increase resulted mainly from the (a) ₱35.3 billion net increase in Retained Earnings due mainly to the ₱44.6 billion *Net Income Attributable to Owners of the Parent,* net of ₱11.0 billion dividend declaration in 2019, and (b) *Net Unrealized Gain on Financial Assets at Fair Value* which increased by 22.6% to ₱14.4 billion from ₱11.7 billion in 2018 due mainly to the appreciation in market value of certain investments of the Group. These were partially offset by the (a) *Re-measurement loss on defined benefit asset/obligation* which increased by 318.4% to ₱8.6 billion from ₱2.1 billion in 2018 as a result of the valuation of the Group's retirement plan, (b) Net Fair value Changes on Cash Flow Hedges which decreased to a loss of ₱1,406.0 million in 2019 from a gain of ₱62.4 million in 2018, and (c) *Cumulative Translation Adjustment (CTA)* which decreased to ₱1.3 billion from ₱2.0 billion in 2018. The latter is related mainly to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso and includes the group's share in the CTA of associates.

Non-controlling Interests increased by 10.5% to ₱153.5 billion from ₱138.9 billion in 2018 due mainly to the increase in net assets of subsidiaries that are not wholly owned.

31 December 2018 vs. 31 December 2017

Total *Assets* increased by 10.5% to P1,060.6 billion from P960.1 billion in 2017. Likewise, total *Liabilities* increased by 12.3% to P568.3 billion from P506.3 billion in 2017.

Current Assets

Current Assets increased by 13.7% to P241.7 billion from P212.5 billion in 2017.

Cash and Cash Equivalents increased by 6.7% to P79.3 billion from P74.3 billion in 2017 due mainly to net proceeds from loans partially offset by investments and capital expenditures.

Financial Assets decreased by 52.6% to P0.6 billion from P1.3 billion in 2017 due mainly to maturity of certain investments in bonds in 2018.

Merchandise Inventories increased by 14.6% to P31.8 billion from P27.8 billion in 2017. Bulk of the increase came from the Specialty group.

Other Current Assets increased by 10.8% to P70.3 billion from P63.5 billion in 2017 due mainly to the increase in current portion of Land and development arising from development costs on ongoing projects and higher prepaid taxes and other prepayments and receivable from banks.

Noncurrent Assets

Noncurrent Assets increased by 9.5% to P818.9 billion from P747.6 billion in 2017.

Investments in Associate Companies and Joint Ventures increased by 7.3% to P259.8 billion from P242.1 billion in 2017. The increase mainly represents equity in net earnings of associates in 2018 and investments in new associates, partly offset by dividends received in 2018.

Time Deposits decreased by 91.0% to P2.4 billion from P26.7 billion in 2017 due mainly to reclassification of maturing time deposits to current. On the other hand, the current portion of *Time Deposits* increased by 95.2% to P25.8 billion from P13.2 billion in 2017 due mainly to reclassification from non-current and new investments in time deposits coming from proceeds from matured investments in bonds, partly offset by matured time deposits that were used to pay off loans.

Property and Equipment increased by 8.7% to P23.2 billion from P21.3 billion due mainly to new stores in 2018.

Investment Properties increased by 7.0% to P309.3 billion from P289.0 billion in 2017 due mainly to ongoing new mall projects and commercial building construction, including the Four E-Com Center as well as the redevelopment of *SM Mall of Asia* and other existing malls. The increase is also attributable to landbanking initiatives.

Land and Development increased by 34.2% to P53.9 billion from P40.2 billion in 2017 due mainly to landbanking and construction accomplishments during the period.

Other Noncurrent Assets increased by 54.8% to P115.4 billion from P74.6 billion in 2017. The increase mainly represents higher receivable from real estate buyers and bonds and deposits.

Current Liabilities

Current Liabilities increased by 20.9% to P212.7 billion from P175.9 billion in 2017.

Bank Loans decreased by 21.9% to P18.9 billion from P24.2 billion in 2017 due to net payments during the period, partly offset by new loan availments.

Accounts Payable and Other Current Liabilities increased by 17.1% to P124.8 billion from P106.6 billion in 2017 mainly from higher business volume.

Income Tax Payable increased by 93.3% to P3.6 billion from P1.9 billion in 2017 due mainly to higher income tax due.

Current Portion of Long-term Debt increased by 52.6% to P61.5 billion from P40.3 billion in 2017 due mainly to reclassification of maturing loans.

Dividends Payable increased by 32.9% to P3.9 billion from P2.9 billion in 2017. This represents dividends due to minority stockholders of certain subsidiaries.

Noncurrent Liabilities

Noncurrent Liabilities increased by 7.6% to P355.6 billion from P330.4 billion in 2017.

Long-term Debt - Net of Current Portion increased by 4.4% to P305.6 billion from P292.6 billion in 2017 due mainly to new debt availments, partly offset by payments.

Tenants' Deposits and Others increased by 38.4% to P41.3 billion from P29.8 billion in 2017 due mainly to new malls and office buildings and increase in customers' deposits from residential buyers.

Equity

Total *Equity* increased by 8.5 % to P492.3 billion from P453.8 billion in 2017.

Equity Attributable to Owners of the Parent increased by 7.7% to P353.4 billion from P328.1 billion in 2017. This increase resulted mainly from the (a) P30.1 billion net increase in Retained Earnings due to the P37.1 billion *Net Income Attributable to Owners of the Parent,* P2.9 billion effect from the adoption of PFRS 9, *Financial Instruments*, less P9.9 billion dividend declaration during the year, and (b) *Cumulative Translation Adjustment (CTA)* which increased by 48.1% to P2.1 billion from P1.4 billion in 2017. This is related mainly to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso and includes the group's share in the CTA of associates. These were partially offset by (a) *Net Unrealized Gain on Financial Assets at Fair Value* which decreased by 23.3% to P11.7 billion from P15.3 billion in 2017 due mainly to the depreciation in market value of certain investments of the Group, and (b) *Re-measurement loss on defined benefit asset/obligation* which increased by 194.2% to P2.1 billion from P0.7 billion as a result of the valuation of the Group's retirement plan.

Non-controlling Interests increased by 10.5% to P138.9 billion from P125.7 billion in 2017 due mainly to the increase in net assets of subsidiaries that are not wholly owned.

31 December 2017 vs. 31 December 2016

Total *Assets* increased by 11.4% to P960.1 billion from P861.5 billion in 2016. Likewise, total *Liabilities* increased by 13.3% to P506.3 billion from P446.7 billion in 2016.

Current Assets

Current Assets decreased by 3.0% to P212.5 billion from P219.1 billion in 2016.

Cash and Cash Equivalents decreased by 0.8% to P74.3 billion from P74.9 billion in 2016 due mainly to new investments in associate companies partly offset by remaining proceeds from debt drawn by SM Prime in 2017.

Investments Held for Trading and Sale decreased by 61.0% to P1.3 billion from P3.5 billion in 2016 due mainly to maturity of investments held for trading.

Merchandise Inventories increased by 7.6% to P27.8 billion from P25.8 billion in 2016. Bulk of the increase came from the Non Food Group.

Other Current Assets increased by 7.5% to P63.5 billion from P59.0 billion in 2016 due mainly to the increase in current portion of Land and development arising from land acquisitions and development costs, higher prepaid taxes and other prepayments, and current derivative assets in 2017.

Noncurrent Assets

Noncurrent Assets increased by 16.4% to P747.6 billion from P642.4 billion in 2016.

AFS Investments increased by 37.0% to P25.6 billion from P18.7 billion in 2016 due mainly to new investments and increase in the market value of certain AFS investments.

Investments in Associate Companies and Joint Ventures increased by 33.6% to P242.1 billion from P181.2 billion in 2016. The increase mainly represents equity in net earnings of associates in 2017, investments in new associates, additional investments in bank associates partly offset by dividends received from associate companies.

Time Deposits decreased by 36.5% to P26.7 billion from P42.0 billion in 2016 due mainly to reclassification and maturing time deposits. On the other hand, the current portion of *Time Deposits* decreased by 45.9% to P13.2 billion from P24.5 billion in 2016 due mainly to settlement of certain long-term debts and new investments in associate companies.

Investment Properties increased by 7.0% to P289.0 billion from P270.1 billion in 2016 due mainly to ongoing new mall projects located in Pangasinan, Pampanga, Zambales and Albay in the Philippines; expansions and renovations of *SM Mall of Asia*; costs incurred for landbanking; and ongoing projects of the commercial group namely *Three E-Com Center* and *Four E-Com Center*.

Land and Development increased by 68.6% to P40.2 billion from P23.8 billion in 2016 due mainly to landbanking and construction accomplishments during the period.

Other Noncurrent Assets increased by 30.2% to P74.6 billion from P57.3 billion in 2016. The increase mainly represents higher receivable from real estate buyers and deposits and advance rentals.

Current Liabilities

Current Liabilities increased by 30.4% to P175.9 billion from P134.8 billion in 2016.

Bank Loans increased by 72.8% to P24.2 billion from P14.0 billion in 2016 resulting from new loan availments, net of payments during the period.

Current Portion of Long-term Debt increased by 57.4% to P40.3 billion from P25.6 billion in 2016 due mainly to reclassification of maturing loans.

Accounts Payable and Other Current Liabilities increased by 19.4% to P106.6 billion from P89.3 billion in 2016 mainly from higher business volume.

Dividends Payable decreased by 11.0% to P2.9 billion from P3.3 billion in 2016. This represents dividends due to minority stockholders of certain subsidiaries.

Income Tax Payable decreased by 29.8% to P1.9 billion in 2017 from P2.7 billion in 2016 due mainly to net tax payments.

Noncurrent Liabilities

Noncurrent Liabilities increased by 5.9% to P330.4 billion from P311.9 billion in 2016.

Long-term Debt - Net of Current Portion increased by 4.4% to P292.6 billion from P280.3 billion in 2016 due mainly to new debt availments.

Tenants' Deposits and Others increased by 25.7% to P29.8 billion from P23.7 billion in 2016 due mainly to new malls and expansions.

Equity

Total *Equity* increased by 9.4% to P453.8 billion from P414.8 billion in 2016.

Equity Attributable to Owners of the Parent increased by 9.2% to P328.1 billion from P300.5 billion in 2016. This increase resulted mainly from (a) *Cumulative Translation Adjustment* which increased by 15.3% to P1.4 billion from P1.2 billion in 2016. This is related mainly to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso. (b) *Net Unrealized Gain on AFS Investments* which increased by 42.1% to P15.3 billion from P10.8 billion in 2016 due mainly to the appreciation in market value of certain AFS investments of the Group. These were partially offset by *Re-measurement gain on defined benefit asset/obligation* which decreased by P0.8 billion as a result of the valuation of the Group's retirement plan.

Non-controlling Interests increased by 10.0% to P125.7 billion from P114.3 billion in 2016 due mainly to the increase in net assets of certain subsidiaries that are not wholly owned.

Key Performance Indicators

The following are the major financial ratios of the Issuer for the years ended December 31, 2017, 2018 and 2019 and for the three months ended March 31, 2020:

	Year ended December 31			Three months ended March 31
	2017	**2018**	**2019**	**2020**
Current Ratio	1.2	1.1	1.3	1.1
Asset to Equity	2.1	2.2	2.1	2.2
Debt-Equity Ratio:				
On Gross Basis	44:56	44:56	41:59	42:58
On Net Basis	35:65	36:64	36:64	38:62
Return on Equity	10.4%	10.9%	11.9%	11.3%
Revenue Growth	8.4%	13.0%	11.5%	1.9%
Net Margin	12.9%	13.0%	13.8%	12.4%
Net Income Growth	5.5%	12.6%	20.2%	-15.7%
EBITDA (in ₱ billions)	₱89.9	₱101.8	₱124.5	₱25.0
Interest Cover	5.8x	6.1x	6.5x	6.0x

The manner by which the Company calculates the foregoing indicators is as follows:

1. Current Ratio

   $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

2. Asset to Equity Ratio

   $\frac{\text{Total Assets}}{\text{Total Equity}}$

3. Debt – Equity Ratio

   Gross Basis

   $\frac{\text{Total Interest Bearing Debt}}{\text{Total Equity + Total Interest Bearing Debt}}$

   Net Basis

   Total Interest Bearing Debt less cash and cash equivalents (excluding cash on hand), time deposits, investment in bonds
   ―――
   Total Equity + Total Interest Bearing Debt less cash and cash equivalents (excluding cash on hand), time deposits, investments in bonds

4. Revenue Growth

   $\frac{\text{Total Revenues (Current Period)}}{\text{Total Revenues (Prior Period)}} - 1$

5. Net Margin

   $\frac{\text{Net Income After Tax}}{\text{Total Revenues}}$

6. Net Income Growth

   Net Income Attributable to Equity Holders of the Parent (Current Period)
   ――― - 1
   Net Income Attributable to Equity Holders of the Parent (Prior Period)

7.	Return on Equity	Net Income Attributable to Owners of the Parent / Average Equity Attributable to Owners of the Parent
8.	EBITDA	Income from operations + Depreciation & Amortization
9.	Interest Cover	EBITDA / Interest expense

Expansion Plans / Prospects for the Future

The Company as well as its major business segments, Property and Retail, have appropriated certain portions of Retained Earnings to cover expansion plans which include corporate projects, expansions, new development projects, land acquisitions and/or investment in new business ventures.

These projects would be funded through internally generated sources and other capital raising initiatives such as bond issuances and loan availments.

The COVID-19 pandemic has caused disruptions to the various businesses of the Group. Given the uncertain environment, the Group will continually adapt its business model to serve and fulfill the needs of its customers. The Group's priorities are:

- Keep our businesses operating safely to support the national agenda and serve affected communities with essential products and services while urging our partners to do the same;
- Expand our customer access channels while synergizing our businesses on various modes of delivery;
- Assure our employees, customers and partners with the aim to maintain their economic well-being; and,
- Mobilize medical donations, relief missions and other forms of support swiftly and on time in areas which need them most.

The Company has no known direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation. There were no contingent liabilities or assets in the Company's balance sheet. The Company has no off-balance sheet transactions, arrangements, obligations during the reporting year as at balance sheet date.

There are no known trends, events, material changes, seasonal aspects or uncertainties that are expected to affect the Company's continuing operations other than those mentioned above.

There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Issuer's liquidity increasing or decreasing in any material way. The Issuer does not anticipate having any cash flow or liquidity problems within the next twelve months.

There are no significant elements of income or loss arising outside of the Issuer's continuing operations.

The Issuer is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement.

There are no significant amounts of the Issuer's trade payables that have not been paid within the stated trade terms.

DESCRIPTION OF PROPERTIES

The Issuer's principally owned properties consist of land and buildings. The land improvements, buildings, equipment, owned by the Issuer have a net book value of ₱2.2 billion as at 31 March 2020. The locations and general descriptions of these properties are described below.

Property	**Location**
One E-com Center office building	Pasay City
Warehouses, Land and improvements	Asinan, Parañaque
Cyberzone building, Land and improvements	Baguio City

In addition, the Issuer leases from its subsidiary, SM Prime, the lands on which the One E-com Center office building and the warehouses in Asinan, Parañaque are located. The details of these leases are described below:

Leased Properties	**Annual Lease**	**Expiration Date**	**Renewal Option**
One E-com Center Lot	₱19,169,514	January 2024	Renewable
Asinan, Parañaque Lot	35,841,168	January 2022	Renewable
Total Lease Payments	**₱55,010,682**		

There are no mortgages, liens or encumbrances over any of the properties owned by the Company.

BOARD OF DIRECTORS AND MANAGEMENT OF THE ISSUER

Directors and Executive Officers

The following table sets forth the persons who served as a Director and/or executive officer of SMIC as at the date of this Prospectus:

Name	Position	Citizenship	Age
Jose T. Sio	Chairman	Filipino	80
Teresita T. Sy	Vice Chairperson	Filipino	69
Henry T. Sy, Jr.	Vice Chairman	Filipino	66
Frederic C. DyBuncio	President & Chief Executive Officer	Filipino	60
Harley T. Sy	Executive Director	Filipino	61
Alfredo E. Pascual	Lead Independent Director	Filipino	72
Tomasa H. Lipana	Independent Director	Filipino	71
Robert G. Vergara	Independent Director	Filipino	59
Marcelo C. Fernando, Jr.	Senior Vice President – Treasury and Treasurer	Filipino	60
Elizabeth Anne C. Uychaco	Senior Vice President – Corporate Services	Filipino	64
Franklin C. Gomez	Senior Vice President – Finance and Corporate Information Officer	Filipino	51
Cecilia Reyes-Patricio	Senior Vice President – Corporate Taxes	Filipino	62
Arthur A. Sy	Senior Vice President – Legal, Assistant Corporate Secretary and Alternate Corporate Information Officer	Filipino	50
Wellington Palmero	Senior Vice President – Chief Risk Officer and Compliance Officer	Filipino	59
Anastacio C. Balubar II	Vice President – Internal Audit	Filipino	49
Elmer B. Serrano	Corporate Secretary	Filipino	52

Management

Board of Directors

The Directors of the Issuer are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been appointed or elected and qualified.

The following describes the background and business experience of the Issuer's Directors and Executive Officers during the last five years:

Jose T. Sio is the Chairman of the Board of SMIC. He is also a Director of China Banking Corporation, Belle Corporation, Atlas Consolidated Mining and Development Corporation, Far Eastern University, NLEX Corporation, and Ortigas Land Corporation, and Adviser to the Board of Directors of BDO Unibank, Inc. and Premium Leisure Corporation. Mr. Sio holds a master's degree in Business Administration (MBA) from New York University, is a certified public accountant, and is a former Senior Partner of SyCip Gorres Velayo & Co. (SGV). He was voted CFO of the Year in 2009 by the Financial Executives of the Philippines. He was also awarded as Best CFO (Philippines) in various years by several Hong Kong-based publications.

Teresita T. Sy is the Vice Chairperson of SMIC and Adviser to the Board of SM Prime Holdings, Inc. She also sits as Chairperson of SM Retail, Inc. She also holds board positions in several companies within the SM Group. She is also the Chairperson of BDO Unibank, Inc. ("BDO") and serves as the Chairperson and/or Director of various subsidiaries and affiliates of BDO such as BDO Private Bank, Inc., BDO Leasing & Finance, Inc., BDO Capital & Investment Corporation, BDO Foundation, Inc., and BDO Life Assurance Company, Inc. (formerly Generali Pilipinas Life Assurance Company, Inc.). She also serves as Adviser to the Board of One Network Bank, Inc. (A Rural Bank of BDO). A graduate of Assumption College with a Bachelor of Arts and Science degree in Commerce major in Management, she brings to the board her diverse expertise in retail merchandising, mall and real estate development, and banking and finance.

Henry T. Sy, Jr. is the Vice Chairman of SMIC and Chairman of SM Prime Holdings, Inc. He is also the Chairman and Chief Executive Officer of SM Development Corporation and Vice Chairman of National Grid Corporation of the Philippines. He is responsible for the real estate acquisitions and development activities of the SM Group which include the identification, evaluation, and negotiation for potential sites as well as the input of design ideas. He graduated with a Management degree from the De La Salle University.

Frederic C. DyBuncio is the President and Chief Executive Officer of SMIC and 2Go Group, Inc. He is the Vice Chairman of the Board of Atlas Consolidated Mining and Development Corporation and Director of Phoenix Petroleum Philippines, Inc. Prior to holding the post, he was a career banker who spent over 20 years with JP Morgan Chase and its predecessor institutions. During his stint in the banking industry, he was assigned to various executive positions where he gained substantial professional experience in the areas of credit, relationship management and origination, investment banking, capital markets, and general management. He has worked and lived in several major cities including New York, Seoul, Bangkok, Hong Kong, and Manila. He graduated from Ateneo de Manila University with a Bachelor of Science degree in Business Management and finished a Master's degree in Business Administration program at Asian Institute of Management.

Harley T. Sy is the Executive Director of SMIC. He is a Director of China Banking Corporation and other companies within the SM Group and Adviser to the Board of Directors of BDO Private Bank. He is the Co-Vice Chairman and Treasurer of SM Retail, Inc. He holds a degree in Bachelor of Science in Commerce, Major in Finance from the De La Salle University.

Alfredo E. Pascual is the Lead Independent Director of SMIC. He was the President and CEO of the Institute of Corporate Directors (ICD) in 2018 & 2019. From 2011 to 2017, he led the University of the Philippines (UP) System as President and Board Co-Chair. Before UP, Mr. Pascual worked at the Asian Development Bank (ADB) for 19 years in such positions as Director for Private Sector Operations, Director for Infrastructure Finance, and Advisor for Public-Private Partnership (Infrastructure Development). At ADB, he had postings in India and Indonesia as well as board directorships in ADB's investee companies in China, India, and the Philippines. Earlier on, Mr. Pascual held executive positions in investment banking companies e.g. First Metro Investment Corporation and was a finance professor at the Asian Institute of Management (AIM). Currently also, he is an independent director at other publicly listed companies and a trustee at nonprofits and foundations. He finished his MBA and BS Chemistry (cum laude) at UP.

Tomasa H. Lipana is an Independent Director of SMIC. She is a former Chairperson and Senior Partner of Isla Lipana & Co., the Philippine member firm of PricewaterhouseCoopers. She is also an independent director and Audit Committee Chairperson of Flexo Manufacturing Corporation, and Trade and Investment Development Corporation of the Philippines (Philippine Guarantee Corporation, formerly Philippine Export Import Credit Agency), a government-owned and controlled corporation. Previously, she was an independent director of Goldilocks Bakeshop Inc., Inter-Asia Development Bank, and QBE Seaboard Insurance Philippines. She is a fellow and trustee of the Institute of Corporate Directors. She is also a trustee of the Shareholders' Association of the Philippines, Inc., among other non-profit organizations. Ms. Lipana took up Executive Education/Management Development Programs at Harvard Business School, University of Western Ontario, and Asian Institute of Management. She received the Outstanding CPA in the Public Practice Award from the Philippine Institute of Certified Public Accountants and the Outstanding Alumna Award from the University of the East where she graduated Cum Laude. She is also a CPA Board placer.

Robert G. Vergara is an Independent Director of SMIC. He was recently appointed as an Independent Director of Metro Pacific Hospital Holdings, Inc. (MPHHI). He is currently the President of Vergara Advisory Management, Inc. founded in May 2018. He also sits as an Independent Director of STI Holdings since July 27, 2017. From September 2010 to October 2016, he served as the President and General Manager and Vice-Chairman of the Board of Trustees of the Government Service Insurance System (GSIS). As President and General Manager of GSIS, Mr. Vergara also served as Vice Chairman and Director of National Reinsurance Corporation of the Philippines, Manila Hotel Corporation, and Member of the Board of Directors of Philippine Stock Exchange, Philippine Health Insurance Corporation, Philippine National Construction Corporation and Housing and Urban Development Coordinating Council. Before that, he was the Managing Director and Founding Partner of Cannizaro (Hong Kong) Limited from October 2006 to September 2010. From 2002 to 2006, he was a Director of Lionhart (Hong Kong) Ltd. He was a Principal in Morgan Stanley Asia Ltd. from 1997-2001 and served as the Managing Director of IFM Asia Ltd. from 1990 to 1997. He obtained his Master in Business Administration from Harvard Graduate School of Business Administration. He graduated magna cum laude from Ateneo De Manila University with Bachelor of Science degrees in Management Engineering and Mathematics.

Period of Directorship:

Name	**Period Served**
Jose T. Sio	2005 – present
Teresita T. Sy	1979 – present
Henry T. Sy, Jr.	1979 – present
Frederic C. DyBuncio	2017 – present
Harley T. Sy	1993 – present
Alfredo E. Pascual	2017 – present
Tomasa H. Lipana	2016 – present
Robert G. Vergara	2019 – present

Executive Officers

Marcelo C. Fernando, Jr. is the Senior Vice President for Treasury and Treasurer of SMIC from July 2015. Prior to joining the company, he spent a combined 31 years in the banking industry, 29 of them with Citibank, N.A. His banking experience was mainly in the Markets business which was involved in the sales, trading and structuring of currencies, fixed income, money markets and commodities products and their derivatives. He was also responsible for liquidity management and balance sheet funding and gapping activities as Country Treasurer in the Philippines and during his posting in Thailand. Mr. Fernando also had regional responsibilities as Citibank's Markets Head for the ASEAN cluster which covered Indonesia, Malaysia, Philippines, Thailand and Vietnam. He obtained his Bachelor of Arts Degree in Economics from the University of the Philippines, Diliman (Cum Laude), and graduated with Distinction from the Masters in Business Management program of the Asian Institute of Management. Mr. Fernando is a fellow of the Institute of Corporate Directors.

Elizabeth Anne C. Uychaco is the Senior Vice President, Corporate Services, of SMIC. She is currently a Board Director and Vice Chairperson of Belle Corporation. She is also a Chairperson of the Board of The Neo Group. She is likewise a Board Director of Republic Glass Holdings Corp., BDO Life Assurance Co., Goldilocks Bakeshop, Inc., and ACE Hardware Philippines, Inc. She was formerly the Senior Vice President and Chief Marketing Officer of Philippine American Life and General Insurance Company and a Board Director of Philam Call Center. Prior to that, she was the Vice President of Globe Telecom, Inc., Kuok Philippine Properties, Inc. and Transnational Diversified Corp. Ms. Uychaco graduated from St. Scholastica's College in 1978. She obtained a Master's Degree in Business Economics from the University of Asia and the Pacific in 1988 and a Master's Degree in Business Administration from the Ateneo School of Business in 1992.

Franklin C. Gomez is the Senior Vice President for Finance and Corporate Information Officer of SMIC. Prior to joining SMIC in 2013, he spent over 20 years at Unilever where he held several senior positions, his last being Finance Director and Chief Financial Officer of Unilever Indonesia since May 2009. His previous senior posts in the same company include Chief Financial Officer at Unilever Philippines; Innovation and Learning Director at the Finance Excellence Centre in London; and Finance Director of Selecta Wall's Ice Cream, Philippines. Mr. Gomez holds a Bachelor of Arts Degree in Economics and Bachelor of Science Degree in Commerce Major in Accountancy from De La Salle University, Manila.

Cecilia Reyes-Patricio is the Senior Vice President for Corporate Taxes of SMIC. Prior to joining SMIC in 1988, she was a financial and tax auditor at SyCip, Gorres, Velayo & Co. She holds a Master of Science Degree (with highest honors) in Commerce, Major in Taxation, from the Manuel Luis Quezon University. A Certified Public Accountant, she graduated Magna Cum Laude with a Bachelor of Science Degree in Business Administration from the University of the East.

Wellington Palmero is the Senior Vice President and Chief Risk Officer and Compliance Officer of SMIC. Prior to joining SMIC, he was the Head of Citibank Compliance Service Center. He has also worked in several financial institutions and spent most of his working career with Goldman Sachs Hong Kong and New York. Mr. Palmero holds a Master's Degree in Business Administration from the University of Western Ontario.

Anastacio C. Balubar II is the Vice President for Internal Audit of SMIC. He is a Certified Public Accountant with 29 years of international and multi-cultural audit experience, having worked in the Philippines and Dubai, UAE with various large conglomerates involved in key sectors such as airline, real estate/property development, hospitality and leisure, shopping malls, and retail amongst others. He managed overseas audit assignments in Asia, UK, USA, and Middle East. As a seasoned audit professional, he considers himself a catalyst for change and advocates transparent leadership, strong corporate governance, and business excellence. He graduated from Pamantasan Ng Lungsod Ng Maynila (University of the City of Manila) with a Bachelor's Degree in Business Administration, Major in Accounting and obtained key certifications in various audit subjects as well as leadership and management masterclass.

Elmer B. Serrano is the Corporate Secretary of SMIC and Corporate Secretary of SM Prime Holdings, Inc. since November 2014. He is Name Partner of the law firm of Martinez Vergara Gonzalez & Serrano and has been practicing corporate law for over two decades. Atty. Serrano is currently a Director of 2GO Group, Inc. and the Corporate Information Officer of BDO Unibank, Inc. He is also the Corporate Secretary of Premium Leisure Corp., PremiumLeisure and Amusement, Inc., Crown Equities, Inc., and Corporate Secretary of subsidiaries of BDO Unibank, Inc. namely, BDO Capital & Investment Corporation, BDO Securities Corporation, BDO Insurance Brokers, Inc., and Averon Holding Corporation. He was a director of OCLP Holdings, Inc. until November 2014. He is a graduate of the Ateneo Law School and holds a degree of B.S. Legal Management from the Ateneo de Manila University.

Arthur A. Sy is the Assistant Corporate Secretary, Alternate Corporate Information Officer and Senior Vice President for Legal Department of SMIC. He is likewise the Assistant Corporate Secretary of SM Prime Holdings, Inc., Belle Corporation, Premium Leisure Corp., and 2Go Group, Inc. Further, he is currently the Corporate Secretary of various major companies within the SM Group of Companies and is also the Corporate Secretary of National University. Admitted to practice in the Philippines and the State of New York, Atty. Sy holds a Bachelor of Arts degree in Philosophy from the University of Santo Tomas and a Juris Doctor degree from the Ateneo de Manila University, School of Law.

Period of Officership:

Name	**Period Served**
Frederic C. DyBuncio	2017 - present
Marcelo C. Fernando, Jr.	2015 – present
Elizabeth Anne C. Uychaco	2009 – present
Franklin C. Gomez	2013 – present
Cecilia Reyes-Patricio	2010 – present
Wellington Palmero	2017 – present
Anastacio C. Balubar II	2017 – present
Elmer B. Serrano	2014 – present
Arthur A. Sy	2017 – present

Involvement in Legal Proceedings

The Issuer is not aware of any of the following events having occurred during the past five years up to the date of this Prospectus that are material to an evaluation of the ability or integrity of any director, nominee for election as Director, executive officer, underwriter or controlling person of the Issuer:

(a) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

(b) any conviction by final judgement, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

(c) being subject to any order, judgement or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities;

(d) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgement has not been reversed, suspended or vacated; and

(e) a securities or commodities law or regulation, and the judgement has not been reversed, suspended or vacated.

Corporate Governance

SMIC recognizes the essential role that good governance plays in managing a world class organization. The Company is committed to driving best practice corporate governance throughout its businesses and to ensuring a culture of appropriate engagement with all its stakeholders.

SMIC's Board of Directors (the "Board") is fully committed to the principles of corporate governance and to ensuring that the long term financial success of the business is built on fairness, accountability and transparency. The Board is responsible for setting the high standard of integrity expected throughout the organization.

SMIC's Board is composed of eight directors, three of whom are non-executive independent directors. As required by the Company's Manual on Corporate Governance (the "Manual"), independent directors are independent of Management and do not have substantial shareholdings or material relations that could potentially impede the performance of their independent judgment.

To ensure optimum Board performance, the Company conducts annual performance evaluations of the Board of Directors, its individual members and Board Committees. Through the evaluation process, directors identify areas for improvement, such as the quality and timeliness of information provided to them; the frequency and conduct of regular, special or committee meetings; directors' access to management, the Corporate Secretary and Board Advisors; as well as other forms of assistance that they may need in the performance of their duties. The Board reviews the results of these evaluations and agrees on clear action plans to address any issues raised. In addition, the Board is asked to identify areas of continuing education on corporate governance topics they require.

The Company ensures that the Board and key officers are kept abreast of governance related developments through regular education programs. SMIC also facilitates annual training programs for the directors and officers of its subsidiaries and affiliates within the SM Group of Companies. These Group-wide training programs are conducted by providers accredited by the Securities and Exchange Commission.

SMIC's Board Committees (namely the Audit Committee, Corporate Governance Committee, Compensation Committee, Risk Management Committee and Related Party Transactions Committee) are each guided by their respective Board Committee Charters which outline their purpose, composition, duties and responsibilities. All Board Committees' Charters are reviewed annually.

SMIC maintains a Manual and Code of Ethics (the "Code"), which outlines the principles of good corporate governance expected throughout the organization. SMIC ensures that its directors, officers and employees are familiar with and adhere to this Code. The Code defines SMIC's compliance system and identifies the roles and responsibilities of the Board and Management in relation to corporate governance. It contains the Company's policies on disclosures and transparency, the communication and training programs related to corporate governance and the rights and protection of stakeholders.

There have been no deviations from the Manual since it was adopted. SMIC certifies that the Company, its directors, officers and employees have adopted and fully complied with all leading practices and principles of good corporate governance as provided by the Manual.

The Code highlights the importance of integrity in the Company's dealings with its investors, creditors, customers, contractors, suppliers, regulators, employees and other relevant groups. It also outlines the Company's duties with regard to its employees, shareholders and the communities it operates in. The Manual is reviewed regularly and may be accessed via the Company's website.

In accordance with the Code, SMIC has established various governance-related policies, including the Conflict of Interest Policy, which requires SMIC personnel to disclose any actual or potential conflict of interest to the Company, and the Insider Trading Policy which prohibits directors, officers and employees from trading the Company's shares five days before and two trading days after the disclosure of any material stock price-sensitive information. Other existing governance related policies include the Guidelines on Acceptance of Gifts, Guidelines on Placement of Advertisements and the Policy on Accountability, Integrity and Vigilance which is SMIC's whistleblowing policy. SMIC's corporate governance-related policies and programs are regularly disseminated throughout the organization and are made public via the Company's website.

SMIC ensures that its stakeholders receive timely and accurate information on all facets of its business through its website and other disclosures. SMIC's website has a separate corporate governance section that features subsections on its policies, programs and other relevant developments. SMIC also ensures that its shareholders are provided with periodic reports, including relevant information on its directors and officers and their shareholdings and dealings with the Company.

Going forward, SMIC will continue to support the initiatives of regulators and advocacy groups to enhance and promote corporate governance standards, while also further strengthening its own corporate governance culture.

Executive Compensation

The members of the Board of Directors receive a total of ₱100,000 per diem per Board meeting and a total of ₱20,000 per diem per Board Committee meeting. For the year ended December 31, 2019, the total compensation received by the directors for serving as members of the Board of Directors amounted to ₱5.7 million.

For the year ended 31 December 2019, the aggregate compensation paid or incurred during the last two fiscal years and estimated to be paid in the ensuing fiscal year to the Chief Executive Officer and executive officers of the Company are as follows:

Compensation of Executive Officers and Directors (In ₱ millions)					
Name	**Principal Position**	**Year**	**Salary**	**Bonus**	**Other Annual Compensation**
Harley T. Sy	Executive Director				
Frederic C. DyBuncio	President and Chief Executive Officer				
Elizabeth Anne C. Uychaco	Senior Vice President – Corporate Services				
Franklin C. Gomez	Senior Vice President – Finance and CIO				
Marcelo C. Fernando, Jr.	Senior Vice President – Group Treasury and Treasurer	2020 (estimate)	136.0	23.0	6.0
President and 4 most highly compensated executive officers		2019 2018	124.0 100.0	21.0 17.0	5.0 4.0
All other officers and Directors as a group unnamed		2020 (estimate) 2019 2018	401.0 365.0 323.0	67.0 61.0 54.0	17.0 15.0 13.0
Total		2020 (estimate) 2019 2018	537.0 489.0 423.0	90.0 82.0 71.0	23.0 20.0 17.0

Other Arrangements

Aside from the aforementioned compensation, these officers do not receive any other form of renumeration.

The above-named executive officers have their respective letters of appointment indicating their job descriptions, functions, and obligations, among others. There are no other arrangements pursuant to which the directors of the Issuer are compensated, or are to be compensated, directly or indirectly, by the Issuer for services rendered by such directors as of the date of this Prospectus.

There are no employment contracts between the Issuer and any named executive officer.

There is no compensatory plan nor arrangement with respect to an executive officer which shall result or will result from the resignation, retirement or any other termination of such executive officer's employment with the Company, or from a change-in-control of the Company, or a change in an executive officer's responsibilities following a change-in-control of the Company.

Warrants and Options Outstanding

As of the date of this Prospectus, there are no outstanding warrants or options held by directors or officers. There are no actions to be taken with regard to election, any bonus or profit-sharing, change in pension/retirement plan, granting of or extension of any options, warrants or rights to purchase any securities.

Significant Employees

The Issuer has no employee who is not an executive officer but who is expected to make a significant contribution to the business.

Family Relationships

Teresita T. Sy, Elizabeth T. Sy, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy and Harley T. Sy are siblings. All other directors and officers are not related either by consanguinity or affinity. There are no other family relationships known to the registrant other than the ones disclosed herein.

MARKET PRICE OF AND DIVIDENDS ON THE ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Holders of the Issuer's Common Shares

As at 30 June 2020, the following are the top 20 stockholders of the Issuer.

	Stockholder Name	No. of shares	% to Total
1	PCD Nominee Corp. (Non-Filipino)	414,314,888	34.39%
2	PCD Nominee Corp. (Filipino)	121,977,353	10.13%
3	Hans T. Sy	98,769,136	8.20%
4	Herbert T. Sy	98,753,008	8.20%
5	Harley T. Sy	87,604,771	7.27%
6	Henry T. Sy, Jr.	87,503,008	7.26%
7	Teresita T. Sy	85,440,508	7.09%
8	Elizabeth T. Sy	71,022,817	5.90%
9	Syntrix Holdings, Inc.	46,875,000	3.89%
10	Sysmart Corporation	28,966,752	2.40%
11	Tansmart Holdings, Inc.	27,500,000	2.28%
12	Henry Sy Foundation, Inc.	22,500,000	1.87%
13	Felicidad T. Sy Foundation, Inc.	11,250,000	0.93%
14	Susana Fong	452,998	0.04%
15	Value Plus, Inc.	152,119	0.01%
16	SM Prime Holdings, Inc.	146,104	0.01%
17	Belle Corporation	48,877	0.00%
18	Bernadette S. Go	39,402	0.00%
19	Hector Yap Dimacali	39,102	0.00%
20	Hans Sy FAO Wonderfoods Corp.	39,102	0.00%

As at 30 June 2020, the Issuer has 1,259 shareholders of its common shares. The foreign ownership level in the Issuer is 34.41%.

Dividends and Dividend Policy

The policy of the Company is to provide a sustainable dividend stream to its shareholders. The Board determines the dividend payout taking into consideration the Company's operating results, cash flows, capital investment needs and debt servicing requirements. Since its listing in 2005 the Company has been able to declare annual cash dividends equivalent to 30% of prior year earnings and will endeavor to continue doing so while ensuring financial flexibility. Dividends shall be paid within 30 days from the date of declaration.

On June 24, 2020, the BOD approved the declaration of cash dividends of 42.5% of the par value or ₱4.25 per share for a total amount of ₱5,119.5 million in favor of stockholders on record as at July 9, 2020.This was paid on July 23, 2020.

On April 24, 2019, the BOD approved the declaration of cash dividends of 91.2% of the par value or ₱9.12 per share for a total amount of ₱10,985.8 million in favor of stockholders on record as at May 9, 2019. This was paid on May 23, 2019.

On April 25, 2018, the BOD approved the declaration of cash dividends of 82.0% of the par value or ₱8.20 per share for a total amount of ₱9,877.6 million in favor of stockholders on record as at May 10, 2018. This was paid on May 24, 2018.

On April 26, 2017, the BOD approved the declaration of cash dividends of 77.7% of the par value or P7.77 per share for a total amount of ₱9,359.6 million in favor of stockholders on record as at May 11, 2017. This was paid on May 25, 2017.

Unappropriated retained earnings include the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱246,523.1 million and ₱237,286.0 million as at March 31, 2020 and December 31, 2019, respectively, that is not available for distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.

Market Price of Issuer's Common Equity

The registrant's common equity is principally traded at the Philippine Stock Exchange. The high and low sales prices for each period are indicated in the table below.

	2020		**2019**		**2018**	
(in ₱)	**High**	**Low**	**High**	**Low**	**High**	**Low**
1st Quarter	1,079.00	667.00	1,015.0	915.5	1,140.00	912.5
2nd Quarter	997.00	780.00	975.0	884.5	988.0	837.0
3rd Quarter	--	--	1,048.0	950.0	990.0	862.0
4th Quarter	--	--	1,091.0	973.0	980.0	850.0

The total number of stockholders as at 30 June 2020 was 1,259. Market price of the Issuer's Shares as at [24 August] 2020 was ₱883.00 per share.

Recent Sales of Unregistered or Exempt Securities

The following securities were issued as exempt from the registration requirements of the Securities Regulation Code (SRC) and therefore have not been registered with the SEC:

(a) On July 22, 2020, SMIC issued ₱5.6 billion fixed rate notes due 2022 which bear a fixed interest rate of 2.875% per annum, payable semi-annually in arrears. The notes will mature on January 22, 2022. The notes, which was listed on the Philippine Dealing & Exchange Corp. (PDEx), are considered exempt security pursuant to 10.1 (l) of the SRC and Section 10.1.3 of the 2015 IRR of the SRC. The arrangers are BDO Capital and China Bank Capital.

(b) On June 10, 2014, SMIC issued US$350 million senior bonds which bear a fixed interest rate of 4.875% per annum, payable semi-annually in arrears. The bonds will mature on June 10, 2024. The bonds, which was listed in the Singapore Stock Exchange, are considered exempt security pursuant to 10.1 (l) of RA No. 8799. The underwriter is Citigroup Global Markets Limited and Standard Chartered Bank and the total underwriting fees and expenses amounted to US$1.749 million.

(c) On October 17, 2012, SMIC issued US$500 million senior bonds which bear a fixed interest rate of 4.250% per annum, payable semi-annually in arrears. The bonds will mature on October 17, 2019. The bonds, which was listed in the Singapore Stock Exchange, are considered exempt security pursuant to Section 10.1 (k) and 10.1 (l) of RA No. 8799. The underwriter is Citibank N.A. London and the total underwriting fees and expenses amounted to US$2.5 million. SMIC retired/cancelled US$3.6 million in 2018. The bonds which has an outstanding balance of US$496.4 million as at December 31, 2018 matured in October 2019.

Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners

As at 30 June 2020, the following are the owners of the Issuer's common stock in excess of 5% of total outstanding shares:

Title of Class	Name & Address of Record Owner & Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of shares held	Percent
Common	Teresita T. Sy (Director and Vice Chairperson) Forbes Park, Makati City	Same as the Record Owner	Filipino	85,440,508	7.09%
Common	Harley T. Sy (Executive Director) Forbes Park, Makati City	Same as the Record Owner	Filipino	87,604,771	7.27%
Common	Henry T. Sy, Jr. (Director and Vice Chairman) Forbes Park, Makati City	Same as the Record Owner	Filipino	87,503,008	7.26%
Common	Hans T. Sy (Stockholder of Issuer) Forbes Park, Makati City	Same as the Record Owner	Filipino	98,769,136	8.20%
Common	Herbert T. Sy (Stockholder of Issuer) Forbes Park, Makati City	Same as the Record Owner	Filipino	98,753,008	8.20%
Common	Elizabeth T. Sy (Stockholder of Issuer) Forbes Park, Makati City	Same as the Record Owner	Filipino	71,022,817	5.90%
Common	PCD Nominee Corp. (Filipino)	Various clients[1]	Filipino	121,977,353	10.13%
Common	PCD Nominee Corp. (Non-Filipino)	Various clients[1]	Foreign	414,314,888	34.39%

(1) The Issuer has no information as to the beneficial owners of the shares of stocks held by PCD Nominee Corp. The clients of PCD Nominee Corp. have the power to decide how their shares are to be voted.

Security Ownership of Management

As at 30 June 2020, the following are the number of Shares owned of record by the Issuer's directors and key executive officers:

Title of Class	Name of Beneficial Owner	Citizenship	Amount and Nature of Beneficial Ownership (d) Direct; (i) Indirect	Percent of Class
Common Stock	Teresita T. Sy	Filipino	85,440,508 (d)	7.09%
Common Stock	Harley T. Sy	Filipino	87,604,771 (d)	7.27%
Common Stock	Henry T. Sy, Jr.	Filipino	75,855,816 (d)	6.30%
Common Stock	Jose T. Sio	Filipino	21 (d)	0.00%
Common Stock	Frederic C. DyBuncio	Filipino	10 (d)	0.00%
Common Stock	Tomasa H. Lipana	Filipino	150 (d)	0.00%
Common Stock	Alfredo E. Pascual	Filipino	10 (d)	0.00%
Common Stock	Robert G. Vergara	Filipino	100 (d)	0.00%
Common Stock	Marcelo C. Fernando, Jr.	Filipino	0	0.00%
Common Stock	Elizabeth Anne C. Uychaco	Filipino	0	0.00%
Common Stock	Franklin C. Gomez	Filipino	4,500 (d)	0.00%
Common Stock	Cecilia Reyes-Patricio	Filipino	130 (d)	0.00%
Common Stock	Wellington L. Palmero	Filipino	0	0.00%
Common Stock	Anastacio C. Balubar II	Filipino	0	0.00%
Common Stock	Arthur A. Sy	Filipino	0	0.00%
Common Stock	Elmer B. Serrano	Filipino	0	0.00%
Directors and Executive Officers as a Group			**248,906,016**	**20.66%**

Voting Trust Holders of 5% or More

There are no persons holding more than 5% of a class of shares under a voting trust or any similar agreements.

Change in Control

The Issuer is not aware of any change in control or arrangement that may result in a change in control of the Issuer since the beginning of its last fiscal year.

There are no existing or planned stock warrant offerings. There are no arrangements which may result in a change in control of the Issuer.

Warrants and Options

As of the date of this Prospectus, there are no existing or planned stock options/stock warrant offerings.

DESCRIPTION OF DEBT

The Company is subject to covenants under agreements evidencing or governing its outstanding indebtedness, including but not limited to those set forth in loan agreements with local banks and financial institutions. Under these loans, the Company undertook to maintain a Debt-Equity Ratio not exceeding 80:20.

The Company does not believe that these covenants will impose constraints on its ability to finance its capital expenditure program or, more generally, to develop its business and enhance its financial performance. The Company is in full compliance with the covenants required by the creditors.

REGULATORY

REAL ESTATE LAWS AND REGULATIONS

General

P.D. 957, R.A. 4726 and B.P. 220 are the principal statutes which regulate the development and sale of real property as part of a condominium or subdivision project. P.D. 957, R.A. 4726 and B.P. 220 cover subdivision projects and all areas included therein for residential, commercial, industrial and 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 the HLURB and the pertinent LGU of the area in which 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 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 development permit.

The issuance of a development permit is dependent on, among others (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 HLURB locational clearance, DENR permits, and, as applicable, DAR conversion or exemption orders as discussed below. A bond equivalent to 10% of the total project cost is required to be posted by the project developer to ensure commencement of the project within one year from the issuance of the development permit.

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 prerequisite 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 favor of the Republic of the Philippines as mortgagee, represented by the HLURB, over property other than the land used for the project for which the license to sell is being obtained, free from any liens and encumbrance and the value of such property, computed on the basis of the zonal valuation of the BIR, must be at least 20.0% of the total development cost; or

- other forms of security equivalent to 10.0% of the development cost of the unfinished portion of the approved plan which may be in the form of the following:

  - a cash bond;
  - a fiduciary deposit made with the cashier and/or disbursing officer of the HLURB;

- a certificate of guaranty deposit issued by any bank or financing institution of good standing in favor 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 favor 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.

Project permits and licenses to sell may be suspended, cancelled or revoked by the HLURB, on its own initiative or upon a verified complaint from an interested party, for reasons such as insolvency, involvement in fraudulent transactions, misrepresentations concerning the subdivision project or condominium project in any literature which has been distributed to prospective buyers. A license or permit to sell may only be suspended, cancelled or revoked after 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.

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.

On June 29, 2009, Republic Act No. 9646 or the Real Estate Service Act of the Philippines ("R.A. 9646") was signed into law. R.A. 9646 strictly regulates the practice of real estate brokers by requiring licensure examinations and attendance in continuing professional education programs.

Subdivision Projects

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 B.P. 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 P.D. 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 P.D. 957, a developer of a subdivision with an area of one hectare or more is required to reserve at least 30% of the gross land area of such subdivision for open space for common uses, which include roads and recreational facilities. In low-density subdivisions (20 family lots and below per gross hectare), a developer is required to reserve at least 3.5% of the gross project area for parks and playgrounds.

HLURB Resolution No. 926, or the "2015 Revised Implementing Rules and Regulations on Time of Completion" ("Resolution 926") was issued on 3 February 2016 and took effect on 14 February 2016. Resolution 926 requires owner or developers of subdivision and condominium projects to construct and provide the facilities, improvements, infrastructures and other forms of development, including water supply and electrical facilities, which are offered and indicated in the approved project plan, within one year from the date of the issuance of the license for the project or such other period of time as may be fixed by the HLURB. Resolution 926 also provided limited grounds upon which developers or owners may be granted additional time to complete a given project.

Republic Act No. 7279, as amended recently by Republic Act No. 10884, or the Urban Development and Housing Act of 1992, requires developers of proposed subdivision projects to develop an area for socialized housing equivalent to at least fifteen percent (15%) of the total subdivision area or total subdivision project cost, and at least five percent (5%) of condominium area or project cost, at the option of the developer, within the same city or municipality whenever feasible, and in accordance with the standards set by HLURB and other existing laws. Alternatively, the developer may opt to buy socialized housing bonds issued by various accredited government agencies or enter into joint venture arrangements with other developers engaged in socialized housing development.

On May 3, 2017, HLURB issued Resolution No. 946, Series of 2017, which provides for the rules and regulations implementing Republic Act No. 10884 ("**IRR of RA 10884**"). The IRR of RA 10884 provides for the other manners in which developers may comply with the required projects for socialized housing which includes the: (i) development of socialized housing in a new settlement; (ii) entering into joint venture arrangements with LGUs, housing agencies, private developer and non-government organization engaged in the provision of socialized housing; and (iii) participation in a new project under the community mortgage program. Under the IRR of RA 10884, the license to sell of the main project may be suspended, cancelled or revoked, if the required compliance project has not been developed or has not been completely developed in accordance with the approved work program and within the period approved by the HLURB.

Republic Act No. 11201: Department of Human Settlements and Urban Development Act

Republic Act No. 11201, otherwise known as "Department of Human Settlements and Urban Development Act was signed by the President on 14 February 2019. The Implementing Riled and Regulations of the Act was approved on 19 July 2019. This Act created DHSUD through the consolidation of HUDCC and HLURB, simultaneously with the reconstitution of HLURB into Human Settlement Adjudication Commission ("HSAC"). The functions of the HUDCC and the planning and regulatory functions of HLURB shall be transferred to and consolidated in the DHSUD, while the HSAC shall assume and continue to perform the adjudication functions of HL URB.

The DHSUD shall:

1. Act as the primary national government entity responsible for the management of housing, human settlement and urban development;

2. Be the sole and main planning and policy-making, regulatory, program, coordination, and performance monitoring entity for all housing, human settlement and urban development concerns, primarily focusing on the access to an affordability of basic human needs. The following functions of HLURB are transferred to DHSUD:

    a. The land use planning and monitoring function, including the imposition of penalties for noncompliance to ensure that LGUs will follow the planning guidelines and implement their CLUPs and ZOs;
    b. The regulatory function, including the formulation, promulgation, and enforcement of rules, standards and guidelines over subdivisions, condominiums and similar real estate developments, and imposition of fines and other administrative sanctions for violations, pursuant to PD 957, as amended, BP 220 and other related laws; and
    c. The registration, regulation and supervision of Homeowners Associations, including the imposition of fines for violations, pursuant to RA 9904, Section 26 of RA 8763 in relation to Executive Order No. (EO) 535, series of 1979, and other related laws; and

3. Develop and adopt a national strategy to immediately address the provision of adequate and affordable housing to all Filipinos, and ensure the alignment of the policies, programs, and projects of all its attached agencies to facilitate the achievement of this objective.

All existing policies, and rules and regulations of the HUDCC and the HLURB shall continue to remain in full force and effect unless subsequently revoked, modified or amended by the DHSUD or the HSAC, as the case may be.

All applications for permits, licenses and other issuances pending upon the effectivity of the Act and filed during the transition period shall continue to be acted upon by the incumbents until transition shall have been completed.

All cases and appeals pending with the HLURB shall continue to be acted upon by the HLURB Arbiters and the Board of Commissioners, respectively, until transition shall have been completed and the Commission's operations are in place. Thereafter, the Regional Adjudicators and the Commission shall correspondingly assume jurisdiction over those cases and appeals. All decisions of the Commission shall thenceforth be appealable to the Court of Appeals under Rule 43 of the Rules of Court.

The transition period shall commence upon the effectivity of the Implementing Rules and Regulations and shall end on 31 December 2019. Thereafter, the Act shall be in full force and effect.

Condominium Projects

R.A. 4726 regulates the development and sale of condominium projects. R.A. 4726 requires that an annotation be registered on the master deed or on the certificate of title of the land on which the condominium project shall be located. The annotation should indicate, among other things, the description of the land, buildings, common areas and facilities of the condominium project.

A condominium project may be managed by a condominium corporation, an association, a board of governors or a management agent, depending on what is provided in the declaration of restriction of the condominium project. However, whenever the common areas are held by a condominium corporation, such corporation shall constitute the management body of the project.

Real Estate Sales and Installments

The Maceda Law applies to all transactions or contracts involving the sale or financing of real estate through installment payments, including residential condominium units. Under the Maceda Law, buyers who have paid at least two years of installments are granted a grace period of one month for every year of paid installments to cure any payment default. The Maceda Law also requires the sellers of real estate to refund at least 50% of total payments made should the sale contract be cancelled provided that the buyer has paid at least two years of installments, with an additional 5% per annum in cases where at least five years of installment have been paid (but with the total not to exceed 90% of the total payments). Buyers who have paid less than two years of installment and who default on installment payments are given a 60-day grace period to pay all unpaid installments before the sale can be cancelled, but without right of refund. The Maceda Law does not apply when payments are made through bank financing.

Shopping Malls

Shopping malls are regulated by the local government unit of the city or municipality where the shopping mall is located. Shopping mall operators must secure a mayor’s permit or municipal license before operating. Shopping mall operators must also comply with the provisions of Republic Act No. 9514 or the Fire Code, and other applicable local ordinances. Shopping malls that have restaurants and other food establishments as tenants must obtain a sanitary permit from the Department of Health. Shopping malls that discharge commercial wastewater must apply for a wastewater discharge permit from the DENR and pay the fee incidental to the permit.

As a tourism-related establishment, shopping malls may obtain accreditation from DOT. A shopping mall can only be accredited upon complying with the minimum physical, staff and service requirements promulgated by the DOT.

Hotels and Resorts

Hotels were previously classified by the DOT into the following categories: (a) De Luxe Class, (b) First Class, (c) Standard Class and (d) Economy Class.

Memorandum Circular No. 2012-02 promulgated by the DOT in May 2012 imposes new national accreditation standards for hotels, resorts and apartment hotels, pursuant to the Tourism Act of 2009. The Memorandum Circular adopts the star grading system, with five levels of accommodation standards which are equivalent to one to five stars. For instance, a one star rating will be granted to hotels which achieve 251 to 400 points (25% to 40% of the standards) and a five star rating will be granted to hotels which achieve 851 to 1,000 points (85% to 100% of the standards). The accreditation process under the Memorandum Circular No. 2012-02 is currently being implemented by the DOT.

Once an application for accreditation is filed, the DOT sends an inspection team to conduct an audit of the establishment and determine compliance its classification. The Certificate of Accreditation issued by the DOT is valid for two years, unless sooner revoked. The rights over the accreditation are non-transferrable.

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 non-agricultural 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

Republic Act No. 7916 ("R.A. 7916"), as amended provides for the creation and management of Special Economic Zones ("Ecozones"), which are selected areas with highly developed or which have the potential to be developed into agro-industrial, industrial tourist/recreational, commercial, banking, investment, and financial centers.

PEZA is the government agency that operates, administers and manages designated PEZA Ecozones around the country. These Ecozones are generally established by a proclamation issued by the President of the Philippines, upon recommendation of the PEZA.

An Ecozone may contain any or all of the following: industrial estates, export processing zones, free trade zones, and tourist/recreational centers. There are several activities eligible for PEZA registration and incentives including, but not limited to, IT services, Tourism and Retirement activities.

PEZA registered enterprises locating in an Ecozone are generally entitled to fiscal and non-fiscal incentives such as income tax holidays and duty free importation of equipment, machinery and raw materials.

1. IT enterprises offering IT services (such as call centers, and BPO 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 Metro Manila. Metro Manila is the area that covers the 16 cities of Manila, Caloocan, Las Piñas, Makati, Mandaluyong, Marikina, Muntinlupa, Parañaque, Pasay, Pasig, Quezon, Valenzuela, Malabon, Navotas, San Juan and Taguig and the municipality of Pateros. These PEZA requirements include clearances or certifications issued by the city or municipal legislative council, the DAR, the National Water Resources Board ("NWRB"), and the DENR.

2. Tourism activities involve the establishment and operation of PEZA registered Tourism Ecozones ("PEZA TEZs"). These are areas which have been developed into an integrated resort complex which have tourist facilities and activities. PEZA TEZ developers and locator enterprises are generally entitled to fiscal and non-fiscal incentives. However, on November 13, 2012, PEZA Board Resolution No. 12-610 withdrew particular fiscal incentives from developers and locator enterprises of TEZs in Metro Manila, Cebu City, Mactan Island, and Boracay Island. The same Board Resolution also denied the establishment of new TEZs in the four areas.

   PEZA rules for the registration of a TEZ require, among others, an endorsement from the DOT, conversion or exemption orders from the DAR, and clearances, certifications, and endorsements from Department of Agriculture ("DA"), HLURB, Environmental Management Bureau-DENR ("EMB-DENR"), NWRB, and the concerned LGUs.

3. Retirement activities involve the establishment and operation of areas capable of providing retirement infrastructure and other support facilities such as accommodation facilities, health and wellness facilities, sports, recreation centers, and lifestyle facilities, cultural facilities, theme parks, and other amenities required by foreign retirees. Retirement Ecozone developers/operators and retirement Ecozone facilities enterprises are entitled to fiscal and non-fiscal incentives.

   EO 1037 created the Philippine Retirement Authority ("PRA"), a government owned and controlled corporation under control and supervision of the office of the Board of Investments ("BOI"). It is mandated to attract foreign nationals and former Filipino citizens to invest, reside, and retire in the Philippines to accelerate the socio-economic development of the country and contribute to the foreign currency reserve of the economy.

   PEZA rules for registration of retirement Ecozones and facilities enterprises require, among others, the endorsement from the PRA, and clearances and certifications from the DAR, DA, HLURB, EMB-DENR, NWRB, and the concerned LGUs.

Another government agency which is tasked to administer certain Ecozones is the Tourism Infrastructure and Enterprise Zone Authority ("TIEZA"). The TIEZA is an attached agency to the DOT tasked to designate, regulate, and supervise its own TEZs as well as develop, manage and supervise tourism infrastructure projects in the Philippines. Tourism enterprises are facilities, services, and attractions primarily engaged in tourism to attract visitors. TEZ Operators and Tourism Enterprises registered with the TIEZA may be granted fiscal and non-fiscal incentives. Activities eligible for registration with the TIEZA include, among others, accommodation establishments such as hotels, resorts, apartelles, tourist inns, motels, pension houses, and home stay operators, tourist estate management services, restaurants, shops, and department stores.

TIEZA rules for the registration of a TEZ will depend on the nature of the business and the type of business organization of the applicant. TIEZA registration requirements include, among others, certifications and endorsements from the DAR, the National Historical Institute, DENR, and DOH.

Tax and Other Incentives

Generally, the fiscal incentives enjoyed by PEZA registered enterprises include an income tax holiday ("ITH") for four to six years, depending on the nature and location of the enterprise; thereafter, the enterprise enjoys a preferential tax rate of 5% on gross income earned (the "5% GIT"), in lieu of all national and local taxes (except for real property tax).

"Tourism Ecozone Developer/Operator" refers to the owner and/or operator of a Tourism Development Zone/Tourism Estate seeking registration with PEZA and the required Presidential Proclamation of the Tourism Development Zone/Tourism Estate as a Tourism Ecozone for the availment of incentives provided under R.A. 7916, as amended. "Tourism Development Zone/Tourism Estate" refers to a tract of land with defined boundaries, suitable for development into an integrated resort complex, with prescribed carrying capacities of tourist facilities and activities, such as, but not limited to, sports and recreation centers, accommodations, convention and cultural facilities, food and beverage outlets, commercial establishments and other special interest and attraction activities/establishments, and provided with roads, water supply facilities, power distribution facilities, drainage and sewage systems and other necessary infrastructure and public utilities. A Tourism Development Zone/Tourism Estate must be under unified and continuous management, and can either be a component of an ecozone or the whole ecozone itself. "Tourism Ecozone" refers to a Tourism Development Zone/Tourism Estate which has been granted special economic zone status, through PEZA registration and issuance of the required Presidential Proclamation, with its metes and bounds delineated by the Proclamation pursuant to R.A. 7916, as amended.

"Retirement Ecozone Developer/Operator" refers to a business entity duly endorsed by the PRA and registered with PEZA to develop, operate and maintain a Retirement Ecozone Park/Center and provide the required infrastructure facilities and as may be required for retirement economic zone. PEZA-registered Retirement Economic Zones shall be located in priority areas endorsed by the PRA and must be at least 4 hectares. Retirement Ecozone refers to an estate which is highly developed or which has the potential to be developed into a Retirement Ecozone Park/Center whose metes and bounds are fixed or delimited by Presidential Proclamation. The retirement economic zone shall be planned and designed in accordance with the accreditation standards of the PRA to have support facilities and services required by the retirement industry.

An "IT Park" or "IT Building" is an area or a building (the whole or a part of which) has been developed to provide infrastructure and other support facilities required by an IT Enterprise.

The PEZA Board, through its Board Resolution No. 12-610 dated November 13, 2012, withdrew (i) the 5% GIT incentive to developers of Tourism Economic Zones in Metro Manila, Cebu City, Mactan Island and Boracay Island; and (ii) the ITH incentive and 5% GIT given to locator enterprises of Tourism Enterprise Zones in the aforesaid 4 areas. Nevertheless, tourism enterprise locators in these areas continue to enjoy tax and duty-free importation and zero-VAT rating on local purchase of capital equipment.

The above policy does not have retroactive effect and therefore, existing PEZA TEZ developers and operators and tourism enterprises located in TEZs in the four aforesaid areas shall not be covered by the new PEZA policy. Existing and future PEZA TEZ developers and tourism enterprise locators outside the four areas shall continue to be entitled to four years ITH, as may be provided in and in accordance with the provisions of the Investment Priorities Plan, and tax and duty-free importation of capital equipment required for the technical viability and operation of the registered activities of the enterprises. Upon expiry of the ITH period, PEZA TEZ locators are entitled to the 5% GIT incentive, provided, however, that they have the option to forego their ITH incentive entitlement and immediately avail of the 5% tax GIT incentive upon start of their commercial operations.

All PEZA-registered Tourism Developers/Operators and Locator Enterprises must conform with the development guidelines and operating standards of the DOT, land use and zoning regulations, as well as the policies and guidelines of other concerned government agencies, provided that in the case of Ecotourism Projects, endorsement from the National Ecotourism Steering Committee shall also be secured prior to PEZA registration.

PEZA-registered Tourism Ecozone Developers/Operators and Locators are entitled to the following non-fiscal incentives: (a) employment of foreign nationals, as provided under R.A. 7916; (b) Special Investor's Resident Visa, as provided under Executive Order No. 63; and (c) Incentives under the Build-Operate-Transfer Law, as may be applicable, subject to prescribed guidelines.

Retirement Economic Zone Developer/Operator of a proposed or partially developed Retirement Ecozone Park/Center shall be entitled to pay a special 5% tax on gross income, in lieu of all national and local taxes, except real property tax on land and shall be entitled to the following non-fiscal incentives: (a) Employment of foreign national; and (b) Special Investor's Resident Visa, as provided under Executive Order No. 63.

Pursuant to Board Resolution No. 12-329 dated July 6, 2012, IT Parks and Buildings to be located in Metro Manila and Cebu City shall no longer be entitled to incentives. Developers and owners of new IT Parks and Buildings to be located outside Metro Manila and Cebu City shall continue to enjoy fiscal incentives. Furthermore, in order to be entitled to PEZA incentives, Ecozones such as, but not limited to manufacturing, agro-industrial, and tourism, the Ecozone must have an area of at least 25 hectares except for single locator economic zones which shall be covered by specific guidelines issued by PEZA.

The Company routinely secures the required governmental approvals for its projects during the planning and construction and marketing stages of project development. The Company is not aware of any pending legislation or governmental regulation that is expected to materially affect its business. The Company believes that it has obtained the required government approvals relevant for each project at its current state of development.

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 is generally required to submit an Initial Environmental Examination ("IEE") to the proper DENR regional office. In 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 mandated.

The EIS refers to both the document and the study of a project's environmental impact, including a discussion of scoping agreement identifying critical issues and concerns as validated by the EMB, environmental risk assessment if determined necessary by EMB during the scoping, environmental management program, 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 projects' 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, indicating 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 before or during the operations of the project and in some cases, during the project's abandonment phase. The ECC also provides for other terms and conditions, any violation of which would result in a fine or the cancellation of the ECC.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund ("EGF") when the ECC is issued to projects determined by the DENR to pose a significant public risk to life, health, property and the environment. The EGF is intended to answer for damages caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are mandated to include a commitment to establish an Environmental Monitoring Fund ("EMF") when an ECC is eventually issued. 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 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.

The Company incurs expenses for the purposes of complying with environmental laws that consist primarily of payments for Government regulatory fees. Such fees are standard in the industry and are minimal.

PROPERTY REGISTRATION

The Philippines has adopted a 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 and 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 within 15 days to the Court of Appeals or the Supreme Court. 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 such as homestead, sales and free patents, 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.

NATIONALITY RESTRICTIONS

The Philippine Constitution limits ownership of land in the Philippines to Filipino citizens or to corporations the outstanding capital stock of which is at least 60% owned by Philippine Nationals. While the Philippine Constitution prescribes nationality restrictions on land ownership, there is generally no prohibition against foreigners owning building and other permanent structures. However, with respect to condominium developments, the foreign ownership of units in such developments is limited to 40%.

Republic Act No. 7042, as amended, otherwise known as the Foreign Investments Act of 1991, and the Eleventh Regular Foreign Investment Negative List, provide that certain activities are nationalized or partly-nationalized, such that the operation and/or ownership thereof are wholly or partially reserved for Filipinos. Under these regulations, and in accordance with the Philippine Constitution, ownership of private lands is partly- nationalized and thus, landholding companies may only have a maximum of 40% foreign equity.

For as long as the Company or any of its Subsidiaries own land in the Philippines , foreign ownership in the Company is limited to a maximum of 40% of the capital stock of the Company which is outstanding and entitled to vote. Accordingly, the Company shall disallow the issuance or the transfer of Shares to persons other than Philippine Nationals and shall not record transfers in its books if such issuance or transfer would result in the Company ceasing to be a Philippine National for purposes of complying with the restrictions on foreign ownership discussed above.

In the Philippine Supreme Court case of *Wilson P. Gamboa v. Finance Secretary Margarito B. Teves, et. al.* dated June 28, 2011 (*G.R. No. 176579*), a case involving a public utility company (which under the Philippine Constitution is also subject to the 60-40 rule on capital ownership), the Philippine Supreme Court ruled that the term "capital", as used in Section 11 of Article XII of the Philippine Constitution, refers only to shares of stocks entitled to vote in the election of directors and not to the total outstanding capital stock. This is because it is the said voting rights which translate to control. Subsequently and acting on the motions for reconsideration filed by various parties, the Supreme Court, sitting *en banc* issued on October 9, 2012 a Resolution (G.R. No. 176579) affirming their earlier ruling and denying such motions for reconsideration.

Pursuant to the above ruling of the Philippine Supreme Court, the SEC, on May 20, 2013, issued Memorandum Circular No. 8 or the *Guidelines on Compliance with the Filipino-Foreign Ownership Requirements Prescribed in the Constitution and/or Existing Laws by Corporations Engaged in Nationalized and Partly Nationalized Activities.* The Circular provides that for purposes of determining compliance therewith, the required percentage of Filipino ownership shall be applied to BOTH (a) the total number of outstanding shares of stock entitled to vote in the election of directors; AND (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors." The Supreme Court affirmed the validity of the Circular in the case of *Jose M. Roy III v. Chairperson Teresita Herbosa* dated 22 November 2016 (G.R. No. 207246).

LAND RECLAMATION

Land reclaimed from foreshore and reclaimed areas is public land owned by the Philippine State under the Regalian doctrine, under which the Philippine State owns all lands and waters in Philippine territory. The Government may allow land to become privately owned under relevant laws. The Constitution prohibits corporations from acquiring such public land unless such land is first reclassified as private. An additional rule applies to individual Philippine citizens; such individuals may also acquire public land classified as agricultural land and only up to 12.0 hectares of land classified as such. Commonwealth Act No. 141, or the Public Land Act, provides that before the Government alienates such public land, the President of the Philippines, upon the DENR's recommendation, must reclassify these lands as alienable or disposable. However, Supreme Court decisions, including those dealing with reclaimed foreshore land, have ruled that such reclassification to make public land alienable may also be implied and a clear intent exhibited by the Government may effect the necessary reclassification.

The Philippine Reclamation Authority (formerly the Public Estates Authority), has been delegated the authority to approve reclamation projects, and is authorized by its charter to develop, lease and sell any and all kinds of lands managed by it; the disposition of reclaimed lands is subject to the above constitutional restrictions.

PROPERTY TAXATION

Real property taxes are payable annually based on the property's assessed value. The assessed value of property and improvements vary depending on the location, use and the nature of the property. Land is ordinarily assessed at 20% to 50% of its fair market value; buildings may be assessed at up to 80% of their fair market value; and machinery may be assessed at 40% to 80% of its fair market value. Real property taxes may not exceed 2% of the assessed value in municipalities and cities within Metro Manila or in other chartered cities and 1% in all other areas. An additional special education fund tax of 1% of the assessed value of the property is also levied annually.

PHILIPPINE COMPETITION ACT

Republic Act No. 10667, or the Philippine Competition Act was signed into law on July 21, 2015 and took effect on August 8, 2015. This is the first antitrust statute in the Philippines and provides the competition framework in the Philippines. The Philippine Competition Act was enacted to provide free and fair competition in trade, industry and all commercial economic activities. To implement its objectives, the Philippine Competition Act provides for the creation of a Philippine Competition Commission (the "Commission"), an independent quasi-judicial agency with five commissioners. The Philippine Competition Act prohibits anti-competitive agreements between or among competitions, and mergers and acquisitions which have the object or effect of substantially preventing, restricting or lessening competition. It also prohibits practices which involve abuse of dominant position, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing, and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to exceptions.

On June 3, 2016 the Commission issued the implementing rules and regulations of the Philippine Competition Act ("IRR"). Under the IRR and pursuant to Commission Resolution No. 02-2020 dated 11 February 2020, as a general rule, parties to a merger or acquisition are required to provide notification when: (a) The aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of the acquiring or the acquired entities exceed ₱6 Billion; and (b) the value of the transaction exceeds ₱2.4 Billion, as determined in the IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2.4

Billion, or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2.4 Billion.

Violations of the Philippine Competition Act and its IRR have severe consequences. Under the law and the IRR, a transaction that meets the thresholds and does not comply with the notification requirements and waiting periods shall be considered void and will subject the parties to an administrative fine of one percent (1%) to five percent (5%) of the value of the transaction. Fines of between ₱50 million and ₱250 million may also be imposed by the courts on entities that enter into these defined anti-competitive agreements between competitors that are either prohibited per se or that have the object of substantially preventing, restricting or lessening competition by setting, limiting or controlling production, markets, technical development or investment or by dividing or sharing the market. Directors and management personnel of such entities, who knowingly and willfully participate in such criminal offenses, may also be sentenced to imprisonment for two to seven years. Treble damages may be imposed by the Commission or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

REVISED CORPORATION CODE

Republic Act No. 11232, also known as the Revised Corporation Code, was signed into law on February 20, 2019 and. took effect on February 23, 2019. Among the salient features of the Revised Corporation Code are:

- Corporations are granted perpetual existence, unless the articles of incorporation provide otherwise. Perpetual existence shall also benefit corporations whose certificates of incorporation were issued before the effectivity of the Revised Corporation Code, unless a corporation, upon a vote of majority of the stockholders of the outstanding capital stock notifies the SEC that it elects to retain its specific corporate term under its current Articles of Incorporation.

- A corporation vested with public interest must submit to its shareholders and to the SEC an annual report of the total compensation of each of its directors or trustees, and a director or trustee appraisal or performance report and the standards or criteria used to assess each director, or trustee.

- Banks, quasi-banks, pawnshops, non-stock savings and loan associations (NSSLA), and corporations engaged in money service business, preneed trust and insurance companies, and other financial required, must have at least twenty percent (20%) independent directors in the Board, in accordance with the Securities and Regulation Code. This requirement also applies to other corporations engaged in businesses imbued with public interest, as may be determined by the SEC.

- The Revised Corporation Code allows the creation of a "One Person Corporation". However, it expressly prohibits banks and quasi-banks, preneed, trust, insurance, public and publicly-listed companies, among others, from being incorporated as such. This restriction also applies with respect incorporations as Close Corporation.

- Material contracts between the Corporation and its own directors, trustees, officers, or their spouses and relatives within the fourth civil degree of consanguinity or affinity must be approved by at least two-thirds (2/3) of the entire membership of the Board, with at least a majority of the independent directors voting to approve the same.

- The right of stockholders to vote in the election of directors or trustees, or in shareholders meetings, may now be done through remote communication or in absentia if authorized by the corporate by-laws. However, as to corporations vested with public interest, these votes are deemed available, even if not expressly stated in the corporate by-laws. The shareholders who participate through remote communication or in absentia are deemed present for purposes of quorum. When attendance, participation and voting are allowed by remote communication or in absentia, the notice of meetings to the stockholders must state the requirements and procedures to be followed when a stockholder or member elects either option.

- As to the filing of the by-laws and any amendments made to the by-laws of any bank, banking institution, building and loan association, trust company, insurance company, public utility, and other corporations governed by special laws, the Revised Corporation Code requires that a prior certificate of the appropriate government agency to the effect that such bylaws or amendments are in accordance with law, must be submitted.

- A favorable recommendation by the appropriate government agency is likewise required for banks or banking institutions, building and loan associations, trust companies, insurance companies, public utilities, and other corporations governed by special laws, before the SEC approves any merger or consolidation; or any voluntary dissolution.

- In case of transfer of shares of listed companies, the SEC may require that these corporations whose securities are traded in trading markets and which can reasonably demonstrate their capability to do so, to issue their securities or shares of stock in uncertificated or scripless form in accordance with the Rules of the SEC.

The Revised Corporation Code refers to the Philippine Competition Act in case of covered transactions under said law involving the sale, lease, exchange, mortgage, pledge, or disposition of properties or assets; increase or decrease in the capital stock, incurring creating or increasing bonded indebtedness; or mergers or consolidations covered by the Philippine Competition Act thresholds.

Data Privacy Act of 2012

The Data Privacy Act of 2012 is a comprehensive and strict privacy legislation aimed to protect the fundamental human right to privacy of data subjects by: (a) protecting the privacy of individuals while ensuring free flow of information; (b) regulating the collection, recording, organization, storage, updating or modification, retrieval, consultation, use, consolidation, blocking, erasure or destruction of personal data; and (c) ensuring that the Philippines complies with international standards set for data protection through National Privacy Commission (NPC).

Intended to protect the privacy of individuals, it mandates companies to inform the individuals about how their personal information are collected and processed. It also ensures that all personal information must be (a) collected and processed with lawful basis, which includes consent, and only for reasons that are specified, legitimate, and reasonable; (b) handled properly, ensuring its accuracy and retention only for as long as reasonably needed; and (c) discarded properly to avoid access by unauthorized third parties.

Its Implementing Rules and Regulations took effect on September 9, 2016, mandating all Philippines companies to comply with the following: (a) appointment of a Data Protection Officer; (b) conduct of a privacy impact assessment; (c) adoption of a privacy management program and privacy policy; (d) implement privacy and data protection measures; and (e) establish a breach reporting procedure. In addition, companies with at least 250 employees or access to sensitive personal information of at least 1,000 individuals are required to register their data processing systems with the National Privacy Commission. The IRR, furthermore provides the only instances when data sharing is allowed, to wit: (a) data sharing is authorized by law, provided that there are adequate safeguards for data privacy and security, and processing adheres to principles of transparency, legitimate purpose and proportionality; (b) in the private sector, data sharing for commercial purposes is allowed upon (i) consent of data subject, and (ii) when covered by a data sharing agreement; (c) data collected from parties other than the data subject for purpose of research shall be allowed when the personal data is publicly available; and (d) data sharing among government agencies for purposes of public function or provision of a public service shall be covered by a data sharing agreement.

RETAIL TRADE LAWS AND REGULATIONS

Republic Act No. 8762, or the Retail Trade Liberalization Act of 2000 ("R.A. 8762") liberalized the Philippine retail industry to encourage Filipino and foreign investors to forge an efficient and competitive retail trade sector in the interest of empowering the Filipino consumer through lower prices, high quality goods, better services, and wider choices. It allowed non-Filipino citizens to participate in retail on a limited basis. Prior to the passage of R.A. 8762, retail trade was limited to Filipino citizens or corporations that are 100% Filipino-owned.

"Retail Trade" is defined by R.A. 8762 to cover any act, occupation, or calling of habitually selling direct to the general public any merchandise, commodities, or goods for consumption. Under R.A. 8762, foreign-owned partnerships, associations, and corporations formed and organized under the laws of the Philippines may, upon registration with the SEC and the DTI or in case of foreign-owned single proprietorships, with the DTI, engage or invest in the retail trade business, in accordance with the following categories:

- Category A — Enterprises with paid-up capital of the equivalent in Philippine Pesos of less than US$2,500,000 shall be reserved exclusively for Filipino citizens and corporations wholly owned by Filipino citizens.
- Category B — Enterprises with a minimum paid-up capital of the equivalent in Philippine Pesos of US$2,500,000 but less than US$7,500,000) may be wholly owned by foreigners except for the first two (2) years after the effectivity of R.A. 8762 wherein foreign participation shall be limited to not more than sixty percent (60%) of total equity.
- Category C — Enterprises with a paid-up capital of the equivalent in Philippine Pesos of US$7,500,000 or more may be wholly owned by foreigners: provided, however, that in no case shall the investments for establishing a store in Categories B and C be less than the equivalent in Philippine Pesos of US$830,000.
- Category D — Enterprises specializing in high-end or luxury products with a paid-up capital of the equivalent in Philippine Pesos of US$250,000 per store may be wholly owned by foreigners.

The implementing rules and regulations ("IRR") of R.A. 8762 provides that foreign investors or foreign retailers may acquire shares in existing and operating retail stores, publicly listed or not. A foreign retailer is defined as an individual who is not a Filipino citizen, or a corporation, partnership, association, or entity that is not wholly owned by Filipinos, engaged in retail trade.

Whenever a foreign investor is also engaged in retail trade and such foreign investor acquires 51% or more of the outstanding capital stock of an existing retail store, the following prequalification requirements must be met:

- a minimum of US$200 million net worth in its parent corporation for categories B and C, and US$50 million net worth in its parent corporation for category D;
- five retail branches or franchises in operation anywhere around the world unless such retailers has at least one store capitalized at a minimum of US$25 million;
- five-year track record in retail; and
- only nationals from, or juridical entities formed or incorporated in, countries which allow the entry of Filipino retailers, shall be allowed to engage in retail trade in the Philippines.

The Department of Trade and Industry ("DTI"), through the Board of Investments ("BOI"), is authorized to prequalify all foreign retailers, subject to the provisions of R.A. 8762, before they are allowed to conduct business in the Philippines. No transfer of shares to a foreign investor in a retail store shall be recorded in the corporate books unless a Certificate of Compliance with Pre-qualification is presented.

BANKING REGULATION AND SUPERVISION

General

The New Central Bank Act of 1993 (Republic Act No. 7653), as amended by Republic Act No. 11211, and the General Banking Law of 2000 (Republic Act No. 8791, the **General Banking Law**) vest the Monetary Board of the BSP 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, stock savings and loan associations and microfinance thrift banks), Islamic banks, rural banks, as well as branches and agencies of foreign banks in the Philippines. Entities performing quasi-banking functions, trust companies, building and loan associations, non-stock savings and loan associations and other non-deposit accepting entities, while not considered banking institutions, are also subject to regulation by the Monetary Board.

The supervisory power of the BSP under the New Central Bank Act extends to the subsidiaries and affiliates of banks and quasi-banking institutions engaged in allied activities. A subsidiary is defined as a corporation with more than 50.0 per cent of its voting stock of which is directly or indirectly owned, controlled or held with power to vote by a bank or quasi-bank. An affiliate is defined as a corporation whose voting stock, to the extent of 50.0 per cent or less is owned by a bank or quasi-bank or related or linked directly or indirectly to such institution or intermediary through common stockholders or such other factors as may be determined by the Monetary Board. In this regard, the MORB defines an affiliate as an entity linked directly or indirectly to a bank by means of: (a) ownership, control (as defined under the relevant portion of the MORB), or power to vote, of at least 20.0 per cent of the outstanding voting stock of the entity, or vice-versa; (b) interlocking directorship or officership, where the concerned director or officer owns, controls (as defined under the relevant portion of the MORB), or has the power to vote of at least 20.0 per cent of the outstanding voting stock of the entity; (c) common stockholders owning at least 10.0 per cent of the outstanding voting stock of the bank and at least 20.0 per cent of the outstanding voting stock of the entity; (d) management contract or any arrangement granting power to the bank to direct or cause the direction of management and policies of the entity; and (e) permanent proxy or voting trusts in favour of the bank constituting at least 20.0 per cent of the outstanding voting stock of the entity, or vice-versa.

The power of supervision of the BSP under the General Banking Law includes the issuance of rules of conduct or standards of operation for uniform application, conduct examination to determine compliance with laws and regulations, to oversee compliance with such rules and regulations and inquire into the solvency and liquidity of the covered entities. Section 7 of the General Banking Law provides that the BSP in examining a bank shall have the authority to examine an enterprise which is owned or majority-owned or controlled by a bank. Section 28 of the New Central Bank Act provides that there shall be an interval of at least twelve (12) months between regular examinations. A vote of at least five members of the Monetary Board may authorise a special examination.

The BSP MORB is the principal source of rules and regulations for the operation of banks in the Philippines. The BSP MORB contains regulations applicable to universal banks, commercial banks, thrift banks, and rural banks. These regulations include those relating to the organisation, management and administration, deposit and borrowing operations, loans, investments and special financing programs, treasury and money market operations and trust and other fiduciary functions, of the relevant banks. Supplementing the BSP MORB are rules and regulations promulgated in various circulars, memoranda, letters and other directives issued by the Monetary Board.

The BSP MORB and other BSP rules and regulations are principally implemented by the Financial Supervision Sector (the **FSS**) of the BSP. The FSS is responsible for monitoring the observance of applicable laws and rules and regulations by banking institutions operating in the Philippines (including Government banks and their subsidiaries and affiliates, non-bank financial intermediaries performing quasi-banking functions, non-bank financial intermediaries performing trust and other fiduciary activities under the General Banking Law, non-stock and savings loans associations under the Savings and Loan Association Act (Republic Act No. 3779), and pawnshops under the Pawnshop Regulation Act (Presidential Decree No. 114).

Selected COVID-19 Government Support Measures

Reserve Requirements

On 23 March 2020, the Monetary Board authorised BSP Governor Benjamin E. Diokno to reduce the reserve requirement ratios of BSP-supervised financial institutions by up to a maximum of 400 basis points for 2020. The Monetary Board also authorised the BSP Governor to determine the timing, extent, and coverage of the reduction in the reserve requirement. The authority was granted, following the announcement of the ECQ, to buttress the negative impact of the COVID-19 pandemic on the Philippine economy. On 24 March 2020, pursuant to the authority, BSP Governor Diokno announced that the BSP was reducing the reserve requirement ratio by 200 basis points for universal/commercial banks with effect from 30 March 2020. Potential cuts on the reserve requirements for other banks and non-bank financial institutions would also be explored. Subsequently, BSP Circular No. 1082 was issued, which lowered the rates of required reserves against deposit and deposit substitute liabilities in local currency of banks, with effect from reserve week of 3 April 2020 for universal and commercial banks, to 12 per cent. against demand deposits, "NOW" accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, deposit substitutes, peso deposits lodged under due to foreign banks and Peso deposits lodged under due to Head Office/Branches/Agencies Abroad of banks.

On 22 April 2020, as part of the Government's financial assistance program and in light of the effects of the COVID-19 pandemic on micro, small and medium-sized enterprises (**MSMEs**), the BSP issued Circular No. 1083, which provides that loans that are granted to MSMEs shall be allowed as alternative compliance with the required reserves against deposit and deposit substitute liabilities, subject to the following conditions: (1) that the MSME loan was granted after 15 March 2020; and (2) that the MSME loan is not hypothecated or encumbered in any way, or rediscounted with the BSP, or earmarked for any other purpose. Qualified MSME loans are to be valued at amortised cost, gross of allowance for credit losses. The use of MSME loans as allowable alternative compliance with the reserve requirement is available to banks from 24 April 2020 to 30 December 2021.

On 27 May 2020, the BSP issued Circular No. 1087 amending Circular No. 1083 which provides the following allowable alternative modes of compliance with the required reserves against deposit and deposit substitute liabilities:

a. Peso-denominated loans that are granted to MSMEs, excluding banks and non-bank financial institutions with quasi-banking license (**NBQB**), subject to the following conditions:
    i. that the MSME loan was granted, renewed or restructured after 15 March 2020;
    ii. that the MSME loan that was granted on or before 15 March 2020 but has been renewed or restructured after 15 March 2020 may be used as alternative compliance with the reserver requirements; provided, that the bank demonstrates an increase in its MSME loan portfolio during the month preceding the reserve day. For purposes of determining the increase in the bank's MSME loan portfolio, the bank shall exclude accrued interest and accumulated charges which have been capitalized or made part of the principal restructured MSME loans; and
    iii. that the MSME loan is not hypothecated or encumbered in any way, or rediscounted with the BSP, or earmarked for any other purpose.

    The use of MSME loans as allowable alternative compliance with the reserve requirement shall be available to banks from 24 April 2020 to 30 December 2021.

b. Peso-denominated loans that are granted to large enterprises, excluding banks and non-bank financial institutions with quasi-banking license (**NBQB**), subject to the following conditions:

i. that the loan to the large enterprise was granted, renewed or restructured after 15 March 2020;
ii. that the loan to the large enterprise that was granted on or before 15 March 2020 but has been renewed or restructured after 15 March 2020 may be used as alternative compliance with the reserver requirements; provided, that the bank demonstrates an increase in its loan portfolio to large enterprises during the month preceding the reserve day. For purposes of determining the increase in the bank's loan portfolio to large enterprises, the bank shall exclude accrued interest and accumulated charges which have been capitalized or made part of the principal restructured MSME loans; and
iii. that the loan to the large enterprise is not hypothecated or encumbered in any way, or rediscounted with the BSP, or earmarked for any other purpose.

A large enterprise shall refer to a sole proprietorship, partnership, corporation or cooperative that meets all of the following criteria: (a) it does not belong to a conglomerate structure; (b) it has an asset size (less land) of more than ₱100 million and an employment size of 200 employees or more; and (c) it is a critically-impacted business enterprise that has been directly and adversely impacted by the COVID-19 outbreak such that: (x) its liabilities has become more than its assets; or (y) it has experienced at leasta a 50 per cent decline in gross receipts for at least one calendar quarter; and in either instance, is generally unable to pay or perform its obligations as they fall due in the ordinatry course of business, as a result of COVID-19 outbreak, or as determined by the appropriate regulatory agency/ies, as applicable.

The use of loans to large enterprises as allowable alternative compliance with the reserve requirement shall be available to banks from 29 May 2020 to 30 December 2021.

Utilization of Basel III Capital and Liquidity Buffers

On 4 May 2020, the BSP issued BSP Memorandum Circular No. M-2020-039 which allows universal and commercial banks, and their subsidiary banks and quasi-banks, which has built up its capital conservation buffer and LCR buffer, to utilize the same during this state of health emergency, subject to the following:

a. the bank or quasi-bank which draws down its 2.5 percent minimum capital conservation buffer will not be considered in breach of the Basel III risk-based capital adequacy frameworkbut will be restricted from making distributions in the form of dividends, profit remittance, in the case of a foreign bank branch, share buybacks, discretionary payments on other Tier 1 capital instruments, or discretionary bonus payments to staff;
b. the bank or quasi-bank may draw on its stock of liquid assets to meet liquidity demands to respond to the current circumstances, even if this may cause its LCR to fall below the 100 percent minimum requirement. In case, the bank or quasi bank has recorded a shortfall in the stock of its HLA for three (3) banking days within any two (2) - week rolling calendar period, thereby causing the LCR to fall below the 100 percent must notify the BSP of such a breach on the banking day immediately following the occurrence of the third liquidity shortfall.

Banks and quasi-banks will be given a reasonable time period to restore their Basel III capital conservation and liquidity buffers after the COVID-19 crisis. Meanwhile, non-compliance with the minimum CAR and NSFR requirements as a result of the COVID-19 situation will be handled on a case-by-case basis by the BSP.

Loan Limit to a Single Borrower

In an effort to mitigate the adverse effects of the COVID-19 pandemic on the operations of BSFIs, the BSP issued BSP Memorandum No. M-2020-011 dated 19 March 2020, which granted additional operational relief to BSFIs. Such relief includes an increase in this single borrower's limit from 25 per cent. to 30 per cent. for a period of six months from 19 March 2020.

Regulatory Relief Package

On 14 March 2020, the BSP issued BSP Memorandum No. M-2020-008. Recognising the significant impact of the COVID-19 pandemic on the operations of BSFIs, the BSP offered a regulatory relief package which all BSFIs were eligible to avail of within one year from 8 March 2020, the date of declaration of the President of the state of public health emergency under Presidential Proclamation No. 922. The period of eligibility could be extended depending on the developments of the COVID-19 situation. The relief package includes exclusion from the past due loan ratio of loans to affected borrowers for a year and the staggered booking of provision for probable losses for five years for all types of credits extended to individuals and businesses directly affected by COVID-19 as of 8 March 2020, subject to the prior approval of the BSP.

Others

On 19 March 2020, in a bid to spur the economy amid the slowdown caused by COVID-19, the BSP announced it would be pulling down the interest rate on the BSP's overnight reverse repurchase facility by 50 basis points to 3.25 per cent. Overnight deposit and lending rates were likewise trimmed to 2.75 per cent. and 3.75 per cent., respectively, effective 20 March 2020.

On 20 March 2020, in response to the enhanced community quarantine imposed by the Philippine government to prevent the spread of COVID-19, the BSP issued Memorandum No. M-2020-013, which amended standard operating procedures for Philippine holidays in view of the COVID-19 outbreak.

Permitted Activities

A universal bank, such as the Bank, in addition to the general powers incidental to corporations, has the authority to exercise (i) the powers of a commercial bank, (ii) the powers of an investment house and (iii) the power to invest in non-allied enterprises. In addition, a universal bank may own up to 100.0 per cent. of the equity in a thrift bank, a rural bank, or a financial or non-financial allied enterprise. A publicly listed universal or commercial bank may own up to 100.0 per cent. of the voting stock of only one other universal or commercial bank. A universal bank may also own up to 100 per cent. of the equity in a non-financial allied enterprise.

In addition to those functions specifically authorised by the General Banking Law and the BSP MORB, banking institutions in general (other than building and loan associations) are allowed to (i) receive in custody funds, documents and valuable objects, (ii) rent out safety deposit boxes, (iii) act as financial agents and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness, and all types of securities and (iv) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business. Financial intermediaries are allowed, to a certain extent, to invest in allied (both financial and non-financial) undertakings while only universal banks may invest in non-allied undertakings.

Financial allied undertakings include leasing companies, banks, investment houses, financing 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 companies engaged in foreign exchange dealership/brokerage.

The total equity investments of a universal bank in all enterprises, whether allied or non-allied, are not permitted to exceed 50.0 per cent. of the net worth of the bank. Its equity investment in any one enterprise, whether allied or non-allied, is not permitted to exceed 25.0 per cent. of the net worth of the bank. For this purpose, net worth is defined as the total unimpaired paid-in capital including surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by the BSP.

Minimum Capitalisation

Under the BSP MORB, universal banks, such as the Bank, are required to have capital accounts of at least ₱3 billion (for head office only); ₱6 billion (for up to ten branches); ₱15 billion (for 11 to 100 branches); and ₱20 billion (for more than 100 branches). Commercial banks are required to have capital accounts of at least ₱2 billion (for head office only); ₱4 billion (for up to ten branches); ₱10 billion (for 11 to 100 branches); and ₱15 billion (for more than 100 branches). Thrift banks with a head office in the National Capital Region (**NCR**) are required to have capital accounts of at least ₱500 million (for head office only); ₱750 million (for up to ten branches); ₱1 billion (for 11 to 50 branches); and ₱2 billion (for more than 50 branches). Thrift Banks with head office in all other areas outside NCR are required to have capital accounts of at least ₱200 million (for head office only); ₱300 million (for up to ten branches); ₱400 million (for 11 to 50 branches); and ₱800 million (for more than 50 branches). For the purposes of these requirements, the BSP MORB provides that capital shall be the combined capital accounts or net worth of the applicable bank as set out in the BSP MORB.

Capital Adequacy Requirements

In January 2012, the BSP required the universal and commercial banks in the Philippines, including their subsidiary banks and quasi-banks, to adopt in full the capital adequacy standards under Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems effective 1 January 2014. Basel III supplemented the capital adequacy framework under Basel II: Revised International Convergence of Capital Measurement and Capital Standards to further strengthen the loss absorption capacity of local banks and encourage banks to rely more on core capital instruments like CET1 and Tier 1 issues.

This allowed local banks one full year for a parallel run of the old and new guidelines prior to the effectiveness of the new standards in 2014, marking an accelerated implementation, compared to the Basel Committee's staggered timeline that stretched from January 2013 to January 2017. On 15 January 2013, the BSP issued the implementing guidelines for the adoption on 1 January 2014 of the revised capital standards under the Basel III accord for universal and commercial banks.

The guidelines set regulatory ratios for banks to meet specific minimum thresholds for CET1 capital and Tier 1 capital in addition to the CAR. The BSP maintained the minimum CAR at 10 per cent. and set a minimum CET1 ratio of 6 per cent. and a minimum Tier 1 capital ratio of 7.5 per cent. The guidelines also introduced a CCB of 2.5 per cent. which shall be made up of CET1 capital. This buffer was intended to promote the conservation of capital and build-up of adequate cushion that can be drawn down by banks to absorb losses during periods of financial and economic stress. Under BSP Circular No. 1027 dated 28 December 2018, net due from head office, branches and subsidiaries outside the Philippines of foreign banks branches, excluding accumulated net earnings is required to be deducted from CET1 capital.

On 29 October 2014, the BSP issued Circular No. 856, or the "Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Banks under Basel III". Under the circular, the BSP adopts policy measures for D-SIBs, which are essentially aligned with documents issued by the BCBS on G-SIBs and D-SIBs. The policy aims to reduce the probability of failure of D-SIBs by increasing their going-concern loss absorbency and to reduce the extent or impact of failure of D-SIBs on the domestic or real economy. The submission of data requirements for the identification of D-SIBs took effect starting with 2014 data while compliance with the additional higher loss absorbency requirement was phased in from 1 January 2017 with full implementation on 1 January 2019.

Under BSP Circular No. 856, the systemic importance of a bank is assessed in relation to the impact of its failure on the domestic economy based on certain bank-specific factors (on a consolidated basis): size, interconnectedness, substitutability/financial institution infrastructure, and complexity. Banks that have a score that exceeds the cut-off under the indicator-based measurement approach shall be classified as D-SIBs. In assessing D-SIBs, supervisory judgment may also be utilized based on the principles set forth in the circular. Using cluster analysis, D-SIBs will initially be allocated into two buckets with an empty bucket to provide banks with an incentive to avoid becoming more systemically important. The assessment will be run annually and D-SIBs reallocated as a result. If the empty bucket becomes populated in the future, a new empty bucket shall be added with a required higher additional loss absorbency level which shall increase in increments of 1.0 per cent. of risk-weighted assets.

Banks identified as D-SIBs will be required to have higher loss absorbency (**HLA**). This higher requirement is aimed at ensuring that D-SIBs have a higher share of their balance sheets funded by instruments which increase their resilience as a going concern, considering that the failure of a D-SIB is expected to have a greater impact on the domestic financial system and the economy as a whole. To ensure a maximum degree of consistency in terms of effective loss absorbing capacity, the HLA requirement will be addressed through CET1 capital.

On 27 September 2019, the BSP issued Circular No. 1051, entitled Amendments to BSP Circular No. 1051, which amended the framework for dealing with D-SIBs provided under BSP Circular No. 856.

Under BSP Circular No. 1051, the minimum HLA requirement for the lower bucket shall be 1.5 per cent. of risk-weighted assets at all times. For the higher populated bucket, the HLA requirement shall range from above 1.5 per cent. to 2 per cent. of risk-weighted assets. An empty top bucket with HLA requirement of 2.5 per cent. of risk-weighted assets shall also be maintained. The differentiated HLA requirement for D-SIBs slotted under the higher-populated bucket is to be based on the ranking of a bank's overall systemic importance through the use of the indicator-based measurement approach. An equation is provided in BSP Circular No. 1051 for computing the additional loss absorbency requirement for D-SIBs slotted under the higher-populated bucket.

Bucket	**Score Range**	**Minimum additional HLA requirement (CET1 capital as a percentage of risk-weighted assets)**
3 (empty)	B-C	2.5 per cent.
2	A-B	>1.5 per cent. to 2.0 per cent.
1	Cut-off point – A	1.5 per cent.

The HLA requirement shall also be on top of the combined requirement for CCB and CCyB, as determined under BSP Circular No. 1051. Restrictions on distributions are provided under BSP Circular No. 1051, depending on the CCyB rate of the bank. However, payments which do not result in the depletion of CET1 capital are not considered capital distributions. The total CET1 capital requirement for D-SIBs will be as follows:

A. CCyB rate is at 0 per cent:

Bucket	**Minimum CET1 Requirement (a)**	**CCB (b)**	**CCyB (c)**	**D-SIB HLA Requirement (d)**	**Total Additional CET1 Requirement (b+c+d)**	**Total Required CET1 (a+b+c+d)**
3 (empty)	6.0 per cent	2.5 per cent	0 per cent	2.5 per cent	5 per cent	11.0 per cent
2*	6.0 per cent	2.5 per cent	0 per cent	2 per cent	4.5 per cent	10.5 per cent
1	6.0 per cent	2.5 per cent	0 per cent	1.5 per cent	4.0 per cent	10.0 per cent

*Assuming an HLA requirement of 2 per cent.

B. CCyB rate is at 2.5 per cent:

Bucket	Minimum CET1 Requirement (a)	CCB (b)	CCyB (c)	D-SIB HLA Requirement (d)	Total Additional CET1 Requirement (b+c+d)	Total Required CET1 (a+b+c+d)
3 (empty)	6.0 per cent	2.5 per cent	2.5 per cent	2.5 per cent	7.5 per cent	13.5 per cent
2*	6.0 per cent	2.5 per cent	2.5 per cent	2.0 per cent	7.0 per cent	13.0 per cent
1	6.0 per cent	2.5 per cent	2.5 per cent	1.5 per cent	6.5 per cent	12.5 per cent

*Assuming an HLA requirement of 2 per cent.

Transitional arrangements for the HLA requirement will be implemented. In the case of banks included in the first list of D-SIBs (to be released in June 2015 based on December 2014 data), compliance with the HLA requirement was phased-in starting 1 January 2017, with full compliance on 1 January 2019. Under BSP Circular No. 856, further lists of D-SIBs will be issued until 31 December 2021. After the phase-in period, banks identified as D-SIBs will have 18 months to comply with the required HLA.

Data Cut-Off	Release of D-SIBs List	Compliance Period
December 2014	June 2015	Phased in: 1 January 2017 – 1 January 2019
December 2015	June 2016	Phased in: 1 January 2018 – 1 January 2019
December 2016	June 2017	1 January 2019 – 31 December 2019
December 2017	June 2018	1 January 2020 – 31 December 2020
December 2018	June 2019	1 January 2021 – 31 December 2021

BSP Circular No. 1051 likewise imposes capital distribution constraints should a D-SIB's capital fall within a specified range (subject to phased-in implementation and other provisions of the circular):

A. CCyB rate is at 0 per cent

Restrictions on Distributions	Level of CET1 Capital	
	Bucket 1	Bucket 2*
No distribution (until the minimum CET1, the combined requirement for CCB and CCyB, and more than 50 per cent. of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with)	<=9.25 per cent	<=9.50 per cent
50 per cent. of earnings may be distributed (if the minimum CET1, the combined requirement for CCB and CCyB, and more than 50 per cent. of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with.	>9.25 per cent. – 10.0 per cent	>9.50 per cent. – 10.5 per cent

*Assuming an HLA requirement of 2 per cent.

B. CCyB rate is at 2.5 per cent

Restrictions on Distributions	Level of CET1 Capital	
	Bucket 1	Bucket 2*

No distribution (until the minimum CET1, the combined requirement for CCB and CCyB, and more than 50 per cent. of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with)	<=11.75 per cent	<=12.00 per cent
50 per cent. of earnings may be distributed (if the minimum CET1, the combined requirement for CCB and CCyB, and more than 50 per cent. of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with.	>11.75 per cent. – 12.50 per cent	>12.00 per cent. – 13.00 per cent

*Assuming an HLA requirement of 2 per cent.

A D-SIB will not be subject to any restriction on distribution if the following conditions are met:

(a) Positive retained earnings as of the preceding quarter and compliance with the regulatory requirements for the declaration of dividends;

(a) Compliance with total required CET1 and D-SIBS HLA requirement (under the circular) before distribution; and

(b) Compliance with minimum capital ratios after distribution.

D-SIBs will also be subjected to greater supervisory requirements such as additional disclosures and reports in its Internal Capital Adequacy Assessment Process (**ICAAP**).

These requirements may lead to the Bank having to hold even higher minimum levels of capital compared with the levels above, should it be designated as a D-SIB by the BSP.

On 9 June 2015, the BSP issued Circular No. 881, entitled Implementing Guidelines on the Basel III Leverage Ratio Framework (**Circular No. 881**). In accordance with Circular No. 881, the leverage ratio of universal and commercial banks as well as their subsidiary banks and quasi-banks, computed as the level of a bank's Tier 1 capital against its total on-book and off book exposures, must not be less than 5 per cent. During the monitoring period up to 31 December 2016, sanctions were not imposed on covered institutions falling below the 5 per cent. minimum; however, all covered institutions were required to submit periodic reports. On both a solo and consolidated basis, this ratio should not be less than 5 per cent. for universal and commercial banks, as well as their subsidiary banks/quasi-banks. On 22 January 2018, however, the BSP issued Circular No. 990, extending the monitoring period up to 30 June 2018. By 1 July 2018, the leverage ratio became a Pillar 1 requirement.

Banks also face new liquidity requirements under Basel III's framework on liquidity standards, which were adopted by the BSP through Circular No. 905, entitled Implementation of Basel III Framework on Liquidity Standards — Liquidity Coverage Ratio and Disclosure Standards (**Circular No. 905**). Circular No. 905 adopted the Basel III for Liquidity Coverage Ratio (**LCR**) Framework and Minimum Liquidity Ratio Framework, and the Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (**NSFR**).

The LCR requires banks to hold sufficient levels of high-quality liquid assets to enable them to withstand a 30-day liquidity stress scenario. Beginning 1 January 2018, the LCR threshold that banks would have to meet is 90 per cent., which was increased to 100 per cent. beginning 1 January 2019. During the observation period prior to 1 January 2018, banks were required to submit quarterly LCR reports for monitoring purposes. On 22 January 2018, the BSP issued BSP Circular No. 990 which approved the extension of the Basel III Leverage Ratio monitoring period from December 31, 2017 to June 30, 2018 and set new deadlines for the submission of the reporting and disclosure requirements. The monitoring of the leverage ratio has been implemented as a Pillar 1 minimum requirement effective on July 1, 2018. On 15 March 2019, the BSP issued Circular No. 1035, entitled Amendments to the Basel III Liquidity Coverage Ratio Framework and Minimum Liquidity Ratio Framework (**BSP Circular No. 1035**), which introduced certain amendments to the Basel III LCR Framework and Minimum Liquidity Ratio Framework. BSP Circular No. 1035 (i) extended the observation period of the minimum Basel III LCR requirement to 31 December

2019 for subsidiary banks and quasi-banks of universal and commercial banks, (ii) adopted the 70 per cent. LCR floor for subsidiary banks and quasi-banks during the observation period, and (iii) amended the formula for minimum liquidity ratio.

Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. On 6 June 2018, the BSP issued Circular No. 1007, entitled Implementing Guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio. It provided that the implementation of the minimum NSFR would be phased in to help ensure that the covered banks and quasi-banks could meet the standard through reasonable measures without disrupting credit extension and financial market activities. Covered banks and quasi-banks went through an observation period from 1 July 2018 to 31 December 2018 before the actual implementation of the minimum 100 per cent. NSFR, which would begin on 1 January 2019 and continue thereafter. On 15 March 2019, the BSP issued Circular No. 1034, further extending the observation period for subsidiary banks and quasi-banks of universal and commercial banks from 1 July 2018 to 31 December 2019 before the implementation of the minimum 100 per cent. NSFR beginning 1 January 2020.

Both the LCR threshold and the NSFR threshold are now at 100 per cent., following the full implementation of the provisions of Circulars 1035 and 1034, respectively. On 13 February 2020, the BSP issued Memorandum No. M-2020-003, entitled Guidelines on the Electronic Submission of the BASEL III Net Stable Funding Ration (NSFR) Report and Liquidity Coverage Ratio Report. It states that all subsidiary banks and quasi-banks must observe the guidelines for purposes of the NSFR and LCR reports beginning reporting period ended 31 January 2020, in line with BSP Circular Nos. 1035 and 1034.

On 29 November 2018, the Monetary Board approved the Philippine adoption of the CCyB intended for universal and commercial banks as well as their subsidiary banks and quasi-banks. The CCyB will be complied with by the banks using their CET1 capital. During periods of stress, the Monetary Board can lower the CCyB requirement, effectively providing the affected banks with more risk capital to deploy. During periods of continuing expansion, the CCyB may be raised which has the effect of setting aside capital which can be used if difficult times ensue. The CCyB is set initially at a buffer of zero per cent., which is line with global practice. The buffer, however, will be continuously reviewed by the BSP. Banks will be given a lead time of 12 months in the event that the CCyB buffer is raised. However, when the buffer is reduced, it takes effect immediately.

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.

Under Section 251 of the BSP MORB, as amended by BSP Circular No. 1041, 1054, 1056, 1063 and 1082 (2020), universal and commercial banks (including the Bank) are required to maintain regular reserves of 12.0 per cent. against demand deposits, "NOW" accounts, savings deposits, time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, deposit substitutes, peso deposits lodged under Due to foreign banks and peso deposits lodged under Due to Head Office/Branches/Agencies Abroad, 4.0 per cent. against long-term negotiable CTDs issued under BSP Circular No. 304 (2001), 0.0 per cent. against deposit substitutes evidenced by repo agreements and interbank call loans under Section X315 of the BSP MORB, and 3.0 per cent. against bonds.

The Monetary Board's reduction in the reserve requirement rate for bonds issued by banks and QBs from 6.0 per cent. to 3.0 per cent. took effect from the reserve week starting 1 November 2019 pursuant to Circular No. 1054. The reduction was implemented in furtherance of the BSP's commitment to the growth of the local debt market. The reduction is also intended to incentivize banks and QBs to tap the domestic bond market as part of their liquidity management.

The Monetary Board's reduction of the reserve requirement ratio by 100 basis points (or one percentage point) for universal/commercial and thrift banks took effect from the reserve week starting 6 December 2019 pursuant to Circular No. 1063. The reduction is in line with the BSP's broad financial sector reform agenda to promote a more efficient financial system by lowering financial intermediation costs. The adjustment in reserve requirement ratios is also aimed at increasing domestic liquidity in support of economic activity.

On 31 March 2020, BSP Circular No. 1082 was issued, which lowered the rates of required reserves against deposit and deposit substitute liabilities in local currency of banks, with effect from reserve week of 3 April 2020 for universal and commercial banks, to 12 per cent. against demand deposits, "NOW" accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, deposit substitutes, peso deposits lodged under due to foreign banks and Peso deposits lodged under due to Head Office/Branches/Agencies Abroad of banks. The reduction in required reserves was made following the announcement of the ECQ, to buttress the negative impact of the COVID-19 pandemic on the Philippine economy. On 22 April 2020, the BSP also issued BSP Circular 1083, as amended by BSP Circular No. 1087, which provides for allowable alternative modes of compliance with the required reserves against deposit and deposit substitute liabilities.

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 per cent. of the net worth of such bank (or 30.0 per cent. 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. BSP Circular No. 425 (2004) as amended by BSP Circular No. 779 (2013) imposed a 25.0 per cent loan limit to single borowers. In an effort to mitigate the adverse effects of the COVID-19 pandemic on the operations of BSFIs, the BSP issued BSP Memorandum No. M-2020-011 dated 19 March 2020, which increased this single borrower's limit from 25 per cent. to 30 per cent. for a period of six months from 19 March 2020.

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 (**LCs**) less margin deposits and guarantees. Except as specifically provided in the BSP MORB, 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 the determination of 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 LCs to the extent covered by margin deposits and (f) other loans or credit accommodations which the Monetary Board of the BSP may from time to time specify as non-risk items.

Trust Regulation

The BSP MORB 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 BSP MORB. The Bank may, under its charter documents, accept and manage trust funds and properties and carry on the business of a trust corporation.

Foreign Currency Deposit System

An FCDU is a unit of a local bank or of a local branch of a foreign bank authorised 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 of the BSP may be authorised to operate an expanded FCDU. Thrift banks with a net worth or combined capital accounts of at least ₱325 million if they are located in Metro Manila, and ₱52 million if they are located outside Metro Manila, may be authorised 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/Expanded FCDUs (**EFCDUs**); (c) invest in foreign currency-denominated debt instruments; (d) grant short-term foreign currency loans as may be allowed by the BSP; (e) borrow from other FCDUs/EFCDUs, from non-residents and OBUs, subject to existing rules on foreign borrowings; (f) engage in foreign currency to foreign currency swaps with the BSP, OBUs and FCDUs; (g) engage in securities lending activities as lender, subject to certain conditions; (h) engage in repurchase agreements involving foreign currency denominated government securities; (i) purchase foreign currency denominated securities under resale agreements from other banks' FCDUs/EFCDUs, non-resident financial institutions and OBUs; (j) issue Hybrid Tier 1 (**HT1**) capital instruments subject to the requirements under existing regulations; and (k) engage in U.S.$-denominated repurchase agreements with the BSP. In addition to the foregoing, commercial banks and universal banks may: (a) engage in foreign exchange trading and, with prior BSP approval, engage in financial futures and options trading; (b) on request/instruction from its foreign correspondent banks, provided that the foreign correspondent banks deposit sufficient foreign exchange with the FCDU, (i) issue LCs for a non-resident importer in favour of a non-resident exporter, (ii) pay, accept, or negotiate drafts/bills of exchange drawn under the LC and (iii) make payment to the order of the non-resident exporter; (c) engage in the direct purchase of export bills of resident exporters, subject to certain conditions; and (d) invest in foreign currency denominated structured products issued by banks and special purpose vehicles (**SPVs**) of high credit quality, subject to the provisions of the MORB. FCDUs are required to maintain a 100.0 per cent. cover for their foreign currency liabilities, except for U.S.$-denominated repurchase agreements with the BSP. The 100.0 per cent. asset cover must be unencumbered, except as otherwise provided in the Manual of Regulations for Foreign Exchange Transactions. FCDUs of universal and commercial banks and thrift banks have the option to maintain foreign currency deposits with the BSP equivalent to at least 15.0 per cent. of their foreign currency deposit liabilities as a form of foreign exchange cover.

On 8 April 2020, the BSP issued BSP Memorandum Circular No. M-2020-023 which allows the alternative treatment of net unrealized losses arising from marking-to-market of financial assets/liabilities and revaluation of third currencies to US dollar of assets in the FCDU book for purposes of determining compliance with the FCDU asset cover requirement. Under the Memorandum Circular, whenever the total of the following FCDU accounts: (x) items comprising the 'Net Unrealized Gains/(Losses) from Operations' credited/debited to 'Undivided Profits/(Losses)', as well as those not yet credited/debited to 'Undivided Profits/(Losses)'; (y) 'Net Unrealized Gains/(Losses) on Available For Sale (AFS) Financial Assets' recognized directly in equity; and (z) 'Gains/(Losses) on Fair Value Adjustments of Hedging Instruments' recognized, results in a net "debit balance", a bank may for the period beginning the effectivity of the Memorandum Circular until 30 September 2020, add back the "net debit amount" to total assets in the FCDU book for purposes of determining compliance with the 100 per cent asset cover requirement instead of transferring eligible foreign currency assets from the Regular Banking Unit book to FCDU book as required under the Manual of Regulations on Foreign Exchange Transactions.

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 existing regulations, total real estate loans of universal and commercial banks should not exceed 20 per cent. of their total loan portfolio, net of interbank loans, with certain exceptions under the BSP MORB.

In accordance with the BSP Circular No. 855 issued on 29 October 2014, BSP-supervised financial institutions are mandated to have adequate and effective credit risk management systems commensurate to their credit risk-taking activities. The BSP shall evaluate the financial institution's credit risk management system on both the individual and subsidiary levels, and if the BSP determines that the financial institution's risk exposures are excessive relative to its capital, the BSP may direct the institution to reduce its exposure to an appropriate level. A loan may be considered secured by collateral to the extent the estimated value of net proceeds at disposition of such collateral can be used without legal impediment to settle the principal and accrued interest of such loan, provided that such collateral has an established market and the valuation methodology used is sound. In the case of real estate collateral, the maximum collateral value shall be 60 per cent. of its appraised value. A loan may also be considered as secured to the extent covered by a third-party financial guarantee or surety arrangement where the credit enhancement provider is itself considered to be of high credit quality (credit rating of at least AA or equivalent) or is considered to be such by the BSP. Finally, a loan may be secured by a combination of acceptable collateral and guarantee arrangements as defined above, provided such arrangements are independent of one another for credit enhancement purposes.

The BSP also clarified that the collateral cap on real estate mortgages is not the same as a loan-to-value (**LTV**) ratio limit, or a minimum borrower equity requirement, which remains a bank-determined policy (and averages 20.0 per cent. under current industry practice according to the BSP). Under the enhanced guidelines of the BSP, however, the bank's internal policy on minimum borrower equity will be subject to closer regulatory scrutiny as to whether it is prudent given the risk profile of its target market. 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 lending should be only for a time period essential for completion of the operations to be financed.

On 27 June 2014, the BSP issued BSP Circular No. 839 adopting a prudential real estate stress test (**REST**) limit for universal, commercial and thrift banks on a solo and consolidated basis on their aggregate real estate exposures. The REST limit combines a macroprudential overlay of a severe test scenario, the principal of loss absorbency through minimum capital ratio thresholds and heightened supervisory response. Real estate exposures are those defined in Memorandum No. M-2012-046 and include other real estate property of the banks such as those recorded under Real and Other Properties Acquired and Non-Current Assets Held for Sale. For purposes of the circular, a stress test will be undertaken on a bank's Real Estate Exposure and other real estate property under an assumed write-off rate of 25 per cent.

For universal and commercial banks, the prudential REST limits are 6 per cent. of CET1 capital ratio and 10 per cent of risk-based CAR, on a solo and consolidated basis under the prescribed write-off rate.

Mandatory Lending Requirements

The Agri-Agra Reform Credit Act of 2009 or Republic Act No. 10000 mandates that all banks shall set aside 25 per cent. of their total loanable funds for agriculture and agrarian reform credit in general, of which at least 10 per cent. shall be made available for agrarian reform beneficiaries. In the alternative, banks can: (i) buy Government and debt securities whose proceeds shall be used for lending to the agriculture and agrarian reform sectors; (ii) subscribe to shares of stock of accredited rural financial institutions (preferred shares only), the Quedan and Rural Credit Guarantee Corporation, or the Philippine Crop Insurance Corporation; (iii) open special deposit accounts with accredited rural financial institutions; (iv) provide rediscounting on eligible agriculture, fisheries and agrarian credits; or (v) provide lending for the construction and upgrade of infrastructure including farm-to-market roads. The BSP shall impose administrative sanctions and penalties of 0.5 per cent. of the total amount of its non-compliance and under-compliance. In July 2011, the BSP issued BSP Circular No. 736 as a component of the implementing rules and regulations of the Agri-Agra Reform Credit Act. Aside from retaining the mandatory credit allocation, it also rationalises the modes of compliance. In addition to direct compliance through loans to qualified borrowers, a list of alternative compliance mechanisms is also provided. On 20 July 2018, the BSP issued Circular No. 1009, which imposed amendments to the alternative modes of compliance to the mandatory agricultural and agrarian reform credits.

Republic Act No. 9501 provides that for a period of ten years from 17 June 2008, all lending institutions shall set aside at least 8.0 per cent. for loans to micro and small enterprises and at least 2.0 per cent. for medium enterprises of their total loan portfolio based on their balance sheet as of the end of the previous quarter and make it available for lending to such enterprises. Investments in Government securities will not satisfy such obligation.

In addition, branches or agencies of commercial banks located within certain geographical groupings outside Metro Manila must lend at least 75.0 per cent. of total deposits, net of required reserves and total cash in vault, at such branches to businesses in their locality. This requirement is deemed to be complied with if, in the relevant geographical grouping, the bank's total lending for the financing of agricultural and export industries constitutes 60.0 per cent. 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.

Furthermore, the Barangay Micro Business Enterprises Act (Republic Act No. 9178) provides incentives to private banks and financial institutions extending credit to Barangay Micro Business Enterprises (**BMBEs**). Accordingly, all loans granted to BMBEs shall be considered as part of alternative compliance with the rules on reservation of funds for the agricultural sector and for small and medium enterprises.

Banks may be allowed to report compliance on a group-wide basis (i.e. on a parent-subsidiary consolidated basis), so that excess compliance of any bank in the group can be used as compliance for any deficient bank in the group, provided that any such subsidiary bank is at least majority-owned by the parent bank, and provided further that the parent bank shall be held responsible for the compliance of the group.

Qualifications of Directors and Officers

On 22 August 2017, BSP issued Circular No. 969, strengthening guidelines on corporate governance in BSP-supervised financial institutions as set out in the BSP MORB. The BSP, through the circular, aimed to align its existing regulations with the Code of Corporate Governance for Publicly-listed Companies issued by the SEC. Pursuant to the Circular, prospective directors have the burden of proving that they possess all the minimum qualifications and none of the disqualifications listed in the BSP MORB and must submit proof to the BSP of their qualification. An elected director must be fit and proper for the position, taking into consideration his integrity/probity, physical/mental fitness, educational/financial literacy/training and other competencies relevant to the job. Each director must also have attended a seminar on corporate governance, subject to certain exemptions. Members of the board of directors may not be appointed as corporate secretary or chief compliance officer of the institution.

Certain persons are permanently disqualified from acting as bank directors or officers, as outlined in BSP Circular No. 1076, Series of 2020. Those permanently disqualified include the following: (a) persons who have been convicted by final judgment of a court (i) for an offense involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of Batas Pambansa Blg. 22 (which penalises the issuance of checks that are not sufficiently funded), violation of Anti-Graft and Corrupt Practices Act and prohibited acts and transactions under Section 7 of Republic Act No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees); (b) persons who have been convicted by final judgment of a court or other tribunal for violation of banking laws, rules and regulations; (c) persons who have been convicted by final judgment for cases filed against them for offenses under Republic Act No. 3591, as amended (**PDIC Charter**); (d) persons who have been convicted by final judgment of a court for offenses which involve moral turpitude, or for offenses which they were sentence to serve a term of imprisonment of more than six years; (e) persons who have been judicially declared insolvent, spendthrift, or incapacitated to contract; (f) persons who were found to be culpable for the bank's closure, as determined by the Monetary Board; (g) persons found by the Monetary Board to be administratively liable for violation of laws, rules, or regulations implemented by the BSP, where a penalty of removal from office is imposed, and which resolution of the Monetary Board has become final and executory; and (h) persons found liable by any government agency/corporation, including government financial institutions, for violation of any law, rule, or regulation involving dishonesty, misconduct, or any other grave or less grave offense classified under the Revised Administrative Code or Civil Service rules that adversely affect their fitness and propriety as directors or officers, and which finding of said government institution has become final and executory.

Meanwhile, certain persons are temporarily disqualified from holding a director or officer position, including:

- Persons who have shown unwillingness to settle their financial obligations, as evidenced by, but not limited to, the following circumstances: (a) the person has failed to satisfy any financial obligation that has been adjudicated by court; (b) the person has filed for insolvency or suspension of payments that adversely affects his or her fitness and propriety as director or officer; or (c) a person who is delinquent in the payment of an obligation with a bank where he or she is a director or officer, or at least two obligations with other banks or financial intermediaries. They shall remain temporarily disqualified until the financial obligation has been settled or satisfied;
- Persons involved in the closure of banks pending their closure by the Monetary Board.
- Persons confirmed by the Monetary Board to have committed acts or omissions, which include failure to observe or discharge their duties and responsibilities prescribed under existing regulations, that (a) caused undue injury or disadvantage to the bank through manifest partiality, evident bad faith, or gross inexcusable negligence; (b) caused or may have caused material loss or damage to the bank, its depositors, creditors, investors, stockholders, to the BSP or to the public in general; or (c) exposed the safety, stability, liquidity, or solvency of the bank to abnormal risk or danger;
- Persons found to have been involved in any irregularity or violation which constitutes a just cause for dismissal or termination as defined under the Labor Code of the Philippines, as amended, regardless of any action by the bank;
- Persons certified by, or in the official files of, foreign financial regulatory authorities, financial intelligence units, or similar agencies or authorities of foreign countries, as charged with commission of, or having committed, irregularities or violations of any law, rule, or regulation which may adversely affect the fitness and propriety of the person or the ability to effectively discharge his or her duties;
- Persons, other than those disqualified due to crimes involving moral turpitude, who after conduct of investigation by domestic financial or commercial regulatory authorities, financial intelligence units, or similar agencies such as the SEC, AMLC, or PDIC, have

complaints filed against them by the aforementioned agencies, units, or authorities pending before a court of law or quasi-judicial body, or convicted by said court or quasi-judicial body but whose conviction has not become final and executory, for offenses involving violation of laws, rules and regulations, which may adversely affect the fitness and propriety of the person or the ability to effectively discharge his or her duties;

- Persons with cases pending before a court or other tribunal, or those convicted by said court or tribunal but whose conviction has not become final and executory, for offenses involving: estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of Batas Pambansa Blg. 22 (which penalises the issuance of checks that are not sufficiently funded), violation of Anti-Graft and Corrupt Practices Act and prohibited acts and transactions under Section 7 of Republic Act No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees), (b) persons who have been convicted by final judgment of a court or other tribunal for violation of banking laws, rules and regulations;
- Persons who have been convicted by a court for an offense involving moral turpitude, and persons who have been sentenced to serve a term of imprisonment of more than six years for other crimes but whose conviction has not become final and executory;
- Persons with pending cases for offenses under the PDIC Charter or those who have been convicted for said cases but whose conviction has not yet become final and executory;
- Persons found by the Monetary Board to be administratively liable for violation of laws, rules, and regulations implemented by the BSP, where a penalty of removal from office is imposed, and which resolution of the Monetary Board is on appeal, unless execution or enforcement thereof is restrained by the appellate court; and
- Persons against whom a formal charge has been filed or who are found liable by any government agency/corporation, including government financial institutions, for violation of any law, rule, or regulation involving dishonesty, misconduct, or any other grave or less grave offense classified under the Revised Administrative Code or Civil Service rules that adversely affect their fitness and propriety as directors or officers, and which finding of said government institution is on appeal and the execution or enforcement thereof is restrained by the appellate court.

Resignation or retirement from his or her office would not exempt the director or officer from being permanently or temporarily disqualified.

BSP Circular No. 1076, Series of 2020 also provides a list of those prohibited to become officers of a bank, including any appointive or elective official, whether full time or part time, except in cases where such service is incidental to the financial assistance provided by the government or government-owned or controlled corporations, or in cases allowed under existing laws.

Under BSP Circular No. 969, independent directors shall have the additional qualifications that he or she: (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 bank's majority stockholder and of its related companies within three years from his election; (c) is not an owner of more than 2 per cent. of the outstanding shares or a stockholder of the bank with shares of stock sufficient to elect one seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders; (d) is not a close family member (spouse, parent, child, brother, sister, parent-in-law, son-/daughter-in-law, and brother-/sister-in-law) of any director, officer or a shareholder holding shares of stock sufficient to elect one seat in the board of the bank or any of its related companies, or any of its substantial shareholders; (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, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm; (g) is independent of the management and free from any business or other relationship; and (h) was not appointed in the bank, its subsidiaries, affiliates, or related interests as

Chairman "Emeritus," "Ex-Officio," Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the board of directors in the performance of its duties and responsibilities during the past three years from the date of appointment; (i) is not affiliated with any non-profit organisation that receives significant funding from the bank or any of its related companies or substantial shareholders; and (j) is not employed as an executive officer of another company where any of the bank's executives serve as directors.

Loans to DOSRI

The amount of total outstanding loans, other credit accommodations and guarantees to each DOSRI, of which at least 70.0 per cent. must be secured, should not exceed the unencumbered amount of the relevant DOSRI's outstanding deposits and book value of the DOSRI's paid-in capital contribution in the bank. In the aggregate, outstanding loans, other credit accommodations and guarantees to DOSRI generally should not exceed 100.0 per cent. of the bank's net worth or 15.0 per cent. of the total loan portfolio of the bank, whichever is lower. In no case shall the total unsecured loans, other credit accommodations and guarantees to DOSRI exceed 30.0 per cent. of the aggregate ceiling or of their outstanding loans, other credit accommodations and guarantees, whichever is lower. For the purpose of determining compliance with the aggregate ceiling on unsecured credit accommodations and guarantees, banks shall be allowed to average their ceiling on unsecured loans, other credit guarantees and guarantees every week.

Pursuant to BSP Circular No. 914 (2016), loans, other credit accommodations and guarantees granted by a bank to its DOSRI, for the purpose of project finance, shall be exempted from the 30.0 per cent. unsecured individual ceiling during the project gestation phase, provided that the lending bank shall ensure that standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of the borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project documents.

The credit card operations of banks shall not be subject to these regulations where the credit cardholders are the bank's directors, officers, stockholders and their related interests, subject to certain conditions.

Valuation Reserves for Credit Losses 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 instalments, banking regulations consider the total outstanding obligation past due in accordance with the following schedule:

Mode of Payment	Minimum Number of Instalments in Arrears
Monthly	3
Quarterly	1
Semi-annual	1
Annually	1

However, when the total amount in arrears reaches 20.0 per cent. of the total outstanding balance of a loan or receivable, the total outstanding balance of the loan or receivable is considered past due notwithstanding the number of instalments in arrears.

BSP regulations allow loans and advances to be written-off as bad debts only if it can be justified as being uncollectible. The board of directors of the bank has discretion as to the frequency of write-offs provided that these are made against provisions for credit losses or against current operations. The prior approval of the Monetary Board of the BSP is required to write off loans to the bank's directors, officers, stockholders and their related interests.

In accordance with BSP Circular No. 941 dated 20 January 2017, loans, investments, receivables or any financial asset, including restructured loans, as a general rule shall be considered past due when any principal and/or interest or instalment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due. However, BSP-supervised financial institutions may provide a cure period on a credit product-specific basis, not to exceed 30 days within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due. Any cure period policy shall be based on verifiable collection experience and reasonable judgment which support the tolerance of occasional payment delays.

The observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness(es), and the BSP-supervised financial institutions are mandated to regularly review the reasonableness of its cure period policy. For microfinance and other small loans that feature high frequency payments, the cure period allowable by policy shall not exceed ten days. Policies for writing off problem credits must be approved by the board of directors in accordance with defined policies and must incorporate well-defined criteria under which credit exposure may be written off. Procedures must explicitly set out and document the necessary operational steps and processes to execute the policies. Policies shall define and establish the reasonable period of time within which to write off loans already classified as "loss". BSP regulations allow loans and advances to be written off as bad debts only if they can be justified as being uncollectible. The board of directors of the bank have discretion as to the frequency of write-offs provided that these are made against provisions for credit losses or against current operations. The prior approval of the Monetary Board of the BSP is required to write off loans to DOSRI.

On 26 January 2003, the 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. Congress passed the SPV Act's implementing rules and regulations on 19 March 2003 and they came into force on 12 April 2003. In 2006, the Philippine president signed into law an amendment to the SPV Act, which took effect on 14 May 2006, extending the deadline for the creation of asset management companies entitled to tax breaks to 18 months after the amended SPV Act takes effect or until 14 November 2007. The amendment also extended the tax exemptions and fee privileges of SPVs to those transactions that occur up to 14 May 2008. The extension expired on 14 July 2008.

On 29 October 2014, the BSP issued BSP Circular No. 855 on "Guidelines on Sound Credit Risk Management Practices; Amendments to the Manual of Regulations for Banks and Non-Bank Financial Institutions". The Circular prescribes guidelines in setting up allowances for credit losses.

Guidelines on General Reserves

Under the MORB, banks are required to develop and document a sound loan loss methodology that can reasonably estimate provisions for loans and other credit accommodations and risk assets in a timely manner, and to ensure that the specific and collective allowance for credit losses, aggregate amount of individual and collectively assessed probable credit losses are adequate and approximates the expected losses in their credit portfolio. Banks are also required to set up a general loan loss provision equivalent to one per cent. of the outstanding balance of individually and collectively assessed loans for which no specific provisions are made and/or for which the estimated loan losses are less than one per cent., less loans which are considered non-risk under existing laws, rules and regulations.

Restrictions on Branch Opening

Section 20 of the General Banking Law provides that universal and commercial banks may open branches within or outside the Philippines upon prior approval of the BSP. The same provision allows banks, with prior Monetary Board approval, to use any or all of its branches as outlets for the presentation and/or sale of financial products of its allied undertakings or investment house units.

BSP Circular No. 854 (2014) prescribes the amended minimum capitalisation for banks in order to be given authority to establish branches, as follows:

Bank Category	**Minimum Capital (in Billions)**
Universal Banks with more than 100 branches Universal Banks with 11 to 100 branches Universal Banks with up to 10 branches Universal Banks with Head Office only	₱20.0 ₱15.0 ₱6.0 ₱3.0
Commercial Banks with more than 100 branches Commercial Banks with 11 to 100 branches Commercial Banks with up to 10 branches Commercial Banks with Head Office only	₱15.0 ₱10.0 ₱4.0 ₱2.0
Thrift Banks: With Head Office within NCR and with more than 50 branches With Head office in all other areas outside NCR and with more than 50 branches	 ₱2.0 ₱0.8
Rural and Cooperative Banks: Head Office in NCR and more than 50 branches Head Office in all other areas outside NCR (all cities up to third class municipalities) with more than 50 branches Head Office in all other areas outside NCR (fourth to sixth class municipalities) with more than 50 branches	 ₱0.2 ₱0.08 ₱0.04

Generally, only universal/commercial and thrift banks may establish branches on a nationwide basis. Once approved, a branch should be opened within six months from the date of approval (extendable for another six-month period, upon the presentation of justification therefor). Under the BSP MORB, as amended by BSP Circular No. 759 (2012), banks may establish as many branches as its Qualifying Capital can support taking into account any approved but unopened branch(es) outstanding at the time of application. Approved branches shall be opened within one year from the date of approval thereof, subject to extension on a case-to-case basis, but in no case exceeding three years, while approved Other Banking Offices (**OBOs**) shall be opened within one year from date of approval thereof, which shall not be subject to any extension. Requirements for opening branches/OBOs are also contained in BSP Circular No. 759.

Pursuant to BSP Circular No. 505, issued on 22 December 2005, banks are allowed to establish branches in the Philippines, except in the cities of Makati, Mandaluyong, Manila, Parañaque, Pasay, Pasig, Quezon and the municipality of San Juan, Metro Manila. However, under BSP Circular No. 728 (2011), the restrictions on the establishment of branches were lifted as of 1 July 2014, subject to certain requirements. In BSP Circular No. 987 (2017), the BSP approved the guidelines on the establishment of branch-lite units amending relevant provisions of the BSP MORB. A branch-lite unit refers to any permanent office or place of business of a bank, other than its head office or a branch which performs limited banking activities and records its transactions in the books of the head office or the branch to which it is annexed.

Under the first phase, second-tier universal and commercial banks with capital accounts of at least ₱10 billion and thrift banks with capital of at least ₱3 billion that have fewer than 200 branches in restricted areas as of December 2010 were allowed to apply and establish branches in these restricted areas until 30 June 2014. The second phase of the current liberalisation approach began on 1 July 2014, pursuant to which all banks (except rural and cooperative banks that are not allowed to establish branches in Metro Manila) were able to apply and establish branches in previously restricted areas, subject to certain requirements.

At present, pursuant to BSP Circular No. 932 (2016), all banks, including rural and cooperative banks, as a general rule are allowed to establish branches anywhere in the Philippines, including in cities previously considered restricted areas.

Branches of microfinance-oriented banks, microfinance-oriented branches of regular banks and branches that cater primarily to the credit needs of BMBEs duly registered under Republic Act No. 9178 may be established anywhere upon the fulfilment of certain conditions.

Anti-Money Laundering Law

The AMLA was passed on 29 September 2001 and was most recently amended on 19 July 2017. Under its provisions, as amended, certain financial intermediaries, including a bank's offshore banking units, quasi-banks, trust entities, non-stock savings and loan associations, all other institutions including their subsidiaries and affiliates supervised and/or regulated by the BSP and insurance companies and/or institutions regulated by the Philippines' Insurance Commission, are 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.

These institutions are also required to submit a "suspicious" transaction report if there are reasonable grounds to believe that any amounts processed are the proceeds of money laundering activities. These transactions are required to be reported to the AMLC of the BSP within five working days from the occurrence thereof, unless the AMLC prescribes a different period not exceeding 15 days. The Court of Appeals, upon verified *ex parte* petition by the AMLC and after determination of the probable cause that the monetary instrument or property is in any way related to an unlawful activity as defined in the AMLA, may issue a freeze order, which shall be effective immediately, over such monetary instrument or property. BSP Circular No. 495 (2005) as amended by BSP Circular No. 527 (2006) requires all universal and commercial banks to adopt an electronic money laundering transaction monitoring system by 14 October 2007. The said system should, at a minimum, be able to detect and raise to the bank's attention, transactions and/or accounts that qualify either as "covered transactions" or "suspicious transactions" as defined under the AMLA.

BSP Memorandum No. M2012-017 (April 2012) likewise requires all covered banking institutions to comply with the AML Risk Rating System (the **ARRS**), a supervisory system that aims to ensure that mechanisms to prevent money laundering and terrorist funding are in place and effectively implemented in banking institutions. Under the ARRS, each institution is rated based on the following factors: (a) efficient board of directors and senior management oversight; (b) sound AML policies and procedures embodied in a money laundering and terrorist financing prevention programme duly approved by the board of directors; (c) robust internal controls and audit; and (d) effective implementation.

Institutions that are subject to the AMLA 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 a minimum of five years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

In 2012, two amendments to the Philippines' AML regime came into effect, Republic Act No. 10167 and Republic Act No. 10168. Republic Act No. 10167 amended Section 10 of the AMLA, which requires that a petition to the Court of Appeals for an order to freeze accounts be verified. Furthermore, the Court of Appeals must act on the petition within a period of 24 hours of filing. The affected depositor's remedy, then, is to file a motion to lift, which the Court of Appeals must resolve within the 20-day freeze period.

Section 11 of the AMLA was likewise amended. Section 11 now provides that the AMLC is authorised to examine bank accounts "upon order of any competent court based on an *ex parte* application". However, the same provision sets out additional instances when no court application is required.

Further to the above, an order to examine bank accounts receives the same treatment by the Court of Appeals as an order to freeze accounts. Now, the Court of Appeals is compelled to act on such applications within 24 hours of filing.

Also, R.A. No. 10167 has expanded the coverage of AMLC to enable inquiries into so-called "related accounts", defined as: "funds and sources of which originated from and/or are materially linked to the monetary instrument(s) or property(ies) subject of the freeze order(s)".

Republic Act No. 10168 defined the crime of financing of terrorism, in accordance with the state policy to protect life, liberty and property from acts of terrorism. The offence is committed by one who "directly or indirectly, wilfully and without lawful excuse, possesses, provides, collects, or uses property or funds or makes available property, funds or financial services or other related services, by any means, with the unlawful and wilful intention that they should be used or with the knowledge that they are to be used, in full and in part: (a) to carry out or facilitate the commission of any terrorist act; (b) by a terrorist organisation, association, or group; or (c) by an individual terrorist".

On 15 February 2013, Republic Act No. 10365 was approved. This amendment expanded the coverage of the AMLA to include "covered persons, natural and juridical". Additions to the enumeration of covered persons include jewellery dealers for transactions in excess of ₱1 million and the Land Registration Authority for real estate purchases in excess of ₱500,000. Furthermore, the enumeration of predicate crimes expanded to include 20 additional crimes including bribery, extortion, malversation of public funds, fraud and financing of terrorism.

In 2016, the AMLC approved the Revised Implementing Rules and Regulations of the AMLA. On 15 March 2017, the BSP issued BSP circular no. 950 which further expanded covered persons to include company service providers, and person who manage their client's money, security or other assets, manage bank or securities accounts, organise funds for the creation, operation, or management of companies, create, operate, or manage entities or relationships, or who buy and sell business entities.

In July 2017, Republic Act No. 109271 was signed into law, and it further expanded the coverage of AMLA to include casinos for a single casino cash transaction involving an amount in excess of ₱5.0 million or its equivalent in any other currency. The measure requires casinos to report suspicious transactions to the AMLC. This amendment was one of the recommendations of the Financial Action Task Force (**FATF**), a global anti-money laundering and anti-terrorism watchdog. Furthermore, the law provides that: (a) a freeze order issued by the Court of Appeals pursuant to an *ex parte* petition by the AMLC shall not exceed six months and if no case is filed against a person whose account has been frozen within the period determined by the Court of Appeals (but not exceeding six months), the freeze order shall be deemed automatically lifted, provided, that a freeze order is without prejudice to an asset preservation order which the relevant trial court may issue upon the same assets; and (b) a freeze order or asset preservation order shall be limited only to the amount of cash or monetary instrument or value of property which the court finds probable cause to consider such property as proceeds of the predicate crime.

The AMLC plays a central role in the enforcement of this law as the AMLC, *motu propio* or at the request of the Anti-Terrorism Council, is authorised to investigate in order for it to ascertain that there is probable cause that the financing of terrorism is being conducted, planned or facilitated. When the AMLC is satisfied that funds are for terrorist funding, it can issue an *ex parte* order to freeze, without delay, funds which it has "determined to be related to financing of terrorism or acts of terrorism" or where there is probable cause to believe that funds are to be used in connection with terrorist activities.

On 20 April 2018, the AMLC issued AMLC Letter No. AMLET-18-03, providing for Operational Guidelines in the Conduct of the 2018 Third Round Mutual Evaluation of the Philippines. The guidelines aim to (a) create an inter-agency Mutual Evaluation Working Group and sub-working groups; (b) enumerate the functions and obligations of the member-agencies with respect to the Mutual Evaluation process; (c) outline the Mutual Evaluation process and provide guidance as to the different components of the process; (d) provide timelines for the Mutual Evaluation process and Mutual Evaluation-related activities; (e) enumerate effects of a "non-compliant" or "poor" Mutual Evaluation; and (f) lay down the framework towards the adoption of a national anti-money laundering/counter-financing of terrorism (**AML/CFT**) Strategy. The Guidelines are addressed to all participating government agencies and other entities.

The Mutual Evaluation is a government-wide concern given that the compliance of the Philippines with the Financial Action Task Force Forty Recommendations and the effectiveness of its AML/CFT regime will be assessed. The entire Mutual Evaluation process spans two (2) years and will require the support and active participation of various government agencies, including supervisory authorities, law enforcement agencies, and public and private stakeholders. The Philippines will be evaluated by a pool of experts from Financial Intelligence Units from other member-jurisdictions of the Asia-Pacific Group on Money Laundering, pursuant to the membership rules of the Asia-Pacific Group on Money Laundering.

On 27 November 2018, the 2018 Implementing Rules and Regulations of the AMLA took effect. This incorporated the amendments under Republic Act No. 10972, which included casinos as covered persons. However, implementation by casinos of AMLA will continue to be governed by the existing Casino Implementing Rules and Regulations. These implementing rules and regulations feature new rules on the AMLC's coordination with law enforcement agencies, beneficial ownership, customer due diligence and national risk management and assessment. In relation thereto, on 14 January 2019, BSP issued Circular Letter No. CL-2019-002, addressed to all BSFIs on the guidelines issued by the AMLC on digitisation of customer records and identification of beneficial owners.

On 29 January 2020, the AMLC issued AMLC Regulatory Issuance (**ARI**) A, B and C No. 1 (2020), which amends certain provisions of the 2018 implementing Rules and Regulations of Republic Act No. 9160, as amended. The ARI added provisions on immediate family members and close associates of politically-exposed persons and expanded the definition of a customer or client to include juridical persons.

Electronic Banking Operations

The BSP has prescribed prudential guidelines in the conduct of electronic banking, which refers to systems that enable bank customers to avail themselves of the bank's products and services through a personal computer (using direct modem dial-in, internet access or both) or a telephone. Applicant banks must prove that they have in place a risk management process that is adequate to assess, control and monitor any risks arising from the proposed electronic banking activities.

Private domestic banks with a BSP-approved electronic banking facility may accept payments of fees and other charges of a similar nature for the account of the departments, bureaus, offices and agencies of the government as well as all government-owned and controlled corporations. The funds accepted shall be treated as deposit liabilities subject to existing regulations on government deposits and shall not exceed the minimum working balance of such government entities.

BSP Circular No. 808, dated 22 August 2013, required BSP-supervised institutions to migrate their entire payment network to more secure Europay, MasterCard and Visa (**EMV**) chip-enabled cards. In 2014, BSP Circular No. 859 set out the EMV Implementation Guidelines which govern the implementation for debit cards in any card- accepting device/terminal. As of 1 January 2017, all cards issued and card-accepting devices are required to be EMV-compliant. Prior to full compliance, failure on the part of BSFIs to submit and implement their EMV migration plan is subject to additional enforcement actions. However, pursuant to BSP Memorandum No. M-2017-019 issued on 9 June 2017, BSP-supervised financial institutions are required to fully comply with the EMV requirement by 30 June 2018. Failure to do so is considered a serious offense and will subject these institutions to monetary sanctions provided under relevant provisions of the BSP MORB.

On 22 February 2019, the BSP issued BSP Circular No. 1033 introducing certain amendments to the regulations on electronic banking services and other electronic operations, particularly electronic payment and financial services (**EPFS**). EPFS are products and services that enable customers to receive payments or initiate financial transactions and other related services through an electronic device. BSP Circular No. 1033 requires parties to obtain the approval of the BSP prior to offering EPFS and to meet certain BSP reporting requirements. To encourage banks to provide safe, efficient and reliable digital channels that support critical payment use cases such as social benefit transfers, payments to merchants or billers including to the Government, payments to suppliers, and remittances, the BSP issued Memorandum Circular No. M-2020-033, which waives the fees for applications related to the grant of Type A and B EPFS license received until 8 September 2020.

Related Party Transactions

On 1 December 2015, the BSP approved guidelines strengthening oversight and control standards for managing related party transactions. The standards were further strengthened through the issuance of BSP Circular No. 969 (2017). The guidelines highlight that while transactions between and among the entities within the same group create financial, commercial and economic benefits, higher standards should be applied to related party transactions to protect the interest of all stakeholders. It is emphasized that related party transactions are generally allowed as long as they are conducted on an arm's length basis with respect to both the process involved in handling the transaction and the economic terms of the transaction.

Under the BSP MORB, a universal or commercial bank which is part of a conglomerate is required to form a RPT Committee, composed of at least three members of the board of directors, two of whom must be independent directors, including the chairperson. The committee may not contain non-executive directors, and independent directors must always comprise a majority of the Committee. The RPT Committee has the duty to ensure that all related parties are continuously identified, related party transactions are monitored and subsequent changes in relationships with counterparties (from non-related to related and vice-versa) are captured. It is also responsible for evaluating all material related party transactions to ensure that these are not undertaken on more favourable economic terms and to ensure that appropriate disclosures are made and/or information is provided to regulating and supervising authorities in respect of the institution's related party transaction exposures. The RPT Committee must also prepare a report to the board on a regular basis, on the status and aggregate exposures to each related party, as well as to all related parties. Lastly, they are tasked with overseeing the implementation of the system for identifying, monitoring, measuring, controlling, and reporting related party transactions, including the periodic review of related party transaction policies and procedures.

Islamic Banking Law

On 22 August 2019, President Rodrigo R. Duterte signed into law Republic Act No. 11439, or "An Act Providing for the Regulation and Organization of Islamic Banks". Under Rep. Act No. 11439, the government recognized the vital role of Islamic banking and finance in creating opportunities for greater financial inclusion, especially for the underserved Muslim population, in expanding the funding base for small and medium-sized enterprises as well as large government infrastructure projects through financial arrangements with risk sharing as their core element and in contributing to financial stability through the use of financial contracts and services that are founded on risk sharing rather than speculation in compliance with *Shari'ah* principles.

Rep. Act No. 11439 authorized the establishment of Islamic banks and authorized conventional banks to engage in Islamic banking arrangements, including structures and transactions, through a designated Islamic banking unit within the bank subject to segregation of such banking units (**Islamic banks**). In addition to traditional banking powers and other banking powers that are compliant with *Shari'ah* principles, Islamic banks may perform the following services: (i) accept drafts and issue letters of credit or letters of guarantee, negotiate notes and bills of exchange and other evidence of indebtedness; provided, that such financial instruments are in accordance with the principles of *Shari'ah*; (ii) act as collection agents in respect of payment orders, bills of exchange or other commercial documents covering *Shari'ah* compliant transactions; (iii) provide *Shari'ah* compliant financing contracts and structures; and (iv) make investments in any transactions allowed under *Shari'ah* principles. Islamic banks may also issue investment participation certificates, *sukuk* and other *Shari'ah* compliant funding instruments to be used by the Islamic banks in their operations or capital needs. Islamic banks may also carry out financing and joint investment operations by way of *mudarabah* partnership, *musharakah* joint venture or by decreasing participation, *murabahah* purchasing on a cost-plus financing arrangement, lease (*ijara*) arrangements, construction and manufacture (*istisna'a*) arrangements and other *Shari'ah* compliant contracts and structures and invest funds directly in various projects or through the use of funds whose owners desire to invest jointly with other resources available to the Islamic bank on a joint *mudarabah* basis in accordance with the foregoing arrangements, contracts and structures. On 29 December 2019, the BSP issued Circular No. 1069 and 1070 which, respectively, provided the Guidelines on the Establishment of Islamic Banks and Islamic Banking Units and the Shari'ah Governance Framework for Islamic Banks and Islamic Banking Units.

National Payment Systems Act

On 30 October 2018, Congress enacted Republic Act No. 11127, or "An Act Providing for the Regulation and Supervision of Payment Systems". Rep. Act No. 11127 seeks to regulate payment systems, recognizing that they are crucial parts of the financial infrastructure of the country. The law defines payment systems as the set of payment instructions, processes, procedures and participants that ensures the circulation of money or movement of funds. Meanwhile, the same law defines operators as persons who provide clearing or settlement services in a payment system, or define, prescribe, design, control or maintain the operational framework of the payment system.

Under Rep. Act No. 11127, all operators of payment systems must register with the BSP. Furthermore, the SEC can no longer register the charter documents of any operator of a designated payment system, or any amendment thereto, or otherwise issue to an operator a license to do business in the Philippines, unless accompanied by a certificate of authority from the Monetary Board under its seal. The law also grants the BSP the power to designate a new payment system if it determines that an existing payment system is posing or has the potential to pose a systemic risk or the designation is necessary to protect the public interest.

On 9 September 2019, the BSP issued BSP Circular No. 1049 which implements the provisions of Rep. Act No. 11127. It provides that banks which act as payment systems operators must register with the BSP through notification but do not have to separately file an application or pay registration fees. The BSP will then issue the registering bank a Provisional Certificate of Registration. Thereafter, the BSP will issue the bank a Certificate of Registration, if warranted, and provided the documents submitted by the bank meet all regulatory requirements. BSP Circular No. 1068 issued on 26 December 2019 extended the deadline for the registration of existing payment systems operations from 1 October 2019, as originally provided in Circular No. 1049, to 1 April 2020.

Miscellaneous BSP Circulars

On 20 January 2017, the BSP began the electronic clearing of checks. Under this new system, only digital images of the checks and their electronic payment information shall be required to be transmitted to the paying bank. The clearing time was reduced to just one banking day, as against three banking days previously, since no physical delivery of checks will be needed.

On 26 June 2017, the BSP amended the BSP MORB again through Circular No. 963. The issuance instituted governance processes in accordance with the BSP's expectation that banks establish an effective reporting system generation and timely submission of reports. The reports must comply with those standards prescribed by the BSP, and those banks that fail to do so (i.e. file an erroneous report, delayed report or no report) are subject to certain sanctions that can be aggravated by habitual violations. Banks had until 31 December 2017 to make the necessary preparations to their systems and processes in order to comply with the new provision, with full implementation on 1 January 2018.

On 3 November 2017, the BSP issued Circular No. 981, amending the guidelines on liquidity risk management and the related amendments to the BSP MORB. Among the highlights of the changes were additional guidelines relative to Foreign Currency Management, Intraday Liquidity Management, Intragroup Liquidity Management, Collateral Management, Liquidity Stress Testing, Contingency Funding Plans, Factors to Consider in Developing a Funding Strategy and Factors to Consider in Developing Cash Flow Projections. Banks had until 1 September 2018 to develop or make appropriate changes to their policies and procedures, provided that they complete a gap analysis of the requirements of the said BSP Circular vis-à-vis their existing risk management systems by 31 March 2018.

On 6 November 2017, in line with BSP's adoption of the NRPS framework consistent with its regulations on risk management, the BSP issued Circular No. 980, which requires BSFIs to ensure that the retail payment systems they participate in demonstrate sound risk management and effective and efficient interoperability. The NRPS framework covers all retail payment-related activities, mechanisms, institutions and users. Under this framework, sound governance shall be performed by a payment system management body (**PSMB**), which is duly recognized and overseen by BSP. In the absence of a PSMB, the functions of providing sound governance to the retail payment system participated in by BSFIs shall be discharged by BSP.

On 9 November 2017, BSP issued Circular No. 982, providing enhanced guidelines on information security risk management (ISRM) of BSFIs in view of the rapidly evolving technology and cyber- threat landscape in which they operate. The amendments highlight the role of the BSFIs' board and senior management in spearheading sound information security governance and strong security culture within their respective networks. Likewise, BSFIs are mandated to manage information security risks and exposures within acceptable levels through a dynamic interplay of people, policies, processes, and technologies following a continuing cycle (i.e. identify, prevent, detect, respond, recover and test phases). The new guidelines also recognize that BSFIs are at varying levels of cyber-maturity and cyber-risk exposures which may render certain requirements restrictive and costly vis-à-vis expected benefits. Thus, the IT profile classification has been expanded from two to three, namely: "Complex," "Moderate" and "Simple" to provide greater flexibility in complying with the requirements.

On 4 January 2018, BSP issued Circular No. 989, which defined minimum prudential requirements on stress testing and supplement the relevant provisions on stress testing provided under the risk management guidelines that were earlier issued by BSP. It provides that a board of directors should consider the results of stress testing exercises in capital and liquidity planning, in setting risk appetite and in planning for business continuity management, and, in the case of D-SIBs, in developing recovery plans. These expectations are consistent with the earlier issued guidelines on corporate governance under Circular No. 969.

On 1 February 2018, BSP issued Circular No. 992, which set out the framework for banks to offer a basic deposit account to promote account ownership among the unbanked. The minimum key features of the account include: simplified KYC requirements; an opening amount of less than ₱100.00; no minimum maintaining balance; and no dormancy charges. To prevent misuse of the basic deposit account, its maximum balance is set at ₱50,000.00. As an incentive for banks, the basic deposit account is granted a preferential 0.00 per cent. reserve requirement which lowers their account maintenance cost.

On 1 March 2018, the BSP issued Circular No. 998, clarifying the guidelines on the basic security deposit requirements. The circular provides that, as security for the faithful performance of its trust and other fiduciary duties, the basic security deposit shall be at least one percent of the book value of the total trust, other fiduciary and investment management assets, and at no time shall be less than ₱500,000.00; further, as security for the faithful performance of its investment management activities, the basic security deposit shall be at least one percent of the book value of the total investment management assets and at no point in time less than ₱500,000.00. The Circular also prescribes the methodology in determining compliance with the basic security deposit for the faithful performance of trust and other fiduciary business and investment management activities, and amends the compliance period to require banks, that are authorized to engage in trust and other fiduciary business and investment management activities, to comply with the basic security deposit requirement on a quarterly basis, as well as, at the time of withdrawal, replacement or redemption of the government securities deposited with the BSP within the quarter period.

On 9 August 2018, the BSP issued additional requirements for the issuance by banks of bonds and commercial papers. Circular No. 1010 provides that a bank may issue bonds and/or commercial paper without prior BSP approval, provided that the following conditions are met:

a. The bank must have a CAMELS composite rating of at least "3" and a "Management" rating of not lower than "3".
b. The bank has no major supervisory concerns in governance, risk management systems, and internal controls and compliance system;
c. The bank/QB has complied with directives and/or is not subject of specific directives and/or enforcement actions by the BSP; and
d. The bonds issued are enrolled and/or traded in a market which is organized in accordance with the SEC rules and regulations.

Further, the issuing bank, including its subsidiaries, affiliates, and the wholly or majority-owned or controlled entities of such subsidiaries and affiliates, except for its trust departments or related trust entities, is prohibited from holding or acting as a market maker of the bank's listed/traded bonds or commercial paper. Likewise, the registry bank, including the underwriter/arranger of the issuance, shall be a third party with no subsidiary/affiliate relationship with the issuing bank and which is not related to the issuing bank in any manner that would undermine its independence.

On 31 August 2018, the SEC issued Memorandum Circular No. 12, establishing guidelines on the issuance of green bonds in the Philippines under the ASEAN Green Bonds Standards (**ASEAN GBS**). The proceeds of the issuance must be exclusively applied to finance or refinance, in part or in full, new and/or existing eligible Green Projects. Green Projects refer to the broad categories of eligible projects as listed in the ASEAN GBS, including renewable energy, pollution prevention and control, terrestrial and aquatic biodiversity conservation, among others. The list is non-exhaustive, but all Green Projects must provide clear environmental benefits which will be assessed and, where feasible, quantified by the issuer. The SEC circular further provides for various reporting and disclosure requirements, including annual reports to investors throughout the life of the green bonds.

On 10 October 2018, the BSP issued Circular No. 1017, which provides the policy framework on the grant of regulatory relief measures to banks/quasi-banks (QBs) affected by calamities. Under the framework, banks/QBs may access regulatory relief packages, including the provision of financial assistance to officers who are affected by the calamity even in the absence of BSP approved purposes, for a period of one (1) year from the date of declaration of state of calamity.

On 31 October 2018, the BSP issued Circular No. 1019, which amended provisions relating to the technology and cyber-risk reporting and notification requirements for BSFIs. The amendments were made to enable the BSP to have ready access to accurate, timely, and actionable information regarding BSFI's technology risk profiles as well as the evolving cyber-threat environment for a more responsive, proactive and effective banking supervision.

On 7 February 2019, the BSP issued BSP Circular No. 1031 which provided additional guidelines on the grant of specific type of licenses to the permissible activities of BSFIs, as enumerated therein.

On 26 February 2019, the SEC issued MC No. 05 s.2019, which established guidelines for the reference of Capital Market Professionals in the Philippines and other Signatory countries who intend to obtain an ACMF Pass in a Signatory country under the Memorandum of Understanding on the ACMF Pass.

On 4 April 2019, the BSP issued BSP Circular No. 1037, which provided an extension of transitory period of the amended reporting templates on bank loans and deposit interest rates. The Monetary Board, in its Resolution No. 547, approved the amendments to Section 173 on Reports of the MORB, as amended by Circular No. 1029 dated 25 January 2019.

On 11 April 2019, the BSP Monetary Board, in its Resolution No. 546, approved the amendments to the MORNBFI on the election of foreign nationals as directors of QBs and/or other BSP-supervised financial institutions and the employment of foreign nationals as officers or employees of financing companies. This resolution is now known as BSP Circular No. 1038.

On 25 April 2019, the SEC issued MC No. 08 s. 2019, which implemented set of rules that primarily governs the issuance of ASEAN Sustainability bonds where proceeds shall be exclusively applied to finance or refinance a combination of both Green and Social projects that respectively offer environmental and social benefits.

On 25 April 2019, the SEC issued MC No. 09 s. 2019, which implemented set of rules that primarily governs the issuance ASEAN Social bonds where proceeds shall be exclusively applied to finance or refinance in part or in full, new and/or existing Social projects.

On 20 May 2019, the BSP issued BSP Circular No. 1040, supported by Monetary Board Resolution No. 543. This approved the revised framework on the selection of external auditors for BSFIs in accordance with the cooperative arrangement among the Financial Sector Supervisors, namely the BSP, the SEC, Insurance Commission, and the Philippine Deposit Insurance Corporation, under the auspices of the Financial Sector Forum.

On 29 May 2019, the BSP issued Circular No. 1041 supported by Monetary Board Resolution Nos.727.A dated 16 May 2019 and 753.A dated 23 May 2019, the Monetary Board approved the reduction in the reserve requirement ratios of selected reservable liabilities of banks and non-bank financial institutions with quasi-banking functions.

On 6 September 2019, the BSP issued Circular No. 1048 which contained the Guidelines and Procedures Governing the Consumer Assistance and Management System. The Circular provides that BSFI should have Consumer Protection Risk Management System which should include the governance structure, policies, processes, measurement and control procedures to ensure that consumer protection risks are identified, measured, monitored, and mitigated. The Circular further empowered the BSP to deploy enforcement actions to ensure compliance with BSP Regulations on Financial Consumer Protection.

On 9 September 2019, the BSP issued BSP Circular No. 1049, which implements the provisions of Republic Act No. 11127. It provides that banks which act as payment systems operators must register with the BSP through notification; it will not have to apply or pay registration fees. The BSP will then issue the registering bank a Provisional Certificate of Registration. Thereafter, the BSP will issue the bank a Certificate of Registration, if warranted, and provided the documents submitted by the bank meet all regulatory requirements. BSP Circular No. 1068, issued on 26 December 2019, extended the deadline for registration of existing payment systems operations from 1 October 2019, as originally stated in Circular No. 1049, to 1 April 2020.

On 7 February 2020, the BSP issued Circular No. 1074, which amends regulations on financial audits, applicable to banks under the MORB and the Manual of Regulations for Foreign Exchange Transactions.

On 10 February 2020, the BSP issued Circular No. 1073, which approved the extension of the transitory period on single borrower's limit, as applicable to foreign bank branches. The circular provides that existing foreign bank branches can use twice the level of capital as basis for determining the single borrower's limit.

On 9 March 2020, the BSP issued Circular No. 1078, prescribing the Guidelines on Correspondent Banking Relationships. The circular states that covered persons must adopt the stated policies and procedures to prevent correspondent banking activities from being used for money laundering or terrorist financing activities; furthermore, covered persons must designate an officer responsible to ensure compliance with the Guidelines and the covered person's policies and procedures.

TAXATION

The statements herein regarding taxation are based on the laws in force as of the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Bonds are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Bonds.

Philippine Taxation

As used in this section, the term "non-resident alien" means an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines"; however, a non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year may be considered a "non-resident alien not engaged in trade or business within the Philippines". A "non-resident foreign corporation" is a foreign corporation not engaged in trade or business within the Philippines.

TAXATION OF INTEREST

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine sourced income subject to Philippine income tax. Interest income derived by Philippine citizens and alien resident individuals from the Bonds is thus subject to income tax, which is withheld at source, at the rate of 20% based on the gross amount of interest. Generally, interest on the Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident aliens not engaged in trade or business is subject to a final withholding tax rate of 25%. Interest income received by domestic corporations and resident foreign corporations from the Debt Securities is subject to a final withholding tax rate of 20%. Interest income received by non-resident foreign corporations from the Debt Securities is subject to a 30% final withholding tax.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 10% to 15% in cases where the interest which arises in the Philippines is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

TAX-EXEMPT STATUS OR ENTITLEMENT TO PREFERENTIAL TAX RATE

The tax authorities have prescribed certain procedures for availment of tax treaty relief on interest under Revenue Memorandum Order No. 8-2017. The preferential treaty rates for interest shall be applied and used outright by the withholding agent/income payer upon submission of the Certificate of Residence for Tax Treaty Relief (CORTT) Form by the non-resident before interest is credited. The CORTT Form is made up of two parts: Part I states the information of the income recipient/beneficial owner and the certification from the competent tax authority or authorized tax office of country of residence. Part II includes the information of the withholding agent/income payor, details of income payment and the affixture of signatures by both the non-resident income recipient/beneficial owner and the income payor.

The withholding agent/income payor shall submit an original copy of the duly accomplished CORTT Form within 30 days after the remittance of the withholding tax to the BIR. In the case of staggered payment of interest, the withholding agent shall submit an updated Part II of the CORTT Form within 30 days after payment of withholding taxes.

The BIR will no longer issue a ruling for the said CORTT Form submissions but the compliance check and post reporting validation on withholding tax obligations and confirmation of appropriateness of availment of treaty benefits shall be part of BIR's regular audit investigations.

For claims of tax exemption, BIR Revenue Memorandum Circular No. 8-2014 mandates the Company, as a withholding agent, to require from individuals and entities claiming tax exemption a copy of a valid, current, and subsisting tax exemption certificate or ruling before payment of the related income. The tax exemption certificate or ruling must explicitly recognize the tax exemption, as well as the corresponding exemption from withholding tax. Failure on the part of the taxpayer to present the said tax exemption certificate or ruling shall subject him to the payment of the appropriate withholding taxes due on the transaction.

If the Company withheld taxes, or withheld the regular rate of tax imposed pursuant to the Tax Code on interest, the concerned bondholder may file a claim for a refund from the Philippine taxing authorities on the basis of a tax exemption or applicable tax treaty.

VALUE-ADDED TAX

Gross receipts arising from the sale of the Bonds in the Philippines by dealers in securities shall be subject to a 12% value-added tax.

GROSS RECEIPTS TAX

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

In case the maturity period of the instruments held by banks, non-bank financial intermediaries performing quasi-banking functions and non-bank financial intermediaries not performing quasi-banking functions is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pretermination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds by banks and nonbank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

DOCUMENTARY STAMP TAX

A documentary stamp tax is imposed upon the issuance of debt instruments issued by Philippine companies, such as the Debt Securities, at the rate of ₱1.50 for each P200, or fractional part thereof, of the issue price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

TAXATION ON SALE OR OTHER DISPOSITION OF THE BONDS

Income Tax

Any gain realized from the sale, exchange or retirement of debt instruments as a rule, form part of the gross income of the sellers, for purposes of computing the relevant taxable income subject to ordinary income tax rates (at graduated rates from 20%-35% for individuals and 30% for domestic and resident foreign corporations). On the other hand, gains realized by non-residents from the sale or transfer of debt instruments are subject to final withholding tax at the rate of (i) 25%, if the holder is a non-resident alien not engaged in trade or business within the Philippines, or (ii) 30%, if the holder is a non-resident foreign corporation. If the debt instrument are sold by a seller, who is an individual and who is not a dealer in securities, who has held the debt instrument for a period of more than 12 months prior to the sale, only 50% of any capital gain will be recognized and included in the sellers' gross taxable income.

However, under the Tax Code, any gain realized from the sale, exchange or retirement of bonds, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such bonds, debentures or other certificates of indebtedness) shall not be subject to income tax.

Moreover, any gain arising from such sale, regardless of the original maturity date of the bonds, may be exempt from income tax pursuant to various income tax treaties to which the Philippines is a party, and subject to procedures prescribed by the Bureau of Internal Revenue for the availment of tax treaty benefits.

Estate and Donor's Tax

The transfer by a deceased person, whether a Philippine resident or a non-Philippine resident, to his heirs of the Debt Securirites shall be subject to an estate tax which is levied on the net estate of the deceased at a uniform rate of 6%. A Bondholder shall be subject to donor's tax on the transfer of the Debt Securities by gift at a uniform rate of 6% computed on the basis of the total gifts in excess of ₱250,000 exempt gift made during the calendar year, whether the donor is a stranger or not.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor.

The estate tax and the donor's tax, in respect of the Debt Securities, shall not be collected (a) if the deceased, at thetime of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

In case the Debt Securities are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Debt Securities exceeded the value of the consideration may be deemed a gift and may be subject to donor‛s taxes. However, a sale, exchange, or other transfer made in the ordinary course of business (a transaction which is bona fide, at arm’s length, and free from any donative intent), will be considered as made for an adequate and full consideration in money or money’s worth.

Documentary Stamp Tax

No documentary stamp tax is imposed on the subsequent sale or disposition of the Debt Securities, trading the Debt Securities in a secondary market or through an exchange. However, if the transfer constitutes a renewal of the Debt Securities, documentary stamp tax is payable anew.

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Consolidated Financial Statements
December 31, 2018 and 2017
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and 2016

and

Independent Auditor's Report

SGV
Building a better
working world

A member firm of Ernst & Young Global Limited

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
SM Investments Corporation

Opinion

We have audited the consolidated financial statements of SM Investments Corporation and Subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Recoverability of Goodwill

As at December 31, 2018, the Group reported ₱17,306.9 million goodwill attributable to SM Prime Holdings, Inc., Supervalue, Inc., Super Shopping Market, Inc., Net Subsidiaries, Waltermart Supermarket, Inc. and others. The Group performed an annual testing per cash generating unit (CGU) to assess whether goodwill might be impaired. Given the significant management estimates and assumptions, and the uncertainty of internal and external factors, including future market circumstances, this is considered as a key audit matter.

The assumptions, sensitivities and results of the annual impairment testing are disclosed in Note 16 to the consolidated financial statements.

Audit Response

We involved our internal specialist in assessing the methodologies and assumptions used by the Group in calculating each CGU's recoverable amount. For the fair value less cost of disposal calculations, we evaluated the approach used by the Group and reviewed the calculations performed with reference to the observable market prices and allowable costs for disposing the asset. For the value-in-use calculations, we assessed the prospective financial information (PFI) for each CGU by understanding the Group's approach to develop the PFI and evaluating the key assumptions used such as revenue. We reviewed the key assumptions used by comparing the PFI to historical operating results. We also involved our internal specialist in recalculating the discount rates used for each CGU. Recalculations involve comparison to publicly available market information, cost of debt and equity and other relevant risk factors. We performed sensitivity analyses to understand the impact of reasonable changes in the key assumptions.

Accounting for Investments in Associate Companies

As at December 31, 2018, the Group's investments in associate companies amounted to ₱251,856.1 million, representing 30.8% and 23.7% of the Group's total noncurrent assets and total assets, respectively. The investments in associate companies are accounted for under the equity method and considered for impairment if there are indicators that such investments may be impaired. Given the magnitude of the carrying amount and share in equity on investments in associate companies, as well as the significant management judgments and estimates applied in determining the recoverable amount of these investments, we consider this matter significant to our audit.

The details of these investments are disclosed in Note 12 to the consolidated financial statements.

Audit Response

We obtained relevant financial information of the associate companies and recomputed the Group's share in equity in net earnings. For investments with indicators of possible impairment, we obtained management's impairment analysis and gained an understanding of their impairment assessment process. We discussed the current and projected financial performance of the associate companies with management and assessed whether these were reflected in the Group's own assumptions. We also involved our internal specialist in assessing the Group's methodology and assumptions used in calculating the associate companies' recoverable amount. We reviewed the key inputs used such as growth rates, gross margins, projected earnings before interest and taxes, effective tax rates, non-cash charges, net working capital changes, capital expenditures and others. For growth rates, we have assessed the reasonableness by comparing it with the long-term average growth rate for the products, industries, or country where the entity operates. We have assessed the PFI for the CGU by understanding the Group's approach to develop the PFI and evaluating the key assumptions used. We reviewed the key assumptions used by comparing the PFI with the industry practice. We also involved our internal specialist in recalculating the discount rate used that involves comparison to publicly available market information, cost of debt and equity and other relevant risk factors. We performed sensitivity analyses to understand the impact of reasonable changes in the key assumptions.

For the material associate company audited by other auditor, we sent audit instructions to the other auditor to perform an audit on the relevant financial information of the associate company for the purpose of the Group's consolidated financial statements. Our audit instructions detailed the other auditor's scope of work, audit strategy and reporting requirements. We discussed with the other auditor their key audit areas, including areas of significant judgments and estimates, and their audit findings. We focused on the other auditor's procedures on the review of the classification and measurement, expected credit loss and hedge accounting related to the adoption of PFRS 9, *Financial Instruments*, and revenue recognition related to the adoption of PFRS 15, *Revenue from Contracts with Customers*.

Adoption of PFRS 15, Revenue from Contracts with Customers

Effective January 1, 2018, the Group adopted the new revenue recognition standard, PFRS 15, *Revenue from Contracts with Customers*, under modified retrospective approach. The adoption of PFRS 15 resulted in significant changes in the Group's revenue processes, policies and procedures and revenue recognition accounting policy. The following matters are significant to our audit because these involve application of significant judgment and estimation: (1) identification of the contract for sale of real estate property that would meet the requirements of PFRS 15; (2) assessment of the probability that the entity will collect the consideration from the buyer; (3) determination of the transaction price; (4) application of the output method as the measure of progress in determining revenue from real estate sale; (5) determination of the actual costs incurred as cost of real estate sold; and (6) recognition of costs to obtain a contract.

The Group identifies the contract that meets all the criteria required under PFRS 15 for a valid revenue contract. In the absence of a signed contract to sell, the Group identifies alternative documentation that are enforceable and that contain each party's rights regarding the real estate property to be transferred, the payment terms and the contract's commercial substance.

In evaluating whether collectability of the amount of consideration is probable, the Group considers the significance of the buyer's initial payments in relation to the total contract price (or buyer's equity). Collectability is also assessed by considering factors such as past history with the buyer, age of the outstanding receivables and pricing of the property. Management regularly evaluates the historical sales cancellations if it would still support its current threshold of buyers' equity before commencing revenue recognition.

In determining the transaction price, the Group considers the selling price of the real estate property and other fees collected from the buyers that are not held on behalf of other parties.

In measuring the progress of its performance obligation over time, the Group uses the output method. This method measures progress based on physical proportion of work done on the real estate project which requires technical determination by the Group's project engineers. This is based on the monthly project accomplishment report prepared by the third-party project managers as approved by the construction managers.

The Group identifies sales commissions after contract inception as costs of obtaining a contract. For contracts which qualified for revenue recognition, the Group capitalizes the total sales commissions due to sales agent as costs to obtain a contract and recognizes the related commissions payable. The Group uses percentage of completion (POC) method in amortizing sales commissions consistent with the Company's revenue recognition policy.

The disclosures related to the adoption of PFRS 15 are included in Note 3 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's revenue recognition processes and tested relevant controls. We reviewed the PFRS 15 adoption papers and accounting policies prepared by management, including revenue streams identification and scoping, and contract analysis.

For the identification of the alternative documentation for sale of real estate property (in the absence of a signed contract to sell) that would meet the requirements of PFRS 15, our audit procedures include, among others, involvement of our internal specialist in reviewing the Group's legal basis regarding the enforceability of the alternative documentation against previous court decisions, buyers' behavior and industry practices.

For the buyers' equity, we evaluated management's basis of the buyer's equity by comparing this to the historical analysis of sales collections from buyers with accumulated payments above the collection threshold.

For the determination of the transaction price, we obtained an understanding of the nature of other fees charged to the buyers. For selected contracts, we agreed the amounts excluded from the transaction price against the expected amounts required to be remitted to the government based on existing tax rules and regulations (e.g., documentary stamp taxes, transfer taxes and real property taxes).

For the application of the output method, in determining revenue from sale of real estate, we obtained an understanding of the Company's processes for determining the POC, and performed tests of the relevant controls. We obtained the certified POC reports prepared by the third-party project managers and assessed their competence and objectivity by reference to their qualifications, experience and reporting responsibilities. For selected projects, we conducted ocular inspections, made relevant inquiries and obtained the supporting details of POC reports showing the completion of the major activities of the project construction.

For the cost of real estate sold, we obtained an understanding of the Group's cost accumulation process and performed tests of the relevant controls. For selected projects, we traced costs accumulated, including those incurred but not yet billed costs, to supporting documents such as contractors billing invoices, certificates of progress acceptance, official receipts, among others.

For the recognition of cost to obtain a contract, we obtained an understanding of the sales commission process. For selected contracts, we agreed the basis for calculating the sales commission capitalized and portion recognized in profit or loss, particularly (a) the percentage of commissions due against contracts with sales agents, (b) the total commissionable amount (e.g., net contract price) against the related contract to sell, and, (c) the POC against the POC used in recognizing the related revenue from sale of real estate.

We test computed the transition adjustments and evaluated the disclosures made in the consolidated financial statements on the adoption of PFRS 15.

Existence and Completeness of Merchandise Inventories

As at December 31, 2018, the merchandise inventories of certain subsidiaries of the Group amounted to ₱31,836.3 million, representing 13.2% and 3.0% of the Group's total current assets and total assets, respectively. The Group has several warehouses and operates multiple stores across the country. Since the merchandise inventories are material to the consolidated financial statements, and various warehouses and stores are geographically dispersed across the country, we consider this a key audit matter.

The disclosures about inventories are included in Note 22 to the consolidated financial statements.

Audit Response

We obtained an understanding of the subsidiaries' inventory process and performed test of controls for selected stores and warehouses. We visited selected warehouses and stores and observed the physical inventory counts. We performed test counts and compared the results to the subsidiaries' inventory compilation reports to determine if the compilation reports reflect the results of the inventory count. We reviewed the reconciliations performed by management and tested the reconciling items. We performed testing, on a sampling basis, of the subsidiaries' rollforward or rollback procedures on inventory quantities from the date of physical inventory count to the financial reporting date.

We also reviewed the working papers of other auditor on merchandise inventories, specifically on the observation and testing of physical inventory counts, testing of compilation procedures and the reconciliation of the physical inventory count to the general ledger and financial reports.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Julie Christine O. Mateo.

SYCIP GORRES VELAYO & CO.

Julie Christine O. Mateo

Julie Christine O. Mateo
Partner
CPA Certificate No. 93542
SEC Accreditation No. 0780-AR-3 (Group A),
August 16, 2018, valid until August 15, 2021
Tax Identification No. 198-819-116
BIR Accreditation No. 08-001998-68-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332594, January 3, 2019, Makati City

February 28, 2019

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7 and 28)	**₱79,313,215**	₱74,318,190
Time deposits (Notes 8 and 28)	**25,842,829**	13,237,886
Financial assets (Notes 9 and 28)	**639,316**	1,347,926
Receivables and contract assets (Notes 10, 28 and 29)	**33,755,192**	32,352,574
Merchandise inventories - at cost (Note 22)	**31,836,333**	27,778,741
Other current assets (Notes 11 and 28)	**70,338,577**	63,478,186
Total Current Assets	**241,725,462**	212,513,503
Noncurrent Assets		
Financial assets (Notes 9 and 28)	**26,702,764**	25,590,162
Investments in associate companies and joint ventures (Note 12)	**259,795,077**	242,114,427
Time deposits (Notes 8, 28 and 29)	**2,392,622**	26,688,721
Property and equipment (Note 13)	**23,201,667**	21,339,407
Investment properties (Note 14)	**309,264,274**	289,018,265
Land and development (Note 15)	**53,928,447**	40,180,145
Intangibles (Note 16)	**25,470,696**	25,591,232
Deferred tax assets (Note 26)	**2,726,155**	2,489,814
Other noncurrent assets (Notes 16 and 28)	**115,435,107**	74,555,033
Total Noncurrent Assets	**818,916,809**	747,567,206
	₱1,060,642,271	₱960,080,709
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 17, 21 and 28)	**₱18,885,465**	₱24,172,965
Accounts payable and other current liabilities (Notes 18 and 28)	**124,777,719**	106,561,455
Income tax payable	**3,641,379**	1,883,871
Current portion of long-term debt (Notes 19, 21, 28 and 29)	**61,480,887**	40,297,133
Dividends payable (Note 28)	**3,906,476**	2,939,590
Total Current Liabilities	**212,691,926**	175,855,014
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 21, 28 and 29)	**305,555,356**	292,555,868
Deferred tax liabilities (Note 26)	**8,810,862**	8,029,579
Tenants' deposits and others (Notes 25, 27, 28 and 29)	**41,294,115**	29,828,024
Total Noncurrent Liabilities	**355,660,333**	330,413,471
Total Liabilities	**568,352,259**	506,268,485

(Forward)

	December 31	
	2018	2017
Equity Attributable to Owners of the Parent		
Capital stock (Note 20)	**₱12,045,829**	₱12,045,829
Additional paid-in capital	**75,815,520**	76,439,288
Equity adjustments from common control transactions (Note 20)	**(5,424,455)**	(5,424,455)
Cost of Parent common shares held by subsidiaries	**(25,386)**	(25,386)
Cumulative translation adjustment	**2,077,017**	1,402,623
Net unrealized gain on financial assets (Notes 9 and 12)	**11,748,980**	15,324,123
Re-measurement loss on defined benefit asset/obligation (Note 25)	**(2,063,358)**	(701,255)
Retained earnings (Note 20):		
Appropriated	**37,000,000**	37,000,000
Unappropriated	**222,213,054**	192,071,968
Total Equity Attributable to Owners of the Parent	**353,387,201**	328,132,735
Non-controlling Interests	**138,902,811**	125,679,489
Total Equity	**492,290,012**	453,812,224
	₱1,060,642,271	₱960,080,709

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands Except Per Share Data)

	Years Ended December 31		
	2018	2017	2016
REVENUE			
Sales:			
Merchandise	**₱323,740,170**	₱288,532,163	₱269,272,716
Real estate	**35,967,663**	29,567,021	25,131,499
Rent (Notes 14, 21 and 27)	**47,555,061**	42,067,892	37,196,104
Equity in net earnings of associate companies and joint ventures (Note 12)	**19,164,345**	16,640,597	14,979,645
Cinema ticket sales, amusement and others	**7,286,654**	6,578,362	6,528,516
Management and service fees (Note 21)	**6,379,831**	5,820,571	5,051,305
Dividend income (Note 21)	**421,914**	495,582	167,884
Gain on sale of financial assets - net (Note 9)	**1,337**	110,234	6,517
Others	**9,271,192**	8,135,798	6,920,537
	449,788,167	397,948,220	365,254,723
COST AND EXPENSES			
Cost of sales:			
Merchandise (Note 22)	**238,902,107**	214,494,703	202,479,890
Real estate (Note 15)	**17,852,270**	15,260,313	13,196,518
Selling, general and administrative expenses (Note 23)	**106,419,078**	92,342,430	82,362,504
	363,173,455	322,097,446	298,038,912
OTHER INCOME (CHARGES)			
Interest expense (Notes 21 and 24)	**(16,575,009)**	(15,580,819)	(12,028,879)
Interest income (Notes 21 and 24)	**3,754,141**	4,003,501	3,725,517
Gain on disposal of investment and properties - net	**64,034**	22,702	559,041
Gain on fair value changes on derivatives - net (Note 29)	**454,941**	296,334	15,232
Foreign exchange gain (loss) - net (Note 28)	**(182,483)**	698,742	(170,130)
	(12,484,376)	(10,559,540)	(7,899,219)
INCOME BEFORE INCOME TAX	**74,130,336**	65,291,234	59,316,592
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 26)			
Current	**15,115,326**	13,616,519	11,636,884
Deferred	**460,442**	156,198	(78,620)
	15,575,768	13,772,717	11,558,264
NET INCOME	**₱58,554,568**	₱51,518,517	₱47,758,328
Attributable to			
Owners of the Parent (Note 30)	**₱37,078,325**	₱32,923,455	₱31,204,304
Non-controlling interests	**21,476,243**	18,595,062	16,554,024
	₱58,554,568	₱51,518,517	₱47,758,328
Basic/Diluted Earnings Per Common Share Attributable to Owners of the Parent (Note 30)	**₱30.78**	₱27.33	₱25.90

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2018	2017	2016
NET INCOME	**₱58,554,568**	₱51,518,517	₱47,758,328
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified to profit or loss in subsequent periods			
Net unrealized gain (loss) on financial assets	**–**	4,973,426	(1,021,689)
Share in unrealized gain (loss) on financial assets of associates (Note 12)	**(3,502,992)**	354,028	(1,396,835)
Cumulative translation adjustment	**329,125**	(22,405)	549,896
Income tax relating to items to be reclassified to profit or loss in subsequent periods	**–**	(147,803)	373,597
	(3,173,867)	5,157,246	(1,495,031)
Items not to be reclassified to profit or loss in subsequent periods			
Re-measurement loss on defined benefit obligation (Note 25)	**(2,080,805)**	(416,283)	(417,238)
Net unrealized loss on financial assets	**(520,230)**	–	–
Income tax relating to items not to be reclassified to profit or loss in subsequent periods	**(84,499)**	124,884	125,171
	(2,685,534)	(291,399)	(292,067)
TOTAL COMPREHENSIVE INCOME	**₱52,695,167**	₱56,384,364	₱45,971,230
Attributable to			
Owners of the Parent	**₱31,112,015**	₱36,916,903	₱29,205,704
Non-controlling interests	**21,583,152**	19,467,461	16,765,526
	₱52,695,167	₱56,384,364	₱45,971,230

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 and 2016

(Amounts in Thousands Except Per Share Data)

	Equity Attributable to Owners of the Parent											
	Capital Stock	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries	Cumulative Translation Adjustment	Net Unrealized Gain (Loss) on Financial Assets	Re-measurement Gain (Loss) on Defined Benefit Asset/ Obligation	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total	Non-controlling Interests	Total Equity
As at January 1, 2018, as previously reported	**₱12,045,829**	**₱76,439,288**	**(₱5,424,455)**	**(₱25,386)**	**₱1,402,623**	**₱15,324,123**	**(₱701,255)**	**₱37,000,000**	**₱192,071,968**	**₱328,132,735**	**₱125,679,489**	**₱453,812,224**
Effect of adoption of new accounting standards (Note 3)	–	–	–	–	–	**1,703,458**	–	–	**2,940,327**	**4,643,785**	–	**4,643,785**
As adjusted	**12,045,829**	**76,439,288**	**(5,424,455)**	**(25,386)**	**1,402,623**	**17,027,581**	**(701,255)**	**37,000,000**	**195,012,295**	**332,776,520**	**125,679,489**	**458,456,009**
Net income	–	–	–	–	–	–	–	–	**37,078,325**	**37,078,325**	**21,476,243**	**58,554,568**
Other comprehensive income	–	–	–	–	**674,394**	**(5,278,601)**	**(1,362,103)**	–	–	**(5,966,310)**	**106,909**	**(5,859,401)**
Total comprehensive income	–	–	–	–	**674,394**	**(5,278,601)**	**(1,362,103)**	–	**37,078,325**	**31,112,015**	**21,583,152**	**52,695,167**
Sale of treasury shares held by a subsidiary	–	**291,088**	–	–	–	–	–	–	–	**291,088**	**294,120**	**585,208**
Acquisition of non-controlling interests	–	**(914,856)**	–	–	–	–	–	–	–	**(914,856)**	**(857,160)**	**(1,772,016)**
Cash dividends - ₱8.20 per share (Note 20)	–	–	–	–	–	–	–	–	**(9,877,566)**	**(9,877,566)**	–	**(9,877,566)**
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	**(7,844,484)**	**(7,844,484)**
Increase in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	–	**47,694**	**47,694**
As at December 31, 2018	**₱12,045,829**	**₱75,815,520**	**(₱5,424,455)**	**(₱25,386)**	**₱2,077,017**	**₱11,748,980**	**(₱2,063,358)**	**₱37,000,000**	**₱222,213,054**	**₱353,387,201**	**₱138,902,811**	**₱492,290,012**
As at January 1, 2017	₱12,045,829	₱76,347,229	(₱5,424,455)	(₱25,386)	₱1,216,718	₱10,780,430	₱34,895	₱36,000,000	₱169,508,122	₱300,483,382	₱114,263,880	₱414,747,262
Net income	–	–	–	–	–	–	–	–	32,923,455	32,923,455	18,595,062	51,518,517
Other comprehensive income	–	–	–	–	185,905	4,543,693	(736,150)	–	–	3,993,448	872,399	4,865,847
Total comprehensive income	–	–	–	–	185,905	4,543,693	(736,150)	–	32,923,455	36,916,903	19,467,461	56,384,364
Reversal of appropriation (Note 20)	–	–	–	–	–	–	–	(27,800,000)	27,800,000	–	–	–
Appropriation (Note 20)	–	–	–	–	–	–	–	28,800,000	(28,800,000)	–	–	–
Sale of treasury shares held by a subsidiary	–	78,810	–	–	–	–	–	–	–	78,810	79,506	158,316
Acquisition of non-controlling interests	–	13,249	–	–	–	–	–	–	–	13,249	(247,159)	(233,910)
Cash dividends - ₱7.77 per share (Note 20)	–	–	–	–	–	–	–	–	(9,359,609)	(9,359,609)	–	(9,359,609)
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	(6,709,448)	(6,709,448)
Decrease in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	–	(1,174,751)	(1,174,751)
As at December 31, 2017	₱12,045,829	₱76,439,288	(₱5,424,455)	(₱25,386)	₱1,402,623	₱15,324,123	(₱701,255)	₱37,000,000	₱192,071,968	₱328,132,735	₱125,679,489	₱453,812,224

	Equity Attributable to Owners of the Parent											
	Capital Stock	**Additional Paid-in Capital**	**Equity Adjustments from Common Control Transactions**	**Cost of Parent Common Shares Held by Subsidiaries**	**Cumulative Translation Adjustment**	**Net Unrealized Gain (Loss) on Financial Assets at Fair Value**	**Re-measurement Gain (Loss) on Defined Benefit Asset/ Obligation**	**Appropriated Retained Earnings**	**Unappropriated Retained Earnings**	**Total**	**Non-controlling Interests**	**Total Equity**
As at January 1, 2016	₱8,030,554	₱76,399,625	(₱5,338,948)	(₱25,386)	₱1,057,751	₱12,724,360	₱242,740	₱36,000,000	₱150,940,847	₱280,031,543	₱103,956,317	₱383,987,860
Effect of common control business combination (Note 5)	–	–	120,078	–	–	–	5,792	–	(85,287)	40,583	79,451	120,034
As adjusted	8,030,554	76,399,625	(5,218,870)	(25,386)	1,057,751	12,724,360	248,532	36,000,000	150,855,560	280,072,126	104,035,768	384,107,894
Net income	–	–	–	–	–	–	–	–	31,204,304	31,204,304	16,554,024	47,758,328
Other comprehensive income	–	–	–	–	158,967	(1,943,930)	(213,637)	–	–	(1,998,600)	211,502	(1,787,098)
Total comprehensive income	–	–	–	–	158,967	(1,943,930)	(213,637)	–	31,204,304	29,205,704	16,765,526	45,971,230
Common control transactions	–	–	(205,585)	–	–	–	–	–	–	(205,585)	–	(205,585)
Stock dividends - 50% (Note 20)	4,015,275	(52,396)	–	–	–	–	–	–	(4,015,275)	(52,396)	–	(52,396)
Cash dividends - ₱10.63 per share (Note 20)	–	–	–	–	–	–	–	–	(8,536,467)	(8,536,467)	–	(8,536,467)
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	(6,358,868)	(6,358,868)
Decrease in previous year’s non-controlling interests	–	–	–	–	–	–	–	–	–	–	(178,546)	(178,546)
As at December 31, 2016	₱12,045,829	₱76,347,229	(₱5,424,455)	(₱25,386)	₱1,216,718	₱10,780,430	₱34,895	₱36,000,000	₱169,508,122	₱300,483,382	₱114,263,880	₱414,747,262

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱74,130,336**	₱65,291,234	₱59,316,592
Adjustments for:			
Equity in net earnings of associate companies and joint ventures (Note 12)	**(19,164,345)**	(16,640,597)	(14,979,645)
Interest expense (Note 24)	**16,575,009**	15,580,819	12,028,879
Depreciation and amortization (Notes 13, 14, 16 and 23)	**15,161,207**	14,020,884	12,861,154
Interest income (Note 24)	**(3,754,141)**	(4,003,501)	(3,725,517)
Provisions - net (Notes 10, 14 and 23)	**2,207,458**	1,488,855	1,335,461
Dividend income (Note 21)	**(421,914)**	(495,582)	(167,884)
Gain on fair value changes on derivatives - net (Note 29)	**(454,941)**	(296,334)	(15,232)
Unrealized foreign exchange loss - net	**1,002,006**	275,731	586,360
Gain on sale of financial assets - net (Note 9)	**(1,337)**	(110,234)	(6,517)
Gain on disposal of investments and properties - net (Notes 13 and 14)	**(64,034)**	(22,702)	(559,041)
Income before working capital changes	**85,215,304**	75,088,573	66,674,610
Decrease (increase) in:			
Receivables and contract assets	**(1,437,678)**	(616,938)	445,821
Merchandise inventories	**(4,057,592)**	(1,953,451)	(4,235,589)
Other current assets	**5,535,204**	1,996,544	3,955,218
Land and development	**(37,802,279)**	(29,891,127)	(13,946,006)
Increase in:			
Accounts payable and other current liabilities	**15,834,514**	18,509,650	1,901,637
Tenants' deposits and others	**10,571,079**	4,354,177	2,704,729
Net cash generated from operations	**73,858,552**	67,487,428	57,500,420
Income tax paid	**(13,356,939)**	(14,425,107)	(11,415,920)
Net cash provided by operating activities	**60,501,613**	53,062,321	46,084,500
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Financial assets	**771,361**	1,983,045	1,875,091
Property and equipment	**203,564**	182,366	310,534
Investment properties	**105,524**	70,301	243,644
Additions to:			
Investment properties (Note 14)	**(27,554,245)**	(25,806,496)	(26,769,270)
Property and equipment (Note 13)	**(6,452,489)**	(5,067,991)	(5,249,198)
Financial assets	**(2,463,985)**	(3,272,984)	(2,159,111)
Investments in associate companies and joint ventures (Note 12)	**(3,849,756)**	(47,832,363)	(468,050)
Decrease (increase) in:			
Time deposits	**12,913,443**	26,473,746	(480,639)
Other noncurrent assets	**(28,224,945)**	(11,201,733)	(8,285,737)
Dividends received	**4,945,350**	4,175,190	3,973,577
Interest received	**3,827,116**	4,182,186	3,660,063
Net cash used in investing activities	**(45,779,062)**	(56,114,733)	(33,349,096)

(Forward)

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Long-term debt (Note 31)	**₱70,787,135**	₱55,866,308	₱62,564,105
Bank loans (Note 31)	**32,199,317**	59,419,602	20,841,800
Payments of:			
Bank loans (Note 31)	**(37,256,817)**	(49,234,402)	(17,385,450)
Long-term debt (Note 31)	**(40,292,241)**	(31,640,120)	(34,560,516)
Dividends (Note 31)	**(17,674,115)**	(16,432,295)	(14,417,931)
Interest (Note 31)	**(18,043,821)**	(16,510,177)	(13,561,377)
Reissuance by a subsidiary of treasury shares	**585,207**	158,316	–
Net cash provided by (used in) financing activities	**(9,695,335)**	1,627,232	3,480,631
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**5,027,216**	(1,425,180)	16,216,035
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(32,191)**	795,639	448,965
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 7)	**74,318,190**	74,947,731	58,282,731
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	**₱79,313,215**	₱74,318,190	₱74,947,731

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

SM Investments Corporation (SMIC or Parent Company) was incorporated in the Philippines on January 15, 1960. On June 3, 2009, the Philippine Securities and Exchange Commission (SEC) approved the amendment of the Parent Company's articles of incorporation for the extension of its corporate life for another 50 years from January 15, 2010. Its registered office address is 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300.

The Parent Company and its subsidiaries (collectively referred to as the Group), and its associates and joint ventures are involved primarily in the property, retail and financial services.

The Parent Company's shares of stock are publicly traded in the Philippine Stock Exchange (PSE).

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD), as approved and recommended for approval by the Audit Committee on February 28, 2019.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation
The consolidated financial statements of the Group are prepared on a historical cost basis, except for derivative financial instruments and financial assets and liabilities which have been measured at fair value. The consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional and presentation currency under Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest thousand Peso except when otherwise indicated.

Statement of Compliance
The consolidated financial statements have been prepared in compliance with PFRSs, which include the availment of the relief granted by the SEC under Memorandum Circular (MC) Nos. 14-2018 and 3-2019, as discussed in Note 3 to the consolidated financial statements.

Basis of Consolidation
The Group is considered to have control over an investee if the Group has:

- power over the investee (i.e., existing rights that give it the ability to direct the relevant activities of the investee);
- exposure or rights to variable returns from its involvement with the investee; and,
- the ability to use its power over the investee to affect its returns.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and,
- the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included or excluded in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. When the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interests;
- derecognizes the cumulative translation adjustments recorded in equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in profit or loss; and
- reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate.

The consolidated financial statements include the accounts of the Parent Company and the subsidiaries listed below:

		Percentage of Ownership			
		2018		2017	
Company	Principal Activities	**Direct**	**Indirect**	Direct	Indirect
Property					
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries	Real estate development	**50**	–	50	–
SM Development Corporation and Subsidiaries (SMDC)	Real estate development	–	**100**	–	100
Highlands Prime, Inc. (HPI)	Real estate development	–	**100**	–	100
Costa del Hamilo, Inc. (Costa) and Subsidiary	Real estate development	–	**100**	–	100
Magenta Legacy, Inc.	Real estate development	–	**100**	–	100
Associated Development Corporation	Real estate development	–	**100**	–	100
Prime Metro Estate, Inc. and Subsidiary	Real estate development	**40**	**60**	40	60
Tagaytay Resort Development Corp	Real estate development	–	**100**	–	100
SM Arena Complex Corporation (SM Arena)	Conventions	–	**100**	–	100
MOA Esplanade Port, Inc.	Port terminal operations	–	**100**	–	100
SM Hotels and Conventions Corp. and Subsidiaries	Hotel and conventions	–	**100**	–	100
First Asia Realty Development Corp.	Real estate development	–	**74**	–	74
Premier Central, Inc.	Real estate development	–	**100**	–	100
Consolidated Prime Dev. Corp.	Real estate development	–	**100**	–	100
Premier Southern Corp.	Real estate development	–	**100**	–	100
San Lazaro Holdings Corporation	Real estate development	–	**100**	–	100
Southernpoint Properties Corp.	Real estate development	–	**100**	–	100
First Leisure Ventures Group Inc.	Real estate development	–	**50**	–	50
CHAS Realty and Development Corporation and Subsidiaries	Real estate development	–	**100**	–	100
Affluent Capital Enterprises Limited and Subsidiaries (Affluent) *[British Virgin Islands (BVI)]	Real estate development	–	**100**	–	100

(Forward)

Company	Principal Activities	Percentage of Ownership 2018 Direct	2018 Indirect	2017 Direct	2017 Indirect
Mega Make Enterprises Limited and Subsidiaries *[BVI]	Real estate development	–	**100**	–	100
Springfield Global Enterprises Limited *[BVI]	Real estate development	–	**100**	–	100
Simply Prestige Limited and Subsidiaries *[BVI]	Real estate development	–	**100**	–	100
SM Land (China) Limited and Subsidiaries * [Hong Kong]	Real estate development	–	**100**	–	100
Rushmore Holdings, Inc.	Real estate development	–	**100**	–	100
Prime_Commercial Property Management Corp. and Subsidiaries (PCPMC)	Real estate development	–	**100**	–	100
Mindpro, Incorporated (Mindpro)	Real estate development	–	**70**	–	70
A. Canicosa Holdings, Inc. (ACHI)	Real estate development	–	**100**	–	100
AD Canicosa Properties, Inc. (ADCPI)	Real estate development	–	**100**	–	100
Cherry Realty Development Corporation	Real estate development	–	**91**	–	65
Mountain Bliss Resort & Development Corp and Subsidiary	Real estate development	**100**	–	100	–
Intercontinental Development Corporation (ICDC)	Real estate development	**97**	**3**	97	3
Prime Central Limited and Subsidiaries *[BVI]	Investment	**100**	–	100	–
Bellevue Properties, Inc.	Real estate development	**62**	–	62	–
Net Subsidiaries [(a)]	Real estate development	**95**	–	90	–
Nagtahan Property Holdings, Inc. (formerly AD Farming)	Real estate development	**100**	–	100	–
Retail					
SM Retail Inc. (SM Retail) and Subsidiaries	Retail	**77**	–	77	–
Others					
Primebridge Holdings, Inc.	Investment	**100**	–	80	20
Asia-Pacific Computer Technology Center, Inc.	Education	**52**	–	52	–
Multi-Realty Development Corporation (MRDC)	Investment	**91**	–	91	–
Henfels Investments Corporation	Investment	**99**	–	99	–
Belleshares Holdings, Inc. and Subsidiaries	Investment	**59**	**40**	59	40
Sto. Roberto Marketing Corp.	Investment	**100**	–	100	–

*The principal place of business and country of incorporation of the subsidiaries listed above is in the Philippines except for those marked * and as indicated after the company name.*

(a) *Net Subsidiaries include N-Plaza BGC Land, Inc., N-Plaza BGC Properties, Inc., N-Quad BGC Land, Inc., N-Quad BGC Properties, Inc., N-Square BGC Land, Inc., N-Square BGC Properties, Inc., N-Cube BGC Land, Inc., N-Cube BGC Properties, Inc., N-One BGC Land, Inc. and N-One BGC Properties, Inc.*

Material Partly-owned Subsidiary

The non-controlling interests of SM Prime is material to the Group. Non-controlling shareholders hold 50% of SM Prime as at December 31, 2018 and 2017.

The summarized financial information of SM Prime follows:

Financial Position

	December 31 2018	2017
	(In Thousands)	
Current assets	**₱127,790,263**	₱125,576,040
Noncurrent assets	**476,344,055**	412,841,558
Total assets	**604,134,318**	538,417,598
Current liabilities	**88,279,852**	78,207,732
Noncurrent liabilities	**236,776,504**	197,335,952
Total liabilities	**325,056,356**	275,543,684
Total equity	**₱279,077,962**	₱262,873,914

	December 31	
	2018	2017
	(In Thousands)	
Attributable to:		
Owners of the Parent	**₱275,302,994**	₱258,957,221
Non-controlling interests	**3,774,968**	3,916,693
	₱279,077,962	₱262,873,914

Statements of Income

	Years Ended December 31		
	2018	2017	2016
		(In Thousands)	
Revenue	**₱104,080,565**	₱90,921,850	₱79,816,231
Cost and expenses	**55,753,334**	50,293,058	44,551,175
Other charges	**6,361,056**	4,680,931	4,276,379
Income before income tax	**41,966,175**	35,947,861	30,988,677
Provision for income tax	**9,055,046**	7,823,398	6,621,053
Net income	**32,911,129**	28,124,463	24,367,624
Other comprehensive income (loss)	**(6,125,029)**	7,330,510	1,740,286
Total comprehensive income	**₱26,786,100**	₱35,454,973	₱26,107,910
Attributable to:			
Owners of the Parent	**₱32,172,886**	₱27,573,866	₱23,805,713
Non-controlling interests	**738,243**	550,597	561,911
Net income	**₱32,911,129**	₱28,124,463	₱24,367,624
Attributable to:			
Owners of the Parent	**₱26,050,908**	₱34,906,622	₱25,542,289
Non-controlling interests	**735,192**	548,351	565,621
Total comprehensive income	**₱26,786,100**	₱35,454,973	₱26,107,910
Dividends paid to non-controlling interests	**(₱576,200)**	(₱580,791)	(₱505,291)

Cash Flows

	Years Ended December 31		
	2018	2017	2016
		(In Thousands)	
Net cash provided by operating activities	**₱45,964,414**	₱45,777,407	₱31,490,924
Net cash used in investing activities	**(64,078,056)**	(41,011,985)	(27,079,908)
Net cash provided by (used in) financing activities	**12,633,352**	14,175,986	(5,603,997)
Effect of exchange rate changes on cash and cash equivalents	**(124,777)**	229,144	524,055
Net increase (decrease) in cash and cash equivalents	**(₱5,605,067)**	₱19,170,552	(₱668,926)

3. Summary of Significant Accounting Policies, Changes and Improvements

The significant accounting policies adopted in the preparation of the consolidated financial statements are summarized below.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and are subject to an insignificant risk of change in value.

Time Deposits
Time deposits (shown under current assets) are cash placements with original maturities of more than three months but less than one year. Time deposits with maturities of more than twelve months after the reporting period are presented under noncurrent assets.

Determination of Fair Value
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or,
- in the most advantageous market for the asset or liability, in the absence of a principal market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that the market participants act in their best economic interest.

The Group determines the policies and procedures for both recurring and non-recurring fair value measurements. For the purpose of fair value disclosures, the Group determines classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and its level in the fair value hierarchy.

Assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized based on the fair value hierarchy described below:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and,
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Group reassesses categorization as at the date of the event or change in circumstances that caused the transfers and/or at the end of each reporting period.

Financial Instruments (effective January 1, 2018)

Financial Assets

Initial Recognition and Measurement
At initial recognition, financial assets are classified as, and measured at amortized cost, fair value through OCI (FVOCI), and fair value through profit or loss (FVPL). The classification at initial recognition depends on the contractual cash flow characteristics of the financial assets and the Group's business model for managing them. The initial measurement of financial assets, except for those classified as FVPL, includes the transaction cost. The exception is for trade receivables that do not contain a significant financing component. These are measured at the transaction price determined under PFRS 15, *Revenue from Contracts with Customers.*

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at instrument level. The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent Measurement
Subsequent to initial recognition, the Group classifies its financial assets in the following categories:

- Amortized cost
- FVPL
- FVOCI
  - with recycling of cumulative gains and losses (debt instruments)
  - with no recycling of cumulative gains and losses upon derecognition (equity instruments)

Financial Assets at Amortized Cost (Debt Instruments)
The Group measures financial assets at amortized cost when:
- The financial asset is held within a business model with the objective to hold these and collect contractual cash flows; and,
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are SPPI.

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost include cash and cash equivalents, time deposits, receivables (including noncurrent portion of receivables from real estate buyers), advances and other receivables (included under "Other current assets" account) and long-term notes (included under "Other noncurrent assets" account).

Financial Assets at FVPL
Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL and financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term.

Derivatives, including separated embedded derivatives, are classified as held for trading unless these are designated as effective hedging instruments. Financial assets with cash flows that are not SPPI are classified and measured at FVPL, irrespective of the business model.

Financial assets at FVPL are measured at fair value. Changes in fair values are recognized in profit or loss.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative when:

- The economic characteristics and risks are not closely related to the host;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and,
- The hybrid contract is not measured at FVPL.

Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required, or a reclassification of a financial asset out of the FVPL category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at FVPL.

Financial Assets at FVOCI (Debt Instruments)
The Group measures debt instruments at FVOCI when:
- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and,
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the consolidated statement of income and computed in the same manner as financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change is recycled to profit or loss.

As at December 31, 2018, the Group does not have debt instruments measured at FVOCI.

Financial Assets Designated at FVOCI (Equity Instruments)
Upon initial recognition, the Group can elect to irrevocably classify its equity investments as equity instruments designated at FVOCI when these meet the definition of equity under Philippine Accounting Standard (PAS) 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined at instrument level.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as income in the consolidated statement of income when the right of payment is established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Group's equity instruments at FVOCI include investments in shares of stock and club shares (included under "Financial assets" account).

Derecognition
A financial asset, part of a financial asset or part of a group of similar financial assets, is primarily derecognized when:

- The right to receive cash flows from the asset has expired; or,
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or, (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates the extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment
The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Group uses a provision matrix for rent and other receivables and unbilled revenue from sale of real estate, vintage approach for receivables from sale of real estate and simplified approach (low credit risk simplification) for treasury assets to calculate ECLs.

ECLs are recognized in two stages. For credit exposures with no significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-month period (a 12-month ECL). For those credit exposures with significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. The Group does not track changes in credit risk, instead, recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default generally when contractual payments are 120 days past due or when sales are cancelled supported by a notarized cancellation letter executed by the Group and unit buyer. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

For debt instruments at FVOCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. The Group considers there to be a significant increase in credit risk when contractual payments become past due.

Financial Liabilities

Initial Recognition and Measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge.

Financial liabilities are recognized initially at fair value and in the case of loans and borrowings and payables, net of directly attributable costs.

The Group's financial liabilities include bank loans, accounts payable and other current liabilities (excluding payable to government agencies), dividends payable, long-term debt and tenants' deposits and others.

Subsequent Measurement
Loans and Borrowings
Interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as interest expense in the consolidated statement of income.

Financial Liabilities at FVPL
Financial liabilities at FVPL include those held for trading as well as derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless these are designated as effective hedging instruments. Gains and losses on liabilities held for trading are recognized in the consolidated statement of income.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged or cancelled. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of income.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, i.e., to realize the assets and settle the liabilities simultaneously.

Derivative Financial Instruments and Hedge Accounting

Initial Recognition and Subsequent Measurement
The Group uses derivative financial instruments such as cross-currency swaps, foreign currency call options, interest rate swaps, options and non-deliverable forwards to hedge the risks associated with foreign currency and interest rate fluctuations. Derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; or,
- Cash flow hedges when hedging the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument.
- The effect of credit risk does not dominate the value changes that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of the hedged item.

Hedges are accounted for as fair value hedges or cash flow hedges.

Fair Value Hedge
The change in the fair value of a hedge instrument is recognized in the consolidated statement of income. The change in the fair value attributable to the risk hedged is recorded as part of the carrying value of the hedge instrument and is also recognized in the consolidated statement of income as other expense.

For fair value hedges carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. The EIR amortization is initiated when an adjustment exists and no later than when the hedged instrument ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

In case of derecognition, the unamortized fair value of the hedged instrument is recognized immediately in profit or loss.

Cash Flow Hedges
The effective portion of the gain or loss on the hedging instrument is recognized in OCI, while any ineffective portion is recognized immediately in the consolidated statement of income. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in the fair value of the hedged instrument.

The Group designates only the spot element of forward contracts as a hedging instrument. The forward element is recognized in OCI and accumulated in a separate component of equity under "Cumulative translation adjustment" account.

The amounts accumulated in OCI are accounted for depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which hedged cash flows affect profit or loss.

If hedge accounting is discontinued, the amount accumulated in OCI shall remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount shall be reclassified to profit or loss as a reclassification adjustment. When the hedged cash flow occurs, any amount remaining in accumulated OCI shall be accounted for depending on the nature of the underlying transaction.

Financial Instruments (effective before January 1, 2018)

Date of Recognition
The Group recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets, recognition and derecognition, as applicable, that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date. Derivatives are recognized on the trade date.

Initial Recognition of Financial Instruments
Financial instruments are recognized initially at fair value, the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those classified as FVPL, includes the transaction cost.

Subsequent to initial recognition, the Group classifies its financial instruments in the following categories:

- Financial assets and financial liabilities at FVPL
- Loans and receivables
- Held-to-maturity (HTM) investments
- AFS investments
- Other financial liabilities

The classification depends on the purpose for which the instruments are acquired and whether these are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

"Day 1" Difference
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the consolidated statement of income unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data that is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference amount.

Financial Assets and Liabilities at FVPL
Financial assets and liabilities at FVPL include financial assets and liabilities held for trading and financial assets and liabilities designated upon initial recognition as FVPL.

Financial assets and liabilities are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term. Gains or losses on investments held for trading are recognized in the consolidated statement of income under "Gain (loss) on sale of financial assets - net" account. Interest income earned on investments held for trading are recognized in "Interest income" account in the consolidated statement of income.

Financial assets and liabilities may be designated by management at initial recognition as FVPL when any of the following criteria is met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognizing gains or losses on a different basis; or,
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or,
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Group's investments held for trading and derivative assets are classified as financial assets at FVPL, while the Group's derivative liabilities arising from issuance of convertible bonds and derivative financial instruments with negative fair values are classified as financial liabilities at FVPL.

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable collectible amounts that are not quoted in an active market. These are not intended for immediate or short-term resale and thus, not designated as AFS investments or financial assets at FVPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized and impaired, as well as through the amortization process. Loans and receivables are included under current assets if realizability or collectibility is within twelve months after the reporting period.

The Group's cash and cash equivalents, time deposits, receivables (including noncurrent portion of receivables from real estate buyers), advances and other receivables (included under "Other current assets" account), long-term notes (included under "Other noncurrent assets" account) are classified in this category.

AFS Investments
AFS investments are non-derivative financial assets that are not classified in any of the other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Subsequent to initial recognition, AFS investments are carried at fair value in the consolidated balance sheet. Changes in the fair value of such assets are reported as net unrealized gain or loss on AFS investments in the consolidated statement of comprehensive income under "Net unrealized gain (loss) on financial assets" account until the investment is derecognized or the investment is determined to be impaired. In case of derecognition or impairment, the cumulative gain or loss previously reported in consolidated statement of comprehensive income is transferred to the consolidated statement of income. Interest earned on holding AFS investments is recognized in the consolidated statement of income using the effective interest method. Assets under this category are classified as current if expected to be disposed of within 12 months after the reporting period.

The Group's investments in shares of stock, bonds and corporate notes and club shares are classified in this category. These investments are included under "Financial assets" account in the consolidated balance sheet.

Other Financial Liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon inception of the liability. These include liabilities arising from operations or borrowings.

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses on other financial liabilities are recognized in the consolidated statement of income when the liabilities are derecognized, as well as through the amortization process.

The Group's bank loans, accounts payable and other current liabilities, dividends payable, long-term debt and tenants' deposits and others are classified in this category.

Classification of Financial Instruments between Liability and Equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or,
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or,
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument, as a whole, the amount separately determined as the fair value of the liability component on the date of issue.

Debt Issue Cost
Debt issue cost is presented as a reduction in long-term debt and amortized over the term of the related borrowings using the effective interest method.

Derivative Financial Instruments
The Group uses derivative financial instruments such as cross-currency swaps, foreign currency call options, interest rate swaps, options and non-deliverable forwards to hedge the risks associated with foreign currency and interest rate fluctuations. Derivative financial instruments, including bifurcated embedded derivatives, are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Cash Flow Hedges
Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset, liability or a highly probable forecast transaction and could affect the consolidated statement of income. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized under "Cumulative translation adjustment" account in the consolidated statement of comprehensive income, whereas any hedge ineffectiveness is immediately recognized in the consolidated statement of income under "Gain (loss) on fair value changes on derivatives - net" account.

Amounts taken to equity are transferred to the consolidated statement of income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized. However, if an entity expects that all or a portion of a loss recognized in OCI will not be recovered in one or more future periods, it shall reclassify from equity to profit or loss as a reclassification adjustment the amount that is not expected to be recovered.

Hedge accounting is discontinued prospectively when the hedge ceases to be highly effective. When hedge accounting is discontinued, the cumulative gains or losses on the hedging instrument that has been reported as "Cumulative translation adjustment" is retained in the OCI until the hedged transaction impacts the consolidated statement of income. When the forecasted transaction is no longer expected to occur, any net cumulative gains or losses previously reported in the consolidated statement of comprehensive income is recognized immediately in the consolidated statement of income.

Other Derivative Instruments Not Accounted for as Hedges
Certain freestanding derivative instruments that provide economic hedges under the Group's policies either do not qualify for hedge accounting or are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized under "Gain (loss) on fair value changes on derivatives - net" account in the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded Derivative
An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary, in a way similar to a stand-alone derivative. The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes a party to the contract. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case, a reassessment is required. The Group determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both, have changed and whether the change is significant relative to the previously expected cash flows on the contract.

Derecognition of Financial Assets and Liabilities

Financial Assets
A financial asset is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or,
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial Liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets
The Group assesses at each reporting period whether a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets Carried at Amortized Cost
The Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective impairment assessment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR.

The carrying amount of the impaired asset shall be reduced through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original EIR of the asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Group. If in a subsequent period, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the allowance account. If a writeoff is later recovered, the recovery is recognized in the consolidated statement of income to the extent of the carrying amount that would have been determined had no impairment loss been recognized.

Financial Assets Carried at Cost
If there is objective evidence that there is impairment of an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Investments
The Group assesses at each reporting period whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS investments, an objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Significant decline in fair value is evaluated against the original cost of the investment, while prolonged decline is assessed against the periods in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income, is removed from the consolidated statement of comprehensive income and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount of the asset and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" account in the consolidated statement of income. If in subsequent years, the fair value of a debt instrument should increase and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if there is an enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Merchandise Inventories
Merchandise inventories are valued at the lower of cost or net realizable value. Cost, which includes all costs directly attributable to acquisition, such as purchase price and transport costs, is primarily determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Current Portion of Land and Development and Condominium and Residential Units for Sale
Current portion of land and development and condominium and residential units for sale are stated at the lower of cost or net realizable value. Cost includes those costs incurred for development and improvement of the properties. Net realizable value is the selling price in the ordinary course of business less costs to complete and the estimated cost to make the sale. Current portion of land and development and condominium and residential units for sale include properties that are constructed for sale in the ordinary course of business, rather than for rental or capital appreciation.

Cost incurred for the development and improvement of the properties includes the following:

- land cost;
- amounts paid to contractors for construction and development; and,
- costs of borrowing, planning and design, and site preparation, as well as professional fees, property transfer taxes, construction overhead and others.

Investments in Associate Companies and Joint Ventures
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

The Group's investments in associate companies and joint ventures are accounted for under the equity method of accounting. Under the equity method, investments in associate companies and joint ventures are carried at cost plus post-acquisition changes in the Group's share in net assets of the associate or joint venture.

On acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's or joint venture's identifiable assets, liabilities and contingent liabilities is accounted for as follows:

- Goodwill relating to an associate or joint venture is included in the carrying amount of the investment. However, amortization of that goodwill is not permitted and is therefore not included in the determination of the Group's share in the associate's or joint venture's profits or losses; and,
- Any excess of the Group's share in the net fair value of the associate's and joint venture's identifiable assets, liabilities and contingent liabilities over the cost of the investment is included as income in the determination of the investor's share of the associate's or joint venture's profit or loss in the period in which the investment is acquired.

The consolidated statement of income reflects the share in the results of operations of the associate or joint venture. Where there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share in any changes and discloses this in the consolidated statement of comprehensive income. Profits and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the Group's interest in the associate or joint venture.

Appropriate adjustments to the investor's share of the associate's or joint venture's profit or loss after acquisition are made to account for the depreciation of the depreciable assets based on their fair values at the acquisition date and for impairment losses recognized by the associate or joint venture, such as for goodwill or property, plant and equipment.

After application of the equity method, the Group determines whether it is necessary to recognize any impairment loss with respect to the Group's net investment in the associate companies and joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate companies and joint ventures is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate companies and joint ventures and its carrying value, then, recognizes the loss in the consolidated statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate companies and joint ventures upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Property and Equipment

Property and equipment, except land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs necessary in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation and interest incurred during the construction period.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets, namely:

Buildings and improvements	5–25 years
Store equipment and improvements	5–10 years
Data processing equipment	5–8 years
Furniture, fixtures and office equipment	3–10 years
Machinery and equipment	5–10 years
Leasehold improvements	5–10 years or term of the lease, whichever is shorter
Transportation equipment	5–10 years

The residual values, useful lives and method of depreciation and amortization of the assets are reviewed and adjusted, if appropriate, at the end of each reporting period. The carrying value of the assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Fully depreciated assets are retained in the accounts until these are no longer in use and no further depreciation and amortization is credited or charged to current operations.

When any property and equipment is retired or otherwise disposed of, the cost and related accumulated depreciation and amortization and accumulated provision for impairment loss is removed from the accounts and any resulting gain or loss is charged to profit or loss.

Investment Properties

This account consists of investment properties and the noncurrent portion of land and development. Investment properties include property held to earn rentals and for capital appreciation. Investment properties, except land, are measured at cost, less accumulated depreciation and amortization and accumulated impairment in value. Land is stated at cost less any impairment in value.

Expenditures incurred after the investment property has been put in operation such as repairs and maintenance costs are charged to profit or loss.

Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets, namely:

Land improvements	3–5 years
Buildings and improvements	10–40 years
Building equipment, furniture and others	3–15 years
Building and leasehold improvements	5 years or term of the lease, whichever is shorter

The residual values, useful lives and method of depreciation and amortization of the assets are reviewed and adjusted, if appropriate, at the end of each reporting period.

Investment property is derecognized when disposed or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are charged to profit or loss.

Transfers are made to (from) investment property when there is a change in use evidenced by ending (commencement) of owner-occupation, or, commencement of lease to another party (commencement of development with a view to sell).

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Construction in Progress
Construction in progress under property and equipment and investment property represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Cost also includes interest on borrowed funds incurred during the construction period. Construction in progress is not depreciated.

Tenants' Deposits
Tenants' deposits are measured at amortized cost. Tenants' deposits refer to security deposits received from various tenants upon inception of the respective lease contracts on the Group's investment properties. At the termination of the lease contracts, the deposits received by the Group are returned to tenants, reduced by unpaid rental fees, penalties and/or deductions from repairs of damaged leased properties, if any. The related lease contracts usually have a term of more than twelve months.

Property Acquisitions, Business Combinations and Acquisitions of Non-controlling Interests

Property Acquisitions and Business Combinations. When property is acquired through corporate acquisitions or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents an acquisition of a business.

When such an acquisition is not judged to be an acquisition of a business, it is not treated as a business combination. Rather, the cost to acquire the entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred tax arises.

Business combinations are accounted for using the acquisition method except for business combinations under common control in which an accounting similar to pooling of interest method is used. Business combinations under common control are those in which all of the combining entities or businesses are controlled by the same party or parties both before and after the business combination, and that control is not transitory. Under the acquisition method, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are expensed and included in "Selling, general and administrative expenses" account in the consolidated statement of income.

For accounting similar to pooling of interest method, the assets, liabilities and equity of the acquired companies for the reporting period in which the common control business combinations occur, and for any comparative periods presented, are included in the consolidated financial statements of the Group at their carrying amounts as if the combinations had occurred from the date when the acquired companies first became under the control of the Group. The excess of the cost of business combinations over the net carrying amounts of the assets and liabilities of the acquired companies is recognized under "Equity adjustments from common control transactions" account in the equity section of the consolidated balance sheet.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39, *Financial Instruments: Recognition and Measurement* either in profit or loss or as a charge to OCI. If the contingent consideration is classified as equity, it should not be re-measured and subsequent settlement is accounted for within equity.

Acquisitions of Non-controlling Interests. Changes in the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e., transactions with owners in their capacity as owners). In such circumstances, the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid shall be recognized directly in equity.

Goodwill

Initial Measurement of Goodwill or Gain on a Bargain Purchase. Goodwill is initially measured by the Group at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as gain on a bargain purchase.

Subsequent Measurement of Goodwill. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Impairment Testing of Goodwill. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGU), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and,
- is not larger than an operating segment as defined in PFRS 8, *Operating Segments*, before aggregation.

Frequency of Impairment Testing. Irrespective of whether there is any indication of impairment, the Group tests goodwill acquired in a business combination for impairment at least annually.

Allocation of Impairment Loss. An impairment loss is recognized for a CGU if the recoverable amount of the unit or group of units is less than the carrying amount of the unit or group of units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit or group of units first to reduce the carrying amount of goodwill allocated to the CGU or group of units and then to the other assets of the unit or group of units pro rata on the basis of the carrying amount of each asset in the unit or group of units.

Measurement Period. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. The measurement period ends as soon as the Group receives the information it was seeking as of the acquisition date or learns that more information is not obtainable. The measurement period shall not exceed one year from the acquisition date.

Intangible Assets

The cost of trademarks and brand names acquired in a business combination is the fair value as at the date of acquisition. The useful life of trademarks and brand names is assessed based on an analysis of all relevant factors. If there is no foreseeable limit to the period over which the asset is expected to generate cash inflows for the Group, the trademark / brand name is considered to be indefinite.

Trademarks and brand names with indefinite useful lives are not amortized but are tested for impairment annually either individually or at the CGU level. The useful life of an intangible asset is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset at the date of disposal and are recognized in profit or loss.

Land Use Rights

Land use rights which is included under "Other noncurrent assets" is amortized over its useful life of 40–60 years.

Impairment of Nonfinancial Assets

The carrying value of nonfinancial assets (property and equipment, investment properties and investments in associate companies and joint ventures, intangibles with definite useful life and other noncurrent assets) is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or CGUs are written-down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less cost to sell or value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment loss may no longer exist or may have decreased. In such a case, the recoverable amount is estimated. Any previously recognized impairment loss is reversed only when there is a change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Accordingly, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized in prior years. Such reversal is recognized in the consolidated statement of income. After such a reversal, the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Capital Stock and Additional Paid-in Capital

Capital stock is stated at par value of the share. Proceeds and/or fair value of considerations received in excess of par value, if any, is recognized as additional paid-in capital. Incremental costs directly attributable to the issuance of new shares is deducted from the proceeds, net of tax.

Revenue and Cost Recognition

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. The Group has concluded that it is acting as principal in majority of its revenue arrangements. The following specific recognition criteria, other than those disclosed in Note 2 to the consolidated financial statements, shall be met before revenue is recognized:

Rent. Revenue is recognized on a straight-line basis over the lease term or based on the terms of the lease as applicable. Contingent rent is recognized as revenue in the period in which it is earned.

Sale of Cinema and Amusement Tickets. Revenue is recognized upon receipt of cash from the customers which coincides with the rendering of services.

Gain on Sale of Investments in Associate Companies and Joint Ventures and Available-for-Sale Investments. Revenue is recognized upon delivery of the securities to and confirmation of the sale by the broker.

Dividends. Revenue is recognized when the Group's right as a shareholder to receive payment is established.

Management and Service Fees. Revenue and/or expense is recognized when earned and/or incurred, in accordance with the terms of the agreements.

Interest. Revenue is recognized when interest accrues, taking into account the effective yield.

Selling, General, Administrative and Other Expenses. Costs and expenses are recognized as incurred.

Effective beginning January 1, 2018

Sale of Merchandise Inventories. Revenue from sale of goods is recognized when the transfer of control has been passed to the buyer at the time when the performance obligation has been satisfied. The performance obligation is generally satisfied when the customer purchases the goods. Payment of the transaction price is due immediately at the point the customer purchases the goods.

Revenue and Cost from Sale of Real Estate. The Group derives its real estate revenue from the sale of lots, house and lot and condominium units. Revenue from the sale of these real estate under pre-completion stage are recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Group uses output method. The Group recognizes revenue on the basis of direct measurements of the value to customers of the goods or services transferred to date, relative to the remaining goods or services promised under the contract. Progress is measured using survey of performance completed to date/ milestones reached/ time elapsed. This is based on the monthly project accomplishment report prepared by the third party project managers as approved by the construction manager which integrates the surveys of performance to date of the construction activities.

Any excess of progress of work over the right to an amount of consideration that is unconditional, recognized as receivables from sale of real estate, under trade receivables, is accounted for as unbilled revenue from sale of real estate.

Any excess of collections over the total of recognized installment real estate receivables is included in the contract liabilities (or referred also in the consolidated financial statements as "Unearned revenue from sale of real estate").

Information about the Groups's Performance Obligation. The Group entered into contracts to sell with one identified performance obligation which is the sale of the real estate unit together with the services to transfer the title to the buyer upon full payment of contract price. The amount of consideration indicated in the contract to sell is fixed and has no variable consideration.

Payment commences upon signing of the contract to sell and the consideration is payable in cash or under a financing scheme entered with the customer. The financing scheme would include payment of certain percentage of the contract price spread over a certain period (e.g. one to three years) at a fixed monthly payment with the remaining balance payable in full at the end of the period either through cash or external financing. The amount due for collection under the amortization schedule for each of the customer does not necessarily coincide with the progress of construction.

The Group has a quality assurance warranty which is not treated as a separate performance obligation.

Cost of Real Estate Sold. The Group recognizes costs relating to satisfied performance obligations as these are incurred, taking into consideration the contract fulfillment assets such as land and connection fees. Cost includes the cost of land, land development, building costs, professional fees, depreciation, permits and licenses and capitalized borrowing costs. The aggregate cost is allocated to the saleable area, with the portion allocable to the sold area recognized as costs of real estate sold while the portion allocable to the unsold area recognized as part of real estate inventories (condominium and residential units for sale and current portion of land and development). In addition, the Group recognizes as an asset those costs that give rise to resources that will be used in satisfying performance obligations in the future and that are expected to be recovered.

Contract Balances

Receivables. A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract Assets. Contract assets pertain to unbilled revenue from sale of real estate. This is the right to consideration that is conditional in exchange for goods or services transferred to the customer. The capitalized amount is reclassified to trade receivable from real estate buyers when the periodic amortization of the customer becomes due for collection.

Contract Liabilities. Contract liabilities pertain to unearned revenue from sale of real estate. This is the obligation to transfer goods or services to a customer for which the Group has received consideration) from the customer. These also include customers' deposits related to sale of real estate. These are recognized as revenue when the Group performs the pertinent obligations under the contract.

Costs to Obtain a Contract. The costs of obtaining a contract with a customer are recognized as an asset if the Group expects recovery of these costs. The accrual of commissions paid to brokers and marketing agents on the sale of pre-completed real estate units is likewise capitalized when recovery is reasonably expected and is charged to expense in the period in which the related revenue is recognized as earned. Commission expense is included in the "Costs and expenses" account in the consolidated statement of income. Costs incurred prior to obtaining a contract with a customer are expensed as these are incurred.

Contract Fulfillment Assets. Contract fulfillment costs are divided into (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred. When determining the appropriate accounting treatment for such costs, the Group considers any other applicable standards. If those standards preclude capitalization of a particular cost, then an asset is not recognized under PFRS 15.

If other standards are not applicable to contract fulfillment costs, the Group applies the following criteria which if met, result in capitalization (i) costs directly relate to a contract or to a specifically identifiable anticipated contract; (ii) costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) costs are expected to be recovered. The assessment of this criteria requires the application of judgement particularly in determining whether costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable.

The Group's contract fulfillment assets mainly pertain to land acquisition costs (included under condominium and residential units for sale and current portion of land and development).

Amortization, Derecognition and Impairment of Contract Fulfillment Assets and Capitalized Costs to Obtain a Contract. The Group amortizes contract fulfillment assets and costs capitalized to obtain a contract to cost of sales over the expected construction period using POC following the pattern of real estate revenue recognition. The amortization is included in cost of real estate sold account in the consolidated statement of income.

A contract fulfillment asset or costs capitalized to obtain a contract is derecognized when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

At each reporting date, the Group determines whether there is an indication that a contract fulfillment asset may be impaired. If such indication exists, the Group makes an estimate by comparing the carrying amount of the asset to the remaining amount of consideration that the Group expects to receive less those costs that relate to providing services under the contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price is removed when testing for impairment.

In case the relevant costs demonstrate indicators of impairment, judgement is required in ascertaining the future economic benefits from these contracts as sufficient to recover the relevant assets.

Effective before January 1, 2018

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates and sales taxes or duties. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. The Group acts as principal in the majority of its revenue arrangements.

Sale of Merchandise Inventories. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, normally upon delivery. Sales are net of returns and discounts.

Sale of Real Estate. Revenue is recognized when it is deemed probable that economic benefits will flow to the Group in the form of collections. Collectibility of the sales amount is evidenced by the buyer's initial and continuous investments in accordance to the sales agreement, as well as good credit standing.

Revenue from sales of completed real estate projects is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee Q&A No. 2006-01, the POC method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Any excess of collections over the recognized receivables are included in the "Tenants' deposits and others" account in the consolidated balance sheet. If any of the criteria under the full accrual or POC method is not met, the deposit method is applied until all the conditions for recording a sale are met.

Pending recognition of sale, cash received from buyers is presented under the "Tenants' deposits and others" account in the consolidated balance sheet.

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of condominium and residential units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development cost, which includes estimated costs for future development works.

The cost of inventory recognized in the consolidated statement of income upon sale is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the POC used for revenue recognition purposes.

Expected losses on contracts are recognized immediately when it is probable that the total contract cost will exceed total contract revenue. Changes in the estimated cost to complete the condominium project which affect cost of real estate sold and gross profit are recognized in the year in which changes are determined.

Pension Benefits
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting the net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- service cost;
- net interest on the net defined benefit liability or asset; and,
- re-measurements of net defined benefit liability or asset.

Service cost which includes current service costs, past service costs and gains or losses on non-routine settlements, is recognized as expense. Past service cost is recognized on the earlier of the date of the plan amendment or curtailment, or the date when restructuring-related cost is recognized.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of income.

Re-measurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which these arise. Re-measurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can these be paid directly to the Group. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if these have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Foreign Currency-denominated Transactions

Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange as at reporting date. Nonmonetary items denominated in foreign currency are translated using the exchange rate as at the date of initial recognition. All differences are recognized in profit or loss.

Foreign Currency Translation

The assets and liabilities of foreign operations are translated into Philippine peso at the rate of exchange as at reporting date and their respective statements of income are translated at the weighted average rate for the year. The exchange differences arising from the translation are included in the consolidated statement of comprehensive income and are presented within the "Cumulative translation adjustment" account in the consolidated statement of changes in equity. On disposal of a foreign subsidiary, the deferred cumulative amount of exchange differences recognized in equity relating to that particular foreign operation is recognized in profit or loss.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as Lessee. Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the consolidated statement of income.

Capitalized lease assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Group as Lessor. Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rent is recognized as revenue in the period in which it is earned.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

Borrowing Cost
Borrowing cost is capitalized as part of the cost of the asset if it is directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing cost commences when the activities to prepare the asset are in progress and expenditures and borrowing cost are incurred. Borrowing cost is capitalized until the assets are substantially ready for their intended use. Borrowing cost is capitalized when it is probable that it will result in future economic benefits to the Group. All other borrowing costs are expensed as incurred. For borrowing associated with a specific asset, the actual rate on that borrowing is used. Otherwise, a weighted average cost of borrowings is used.

Taxes

Current Income Tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting period.

Deferred Income Tax. Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of excess Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and Net Operating Loss Carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward benefits of excess MCIT over RCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,

- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that the future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as at reporting date.

Income tax relating to items recognized directly in the consolidated statement of comprehensive income is recognized in the consolidated statement of comprehensive income and not in the consolidated statement of income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and/or the deferred taxes relate to the same taxable entity and the same taxation authority.

Value-added Tax (VAT). Revenue, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and,
- for receivables and payables that are stated with the amount of tax included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Other current assets" or "Accounts payable and other current liabilities" accounts in the consolidated balance sheet.

Basic/Diluted Earnings Per Common Share (EPS)
Basic EPS is computed by dividing the net income attributable to owners of the Parent for the period by the weighted average number of issued and outstanding common shares for the period, with retroactive adjustment for any stock dividends declared.

For the purpose of computing diluted EPS, the net income for the period attributable to owners of the Parent and the weighted-average number of issued and outstanding common shares are adjusted for the effects of all potential dilutive ordinary shares.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events after the Reporting Period
Post yearend events that provide additional information about the Group's financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post yearend events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous year except for the adoption of the following amendments to standards and improvements, starting January 1, 2018. Unless otherwise indicated, the adoption did not have any significant impact on the consolidated financial statements.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

- Amendments to PFRS 4, Applying PFRS 9 *Financial Instruments*, with PFRS 4, *Insurance Contracts*

- PFRS 9, *Financial Instruments*

  PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement* for annual period beginning on or after January 1, 2018, covering all three aspects of accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

  The Group applied PFRS 9 using modified restrospective approach, with an initial application date of January 1, 2018. The Group did not restate the comparative information which continues to be reported under PAS 39. Differences arising from the adoption of PFRS 9 are recognized directly in retained earnings and other components of equity as at January 1, 2018.

  (a) Classification and measurement

  The classification and measurement requirements of PFRS 9 did not have a significant impact on the consolidated financial statements. The Group continued to measure at fair value all financial assets previously held at fair value under PAS 39. Following are the changes in the classification of financial assets:

  - Loans and receivables measured at amortized cost under PAS 39 which include cash and cash equivalents, time deposits, receivables (including noncurrent portion of receivables from real estate buyers), advances and other receivables (included under "Other current assets" account), escrow fund, bonds and deposits (included under "other noncurrent assets" account), long-term notes (included under "Other noncurrent assets" account), amounting to ₱201,314.6 million as at December 31, 2017 are classified and measured as financial assets at amortized cost (debt instruments) beginning January 1, 2018 (see Notes 7, 8, 9, 10, 16).

  - Equity instruments amounting to ₱23,694.8 million as at December 31, 2017, previously classified as AFS investments under PAS 39, are classified and measured as financial assets designated at FVOCI (equity instruments) beginning January 1, 2018. Impairment losses amounting to ₱122.8 million previously recognized for these investments were reversed as at January 1, 2018 (see Note 11). Fair value adjustments on unquoted equity investments amounted to ₱2,023.4 million as at January 1, 2018.

  - Debt instruments amounting to ₱3,243.3 million as at December 31, 2017, previously classified as AFS investments, are classified and measured as financial assets at FVOCI and financial assets at FVPL beginning January 1, 2018. There were no impairment losses recognized in profit or loss for these investments as at January 1, 2018 (see Note 11).

  There are no changes in the classification and measurement of the financial liabilities.

  (b) Impairment

  The adoption of PFRS 9 has fundamentally changed the Groups's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking ECL approach.

  The adoption of ECL approach has no significant impact on the allowance for impairment losses recognized in the consolidated financial statements.

(c) Hedge accounting

At the date of initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Before the adoption of PFRS 9, the Group designated the change in fair value of the entire cross currency swaps, interest rate swaps and principal only swaps contracts as cash flow hedges. Changes in the fair value of the cross currency swaps, interest rate swaps and principal only swaps contracts are recognized in OCI and accumulated as a separate component of equity.

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related interpretations. It applies to all revenue arising from contracts with its customers, with limited exceptions. PFRS 15 establishes a five-step model that will apply to revenues arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

PFRS 15 is applicable to all entities within the Group and will supersede all current revenue recognition requirements under PFRSs.

PFRS 15 requires the exercise of judgement when applying each step of the model to contracts with customers, taking into consideration all of the relevant facts and circumstances. The standard also specifies the accounting for incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The standard requires extensive disclosures.

With the effectivity of PFRS 15 effective January 1, 2018, the Financial Reporting Standards Council (FRSC), Philippine Interpretations Committee (PIC) issued the following guidance and interpretations to assist real estate companies in the adoption of PFRS 15:

- PIC Q&A 2018-12, Implementation Issues Affecting the Real Estate Industry, and,
- PIC Q&A 2018-14, Accounting for Cancellation of Real Estate Sales

In response to concerns raised by real estate associations on the implementation and adoption of the PIC Q&As, the SEC issued MC No. 14-2018 in October 2018 and MC No. 3-2019 in February 2019, deferring the application of the following provisions of the above-mentioned PIC Q&As for a period of 3 years:

- accounting for significant financing component,
- exclusion of uninstalled materials and land cost in POC determination,
- common usage service area (CUSA) charges, and,
- accounting for cancellation of real estate sales.

Effective January 1, 2021, real estate companies will adopt PIC Q&A No. 2018-12 and PIC Q&A No. 2018-14 and any subsequent amendments thereof retrospectively or as the SEC will later prescribe.

The Group availed of the deferral of adoption of the above specific provisions, except for land exclusion in the determination of POC. Had these provisions been adopted, it would have affected retained earnings as at January 1, 2018 and revenue from real estate sales, cost of real estate sold, other income and real estate inventories for 2018.

With the deferral of the implementation of certain provisions of PIC Q&A 2018-12 and PIC Q&A 2018-14, the adoption of PFRS 15 did not have any significant impact to the consolidated financial statements.

- PIC Q&A 2018-11, *Classification of Land by Real Estate Developer*, clarifies the correct classification of purchased raw land by real estate developers to inventory and investment property, and current and noncurrent assets. The adoption of this PIC Q&A resulted to the reclassification of land and development from real estate inventories to investment property (see Note 15).

  PIC Q&A 2018-15, *Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current*, aims to classify the prepayment based on the actual realization of such advances determined with reference to usage/realization of the asset to which it is intended for (e.g. inventory, investment property, property plant and equipment). The Group's policy on the classification of prepayments is consistent with the interpretation, hence adoption of the PIC Q&A did not have any significant impact to the consolidated financial statements.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 22, *Foreign Currency Transactions and Advance Consideration*

Future Changes in Accounting Policies
The following are the new standards, amendments and improvements to PFRS that were issued but are not yet effective as at December 31, 2018. Unless otherwise indicated, the Group does not expect the future adoption of the said new standards, amendments and improvements to have a significant impact on the consolidated financial statements. The Group intends to adopt the applicable standards, interpretations, amendments and improvements when these become effective.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  Under PFRS 9, a debt instrument can be measured at amortized cost or at FVOCI, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

  The Group is assessing the impact of adopting the amendments to PFRS 9.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events. The lessee will generally recognize the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is assessing the impact of adopting PFRS 16.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the:

  - Current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to re-measure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and,

  - Net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to re-measure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

  The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

  The Group is assessing the impact of adopting the amendments to PAS 19.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the ECL model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28.

  The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted.

  The Group is assessing the impact of adopting the amendments to PAS 28.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes* and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:

  - whether an entity considers uncertain tax treatments separately;
  - the assumptions an entity makes about the examination of tax treatments by taxation authorities;
  - how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and,
  - how an entity considers changes in facts and circumstances.

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

  The Group is assessing the impact of adopting this interpretation.

- Annual *Improvements to PFRSs 2015-2017 Cycle*

  - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including re-measuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer re-measures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not re-measured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

The Group is assessing the impact of adopting these amendments.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  The Group is assessing the impact of adopting these amendments.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  The Group is assessing the impact of adopting these amendments.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. These are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4 which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

  The amendments are not applicable to the Group since it is not engaged in providing insurance nor issuing insurance contracts.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements,* and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the FRSC deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Group is assessing the impact of adopting the amendments to PFRS 10 and PAS 28.

4. **Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These judgments, estimates and assumptions are based upon management's evaluation of relevant facts and circumstances as at reporting date.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Existence of a Contract. The Group's primary document for a contract with a customer is the signed contract to sell. In cases wherein the contract to sell is not signed by both parties at report date, other signed documents including the reservation agreement, official receipts, quotation sheets and other documents are considered to contain the basic elements to qualify as a contract with the customer under PFRS 15.

Part of the Group's assessment process for revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the real estate property that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, the significance of the customer's initial payments in relation to the total contract price is given consideration.

Measure of Progress. The Group has determined that the output method used in measuring the progress of the performance obligation faithfully depicts the Group's performance in transferring control of real estate development to the customers.

Property Acquisitions and Business Combinations. At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets and liabilities. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the real estate property. The consideration is made to the extent that the significant business processes are acquired and the additional services are to be provided by the subsidiary.

When the acquisition of subsidiary does not constitute a business, it is accounted for as an acquisition of a group of assets and liabilities. The purchase price of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values at the date of acquisition. No goodwill or deferred tax is recognized.

Consignment Arrangements on Retail Segment. The retail segment of the Group has various consignment arrangements with suppliers. Under these arrangements, the Group bears significant risks and rewards associated with the sale of goods. Management has determined that it is acting as principal in these sales transactions. Accordingly, sales revenue is recognized at gross amount upon actual sale to customers. The related inventory stocks supplied under these arrangements only become due and payable to suppliers when sold.

Operating Lease Commitments - Group as Lessor. Management has determined that the Group retains all the significant risks and rewards of ownership of the properties and thus, accounts for the contracts as operating leases. The ownership of the asset is not transferred to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable, and, the lease term is not for the major part of the asset's economic life.

Operating Lease Commitments - Group as Lessee. Management has determined that all the significant risks and benefits of ownership of these properties remain with the lessor and thus, accounts for these leases as operating leases.

Assessing Significant Influence over Associates. Management assessed that the Group has significant influence over all its associates by virtue of the Group's more than 20% voting power in the investee, representation in the board of directors, and participation in policy-making processes of the associates.

Assessing Joint Control of an Arrangement and the Type of Arrangement. The Group has 25% ownership in Waltermart Mall. Management assessed that the Group has joint control of Waltermart Mall by virtue of a contractual agreement with other shareholders. Waltermart Mall is a joint venture arrangement as it is a separate legal entity and its stockholders have rights to its net assets.

Impairment of AFS Investments - Significant or Prolonged Decline in Fair Value. Management determines that a decline in fair value of greater than 20% of cost is considered to be a significant decline and a decline for a period of longer than 12 months is considered to be a prolonged decline. The determination of what is significant or prolonged decline requires judgment and includes an evaluation of price volatility. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance. This is applicable to the Group as at December 31, 2017.

Assessing of Control or Significant Influence of Investees

SM Prime. The Group has 50% ownership interest in SM Prime. Management assessed that the Group has control of SM Prime as it holds significantly more voting rights than any other vote holder or organized group of vote holders, and the other shareholdings are widely dispersed giving the Group the power to direct relevant activities of SM Prime.

BDO Unibank, Inc. (BDO). The Group has 45% ownership interest in BDO. Management assessed that the Group does not have control of BDO as the Group's aggregate voting rights is not sufficient to give it power to direct the relevant activities of BDO (see Note 12).

Premium Leisure Corp. (PLC). The Group has 5% ownership interest in PLC. PLC is a subsidiary of Belle Corporation (Belle). Management assessed that the Group has significant influence over PLC through its associate, Belle (see Note 12).

Estimates and Assumptions

The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that pose a significant risk of causing material adjustments to the carrying amounts of assets and liabilities in the succeeding years are discussed below.

Revenue Recognition Method and Measure of Progress. The POC method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold. Revenue is recognized when the equitable interest is transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation works are finished), and the costs incurred or to be incurred can be measured reliably.

Provision for Expected Credit Losses (ECL) of Receivables and Contract Assets (referred also in the consolidated financial statements as "Unbilled revenue from sale of real estate"). The Group maintains an allowance for impairment loss at a level considered adequate to provide for potential uncollectible receivables. The Group uses a provision matrix for rent and other receivables and unbilled revenue from sale of real estate, and vintage approach for receivable from sale of real estate to calculate ECLs. The Group performs a regular review of the age and status of these accounts, designed to identify accounts for impairment. The assessment of the correlation between historical observed default rates, forecasted economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. See Note 10 for related balances.

Impairment of AFS Investments - Calculation of Impairment Losses. The assessment for impairment of AFS debt instruments requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. In the case of AFS equity instruments, the Group considers changes in the investee's industry and sector performance, legal and regulatory framework, changes in technology and other factors that affect the recoverability of the Group's investments. This is applicable to the Group as at December 31, 2017. Effective January 1, 2018, the Group applied the low credit risk simplification in assessing the impairment of debt instruments at FVOCI.

Net Realizable Value of Merchandise Inventories, Condominium and Residential Units for Sale, and Land and Development. The Group recognizes an allowance for impairment of value of merchandise inventories, condominium and residential units for sale, and land and development to value these assets at net realizable value. Impairment may be due to damage, physical deterioration, obsolescence, changes in price levels or other causes. See Notes 15 and 22 for related balances. The estimate of net realizable value is based on the most reliable evidence of the realizable value of the assets, available at the time the estimate is made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

The allowance account is reviewed on a regular basis. In 2018 and 2017, the Group assessed that the net realizable value of merchandise inventories, condominium and residential units for sale and land and land development is higher than cost, hence, the Group did not recognize any impairment loss.

Estimated Useful Life of Property and Equipment and Investment Properties. The useful life of each of the Group's property and equipment and investment properties is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of the asset. It is possible, however, that future financial performance could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. See Notes 13 and 14 for related balances.

Impairment of Investments in Associate Companies and Joint Ventures. Impairment review of investments in associate companies and joint ventures is performed when events or changes in circumstances indicate that the carrying value may not be recoverable. This requires management to make an estimate of the expected future cash flows from the investments and to choose a suitable discount rate in order to calculate the present value of those cash flows. See Note 12 for related balances.

Impairment of Goodwill and Trademarks and Brand Names with Indefinite Useful Lives. Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. Fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculations is based on a discounted cash flow model. The cash flows are derived from the forecast for the relevant period and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the assets. The recoverable amount is most sensitive to the pre-tax discount rates used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. See Note 16 for related balances.

Impairment of Other Nonfinancial Assets. The Group assesses at each reporting date whether there is an indication that an item of property and equipment and investment properties may be impaired. This assessment requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. Future events could cause the Group to conclude that these assets are impaired. Any resulting impairment loss could have a material impact on the financial position and performance of the Group.

The preparation of the estimated future cash flows involves judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Group's assessment of recoverable values and may lead to future additional impairment charges. See Notes 13 and 14 for related balances.

Purchase Price Allocation in Business Combinations. The acquisition method requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities at acquisition date. It also requires the acquirer to recognize goodwill. The Group's acquisitions have resulted in goodwill and separate recognition of trademarks and brand names. See Note 16 for related balances.

Realizability of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of excess MCIT and NOLCO is based on the projected taxable income in future periods. Based on the projection, not all deductible temporary differences and carryforward benefits of excess MCIT and NOLCO will be realized. Accordingly, only a portion of the Group's deferred tax assets is recognized. See Note 26 for related balances.

Present Value of Defined Benefit Obligation. The present value of the pension obligations depends on a number of factors including assumptions of discount rate and rate of salary increase, among others.

The Group determines the appropriate discount rate at the reporting date. In determining the discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based on current market conditions. Management believes that the assumptions used are reasonable and appropriate. However, significant differences in actual experience or significant changes in assumptions would materially affect the Group's pension and other pension obligations. See Note 25 for related balances.

Fair Value of Financial Assets and Liabilities. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates and volatility rates). The amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any changes in the fair value of these financial assets and liabilities would directly affect profit or loss and OCI. See Note 29 for related balances.

Valuation of Unquoted Equity Investments. Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's-length market transactions;
- current fair value of other instruments that is substantially the same;
- the expected cash flows discounted at current rates applicable for investments with similar terms and risk characteristics; or,
- other valuation models.

The determination of cash flows and discount factors for unquoted equity investments requires significant estimation. In valuing the Group's financial assets at FVOCI at fair value in compliance with PFRS 9, management applied judgement in selecting the valuation technique and used assumptions in estimating future cash flows from its equity instruments considering the information available to the Group.

Contingencies. The Group is involved in certain legal and administrative proceedings. The Group, in collaboration with outside legal counsel handling defense, as the case may be, does not believe that these proceedings will have a material adverse effect on its financial position and performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings.

5. **Business Combination**

SM Retail Merger

On February 29, 2016, the BOD and stockholders of the Parent Company approved the merger of its subsidiary, SM Retail, with certain related entities namely, Forsyth Equity Holdings, Inc., HFS Corporation, Morrison Corporation, San Mateo Bros., Inc. and Tangiers Resources Corporation (collectively referred to as Absorbed Companies), with SM Retail as the surviving entity. As consideration for the Absorbed Companies, SM Retail issued its shares of stock to the stockholders of the Absorbed Companies. The Absorbed Companies hold certain equity interests in the following retail businesses (collectively referred to as the Retail Affiliates, and together with the Absorbed Companies, the Acquired Entities):

- ACE Hardware Philippines, Inc.
- Homeworld Shopping Corporation
- International Toy World, Inc.
- Nursery Care Corporation
- Kultura Store, Inc.
- Star Appliance Center, Inc.
- CK Fashion Collection Corp.
- Signature Lines, Inc.
- Supplies Station, Inc.

- Sports Central (Manila), Inc.
- H & B, Inc.
- Fitness Health & Beauty Holdings, Corp.

On July 7, 2016, the SEC approved the plan of merger of SM Retail and the Absorbed Companies. Before the approval by the SEC of the plan of merger, SM Retail was 100% directly owned by the Parent Company. With the merger, the Parent Company's equity interest changed from 100% to 77% because of the issuance of SM Retail of its shares of stock to the stockholders of the Absorbed Companies.

The Parent Company, SM Retail and the Acquired Entities are under the common control of the Sy Family before and after the merger. Thus, the merger was considered as a combination of businesses under common control for which the pooling of interests method was applied in the preparation of the consolidated financial statements.

The assets, liabilities and equity of the acquired businesses are included in the consolidated financial statements at their carrying amounts. Financial information for periods prior to the date of business combination was restated.

Under the pooling of interests method:

- The assets and liabilities of the combining entities are reflected at their carrying amounts;
- No adjustment is made to reflect fair values, or recognize any new assets or liabilities at the date of the combination. The only adjustments would be to facilitate alignment of accounting policies between the combining entities;
- No 'new' goodwill is recognized as a result of the business combination;
- Any difference between the consideration transferred and the net assets acquired is reflected within equity;
- The consolidated statement of income in the year of acquisition reflects the results of the combining entities for the full year, irrespective of when the combination took place; and
- Comparatives are presented as if the entities had been combined only for the period that the entities were under common control.

<u>SM Prime Common Control Business Acquisitions</u>
In December 2016, SM Prime, through Prime_Commercial Property Management Corp. (PCPMC), acquired 90% of the outstanding common stock of Shopping Center Management Corp. (SCMC) and SM Lifestyle Entertainment, Inc. (SMLEI).

In January 2017, SM Prime, through SMLEI, acquired 90% of the outstanding common stock of Family Entertainment Center, Inc.

In September 2017, SM Prime, through PCPMC, acquired the remaining 10% of the outstanding common stock of SCMC.

The companies involved are all under the common control of the Sy Family, thus the acquisitions were accounted for using the pooling of interests method. Assets, liabilities and equity of the acquired businesses were included in the consolidated financial statements at their carrying amounts. Prior period financial statements were not restated due to immateriality.

6. Segment Information

The Group has identified three reportable operating segments as follows: property, retail, and financial services and others.

The property segment is involved in mall, residential and commercial development and hotels and convention centers operations. The mall segment develops, conducts, operates and maintains the business of modern commercial shopping centers and all businesses related thereto such as the conduct, operation and maintenance of shopping center spaces for rent, amusement centers and cinemas within the compound of the shopping centers. Residential and commercial segments are involved in the development and transformation of major residential, commercial, entertainment and tourism districts through sustained capital investments in buildings and infrastructure. The hotels and convention centers segment engages in and carries on the business of hotels and convention centers and operates and maintains any and all services and facilities incident thereto.

The retail segment is engaged in the retail/wholesale trading of merchandise such as dry goods, wearing apparels, food and other merchandise.

The financial services and others segment primarily includes the operations of the Parent Company which engages in asset management and capital investments as well as its associate companies which are involved in financial services.

The BOD monitors the operating results of each of its business units for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with the operating profit or loss in the consolidated financial statements.

Operating Segment Financial Data

			2018		
	Property	**Retail**	**Financial Services and Others**	**Eliminations/ Adjustments**	**Consolidated**
			(In Thousands)		
Revenue:					
External customers	**₱97,284,609**	**₱334,958,024**	**₱17,545,534**	**₱–**	**₱449,788,167**
Inter-segment	**13,058,781**	**207,805**	**3,916,144**	**(17,182,730)**	**–**
	₱110,343,390	**₱335,165,829**	**₱21,461,678**	**(₱17,182,730)**	**₱449,788,167**
Segment results:					
Income before income tax	**₱44,118,004**	**₱18,948,538**	**₱11,074,351**	**(₱10,557)**	**₱74,130,336**
Provision for income tax	**(9,261,240)**	**(6,227,332)**	**(126,734)**	**39,538**	**(15,575,768)**
Net income	**₱34,856,764**	**₱12,721,206**	**₱10,947,617**	**₱28,981**	**₱58,554,568**
Net income attributable to:					
Owners of the Parent	**₱34,118,588**	**₱11,273,053**	**₱10,947,617**	**(₱19,260,933)**	**₱37,078,325**
Non-controlling interests	**738,176**	**1,448,153**	**–**	**19,289,914**	**21,476,243**

			2017		
	Property	Retail	Financial Services and Others	Eliminations/ Adjustments	Consolidated
			(In Thousands)		
Revenue:					
External customers	₱83,956,933	₱298,797,817	₱15,193,470	₱–	₱397,948,220
Inter-segment	12,207,193	5,378	4,339,794	(16,552,365)	–
	₱96,164,126	₱298,803,195	₱19,533,264	(₱16,552,365)	₱397,948,220

	2017				
	Property	Retail	Financial Services and Others	Eliminations/ Adjustments	Consolidated
			(In Thousands)		
Segment results:					
Income before income tax	₱37,977,872	₱17,261,620	₱11,198,650	(₱1,146,908)	₱65,291,234
Provision for income tax	(8,056,781)	(5,623,633)	(130,927)	38,624	(13,772,717)
Net income	₱29,921,091	₱11,637,987	₱11,067,723	(₱1,108,284)	₱51,518,517
Net income attributable to:					
Owners of the Parent	₱29,370,537	₱10,431,256	₱11,067,723	(₱17,946,061)	₱32,923,455
Non-controlling interests	550,554	1,206,731	–	16,837,777	18,595,062

	2016				
	Property	Retail	Financial Services and Others	Eliminations/ Adjustments	Consolidated
			(In Thousands)		
Revenue:					
External customers	₱73,203,364	₱278,550,044	₱13,501,315	₱–	₱365,254,723
Inter-segment	11,253,256	3,123	5,520,056	(16,776,435)	–
	₱84,456,620	₱278,553,167	₱19,021,371	(₱16,776,435)	₱365,254,723
Segment results:					
Income before income tax	₱33,080,956	₱16,627,376	₱12,139,109	(₱2,530,849)	₱59,316,592
Provision for income tax	(6,777,132)	(4,906,396)	(88,242)	213,506	(11,558,264)
Net income	₱26,303,824	₱11,720,980	₱12,050,867	(₱2,317,343)	₱47,758,328
Net income attributable to:					
Owners of the Parent	₱25,742,249	₱10,615,139	₱12,050,867	(₱17,203,951)	₱31,204,304
Non-controlling interests	561,575	1,105,841	–	14,886,608	16,554,024

Disaggregated revenue is consistent with business segment revenues as presented above.

Revenue from contracts with customers amounted to ₱420,929.4 million in 2018.

7. Cash and Cash Equivalents

This account consists of:

	2018	2017
	(In Thousands)	
Cash on hand and in banks (Note 21)	**₱13,609,347**	₱9,643,938
Temporary investments (Note 21)	**65,703,868**	64,674,252
	₱79,313,215	₱74,318,190

Cash in banks earn interest at the respective bank deposit rates. Temporary investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group. These investments earn interest at prevailing rates (see Note 24).

Temporary investments amounting to ₱50.0 million as at December 31, 2018 and 2017 is used as collateral for certain loans (see Note 17).

8. Time Deposits

This account consists of time deposits as follows:

	2018	2017
	(In Thousands)	
Current	**₱25,842,829**	₱13,237,886
Noncurrent	**2,392,622**	26,688,721
	₱28,235,451	₱39,926,607

The time deposits bear interest ranging from 1.0% to 4.2% in 2018 and 0.5% to 4.9% in 2017.

Certain noncurrent time deposits amounting to ₱2,382.6 million and ₱3,800.8 million as at December 31, 2018 and 2017, respectively, are used as collateral for use of credit lines.

Interest earned from time deposits is disclosed in Note 24.

9. Financial Assets

This account consists of:

	2018	2017
	(In Thousands)	
Financial assets at FVOCI:		
Shares of stock		
Listed	**₱23,382,060**	₱–
Unlisted	**2,613,690**	–
Club shares	**31,830**	–
Financial assets at FVPL -		
Corporate notes	**1,314,500**	–
AFS investments:		
Shares of stock		
Listed	–	23,611,916
Unlisted	–	61,405
Bonds and corporate notes	–	3,243,297
Club shares	–	21,470
	27,342,080	26,938,088
Less current portion	**639,316**	1,347,926
Noncurrent portion	**₱26,702,764**	₱25,590,162

- Financial assets at FVOCI pertain to equity investments in shares of stock and club shares which are not held for trading and which the Group has irrevocably designated at FVOCI, as the Group considers these investments to be strategic in nature.

- Financial assets at FVPL pertain to debt instruments where the contractual cash flows are not solely principal and interest.

- AFS investments pertain to shares of stock, bonds and corporate notes, and club shares. Unlisted shares of stock pertain to stocks of private corporations which are carried at cost since fair value cannot be reliably estimated due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value. There is no market for these investments and the Group intends to hold these for the long-term.

- Investments in bonds and corporate notes bear fixed interest of 5.0% in 2018 and 5.0% to 7.5% in 2017. These investments will mature on various dates beginning April 2018 to March 2020. The fair value of these investments amounted to ₱1,314.5 million as at December 31, 2018 and US$15.0 million (₱746.8 million) and ₱2,496.5 million as at December 31, 2017.

The movements in net unrealized gain on financial assets at FVOCI and share in unrealized loss on financial assets at FVOCI of associates attributable to the owners of the Parent in 2018 follow:

	2018
	(In Thousands)
Balance at beginning of year	**₱–**
Transfer from net unrealized gain on AFS investments	**15,324,123**
Effect of adoption of new accounting standards	**1,703,458**
Share in net unrealized loss on financial assets at FVOCI of associates (Note 12)	**(263,286)**
Loss due to changes in fair value of financial assets at FVOCI	**(5,013,979)**
Transferred to profit or loss	**(1,336)**
Balance at end of year	**₱11,748,980**

The movements in net unrealized gain on AFS investments and share in unrealized loss on AFS investments of associates attributable to the owners of the Parent in 2017 follow:

	2017
	(In Thousands)
Balance at beginning of year	₱10,780,430
Share in net unrealized gain on AFS investments of associates (Note 12)	371,647
Gain due to changes in fair value of AFS investments	4,285,398
Transferred to profit or loss	(113,352)
Balance at end of year	₱15,324,123

Gain on disposal of financial assets at FVOCI amounted to ₱1.3 million in 2018 and gain on disposal of AFS investments amounted to ₱118.0 million and ₱3.3 million in 2017 and 2016, respectively.

Interest earned from financial assets is disclosed in Note 24.

10. **Receivables and Contract Assets**

This account consists of:

	2018	2017
	(In Thousands)	
Trade:		
Real estate buyers*	**₱50,878,438**	₱40,400,047
Third-party tenants	**7,252,071**	6,804,584
Related-party tenants (Note 21)	**383,424**	619,948
Others	**124,530**	136,580
Due from related parties (Note 21)	**953,010**	655,580
Management and service fees (Note 21)	**1,244,159**	373,619
Dividends (Note 21)	**185,767**	270,784
	61,021,399	49,261,142
Less allowance for impairment loss	**1,034,040**	1,054,498
	59,987,359	48,206,644
Less noncurrent portion of receivables from real estate buyers (Note 16)	**26,232,167**	15,854,070
Current portion	**₱33,755,192**	₱32,352,574

** Includes unbilled revenue from sale of real estate amounting to ₱46,501.0 million as at December 31, 2018.*

The terms and conditions of these receivables follow:

- Receivables from real estate buyers pertain mainly to sale of condominium and residential units at various terms of payment and are noninterest-bearing. Portions of these receivables have been assigned to local banks: on without recourse basis, ₱1,664.0 million and ₱4,924.0 million as at December 31, 2018 and 2017, respectively, and, on with recourse basis, nil and ₱515.0 million as at December 31, 2018 and 2017, respectively (see Note 21). The corresponding liability from the assignment of receivables on with recourse basis bears interest ranging from 4.5% to 6.5% in 2018 and 3.3% to 4.4% in 2017. The fair value of these assigned receivables and liability approximates cost.

  The transaction price allocated to the remaining performance obligations amounting to ₱12,929.0 million as at December 31, 2018 is expected to be recognized over the construction period ranging from one to five years.

- Trade receivables from tenants and management and service fee receivables are noninterest-bearing and are normally collectible on 30- to 90-day terms.

- Dividends receivables are noninterest-bearing and are normally collectible within the next financial year.

- The terms and conditions relating to Due from related parties are discussed in Note 21.

The movements in allowance for impairment loss follow:

	2018	2017
	(In Thousands)	
Balance at beginning of year	**₱1,054,498**	₱967,343
Provisions (Note 23)	**46,606**	93,080
Reversal and writeoff	**(67,064)**	(5,925)
Balance at end of year	**₱1,034,040**	₱1,054,498

The aging analyses of receivables follow:

	2018	2017
	(In Thousands)	
Neither past due nor impaired	**₱58,110,539**	₱44,969,317
Past due but not impaired:		
31-90 days	**551,833**	903,808
91-120 days	**306,219**	418,379
Over 120 days	**1,018,768**	1,915,140
Impaired	**1,034,040**	1,054,498
	₱61,021,399	₱49,261,142

Receivables other than those identified as impaired, are assessed by the Group's management as good and collectible.

11. **Other Current Assets**

This account consists of:

	2018	2017
	(In Thousands)	
Land and development (Note 15)	**₱29,486,964**	₱22,518,139
Prepaid taxes and other prepayments	**11,730,967**	9,658,898
Condominium and residential units for sale (Note 15)	**8,110,504**	8,829,343
Bonds and deposits	**6,601,305**	7,231,756
Receivable from banks	**4,158,765**	3,314,087
Non-trade receivables	**4,605,743**	4,230,014
Input tax	**2,439,164**	2,743,731
Accrued interest receivable (Note 21)	**359,714**	432,690
Escrow fund (Notes 16 and 21)	**157,719**	50,881
Derivative assets (Notes 28 and 29)	**–**	1,794,745
Others	**2,687,732**	2,673,902
	₱70,338,577	₱63,478,186

- Prepaid taxes and other prepayments consist of creditable tax certificates received by the Group and prepayments for insurance, real property taxes, rent, and other expenses which are normally utilized within the next financial period.

- Bonds and deposits pertain to down payments made to suppliers or contractors to cover preliminary expenses of the contractors in construction projects. The amounts are noninterest-bearing and are recouped upon every progress billing payment depending on the percentage of project accomplishment.

- Non-trade receivables include interest-bearing advances to third parties which are normally collectible within the next financial year (see Note 24).

- Receivables from banks are noninterest-bearing and are normally collectible on 30- to 90-day terms.

- Accrued interest receivable relates mostly to time deposits and is normally collected within the next financial year.

- Escrow fund pertains to amounts deposited with an escrow agent, a requisite for the issuance of temporary license to sell by the Housing and Land Use Regulatory Board (HLURB), pending issuance of a license to sell and certificate of registration. Amounts deposited include all amounts received from buyers including down payments, reservation and monthly amortization, among others (see Note 24).

12. Investments in Associate Companies and Joint Ventures

The movements in this account follow:

	2018	2017
	(In Thousands)	
Cost:		
Balance at beginning of year	**₱161,012,896**	₱113,180,533
Additions	**3,849,756**	47,832,363
Balance at end of year	**164,862,652**	161,012,896
Accumulated equity in net earnings:		
Balance at beginning of year	**84,014,473**	71,236,994
Effect of adoption of new standards	**2,817,523**	–
Equity in net earnings	**19,164,345**	16,640,597
Dividends received and others	**(4,423,746)**	(3,863,118)
Balance at end of year	**101,572,595**	84,014,473
Share in other comprehensive income of associate companies	**(6,697,742)**	(2,978,434)
Translation adjustment	**57,572**	65,492
	₱259,795,077	₱242,114,427

There is no impairment loss for any of these investments in 2018 and 2017.

The carrying amount of investments in associate companies amounted to ₱251,856.1 million and ₱235,028.2 million as at December 31, 2018 and 2017, respectively.

The associate companies and joint ventures of the Group follow:

Company	2018 Gross	2018 Effective	2017 Gross	2017 Effective	Principal Activities
Associates					
BDO Unibank, Inc. (BDO)	**46**	**45**	46	45	Financial services
China Banking Corporation (China Bank)	**23**	**20**	23	20	Financial services
Belle Corporation (Belle)	**27**	**26**	32	28	Real estate development and tourism
Atlas Consolidated Mining and Development Corporation	**34**	**34**	34	34	Mining
Sodexo Benefits and Rewards Services Philippines, Inc.	**40**	**40**	40	40	Retail
Fast Retailing Philippines, Inc.	**25**	**19**	25	19	Retail
CityMall Commercial Centers, Inc.	**34**	**34**	34	34	Real estate development and tourism
Premium Leisure Corp. (PLC)	**5**	**5**	5	5	Gaming
OCLP Holdings, Incorporated (OHI)	**40**	**20**	40	20	Real estate development
Feihua Real Estate (Chongqing) Company Ltd (FHREC)	**50**	**25**	50	25	Real estate development
Fitness Health & Beauty Holdings Corp.	**40**	**31**	40	31	Retail
Philippines Urban Living Solutions Inc. (PULSI)	**61**	**61**	61	61	Real estate development
Negros Navigation Co., Inc. (NENACO)	**34**	**34**	34	34	Integrated supply chain
Net Associates [(a)]	**34**	**34**	34	34	Real estate development
Goldilocks Bakeshop, Inc. (GBI)	**34**	**34**	–	–	Bakery products and other food items
Joint Ventures					
Waltermart Mall [(b)]	**51**	**25**	51	25	Shopping mall development
Metro Rapid Transit Service, Inc.	**51**	**25**	51	25	Transportation
ST 6747 Resources Corporation	**50**	**25**	50	25	Real estate development

Percentage of Ownership shown for 2018 and 2017.

The principal place of business and country of incorporation of the associate companies and joint ventures listed above is in the Philippines except for FHREC which was incorporated in China.

(a) *Net Associates consists of N-Park BGC Properties, Inc., N-Lima BGC Properties, Inc. and N-Park BGC Land, Inc.*
(b) *Waltermart Mall consists of Winsome Development Corporation, Willin Sales, Inc., Willimson, Inc., Waltermart Ventures, Inc. and WM Development Inc.*

BDO
In January 2017, BDO completed its stock rights offering and issued ₱60.0 billion new common shares. Consequently, the common shares held by the Group increased by 349.9 million shares.

China Bank
In May 2017, China Bank completed its stock rights offering and issued ₱15.0 billion new common shares. Consequently, the common shares held by the Group increased by 109.2 million shares. The shares were issued on May 4, 2017.

In October 2017, China Bank declared stock dividends equivalent to 8% of its outstanding capital stock. Consequently, the common shares held by the Group increased by 44.9 million shares. The shares were issued on November 3, 2017.

Belle
In August 2018, Belle repurchased 735.6 million of its shares from the market, thus reducing the Group’s effective ownership to 26.4%.

Atlas
In November 2017, the Group subscribed to additional 598.0 million shares, increasing its equity interest by 5.0%.

PLC
At various dates in 2017, the Group acquired additional 269.8 million shares equivalent to 0.85% equity interest.

PULSI
In April 2017, the Group acquired 674.9 million shares equivalent to 61.2% equity interest. PULSI is the developer and operator of MyTown dormitories.

NENACO
In March 2017, the Group acquired a minority stake in 2GO Group, Inc. ("2GO") through a 34.5% equity interest in its parent company, NENACO. 2GO is the largest integrated supply chain operator in the Philippines, offering shipping, freight forwarding, warehousing, and express delivery services.

Net Associates
Between September to October 2017, the Group acquired 34.0% equity interest each in N-Park BGC Properties, Inc., N-Lima BGC Properties, Inc., and N-Park BGC Land, Inc.

GBI
In June 2018, the Group acquired 34.1% equity interest in Goldilocks Bakeshop, Inc.

BDO
The condensed financial information of the Group's material associate, BDO, follows:

	2018	2017
	(In Millions)	
Total assets	**₱3,022,247**	₱2,668,104
Total liabilities	**2,694,098**	2,369,764
Total equity	**328,149**	298,340
Proportion of the Group's ownership	**46%**	46%
	150,949	137,813
Goodwill and others	**14,554**	20,475
Carrying amount of the Group's investment	**₱165,503**	₱158,288

	2018	2017	2016
		(In Millions)	
Interest income	**₱129,040**	₱99,795	₱82,037
Interest expense	**(30,748)**	(18,042)	(16,413)
Other expenses - net	**(65,653)**	(53,648)	(39,378)
Net income	**32,639**	28,105	26,246
Other comprehensive loss	**(4,727)**	(1,868)	(4,171)
Total comprehensive income	**₱27,912**	₱26,237	₱22,075
Group's share in net income	**₱15,101**	₱12,968	₱11,945
Group's share in total comprehensive income	**₱10,754**	₱12,845	₱10,394

The aggregate comprehensive income of associates and joint ventures that are not individually material follows:

	2018	2017	2016
		(In Millions)	
Share in net income	**₱4,063**	₱3,673	₱3,034
Share in other comprehensive income	**315**	315	154
Share in total comprehensive income	**₱4,378**	₱3,988	₱3,188

The fair value of investments in associate companies which are listed in the PSE follows:

	2018	2017
	(In Thousands)	
BDO	**₱280,162,825**	₱350,960,765
China Bank	**16,414,423**	20,169,752
Belle	**6,016,951**	12,960,341
Atlas	**3,103,238**	6,061,012
PLC	**21,168,058**	35,721,098

The fair value of these investments are categorized as Level 1 in the fair value hierarchy.

13. **Property and Equipment**

The movements in this account follow:

	Buildings and Improvements	Store Equipment and Improvements	Data Processing Equipment	Furniture, Fixtures and Office Equipment	Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Construction in Progress	Total
					(In Thousands)				
Cost									
As at December 31, 2016	₱11,977,397	₱3,045,780	₱6,309,182	₱8,363,062	₱6,942,380	₱15,534,101	₱1,095,571	₱1,208,798	₱54,476,271
Additions	437,660	193,512	532,493	681,080	691,625	1,583,663	25,411	922,547	5,067,991
Reclassifications	84,503	233,269	197,498	260,202	156,851	171,663	(286,072)	(778,239)	39,675
Disposals/retirements	(63,674)	(222,267)	(33,716)	(54,523)	(15,221)	(190,290)	(7,672)	(126,260)	(713,623)
As at December 31, 2017	12,435,886	3,250,294	7,005,457	9,249,821	7,775,635	17,099,137	827,238	1,226,846	58,870,314
Additions	495,484	137,221	650,192	984,300	1,087,083	1,089,021	399,380	1,609,808	6,452,489
Reclassifications	731,140	318,803	215,101	(640,623)	595,411	943,314	14,273	(1,311,435)	865,984
Disposals/retirements	(7,238)	(43,712)	(33,983)	(29,836)	(35,489)	(319,355)	(276,580)	(10,715)	(756,908)
As at December 31, 2018	**₱13,655,272**	**₱3,662,606**	**₱7,836,767**	**₱9,563,662**	**₱9,422,640**	**₱18,812,117**	**₱964,311**	**₱1,514,504**	**₱65,431,879**
Accumulated Depreciation and Amortization									
As at December 31, 2016	₱4,259,241	₱2,043,696	₱4,946,410	₱5,311,825	₱4,617,524	₱11,656,144	₱691,214	₱–	₱33,526,054
Depreciation and amortization (Note 23)	850,733	359,189	598,657	867,742	724,850	1,245,592	58,162	–	4,704,925
Reclassifications	(6,370)	10,391	35,354	(15,741)	6,573	(90,344)	(105,408)	–	(165,545)
Disposals/retirements	(58,366)	(208,111)	(27,888)	(45,984)	(13,283)	(173,223)	(7,672)	–	(534,527)
As at December 31, 2017	5,045,238	2,205,165	5,552,533	6,117,842	5,335,664	12,638,169	636,296	–	37,530,907
Depreciation and amortization (Note 23)	819,177	357,057	648,782	955,861	862,892	1,373,922	74,722	–	5,092,413
Reclassifications	14,631	42,348	30,070	(92,395)	52,707	165,661	3,137	–	216,159
Disposals/retirements	(5,766)	(41,873)	(32,274)	(25,906)	(32,862)	(310,433)	(160,153)	–	(609,267)
As at December 31, 2018	**₱5,873,280**	**₱2,562,697**	**₱6,199,111**	**₱6,955,402**	**₱6,218,401**	**₱13,867,319**	**₱554,002**	**₱–**	**₱42,230,212**
Net Book Value									
As at December 31, 2018	**₱7,781,992**	**₱1,099,909**	**₱1,637,656**	**₱2,608,260**	**₱3,204,239**	**₱ 4,944,798**	**₱410,309**	**₱1,514,504**	**₱23,201,667**
As at December 31, 2017	7,390,648	1,045,129	1,452,924	3,131,979	2,439,971	4,460,968	190,942	1,226,846	21,339,407

14. **Investment Properties**

The movements in this account follow:

	Land and Improvements	Buildings and Leasehold Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)		
Cost					
As at December 31, 2016	₱69,401,322	₱204,132,187	₱33,075,502	₱24,461,049	₱331,070,060
Effect of common control business combinations (Note 5)	–	1,047	929	–	1,976
Additions	3,766,662	4,279,223	1,776,554	15,984,057	25,806,496
Reclassifications	(4,912,312)	11,291,893	1,166,605	(7,702,271)	(156,085)
Translation adjustment	75,699	2,459,685	193,841	215,945	2,945,170
Disposals	(11,538)	(162,144)	(46,326)	–	(220,008)
As at December 31, 2017	68,319,833	222,001,891	36,167,105	32,958,780	359,447,609
Additions	4,331,055	8,484,409	3,024,922	11,713,859	27,554,245
Reclassifications	(1,450,188)	9,065,328	1,112,146	(5,889,917)	2,837,369
Translation adjustment	(5,531)	(166,451)	(12,678)	(4,949)	(189,609)
Disposals	(65,250)	(63,044)	(413,313)	(24,124)	(565,731)
As at December 31, 2018	**₱71,129,919**	**₱239,322,133**	**₱39,878,182**	**₱38,753,649**	**₱389,083,883**
Accumulated Depreciation, Amortization and Impairment Loss					
As at December 31, 2016	₱1,754,581	₱40,096,356	₱19,072,615	₱–	₱60,923,552
Effect of common control business combinations (Note 5)	–	527	769	–	1,296
Depreciation and amortization (Note 23)	207,478	6,320,224	2,667,722	–	9,195,424
Reclassifications	–	1,697	–	–	1,697
Translation adjustment	37,530	325,992	95,175	–	458,697
Disposals	(11,538)	(94,504)	(45,280)	–	(151,322)
As at December 31, 2017	1,988,051	46,650,292	21,791,001	–	70,429,344
Depreciation and amortization (Note 23)	226,776	6,654,052	3,067,430	–	9,948,258
Reclassifications	(26,656)	174,997	(153,171)	–	(4,830)
Translation adjustment	(9,243)	(68,853)	(14,860)	–	(92,956)
Disposals	(25,807)	(61,055)	(373,345)	–	(460,207)
As at December 31, 2018	**₱2,153,121**	**₱53,349,433**	**₱24,317,055**	**₱–**	**₱79,819,609**
Net Book Value					
As at December 31, 2018	**₱68,976,798**	**₱185,972,700**	**₱15,561,127**	**₱38,753,649**	**₱309,264,274**
As at December 31, 2017	66,331,782	175,351,599	14,376,104	32,958,780	289,018,265

As at December 31, 2018 and 2017, the allowance for impairment loss on land and improvements, and construction in progress amounted to ₱600.0 million. Portions of investment properties located in China with carrying value of P1,886.0 million and P1,898.0 million as at December 31, 2018 and 2017, respectively, were mortgaged as collateral to secure certain domestic borrowings in China (see Note 19).

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱46,222.4 million, ₱40,957.3 million and ₱36,161.7 million in 2018, 2017 and 2016, respectively. The corresponding direct operating expenses amounted to ₱32,701.3 million, ₱30,486.4 million and ₱27,166.5 million in 2018, 2017 and 2016, respectively.

Construction in progress includes construction costs incurred for new shopping malls, commercial building and redevelopment of existing malls amounting to ₱38,740.0 million and ₱33,183.0 million as at December 31, 2018 and 2017, respectively.

Construction contracts related to the construction of the above-mentioned projects amounted to ₱47,100.0 million and ₱40,511.0 million as at December 31, 2018 and 2017, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts are valued at ₱15,738.0 million and ₱14,571.0 million as at December 31, 2018 and 2017, respectively.

Interest capitalized to investment properties amounted to ₱2,681.0 million and ₱2,299.0 million as at December 31, 2018 and 2017, respectively. Capitalization rates used range from 2.4% to 5.0% in 2018 and 2.4% to 4.8% in 2017.

The fair value of substantially all investment properties amounting to ₱846,612.1 million was determined by accredited independent appraisers with appropriate qualifications and experience in the valuation of similar properties in the relevant locations. The fair value represents the price that would be received to sell the investment properties in an orderly transaction between market participants at the measurement date. While fair value of the investment properties was not determined as at December 31, 2018 and 2017, the Group believes that there were no conditions present in 2018 and 2017 that would significantly reduce the fair value of investment properties from that determined in the most recent valuation.

The significant assumptions used in the valuations follow:

Discount rate	8.0%–11.0%
Capitalization rate	5.8%–8.5%
Average growth rate	2.3%–12.1%

In conducting the appraisal, the independent appraisers mainly used the Income Approach. The Income Approach is based on the premise that the value of a property is directly related to the income it generates.

The fair value of investment properties is categorized as Level 3 since valuation is based on unobservable inputs.

15. Land and Development and Condominium and Residential Units for Sale

Land and Development

Land and development includes the cost of land as well as construction cost of ongoing residential projects.

The movements in “Land and development” accounted as real estate inventories follow:

	2018	2017
	(In Thousands)	
Balance at beginning of year	**₱62,698,284**	₱51,054,084
Reclassification to land and development - noncurrent, accounted as investment property	**(36,484,925)**	(27,052,003)
Development cost incurred	**20,358,758**	16,762,985
Borrowing cost capitalized	**4,047**	38,240
Cost of real estate sold	**(15,390,471)**	(10,444,511)
Transfer to condominium and residential units for sale	**(1,733,711)**	(5,690,563)
Reclassification and others	**34,982**	(2,150,093)
Balance at end of year	**₱29,486,964**	₱22,518,139

Included in land and development accounted as real estate inventories are contract fulfillment assets amounting to ₱1,232.0 million as at December 31, 2018, representing the unamortized portion of land cost.

The movements in land and development - noncurent accounted as investment property follow:

	2018	2017
	(In Thousands)	
Reclassification from land and development - noncurrent, accounted as real estate inventories	**₱36,484,925**	₱27,052,003
Land acquisitions	**17,443,522**	13,128,142
	₱53,928,447	₱40,180,145

The average rates used to determine the amount of borrowing cost eligible for capitalization range from 4.6% to 5.1% in 2018 and 3.5% to 4.6% in 2017.

Not included in land and development - current and noncurrent is ₱51,097.0 million and ₱53,324.0 million as at December 31, 2018 and 2017, respectively, representing the estimated cost to complete the projects.

Land and development is stated at cost. There is no allowance for inventory write-down as at December 31, 2018 and 2017.

Condominium and Residential Units for Sale
The movements in this account follow:

	2018	2017
	(In Thousands)	
Balance at beginning of year	**₱8,829,343**	₱7,823,383
Transfer from land and development	**1,733,711**	5,690,563
Development cost incurred	**1,644**	38,478
Cost of real estate sold	**(2,461,799)**	(4,815,802)
Repossessed inventories	**7,605**	92,721
Balance at end of year (Note 11)	**₱8,110,504**	₱8,829,343

The condominium and residential units for sale are stated at cost as at December 31, 2018 and 2017.

16. **Intangibles and Other Noncurrent Assets**

Intangible Assets
This account consists of:

	2018	2017
	(In Thousands)	
Goodwill	**₱17,398,491**	₱17,398,491
Less accumulated impairment loss	**91,620**	91,620
Net book value	**17,306,871**	17,306,871
Trademarks and brand names	**8,163,825**	8,284,361
	₱25,470,696	₱25,591,232

Goodwill is attributable mainly to SM Prime, Supervalue, Inc., Super Shopping Market, Inc., Net Subsidiaries and Waltermart Supermarket, Inc.

Trademarks and brand names include the following:

a. Brand names of SM Supermarket and SM Hypermarket that were acquired in a business combination in 2006. These are assessed to have an indefinite life and valued using the Relief-from-Royalty Method. The royalty rate used was 3.5%, the prevailing royalty rate in 2006 in the retail assorted category.

b. Rights, title and interest in the trademark of Cherry Foodarama, Inc. that was acquired in 2015 and assessed to have a definite useful life of 20 years.

The recoverable amount of goodwill, trademarks and brand names have been determined based on value-in-use calculations using the cash flow projections from the financial budgets approved by senior management covering a five-year period and fair value less cost of disposal calculations of the underlying net assets of the CGUs.

The calculation of value-in-use is most sensitive to the following assumptions:

Revenue. Revenue forecasts are management's best estimates considering factors such as index growth to market, customer projections and economic factors.

Pre-tax discount rates. Discount rates reflect the current market assessment of the risks to each CGU and are estimated based on the weighted average cost of capital for the industry. The rates are further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted. Pre-tax discount rates applied to cash flow projections ranged from 14.8% to 16.7% and 13.4% to 14.4% as at December 31, 2018 and 2017, respectively.

Fair value less cost of disposal. The fair value of the assets and liabilities of the CGUs were determined by independent appraisers and in reference to the available market price for quoted instruments.

Management assessed that no reasonably possible change in pre-tax discount rates, future cash inflows and fair values would cause the carrying value of goodwill in 2018 and 2017 to materially exceed its recoverable amount.

Other Noncurrent Assets
This account consists of:

	2018	2017
	(In Thousands)	
Bonds and deposits	**₱65,893,795**	₱33,522,994
Receivables from real estate buyers* (Note 10)	**26,232,167**	15,854,070
Land use rights	**10,403,350**	10,630,926
Long-term notes (Notes 21 and 29)	**6,739,026**	6,399,410
Derivative assets (Notes 21 and 29)	**1,566,788**	3,546,694
Deferred input VAT	**1,689,045**	1,798,706
Defined benefit asset (Note 25)	**73,469**	376,448
Escrow fund (Note 21)	**132,460**	132,460
Others	**2,705,007**	2,293,325
	₱115,435,107	₱74,555,033

** Pertains to the noncurrent portion of unbilled revenue from sales of real estate.*

- Bonds and deposits include other assets used to secure certain obligations of the Group as well as deposits for parcels of land where some of its malls are located. These are not re-measured at amortized cost.

- Long-term notes pertain to a 7-year loan amounting to US$150.7 million that was extended to Carmen Copper Corporation, a wholly owned subsidiary of Atlas, in March 2017. The loan bears a fixed interest that starts at 5.0% and escalates annually up to 10.0%, payable quarterly.

- Included under “Land use rights” account are certain parcels of real estate properties planned for residential development in accordance with the cooperative contracts entered into by SM Prime with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) in March 2007. The value of these real estate properties was not part of the consideration paid by SM Prime to Grand China and Oriental Land. Accordingly, the assets were recorded at carrying value under “Other noncurrent assets” account and a corresponding liability equivalent to the same amount, which is shown as part of “Tenants’ deposits and others” account in the consolidated balance sheets. Portions of land use rights with carrying amount of ₱319.0 million and ₱327.7 million as at December 31, 2018 and 2017, respectively, are used as collateral to secure certain domestic borrowings in China (see Note 19).

- Escrow fund pertains mainly to funds deposited by the Parent Company in the account of an escrow agent as required by the SEC, in connection with the corporate restructuring in 2013.

17. Bank Loans

This account consists of:

	2018	2017
	(In Thousands)	
Peso-denominated:		
Parent Company	**₱4,850,000**	₱10,200,000
Subsidiaries (Note 7)	**14,035,465**	13,972,965
	₱18,885,465	₱24,172,965

These loans bear interest ranging from 2.9% to 6.0% in 2018 and 2.5% to 3.5% in 2017.

These loans have maturities of less than one year. Interest on bank loans is disclosed in Note 24.

18. Accounts Payable and Other Current Liabilities

This account consists of:

	2018	2017
	(In Thousands)	
Trade	**₱70,934,888**	₱60,399,742
Accrued expenses	**11,697,441**	11,060,797
Nontrade	**6,230,139**	7,183,147
Tenants and customers' deposits*	**12,699,887**	10,208,533
Payable arising from acquisition of land	**7,974,792**	4,252,991
Payable to government agencies	**4,618,623**	4,438,597
Accrued interest (Note 21)	**3,058,294**	2,422,265
Subscriptions payable	**2,021,790**	2,396,790
Due to related parties (Note 21)	**1,362,505**	828,679
Gift checks redeemable and others	**4,179,360**	3,369,914
	₱124,777,719	₱106,561,455

** Includes unearned revenue from sales of real estate amounting to ₱4,195.3 million as at December 31,2018.*

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors. These are noninterest-bearing and are normally settled on 30-to 60-day terms.
- Accrued expenses pertain to accrual for selling, general and administrative expenses which are normally settled within the next financial year.
- Nontrade payables, accrued interest, subscriptions payable and others are expected to be settled within the next financial year.
- Tenants and customers' deposits pertain to the excess of collections from real estate buyers over the related revenue recognized based on the percentage of completion method, as well as non-refundable reservation fees.
- Payable arising from acquisition of land is expected to be settled within the next financial year.
- Payable to government agencies mainly consists of output tax which is normally settled within the next financial year.
- The terms and conditions relating to Due to related parties is discussed in Note 21.
- Gift checks are redeemable at face value.

19. Long-term Debt

This account consists of:

	Availment	Maturity	Interest Rate/Term	Security	2018	2017
					(In Thousands)	
Parent Company						
U.S. dollar-denominated	October 17, 2012 - July 26, 2018	May 15, 2018 - June 10, 2024	Fixed 4.3%-4.9%; Floating six-month and three-month LIBOR + margin; semi-annual and quarterly	Unsecured	**₱65,097,129**	₱66,531,725
Peso-denominated	July 16, 2012 - December 27, 2018	January 14, 2019 - August 8, 2025	Fixed 4.4%-6.9%; three-month PHP BVAL + margin; semi-annual and quarterly	Unsecured	**78,864,170**	73,171,870
Subsidiaries						
U.S. dollar-denominated	February 14, 2013 - July 30, 2018	January 29, 2018 - June 14, 2023	LIBOR + spread; semi-annual	Unsecured	**41,975,402**	54,387,944
China Yuan Renminbi-denominated	July 28, 2015 - October 16, 2017	December 31, 2019 - October 16, 2022	CBC rate less 10.0%; quarterly	Secured	**3,118,514**	3,445,302
Peso-denominated	January 12, 2012 - September 21, 2018	August 28, 2018 - July 26, 2026	Fixed 3.8%-7.6%; PDST-R2 + margin	Unsecured	**179,751,217**	136,974,407
					368,806,432	334,511,248
Less debt issue cost					**1,770,189**	1,658,247
					367,036,243	332,853,001
Less current portion					**61,480,887**	40,297,133
					₱305,555,356	₱292,555,868

BVAL – Bloomberg Valuation
LIBOR – London Interbank Offered Rate
PDST-R2 – Philippine Dealing System Treasury Reference Rate – PM
CBC – Central Bank of China

Debt Issue Cost

The movements in unamortized debt issue cost follow:

	2018	2017
	(In Thousands)	
Balance at beginning of year	**₱1,658,247**	₱1,817,683
Amortization	**(580,114)**	(627,940)
Additions	**692,056**	468,504
Balance at end of year	**₱1,770,189**	₱1,658,247

Repayment Schedule

The repayment schedule of long-term debt as at December 31, 2018 follows:

	Gross Debt	Debt Issue Cost	Net
		(In Thousands)	
Within 1 year	₱61,556,496	₱75,609	₱61,480,887
Over 1 year to 5 years	224,222,915	1,445,238	222,777,677
Over 5 years	83,027,021	249,342	82,777,679
	₱368,806,432	₱1,770,189	₱367,036,243

Covenants
The long-term debt of the Group is covered with certain covenants including adherence to financial ratios. The Parent Company's loan covenants include adherence to certain financial ratios namely: (1) debt-to-equity ratio not to exceed 80:20, and, (2) current ratio at a minimum of 0.30, and, certain restrictions with respect to material change in ownership or control. As at December 31, 2018 and 2017, the Group is in compliance with the terms of its debt covenants.

20. Equity

Capital Stock

a. Common stock

	Number of Shares	
	2018	2017
Authorized - ₱10 par value per share	**2,790,000,000**	2,790,000,000
Issued and subscribed	**1,204,582,867**	1,204,582,867

As at December 31, 2018 and 2017, the Parent Company is compliant with the minimum public float as required by the PSE.

Information on the Parent Company's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Authorized Shares	Number of Shares Issued	Issue/Offer Price
March 22, 2005		105,000,000	₱250
November 6, 2007		56,000,000	218
June 14, 2007	100,000,000		10
April 25, 2007 (4.3% stock dividends)		25,023,038	10
October 4, 2010 to March 13, 2012			
Conversion of convertible bonds		2,851,582	453
September 24, 2012		9,100,000	700
January 23, 2013 to July 5, 2013			
Conversion of convertible bonds		7,651,851	781
June 14, 2013	500,000,000		10
June 24 and July 12, 2013			
(25.0% stock dividends)		157,657,314	10
July 18, 2013 to November 1, 2013			
Conversion of convertible bonds		738,483	625
August 1, 2013		7,250,000	900
August 27, 2014			
Conversion of convertible bonds		68,378	625
January 15, 2015 to April 9, 2015			
Conversion of convertible bonds		6,714,759	625
July 15, 2016	1,600,000,000		10
July 20, 2016 (50.0% stock dividends)		401,527,462	10

The total number of shareholders of the Parent Company is 1,255 and 1,252 as at December 31, 2018 and 2017, respectively.

b. Redeemable preferred shares

	Number of Shares	
	2018	2017
Authorized - ₱10 par value per share	**10,000,000**	10,000,000

There are no issued and subscribed preferred shares as at December 31, 2018 and 2017.

Equity Adjustments from Common Control Transactions
Equity adjustments from common control transactions include the following:

- Acquisition of various SM China Companies by SM Prime in 2007.
- Acquisition of various service companies by SM Retail in 2009.
- Corporate restructuring to consolidate the Group's real estate subsidiaries and real estate assets in SM Prime in 2013.
- Merger of SM Retail with other retail affiliates in 2016 (see Note 5).
- SM Prime common control business acquisitions in 2016 and 2017 (see Note 5).

These acquisitions were considered as a combination of businesses under common control for which the pooling of interests method was applied in the preparation of the consolidated financial statements.

Retained Earnings

- Appropriated

Following are the appropriations approved by the BOD:

	Date of BOD Approval	Amount
		(In Thousands)
Balance as at January 1, 2015		₱27,000,000
Reversal	November 4, 2015	(18,000,000)
Addition	November 4, 2015	27,000,000
Reversal	November 8, 2017	(27,800,000)
Addition	November 8, 2017	28,800,000

Retained earnings appropriated as at December 31, 2018 is intended for the payment of certain long-term debts and new investments as follows:

	Timeline	Amount
		(In Thousands)
Debt service	2019 - 2023	₱27,000,000
Investments	2019 - 2021	10,000,000
		₱37,000,000

- Unappropriated

The Parent Company's cash dividend declarations in 2018 and 2017 follow:

Declaration Date	Record Date	Payment Date	Per Share	Total
				(In Thousands)
April 25, 2018	**May 10, 2018**	**May 24, 2018**	**₱8.20**	**₱9,877,566**
April 26, 2017	May 11, 2017	May 25, 2017	7.77	9,359,609

Unappropriated retained earnings include the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱202,669.4 million and ₱176,587.5 million as at December 31, 2018 and 2017, respectively, that is not available for distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.

The retained earnings of the Parent Company available for dividend declaration amounted to ₱17,196.9 million and ₱15,934.9 million as at December 31, 2018 and 2017, respectively.

21. Related Party Disclosures

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The significant transactions with related parties follow:

- Rent

  The Group has existing lease agreements for office and commercial spaces with related companies (retail and banking group and other related parties under common stockholders).

- Management and Service Fees

  The Parent Company and SM Retail receive management and service fees from retail entities under common stockholders for management, consultancy, manpower and other services.

- Dividend Income

  The Group earns dividend income from certain related parties under common stockholders.

- Cash Placements and Loans

  The Group has certain bank accounts and cash placements as well as bank loans and debts with BDO and China Bank. Such accounts earn interest at prevailing market rates.

- Notes Receivable

  The Group has certain notes receivable from Carmen Copper Corporation (see Notes 16 and 28).

- Others

  The Group, in the normal course of business, has outstanding receivables from and payables to related companies which are unsecured and normally settled in cash.

The related party transactions and outstanding balances follow:

	Transaction Amount			Outstanding Amount			
	2018	2017	2016	**2018**	2017	Terms	Conditions
			(In Thousands)				
Banking Group							
Cash placement and investment in marketable securities				**₱89,890,525**	₱98,656,653	Interest-bearing 1.0% to 4.2%	Unsecured; no impairment
Interest receivable				**227,606**	329,829	–	–
Interest income	**₱2,253,257**	₱2,587,312	₱2,401,642			–	–
Interest-bearing debt				**31,446,016**	24,493,678	Interest-bearing 1.8% to 6.6%	Unsecured
Interest payable				**65,477**	59,429	–	–
Interest expense	**1,441,884**	984,569	535,828			–	–
Rent receivable				**126,809**	112,099	Noninterest-bearing	Unsecured; no impairment
Rent income	**943,474**	856,149	769,720			–	–
Receivable financed	**1,663,822**	4,923,847	3,297,217			Without recourse	Unsecured
Dividends receivable				**2,587**	–	Noninterest-bearing	Unsecured; no impairment
Bonds and deposits				**18,403,000**	17,475,500	Interest-bearing 4.3% to 4.5%	Unsecured; no impairment
Management and service fee receivable				**14,469**	23,933	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	**4,205**	7,892	4,368			–	–
Escrow fund				**284,160**	183,341	Interest-bearing 1.6% to 7.3%	Unsecured; no impairment
Retail and Other Entities							
Rent receivable				**256,615**	507,849	Noninterest-bearing	Unsecured; no impairment
Rent income	**1,926,478**	1,746,184	1,516,273			–	–
Management and service fee receivable				**937,255**	275,148	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	**1,233,740**	489,437	393,564			–	–
Dividends receivable				**–**	99,180	Noninterest-bearing	Unsecured; no impairment
Due from related parties				**953,010**	655,580	Noninterest-bearing	Unsecured; no impairment
Due to related parties				**1,362,505**	828,679	Noninterest-bearing	Unsecured
Interest receivable				**9,360**	8,888	–	–
Interest income	**345,700**	366,183	316,633			–	–
Notes receivable				**6,739,026**	6,399,410	Interest-bearing 5.0% to 10.0%	Unsecured; no impairment

Terms and Conditions of Transactions with Related Parties

The Group did not make any provision for impairment loss relating to amounts owed by related parties.

Compensation of Key Management Personnel
The aggregate compensation and benefits relating to key management personnel in 2018, 2017 and 2016 consist of short-term employee benefits amounting to ₱2,544.5 million, ₱2,043.7 million and ₱1,740.2 million, respectively, and post-employment benefits amounting to ₱338.2 million, ₱279.9 million and ₱196.7 million, respectively.

22. Cost of Merchandise Sales

This account consists of:

	2018	2017	2016
		(In Thousands)	
Merchandise inventories at beginning of year	**₱27,778,741**	₱25,825,290	₱21,589,701
Purchases	**242,959,699**	216,448,154	206,715,479
Total goods available for sale	**270,738,440**	242,273,444	228,305,180
Less merchandise inventories at end of year	**31,836,333**	27,778,741	25,825,290
	₱238,902,107	₱214,494,703	₱202,479,890

23. Selling, General and Administrative Expenses

This account consists of:

	2018	2017	2016
		(In Thousands)	
Personnel cost (Note 21)	**₱23,948,881**	₱19,725,683	₱18,293,812
Utilities	**18,048,050**	15,691,055	13,730,330
Depreciation and amortization (Notes 13, 14 and 16)	**15,161,207**	14,020,884	12,861,154
Taxes and licenses	**9,783,204**	8,816,366	6,942,846
Outside services	**8,339,162**	8,157,459	6,220,300
Rent (Note 27)	**7,668,449**	6,723,855	6,233,281
Marketing and selling	**5,847,641**	5,166,973	4,473,268
Repairs and maintenance	**2,977,334**	2,791,300	2,358,071
Supplies	**2,584,725**	2,363,417	2,097,055
Provisions - net (Note 10)	**2,207,458**	1,488,855	1,335,461
Transportation and travel	**1,152,212**	1,034,751	912,614
Pension (Note 25)	**962,405**	667,572	543,924
Insurance	**807,540**	734,322	753,134
Data processing	**664,778**	614,141	414,238
Professional fees	**579,945**	444,687	353,108
Entertainment, representation and amusement	**519,664**	373,296	380,675
Communications	**353,108**	333,149	266,414
Donations	**348,486**	252,540	648,669
Management fees (Note 21)	**183,884**	207,180	130,203
Others	**4,280,945**	2,734,945	3,413,947
	₱106,419,078	₱92,342,430	₱82,362,504

24. **Interest Income and Interest Expense**

The sources of interest income and interest expense follow:

	2018	2017	2016
		(In Thousands)	
Interest income on:			
Time deposits and other noncurrent assets (Notes 8 and 16)	**₱1,551,959**	₱1,967,629	₱2,063,883
Cash in banks and temporary investments (Note 7)	**1,706,201**	1,137,524	958,162
Financial assets (Note 9)	**65,095**	340,984	348,982
Others (Note 11)	**430,886**	557,364	354,490
	₱3,754,141	₱4,003,501	₱3,725,517
Interest expense on:			
Long-term debt (Note 19)	**₱14,857,203**	₱13,217,491	₱10,907,650
Bank loans (Note 17)	**1,399,546**	819,017	425,526
Others	**318,260**	1,544,311	695,703
	₱16,575,009	₱15,580,819	₱12,028,879

25. **Pension Benefits**

The Group has funded defined benefit pension plans covering all regular and permanent employees.

Net benefit expense (included under "Selling, general and administrative expenses") consists of:

	2018	2017	2016
		(In Thousands)	
Current service cost	**₱959,134**	₱728,182	₱577,642
Net interest cost (income)	**2,681**	(12,097)	(33,718)
Past service cost - curtailment	**590**	(48,513)	–
	₱962,405	₱667,572	₱543,924

Changes in the net defined benefit liability and asset follow:

- Net Defined Benefit Liability

	Present value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized due to Asset Limit	Defined Benefit Liability (Asset)
			(In Thousands)	
As at December 31, 2016	₱3,264,621	₱2,670,218	₱–	₱594,403
Net benefit expense (Note 23):				
Current service cost	338,845	–	–	338,845
Net interest cost	212,424	186,646	34	25,812
	551,269	186,646	34	364,657

(Forward)

	Present value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized due to Asset Limit	Defined Benefit Liability (Asset)
			(In Thousands)	
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	₱–	(₱51,791)	₱–	₱51,791
Actuarial changes arising from:				
Changes in financial assumptions	28,914	–	–	28,914
Changes in demographic assumptions	(15,578)	–	–	(15,578)
Experience adjustment	81,964	–	–	81,964
Others	4,078	–	(3,878)	200
	99,378	(51,791)	(3,878)	147,291
Reclassifications from defined benefit assets	330,208	384,068	–	(53,860)
Actual contributions	–	437,767	–	(437,767)
Benefits paid	(106,635)	(104,634)	–	(2,001)
Transfer to (from) related parties	15,737	15,815	–	(78)
Other adjustments	–	–	3,844	3,844
As at December 31, 2017	4,154,578	3,538,089	–	616,489
Net benefit expense (Note 23):				
Current service cost	**796,527**	–	–	**796,527**
Net interest cost	**406,544**	**395,213**	**193**	**11,524**
	1,203,071	**395,213**	**193**	**808,051**
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	**(713,607)**	–	**713,607**
Actuarial changes arising from:				
Changes in financial assumptions	**(1,810,481)**	–	–	**(1,810,481)**
Changes in demographic assumptions	**266,954**	–	–	**266,954**
Experience adjustment	**2,055,346**	–	–	**2,055,346**
Others	–	–	**(1,644)**	**(1,644)**
	511,819	**(713,607)**	**(1,644)**	**1,223,782**
Reclassifications from defined benefit assets	**2,889,077**	**3,038,695**	–	**(149,618)**
Actual contributions	–	**981,148**	–	**(981,148)**
Benefits paid	**(393,096)**	**(393,096)**	–	–
Transfer to related parties	**6,670**	**6,670**	–	–
Other adjustments	**7,965**	**590**	**1,451**	**8,826**
As at December 31, 2018	**₱8,380,084**	**₱6,853,702**	**₱–**	**₱1,526,382**

- Net Defined Benefit Asset

	Present value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized Due to Asset Limit	Defined Benefit Liability (Asset)
			(In Thousands)	
As at December 31, 2016	₱3,661,801	₱4,380,101	₱88,642	(₱629,658)
Net benefit expense (Note 23):				
Current service cost	389,337	–	–	389,337
Net interest cost (income)	199,148	241,581	4,524	(37,909)
Past service cost - curtailment	(48,513)	–	–	(48,513)
	539,972	241,581	4,524	302,915
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	(50,936)	–	50,936
Actuarial changes arising from:				
Changes in financial assumptions	71,891	–	–	71,891
Changes in demographic assumptions	(22,600)	–	–	(22,600)
Experience adjustment	224,481	–	–	224,481
Others	–	–	(55,716)	(55,716)
	273,772	(50,936)	(55,716)	268,992

(Forward)

	Present value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized Due to Asset Limit	Defined Benefit Liability (Asset)
			(In Thousands)	
Reclassifications from defined benefit liabilities	(₱331,118)	(₱376,942)	₱–	₱45,824
Effect of common control business combination (Note 5)	23,496	16,604	–	6,892
Actual contributions	–	333,977	–	(333,977)
Benefits paid	(121,668)	(121,668)	–	–
Transfer from the plan	(43,376)	(43,376)	–	–
Amount not recognized due to asset limit	–	–	15	15
Other adjustments	–	–	(37,451)	(37,451)
As at December 31, 2017	4,002,879	4,379,341	14	(376,448)
Net benefit expense (Note 23):				
Current service cost	**162,607**	**–**	**–**	**162,607**
Net interest cost (income)	**72,688**	**83,045**	**1,514**	**(8,843)**
Past service cost - curtailment	**590**	**–**	**–**	**590**
	235,885	**83,045**	**1,514**	**154,354**
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	**–**	**(162,462)**	**–**	**162,462**
Actuarial changes arising from:				
Changes in financial assumptions	**(293,471)**	**–**	**–**	**(293,471)**
Changes in demographic assumptions	**(1,827)**	**–**	**–**	**(1,827)**
Experience adjustment	**188,577**	**–**	**–**	**188,577**
Others	**–**	**–**	**33**	**33**
	(106,721)	**(162,462)**	**33**	**55,774**
Reclassifications from defined benefit liabilities	**(2,766,690)**	**(3,035,117)**	**–**	**268,427**
Effect of common control business combination (Note 5)	**23,496**	**16,604**	**–**	**6,892**
Actual contributions	**–**	**196,152**	**–**	**(196,152)**
Benefits paid	**(33,148)**	**(33,148)**	**–**	**–**
Transfer from the plan	**839**	**839**	**–**	**–**
Amount not recognized due to asset limit	**–**	**–**	**15,250**	**15,250**
Other adjustments	**–**	**–**	**(1,566)**	**(1,566)**
As at December 31, 2018	**₱1,356,540**	**₱1,445,254**	**₱15,245**	**(₱73,469)**

The principal assumptions used in determining the pension obligations of the Group follow:

	2018	2017
Discount rate	**5.0%–8.0%**	5.0%–6.0%
Future salary increases	**2.0%–10.0%**	4.0%–10.0%

The assets of the Pension Plan are held by a trustee bank, BDO, a related party. The investing decisions of the Plan are made by the Board of Trustees of the Pension Plan. The carrying amounts, which approximate the estimated fair values of the Plan assets, follow:

	2018	2017
	(In Thousands)	
Cash and cash equivalents	**₱816,168**	₱532,130
Investment in debt and other securities	**2,214,942**	2,025,911
Investment in common trust funds	**2,720,038**	2,867,023
Investment in equity securities	**200,046**	333,123
Investment in government securities	**2,298,150**	1,991,308
Others	**49,612**	167,935
	₱8,298,956	₱7,917,430

- Cash and cash equivalents include regular savings and time deposits.
- Investments in debt and other securities, consisting of both short-term and long-term corporate loans, notes and bonds, bear interest ranging from 4.0% to 8.8% and 3.5% to 6.8% in 2018 and 2017, respectively. These have maturities from May 2019 to October 2025 and June 2018 to October 2025 in 2018 and 2017, respectively.
- Investment in common trust funds consists of unit investment trust fund placements.
- Investment in equity securities consists of listed and unlisted equity securities.
- Investments in government securities consists of retail treasury bonds. These bonds bear interest ranging from 2.1% to 8.8% in 2018 and 2017, respectively. These bonds have maturities from February 2019 to May 2030 and March 2018 to May 2030 and January 2016 to December 2035 in 2018 and 2017, respectively.
- Others pertain to accrued interest income on cash deposits and debt securities held by the Plan.

The outstanding balances and transactions of the Pension Plan with the trustee bank follow:

	2018	2017
	(In Thousands)	
Balances:		
Cash and cash equivalents	**₱816,168**	₱532,130
Investment in common trust funds	**2,720,038**	2,867,023
Transactions:		
Interest income from cash and cash equivalents	**11,702**	12,313
Gains (loss) from investment in common trust funds	**(15,627)**	459,883

The Group expects to contribute about ₱1,293.3 million to its Pension Plan in 2019.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2018, assuming all other assumptions were held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
		(In Thousands)
Discount rates	50	(₱331,311)
	(50)	346,601
Future salary increases	100	972,807
	(100)	(815,430)
No attrition rate	–	1,921,376

The average duration of the Group's defined benefit obligation is 4 to 28 years in 2018 and 3 to 29 years in 2017.

The maturity analysis of the undiscounted benefit payments follows:

	2018	2017
	(In Thousands)	
Year 1	**₱717,315**	₱869,893
Year 2	**379,992**	312,845
Year 3	**466,365**	408,137
Year 4	**372,793**	491,324
Year 5	**421,637**	481,444
Year 6 – 10	**2,575,923**	3,244,244

The Plan assets are not matched to any specific defined benefit obligation.

26. Income Tax

The details of the Group's deferred tax assets and liabilities follow:

	2018	2017
	(In Thousands)	
Deferred tax assets:		
Excess of fair values over cost of investment properties	**₱1,167,853**	₱1,184,476
NOLCO	**508,314**	563,576
Accrued leases	**651,103**	643,530
Provision for doubtful accounts and others	**807,565**	584,524
Unamortized past service cost and defined benefit liability	**220,270**	139,653
MCIT	**3,394**	8,370
	3,358,499	3,124,129
Deferred tax liabilities:		
Appraisal increment on investment property	**3,088,393**	3,162,858
Trademarks and brand names	**1,879,000**	1,879,000
Capitalized interest	**1,807,409**	1,840,286
Unrealized gross profit on sale of real estate	**2,011,975**	1,356,190
Excess of fair values over cost of equity instruments	**273,146**	–
Unamortized past service cost and defined benefit asset	**35,853**	154,416
Accrued/deferred rent income	**107,640**	127,105
Others	**239,790**	144,039
	9,443,206	8,663,894
Net deferred tax liabilities	**₱6,084,707**	₱5,539,765

The net deferred tax assets and liabilities are presented in the consolidated balance sheets as follows:

	2018	2017
	(In Thousands)	
Deferred tax assets	**₱2,726,155**	₱2,489,814
Deferred tax liabilities	**8,810,862**	8,029,579
	₱6,084,707	₱5,539,765

The unrecognized deferred tax assets from the deductible temporary differences and carryforward benefits of NOLCO and MCIT amounted to ₱4,429.6 million and ₱3,821.6 million as at December 31, 2018 and 2017, respectively.

The reconciliation between the statutory tax rates and the Group's effective tax rate on income before income tax follows:

	2018	2017	2016
Statutory income tax rate	**30%**	30%	30%
Income tax effect of reconciling items:			
Equity in net earnings of associate companies and joint ventures	**(8)**	(8)	(8)
Interest income subjected to final tax	**(2)**	(2)	(2)
Change in unrecognized deferred tax assets	**–**	1	(1)
Others	**1**	–	–
Effective income tax rates	**21%**	21%	19%

27. Lease Agreements

As Lessor. The Group's lease agreements with its tenants are generally granted for a term of one to twenty-five years. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay a fixed monthly rent which is calculated with reference to a fixed sum per square meter of area leased except for a few tenants which pay either a fixed monthly rent or a percentage of gross sales, whichever is higher.

The future minimum lease receivables under the non-cancellable operating leases as at December 31 follow:

	2018	2017
	(In Millions)	
Within one year	**₱6,944**	₱5,230
After one year but not more than five years	**18,729**	11,853
More than five years	**6,517**	7,077
	₱32,190	₱24,160

As Lessee. The Group leases certain parcels of land where some of its malls are situated. The terms of the lease are for periods ranging from fifteen to fifty years, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a certain percentage of gross rental income or a certain fixed amount, whichever is higher.

The Group also has various non-cancellable operating lease commitments with lease periods ranging from two to thirty years, mostly containing renewal options. Some lease contracts provide for the payment of additional rental based on a certain percentage of sales of the sub-lessees.

The future minimum lease payables under the non-cancellable operating leases as at December 31 follow:

	2018	2017
	(In Millions)	
Within one year	**₱2,470**	₱2,047
After one year but not more than five years	**4,283**	5,755
More than five years	**26,464**	26,966
	₱33,217	₱34,768

Tenant's deposits amounted to ₱19,774.5 million and ₱17,355.2 million as at December 31, 2018 and 2017, respectively.

28. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, consist of cash and cash equivalents, time deposits, investments held for trading, AFS investments, non-trade receivables, bonds and deposits, receivable from banks, accrued interest receivable, bank loans and long-term debt. The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial instruments such as receivables and accounts payable and other current liabilities, which arise directly from its operations.

The Group also enters into derivative transactions, mainly, cross-currency swaps, interest rate swaps, foreign currency call options and non-deliverable forwards. The purpose is to manage the interest rate and foreign currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments follow:

- *Interest rate risk.* Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is mostly done at intervals of three months or six months.

- *Foreign currency risk.* The Group's exposure to foreign currency risk arises as the Parent Company and SM Prime have significant investments and debt issuances which are denominated in U.S. Dollars and China Yuan Renminbi.

- *Liquidity risk.* Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.

- *Credit risk.* Refers to the risk that a borrower will default on any type of debt by failing to make the required payments.

- *Equity price risk.* The Group's exposure to equity price risk pertains to its investments in quoted equity shares which are classified as equity investments at FVOCI or AFS investments in the consolidated balance sheets. Equity price risk arises from changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

The BOD reviews and approves the policies for managing each of these risks. The Group's accounting policies in relation to derivatives are set out in Note 3.

Interest Rate Risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations (see Note 19).

The Group maintains a conservative financing strategy and has preference for longer tenor credit with fixed interest rate that matches the nature of its investments. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps and cross-currency swaps in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed notional amount. The interest rate swaps economically hedge the underlying debt obligations. The cross-currency swaps were designated by the Group under cash flow hedge accounting.

As at December 31, 2018 and 2017, after taking into account the effect of the swaps, approximately 81.1% and 83.0%, respectively of the Group's borrowings, net of debt issue cost, is kept at fixed interest rates.

Interest Rate Risk Sensitivity Analysis. The sensitivity analysis for a reasonably possible change in interest rates, with all other variables held constant, of the Group's interest-bearing debt with floating interest rates, follows:

	Increase (Decrease) in Basis Points	Effect on Income Before Tax
		(In Millions)
2018	**100**	**(₱236.3)**
	50	**(118.2)**
	(100)	**236.3**
	(50)	**118.2**
2017	100	(₱240.9)
	50	(120.4)
	(100)	240.9
	(50)	120.4

The assumed movement in basis points for interest rate sensitivity analysis is based on observable market conditions.

Foreign Currency Risk

The Group aims to reduce foreign currency risks by employing on-balance sheet hedges and derivatives such as foreign currency swap contracts, foreign cross-currency swaps, foreign currency call options and non-deliverable forwards.

The Group's foreign currency-denominated financial assets and liabilities and their peso equivalents follow:

	2018		2017	
	US$	**PhP**	US$	PhP
	(In Thousands)			
Current assets:				
Cash and cash equivalents	**$5,825**	**₱306,275**	$3,566	₱178,039
Time deposits	**491,275**	**25,831,265**	211,489	10,559,628
Receivables and contract assets	**55,025**	**2,893,228**	59,910	2,991,309
Financial assets	**–**	**–**	14,152	706,625
Noncurrent assets:				
Financial assets	**–**	**–**	805	40,172
Time deposits	**21,713**	**1,141,652**	458,400	22,887,912
Other noncurrent assets	**514,749**	**27,065,524**	495,167	24,723,693
Derivative assets	**–**	**–**	20,130	1,005,084
Total assets	**1,088,587**	**57,237,944**	1,263,619	63,092,462
Current liabilities:				
Current portion of long-term debt	**495,680**	**26,062,856**	119,693	5,976,254
Accounts payable and other current liabilities	**5,607**	**294,821**	5,969	298,024
Noncurrent liabilities:				
Long-term debt - net of current portion	**528,424**	**27,784,556**	1,325,944	66,204,403
Total liabilities	**1,029,711**	**54,142,233**	1,451,606	72,478,681
Net	**$58,876**	**₱3,095,711**	($187,987)	(₱9,386,219)

As at December 31, 2018 and 2017, approximately 28.4% and 34.7%, respectively, of the Group's borrowings, net of debt issue cost, are denominated in foreign currency.

The Group recognized net foreign exchange gain (loss) of ₱182.5 million loss, ₱698.7 million gain and ₱170.1 million loss in 2018, 2017 and 2016, respectively. This resulted from movements in the closing rate of U.S. dollar against the Philippine peso as follows:

	U.S. Dollar to Peso
December 31, 2018	**₱52.58**
December 31, 2017	49.93
December 31, 2016	49.72

Foreign Currency Risk Sensitivity Analysis. The sensitivity analysis for a reasonably possible change in U.S. Dollar to Philippine peso exchange rate, with all other variables held constant, of the Group's financial assets and liabilities denominated in foreign currency, follows:

	Appreciation (Depreciation) of Peso	Effect on Income Before Tax
		(In Millions)
2018	**1.50**	**₱683.8**
	1.00	**455.9**
	(1.50)	**(683.8)**
	(1.00)	**(455.9)**
2017	1.50	₱1,024.7
	1.00	683.2
	(1.50)	(1,024.7)
	(1.00)	(683.2)

Liquidity Risk
The Group manages its liquidity to ensure adequate financing of capital expenditures and debt service. Financing consists of internally generated funds, proceeds from debt and equity issues, and/or proceeds from sales of assets.

The Group regularly evaluates its projected and actual cash flow information and assesses conditions in the financial markets for opportunities to pursue fund raising initiatives including bank loans, export credit agency-guaranteed facilities, bonds and equity market issues.

The Group's financial assets, which have maturities of less than 12 months and used to meet its short-term liquidity needs, include the following:

	2018	2017
	(In Thousands)	
Cash and cash equivalents	**₱79,313,215**	₱74,318,190
Current portion of time deposits	**25,842,829**	13,237,886
Current portion of financial assets - Bonds and corporate notes	**–**	706,626

The maturity profile of the Group's financial liabilities follow:

	2018			
	Less than 1 Year	**1 to 5 Years**	**More than 5 Years**	**Total**
		(In Thousands)		
Bank loans	**₱18,885,465**	**₱–**	**₱–**	**₱18,885,465**
Accounts payable and other current liabilities *	**107,459,209**	**–**	**–**	**107,459,209**
Long-term debt (including current portion) **	**72,701,164**	**268,546,245**	**93,842,363**	**435,089,772**
Derivative liabilities**	**–**	**335,008**	**–**	**335,008**
Dividends payable	**3,906,476**	**–**	**–**	**3,906,476**
Tenants' deposits **	**299,939**	**21,688,833**	**62,911**	**22,051,683**
Other noncurrent liabilities ***	**148,772**	**14,251,063**	**–**	**14,399,835**
	₱203,401,025	**₱304,821,149**	**₱93,905,274**	**₱602,127,448**

**Excluding payables to government agencies of ₱4,618.6 million, which are not considered as financial liabilities.*
***Based on estimated future cash flows.*
****Excluding nonfinancial liabilities amounting to ₱3,432.6 million.*

	2017			
	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
		(In Thousands)		
Bank loans	₱24,172,965	₱–	₱–	₱24,172,965
Accounts payable and other current liabilities *	91,914,325	–	–	91,914,325
Long-term debt (including current portion) **	48,938,571	229,489,427	116,465,601	394,893,599
Derivative liabilities**	–	777,408	–	777,408
Dividends payable	2,939,590	–	–	2,939,590
Tenants' deposits **	502,472	16,595,381	468,109	17,565,962
Other noncurrent liabilities ***	91,258	6,735,447	323,315	7,150,020
	₱168,559,181	₱253,597,663	₱117,257,025	₱539,413,869

**Excluding payables to government agencies of ₱4,438.6 million, which are not considered as financial liabilities.*
***Based on estimated future cash flows.*
****Excluding nonfinancial liabilities amounting to ₱1,015.0 million.*

Credit Risk
The Group trades only with recognized and creditworthy related and third parties. The Group policy requires customers who wish to trade on credit terms to undergo credit verification. In addition, receivable balances are monitored on a regular basis to keep exposure to bad debts at the minimum. Given the Group's diverse customer base, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Group which consist of cash and cash equivalents, time deposits, investments held for trading, AFS investments and certain derivative instruments, the Group's credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Receivables from sale of real estate have minimal credit risk and are effectively collateralized by the respective units sold since title to the real estate properties are not transferred to the buyers until full payment is made.

As at December 31, 2018 and 2017, the financial assets, except for certain receivables and AFS investments, are generally viewed by management as good and collectible considering the credit history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

Credit Quality of Financial Assets
The credit quality of financial assets is managed by the Group using high quality and standard quality as internal credit ratings.

High Quality. This pertains to a counterparty who is not expected to default in settling its obligations, thus credit risk is minimal. This normally includes large prime financial institutions, companies and government agencies.

Standard Quality. Other financial assets not belonging to the high quality category are included in this category.

	2018			2017		
	High Quality	**Standard Quality**	**Total**	High Quality	Standard Quality	Total
			(In Thousands)			
Cash and cash equivalents (excluding cash on hand)	**₱77,583,440**	**₱–**	**₱77,583,440**	₱72,640,001	₱–	₱72,640,001
Time deposits including noncurrent portion	**28,235,451**	**–**	**28,235,451**	39,926,607	–	39,926,607
Financial assets	**24,728,390**	**2,613,690**	**27,342,080**	26,876,683	61,405	26,938,088
Receivables and contract assets - net (including noncurrent portion of receivables from real estate buyers)*	**30,230,611**	**7,610,927**	**37,841,538**	37,567,278	7,402,039	44,969,317
Advances and other receivables - net (includes non-trade receivables, bonds and deposits, receivable from banks, notes receivable and accrued interest receivable under "Other current assets" account in the consolidated balance sheets)**	**15,451,092**	**–**	**15,451,092**	14,408,939	–	14,408,939
Escrow fund	**290,179**	**–**	**290,179**	183,341	–	183,341
Other noncurrent assets:						
Bonds and deposits	**18,403,000**	**–**	**18,403,000**	17,475,500	–	17,475,500
Long-term notes	**6,739,026**	**–**	**6,739,026**	6,399,410	–	6,399,410
Derivative assets (including noncurrent portion)	**1,566,788**	**–**	**1,566,788**	5,341,439	–	5,341,439
	₱203,227,977	**₱10,224,617**	**₱213,452,594**	₱220,819,198	₱7,463,444	₱228,282,642

**Excluding non-financial assets amounting to P20,269.0 million as at December 31, 2018.*
***Excluding non-financial assets amounting to P274.4 million and P403.6 million as at December 31, 2018 and 2017, respectively.*

Equity Price Risk
Management closely monitors the equity securities in its investment portfolio. Material equity investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.

The sensitivity analysis for a reasonably possible change in equity indices, with all other variables held constant, of the Group's investments in listed shares of stock, follows:

	Change in Equity Price	Effect on Equity
		(In Millions)
2018	**+1.78%**	**₱621.1**
	-1.78%	**(621.1)**
2017	+2.94%	₱595.5
	-2.94%	(595.5)

Capital Management
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes appropriate adjustments based on changes in economic conditions. Accordingly, the Group may adjust dividend payments to shareholders, secure new and/or pay off existing debts, return capital to shareholders or issue new shares.

The Group monitors its capital gearing by maintaining its net debt at no higher than 50% of the sum of net debt and equity.

Net Gearing Ratio

	2018	2017
	(In Thousands)	
Bank loans	**₱18,885,465**	₱24,172,965
Long-term debt (current and noncurrent)	**367,036,243**	332,853,001
Less:		
Cash and cash equivalents (excluding cash on hand)	**(77,583,440)**	(72,640,001)
Time deposits (current and noncurrent)	**(28,235,451)**	(39,926,607)
Financial assets	–	(746,797)
Net interest-bearing debt (a)	**280,102,817**	243,712,561
Equity attributable to owners of the Parent	**353,387,201**	328,132,735
Net interest-bearing debt and equity attributable to owners of the Parent (b)	**₱633,490,018**	₱571,845,296
Gearing ratio - net (a/b)	**44%**	43%

Gross Gearing Ratio

	2018	2017
	(In Thousands)	
Bank loans	**₱18,885,465**	₱24,172,965
Long-term debt	**367,036,243**	332,853,001
Total interest-bearing debt (a)	**385,921,708**	357,025,966
Total equity attributable to owners of the Parent	**353,387,201**	328,132,735
Total interest-bearing debt and equity attributable to owners of the Parent (b)	**₱739,308,909**	₱685,158,701
Gearing ratio - gross (a/b)	**52%**	52%

29. Financial Instruments

The Group's financial assets and liabilities by category and by class, except for those with carrying amounts that are reasonable approximations of fair values, follow:

	2018				
	Carrying Value	**Fair Value**	**Quoted Prices in Active Markets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
			(In Thousands)		
Assets Measured at Fair Value					
Derivative assets	**₱1,566,788**	**₱1,566,788**	**₱–**	**₱1,566,788**	**₱–**
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	**2,392,622**	**2,339,327**	**–**	**–**	**2,339,327**
Receivables and contract asssets - net (including noncurrent portion of receivables from real estate buyers)	**59,987,359**	**57,604,083**	**–**	**–**	**57,604,083**
Other noncurrent assets:					
Bonds and deposits	**18,403,000**	**19,800,272**	**–**	**–**	**19,800,272**
Long-term notes	**6,739,026**	**8,489,300**	**–**	**–**	**8,489,300**
	87,522,007	**88,232,982**	**–**	**–**	**88,232,982**
	₱89,088,795	**₱89,799,770**	**₱–**	**₱1,566,788**	**₱88,232,982**
Liabilities Measured at Fair Value					
Derivative liabilities	**₱335,008**	**₱335,008**	**₱–**	**₱335,008**	**₱–**
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	**305,555,356**	**288,274,800**	**–**	**–**	**288,274,800**
Tenants' deposits and others*	**36,000,150**	**32,026,177**	**–**	**–**	**32,026,177**
	341,555,506	**320,300,977**	**–**	**–**	**320,300,977**
	₱341,890,514	**₱320,635,985**	**₱–**	**₱335,008**	**₱320,300,977**

**Excluding nonfinancial liabilities amounting to ₱3,432.6 million.*

	2017				
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Assets Measured at Fair Value					
Derivative assets	₱5,341,439	₱5,341,439	₱–	₱5,341,439	₱–
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	26,688,721	27,069,511	–	–	27,069,511
Receivables and contract asssets - net (including noncurrent portion of receivables from real estate buyers)	48,206,644	46,831,054	–	–	46,831,054
Other noncurrent assets:					
Bonds and deposits	17,475,500	19,323,721	–	–	19,323,721
Long-term notes	6,399,410	8,309,619	–	–	8,309,619
	98,770,275	101,533,905	–	–	101,533,905
	₱104,111,714	₱106,875,344	₱–	₱5,341,439	₱101,533,905

			2017		
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Liabilities Measured at Fair Value					
Derivative liabilities	₱777,408	₱777,408	₱–	₱777,408	₱–
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	292,555,868	297,063,011	–	–	297,063,011
Tenants' deposits and others*	25,939,021	23,705,361	–	–	23,705,361
	318,494,889	320,768,372	–	–	320,768,372
	₱319,272,297	₱321,545,780	₱–	₱777,408	₱320,768,372

**Excluding nonfinancial liabilities amounting to ₱2,495.1 million.*

There were no transfers into and out of Levels 1, 2 and 3 fair value measurements as at December 31, 2018 and 2017.

The estimated fair value of the following financial instruments is based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used follow:

	2018	2017
Noncurrent portion of time deposits	**2.0% - 7.9%**	2.0%–2.8%
Noncurrent portion of receivables from real estate buyers	**7.0%**	4.7%
Long-term notes included under "Other noncurrent assets" account	**2.6% - 2.8%**	1.8%–2.3%
Tenants' deposits	**5.3% - 7.9%**	1.9%–5.7%

Long-term Debt. The fair value of long-term debt is estimated based on the following assumptions:

Debt	Fair Value Assumptions
Fixed Rate	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 2.6% to 8.5% and 1.7% to 6.9% as at December 31, 2018 and 2017, respectively.
Variable Rate	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used were 7.0% to 9.0% and 3.4% to 6.4% as at December 31, 2018 and 2017, respectively.

Derivative Instruments. The fair values are based on quotes obtained from counterparties. The rollforward analysis of the fair value changes of derivative instruments follows:

	2018	2017
	(In Thousands)	
Balance at beginning of year	**₱4,564,032**	₱6,757,361
Net changes in fair value during the year	**(1,280,800)**	(2,163,691)
Fair value on settled derivatives	**(2,051,452)**	(29,638)
Balance at end of year	**₱1,231,780**	₱4,564,032

Derivative Instruments Accounted for as Cash Flow Hedges

As at December 31, 2018, the Parent Company and SM Prime have outstanding arrangements to hedge both foreign currency and interest rate exposure on its foreign currency-denominated debt. Details follow:

Cross-currency swaps:

	Notional Amount							
	(In US$)	*(In PhP)*	Principal	Fair Value	Receive	Pay	US$:PhP	Maturity
		(In Thousands)						
Parent:								
	$53,000	₱2,761,300	₱2,786,740	₱266,068	LIBOR + spread	5.3%	₱52.10	March 6, 2023
	100,000	5,210,000	5,288,000	350,872	LIBOR + spread	5.9%	52.10	April 16, 2023
	56,159	3,000,000	2,952,827	96,914	LIBOR + spread	6.1%	53.42	July 26, 2023
SM Prime:								
	25,000	1,246,900	1,314,500	(72,266)	LIBOR + spread	5.4%	49.88	March 27, 2022
	25,000	1,246,900	1,314,500	(70,878)	LIBOR + spread	5.4%	49.88	March 27, 2022
	50,000	2,580,500	2,629,000	32,366	LIBOR + spread	5.0%	51.61	June 30, 2022
	50,000	2,666,500	2,629,000	13,282	LIBOR + spread	6.4%	53.33	June 14, 2023
	60,000	3,199,200	3,154,800	11,490	LIBOR + spread	6.4%	53.32	June 14, 2023

Principal only and interest rate swaps:

			Fair Value				
	Notional Amount	Principal	Principal Only Swap	Interest Rate Swap	US$:CN¥	Interest Rate	Maturity
		(In Thousands)					
SM Prime	US$150,000	₱8,487,737	₱–	₱38,909	¥–	3.2%	April 14, 2019
	270,000	14,196,645	(224,231)	395,264	6.458-6.889	6.2%	January 29, 2021

Derivative Instruments Accounted for as Fair Value Hedge

Forward swaps:

				Strike Price		
	Notional Amount	Principal	Fair Value	Low	High	Maturity
		(In Thousands)				
SM Prime	US$100,000	₱5,578,980	₱125,099	¥6.314	¥6.485	April 15, 2019
	100,000	5,578,980	117,177	6.289	6.496	April 15, 2019
	100,000	5,578,980	151,713	6.383	6.547	April 15, 2019

As the terms of the swaps have been negotiated to match the terms of the hedged loans and advances, the hedges were assessed to be highly effective.

Other Derivative Instruments Not Designated as Accounting Hedges

Non-deliverable Forwards and Swaps. The net fair value changes from the settled currency forward and swap contracts recognized in the consolidated statements of income amounted to gains of ₱314.4 million and ₱38.6 million in 2018 and 2017, respectively.

30. EPS Computation

	2018	2017	2016
	(In Thousands Except Per Share Data)		
Net income attributable to owners of the Parent (a)	**₱37,078,325**	₱32,923,455	₱31,204,304
Weighted average number of common shares outstanding (b)	**1,204,583**	1,204,583	1,204,583
EPS (a/b)	**₱30.78**	₱27.33	₱25.90

31. Change in Liabilities Arising From Financing Activities

	2018		2017	
	Bank Loans (Note 17)	**Long-term Debt** (Note 19)	Bank Loans (Note 17)	Long-term Debt (Note 19)
		(In Thousands)		
Balance at beginning of year	**₱24,172,965**	**₱332,853,001**	₱13,987,765	₱305,855,809
Availments	**32,199,317**	**70,787,135**	59,419,602	55,866,308
Payments	**(37,256,817)**	**(40,292,241)**	(49,234,402)	(31,640,120)
Cumulative translation adjustment on cash flow hedges	**–**	**(50,799)**	–	2,713,427
Foreign exchange movement	**–**	**3,621,088**	–	(172,455)
Loan refinancing	**(230,000)**	**230,000**	–	–
Others	**–**	**(111,941)**	–	230,032
Balance at end of year	**₱18,885,465**	**₱367,036,243**	₱24,172,965	₱332,853,001

There are no non-cash changes in accrued interest and dividends payable. Others include debt accretion and debt issue cost amortization.

32. Reclassification

The Group reclassified certain consolidated statement of income accounts in 2017 and 2016 to conform to the 2018 consolidated financial statements presentation and classification. The reclassification has no impact on the 2018 and 2017 profit or loss and equity of the Group.

SM Investments Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2019 and 2018
and Years Ended December 31, 2019, 2018
and 2017

and

Independent Auditor's Report

SGV
Building a better
working world

A member firm of Ernst & Young Global Limited

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
SM Investments Corporation

Opinion

We have audited the consolidated financial statements of SM Investments Corporation and Subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Adoption of PFRS 16, Leases

Effective January 1, 2019, the Group adopted PFRS 16, *Leases*, under the modified retrospective approach which resulted in significant changes in the Group's accounting policy for leases. The Group's adoption of PFRS 16 is significant to our audit because the Group has high volume of lease agreements; the recorded amounts are material to the consolidated financial statements; and adoption involves significant judgment and estimation in determining the lease term, including evaluating whether the Group is reasonably certain to exercise options to extend or terminate the lease, and in determining the incremental borrowing rate. This resulted in the recognition of right-of-use assets and lease liabilities amounting to ₱32,020.3 million and ₱24,781.2 million, respectively, as at January 1, 2019 and the recognition of depreciation expense and interest expense of ₱3,587.9 million and ₱1,676.0 million, respectively, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 applied by the Group are included in Note 3 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's process in implementing the new standard on leases, including the determination of the population of the lease contracts covered by PFRS 16, the application of the short-term and low-value assets exemption, the selection of the transition approach and any election of available practical expedients.

We tested the population of lease agreements by tracing the lease agreements to the master lease schedule of the Group.

On a test basis, we inspected lease agreements, identified their contractual terms and conditions, and traced these contractual terms and conditions to the lease calculations prepared by management, which covers the calculation of financial impact of PFRS 16, including the transition adjustments.

For selected lease contracts with renewal and/or termination option, we reviewed the management's assessment of whether it is reasonably certain that the Group will exercise the option to renew or not exercise the option to terminate.

We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management on a sample basis, including the transition adjustments.

We reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and Philippine Accounting Standard (PAS) 8, *Accounting Policies, Changes in Accounting Estimates and Errors.*

Recoverability of Goodwill

As at December 31, 2019, the Group reported ₱17,366.8 million goodwill attributable mainly to SM Prime Holdings, Inc., Supervalue, Inc., Super Shopping Market, Inc., Neo Subsidiaries, Waltermart Supermarket, Incorporated and others. The Group performed an annual testing per cash generating unit (CGU) to assess whether goodwill might be impaired. Given the significant management estimates and assumptions, and the uncertainty of internal and external factors, including future market circumstances, this is considered as a key audit matter.

The assumptions, sensitivities and results of the annual impairment testing are disclosed in Note 16 to the consolidated financial statements.

Audit Response

We involved our internal specialist in assessing the methodologies and assumptions used by the Group in calculating each CGU's recoverable amount. For the fair value less cost of disposal calculations, we evaluated the approach used by the Group and reviewed the calculations performed with reference to the observable market prices and allowable costs for disposing the asset. For the value-in-use calculations, we assessed the prospective financial information (PFI) for each CGU by understanding the Group's approach to develop the PFI and evaluating the key assumptions used such as revenue. We reviewed the key assumptions used by comparing the PFI to historical operating results. We also involved our internal specialist in recalculating the discount rates used for each CGU. Recalculations involve comparison to publicly available market information, cost of debt and equity and other relevant risk factors. We performed sensitivity analyses to understand the impact of reasonable changes in the key assumptions.

Accounting for Investments in Associate Companies

As at December 31, 2019, the Group's investments in associate companies amounted to ₱272,671.6 million, representing 30.4% and 23.8% of the Group's total noncurrent assets and total assets, respectively. The investments in associate companies are accounted for under the equity method and considered for impairment if there are indicators that such investments may be impaired. Given the magnitude of the carrying amount and share in equity on investments in associate companies, as well as the significant management judgments and estimates applied in determining the recoverable amount of these investments, we consider this matter significant to our audit.

The details of these investments are disclosed in Note 12 to the consolidated financial statements.

Audit Response

We obtained relevant financial information of the associate companies and recomputed the Group's share in equity in net earnings. For investments with indicators of possible impairment, we obtained management's impairment analysis and gained an understanding of their impairment assessment process. We discussed the current and projected financial performance of the associate companies with management and assessed whether these were reflected in the Group's own assumptions. We also involved our internal specialist in assessing the Group's methodology and assumptions used in calculating the associate companies' recoverable amount. We reviewed the key inputs used such as growth rates, gross margins, projected earnings before interest and taxes, effective tax rates, non-cash charges, net working capital changes, capital expenditures and others. For growth rates, we have assessed the reasonableness by comparing it with the long-term average growth rate for the products, industries, or country where the entity operates. We have assessed the PFI for the CGU by understanding the Group's approach to develop the PFI and evaluating the key assumptions used. We reviewed the key assumptions used by comparing the PFI with the industry practice. We also involved our internal specialist in recalculating the discount rate used that involves comparison to publicly available market information, cost of debt and equity and other relevant risk factors. We performed sensitivity analyses to understand the impact of reasonable changes in the key assumptions.

For the material associate company audited by other auditor, we sent audit instructions to the other auditor to perform an audit on the relevant financial information of the associate company for the purpose of the Group's consolidated financial statements. Our audit instructions detailed the other auditor's scope of work, audit strategy and reporting requirements. We discussed with the other auditor their key audit areas, including areas of significant judgments and estimates, and their audit findings. We focused on the other auditor's procedures on the review of the classification and measurement, expected credit loss and hedge accounting related to its financial instruments and revenue recognition.

Real Estate Revenue Recognition

The Group applies PFRS 15, *Revenue from Contracts with Customers*, in recognizing revenue from sale of real estate units. The following matters are significant to our audit because these involve application of significant judgment and estimation: (1) identification of the contract for sale of real estate property that would meet the requirements of PFRS 15; (2) assessment of the probability that the entity will collect the consideration from the buyer; (3) determination of the transaction price; (4) application of the output method as the measure of progress in determining revenue from real estate sale; (5) determination of the actual costs incurred as cost of real estate sold; and (6) recognition of costs to obtain a contract.

The Group identifies the contract that meets all the criteria required under PFRS 15 for a valid revenue contract. In the absence of a signed contract to sell, the Group identifies alternative documentation that are enforceable and that contain each party's rights regarding the real estate property to be transferred, the payment terms and the contract's commercial substance.

In evaluating whether collectibility of the amount of consideration is probable, the Group considers the significance of the buyer's initial payments in relation to the total contract price (or buyer's equity). Collectibility is also assessed by considering factors such as past history with the buyer, age of the outstanding receivables and pricing of the property. Management regularly evaluates the historical sales cancellations if it would still support its current threshold of buyers' equity before commencing revenue recognition.

In determining the transaction price, the Group considers the selling price of the real estate property and other fees collected from the buyers that are not held on behalf of other parties.

In measuring the progress of its performance obligation over time, the Group uses the output method. This method measures progress based on physical proportion of work done on the real estate project which requires technical determination by the Group's project engineers. This is based on the monthly project accomplishment report prepared by the third-party project managers as approved by the construction managers.

The Group identifies sales commissions after contract inception as costs of obtaining a contract. For contracts which qualified for revenue recognition, the Group capitalizes the total sales commissions due to sales agent as costs to obtain a contract and recognizes the related commissions payable. The Group uses percentage of completion (POC) method in amortizing sales commissions consistent with the Group's revenue recognition policy.

The disclosures related to the Group's revenue recognition are included in Note 3 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's revenue recognition processes and tested relevant controls.

For the identification of the alternative documentation for sale of real estate property (in the absence of a signed contract to sell) that would meet the requirements of PFRS 15, our audit procedures include, among others, involvement of our internal specialist in reviewing the Group's legal basis regarding the enforceability of the alternative documentation against previous court decisions, buyers' behavior and industry practices.

For the buyers' equity, we evaluated management's basis of the buyer's equity by comparing this to the historical analysis of sales collections from buyers with accumulated payments above the collection threshold.

For the determination of the transaction price, we obtained an understanding of the nature of other fees charged to the buyers. For selected contracts, we agreed the amounts excluded from the transaction price against the expected amounts required to be remitted to the government based on existing tax rules and regulations (e.g., documentary stamp taxes, transfer taxes and real property taxes).

For the application of the output method, in determining revenue from sale of real estate, we obtained an understanding of the Group's processes for determining the POC, and performed tests of the relevant controls. We obtained the certified POC reports prepared by the third-party project managers and assessed their competence and objectivity by reference to their qualifications, experience and reporting responsibilities. For selected projects, we conducted ocular inspections, made relevant inquiries and obtained the supporting details of POC reports showing the completion of the major activities of the project construction.

For the cost of real estate sold, we obtained an understanding of the Group's cost accumulation process and performed tests of the relevant controls. For selected projects, we traced costs accumulated, including those incurred but not yet billed costs, to supporting documents such as contractors billing invoices, certificates of progress acceptance, official receipts, among others.

For the recognition of cost to obtain a contract, we obtained an understanding of the sales commission process. For selected contracts, we agreed the basis for calculating the sales commission capitalized and portion recognized in profit or loss, particularly (a) the percentage of commissions due against contracts with sales agents, (b) the total commissionable amount (e.g., net contract price) against the related contract to sell, and, (c) the POC against the POC used in recognizing the related revenue from sale of real estate.

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Existence and Completeness of Merchandise Inventories

As at December 31, 2019, the merchandise inventories of certain subsidiaries of the Group amounted to ₱33,157.6 million, representing 13.4% and 2.9% of the Group's total current assets and total assets, respectively. The Group has several warehouses and operates multiple stores across the country. Since the merchandise inventories are material to the consolidated financial statements, and various warehouses and stores are geographically dispersed across the country, we consider this a key audit matter.

The disclosures about inventories are included in Note 22 to the consolidated financial statements.

Audit Response

We obtained an understanding of the subsidiaries' inventory process and performed test of controls for selected stores and warehouses. We visited selected warehouses and stores and observed the physical inventory counts. We performed test counts and compared the results to the subsidiaries' inventory compilation reports to determine if the compilation reports reflect the results of the inventory count. We reviewed the reconciliations performed by management and tested the reconciling items. We performed testing, on a sampling basis, of the subsidiaries' rollforward or rollback procedures on inventory quantities from the date of physical inventory count to the financial reporting date.

We also reviewed the working papers of other auditor on merchandise inventories, specifically on the observation and testing of physical inventory counts, testing of compilation procedures and the reconciliation of the physical inventory count to the general ledger and financial reports.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Julie Christine O. Mateo.

SYCIP GORRES VELAYO & CO.

Julie Christine O. Mateo

Julie Christine O. Mateo
Partner
CPA Certificate No. 93542
SEC Accreditation No. 0780-AR-3 (Group A),
August 16, 2018, valid until August 15, 2021
Tax Identification No. 198-819-116
BIR Accreditation No. 08-001998-68-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8125278, January 7, 2020, Makati City

February 28, 2020

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7 and 28)	**₱76,213,774**	₱79,313,215
Time deposits (Notes 8 and 28)	**30,488**	25,842,829
Financial assets (Notes 9 and 28)	**659,077**	639,316
Receivables and contract assets (Notes 10, 28 and 29)	**53,617,200**	33,755,192
Merchandise inventories - at cost (Note 22)	**33,157,622**	31,836,333
Other current assets (Notes 11 and 28)	**84,678,819**	70,338,577
Total Current Assets	**248,356,980**	241,725,462
Noncurrent Assets		
Financial assets - net of current portion (Notes 9 and 28)	**24,229,560**	26,702,764
Investments in associate companies and joint ventures (Note 12)	**280,971,638**	259,795,077
Time deposits - net of current portion (Notes 8, 28 and 29)	**2,412,972**	2,392,622
Property and equipment (Note 13)	**24,720,873**	23,201,667
Investment properties (Note 14)	**338,075,303**	309,264,274
Right-of-use assets (Note 27)	**37,664,176**	–
Land and development - net of current portion (Note 15)	**74,946,694**	53,928,447
Intangibles (Note 16)	**25,289,609**	25,470,696
Deferred tax assets (Note 26)	**3,121,117**	2,726,155
Other noncurrent assets (Notes 16 and 28)	**84,375,645**	115,435,107
Total Noncurrent Assets	**895,807,587**	818,916,809
	₱1,144,164,567	₱1,060,642,271
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 17, 21, 28 and 31)	**₱18,710,465**	₱18,885,465
Accounts payable and other current liabilities (Notes 18 and 28)	**141,451,764**	124,777,719
Income tax payable	**3,273,872**	3,641,379
Current portion of long-term debt (Notes 19, 21, 28 and 31)	**29,077,719**	61,480,887
Dividends payable (Note 28)	**4,204,962**	3,906,476
Total Current Liabilities	**196,718,782**	212,691,926
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 21, 28, 29 and 31)	**327,358,208**	305,555,356
Lease liabilities - net of current portion (Notes 27 and 31)	**27,600,392**	–
Deferred tax liabilities (Note 26)	**9,604,043**	8,810,862
Tenants' deposits and others (Notes 25, 27, 28 and 29)	**46,731,664**	41,294,115
Total Noncurrent Liabilities	**411,294,307**	355,660,333
Total Liabilities	**608,013,089**	568,352,259

(Forward)

	December 31	
	2019	2018
Equity Attributable to Owners of the Parent		
Capital stock (Note 20)	**₱12,045,829**	₱12,045,829
Additional paid-in capital	**75,815,923**	75,815,520
Equity adjustments from common control transactions (Note 20)	**(5,424,455)**	(5,424,455)
Cost of Parent common shares held by subsidiaries	**(25,386)**	(25,386)
Cumulative translation adjustment	**1,308,228**	2,014,573
Net fair value changes on cash flow hedges	**(1,406,026)**	62,444
Net unrealized gain on financial assets (Note 9)	**14,399,640**	11,748,980
Re-measurement loss on defined benefit asset/obligation (Note 25)	**(8,633,269)**	(2,063,358)
Retained earnings (Note 20):		
Appropriated	**37,000,000**	37,000,000
Unappropriated	**257,546,591**	222,213,054
Total Equity Attributable to Owners of the Parent	**382,627,075**	353,387,201
Non-controlling Interests	**153,524,403**	138,902,811
Total Equity	**536,151,478**	492,290,012
	₱1,144,164,567	₱1,060,642,271

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands Except Per Share Data)

	Years Ended December 31		
	2019	2018	2017
REVENUES			
Sales:			
Merchandise	**₱354,088,848**	₱323,740,170	₱288,532,163
Real estate	**44,499,529**	35,967,663	29,567,021
Rent (Notes 14, 21 and 27)	**51,573,157**	47,555,061	42,067,892
Equity in net earnings of associate companies and joint ventures (Note 12)	**26,038,426**	19,164,345	16,640,597
Cinema ticket sales, amusement and others	**7,739,761**	7,286,654	6,578,362
Management and service fees (Note 21)	**7,348,479**	6,379,831	5,820,571
Dividend income (Note 21)	**480,513**	421,914	495,582
Gain on sale of financial assets - net (Note 9)	**27,812**	1,337	110,234
Others	**9,855,370**	9,271,192	8,135,798
	501,651,895	449,788,167	397,948,220
COST AND EXPENSES			
Cost of sales:			
Merchandise (Note 22)	**262,434,661**	238,902,107	214,494,703
Real estate (Note 15)	**20,806,612**	17,852,270	15,260,313
Selling, general and administrative expenses (Note 23)	**113,257,931**	106,419,699	92,342,430
	396,499,204	363,174,076	322,097,446
OTHER INCOME (CHARGES)			
Interest expense (Notes 21 and 24)	**(19,194,311)**	(16,574,388)	(15,580,819)
Interest income (Notes 21 and 24)	**3,881,156**	3,754,141	4,003,501
Gain on disposal of investments and properties - net	**193,878**	64,034	22,702
Gain on fair value changes on derivatives - net (Note 29)	**6,379**	454,941	296,334
Impairment loss on investment (Note 12)	**(3,987,000)**	–	–
Foreign exchange gain (loss) - net (Note 28)	**561,705**	(182,483)	698,742
	(18,538,193)	(12,483,755)	(10,559,540)
INCOME BEFORE INCOME TAX	**86,614,498**	74,130,336	65,291,234
PROVISION FOR INCOME TAX (Note 26)			
Current	**16,218,229**	15,115,326	13,616,519
Deferred	**951,955**	460,442	156,198
	17,170,184	15,575,768	13,772,717
NET INCOME	**₱69,444,314**	₱58,554,568	₱51,518,517
Attributable to			
Owners of the Parent (Note 30)	**₱44,568,244**	₱37,078,325	₱32,923,455
Non-controlling interests	**24,876,070**	21,476,243	18,595,062
	₱69,444,314	₱58,554,568	₱51,518,517
Basic/Diluted Earnings Per Common Share Attributable to Owners of the Parent (Note 30)	**₱37.00**	₱30.78	₱27.33

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2019	2018	2017
NET INCOME	**₱69,444,314**	₱58,554,568	₱51,518,517
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified to profit or loss in subsequent periods			
Net unrealized gain on financial assets	–	–	4,973,426
Share in unrealized gain (loss) on financial assets of associates (Note 12)	**4,505,589**	(3,502,992)	354,028
Cumulative translation adjustment	**(1,011,736)**	326,536	1,243,928
Net fair value changes on cash flow hedges	**(1,712,763)**	2,589	(1,266,333)
Income tax relating to items to be reclassified to profit or loss in subsequent periods	–	–	(147,803)
	1,781,090	(3,173,867)	5,157,246
Items not to be reclassified to profit or loss in subsequent periods			
Re-measurement loss on defined benefit obligation (Note 25)	**(8,209,190)**	(2,080,805)	(416,283)
Net unrealized loss on financial assets	**(176,975)**	(520,230)	–
Income tax relating to items not to be reclassified to profit or loss in subsequent periods	**553,736**	(84,499)	124,884
	(7,832,429)	(2,685,534)	(291,399)
TOTAL COMPREHENSIVE INCOME	**₱63,392,975**	₱52,695,167	₱56,384,364
Attributable to			
Owners of the Parent	**₱40,223,919**	₱31,112,015	₱36,916,903
Non-controlling interests	**23,169,056**	21,583,152	19,467,461
	₱63,392,975	₱52,695,167	₱56,384,364

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 and 2017

(Amounts in Thousands Except Per Share Data)

	Equity Attributable to Owners of the Parent												
	Capital Stock	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries	Cumulative Translation Adjustment	Net Fair Value Changes on Cash Flow Hedges	Net Unrealized Gain (Loss) on Financial Assets	Re-measurement Gain (Loss) on Defined Benefit Asset/ Obligation	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total	Non-controlling Interests	Total Equity
As at January 1, 2019	₱12,045,829	₱75,815,520	(₱5,424,455)	(₱25,386)	₱2,014,573	₱62,444	₱11,748,980	(₱2,063,358)	₱37,000,000	₱222,213,054	₱353,387,201	₱138,902,811	₱492,290,012
Net income	–	–	–	–	–	–	–	–	–	44,568,244	44,568,244	24,876,070	69,444,314
Other comprehensive income	–	–	–	–	(706,345)	(1,468,470)	4,400,401	(6,569,911)	–	–	(4,344,325)	(1,707,014)	(6,051,339)
Total comprehensive income	–	–	–	–	(706,345)	(1,468,470)	4,400,401	(6,569,911)	–	44,568,244	40,223,919	23,169,056	63,392,975
Realized gain on sale of financial assets at FVOCI (Note 9)	–	–	–	–	–	–	(1,749,741)	–	–	1,749,741	–	–	–
Sale of non-controlling interests	–	403	–	–	–	–	–	–	–	–	403	(81,462)	(81,059)
Cash dividends - ₱9.12 per share (Note 20)	–	–	–	–	–	–	–	–	–	(10,984,448)	(10,984,448)	–	(10,984,448)
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(9,824,854)	(9,824,854)
Effect of business combination (Note 5)	–	–	–	–	–	–	–	–	–	–	–	1,358,352	1,358,352
Increase in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	500	500
As at December 31, 2019	₱12,045,829	₱75,815,923	(₱5,424,455)	(₱25,386)	₱1,308,228	(₱1,406,026)	₱14,399,640	(₱8,633,269)	₱37,000,000	₱257,546,591	₱382,627,075	₱153,524,403	₱536,151,478
As at January 1, 2018, as previously reported	₱12,045,829	₱76,439,288	(₱5,424,455)	(₱25,386)	₱1,609,600	(₱206,977)	₱15,324,123	(₱701,255)	₱37,000,000	₱192,071,968	₱328,132,735	₱125,679,489	₱453,812,224
Effect of adoption of new accounting standards	–	–	–	–	–	–	1,703,458	–	–	2,940,327	4,643,785	–	4,643,785
As adjusted	12,045,829	76,439,288	(5,424,455)	(25,386)	1,609,600	(206,977)	17,027,581	(701,255)	37,000,000	195,012,295	332,776,520	125,679,489	463,099,794
Net income	–	–	–	–	–	–	–	–	–	37,078,325	37,078,325	21,476,243	58,554,568
Other comprehensive income	–	–	–	–	404,973	269,421	(5,278,601)	(1,362,103)	–	–	(5,966,310)	106,909	(5,859,401)
Total comprehensive income	–	–	–	–	404,973	269,421	(5,278,601)	(1,362,103)	–	37,078,325	31,112,015	21,583,152	52,695,167
Sale of treasury shares held by a subsidiary	–	291,088	–	–	–	–	–	–	–	–	291,088	294,120	585,208
Acquisition of non-controlling interests	–	(914,856)	–	–	–	–	–	–	–	–	(914,856)	(857,160)	(1,772,016)
Cash dividends - ₱8.20 per share (Note 20)	–	–	–	–	–	–	–	–	–	(9,877,566)	(9,877,566)	–	(9,877,566)
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(7,844,484)	(7,844,484)
Increase in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	47,694	47,694
As at December 31, 2018	₱12,045,829	₱75,815,520	(₱5,424,455)	(₱25,386)	₱2,014,573	₱62,444	₱11,748,980	(₱2,063,358)	₱37,000,000	₱222,213,054	₱353,387,201	₱138,902,811	₱492,290,012

	Equity Attributable to Owners of the Parent												
	Capital Stock	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries	Cumulative Translation Adjustment	Net Fair Value Changes on Cash Flow Hedges	Net Unrealized Gain (Loss) on Financial Assets	Re-measurement Gain (Loss) on Defined Benefit Asset/ Obligation	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total	Non-controlling Interests	Total Equity
As at January 1, 2017	₱12,045,829	₱76,347,229	(₱5,424,455)	(₱25,386)	₱721,994	₱494,724	₱10,780,430	₱34,895	₱36,000,000	₱169,508,122	₱300,483,382	₱114,263,880	₱414,747,262
Net income	–	–	–	–	–	–	–	–	–	32,923,455	32,923,455	18,595,062	51,518,517
Other comprehensive income	–	–	–	–	887,606	(701,701)	4,543,693	(736,150)	–	–	3,993,448	872,399	4,865,847
Total comprehensive income	–	–	–	–	887,606	(701,701)	4,543,693	(736,150)	–	32,923,455	36,916,903	19,467,461	56,384,364
Reversal of appropriation (Note 20)	–	–	–	–	–	–	–	–	(27,800,000)	27,800,000	–	–	–
Appropriation (Note 20)	–	–	–	–	–	–	–	–	28,800,000	(28,800,000)	–	–	–
Sale of treasury shares held by a subsidiary	–	78,810	–	–	–	–	–	–	–	–	78,810	79,506	158,316
Acquisition of non-controlling interests	–	13,249	–	–	–	–	–	–	–	–	13,249	(247,159)	(233,910)
Cash dividends - ₱7.77 per share (Note 20)	–	–	–	–	–	–	–	–	–	(9,359,609)	(9,359,609)	–	(9,359,609)
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(6,709,448)	(6,709,448)
Decrease in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(1,174,751)	(1,174,751)
As at December 31, 2017	₱12,045,829	₱76,439,288	(₱5,424,455)	(₱25,386)	₱1,609,600	(₱206,977)	₱15,324,123	(₱701,255)	₱37,000,000	₱192,071,968	₱328,132,735	₱125,679,489	₱453,812,224

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱86,614,498**	₱74,130,336	₱65,291,234
Adjustments for:			
Equity in net earnings of associate companies and joint ventures (Note 12)	**(26,038,426)**	(19,164,345)	(16,640,597)
Depreciation and amortization (Notes 13, 14, 16, 23 and 27)	**19,370,843**	15,161,207	14,020,884
Interest expense (Note 24)	**19,194,311**	16,574,388	15,580,819
Interest income (Note 24)	**(3,881,156)**	(3,754,141)	(4,003,501)
Impairment loss on investment (Note 12)	**3,987,000**	–	–
Provisions - net (Notes 10, 14 and 23)	**2,609,386**	2,207,458	1,488,855
Dividend income (Note 21)	**(480,513)**	(421,914)	(495,582)
Unrealized foreign exchange loss - net	**220,432**	1,002,006	275,731
Gain on disposal of investments and properties - net (Notes 13 and 14)	**(193,878)**	(64,034)	(22,702)
Gain on sale of financial assets - net (Note 9)	**(27,812)**	(1,337)	(110,234)
Gain on fair value changes on derivatives - net (Note 29)	**(6,379)**	(454,941)	(296,334)
Income before working capital changes	**101,368,306**	85,214,683	75,088,573
Decrease (increase) in:			
Receivables and contract assets	**(2,848,713)**	(1,437,678)	(616,938)
Merchandise inventories	**(1,321,289)**	(4,057,592)	(1,953,451)
Other current assets	**(6,103,198)**	5,535,204	1,996,544
Land and development	**(27,669,751)**	(37,802,279)	(29,891,127)
Increase (decrease) in:			
Accounts payable and other current liabilities	**21,611,185**	15,835,135	18,509,650
Tenants' deposits and others	**(2,498,565)**	10,571,079	4,354,177
Net cash generated from operations	**82,537,975**	73,858,552	67,487,428
Income tax paid	**(16,576,112)**	(13,356,939)	(14,425,107)
Net cash provided by operating activities	**65,961,863**	60,501,613	53,062,321
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Financial assets	**3,814,634**	771,361	1,983,045
Property and equipment	**343,228**	203,564	182,366
Investment properties	**117,429**	105,524	70,301
Additions to:			
Investment properties (Note 14)	**(36,902,404)**	(27,554,245)	(25,806,496)
Property and equipment (Note 13)	**(7,446,414)**	(6,452,489)	(5,067,991)
Investments in associate companies and joint ventures (Note 12)	**(5,330,780)**	(3,849,756)	(47,832,363)
Financial assets	**(3,261,682)**	(2,463,985)	(3,272,984)
Decrease (increase) in:			
Time deposits	**25,111,241**	12,913,443	26,473,746
Other noncurrent assets	**(1,543,199)**	(28,224,945)	(11,201,733)
Dividends received	**5,558,665**	4,945,350	4,175,190
Cash from acquisition of subsidiaries, net of purchase consideration	**327,140**	–	–
Interest received	**4,048,370**	3,827,116	4,182,186
Net cash used in investing activities	**(15,163,772)**	(45,779,062)	(56,114,733)

(Forward)

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Long-term debt (Note 31)	**₱52,895,468**	₱70,787,135	₱55,866,308
Bank loans (Note 31)	**25,266,865**	32,199,317	59,419,602
Payments of:			
Long-term debt (Note 31)	**(64,799,259)**	(40,292,241)	(31,640,120)
Interest (Note 31)	**(22,289,039)**	(18,043,821)	(16,510,177)
Bank loans (Note 31)	**(21,376,865)**	(37,256,817)	(49,234,402)
Lease liabilities (Notes 27 and 31)	**(2,854,295)**	–	–
Dividends (Note 31)	**(20,510,816)**	(17,674,115)	(16,432,295)
Proceeds from maturity of derivatives	**395,722**	–	–
Reissuance by a subsidiary of treasury shares	**–**	585,207	158,316
Net cash provided by (used in) financing activities	**(53,272,219)**	(9,695,335)	1,627,232
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(2,474,128)**	5,027,216	(1,425,180)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(625,313)**	(32,191)	795,639
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 7)	**79,313,215**	74,318,190	74,947,731
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	**₱76,213,774**	₱79,313,215	₱74,318,190

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information**

SM Investments Corporation (SMIC or Parent Company) was incorporated in the Philippines on January 15, 1960. On December 27, 2019, the Philippine Securities and Exchange Commission (SEC) approved the amendment of the Parent Company's articles of incorporation changing its corporate life to perpetual. Its registered office address is 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300.

SMIC is the largest publicly listed company in the Philippines that is invested in market leading businesses in retail, banking and property. It also invests in ventures that capture high growth opportunities in the emerging Philippine economy.

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD), as approved and recommended for approval by the Audit Committee on February 28, 2020.

2. **Basis of Preparation and Statement of Compliance**

Basis of Preparation
The consolidated financial statements of the Group are prepared on a historical cost basis, except for derivative financial instruments and financial assets and liabilities which are measured at fair value. The consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional and presentation currency under Philippine Financial Reporting Standards (PFRSs). All values are rounded to the nearest thousand Peso except when otherwise indicated.

Statement of Compliance
The accompanying consolidated financial statements have been prepared in compliance with PFRS, which include the availment of the relief granted by the SEC under Memorandum Circular No. 14, Series of 2018, Memorandum Circular No. 3, Series of 2019 and Memorandum Circular No. 4, Series of 2020.

Basis of Consolidation
The Group is considered to have control over an investee when the Group has:

- power over the investee (i.e., existing rights that give it the ability to direct the relevant activities of the investee);
- exposure or rights to variable returns from its involvement with the investee; and,
- the ability to use its power over the investee to affect its returns.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and,
- the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included or excluded in the consolidated financial statements from the date the Group gains control until the date the Group ceases to have control over the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. When the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interests;
- derecognizes the cumulative translation adjustments recorded in equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in profit or loss; and
- reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate.

The consolidated financial statements include the accounts of the Parent Company and the subsidiaries listed below:

		Percentage of Ownership			
		2019		2018	
Company	Principal Activities	**Direct**	**Indirect**	Direct	Indirect
Property					
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries	Real estate development	**50**	**–**	50	–
SM Development Corporation and Subsidiaries (SMDC)	Real estate development	**–**	**100**	–	100
Highlands Prime, Inc. (HPI)	Real estate development	**–**	**100**	–	100
Costa del Hamilo, Inc. (Costa) and Subsidiary	Real estate development	**–**	**100**	–	100
Magenta Legacy, Inc.	Real estate development	**–**	**100**	–	100
Associated Development Corporation	Real estate development	**–**	**100**	–	100
Prime Metro Estate, Inc. and Subsidiary	Real estate development	**–**	**100**	40	60
Tagaytay Resort Development Corp	Real estate development	**–**	**100**	–	100
SM Arena Complex Corporation (SM Arena)	Conventions	**–**	**100**	–	100
MOA Esplanade Port, Inc.	Port terminal operations	**–**	**100**	–	100
Premier Clark Complex	Real estate development	**–**	**100**	–	–
SM Hotels and Conventions Corp. and Subsidiaries	Hotel and conventions	**–**	**100**	–	100
First Asia Realty Development Corp.	Real estate development	**–**	**74**	–	74
Premier Central, Inc.	Real estate development	**–**	**100**	–	100
Consolidated Prime Dev. Corp.	Real estate development	**–**	**100**	–	100
Premier Southern Corp.	Real estate development	**–**	**100**	–	100
San Lazaro Holdings Corporation	Real estate development	**–**	**100**	–	100
Southernpoint Properties Corp.	Real estate development	**–**	**100**	–	100
First Leisure Ventures Group Inc.	Real estate development	**–**	**50**	–	50
CHAS Realty and Development Corporation and Subsidiaries	Real estate development	**–**	**100**	–	100
Affluent Capital Enterprises Limited and Subsidiaries (Affluent) *[British Virgin Islands (BVI)]	Real estate development	**–**	**100**	–	100
Mega Make Enterprises Limited and Subsidiaries *[BVI]	Real estate development	**–**	**100**	–	100
Springfield Global Enterprises Limited *[BVI]	Real estate development	**–**	**100**	–	100

Company	Principal Activities	Percentage of Ownership 2019 Direct	2019 Indirect	2018 Direct	2018 Indirect
Simply Prestige Limited and Subsidiaries *[BVI]	Real estate development	**–**	**100**	–	100
SM Land (China) Limited and Subsidiaries * [Hong Kong]	Real estate development	**–**	**100**	–	100
Rushmore Holdings, Inc.	Real estate development	**–**	**100**	–	100
Prime_Commercial Property Management Corp. and Subsidiaries (PCPMC)	Real estate development	**–**	**100**	–	100
Mindpro, Incorporated (Mindpro)	Real estate development	**–**	**70**	–	70
A. Canicosa Holdings, Inc. (ACHI)	Real estate development	**–**	**100**	–	100
AD Canicosa Properties, Inc. (ADCPI)	Real estate development	**–**	**100**	–	100
Cherry Realty Development Corporation	Real estate development	**–**	**100**	–	91
Supermalls Transport Services, Inc.	Real estate development	**–**	**100**	–	51
Mountain Bliss Resort & Development Corp. and Subsidiary	Real estate development	**100**	**–**	100	–
Intercontinental Development Corporation (ICDC)	Real estate development	**97**	**3**	97	3
Prime Central Limited and Subsidiaries *[BVI]	Investment	**100**	**–**	100	–
Bellevue Properties, Inc.	Real estate development	**62**	**–**	62	–
Neo Subsidiaries [(a)]	Real estate development	**95**	**–**	95	–
Nagtahan Property Holdings, Inc. (formerly AD Farming)	Real estate development	**100**	**–**	100	–
Philippines Urban Living Solutions, Inc. (PULSI) (see Note 5)	Real estate development	**63**	**–**	61	–
Retail					
SM Retail Inc. (SM Retail) and Subsidiaries	Retail	**77**	**–**	77	–
Others					
Primebridge Holdings, Inc.	Investment	**100**	**–**	100	–
Asia-Pacific Computer Technology Center, Inc. (APC) [(b)]	Education	**–**	**–**	52	–
Multi-Realty Development Corporation (MRDC)	Investment	**91**	**–**	91	–
Henfels Investments Corporation	Investment	**99**	**–**	99	–
Belleshares Holdings, Inc. and Subsidiaries	Investment	**99**	**–**	59	40
Neo Property Management Incorporated	Investment	**100**	**–**	100	–

*The principal place of business and country of incorporation of the subsidiaries listed above is in the Philippines except for those marked * and as indicated after the company name.*

(a) *Neo Subsidiaries include N-Plaza BGC Land, Inc., N-Plaza BGC Properties, Inc., N-Quad BGC Land, Inc., N-Quad BGC Properties, Inc., N-Square BGC Land, Inc., N-Square BGC Properties, Inc., N-Cube BGC Land, Inc., N-Cube BGC Properties, Inc., N-One BGC Land, Inc. and N-One BGC Properties, Inc.*

(b) *In October 2019, the Group's equity interest in APC was reduced to 42%. Accordingly, equity accounting was used to account for the Group's investment in APC starting October 2019 (see Note 12).*

Material Partly-owned Subsidiary

The non-controlling interests of SM Prime is material to the Group. Non-controlling shareholders hold 50% of SM Prime as at December 31, 2019 and 2018.

The summarized financial information of SM Prime follows:

Financial Position

	December 31 **2019**	2018
	(In Thousands)	
Current assets	**₱152,327,608**	₱127,790,263
Noncurrent assets	**514,952,066**	476,344,055
Total assets	**667,279,674**	604,134,318
Current liabilities	**95,256,780**	88,279,852
Noncurrent liabilities	**269,506,620**	236,776,504
Total liabilities	**364,763,400**	325,056,356
Total equity	**₱302,516,274**	₱279,077,962

	December 31	
	2019	2018
	(In Thousands)	
Attributable to:		
Owners of the Parent	**₱300,916,171**	₱275,302,994
Non-controlling interests	**1,600,103**	3,774,968
	₱302,516,274	₱279,077,962

Statements of Income

	Years Ended December 31		
	2019	2018	2017
		(In Thousands)	
Revenues	**₱118,311,490**	₱104,080,565	₱90,921,850
Cost and expenses	**61,619,162**	55,753,334	50,293,058
Other charges	**7,530,334**	6,361,056	4,680,931
Income before income tax	**49,161,994**	41,966,175	35,947,861
Provision for income tax	**10,373,321**	9,055,046	7,823,398
Net income	**38,788,673**	32,911,129	28,124,463
Other comprehensive income (loss)	**(30,088)**	(6,125,029)	7,330,510
Total comprehensive income	**₱38,758,585**	₱26,786,100	₱35,454,973
Attributable to:			
Owners of the Parent	**₱38,085,601**	₱32,172,886	₱27,573,866
Non-controlling interests	**703,072**	738,243	550,597
Net income	**₱38,788,673**	₱32,911,129	₱28,124,463
Attributable to:			
Owners of the Parent	**₱38,058,471**	₱26,050,908	₱34,906,622
Non-controlling interests	**700,114**	735,192	548,351
Total comprehensive income	**₱38,758,585**	₱26,786,100	₱35,454,973
Dividends paid to non-controlling interests	**(₱633,700)**	(₱576,200)	(₱580,791)

Cash Flows

	Years Ended December 31		
	2019	2018	2017
		(In Thousands)	
Net cash provided by operating activities	**₱51,727,582**	₱45,964,414	₱45,777,407
Net cash used in investing activities	**(48,615,244)**	(64,078,056)	(41,011,985)
Net cash provided by (used in) financing activities	**(7,310,020)**	12,633,352	14,175,986
Effect of exchange rate changes on cash and cash equivalents	**31,174**	(124,777)	229,144
Net increase (decrease) in cash and cash equivalents	**(₱4,166,508)**	(₱5,605,067)	₱19,170,552

3. **Summary of Significant Accounting Policies, Changes and Improvements**

The significant accounting policies adopted in the preparation of the consolidated financial statements are summarized below.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and are subject to an insignificant risk of change in value.

Time Deposits
Time deposits (shown under current assets) are cash placements with original maturities of more than three months but less than one year. Time deposits with maturities of more than twelve months after the reporting period are presented under noncurrent assets.

Determination of Fair Value
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or,
- in the most advantageous market for the asset or liability, in the absence of a principal market.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that the market participants act in their best economic interest.

The fair value measurement of a nonfinancial asset takes into account the market participant's ability to generate economic benefits by using and/or selling the asset to another market participant in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Assets and liabilities for which fair value is measured based on the lowest level input that is significant to the fair value measurement as a whole and disclosed in the consolidated financial statements based on the fair value hierarchy described below:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and,
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

The Group determines the policies and procedures for both recurring and non-recurring fair value measurements. For the purpose of fair value disclosures, the Group has assessed the class of assets and liabilities on the basis of the nature, characteristics and risks of the subject asset or liability.

The Group recognizes transfers into and transfers out of fair value hierarchy levels by re-assessing categorization based on the lowest level input that is significant to the fair value measurement as a whole, as at the date of the event or change in circumstances that caused the transfer.

"Day 1" Difference. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the consolidated statement of income unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data that is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the amount of "Day 1" difference.

Financial Instruments (effective January 1, 2018)

Financial Assets

Initial Recognition and Measurement
At initial recognition, financial assets are classified as, and measured at amortized cost, fair value through OCI (FVOCI), and fair value through profit or loss (FVPL). The classification at initial recognition depends on the contractual cash flow characteristics of the financial assets and the Group's business model for managing them. The initial measurement of financial assets, except for those classified as FVPL, includes the transaction cost. The exception is for trade receivables that do not contain a significant financing component. These are measured at the transaction price determined under PFRS 15, *Revenue from Contracts with Customers.*

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at instrument level. The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent Measurement
Subsequent to initial recognition, the Group classifies its financial assets in the following categories:

- Amortized cost
- FVPL
- FVOCI
  - with recycling of cumulative gains and losses (debt instruments)
  - with no recycling of cumulative gains and losses upon derecognition (equity instruments)

Financial Assets at Amortized Cost (Debt Instruments)
The Group measures financial assets at amortized cost when:
- The financial asset is held within a business model with the objective to hold these and collect contractual cash flows; and,
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are SPPI.

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost include cash and cash equivalents, time deposits, receivables (including noncurrent portion of receivables from real estate buyers), advances and other receivables (included under "Other current assets" account) and long-term notes (included under "Other noncurrent assets" account).

Financial Assets at FVPL
Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL and financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term.

Derivatives, including separated embedded derivatives, are classified as held for trading unless these are designated as effective hedging instruments. Financial assets with cash flows that are not SPPI are classified and measured at FVPL, irrespective of the business model.

Financial assets at FVPL are measured at fair value. Changes in fair values are recognized in profit or loss.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative when:

- The economic characteristics and risks are not closely related to the host;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and,
- The hybrid contract is not measured at FVPL.

Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required, or a reclassification of a financial asset out of the FVPL category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at FVPL.

Financial Assets at FVOCI (Debt Instruments)
The Group measures debt instruments at FVOCI when:
- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and,
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are SPPI.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the consolidated statement of income and computed in the same manner as financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change is recycled to profit or loss.

As at December 31, 2019 and 2018, the Group does not have any debt instrument measured at FVOCI.

Financial Assets Designated at FVOCI (Equity Instruments)
Upon initial recognition, the Group can elect to irrevocably classify its equity investments as equity instruments designated at FVOCI when these meet the definition of equity under Philippine Accounting Standard (PAS) 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined at instrument level.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as income in the consolidated statement of income when the right of payment is established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Group's equity instruments at FVOCI include investments in shares of stock and club shares (included under "Financial assets" account).

Derecognition
A financial asset, part of a financial asset or part of a group of similar financial assets, is primarily derecognized when:

- The right to receive cash flows from the asset has expired; or,
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or, (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates the extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment
The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Group uses a provision matrix for rent and other receivables, vintage approach for receivables from sale of real estate (billed and unbilled) and simplified approach (low credit risk simplification) for treasury assets to calculate ECLs.

ECLs are recognized in two stages. For credit exposures with no significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-month period (a 12-month ECL). For those credit exposures with significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. The Group does not track changes in credit risk, instead, recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default generally when contractual payments are 120 days past due or when sales are cancelled supported by a notarized cancellation letter executed by the Group and unit buyer. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

For debt instruments at FVOCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. The Group considers there to be a significant increase in credit risk when contractual payments become past due.

Financial Liabilities

Initial Recognition and Measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge.

Financial liabilities are recognized initially at fair value and in the case of loans and borrowings and payables, net of directly attributable costs.

The Group's financial liabilities include bank loans, accounts payable and other current liabilities (excluding payable to government agencies), dividends payable, long-term debt, lease liabilities and tenants' deposits and others.

Subsequent Measurement
Loans and Borrowings
Interest-bearing loans and borrowings and other payables are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as interest expense in the consolidated statement of income.

Financial Liabilities at FVPL
Financial liabilities at FVPL include those held for trading as well as derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless these are designated as effective hedging instruments. Gains and losses on liabilities held for trading are recognized in the consolidated statement of income.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged or cancelled. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of income.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, i.e., to realize the assets and settle the liabilities simultaneously.

Derivative Financial Instruments and Hedge Accounting

Initial Recognition and Subsequent Measurement
The Group uses derivative financial instruments such as cross-currency swaps, foreign currency call options, interest rate swaps, options and non-deliverable forwards to hedge the risks associated with foreign currency and interest rate fluctuations. Derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; or,
- Cash flow hedges when hedging the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument.
- The effect of credit risk does not dominate the value changes that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of the hedged item.

Hedges are accounted for as fair value hedges or cash flow hedges.

Fair Value Hedge
The change in the fair value of a hedge instrument is recognized in the consolidated statement of income. The change in the fair value attributable to the risk hedged is recorded as part of the carrying value of the hedge instrument and is also recognized in the consolidated statement of income as other expense.

For fair value hedges carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. The EIR amortization is initiated when an adjustment exists and no later than when the hedged instrument ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

In case of derecognition, the unamortized fair value of the hedged instrument is recognized immediately in profit or loss.

Cash Flow Hedges
The effective portion of the gain or loss on the hedging instrument is recognized in OCI, while any ineffective portion is recognized immediately in the consolidated statement of income. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in the fair value of the hedged instrument.

The Group designates only the spot element of forward contracts as a hedging instrument. The forward element is recognized in OCI and accumulated in a separate component of equity under "Cumulative translation adjustment" account.

The amounts accumulated in OCI are accounted for depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which hedged cash flows affect profit or loss.

If hedge accounting is discontinued, the amount accumulated in OCI shall remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount shall be reclassified to profit or loss as a reclassification adjustment. When the hedged cash flow occurs, any amount remaining in accumulated OCI shall be accounted for depending on the nature of the underlying transaction.

<u>Financial Instruments (effective before January 1, 2018)</u>

Date of Recognition
The Group recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets, recognition and derecognition, as applicable, that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date. Derivatives are recognized on the trade date.

Initial Recognition of Financial Instruments
Financial instruments are recognized initially at fair value, the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those classified as FVPL, includes the transaction cost.

Subsequent to initial recognition, the Group classifies its financial instruments in the following categories:

- Financial assets and financial liabilities at FVPL
- Loans and receivables
- Held-to-maturity (HTM) investments
- AFS investments
- Other financial liabilities

The classification depends on the purpose for which the instruments are acquired and whether these are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

Financial Assets and Liabilities at FVPL
Financial assets and liabilities at FVPL include financial assets and liabilities held for trading and financial assets and liabilities designated upon initial recognition as FVPL.

Financial assets and liabilities are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term. Gains or losses on investments held for trading are recognized in the consolidated statement of income under “Gain (loss) on sale of financial assets - net” account. Interest income earned on investments held for trading are recognized in “Interest income” account in the consolidated statement of income.

Financial assets and liabilities may be designated by management at initial recognition as FVPL when any of the following criteria is met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognizing gains or losses on a different basis; or,
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or,
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Group’s investments held for trading and derivative assets are classified as financial assets at FVPL, while the Group’s derivative liabilities arising from issuance of convertible bonds and derivative financial instruments with negative fair values are classified as financial liabilities at FVPL.

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable collectible amounts that are not quoted in an active market. These are not intended for immediate or short-term resale and thus, not designated as financial assets at FVPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the EIR method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized and impaired, as well as through the amortization process. Loans and receivables are included under current assets if realizability or collectibility is within twelve months after the reporting period.

The Group's cash and cash equivalents, time deposits, receivables (including noncurrent portion of receivables from real estate buyers), advances and other receivables (included under "Other current assets" account), long-term notes (included under "Other noncurrent assets" account) are classified in this category.

Other Financial Liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon inception of the liability. These include liabilities arising from operations or borrowings.

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses on other financial liabilities are recognized in the consolidated statement of income when the liabilities are derecognized, as well as through the amortization process.

The Group's bank loans, accounts payable and other current liabilities, dividends payable, long-term debt and tenants' deposits and others are classified in this category.

Classification of Financial Instruments between Liability and Equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or,
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or,
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument, as a whole, the amount separately determined as the fair value of the liability component on the date of issue.

Debt Issue Cost
Debt issue cost is presented as a reduction in long-term debt and amortized over the term of the related borrowings using the effective interest method.

Derivative Financial Instruments
The Group uses derivative financial instruments such as cross-currency swaps, foreign currency call options, interest rate swaps, options and non-deliverable forwards to hedge the risks associated with foreign currency and interest rate fluctuations. Derivative financial instruments, including bifurcated embedded derivatives, are initially recognized at fair value on the date on which the derivative

contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Cash Flow Hedges
Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset, liability or a highly probable forecast transaction and could affect the consolidated statement of income. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized under "Cumulative translation adjustment" account in the consolidated statement of comprehensive income, whereas any hedge ineffectiveness is immediately recognized in the consolidated statement of income under "Gain (loss) on fair value changes on derivatives - net" account.

Amounts taken to equity are transferred to the consolidated statement of income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized. However, if an entity expects that all or a portion of a loss recognized in OCI will not be recovered in one or more future periods, it shall reclassify from equity to profit or loss as a reclassification adjustment the amount that is not expected to be recovered.

Hedge accounting is discontinued prospectively when the hedge ceases to be highly effective. When hedge accounting is discontinued, the cumulative gains or losses on the hedging instrument that has been reported as "Cumulative translation adjustment" is retained in the OCI until the hedged transaction impacts the consolidated statement of income. When the forecasted transaction is no longer expected to occur, any net cumulative gains or losses previously reported in the consolidated statement of comprehensive income is recognized immediately in the consolidated statement of income.

Other Derivative Instruments Not Accounted for as Hedges
Certain freestanding derivative instruments that provide economic hedges under the Group's policies either do not qualify for hedge accounting or are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized under "Gain (loss) on fair value changes on derivatives - net" account in the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded Derivative
An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary, in a way similar to a stand-alone derivative. The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes a party to the contract. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case, a reassessment is required. The Group determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both, have changed and whether the change is significant relative to the previously expected cash flows on the contract.

Derecognition of Financial Assets and Liabilities

Financial Assets
A financial asset is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or,
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial Liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets
The Group assesses at each reporting period whether a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets Carried at Amortized Cost
The Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective impairment assessment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR.

The carrying amount of the impaired asset shall be reduced through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original EIR of the asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or transferred to the Group. If in a subsequent period, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the allowance account. If a writeoff is later recovered, the recovery is recognized in the consolidated statement of income to the extent of the carrying amount that would have been determined had no impairment loss been recognized.

Financial Assets Carried at Cost
If there is objective evidence that there is impairment of an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if there is an enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

<u>Merchandise Inventories</u>
Merchandise inventories are valued at the lower of cost or net realizable value. Cost, which includes all costs directly attributable to acquisition, such as purchase price and transport costs, is primarily determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

<u>Current Portion of Land and Development and Condominium and Residential Units for Sale</u>
Current portion of land and development and condominium and residential units for sale are stated at the lower of cost or net realizable value. Cost includes those costs incurred for development and improvement of the properties. Net realizable value is the selling price in the ordinary course of business less costs to complete and the estimated cost to make the sale. Current portion of land and development and condominium and residential units for sale include properties that are constructed for sale in the ordinary course of business, rather than for rental or capital appreciation.

Cost incurred for the development and improvement of the properties includes the following:

- land cost;
- amounts paid to contractors for construction and development; and,
- costs of borrowing, planning and design, and site preparation, as well as professional fees, property transfer taxes, construction overhead and others.

Investments in Associate Companies and Joint Ventures
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

The Group's investments in associate companies and joint ventures are accounted for under the equity method of accounting. Under the equity method, investments in associate companies and joint ventures are carried at cost plus post-acquisition changes in the Group's share in net assets of the associate or joint venture.

On acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's or joint venture's identifiable assets, liabilities and contingent liabilities is accounted for as follows:

- Goodwill relating to an associate or joint venture is included in the carrying amount of the investment. However, amortization of that goodwill is not permitted and is therefore not included in the determination of the Group's share in the associate's or joint venture's profits or losses; and,
- Any excess of the Group's share in the net fair value of the associate's and joint venture's identifiable assets, liabilities and contingent liabilities over the cost of the investment is included as income in the determination of the investor's share of the associate's or joint venture's profit or loss in the period in which the investment is acquired.

The consolidated statement of income reflects the share in the results of operations of the associate or joint venture. Where there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share in any changes and discloses this in the consolidated statement of comprehensive income. Profits and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the Group's interest in the associate or joint venture.

Appropriate adjustments to the investor's share of the associate's or joint venture's profit or loss after acquisition are made to account for the depreciation of the depreciable assets based on their fair values at the acquisition date and for impairment losses recognized by the associate or joint venture, such as for goodwill or property, plant and equipment.

After application of the equity method, the Group determines whether it is necessary to recognize any impairment loss with respect to the Group's net investment in the associate companies and joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate companies and joint ventures is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate companies and joint ventures and its carrying value, then, recognizes the loss in the consolidated statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate companies and joint ventures upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Property and Equipment
Property and equipment, except land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs necessary in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation and interest incurred during the construction period.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets, namely:

Buildings and improvements	5–25 years
Store equipment and improvements	5–10 years
Data processing equipment	5–8 years
Furniture, fixtures and office equipment	3–10 years
Machinery and equipment	5–10 years
Leasehold improvements	5–10 years or term of the lease, whichever is shorter
Transportation equipment	5–15 years

The residual values, useful lives and method of depreciation and amortization of the assets are reviewed and adjusted, if appropriate, at the end of each reporting period. The carrying value of the assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Fully depreciated assets are retained in the accounts until these are no longer in use and no further depreciation and amortization is credited or charged to current operations.

When any property and equipment is retired or otherwise disposed of, the cost and related accumulated depreciation and amortization and accumulated provision for impairment loss is removed from the accounts and any resulting gain or loss is charged to profit or loss.

Investment Properties
This account consists of investment properties and the noncurrent portion of land and development. Investment properties include property held to earn rentals and for capital appreciation. Investment properties, except land, are measured at cost, less accumulated depreciation and amortization and accumulated impairment in value. Land is stated at cost less any impairment in value.

Expenditures incurred after the investment property has been put in operation such as repairs and maintenance costs are charged to profit or loss.

Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets, namely:

Land improvements	3–10 years
Buildings and improvements	10–40 years
Building equipment, furniture and others	3–15 years
Building and leasehold improvements	5 years or term of the lease, whichever is shorter

The residual values, useful lives and method of depreciation and amortization of the assets are reviewed and adjusted, if appropriate, at the end of each reporting period.

Investment property is derecognized when disposed or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are charged to profit or loss.

Transfers are made to (from) investment property when there is a change in use evidenced by ending (commencement) of owner-occupation, or, commencement of lease to another party (commencement of development with a view to sell).

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Construction in Progress
Construction in progress under property and equipment and investment property represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Cost also includes interest on borrowed funds incurred during the construction period. Construction in progress is not depreciated.

Tenants' Deposits
Tenants' deposits are measured at amortized cost. Tenants' deposits refer to security deposits received from various tenants upon inception of the respective lease contracts on the Group's investment properties. At the termination of the lease contracts, the deposits received by the Group are returned to tenants, reduced by unpaid rental fees, penalties and/or deductions from repairs of damaged leased properties, if any. The related lease contracts usually have a term of more than twelve months.

Property Acquisitions, Business Combinations and Acquisitions of Non-controlling Interests

Property Acquisitions and Business Combinations. When property is acquired through corporate acquisitions or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents an acquisition of a business.

When such an acquisition is not judged to be an acquisition of a business, it is not treated as a business combination. Rather, the cost to acquire the entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at acquisition date. Accordingly, no goodwill or additional deferred tax arises.

Business combinations are accounted for using the acquisition method except for business combinations under common control in which an accounting similar to pooling of interest method is used. Business combinations under common control are those in which all of the combining entities or businesses are controlled by the same party or parties both before and after the business combination, and that control is not transitory. Under the acquisition method, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are expensed and included in "Selling, general and administrative expenses" account in the consolidated statement of income.

For accounting similar to pooling of interest method, the assets, liabilities and equity of the acquired companies for the reporting period in which the common control business combinations occur, and for any comparative periods presented, are included in the consolidated financial statements of the Group at their carrying amounts as if the combinations occurred from the date when the acquired companies first became under the control of the Group. The excess of the cost of business combinations over the net carrying amounts of the assets and liabilities of the acquired companies is recognized under "Equity adjustments from common control transactions" account in the equity section of the consolidated balance sheet.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not re-measured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, *Financial Instruments*, is measured at fair value with the changes in fair value recognized in the statement of income in accordance with PFRS 9. Other contingent considerations that are not within the scope of PFRS 9 are measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Acquisitions of Non-controlling Interests. Changes in the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e., transactions with owners in their capacity as owners). In such circumstances, the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid shall be recognized directly in equity.

Goodwill

Initial Measurement of Goodwill or Gain on a Bargain Purchase. Goodwill is initially measured by the Group at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as gain on a bargain purchase.

Subsequent Measurement of Goodwill. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Impairment Testing of Goodwill. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGU), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and,
- is not larger than an operating segment as defined in PFRS 8, *Operating Segments*, before aggregation.

Frequency of Impairment Testing. Irrespective of whether there is any indication of impairment, the Group tests goodwill acquired in a business combination for impairment at least annually.

Allocation of Impairment Loss. An impairment loss is recognized for a CGU if the recoverable amount of the unit or group of units is less than the carrying amount of the unit or group of units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit or group of units first to reduce the carrying amount of goodwill allocated to the CGU or group of units and then to the other assets of the unit or group of units pro rata on the basis of the carrying amount of each asset in the unit or group of units.

Measurement Period. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. The measurement period ends as soon as the Group receives the information it was seeking as of the acquisition date or learns that more information is not obtainable. The measurement period shall not exceed one year from the acquisition date.

Intangible Assets

The cost of trademarks and brand names acquired in a business combination is the fair value as at the date of acquisition. The useful life of trademarks and brand names is assessed based on an analysis of all relevant factors. If there is no foreseeable limit to the period over which the asset is expected to generate cash inflows for the Group, the trademark / brand name is considered to be indefinite.

Trademarks and brand names with indefinite useful lives are not amortized but are tested for impairment annually either individually or at the CGU level. The useful life of an intangible asset is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset at the date of disposal and are recognized in profit or loss.

Land Use Rights

Land use rights which is included under "Other noncurrent assets" is amortized over its useful life of 40–60 years.

Impairment of Nonfinancial Assets
The carrying value of nonfinancial assets (property and equipment, investment properties and investments in associate companies and joint ventures, right-of-use assets (ROU assets), intangibles with definite useful life and other noncurrent assets) is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or CGUs are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less cost to sell or value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment loss may no longer exist or may have decreased. In such a case, the recoverable amount is estimated. Any previously recognized impairment loss is reversed only when there is a change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Accordingly, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized in prior years. Such reversal is recognized in the consolidated statement of income. After such a reversal, the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Capital Stock and Additional Paid-in Capital
Capital stock is stated at par value of the share. Proceeds and/or fair value of considerations received in excess of par value, if any, is recognized as additional paid-in capital. Incremental costs directly attributable to the issuance of new shares is deducted from the proceeds, net of tax.

Revenue and Cost Recognition

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. The Group has concluded that it is acting as principal in majority of its revenue arrangements. The following specific recognition criteria, other than those disclosed in Note 2 to the consolidated financial statements, shall be met before revenue is recognized:

Rent. Revenue is recognized on a straight-line basis over the lease term or based on the terms of the lease as applicable. Contingent rent is recognized as revenue in the period in which it is earned.

Sale of Cinema and Amusement Tickets. Revenue is recognized upon receipt of cash from the customers which coincides with the rendering of services.

Gain on Sale of Investments in Associate Companies and Joint Ventures and Financial Assets. Revenue is recognized upon delivery of the securities to and confirmation of the sale by the broker.

Dividends. Revenue is recognized when the Group's right as a shareholder to receive payment is established.

Management and Service Fees. Revenue and/or expense is recognized when earned and/or incurred, in accordance with the terms of the agreements.

Interest. Revenue is recognized when interest accrues, taking into account the effective yield.

Selling, General, Administrative and Other Expenses. Costs and expenses are recognized as incurred.

Effective beginning January 1, 2018

Sale of Merchandise Inventories. Revenue from sale of goods is recognized when the transfer of control has been passed to the buyer at the time when the performance obligation has been satisfied. The performance obligation is generally satisfied when the customer purchases the goods. Payment of the transaction price is due immediately at the point the customer purchases the goods.

Revenue and Cost from Sale of Real Estate. With the effectivity of PFRS 15 effective January 1, 2018, the Financial Reporting Standards Council (FRSC), Philippine Interpretations Committee (PIC) issued the following guidance and interpretations to assist real estate companies in the adoption of PFRS 15:

- PIC Q&A 2018-12, Implementation Issues Affecting the Real Estate Industry, and,
- PIC Q&A 2018-14, Accounting for Cancellation of Real Estate Sales

In response to concerns raised by real estate associations on the implementation and adoption of the PIC Q&As, the SEC issued Memorandum Circular No. 14-2018 in October 2018 and Memorandum Circular No. 3-2019 in February 2019, deferring the application of the following provisions of the above-mentioned PIC Q&As for a period of 3 years:

- accounting for significant financing component,
- exclusion of uninstalled materials and land cost in POC determination,
- common usage service area (CUSA) charges, and,
- accounting for cancellation of real estate sales.

Effective January 1, 2021, real estate companies will adopt PIC Q&A No. 2018-12 and PIC Q&A No. 2018-14 and any subsequent amendments thereof retrospectively or as the SEC will later prescribe.

The Group availed of the deferral of adoption of the above specific provisions, except for land exclusion in the determination of POC.

The Group derives its real estate revenue from the sale of lots, house and lot and condominium units. Revenue from the sale of these real estate under pre-completion stage are recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Group uses output method. The Group recognizes revenue on the basis of direct measurements of the value to customers of the goods or services transferred to date, relative to the remaining goods or services promised under the contract. Progress is measured using survey of performance completed to date/ milestones reached/

time elapsed. This is based on the monthly project accomplishment report prepared by the third party project managers as approved by the construction manager which integrates the surveys of performance to date of the construction activities.

Any excess of progress of work over the right to an amount of consideration that is unconditional, recognized as receivables from sale of real estate, under trade receivables, is accounted for as unbilled revenue from sale of real estate.

Any excess of collections over the total of recognized installment real estate receivables is included in contract liabilities.

The Group considers contracts for the sale of its condominium and residential units including the transfer of ownership to buyers as containing only one performance obligation. The consideration indicated in the contract to sell is fixed and without any variable component. The Group does not consider the quality assurance warranty covering its sales contracts as a separate performance obligation.

Payment commences upon signing of the contract to sell and the consideration is payable in cash or under a financing scheme entered with the customer. The financing scheme would include payment of a certain percentage of the contract price spread over a certain period at a fixed monthly payment with the remaining balance payable in full at the end of the period either through cash or external financing. The amount due for collection under the amortization schedule for each of the customer does not necessarily coincide with the progress of construction.

The Group has a quality assurance warranty which is not treated as a separate performance obligation.

Cost of Real Estate Sold. The Group recognizes costs relating to satisfied performance obligations as these are incurred, taking into consideration the contract fulfillment assets such as land and connection fees. Cost includes the cost of land, land development, building costs, professional fees, depreciation, permits and licenses and capitalized borrowing costs. The aggregate cost is allocated to the saleable area, with the portion allocable to the sold area recognized as costs of real estate sold while the portion allocable to the unsold area recognized as part of real estate inventories (condominium and residential units for sale and current portion of land and development). In addition, the Group recognizes as an asset those costs that give rise to resources that will be used in satisfying performance obligations in the future and that are expected to be recovered.

Contract Balances

Receivables. A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract Assets. Contract assets pertain to unbilled revenue from sale of real estate. This is the right to consideration that is conditional in exchange for goods or services transferred to the customer. The capitalized amount is reclassified to trade receivable from real estate buyers when the periodic amortization of the customer becomes due for collection.

Contract Liabilities. Contract liabilities pertain to unearned revenue from sale of real estate. This is the obligation to transfer goods or services to a customer for which the Group has received consideration) from the customer. These also include customers' deposits related to sale of real estate. These are recognized as revenue when the Group performs the pertinent obligations under the contract.

Costs to Obtain a Contract. The costs of obtaining a contract with a customer are recognized as an asset if the Group expects recovery of these costs. The accrual of commissions paid to brokers and marketing agents on the sale of pre-completed real estate units is likewise capitalized when recovery is reasonably expected and is charged to expense in the period in which the related revenue is recognized as earned. Commission expense is included in the "Costs and expenses" account in the consolidated statement of income. Costs incurred prior to obtaining a contract with a customer are expensed as these are incurred.

Contract Fulfillment Assets. Contract fulfillment costs are divided into (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred. When determining the appropriate accounting treatment for such costs, the Group considers any other applicable standards. If those standards preclude capitalization of a particular cost, then an asset is not recognized under PFRS 15.

If other standards are not applicable to contract fulfillment costs, the Group applies the following criteria which if met, result in capitalization (i) costs directly relate to a contract or to a specifically identifiable anticipated contract; (ii) costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) costs are expected to be recovered. The assessment of this criteria requires the application of judgement particularly in determining whether costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable.

The Group's contract fulfillment assets mainly pertain to land acquisition costs (included under condominium and residential units for sale and current portion of land and development).

Amortization, Derecognition and Impairment of Contract Fulfillment Assets and Capitalized Costs to Obtain a Contract. The Group amortizes contract fulfillment assets and costs capitalized to obtain a contract to cost of sales over the expected construction period using POC following the pattern of real estate revenue recognition. The amortization is included in cost of real estate sold account in the consolidated statement of income.

A contract fulfillment asset or costs capitalized to obtain a contract is derecognized when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

At each reporting date, the Group determines whether there is an indication that a contract fulfillment asset may be impaired. If such indication exists, the Group makes an estimate by comparing the carrying amount of the asset to the remaining amount of consideration that the Group expects to receive less those costs that relate to providing services under the contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price is removed when testing for impairment.

In case the relevant costs demonstrate indicators of impairment, judgment is required in ascertaining the future economic benefits from these contracts as sufficient to recover the relevant assets.

Effective before January 1, 2018

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates and sales taxes or duties. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. The Group acts as principal in the majority of its revenue arrangements.

Sale of Merchandise. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, normally upon delivery. Sales are net of returns and discounts.

Sale of Real Estate. Revenue is recognized when it is deemed probable that economic benefits will flow to the Group in the form of collections. Collectibility of the sales amount is evidenced by the buyer's initial and continuous investments in accordance to the sales agreement, as well as good credit standing.

Revenue from sales of completed real estate projects is accounted for using the full accrual method. In accordance with PIC Q&A No. 2006-01, the POC method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Any excess of collections over the recognized receivables are included in the "Tenants' deposits and others" account in the consolidated balance sheet. If any of the criteria under the full accrual or POC method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers is presented under the "Tenants' deposits and others" account in the consolidated balance sheet.

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of condominium and residential units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development cost, which includes estimated costs for future development works.

The cost of inventory recognized in the consolidated statement of income upon sale is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the POC used for revenue recognition purposes.

Expected losses on contracts are recognized immediately when it is probable that the total contract cost will exceed total contract revenue. Changes in the estimated cost to complete the condominium project which affect cost of real estate sold and gross profit are recognized in the year in which changes are determined.

<u>Pension Benefits</u>
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting the net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- service cost;
- net interest on the net defined benefit liability or asset; and,
- re-measurements of net defined benefit liability or asset.

Service cost which includes current service costs, past service costs and gains or losses on non-routine settlements, is recognized as expense. Past service cost is recognized on the earlier of the date of the plan amendment or curtailment, or the date when restructuring-related cost is recognized.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of income.

Re-measurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which these arise. Re-measurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can these be paid directly to the Group. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if these have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Foreign Currency-denominated Transactions

Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange as at reporting date. Nonmonetary items denominated in foreign currency are translated using the exchange rate as at the date of initial recognition. All differences are recognized in profit or loss.

Foreign Currency Translation

The assets and liabilities of foreign operations are translated into Philippine peso at the rate of exchange as at reporting date and their respective statements of income are translated at the weighted average rate for the year. The exchange differences arising from the translation are included in the consolidated statement of comprehensive income and are presented within the “Cumulative translation adjustment” account in the consolidated statement of changes in equity. On disposal of a foreign subsidiary, the deferred cumulative amount of exchange differences recognized in equity relating to that particular foreign operation is recognized in profit or loss.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as Lessor. Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rent is recognized as revenue in the period it is earned.

Effective beginning on or after January 1, 2019

Group as Lessee. The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and ROU assets representing the right to use the underlying asset.

- *ROU Assets.* The Group recognizes ROU assets at the commencement date of the lease. ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimates of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, except when those costs are incurred to produce inventories. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. ROU assets are subject to impairment.

- *Lease Liabilities.* At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-subtance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised and payments of penalties for terminating a lease, if the the lease term reflects the exercise of an option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period in which the event or condition that triggers the payment occurs.

  In calculating the present value of lease payments, the Group uses the incremental borrowing rate (IBR) at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

- *Short-term Leases and Leases of Low-value Assets.* The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have lease terms of 12 months or less from the commencement date and those that do not contain a purchase option). It also applies the lease of low-value assets recognition exemption. These leases are recognized as expense on a straight-line basis over the lease term.

Effective before January 1, 2019

Group as Lessee. Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the consolidated statement of income.

Capitalized lease assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

Borrowing Cost

Borrowing cost is capitalized as part of the cost of the asset if it is directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing cost commences when the activities to prepare the asset are in progress and expenditures and borrowing cost are incurred. Borrowing cost is capitalized until the assets are substantially ready for their intended use. Borrowing cost is capitalized when it is probable that it will result in future economic benefits to the Group. All other borrowing costs are expensed as incurred. For borrowing associated with a specific asset, the actual rate on that borrowing is used. Otherwise, a weighted average cost of borrowings is used.

Taxes

Current Income Tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the tax amounts are those that are enacted or substantively enacted as at the end of the reporting period.

Deferred Income Tax. Deferred income tax is set up based on the liability method and considering the temporary differences between the tax base of assets and liabilities and the corresponding carrying amounts at each reporting period.

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of excess Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and Net Operating Loss Carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward benefits of excess MCIT over RCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,

- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures wherein deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that the future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as at reporting date.

Income tax relating to items recognized directly in the consolidated statement of comprehensive income is recognized in the consolidated statement of comprehensive income and not in the consolidated statement of income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and/or the deferred taxes relate to the same taxable entity and the same taxation authority.

Value-added Tax (VAT). Revenue, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and,
- for receivables and payables that are stated with the amount of tax included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Other current assets" or "Accounts payable and other current liabilities" accounts in the consolidated balance sheet.

<u>Basic/Diluted Earnings Per Common Share (EPS)</u>
Basic EPS is computed by dividing the net income attributable to owners of the Parent for the period by the weighted average number of issued and outstanding common shares for the period, with retroactive adjustment for any stock dividends declared.

For the purpose of computing diluted EPS, the net income for the period attributable to owners of the Parent and the weighted-average number of issued and outstanding common shares are adjusted for the effects of all potential dilutive ordinary shares.

<u>Contingencies</u>
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events after the Reporting Period
Post yearend events that provide additional information about the Group's financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post yearend events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous year except for the adoption of the following new standards, amendments to standards and improvements, starting January 1, 2019. Unless otherwise indicated, the adoption did not have any significant impact on the consolidated financial statements.

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 23, *Uncertainty over Income Tax Treatments*

  IFRIC 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:
  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

- *Annual Improvements to PFRSs* 2015-2017 Cycle

  - *Amendments* to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

- PFRS 16, *Leases*

  PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases - Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

  Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. Lessors shall continue to classify using the same classification principle as in PAS 17 and distinguish only between two types of leases: operating and finance leases. PFRS 16 did not have any impact on leases where the Group is the lessor.

  The Group adopted PFRS 16 using the modified retrospective approach and applied the standard to contracts that were previously identified as leases under PAS 17 and Philippine Interpretation IFRIC 4.

  The effect of adoption of PFRS 16 as at January 1, 2019 follows:

	Increase (decrease)
	(In Thousands)
ROU assets	₱32,020,254
Accruals	(3,031,686)
Prepayments	(14,583)
Deferred tax assets	1,939,123
Deferred tax liabilities	1,513,956
Lease liabilities	24,781,169

  Before the adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets.

  Leases Previously Accounted for as Operating Leases. The Group recognized ROU assets and lease liabilities for those leases previously classified as operating leases. ROU assets were recognized based on an amount equal to lease liabilities and adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The lease liability as at January 1, 2019 is reconciled with the operating lease commitments as at December 31, 2018. Details follow:

	(In Thousands)
Operating lease commitments as at December 31, 2018	₱33,217,000
Weighted average incremental borrowing rate	4.9% - 10.4%
Discounted operating lease commitments	₱24,781,000
Less: Commitments relating to short-term leases	(157)
Add: Payments in optional extension periods not recognized at beginning of year	326
Lease liability as at January 1, 2019	₱24,781,169

With the adoption of PFRS 16 in 2019, the Group's operating profit and interest expense increased. This is due to the change in the accounting for rent expense related to leases that were previously classified as operating leases under PAS 17.

The adoption of PFRS 16 did not have any impact to the January 1, 2019 equity since the Group elected to measure the ROU assets at an amount equal to the lease liability, adjusted by the amount of any related prepaid or accrued lease payments recognized in the consolidated balance sheet immediately before the date of initial adoption.

Future Changes in Accounting Policies

The following are the new standards and amendments to PFRS that were issued but are not yet effective as at December 31, 2019. Unless otherwise indicated, the Group does not expect the future adoption of these new standards and amendments to have a significant impact on the consolidated financial statements. The Group intends to adopt the applicable standards and amendments when these become effective.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  These amendments shall be applied prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

  The amendments refine the definition of "material" in PAS 1 and align the definitions used across PFRSs and other pronouncements. These are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgement.

These amendments shall be applied prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

- *Philippine Interpretations Committee (PIC) updates on PFRS 15 implementation Issues*. On August 27, 2019, the Group together with the real estate industry, sent a Position Paper to the PIC requesting the latter to revisit its position on certain issues relating to the adoption of PFRS 15 among others. In line with this, the PIC issued two response letters to the Industry dated September 13 and 27, 2019. Pending finalization of PIC's position on the matters raised by the Industry, PIC has provided the following options:

  - Conclusion of PIC Q&A No. 2018-12D Step 3, *Determining the Transaction Price for the Contract*, temporarily allows the recording of the difference between the consideration received from customers and the value of goods or services transferred to customers as either a contract asset, with disclosures pursuant to PFRS 15, or as installment contracts receivable with disclosures pursuant to PFRS 9. The Group opted to retain its accounting policy of presenting the difference between the consideration received and value of goods or services transferred as a contract asset with disclosures pursuant to PFRS 15.

- Conclusion of PIC Q&A No. 2018-12H, *Accounting for Common Usage Service Area (CUSA)*, recommends the industry to consider an alternative presentation wherein CUSA is not presented as part of revenues if these are not considered a main source of revenue and are immaterial in value.

- *March 2019 IFRIC Agenda Decision on Over Time Transfer of Constructed Good (PAS 23, Borrowing Costs).* In March 2019, the IFRIC issued an Agenda Decision clarifying the criteria for the capitalization of borrowing costs in relation to the construction of residential multi-unit real estate development which are sold to customers prior to the start of construction or completion of the development.

  Paragraph 8 of PAS 23 allows the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Paragraph 5 of PAS 23 defines a qualifying asset as an asset that takes a substantial period of time to get ready for its intended use or sale. The IFRIC Agenda Decision clarified that the related assets namely, installment contracts receivable, contract asset or inventory, are not considered qualifying assets and therefore the corresponding borrowing cost may not be capitalized.

  In February 2020, the SEC decided to provide relief to the real estate industry by deferring the implementation of the March 2019 IFRIC Agenda Decision until December 31, 2020. Effective January 1, 2021, real estate companies shall adopt this IFRIC Interpretation of PAS 23 on the capitalization of borrowing costs and subsequent amendments thereto as the SEC shall prescribe.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as at the reporting date.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Existence of a Contract. The Group's primary document for a contract with a customer is the signed contract to sell. In cases wherein the contract to sell is not signed by both parties at report date, other signed documents including the reservation agreement, official receipts, quotation sheets and other documents are considered to contain the basic elements to qualify as a contract with the customer under PFRS 15.

Part of the Group's assessment process for revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the real estate property that will be transferred to the customer. In evaluating whether collectibility of an amount of consideration is probable, the significance of the customer's initial payments in relation to the total contract price is given consideration.

Measure of Progress. The Group has determined that the output method used in measuring the progress of the performance obligation faithfully depicts the Group's performance in transferring control of real estate development to the customers.

Property Acquisitions and Business Combinations. At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets and liabilities. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the real estate property. The consideration is made to the extent that the significant business processes are acquired and the additional services are to be provided by the subsidiary.

When the acquisition of subsidiary does not constitute a business, it is accounted for as an acquisition of a group of assets and liabilities. The purchase price of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values at the date of acquisition. No goodwill or deferred tax is recognized.

Consignment Arrangements on Retail Segment. The retail segment of the Group has various consignment arrangements with suppliers. Under these arrangements, the Group bears significant risks and rewards associated with the sale of goods. Management has determined that it is acting as principal in these sales transactions. Accordingly, sales revenue is recognized at gross amount upon actual sale to customers. The related inventory stocks supplied under these arrangements only become due and payable to suppliers when sold.

Operating Lease Commitments - Group as Lessor. Management has determined that the Group retains all the significant risks and rewards of ownership of the properties and thus, accounts for the contracts as operating leases. The ownership of the asset is not transferred to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable, and, the lease term is not for the major part of the asset's economic life.

Determination of Lease Term of Contracts with Renewal and Termination Options - Group as Lessee (On or after January 1, 2019). The Group has several lease contracts that include extension and termination options. The Group applies judgment in evaluating the certainty or possibility of exercising the option to renew or terminate lease contracts. The Group considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination option. After the commencement date, the Group reassesses the lease term for any significant event or change in circumstances that is within its control and affects its ability to exercise the option to renew or to terminate the lease contract (e.g., construction of significant leasehold improvements or significant customization to the leased asset). In most cases, the Group exercises its option to renew.

Operating Lease Commitments - Group as Lessee (Before January 1, 2019). Management has determined that all the significant risks and benefits of ownership of these properties remain with the lessor and thus, accounts for these leases as operating leases.

Assessing Significant Influence over Associates. Management assessed that the Group has significant influence over all its associates by virtue of the Group's more than 20% voting power in the investee, representation in the board of directors, and participation in policy-making processes of the associates.

Assessing Joint Control of an Arrangement and the Type of Arrangement. The Group has 25% ownership in Waltermart Mall. Management assessed that the Group has joint control of Waltermart Mall by virtue of a contractual agreement with other shareholders. Waltermart Mall is a joint venture arrangement as it is a separate legal entity and its stockholders have rights to its net assets.

Assessing of Control or Significant Influence of Investees

SM Prime. The Group has 50% ownership interest in SM Prime. Management assessed that the Group has control of SM Prime as it holds significantly more voting rights than any other vote holder or organized group of vote holders, and the other shareholdings are widely dispersed giving the Group the power to direct relevant activities of SM Prime.

BDO Unibank, Inc. (BDO). The Group has 45% ownership interest in BDO. Management assessed that the Group does not have control of BDO as the Group's aggregate voting rights is not sufficient to give it power to direct the relevant activities of BDO (see Note 12).

Premium Leisure Corp. (PLC). The Group has 5% ownership interest in PLC. PLC is a subsidiary of Belle Corporation (Belle). Management assessed that the Group has significant influence over PLC through its associate, Belle (see Note 12).

Estimates and Assumptions
The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that pose a significant risk of causing material adjustments to the carrying amounts of assets and liabilities in the succeeding years are discussed below.

Revenue Recognition Method and Measure of Progress. The POC method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold. Revenue is recognized when the equitable interest is transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation works are finished), and the costs incurred or to be incurred can be measured reliably.

Provision for Expected Credit Losses (ECL) of Receivables and Contract Assets (referred also in the consolidated financial statements as "Unbilled revenue from sale of real estate"). The Group maintains an allowance for impairment loss at a level considered adequate to provide for potential uncollectible receivables. The Group uses a provision matrix for rent and other receivables and vintage approach for receivables from sale of real estate (billed and unbilled) to calculate ECLs. The Group performs a regular review of the age and status of these accounts, designed to identify accounts for impairment. The assessment of the correlation between historical observed default rates, forecasted economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. See Note 10 for related balances.

Net Realizable Value of Merchandise Inventories, Condominium and Residential Units for Sale, and Land and Development. The Group recognizes an allowance for impairment of value of merchandise inventories, condominium and residential units for sale, and land and development to value these assets at net realizable value. Impairment may be due to damage, physical deterioration, obsolescence, changes in price levels or other causes. See Notes 15 and 22 for related balances.

The estimate of net realizable value is based on the most reliable evidence of the realizable value of the assets, available at the time the estimate is made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

The allowance account is reviewed on a regular basis. In 2019 and 2018, the Group assessed that the net realizable value of merchandise inventories, condominium and residential units for sale and land and land development is higher than cost, hence, the Group did not recognize any impairment loss.

Estimated Useful Life of Property and Equipment and Investment Properties (except for Right-of-use Asset). The useful life of each of the Group's property and equipment and investment properties is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of the asset. It is possible, however, that future financial performance could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. See Notes 13 and 14 for related balances.

Impairment of Investments in Associate Companies and Joint Ventures. Impairment review of investments in associate companies and joint ventures is performed when events or changes in circumstances indicate that the carrying value may not be recoverable. This requires management to make an estimate of the expected future cash flows from the investments and to choose a suitable discount rate in order to calculate the present value of those cash flows. See Note 12 for related balances.

Impairment of Goodwill and Trademarks and Brand Names with Indefinite Useful Lives. Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. Fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculations is based on a discounted cash flow model. The cash flows are derived from the forecast for the relevant period and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the assets. The recoverable amount is most sensitive to the pre-tax discount rates used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. See Note 16 for related balances.

Impairment of Other Nonfinancial Assets. The Group assesses at each reporting date whether there is an indication that an item of property and equipment, investment properties and ROU assets may be impaired. This assessment requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. Future events could cause the Group to conclude that these assets are impaired. Any resulting impairment loss could have a material impact on the financial position and performance of the Group.

The preparation of the estimated future cash flows involves judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Group's assessment of recoverable values and may lead to future additional impairment charges. See Notes 13 and 14 for related balances.

Purchase Price Allocation in Business Combinations. The acquisition method requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities at acquisition date. It also requires the acquirer to recognize goodwill. The Group's acquisitions have resulted in goodwill and separate recognition of trademarks and brand names. See Note 16 for related balances.

Realizability of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of excess MCIT and NOLCO is based on the projected taxable income in future periods. Based on the projection, not all deductible temporary differences and carryforward benefits of excess MCIT and NOLCO will be realized. Accordingly, only a portion of the Group's deferred tax assets is recognized. See Note 26 for related balances.

Present Value of Defined Benefit Obligation. The present value of the pension obligations depends on a number of factors including assumptions of discount rate and rate of salary increase, among others.

The Group determines the appropriate discount rate at the reporting date. In determining the discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based on current market conditions. Management believes that the assumptions used are reasonable and appropriate. However, significant differences in actual experience or significant changes in assumptions would materially affect the Group's pension and other pension obligations. See Note 25 for related balances.

Fair Value of Financial Assets and Liabilities. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates and volatility rates). The amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any changes in the fair value of these financial assets and liabilities would directly affect profit or loss and OCI. See Note 29 for related balances.

Valuation of Unquoted Equity Investments. Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's-length market transactions;
- current fair value of other instruments that is substantially the same;
- the expected cash flows discounted at current rates applicable for investments with similar terms and risk characteristics; or,
- other valuation models.

The determination of cash flows and discount factors for unquoted equity investments requires significant estimation. In valuing the Group's financial assets at FVOCI at fair value in compliance with PFRS 9, management applied judgement in selecting the valuation technique and used assumptions in estimating future cash flows from its equity instruments considering the information available to the Group.

Leases – Estimating the Incremental Borrowing Rate. The Group cannot readily determine the interest rate implicit in the lease, therefore, it used its IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating). See Note 27 for related balances.

Contingencies. The Group is involved in certain legal and administrative proceedings. The Group, in collaboration with outside legal counsel handling defense, as the case may be, does not believe that these proceedings will have a material adverse effect on its financial position and performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings.

5. Business Combination

Acquisition

Philippines Urban Living Solutions, Inc. (PULSI). In April 2017, the Parent Company acquired 674.9 million common shares equivalent to 61.2% equity interest in PULSI, the developer and operator of *MyTown* dormitories.

Despite the Parent Company's 61.2% equity interest, PULSI has been accounted for as an associate under PAS 28, *Investments in Associates and Joint Ventures*, since the Parent Company did not meet the requirements to obtain control over PULSI as prescribed by PFRS 10, *Consolidated Financial Statements*.

On November 11, 2019, the Parent Company exercised its call option and purchased 22.9 million common shares of PULSI amounting to ₱136.8 million, thereby increasing its equity interest to 63.3%. Beginning November 11, 2019, PULSI was considered as a subsidiary in accordance with PFRS 3, *Business Combinations*.

The transaction was accounted for as a step acquisition under PFRS 3. The fair value of the identifiable assets and liabilities as at the date of acquisition follows:

	Fair Value *(in Thousands)*
Cash and cash equivalents	₱463,967
Receivables	11,983
Other current assets	122,975
Investment properties	4,606,817
Property and equipment (Note 13)	66,051
Other noncurrent assets	139,335
Total identifiable assets	5,411,128
Accrued expenses and other current liabilities	867,545
Deferred tax liabilities	842,532
Other noncurrent liabilities	827
Total identifiable liabilities	1,710,904
Net identifiable assets	3,700,224
Non-controlling interests	(1,358,352)
Fair value of previously held interest	(2,264,985)
Goodwill arising from the acquisition	59,940
Purchase consideration transferred	₱136,827

The cash flows from this acquisition follow:

Cash acquired	₱463,967
Purchase consideration transferred	(136,827)
Net	₱327,140

PULSI's receivables comprise mainly of rent receivables from tenants carried at cost. It is expected that the full contractual amounts as presented in the balance sheet will be collected in full.

The goodwill of ₱59.9 million represents the value of synergies expected to arise from the business combination.

From the date of acquisition, PULSI contributed ₱33.0 million of revenue and ₱2.7 million to net income. If the combination had taken place at the beginning of the year, revenue would have been ₱501,757.6 million and net income for the Group would have been ₱69,451.4 million.

6. **Segment Information**

The Group has identified three reportable operating segments as follows: property, retail, and financial services and others.

The property segment is involved in mall, residential and commercial development and hotel and convention center operations. The mall segment develops, conducts, operates and maintains the business of modern commercial shopping centers and all businesses related thereto such as the conduct, operation and maintenance of shopping center spaces for rent, amusement centers and cinemas within the compound of the shopping centers. The residential and commercial segments are involved in the development and transformation of major residential, commercial, entertainment and tourism districts through sustained capital investments in buildings and infrastructure. The hotels and convention centers segment engages in and carries on the business of hotels and convention centers and operates and maintains any and all services and facilities incident thereto.

The retail segment is engaged in the retail/wholesale trading of merchandise such as dry goods, wearing apparels, food and other merchandise.

The financial services and others segment primarily includes the operations of the Parent Company which is engaged in asset management and capital investments as well as its associate companies which include the banks.

The BOD monitors the operating results of each of its business units for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with the operating profit or loss in the consolidated financial statements.

Operating Segment Financial Data

			2019		
	Property	**Retail**	**Financial Services and Others**	**Eliminations/ Adjustments**	**Consolidated**
			(In Thousands)		
Revenues:					
External customers	**₱106,442,090**	**₱366,036,864**	**₱29,172,941**	**₱–**	**₱501,651,895**
Inter-segment	**15,127,079**	**189,391**	**3,315,815**	**(18,632,285)**	**–**
	₱121,569,169	**₱366,226,255**	**₱32,488,756**	**(₱18,632,285)**	**₱501,651,895**

			2019		
	Property	**Retail**	**Financial Services and Others**	**Eliminations/ Adjustments**	**Consolidated**
			(In Thousands)		
Segment results:					
Income before income tax	**₱49,881,226**	**₱20,463,932**	**₱16,269,340**	**₱–**	**₱86,614,498**
Provision for income tax	**(10,508,038)**	**(6,235,716)**	**(426,430)**	**–**	**(17,170,184)**
Net income	**₱39,373,188**	**₱14,228,216**	**₱15,842,910**	**₱–**	**₱69,444,314**
Net income attributable to:					
Owners of the Parent	**₱19,166,028**	**₱9,840,717**	**₱15,561,499**	**₱–**	**₱44,568,244**
Non-controlling interests	**20,207,160**	**4,387,499**	**281,411**	**–**	**24,876,070**

			2018		
	Property	Retail	Financial Services and Others	Eliminations/ Adjustments	Consolidated
			(In Thousands)		
Revenues:					
External customers	₱94,076,279	₱334,958,024	₱20,753,864	₱–	₱449,788,167
Inter-segment	14,179,779	207,805	3,003,367	(17,390,951)	–
	₱108,256,058	₱335,165,829	₱23,757,231	(₱17,390,951)	₱449,788,167
Segment results:					
Income before income tax	₱ 42,362,040	₱18,948,538	₱12,819,758	₱–	₱74,130,336
Provision for income tax	(9,093,080)	(6,227,332)	(255,356)	–	(15,575,768)
Net income	₱33,268,960	₱12,721,206	₱12,564,402	₱–	₱58,554,568
Net income attributable to:					
Owners of the Parent	₱16,072,906	₱8,710,519	₱12,294,900	₱–	₱37,078,325
Non-controlling interests	17,196,054	4,010,687	269,502	–	21,476,243

			2017		
	Property	Retail	Financial Services and Others	Eliminations/ Adjustments	Consolidated
			(In Thousands)		
Revenues:					
External customers	₱80,875,566	₱298,797,817	₱18,274,837	₱–	₱397,948,220
Inter-segment	12,905,250	5,378	2,752,992	(15,663,620)	–
	₱93,780,816	₱298,803,195	₱21,027,829	(₱15,663,620)	₱397,948,220
Segment results:					
Income before income tax	₱36,438,790	₱17,261,621	₱11,590,823	₱–	₱65,291,234
Provision for income tax	(7,894,965)	(5,623,633)	(254,119)	–	(13,772,717)
	₱28,543,825	₱11,637,988	₱11,336,704	₱–	₱51,518,517
Net income attributable to:					
Owners of the Parent	₱13,753,617	₱8,060,075	₱11,109,763	₱–	₱32,923,455
Non-controlling interests	14,790,208	3,577,913	226,941	–	18,595,062

Disaggregated revenue is consistent with business segment revenues as presented above.

7. Cash and Cash Equivalents

This account consists of:

	2019	2018
	(In Thousands)	
Cash on hand and in banks (Note 21)	**₱19,218,912**	₱13,609,347
Temporary investments (Note 21)	**56,994,862**	65,703,868
	₱76,213,774	₱79,313,215

Cash in banks earn interest at the respective bank deposit rates. Temporary investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group. These investments earn interest at prevailing rates (see Note 24).

8. Time Deposits

This account consists of time deposits as follows:

	2019	2018
	(In Thousands)	
Current	**₱30,488**	₱25,842,829
Noncurrent	**2,412,972**	2,392,622
	₱2,443,460	₱28,235,451

The time deposits bear interest ranging from 2.0% to 3.2% in 2019 and 1.0% to 4.2% in 2018.

Noncurrent time deposits amounting to ₱2,413.0 million and ₱2,382.6 million as at December 31, 2019 and 2018, respectively, are used as collateral for some credit lines.

Interest earned from time deposits is disclosed in Note 24.

9. Financial Assets

This account consists of:

	2019	2018
	(In Thousands)	
Financial assets at FVOCI:		
Shares of stock		
Listed	**₱22,240,653**	₱23,382,060
Unlisted	**2,635,484**	2,613,690
Club shares	**12,500**	31,830
Financial assets at FVPL -		
Corporate notes	–	1,314,500
	24,888,637	27,342,080
Less current portion	**659,077**	639,316
Noncurrent portion	**₱24,229,560**	₱26,702,764

- Financial assets at FVOCI pertain to equity investments in shares of stock and club shares which are not held for trading and which the Group has irrevocably designated at FVOCI, as the Group considers these investments to be strategic in nature.
- Financial assets at FVPL pertain to debt instruments where the contractual cash flows are not solely principal and interest.
- Investments in corporate notes bear a fixed interest of 5.0% in 2018.
- Gain on disposal of financial assets at FVOCI amounted to ₱27.8 million and ₱1.3 million in 2019 and 2018, respectively.

The movements in net unrealized gain on financial assets at FVOCI and share in unrealized loss on financial assets at FVOCI of associates attributable to the owners of the Parent follow:

	2019	2018
	(In Thousands)	
Balance at beginning of year	**₱11,748,980**	₱–
Share in net unrealized gain (loss) on financial assets at FVOCI of associates	**4,376,205**	(3,400,398)
Gain (loss) due to changes in fair value of financial assets at FVOCI	**24,196**	(1,876,865)
Transferred to retained earnings - realized gain on sale of financial assets at FVOCI	**(1,749,741)**	–
Effect of adoption of new accounting standards	**–**	1,703,458
Transfer from net unrealized gain on AFS investments	**–**	15,324,123
Transferred to profit or loss	**–**	(1,338)
Balance at end of year	**₱14,399,640**	₱11,748,980

Interest earned from financial assets is disclosed in Note 24.

10. **Receivables and Contract Assets**

This account consists of:

	2019	2018
	(In Thousands)	
Trade:		
Real estate buyers*	**₱66,679,220**	₱50,878,438
Third-party tenants	**8,469,829**	7,252,071
Related-party tenants (Note 21)	**432,513**	383,424
Others	**66,747**	124,530
Due from related parties (Note 21)	**1,079,944**	953,010
Management and service fees (Note 21)	**2,212,623**	1,244,159
Dividends (Note 21)	**610,649**	185,767
	79,551,525	61,021,399
Less allowance for ECL	**1,053,549**	1,034,040
	78,497,976	59,987,359
Less noncurrent portion of receivables from real estate buyers (Note 16)	**24,880,776**	26,232,167
Current portion	**₱53,617,200**	₱33,755,192

** Includes unbilled revenue from sale of real estate amounting to ₱59,903.0 million and ₱46,501.0 million as at December 31, 2019 and 2018, respectively.*

The terms and conditions of these receivables follow:

- Receivables from real estate buyers pertain mainly to sale of condominium and residential units at various terms of payment that are noninterest-bearing. Portions of these receivables have been assigned to local banks: on without recourse basis, ₱7,689.0 million and ₱1,664.0 million as at December 31, 2019 and 2018, respectively, and, on with recourse basis, ₱1,986.0 million and nil as at December 31, 2019 and 2018, respectively (see Note 21). The corresponding liability from the assignment of receivables on with recourse basis bears interest ranging from 4.3% to 4.5% in

2019 and 4.5% to 6.5% in 2018. The fair value of these assigned receivables and liability approximates cost.

The transaction price allocated to the remaining performance obligations totaling ₱11,424.0 million and ₱12,929.0 million as at December 31, 2019 and 2018, respectively, are expected to be recognized over the construction period ranging from one to five years.

- Trade receivables from tenants and management and service fee receivables are noninterest-bearing and are normally collectible on 30- to 90-day terms.

- Dividends receivables are noninterest-bearing and are normally collectible within the next financial year.

- The terms and conditions relating to Due from related parties are discussed in Note 21.

Allowance for ECL pertains to receivables from tenants which were identified to be impaired based on specific assessment. The movements in in this account follow:

	2019	2018
	(In Thousands)	
Balance at beginning of year	**₱1,034,040**	₱1,054,498
Provisions (Note 23)	**22,928**	46,606
Reversal and writeoff	**(3,419)**	(67,064)
Balance at end of year	**₱1,053,549**	₱1,034,040

The aging of receivables follow:

	2019	2018
	(In Thousands)	
Neither past due nor impaired	**₱75,132,839**	₱58,110,539
Past due but not impaired:		
31-90 days	**1,571,703**	551,833
91-120 days	**376,635**	306,219
Over 120 days	**1,416,799**	1,018,768
Impaired	**1,053,549**	1,034,040
	₱79,551,525	₱61,021,399

Receivables other than those identified as impaired, are assessed as good and collectible.

11. **Other Current Assets**

This account consists of:

	2019	2018
		(In Thousands)
Land and development (Note 15)	**₱37,935,968**	₱29,486,964
Prepaid taxes and other prepayments	**13,985,109**	11,730,967
Condominium and residential units for sale (Note 15)	**6,026,426**	8,110,504
Bonds and deposits	**9,519,229**	6,601,305
Receivables from banks	**5,497,587**	4,158,765
Non-trade receivables	**4,362,489**	4,605,743
Input tax	**4,261,278**	2,439,164
Accrued interest receivable (Note 21)	**192,499**	359,714
Escrow fund (Notes 16 and 21)	**117,985**	157,719
Others	**2,780,249**	2,687,732
	₱84,678,819	₱70,338,577

- Prepaid taxes and other prepayments consist of creditable tax certificates received by the Group and prepayments for insurance, real property taxes, rent, and other expenses which are normally utilized within the next financial year.

- Bonds and deposits pertain to down payments made to suppliers and contractors to cover preliminary expenses of the Group's construction projects. These are noninterest-bearing and are applied to progress billings depending on the percentage of project accomplishment.

- Non-trade receivables include interest-bearing advances to third parties which are normally collectible within the next financial year (see Note 24).

- Receivables from banks are noninterest-bearing and are normally collectible on 30- to 90-day terms.

- Accrued interest receivable relates mostly to time deposits and is normally collected within the next financial year.

- Escrow fund pertains to amounts deposited with an escrow agent, a requisite for the issuance of temporary license to sell by the Housing and Land Use Regulatory Board (HLURB), pending issuance of a license to sell and certificate of registration. Amounts deposited include all amounts received from buyers including down payments, reservation and monthly amortization, among others.

12. **Investments in Associate Companies and Joint Ventures**

The movements in this account follow:

	2019	2018
	(In Thousands)	
Cost:		
Balance at beginning of year	**₱164,862,652**	₱161,012,896
Additions	**5,330,780**	3,849,756
Step acquisition (Note 5)	**(1,250,000)**	–
Reclassifications	**1,579,750**	–
Balance at end of year	**170,523,182**	164,862,652
Accumulated equity in net earnings:		
Balance at beginning of year	**101,572,595**	84,014,473
Equity in net earnings	**26,038,426**	19,164,345
Dividends received and others	**(5,503,034)**	(4,423,746)
Step acquisition (Note 5)	**(22,455)**	–
Effect of adoption of new standards	**–**	2,817,523
Balance at end of year	**122,085,532**	101,572,595
Share in other comprehensive loss of associate companies	**(7,642,912)**	(6,697,742)
Translation adjustment	**(7,164)**	57,572
	284,958,638	259,795,077
Allowance for impairment loss	**3,987,000**	–
	₱280,971,638	₱259,795,077

The associate companies and joint ventures of the Group follow:

	Percentage of Ownership				
	2019		2018		
Company	**Gross**	**Effective**	Gross	Effective	Principal Activities
Associates					
BDO Unibank, Inc. (BDO)	**47**	**45**	46	45	Financial services
China Banking Corporation (China Bank)	**23**	**23**	23	20	Financial services
Belle Corporation (Belle)	**27**	**26**	27	26	Real estate development and tourism
Atlas Consolidated Mining and Development Corporation (Atlas)	**34**	**34**	34	34	Mining
Sodexo Benefits and Rewards Services Philippines, Inc.	**40**	**40**	40	40	Retail
Fast Retailing Philippines, Inc.	**25**	**19**	25	19	Retail
CityMall Commercial Centers, Inc.	**34**	**34**	34	34	Real estate development and tourism
Premium Leisure Corp. (PLC)	**5**	**5**	5	5	Gaming
OCLP Holdings, Incorporated (OHI)	**40**	**20**	40	20	Real estate development
Feihua Real Estate (Chongqing) Company Ltd (FHREC)	**50**	**25**	50	25	Real estate development
Fitness Health & Beauty Holdings Corp.	**40**	**31**	40	31	Retail
2Go Group, Inc. (2Go)	**30**	**30**	34	34	Integrated supply chain
Neo Associates [(a)]	**34**	**34**	34	34	Real estate development
Goldilocks Bakeshop, Inc. (GBI)	**34**	**34**	34	34	Bakery products and other food items
Asia-Pacific Computer Technology Center, Inc.	**42**	**42**	52	52	Investment
GPAY Network, PH, Inc.	**35**	**35**	–	–	Providing electronic money through electronic instruments
Joint Ventures					
Waltermart Mall [(b)]	**51**	**25**	51	25	Shopping mall development
Metro Rapid Transit Service, Inc.	**51**	**25**	51	25	Transportation
ST 6747 Resources Corporation	**50**	**25**	50	25	Real estate development

The principal place of business and country of incorporation of the associate companies and joint ventures listed above is in the Philippines except for FHREC which was incorporated in China.

(a) Neo Associates consists of N-Park BGC Properties, Inc., N-Lima BGC Properties, Inc. and N-Park BGC Land, Inc.
(b) Waltermart Mall consists of Winsome Development Corporation, Willin Sales, Inc., Willimson, Inc., Waltermart Ventures, Inc. and WM Development Inc.

Belle
In August 2018, Belle repurchased 735.6 million of its shares from the market, thus reducing the Group's effective ownership to 26.4%.

GBI
In June 2018, the Group acquired 34.1% equity interest in Goldilocks Bakeshop, Inc.

BDO
The condensed financial information of the Group's material associate, BDO, follows:

	2019	2018
	(In Millions)	
Total assets	**₱3,188,858**	₱3,022,247
Total liabilities	**2,818,271**	2,694,098
Total equity	**370,587**	328,149
Proportion of the Group's ownership	**45%**	46%
	166,764	150,949
Goodwill and others	**26,201**	14,554
Carrying amount of the Group's investment	**₱192,965**	₱165,503

	2019	2018	2017
		(In Millions)	
Interest income	**₱160,572**	₱129,040	₱99,795
Interest expense	**(40,681)**	(30,748)	(18,042)
Other expenses - net	**(75,723)**	(65,653)	(53,648)
Net income	**44,168**	32,639	28,105
Other comprehensive income (loss)	**515**	(4,727)	(1,868)
Total comprehensive income	**₱44,683**	₱27,912	₱26,237
Group's share in net income	**₱20,592**	₱15,101	₱12,968
Group's share in total comprehensive income (loss)	**(₱936)**	₱10,754	₱12,845

The aggregate comprehensive income of associates and joint ventures that are not individually material follows:

	2019	2018	2017
		(In Millions)	
Share in net income	**₱5,446**	₱4,063	₱3,673
Share in other comprehensive income (loss)	**(9)**	315	315
Share in total comprehensive income	**₱5,437**	₱4,378	₱3,988

The fair value of investments in associate companies which are listed in the PSE follows:

	2019	2018
	(In Thousands)	
BDO	**₱343,893,457**	₱280,162,825
China Bank	**15,172,742**	16,414,423
Belle	**5,183,434**	6,016,951
Atlas	**3,030,506**	3,103,238
PLC	**15,082,241**	21,168,058

These investments are categorized as Level 1 in the fair value hierarchy.

13. **Property and Equipment**

The movements in this account follow:

	Buildings and Improvements	Store Equipment and Improvements	Data Processing Equipment	Furniture, Fixtures and Office Equipment	Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Construction in Progress	Total
					(In Thousands)				
Cost									
As at December 31, 2017	₱12,435,886	₱3,250,294	₱7,005,457	₱9,249,821	₱7,775,635	₱17,099,137	₱827,238	₱1,226,846	₱58,870,314
Additions	495,484	137,221	650,192	984,300	1,087,083	1,089,021	399,380	1,609,808	6,452,489
Reclassifications	731,140	318,803	215,101	(640,623)	595,411	943,314	14,273	(1,311,435)	865,984
Disposals/retirements	(7,238)	(43,712)	(33,983)	(29,836)	(35,489)	(319,355)	(276,580)	(10,715)	(756,908)
As at December 31, 2018	13,655,272	3,662,606	7,836,767	9,563,662	9,422,640	18,812,117	964,311	1,514,504	65,431,879
Additions	356,889	144,070	681,626	1,284,065	864,377	1,347,570	90,239	2,677,577	7,446,413
Effect of business combination (Note 5)	–	–	750	86,517	14,443	–	1,562	–	103,272
Reclassifications	544,069	237,227	98,281	(974,418)	82,394	533,433	311	(1,459,977)	(938,680)
Disposals/retirements	(229,272)	(33,454)	(28,431)	(74,845)	(46,189)	(93,669)	(8,629)	(13,183)	(527,672)
As at December 31, 2019	**₱14,326,958**	**₱4,010,449**	**₱8,588,993**	**₱9,884,981**	**₱10,337,665**	**₱20,599,451**	**₱1,047,794**	**₱2,718,921**	**₱71,515,212**
Accumulated Depreciation and Amortization									
As at December 31, 2017	₱5,045,238	₱2,205,165	₱5,552,533	₱6,117,842	₱5,335,664	₱12,638,169	₱636,296	₱–	₱37,530,907
Depreciation and amortization (Note 23)	819,177	357,057	648,782	955,861	862,892	1,373,922	74,722	–	5,092,413
Reclassifications	14,631	42,348	30,070	(92,395)	52,707	165,661	3,137	–	216,159
Disposals/retirements	(5,766)	(41,873)	(32,274)	(25,906)	(32,862)	(310,433)	(160,153)	–	(609,267)
As at December 31, 2018	5,873,280	2,562,697	6,199,111	6,955,402	6,218,401	13,867,319	554,002	–	42,230,212
Depreciation and amortization (Note 23)	773,894	380,986	695,475	554,216	1,003,150	1,467,314	59,215	–	4,934,250
Effect of business combination (Note 5)	–	–	205	33,216	2,643	–	1,157	–	37,221
Reclassifications	(31,628)	(80,706)	(6,405)	861,310	(7,303)	(840,944)	(6,294)	–	(111,970)
Disposals/retirements	(90,774)	(15,556)	(21,913)	(23,952)	(43,342)	(91,236)	(8,601)	–	(295,374)
As at December 31, 2019	**₱6,524,772**	**₱2,847,421**	**₱6,866,473**	**₱8,380,192**	**₱7,173,549**	**₱14,402,453**	**₱599,479**	**₱–**	**₱46,794,339**
Net Book Value									
As at December 31, 2019	**₱7,802,186**	**₱1,163,028**	**₱1,722,520**	**₱1,504,789**	**₱3,164,116**	**₱6,196,998**	**₱448,315**	**₱2,718,921**	**₱24,720,873**
As at December 31, 2018	7,781,992	1,099,909	1,637,656	2,608,260	3,204,239	4,944,798	410,309	1,514,504	23,201,667

14. Investment Properties

The movements in this account follow:

	Land and Improvements	Buildings and Leasehold Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)		
Cost					
As at December 31, 2017	₱68,319,833	₱222,001,891	₱36,167,105	₱32,958,780	₱359,447,609
Additions	4,331,055	8,484,409	3,024,922	11,713,859	27,554,245
Reclassifications	(1,450,188)	9,065,328	1,112,146	(5,889,917)	2,837,369
Translation adjustment	(5,531)	(166,451)	(12,678)	(4,949)	(189,609)
Disposals	(65,250)	(63,044)	(413,313)	(24,124)	(565,731)
As at December 31, 2018	71,129,919	239,322,133	39,878,182	38,753,649	389,083,883
Additions	3,563,225	2,334,200	1,883,218	29,121,761	36,902,404
Reclassifications	(120,439)	12,621,438	1,261,397	(14,002,546)	(240,150)
Effect of common control business combination	510,586	3,771,736	–	382,207	4,664,529
Translation adjustment	(67,417)	(1,976,026)	(157,843)	(69,323)	(2,270,609)
Disposals	(5,125)	(18,639)	(159,680)	(1,153)	(184,597)
As at December 31, 2019	**₱75,010,749**	**₱256,054,842**	**₱42,705,274**	**₱54,184,595**	**₱427,955,460**
Accumulated Depreciation and Amortization					
As at December 31, 2017	₱1,988,051	₱46,650,292	₱21,791,001	₱–	₱70,429,344
Depreciation and amortization (Note 23)	226,776	6,654,052	3,067,430	–	9,948,258
Reclassifications	(26,656)	174,997	(153,171)	–	(4,830)
Translation adjustment	(9,243)	(68,853)	(14,860)	–	(92,956)
Disposals	(25,807)	(61,055)	(373,345)	–	(460,207)
As at December 31, 2018	2,153,121	53,349,433	24,317,055	–	79,819,609
Depreciation and amortization (Note 23)	244,454	7,297,151	3,064,236	–	10,605,841
Reclassifications	7,563	(11,523)	–	–	(3,960)
Effect of common control business combination	–	57,712	–	–	57,712
Translation adjustment	(35,052)	(355,546)	(88,474)	–	(479,072)
Disposals	(3,626)	(10,454)	(105,893)	–	(119,973)
As at December 31, 2019	**₱2,366,460**	**₱60,326,773**	**₱27,186,924**	**₱–**	**₱89,880,157**
Net Book Value					
As at December 31, 2019	**₱72,644,289**	**₱195,728,069**	**₱15,518,350**	**₱54,184,595**	**₱338,075,303**
As at December 31, 2018	68,976,798	185,972,700	15,561,127	38,753,649	309,264,274

Portions of investment properties located in China with carrying value of ₱1,738.0 million and ₱1,886.0 million as at December 31, 2019 and 2018, respectively, were mortgaged as collateral to secure certain domestic borrowings in China (see Note 19).

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱50,138.7 million, ₱46,222.4 million and ₱40,957.3 million in 2019, 2018 and 2017, respectively. The corresponding direct operating expenses amounted to ₱35,117.7 million, ₱32,701.3 million and ₱30,486.4 million in 2019, 2018 and 2017, respectively.

Construction in progress includes construction costs incurred for new shopping malls, commercial building and redevelopment of existing malls amounting to ₱53,780.0 million and ₱38,740.0 million as at December 31, 2019 and 2018, respectively.

Construction contracts related to the construction of the above-mentioned projects amounted to ₱55,155.0 million and ₱47,100.0 million as at December 31, 2019 and 2018, respectively, inclusive of overhead, labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts are valued at ₱24,676.0 million and ₱15,738.0 million as at December 31, 2019 and 2018, respectively.

Interest capitalized to investment properties amounted to ₱3,143.0 million and ₱2,681.0 million as at December 31, 2019 and 2018, respectively. Capitalization rates used range from 2.4% to 5.1% in 2019 and 2.4% to 5.0% in 2018.

The fair value of substantially all investment properties amounting to ₱1,350,307.2 million was determined by accredited independent appraisers with appropriate qualifications and experience in the valuation of similar properties in the relevant locations. The fair value represents the price that would be received to sell the investment properties in an orderly transaction between market participants at the measurement date.

The significant assumptions used in the valuations follow:

Discount rate	4.0%–8.0%
Capitalization rate	4.0%–8.0%
Average growth rate	1.0%–5.0%

In conducting the appraisal, the independent appraisers mainly used the Income Approach. The Income Approach is based on the premise that the value of a property is directly related to the income it generates.

These investment properties are categorized as Level 3 in the fair value hierarchy since valuation is based on unobservable inputs.

15. Land and Development and Condominium and Residential Units for Sale

Land and Development

Land and development includes the cost of land as well as construction cost of ongoing residential projects.

The movements in "Land and development - current" accounted as real estate inventories follow:

	2019	2018
	(In Thousands)	
Balance at beginning of year	**₱29,486,964**	₱62,698,284
Reclassification to land and development - noncurrent, accounted as investment property	**(7,227)**	(36,484,925)
Development cost incurred	**22,277,052**	20,358,758
Transfer from land and development - noncurrent	**1,810,966**	–
Borrowing cost capitalized	**–**	4,047
Cost of real estate sold	**(14,638,083)**	(15,390,471)
Transfer to condominium and residential units for sale	**(4,089,397)**	(1,733,711)
Reclassification and others	**3,095,693**	34,982
Balance at end of year	**₱37,935,968**	₱29,486,964

Included in land and development accounted as real estate inventories are contract fulfillment assets amounting to ₱838.0 million and ₱1,232.0 million as at December 31, 2019 and 2018, respectively, representing the unamortized portion of land cost.

The movements in "Land and development - noncurrent" accounted as investment property follow:

	2019	2018
	(In Thousands)	
Balance at beginning of year	**₱53,928,447**	₱–
Reclassification from land and development - noncurrent, accounted as real estate inventories	**7,227**	36,484,925
Land acquisitions	**23,254,266**	17,443,522
Reclassification to investment property	**(432,280)**	–
Transfer to land and development - current	**(1,810,966)**	–
	₱74,946,694	₱53,928,447

Not included in land and development - current and noncurrent is the estimated cost to complete the projects amounting to ₱74,238.0 million and ₱51,097.0 million as at December 31, 2019 and 2018, respectively.

Land and development is stated at cost. There is no allowance for inventory write-down as at December 31, 2019 and 2018.

Condominium and Residential Units for Sale
The movements in this account follow:

	2019	2018
	(In Thousands)	
Balance at beginning of year	**₱8,110,504**	₱8,829,343
Transfer from land and development	**4,089,397**	1,733,711
Development cost incurred	**–**	1,644
Cost of real estate sold	**(6,168,529)**	(2,461,799)
Repossessed inventories and others	**(4,946)**	7,605
Balance at end of year (Note 11)	**₱6,026,426**	₱8,110,504

The condominium and residential units for sale are stated at cost as at December 31, 2019 and 2018.

16. Intangibles and Other Noncurrent Assets

Intangible Assets
This account consists of:

	2019	2018
	(In Thousands)	
Goodwill	**₱17,458,431**	₱17,398,491
Less accumulated impairment loss	**91,620**	91,620
Net book value	**17,366,811**	17,306,871
Trademarks and brand names	**7,922,798**	8,163,825
	₱25,289,609	₱25,470,696

Goodwill is attributable mainly to SM Prime, Supervalue, Inc., Super Shopping Market, Inc., Neo Subsidiaries, Waltermart Supermarket, Incorporated and PULSI.

Trademarks and brand names include the following:

a. Brand names of SM Supermarket and SM Hypermarket that were acquired in a business combination in 2006. These are assessed to have an indefinite life and valued using the Relief-from-Royalty Method. The royalty rate used was 3.5%, the prevailing royalty rate in 2006 in the retail assorted category.

b. Rights, title and interest in the trademark of Cherry Foodarama, Inc. that was acquired in 2015 and assessed to have a definite useful life of 10 years.

The recoverable amount of goodwill, trademarks and brand names have been determined based on value-in-use calculations using the cash flow projections from the financial budgets approved by senior management covering a five-year period and fair value less cost of disposal calculations of the underlying net assets of the CGUs.

The calculation of value-in-use is most sensitive to the following assumptions:

Revenue. Revenue forecasts are management's best estimates considering factors such as index growth to market, customer projections and economic factors.

Pre-tax discount rates. Discount rates reflect the current market assessment of the risks to each CGU and are estimated based on the weighted average cost of capital for the industry. The rates are further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted. Pre-tax discount rates applied to cash flow projections ranged from 11.1% to 15.7% and 14.8% to 16.7% as at December 31, 2019 and 2018, respectively.

Fair value less cost of disposal. The fair value of the assets and liabilities of the CGUs were determined by independent appraisers and in reference to the available market price for quoted instruments.

Management assessed that no reasonably possible change in pre-tax discount rates, future cash inflows and fair values would cause the carrying value of goodwill in 2019 and 2018 to materially exceed its recoverable amount.

Other Noncurrent Assets

This account consists of:

	2019	2018
	(In Thousands)	
Bonds and deposits	**₱48,643,102**	₱65,893,795
Receivables from real estate buyers* (Note 10)	**24,880,776**	26,232,167
Land use rights	**377,722**	9,976,393
Long-term notes (Notes 21 and 29)	**5,942,878**	6,739,026
Derivative assets (Note 29)	**826,315**	1,566,788
Deferred input VAT	**1,410,699**	1,689,045
Defined benefit asset (Note 25)	**95,057**	73,469
Escrow fund (Note 21)	**132,460**	132,460
Others	**2,066,636**	3,131,964
	₱84,375,645	₱115,435,107

** Pertains to the noncurrent portion of unbilled revenue from sales of real estate.*

- Bonds and deposits include other assets used to secure certain obligations of the Group as well as deposits for its leased properties. These are not re-measured at amortized cost.

- Long-term notes pertain to a 7-year loan amounting to US$150.7 million that was extended to Carmen Copper Corporation, a wholly owned subsidiary of Atlas, in March 2017. The loan bears a fixed interest that starts at 5.0% and escalates annually up to 10.0%, payable quarterly.

- Included under "Land use rights" account are certain parcels of real estate properties planned for residential development in accordance with the cooperative contracts entered into by SM Prime with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) in March 2007. The value of these real estate properties was not part of the consideration paid by SM Prime to Grand China and Oriental Land. Accordingly, the assets were recorded at carrying value under "Other noncurrent assets" account and a corresponding liability equivalent to the same amount, which is shown as part of "Tenants' deposits and others" account in the consolidated balance sheets. Portions of land use rights with carrying amount of ₱295.0 million and ₱319.0 million as at December 31, 2019 and 2018, respectively, are used as collateral to secure certain domestic borrowings in China (see Note 19).

- Escrow fund pertains mainly to funds deposited by the Parent Company in the account of an escrow agent as required by the SEC, in connection with the corporate restructuring in 2013.

17. Bank Loans

This account consists of:

	2019	2018
	(In Thousands)	
Peso-denominated:		
Parent Company	**₱8,829,900**	₱4,850,000
Subsidiaries	**9,880,565**	14,035,465
	₱18,710,465	₱18,885,465

These loans bear interest ranging from 3.8% to 7.9% in 2019 and 2.9% to 6.0% in 2018.

These loans have maturities of less than one year. Interest on bank loans is disclosed in Note 24.

18. **Accounts Payable and Other Current Liabilities**

This account consists of:

	2019	2018
	(In Thousands)	
Trade	**₱85,996,862**	₱70,934,888
Accrued expenses	**11,324,572**	11,697,441
Nontrade	**9,790,527**	6,230,139
Tenants and customers' deposits*	**12,868,406**	12,699,887
Payable arising from acquisition of land	**4,769,349**	7,974,792
Payables to government agencies	**6,331,940**	4,618,623
Accrued interest (Note 21)	**2,833,930**	3,058,294
Subscriptions payable	**2,021,790**	2,021,790
Due to related parties (Note 21)	**1,031,812**	1,362,505
Lease liabilities (Note 27)	**1,534,154**	–
Gift checks redeemable and others	**2,948,422**	4,179,360
	₱141,451,764	₱124,777,719

** Includes unearned revenue from sale of real estate amounting to ₱6,023.0 million and ₱4,195.0 million as at December 31, 2019 and 2018, respectively.*

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors. These are noninterest-bearing and are normally settled on 30-to 60-day terms.

- Accrued expenses pertain to selling, general and administrative expenses which are normally settled within the next financial year.

- Nontrade payables, accrued interest, subscriptions payable and others are expected to be settled within the next financial year.

- Tenants and customers' deposits pertain to the excess of collections from real estate buyers over the related revenue recognized based on the percentage of completion method, as well as non-refundable reservation fees.

- Payable arising from acquisition of land is expected to be settled within the next financial year.

- Payables to government agencies mainly consist of output tax which is normally settled within the next financial year.

- The terms and conditions relating to Due to related parties are discussed in Note 21.

- Gift checks are redeemable at face value.

19. **Long-term Debt**

This account consists of:

	Availment	Maturity	Interest Rate/Term	Security	**2019**	2018
					(In Thousands)	
Parent Company						
U.S. dollar-denominated	October 17, 2012 - July 16, 2019	October 17, 2019 - June 28, 2024	Fixed 4.3%-4.9%; Floating six-month and three-month LIBOR + margin; semi-annual and quarterly	Unsecured	**₱44,921,283**	₱65,097,129
Peso-denominated	July 16, 2012 - December 27, 2018	January 14, 2019 - August 8, 2025	Fixed 4.4%-6.9%; three-month PHP BVAL + margin; semi-annual and quarterly	Unsecured	**68,498,010**	78,864,170
Subsidiaries						
U.S. dollar-denominated	April 23, 2014 - April 15, 2019	April 14, 2019 - February 28, 2024	LIBOR + spread; semi-annual	Unsecured	**39,749,299**	41,975,402
China Yuan Renminbi-denominated (Note 14)	July 28, 2015 - October 16, 2017	December 31, 2019 - October 16, 2022	CBC rate less 10.0%; quarterly	Secured	**2,670,803**	3,118,514
Peso-denominated	January 12, 2012 - December 27, 2019	January 28, 2019 - August 7, 2029	Floating BVAL + margin; Fixed 3.8%-7.6%; PDST-R2 + margin	Unsecured	**202,247,332**	179,751,217
					358,086,727	368,806,432
Less debt issue cost					**1,650,800**	1,770,189
					356,435,927	367,036,243
Less current portion					**29,077,719**	61,480,887
					₱327,358,208	₱305,555,356

BVAL – Bloomberg Valuation
LIBOR – London Interbank Offered Rate
PDST-R2 – Philippine Dealing System Treasury Reference Rate – PM
CBC – Central Bank of China

Debt Issue Cost
The movements in unamortized debt issue cost follow:

	2019	2018
	(In Thousands)	
Balance at beginning of year	**₱1,770,189**	₱1,658,247
Amortization	**(582,964)**	(580,114)
Additions	**463,575**	692,056
Balance at end of year	**₱1,650,800**	₱1,770,189

Repayment Schedule
The repayment schedule of long-term debt as at December 31, 2019 follows:

	Gross Debt	Debt Issue Cost	Net
		(In Thousands)	
Within 1 year	₱29,089,674	₱11,955	₱29,077,719
Over 1 year to 5 years	298,882,114	1,606,667	297,275,447
Over 5 years	30,114,939	32,178	30,082,761
	₱358,086,727	₱1,650,800	₱356,435,927

Covenants
The long-term debt of the Group is covered with certain covenants including adherence to financial ratios. The Parent Company's loan covenants include adherence to certain financial ratios namely: (1) debt-to-equity ratio not to exceed 80:20, and, (2) current ratio at a minimum of 0.30, and, certain restrictions with respect to material change in ownership or control. SM Prime's loan covenants include adherence to certain financial ratios namely: (1) current ratio of not less than 1:1, (2) debt to equity ratio of not more than 75:25, and (3) interest coverage ratio of not less than 2.5x; and, certain restrictions with respect to material change in ownership or control. As at December 31, 2019 and 2018, the Group is in compliance with the terms of its debt covenants.

20. **Equity**

Capital Stock

a. Common stock

	Number of Shares	
	2019	2018
Authorized - ₱10 par value per share	**2,790,000,000**	2,790,000,000
Issued and subscribed	**1,204,582,867**	1,204,582,867

As at December 31, 2019 and 2018, the Parent Company is compliant with the minimum public float as required by the PSE.

Information on the Parent Company's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Authorized Shares	Number of Shares Issued	Issue/Offer Price
March 22, 2005		105,000,000	₱250
November 6, 2007		56,000,000	218
June 14, 2007	100,000,000		10
April 25, 2007 (4.3% stock dividends)		25,023,038	10
October 4, 2010 to March 13, 2012			
Conversion of convertible bonds		2,851,582	453
September 24, 2012		9,100,000	700
January 23, 2013 to July 5, 2013			
Conversion of convertible bonds		7,651,851	781
June 14, 2013	500,000,000		10
June 24 and July 12, 2013			
(25.0% stock dividends)		157,657,314	10
July 18, 2013 to November 1, 2013			
Conversion of convertible bonds		738,483	625
August 1, 2013		7,250,000	900
August 27, 2014			
Conversion of convertible bonds		68,378	625
January 15, 2015 to April 9, 2015			
Conversion of convertible bonds		6,714,759	625
July 15, 2016	1,600,000,000		10
July 20, 2016 (50.0% stock dividends)		401,527,462	10

The total number of shareholders of the Parent Company is 1,261 and 1,255 as at December 31, 2019 and 2018, respectively.

b. Redeemable preferred shares

	Number of Shares	
	2019	2018
Authorized - ₱10 par value per share	**10,000,000**	10,000,000

There are no issued and subscribed preferred shares as at December 31, 2019 and 2018.

Equity Adjustments from Common Control Transactions

Equity adjustments from common control transactions include the following:

- Acquisition of various SM China Companies by SM Prime in 2007.
- Acquisition of various service companies by SM Retail in 2009.
- Corporate restructuring to consolidate the Group’s real estate subsidiaries and real estate assets in SM Prime in 2013.
- Merger of SM Retail with other retail affiliates in 2016.
- SM Prime common control business acquisitions in 2016 and 2017.

These acquisitions were considered as a combination of businesses under common control for which the pooling of interests method was applied in the preparation of the consolidated financial statements.

Retained Earnings

- Appropriated

Following are the appropriations approved by the BOD:

	Date of BOD Approval	Amount
		(In Thousands)
Balance as at January 1, 2015		₱27,000,000
Reversal	November 4, 2015	(18,000,000)
Addition	November 4, 2015	27,000,000
Reversal	November 8, 2017	(27,800,000)
Addition	November 8, 2017	28,800,000

Retained earnings appropriated as at December 31, 2019 is intended for the payment of certain long-term debts and new investments as follows:

	Timeline	Amount
		(In Thousands)
Debt service	2020 - 2023	₱27,000,000
Investments	2020 - 2021	10,000,000
		₱37,000,000

- Unappropriated

The Parent Company's cash dividend declarations in 2019 and 2018 follow:

Declaration Date	Record Date	Payment Date	Per Share	Total
				(In Thousands)
April 24, 2019	**May 9, 2019**	**May 23, 2019**	**₱9.12**	**₱10,985,796**
April 25, 2018	May 10, 2018	May 24, 2018	8.20	9,877,580

Unappropriated retained earnings include the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱237,286.0 million and ₱202,669.4 million as at December 31, 2019 and 2018, respectively, that is not available for distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.

The retained earnings of the Parent Company available for dividend declaration amounted to ₱16,330.0 million and ₱17,196.9 million as at December 31, 2019 and 2018, respectively.

21. Related Party Disclosures

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The significant transactions with related parties follow:

- Rent

  The Group has existing lease agreements for office and commercial spaces with related companies (retail and banking group and other related parties under common stockholders).

- Management and Service Fees

  The Parent Company and SM Retail receive management and service fees from retail entities under common stockholders for management, consultancy, manpower and other services.

- Dividend Income

  The Group earns dividend income from certain related parties under common stockholders.

- Cash Placements and Loans

  The Group has certain bank accounts and cash placements as well as bank loans and debts with BDO and China Bank. Such accounts earn interest at prevailing market rates.

- Notes Receivable

  The Group has certain notes receivable from Carmen Copper Corporation (see Notes 16 and 28).

- Others

  The Group, in the normal course of business, has outstanding receivables from and payables to related companies which are unsecured and normally settled in cash.

The related party transactions and outstanding balances follow:

	Transaction Amount			Outstanding Amount			
	2019	2018	2017	**2019**	2018	Terms	Conditions
			(In Thousands)				
Banking Group							
Cash placement and investment in marketable securities				**₱60,819,475**	₱89,922,969	Interest-bearing	Unsecured; no impairment
Interest receivable				**96,400**	227,606	–	–
Interest income	**₱2,738,310**	₱2,253,257	₱2,401,642			–	–
Interest-bearing debt				**25,787,720**	31,446,016	Interest-bearing	Unsecured
Interest payable				**85,185**	65,477	–	–
Interest expense	**1,885,429**	1,441,884	984,569			–	–
Rent receivable				**130,907**	126,809	Noninterest-bearing	Unsecured; no impairment
Rent income	**1,018,963**	943,474	856,149			–	–
Receivable financed	**7,689,986**	1,663,822	4,923,847			Without recourse	Unsecured
Dividends receivable				**13,462**	2,587	Noninterest-bearing	Unsecured; no impairment
Bonds and deposits				**17,722,250**	18,403,000	Interest-bearing 4.5%	Unsecured; no impairment
Management and service fee receivable				**16,882**	14,469	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	**2,799**	4,205	7,892			–	–
Escrow fund				**250,445**	290,179	Interest-bearing	Unsecured; no impairment
Retail and Other Entities							
Rent receivable				**301,606**	256,615	Noninterest-bearing	Unsecured; no impairment
Rent income	**2,144,633**	1,926,478	1,746,184			–	–
Management and service fee receivable				**1,938,102**	937,255	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	**1,713,152**	1,233,740	489,437			–	–
Due from related parties				**1,079,944**	953,010	Noninterest-bearing	Unsecured; no impairment
Due to related parties				**1,031,812**	1,362,505	Noninterest-bearing	Unsecured
Dividend receivable				**369,988**	–	Noninterest-bearing	Unsecured
Interest receivable				**9,905**	9,360	–	–
Interest income	**387,437**	345,700	366,183			–	–
Notes receivable				**5,942,878**	6,739,026	Interest-bearing 5.0% to 10.0%	Unsecured; no impairment

Terms and Conditions of Transactions with Related Parties

The Group did not make any provision for impairment loss relating to amounts owed by related parties.

Compensation of Key Management Personnel

The aggregate compensation and benefits relating to key management personnel in 2019, 2018 and 2017 consist of short-term employee benefits amounting to ₱3,270.9 million, ₱2,544.5 million and ₱2,043.7 million, respectively, and post-employment benefits amounting to ₱372.7 million, ₱338.2 million and ₱279.9 million, respectively.

22. Cost of Merchandise Sales

This account consists of:

	2019	2018	2017
		(In Thousands)	
Merchandise inventories at beginning of year	**₱31,836,333**	₱27,778,741	₱25,825,290
Purchases	**263,755,950**	242,959,699	216,448,154
Total goods available for sale	**295,592,283**	270,738,440	242,273,444
Less merchandise inventories at end of year	**33,157,622**	31,836,333	27,778,741
	₱262,434,661	₱238,902,107	₱214,494,703

23. Selling, General and Administrative Expenses

This account consists of:

	2019	2018	2017
		(In Thousands)	
Personnel cost (Note 21)	**₱29,924,102**	₱23,948,881	₱19,725,683
Depreciation and amortization (Notes 13, 14, 16 and 27)	**19,370,843**	15,161,207	14,020,884
Utilities	**18,028,601**	18,048,050	15,691,055
Taxes and licenses	**9,714,573**	9,783,825	8,816,366
Outside services	**7,048,795**	8,339,162	8,157,459
Marketing and selling	**6,803,530**	5,847,641	5,166,973
Rent (Note 27)	**4,474,401**	7,668,449	6,723,855
Repairs and maintenance	**3,067,465**	2,977,334	2,791,300
Supplies	**2,474,260**	2,584,725	2,363,417
Provisions - net (Note 10)	**2,609,386**	2,207,458	1,488,855
Transportation and travel	**1,179,285**	1,152,212	1,034,751
Pension (Note 25)	**1,145,678**	962,405	667,572
Insurance	**864,113**	807,540	734,322
Data processing	**788,316**	664,778	614,141
Professional fees	**311,659**	579,945	444,687
Entertainment, representation and amusement	**378,813**	519,664	373,296
Communications	**343,261**	353,108	333,149
Donations	**359,975**	348,486	252,540
Management fees (Note 21)	**197,555**	183,884	207,180
Others	**4,173,320**	4,280,945	2,734,945
	₱113,257,931	₱106,419,699	₱92,342,430

24. Interest Income and Interest Expense

The sources of interest income and interest expense follow:

	2019	2018	2017
		(In Thousands)	
Interest income on:			
Time deposits and other noncurrent assets (Notes 8 and 16)	**₱1,221,445**	₱1,551,959	₱1,967,629
Cash in banks and temporary investments (Note 7)	**1,990,315**	1,706,201	1,137,524
Financial assets (Note 9)	**–**	65,095	340,984
Others (Note 11)	**669,396**	430,886	557,364
	₱3,881,156	₱3,754,141	₱4,003,501
Interest expense on:			
Long-term debt (Note 19)	**₱15,737,919**	₱14,857,203	₱13,217,491
Bank loans (Note 17)	**1,401,349**	1,399,546	819,017
Lease liabilities (Note 27)	**1,676,045**	–	–
Others	**378,998**	317,639	1,544,311
	₱19,194,311	₱16,574,388	₱15,580,819

25. Pension Benefits

The Group has funded defined benefit pension plans covering all regular and permanent employees.

Net benefit expense (included under "Selling, general and administrative expenses") consists of:

	2019	2018	2017
		(In Thousands)	
Current service cost	**₱1,050,358**	₱959,134	₱728,182
Net interest cost (income)	**98,138**	2,681	(12,097)
Past service cost - curtailment	**(2,818)**	590	(48,513)
	₱1,145,678	₱962,405	₱667,572

Changes in the net defined benefit liability and asset follow:

- Net Defined Benefit Liability

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized due to Asset Limit	Defined Benefit Liability (Asset)
			(In Thousands)	
As at December 31, 2017	₱4,154,578	₱3,538,089	₱–	₱616,489
Net benefit expense (Note 23):				
Current service cost	796,527	–	–	796,527
Net interest cost	406,544	395,213	193	11,524
	1,203,071	395,213	193	808,051

(Forward)

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized due to Asset Limit	Defined Benefit Liability (Asset)
			(In Thousands)	
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	₱–	(₱713,607)	₱–	₱713,607
Actuarial changes arising from:				
Changes in financial assumptions	(1,810,481)	–	–	(1,810,481)
Changes in demographic assumptions	266,954	–	–	266,954
Experience adjustment	2,055,346	–	–	2,055,346
Others	–	–	(1,644)	(1,644)
	511,819	(713,607)	(1,644)	1,223,782
Reclassifications from defined benefit assets	2,889,077	3,038,695	–	(149,618)
Actual contributions	–	981,148	–	(981,148)
Benefits paid	(393,096)	(393,096)	–	–
Transfer to related parties	6,670	6,670	–	–
Other adjustments	7,965	590	1,451	8,826
As at December 31, 2018	8,380,084	6,853,702	–	1,526,382
Net benefit expense (Note 23):				
Current service cost	**1,008,560**	**–**	**–**	**1,008,560**
Net interest cost	**743,511**	**643,614**	**108**	**100,005**
	1,752,071	**643,614**	**108**	**1,108,565**
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	**(8,581)**	–	**8,581**
Actuarial changes arising from:				
Changes in financial assumptions	**2,436,454**	–	–	**2,436,454**
Changes in demographic assumptions	**17,266**	–	–	**17,266**
Experience adjustment	**657,913**	–	–	**657,913**
Others	–	–	**(1,689)**	**(1,689)**
	3,111,633	**(8,581)**	**(1,689)**	**3,118,525**
Reclassifications from defined benefit assets	**827,328**	**1,153,704**	–	**(326,376)**
Effect of common control business combination (Note 5)	**277**	–	–	**277**
Actual contributions	**–**	**1,607,666**	–	**(1,607,666)**
Benefits paid	**(440,647)**	**(434,477)**	–	**(6,170)**
Transfer to related parties	**(9,221)**	**(9,221)**	–	**–**
Other adjustments	**257,003**	–	**1,581**	**258,584**
As at December 31, 2019	**₱13,878,528**	**₱9,806,407**	**₱–**	**₱4,072,121**

- Net Defined Benefit Asset

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized due to Asset Limit	Defined Benefit Liability (Asset)
			(In Thousands)	
As at December 31, 2017	₱4,002,879	₱4,379,341	₱14	(₱376,448)
Net benefit expense (Note 23):				
Current service cost	162,607	–	–	162,607
Net interest cost (income)	72,688	83,045	1,514	(8,843)
Past service cost - curtailment	590	–	–	590
	235,885	83,045	1,514	154,354
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	(162,462)	–	162,462
Actuarial changes arising from:				
Changes in financial assumptions	(293,471)	–	–	(293,471)
Changes in demographic assumptions	(1,827)	–	–	(1,827)
Experience adjustment	188,577	–	–	188,577
Others	–	–	33	33
	(106,721)	(162,462)	33	55,774

(Forward)

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized due to Asset Limit	Defined Benefit Liability (Asset)
			(In Thousands)	
Reclassifications from defined benefit liabilities	(₱2,766,690)	(₱3,035,117)	₱–	₱268,427
Effect of common control business combination (Note 5)	23,496	16,604	–	6,892
Actual contributions	–	196,152	–	(196,152)
Benefits paid	(33,148)	(33,148)	–	–
Transfer from the plan	839	839	–	–
Amount not recognized due to asset limit	–	–	15,250	15,250
Other adjustments	–	–	(1,566)	(1,566)
As at December 31, 2018	1,356,540	1,445,254	15,245	(73,469)
Net benefit expense (Note 23):				
Current service cost	**41,798**	**–**	**–**	**41,798**
Net interest cost (income)	**20,879**	**23,813**	**1,067**	**(1,867)**
Past service cost - curtailment	**(2,818)**	**–**	**–**	**(2,818)**
	59,859	**23,813**	**1,067**	**37,113**
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	**6,519**	–	**(6,519)**
Actuarial changes arising from:				
Changes in financial assumptions	**3,759**	–	–	**3,759**
Changes in demographic assumptions	**(120)**	–	–	**(120)**
Experience adjustment	**(9,540)**	–	–	**(9,540)**
Others	**–**	–	**(3,529)**	**(3,529)**
	(5,901)	**6,519**	**(3,529)**	**(15,949)**
Reclassifications from defined benefit liabilities	**(851,621)**	**(1,147,177)**	**–**	**295,556**
Actual contributions	**–**	**104,393**	**–**	**(104,393)**
Benefits paid	**(6,165)**	**(6,165)**	**–**	**–**
Transfer from the plan	**295**	**295**	**–**	**–**
Amount not recognized due to asset limit	**–**	**–**	**11,299**	**11,299**
Other adjustments	**(232,426)**	**–**	**(12,788)**	**(245,214)**
As at December 31, 2019	**₱320,581**	**₱426,932**	**₱11,294**	**(₱95,057)**

The principal assumptions used in determining the pension obligations of the Group follow:

	2019	2018
Discount rate	**3.8%-7.7%**	5.0%-8.0%
Future salary increases	**2.0%-9.0%**	2.0%-10.0%

The assets of the Pension Plan are held by a trustee bank, BDO, a related party. The investing decisions of the Plan are made by the Board of Trustees of the Pension Plan. The carrying amounts, which approximate the estimated fair values of the Plan assets, follow:

	2019	2018
	(In Thousands)	
Cash and cash equivalents	**₱485,544**	₱816,168
Investment in debt and other securities	**2,435,008**	2,214,942
Investment in common trust funds	**3,852,852**	2,720,038
Investment in equity securities	**143,261**	200,046
Investment in government securities	**3,257,911**	2,298,150
Others	**58,763**	49,612
	₱10,233,339	₱8,298,956

- Cash and cash equivalents include regular savings and time deposits.
- Investments in debt and other securities, consisting of both short-term and long-term corporate loans, notes and bonds, bear interest ranging from 4.0% to 7.5% and 4.0% to 8.8% in 2019 and 2018, respectively. These have maturities from February 2020 to October 2026 and May 2019 to October 2025 in 2019 and 2018, respectively.
- Investment in common trust funds consists of unit investment trust fund placements.
- Investment in equity securities consists of listed and unlisted equity securities.
- Investment in government securities consists of retail treasury bonds. These bonds bear interest ranging from 3.3% to 8.8% and 2.1% to 8.8% in 2019 and 2018, respectively. These bonds have maturities from February 2020 to May 2030 and February 2019 to May 2030 in 2019 and 2018, respectively.
- Others pertain to accrued interest income on cash deposits and debt securities held by the Plan.

The outstanding balances and transactions of the Pension Plan with the trustee bank follow:

	2019	2018
	(In Thousands)	
Balances:		
Cash and cash equivalents	**₱485,544**	₱816,168
Investment in common trust funds	**3,852,852**	2,720,038
Transactions:		
Interest income from cash and cash equivalents	**183,328**	11,702
Gains (loss) from investment in common trust funds	**110,455**	(15,627)

The Group expects to contribute about ₱1,913.2 million to its Pension Plan in 2020.

The sensitivity analysis below has been determined based on reasonably possible changes in each significant assumption on the defined benefit obligation as at December 31, 2019 and 2018, with all other assumptions held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
		(In Thousands)
2019		
Discount rates	**50**	**(₱554,688)**
	(50)	**541,759**
Future salary increases	**100**	**1,101,148**
	(100)	**(1,607,872)**
No attrition rate	**–**	**2,157,892**
2018		
Discount rates	50	(₱331,311)
	(50)	346,601
Future salary increases	100	972,807
	(100)	(815,430)
No attrition rate	–	1,921,376

The average duration of the Group's defined benefit obligation is 3 to 28 years in 2019 and 4 to 28 years in 2018.

The maturity analysis of the undiscounted benefit payments follows:

	2019	2018
	(In Thousands)	
Year 1	**₱1,614,943**	₱717,315
Year 2	**548,903**	379,992
Year 3	**379,677**	466,365
Year 4	**479,300**	372,793
Year 5	**476,010**	421,637
Year 6 -10	**3,120,444**	2,575,923

The Plan assets are not matched to any specific defined benefit obligation.

26. Income Tax

The details of the Group's deferred tax assets and liabilities follow:

	2019	2018
	(In Thousands)	
Deferred tax assets:		
Excess of fair values over cost of investment properties	**₱1,151,366**	₱1,167,853
NOLCO	**413,026**	508,314
Lease liabilities	**7,717,920**	–
Accrued leases	**749,979**	651,103
Provision for doubtful accounts and others	**1,177,356**	807,565
Unamortized past service cost and defined benefit liability	**1,009,245**	220,270
MCIT	**17,088**	3,394
	12,235,980	3,358,499
Deferred tax liabilities:		
Appraisal increment on investment property	**3,013,880**	3,088,393
ROU assets	**7,319,668**	–
Trademarks and brand names	**1,879,000**	1,879,000
Capitalized interest	**1,768,391**	1,807,409
Unrealized gross profit on sale of real estate	**3,935,005**	2,011,975
Excess of fair values over cost of equity instruments	**125,084**	273,146
Unamortized past service cost and defined benefit asset	**186,000**	35,853
Accrued/deferred rent income	**114,875**	107,640
Others	**377,003**	239,790
	18,718,906	9,443,206
Net deferred tax liabilities	**₱6,482,926**	₱6,084,707

The net deferred tax assets and liabilities are presented in the consolidated balance sheets as follows:

	2019	2018
	(In Thousands)	
Deferred tax assets	**₱3,121,117**	₱2,726,155
Deferred tax liabilities	**9,604,043**	8,810,862
	₱6,482,926	₱6,084,707

The unrecognized deferred tax assets from the deductible temporary differences and carryforward benefits of NOLCO and MCIT amounted to ₱5,356.6 million and ₱4,429.6 million as at December 31, 2019 and 2018, respectively.

The reconciliation between the statutory tax rates and the Group's effective tax rate on income before income tax follows:

	2019	2018	2017
Statutory income tax rate	**30%**	30%	30%
Income tax effect of reconciling items:			
Equity in net earnings of associate companies and joint ventures	**(9)**	(8)	(8)
Interest income subjected to final tax	**(1)**	(2)	(2)
Others	**–**	1	1
Effective income tax rate	**20%**	21%	21%

27. **Lease Agreements**

As Lessor. The Group's lease agreements with its tenants are generally granted for a term of one to twenty-five years. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay a fixed monthly rent which is calculated with reference to a fixed sum per square meter of area leased except for a few tenants which pay either a fixed monthly rent or a percentage of gross sales, whichever is higher.

The future minimum lease receivables under the non-cancellable operating leases as at December 31 follow:

	2019	2018
	(In Millions)	
Within one year	**₱6,778**	₱6,944
After one year but not more than five years	**19,188**	18,729
More than five years	**6,520**	6,517
	₱32,486	₱32,190

As Lessee. The Group leases certain parcels of land where some of its malls are situated. The terms of the lease are for periods ranging from fifteen to fifty years, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a certain percentage of gross rental income or a certain fixed amount, whichever is higher.

There are also non-cancellable operating lease commitments with lease periods ranging from two to thirty years, mostly containing renewal options and those that provide for the payment of additional rental based on a certain percentage of sales of the sub-lessees.

The rollforward analysis of ROU assets follows:

	Land Use Rights	Office/Store Space	Total
		(In Thousands)	
Cost			
As at January 1, 2019, as previously reported	₱–	₱–	₱–
Effect of adoption of PFRS 16 (Note 3)	18,293,095	13,727,159	32,020,254
As at January 1, 2019, as restated	18,293,095	13,727,159	32,020,254
Additions	3,000,000	5,531,628	8,531,628
Reclassifications	145,995	1,033,071	1,179,066
Translation adjustment	(481,794)	–	(481,794)
Disposals	(2,073)	–	(2,073)
As at December 31, 2019	₱20,955,223	₱20,291,858	₱41,247,081
Accumulated Depreciation and Amortization			
As at January 1, 2019	₱–	₱–	₱–
Depreciation and amortization (Note 23)	510,196	3,077,734	3,587,930
Translation adjustment	(4,415)	–	(4,415)
Disposals	(610)	–	(610)
As at December 31, 2019	₱505,171	₱3,077,734	₱3,582,905
Net Book Value			
As at December 31, 2019	₱20,450,052	₱17,214,124	₱37,664,176

Following are the amounts recognized in the consolidated statement of income for the year ended December 31, 2019:

	(In Thousands)
Depreciation of ROU assets	₱3,587,930
Interest expense on lease liabilities	1,676,045

The rollforward analysis of lease liabilities follows:

	(In Thousands)
As at January 1, 2019, as previously reported	₱–
Effect of adoption of PFRS 16 (Note 3)	24,781,169
As at January 1, 2019, as restated	24,781,169
Additions	5,531,627
Interest expense (Note 24)	1,676,045
Payments	(2,854,295)
As at December 31, 2019	₱29,134,546

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

The future minimum lease payables under the non-cancellable leases as at December 31 follow:

	2019	2018
	(In Millions)	
Within one year	**₱4,565**	₱2,470
After one year but not more than five years	**12,954**	4,283
More than five years	**29,350**	26,464
	₱46,869	₱33,217

Tenant's deposits amounted to ₱23,607.1 million and ₱19,774.5 million as at December 31, 2019 and 2018, respectively.

28. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, consist of cash and cash equivalents, time deposits, financial assets, non-trade receivables, bonds and deposits, receivables from banks, accrued interest receivable, bank loans, long-term debt and lease liabilities. The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial instruments such as receivables and accounts payable and other current liabilities, which arise directly from its operations.

The Group also enters into derivative transactions, mainly, cross-currency swaps, interest rate swaps, foreign currency call options and non-deliverable forwards. The purpose is to manage the interest rate and foreign currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments follow:

- *Interest rate risk.* Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is mostly done at intervals of three or six months.

- *Foreign currency risk.* The Group's exposure to foreign currency risk arises as the Parent Company and SM Prime have significant investments and debt issuances which are denominated in U.S. Dollars and China Yuan Renminbi.

- *Liquidity risk.* Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.

- *Credit risk.* Refers to the risk that a borrower will default on any type of debt by failing to make the required payments.

- *Equity price risk.* The Group's exposure to equity price risk pertains to its investments in quoted equity shares which are classified as equity investments at FVOCI in the consolidated balance sheets. Equity price risk arises from changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

The BOD reviews and approves the policies for managing each of these risks.

Interest Rate Risk
The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations (see Note 19).

The Group maintains a conservative financing strategy and has preference for longer tenor credit with fixed interest rate that matches the nature of its investments. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps and cross-currency swaps in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed notional amount. The interest rate swaps economically hedge the underlying debt obligations. The cross-currency swaps were designated by the Group under cash flow hedge accounting.

As at December 31, 2019 and 2018, after taking into account the effect of the swaps, approximately 79.0% and 81.1%, respectively of the Group's borrowings, net of debt issue cost, is kept at fixed interest rates.

Interest Rate Risk Sensitivity Analysis. The sensitivity analysis for a reasonably possible change in interest rates, with all other variables held constant, of the Group's interest-bearing debt with floating interest rates, follows:

	Increase (Decrease) in Basis Points	Effect on Income Before Tax
		(In Millions)
2019	**100**	**(₱172.7)**
	50	**(86.4)**
	(100)	**172.7**
	(50)	**86.4**
2018	100	(₱236.3)
	50	(118.2)
	(100)	236.3
	(50)	118.2

The assumed movement in basis points for interest rate sensitivity analysis is based on observable market conditions.

Foreign Currency Risk
The Group aims to reduce foreign currency risks by employing on-balance sheet hedges and derivatives such as foreign currency swap contracts, foreign cross-currency swaps, foreign currency call options and non-deliverable forwards.

The Group's foreign currency-denominated financial assets and liabilities and their peso equivalents follow:

	2019		2018	
	US$	**PhP**	US$	PhP
		(In Thousands)		
Current assets:				
Cash and cash equivalents	**$10,003**	**₱506,525**	$5,825	₱306,275
Time deposits			491,275	25,831,265
Receivables and contract assets	**1,023**	**51,800**	55,025	2,893,228

(Forward)

	2019		2018	
	US$	**PhP**	US$	PhP
		(In Thousands)		
Noncurrent assets:				
Time deposits	**\$361,896**	**₱18,324,621**	\$21,713	₱1,141,652
Other noncurrent assets	**136,949**	**6,934,428**	514,749	27,065,524
Total assets	**509,871**	**25,817,374**	1,088,587	57,237,944
Current liabilities:				
Current portion of long-term debt	**–**	**–**	495,680	26,062,856
Accounts payable and other current liabilities	**1,223**	**61,939**	5,607	294,821
Noncurrent liabilities:				
Long-term debt - net of current portion	**475,028**	**24,053,060**	528,424	27,784,556
Total liabilities	**476,251**	**24,114,999**	1,029,711	54,142,233
Net	**\$33,620**	**₱1,702,375**	\$58,876	₱3,095,711

As at December 31, 2019 and 2018, approximately 23.1% and 28.4%, respectively, of the Group's borrowings, net of debt issue cost, are denominated in foreign currency.

The Group recognized net foreign exchange gain (loss) of ₱561.7 million gain, ₱182.5 million loss and ₱698.7 million gain in 2019, 2018 and 2017, respectively. This resulted from movements in the closing rate of U.S. dollar against the Philippine peso as follows:

	U.S. Dollar to Peso
December 31, 2019	**₱50.64**
December 31, 2018	52.58
December 31, 2017	49.93

Foreign Currency Risk Sensitivity Analysis. The sensitivity analysis for a reasonably possible change in U.S. Dollar to Philippine peso exchange rate, with all other variables held constant, of the Group's financial assets and liabilities denominated in foreign currency, follows:

	Appreciation (Depreciation) of Peso	Effect on Income Before Tax
		(In Millions)
2019	**1.50**	**₱50.4**
	1.00	**33.6**
	(1.50)	**(50.4)**
	(1.00)	**(33.6)**
2018	1.50	₱88.3
	1.00	58.9
	(1.50)	(88.3)
	(1.00)	(58.9)

Liquidity Risk

The Group manages its liquidity to ensure adequate financing of capital expenditures and debt service. Financing consists of internally generated funds, proceeds from debt and equity issues, and/or sale of assets.

The Group regularly evaluates its projected and actual cash flow information and assesses conditions in the financial markets for opportunities to pursue fund raising initiatives including bank loans, export credit agency-guaranteed facilities, bonds and equity market issues.

The Group's financial assets, which have maturities of less than 12 months and used to meet its short-term liquidity needs, include the following:

	2019	2018
	(In Thousands)	
Cash and cash equivalents	**₱76,213,774**	₱79,313,215
Current portion of time deposits	**30,488**	25,842,829

The maturity profile of the Group's financial liabilities follow:

	2019			
	Less than 1 Year	**1 to 5 Years**	**More than 5 Years**	**Total**
		(In Thousands)		
Bank loans	**₱18,710,465**	**₱–**	**₱–**	**₱18,710,465**
Accounts payable and other current liabilities *	**122,251,417**	**–**	**–**	**122,251,417**
Long-term debt (including current portion) **	**37,745,146**	**336,519,185**	**96,164,360**	**470,428,691**
Derivative liabilities**	**–**	**1,966,090**	**–**	**1,966,090**
Dividends payable	**4,204,962**	**–**	**–**	**4,204,962**
Lease liabilities	**3,859,945**	**12,334,377**	**25,810,461**	**42,004,783**
Tenants' deposits **	**297,039**	**21,306,522**	**64,830**	**21,668,391**
Other noncurrent liabilities ***	**–**	**22,775,561**	**–**	**22,775,561**
	₱187,068,974	**₱394,901,735**	**₱122,039,651**	**₱704,010,360**

**Excluding payables to government agencies of ₱6,331.9 million, which are not considered as financial liabilities.*
***Based on estimated future cash flows.*
****Excluding nonfinancial liabilities amounting to ₱5,086.4 million.*

	2018			
	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
		(In Thousands)		
Bank loans	₱18,885,465	₱–	₱–	₱18,885,465
Accounts payable and other current liabilities *	107,459,209	–	–	107,459,209
Long-term debt (including current portion) **	72,701,164	268,546,245	93,842,363	435,089,772
Derivative liabilities**	–	335,008	–	335,008
Dividends payable	3,906,476	–	–	3,906,476
Tenants' deposits **	299,939	21,688,833	62,911	22,051,683
Other noncurrent liabilities ***	148,772	14,251,063	–	14,399,835
	₱203,401,025	₱304,821,149	₱93,905,274	₱602,127,448

**Excluding payables to government agencies of ₱4,618.6 million, which are not considered as financial liabilities.*
***Based on estimated future cash flows.*
****Excluding nonfinancial liabilities amounting to ₱3,432.6 million.*

Credit Risk

The Group trades only with recognized and creditworthy related and third parties. The Group policy requires customers who wish to trade on credit terms to undergo credit verification. In addition, receivable balances are monitored on a regular basis to keep exposure to bad debts at the minimum. Given the Group's diverse customer base, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Group which consist of cash and cash equivalents, time deposits and certain derivative instruments, the Group's credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Receivables from sale of real estate have minimal credit risk and are effectively collateralized by the respective units sold since title to the real estate properties are not transferred to the buyers until full payment is made.

As at December 31, 2019 and 2018, the financial assets, except for certain receivables, are generally viewed by management as good and collectible considering the credit history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

Credit Quality of Financial Assets
The credit quality of financial assets is managed by the Group using high quality and standard quality as internal credit ratings.

High Quality. This pertains to a counterparty who is not expected to default in settling its obligations, thus credit risk is minimal. This normally includes large prime financial institutions, companies and government agencies.

Standard Quality. Other financial assets not belonging to the high quality category are included in this category.

	2019			2018		
	High Quality	**Standard Quality**	**Total**	High Quality	Standard Quality	Total
			(In Thousands)			
Cash and cash equivalents (excluding cash on hand)	**₱74,274,369**	**₱–**	**₱74,274,369**	₱77,583,440	₱–	₱77,583,440
Time deposits including noncurrent portion	**2,443,460**		**2,443,460**	28,235,451	–	28,235,451
Financial assets	**22,253,153**	**2,635,485**	**24,888,638**	24,728,390	2,613,690	27,342,080
Receivables and contract assets - net (including noncurrent portion of receivables from real estate buyers)*	**46,018,028**	**8,873,608**	**54,891,636**	30,230,611	7,610,927	37,841,538
Advances and other receivables - net (includes non-trade receivables, bonds and deposits, receivable from banks, notes receivable and accrued interest receivable under "Other current assets" account in the consolidated balance sheets)**	**21,431,159**	**–**	**21,431,159**	15,451,092	–	15,451,092
Escrow fund	**250,445**	**–**	**250,445**	290,179	–	290,179
Other noncurrent assets:						
Bonds and deposits	**17,722,250**	**–**	**17,722,250**	18,403,000	–	18,403,000
Long-term notes	**5,942,878**	**–**	**5,942,878**	6,739,026	–	6,739,026
Derivative assets (including noncurrent portion)	**826,315**	**–**	**826,315**	1,566,788	–	1,566,788
	₱191,162,057	**₱11,509,093**	**₱202,671,150**	₱203,227,977	₱10,224,617	₱213,452,594

**Excluding non-financial assets amounting to ₱20,268.6 and ₱20,269.0 million as at December 31, 2019 and 2018, respectively.*
***Excluding non-financial assets amounting to ₱449.3million and ₱274.4 million as at December 31, 2019 and 2018, respectively.*

Equity Price Risk
Management closely monitors the equity securities in its investment portfolio. Material equity investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.

The sensitivity analysis for a reasonably possible change in equity indices, with all other variables held constant, of the Group's investments in listed shares of stock, follows:

	Change in Equity Price	Effect on Equity
		(In Millions)
2019	**+2.86%**	**₱838.5**
	-2.86%	**(838.5)**
2018	+1.78%	₱621.1
	-1.78%	(621.1)

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes appropriate adjustments based on changes in economic conditions. Accordingly, the Group may adjust dividend payments to shareholders, secure new and/or pay off existing debts, return capital to shareholders or issue new shares.

The Group monitors its capital gearing by maintaining its net debt at no higher than 50% of the sum of net debt and equity.

Net Gearing Ratio

	2019	2018
	(In Thousands)	
Bank loans	**₱18,710,465**	₱18,885,465
Long-term debt (current and noncurrent)	**356,435,927**	367,036,243
Less:		
Cash and cash equivalents		
(excluding cash on hand)	**(74,274,369)**	(77,583,440)
Time deposits (current and noncurrent)	**(2,443,460)**	(28,235,451)
Net interest-bearing debt (a)	**298,428,563**	280,102,817
Total equity	**536,151,478**	492,290,012
Net interest-bearing debt and total equity (b)	**₱834,580,041**	₱772,392,829
Gearing ratio - net (a/b)	**36%**	36%

Gross Gearing Ratio

	2019	2018
	(In Thousands)	
Bank loans	**₱18,710,465**	₱18,885,465
Long-term debt	**356,435,927**	367,036,243
Total interest-bearing debt (a)	**375,146,392**	385,921,708
Total equity	**536,151,478**	492,290,012
Total interest-bearing debt and total equity (b)	**₱911,297,870**	₱878,211,720
Gearing ratio - gross (a/b)	**41%**	44%

29. **Financial Instruments**

The Group's financial assets and liabilities by category and by class, except for those with carrying amounts that are reasonable approximations of fair values, follow:

			2019		
	Carrying Value	**Fair Value**	**Quoted Prices in Active Markets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
			(In Thousands)		
Assets Measured at Fair Value					
Financial assets at FVOCI					
Listed shares of stock	**₱22,240,653**	**₱22,240,653**	**₱22,240,653**	**₱–**	**₱–**
Unlisted shares of stock	**2,635,484**	**2,635,484**	**–**	**–**	**2,635,484**
Club shares	**12,500**	**12,500**	**–**	**12,500**	**–**
Derivative assets	**826,315**	**826,315**	**–**	**826,315**	**–**
	25,714,952	**25,714,952**	**22,240,653**	**838,815**	**2,635,484**
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	**2,412,972**	**2,386,637**	**–**	**–**	**2,386,637**
Other noncurrent assets:					
Bonds and deposits	**17,722,250**	**19,763,982**	**–**	**–**	**19,763,982**
Long-term notes	**5,942,878**	**7,577,904**	**–**	**–**	**7,577,904**
	26,078,100	**29,728,523**	**–**	**–**	**29,728,523**
	₱51,793,052	**₱55,443,475**	**₱22,240,653**	**₱838,815**	**₱32,364,007**
Liabilities Measured at Fair Value					
Derivative liabilities	**₱1,966,090**	**₱1,966,090**	**₱–**	**₱1,966,090**	**₱–**
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	**327,358,208**	**331,463,306**	**–**	**–**	**331,463,306**
Lease liabilities - noncurrent portion	**27,600,392**	**38,144,838**	**–**	**–**	**38,144,838**
Tenants' deposits and others*	**35,607,059**	**32,355,186**	**–**	**–**	**32,355,186**
	390,565,659	**401,963,330**	**–**	**–**	**401,963,330**
	₱392,531,749	**₱403,929,420**	**₱–**	**₱1,966,0900**	**₱401,963,330**

**Excluding nonfinancial liabilities amounting to ₱5,086.4 million.*

			2018		
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Assets Measured at Fair Value					
Financial assets at FVOCI					
Listed shares of stock	₱23,382,060	₱23,382,060	₱23,382,060	₱–	₱–
Unlisted shares of stock	2,613,690	2,613,690	–	–	2,613,690
Club shares	31,830	31,830	–	31,830	–
Financial assets at FVPL	1,314,500	1,314,500	1,314,500	–	–
Derivative assets	1,566,788	1,566,788	–	1,566,788	–
	28,908,868	28,908,868	24,696,560	1,598,618	2,613,690
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	2,392,622	2,339,327	–	–	2,339,327
Receivables and contract asssets - net (including noncurrent portion of receivables from real estate buyers)	59,987,359	57,604,083	–	–	57,604,083
Other noncurrent assets:					
Bonds and deposits	18,403,000	19,800,272	–	–	19,800,272
Long-term notes	6,739,026	8,489,300	–	–	8,489,300
	87,522,007	88,232,982	–	–	88,232,982
	₱116,430,875	₱117,141,850	₱24,696,560	₱1,598,618	₱90,846,672
Liabilities Measured at Fair Value					
Derivative liabilities	₱335,008	₱335,008	₱–	₱335,008	₱–
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	305,555,356	288,274,800	–	–	288,274,800
Tenants' deposits and others*	36,000,150	32,026,177	–	–	32,026,177
	341,555,506	320,300,977	–	–	320,300,977
	₱341,890,514	₱320,635,985	₱–	₱335,008	₱320,300,977

**Excluding nonfinancial liabilities amounting to ₱3,432.6 million.*

There were no transfers into and out of Levels 1, 2 and 3 fair value measurements as at December 31, 2019 and 2018.

The estimated fair value of the following financial instruments is based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used follow:

	2019	2018
Noncurrent portion of time deposits	**4.41% - 4.74%**	2.0% - 7.9%
Noncurrent portion of receivables from real estate buyers	–	7.0%
Long-term notes included under "Other noncurrent assets" account	**1.69% - 1.94%**	2.6% - 2.8%
Tenants' deposits	**3.12%-4.74%**	5.3% - 7.9%

Long-term Debt. The fair value of long-term debt is estimated based on the following assumptions:

Debt	Fair Value Assumptions
Fixed Rate	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 1.7% to 6.5% and 2.6% to 8.5% as at December 31, 2019 and 2018, respectively.
Variable Rate	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used were 3.0% to 7.0% and 3.8% to 9.0% as at December 31, 2019 and 2018, respectively.

Derivative Instruments. The fair values are based on quotes obtained from counterparties. The rollforward analysis of the fair value changes of derivative instruments follows:

	2019	2018
	(In Thousands)	
Balance at beginning of year	**₱1,231,780**	₱4,564,032
Net changes in fair value during the year	**(2,223,363)**	(1,280,800)
Fair value on settled derivatives	**(148,192)**	(2,051,452)
Balance at end of year	**(₱1,139,775)**	₱1,231,780

Derivative Instruments Accounted for as Cash Flow Hedges
As at December 31, 2019, the Parent Company and SM Prime have outstanding arrangements to hedge both foreign currency and interest rate exposure on its foreign currency-denominated debt. Details follow:

Cross-currency swaps:

	Notional Amount (In US$)	(In PhP)	(In CN¥)	Principal	Fair Value	Receive	Pay	US$:PhP	US$: CN¥	Maturity
			(In Thousands)							
Parent:										
	$53,000	₱2,761,300		₱2,683,655	(₱138,710)	LIBOR + spread	5.3%	₱52.10		March 6, 2023
	100,000	5,210,000		5,063,500	(400,093)	LIBOR + spread	5.9%	52.10		April 16, 2023
	56,159	3,000,000		2,843,598	(338,579)	LIBOR + spread	6.1%	53.42		July 26, 2023
	100,000	5,140,000		5,063,500	(205,908)	LIBOR + spread	5.5%	51.40		June 28, 2024
	100,000	5,115,000		5,063,500	(170,640)	LIBOR + spread	5.4%	51.15		June 28, 2024
SM Prime:										
	50,000	2,666,500		2,531,750	(321,329)	LIBOR + spread	6.4%	53.33		June 14, 2023
	60,000	3,199,200		3,038,100	(390,289)	LIBOR + spread	6.4%	53.32		June 14, 2023
	25,000		¥172,100	1,265,875	(38,773)	LIBOR + spread	5.4%		¥6.884	March 27, 2022
	25,000		172,300	1,265,875	(36,253)	LIBOR + spread	5.4%		6.892	March 27, 2022
	50,000		327,315	2,531,750	77,144	LIBOR + spread	5.0%		6.546	June 30, 2022
	50,000		335,940	2,531,750	60,099	LIBOR + spread	4.0%		6.719	February 28, 2024
	50,000		335,725	2,531,750	85,546	LIBOR + spread	3.9%		6.715	February 28, 2024
	50,000		335,750	2,531,750	59,395	LIBOR + spread	3.9%		6.715	February 28, 2024
	50,000		334,400	2,531,750	54,713	LIBOR + spread	3.9%		6.688	February 28, 2024
	50,000		335,750	2,531,750	62,646	LIBOR + spread	3.9%		6.715	February 28, 2024
	36,000		241,643	1,822,860	46,028	LIBOR + spread	3.9%		6.712	February 28, 2024

Principal only and interest rate swaps:

	Notional Amount	Principal	Fair Value: Principal Only Swap	Fair Value: Interest Rate Swap	US$:CN¥	Interest Rate	Maturity
		(In Thousands)					
SM Prime	US$270,000	₱13,994,148	₱ 387,062	₱ 68,709	¥6.458-6.889	6.2%	January 29, 2021

As the terms of the swaps have been negotiated to match the terms of the hedged loans and advances, the hedges were assessed to be highly effective.

Other Derivative Instruments Not Designated as Accounting Hedges

Non-deliverable Forwards and Swaps. The net fair value changes from the settled currency forward and swap contracts recognized in the consolidated statements of income amounted to ₱2.0 million loss in 2019 and ₱314.4 million gain in 2018.

30. EPS Computation

	2019	2018	2017
	(In Thousands Except Per Share Data)		
Net income attributable to owners of the Parent (a)	**₱44,568,244**	₱37,078,325	₱32,923,455
Weighted average number of common shares outstanding (b)	**1,204,583**	1,204,583	1,204,583
EPS (a/b)	**₱37.00**	₱30.78	₱27.33

31. Change in Liabilities Arising From Financing Activities

	2019			2018	
	Bank Loans (Note 17)	**Long-term Debt** (Note 19)	**Lease Liabilities** (Note 27)	Bank Loans (Note 17)	Long-term Debt (Note 19)
			(In Thousands)		
Balance at beginning of year	**₱18,885,465**	**₱367,036,243**	**₱24,781,169**	₱24,172,965	₱332,853,001
Availments	**25,266,865**	**52,895,468**	**5,531,627**	32,199,317	70,787,135
Payments	**(21,376,865)**	**(64,799,259)**	**(2,854,295)**	(37,256,817)	(40,292,241)
Cumulative translation adjustment on cash flow hedges	**–**	**(1,841,637)**	**–**	–	(50,799)
Foreign exchange movement	**–**	**(929,710)**	**–**	–	3,621,088
Loan refinancing	**–**	**–**	**–**	(230,000)	230,000
Reclassification	**(4,065,000)**	**4,065,000**	**–**	–	–
Others	**–**	**9,822**	**1,676,045**	–	(111,941)
Balance at end of year	**₱18,710,465**	**₱356,435,927**	**₱29,134,546**	₱18,885,465	₱367,036,243

There are no non-cash changes in accrued interest and dividends payable. Others include debt accretion and debt issue cost amortization.

32. Reclassification

The Group reclassified certain income accounts in 2018 to conform to the 2019 presentation and classification. The reclassification has no impact on the 2019 and 2018 profit or loss and equity of the Group.

SM Investments Corporation and Subsidiaries

Unaudited Interim Condensed Consolidated Financial Statements
As at March 31, 2020
and for the Three-Month Periods Ended March 31, 2020 and 2019
(with Comparative Audited Consolidated Balance Sheet as at December 31, 2019)

and

Report on Review of Unaudited Interim Condensed Consolidated Financial Statements

SGV
Building a better working world

A member firm of Ernst & Young Global Limited

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

REPORT ON REVIEW OF UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Stockholders and the Board of Directors
SM Investments Corporation
10th Floor, One E-Com Center
Harbor Drive, Mall of Asia Complex
CBP-1A, Pasay City 1300

Introduction

We have reviewed the accompanying unaudited interim condensed consolidated financial statements of SM Investments Corporation and its subsidiaries, which comprise the unaudited interim consolidated balance sheet as at March 31, 2020 and the related unaudited interim consolidated statements of income, comprehensive income, changes in equity and cash flows for three-month periods ended March 31, 2020 and 2019, and other explanatory notes to unaudited interim condensed consolidated financial statements. Management is responsible for the preparation and presentation of these unaudited interim condensed consolidated financial statements in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these unaudited interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying unaudited interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with PAS 34, *Interim Financial Reporting*.

SYCIP GORRES VELAYO & CO.

Julie Christine O. Mateo

Julie Christine O. Mateo
Partner
CPA Certificate No. 93542
SEC Accreditation No. 0780-AR-3 (Group A),
August 16, 2018, valid until August 15, 2021
Tax Identification No. 198-819-116
BIR Accreditation No. 08-001998-68-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8125278, January 7, 2020, Makati City

June 26, 2020

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED BALANCE SHEET
March 31, 2020
(With Comparative Audited Figures as at December 31, 2019)
(Amounts in Thousands)

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 22)	**₱70,828,712**	₱76,213,774
Time deposits (Notes 6 and 22)	**30,739**	30,488
Financial assets (Notes 7 and 22)	**567,102**	659,077
Receivables and contract assets (Notes 8 and 22)	**55,152,663**	53,617,200
Merchandise inventories - at cost (Note 20)	**34,402,700**	33,157,622
Other current assets (Notes 9 and 22)	**88,465,218**	84,678,819
Total Current Assets	**249,447,134**	248,356,980
Noncurrent Assets		
Financial assets - net of current portion (Notes 7 and 22)	**18,038,688**	24,229,560
Investments in associate companies and joint ventures (Note 10)	**282,259,117**	280,971,638
Time deposits - net of current portion (Notes 6, 22 and 23)	**2,412,972**	2,412,972
Property and equipment (Note 11)	**25,189,679**	24,720,873
Investment properties (Note 12)	**342,622,033**	338,075,303
Right-of-use assets	**36,900,513**	37,664,176
Land and development - net of current portion (Note 13)	**74,980,002**	74,946,694
Intangibles (Note 14)	**25,227,078**	25,289,609
Deferred tax assets (Note 21)	**3,661,613**	3,121,117
Other noncurrent assets (Notes 14 and 22)	**93,983,511**	84,375,645
Total Noncurrent Assets	**905,275,206**	895,807,587
	₱1,154,722,340	₱1,144,164,567
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 15, 19 and 22)	**₱35,731,174**	₱18,710,465
Accounts payable and other current liabilities (Notes 16 and 22)	**124,957,682**	141,451,764
Income tax payable	**3,936,601**	3,273,872
Current portion of long-term debt (Notes 17, 19, 22 and 23)	**50,151,469**	29,077,719
Dividends payable	**3,957,888**	4,204,962
Total Current Liabilities	**218,734,814**	196,718,782
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 17, 19, 22 and 23)	**310,574,467**	327,358,208
Lease liabilities - net of current portion	**27,397,531**	27,600,392
Deferred tax liabilities (Note 21)	**10,534,929**	9,604,043
Tenants' deposits and others (Notes 22 and 23)	**49,246,457**	46,731,664
Total Noncurrent Liabilities	**397,753,384**	411,294,307
Total Liabilities	**616,488,198**	608,013,089

(Forward)

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Equity Attributable to Owners of the Parent		
Capital stock (Note 18)	**₱12,045,829**	₱12,045,829
Additional paid-in capital	**75,815,923**	75,815,923
Equity adjustments from common control transactions	**(5,424,455)**	(5,424,455)
Cost of Parent common shares held by subsidiaries	**(25,386)**	(25,386)
Cumulative translation adjustment	**1,190,386**	1,308,228
Net fair value changes on cash flow hedges	**(1,291,152)**	(1,406,026)
Net unrealized gain on financial assets	**3,772,845**	14,399,640
Remeasurement loss on defined benefit asset/obligation	**(8,633,269)**	(8,633,269)
Retained earnings (Note 18):		
Appropriated	**37,000,000**	37,000,000
Unappropriated	**266,553,868**	257,546,591
Total Equity Attributable to Owners of the Parent	**381,004,589**	382,627,075
Non-controlling Interests	**157,229,553**	153,524,403
Total Equity	**538,234,142**	536,151,478
	₱1,154,722,340	₱1,144,164,567

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands Except Per Share Data)

	Three-Month Periods Ended March 31	
	2020 (Unaudited)	2019 (Unaudited)
REVENUES		
Sales:		
Merchandise	**₱78,289,599**	₱76,059,266
Real estate	**11,293,965**	9,109,799
Rent (Note 19)	**11,076,148**	12,471,507
Equity in net earnings of associate companies and joint ventures	**5,298,309**	5,535,151
Cinema ticket sales, amusement and others	**955,640**	1,692,754
Dividend, management fees and others	**4,238,832**	4,179,168
	111,152,493	109,047,645
COST AND EXPENSES		
Cost of sales:		
Merchandise (Note 20)	**59,434,998**	55,790,186
Real estate (Note 13)	**4,964,036**	4,357,150
Selling, general and administrative expenses	**26,550,681**	25,619,860
	90,949,715	85,767,196
OTHER INCOME (CHARGES)		
Interest expense (Note 19)	**(4,192,716)**	(4,294,118)
Interest income (Note 19)	**764,626**	998,947
Gain on fair value changes on derivatives - net (Note 23)	**472**	55,278
Foreign exchange gain (loss) - net and others (Note 22)	**(10,097)**	269,274
	(3,437,715)	(2,970,619)
INCOME BEFORE INCOME TAX	**16,765,063**	20,309,830
PROVISION FOR INCOME TAX (Note 21)		
Current	**2,727,400**	3,710,093
Deferred	**260,770**	223,689
	2,988,170	3,933,782
NET INCOME	**₱13,776,893**	₱16,376,048
Attributable to		
Owners of the Parent	**₱9,007,277**	₱10,690,220
Non-controlling interests	**4,769,616**	5,685,828
	₱13,776,893	₱16,376,048
Basic/Diluted Earnings Per Common Share Attributable to Owners of the Parent (Note 24)	**₱7.48**	₱8.87

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Three-Month Periods Ended March 31	
	2020 (Unaudited)	2019 (Unaudited)
NET INCOME	**₱13,776,893**	₱16,376,048
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that will be reclassified to profit or loss in subsequent periods		
Share in unrealized gain (loss) on financial assets of associates	**(2,860,183)**	2,206,223
Cumulative translation adjustment	**(231,447)**	309,992
Net fair value changes on cash flow hedges	**(184,091)**	(482,068)
	(3,275,721)	2,034,147
Items not to be reclassified to profit or loss in subsequent periods		
Net unrealized gain (loss) on financial assets	**(8,991,818)**	2,083,652
Income tax relating to items not to be reclassified to profit or loss in subsequent periods	**(129,618)**	301,361
	(9,121,436)	2,385,013
TOTAL COMPREHENSIVE INCOME	**₱1,379,736**	₱20,795,208
Attributable to		
Owners of the Parent	**(₱1,622,486)**	₱14,766,701
Non-controlling interests	**3,002,222**	6,028,507
	₱1,379,736	₱20,795,208

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

UNUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2020 AND 2019

(Amounts in Thousands Except Per Share Data)

	Equity Attributable to Owners of the Parent												
	Capital Stock	**Additional Paid-in Capital**	**Equity Adjustments from Common Control Transactions**	**Cost of Parent Common Shares Held by Subsidiaries**	**Cumulative Translation Adjustment**	**Net Fair Value Changes on Cash Flow Hedges**	**Net Unrealized Gain (Loss) on Financial Assets**	**Remeasurement Loss on Defined Benefit Asset/ Obligation**	**Appropriated Retained Earnings**	**Unappropriated Retained Earnings**	**Total**	**Non-controlling Interests**	**Total Equity**
As at December 31, 2019 (Audited)	**₱12,045,829**	**₱75,815,923**	**(₱5,424,455)**	**(₱25,386)**	**₱1,308,228**	**(₱1,406,026)**	**₱14,399,640**	**(₱8,633,269)**	**₱37,000,000**	**₱257,546,591**	**₱382,627,075**	**₱153,524,403**	**₱536,151,478**
Net income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9,007,277**	**9,007,277**	**4,769,616**	**13,776,893**
Other comprehensive income	**–**	**–**	**–**	**–**	**(117,842)**	**114,874**	**(10,626,795)**	**–**	**–**	**–**	**(10,629,763)**	**(1,767,394)**	**(12,397,157)**
Total comprehensive income	**–**	**–**	**–**	**–**	**(117,842)**	**114,874**	**(10,626,795)**	**–**	**–**	**9,007,277**	**(1,622,486)**	**3,002,222**	**1,379,736**
Increase in previous year's non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**702,928**	**702,928**
As at March 31, 2020 (Unaudited)	**₱12,045,829**	**₱75,815,923**	**(₱5,424,455)**	**(₱25,386)**	**₱1,190,386**	**(₱1,291,152)**	**₱3,772,845**	**(₱8,633,269)**	**₱37,000,000**	**₱266,553,868**	**₱381,004,589**	**₱157,229,553**	**₱538,234,142**
As at December 31, 2018 (Audited)	₱12,045,829	₱75,815,520	(₱5,424,455)	(₱25,386)	₱2,014,573	₱62,444	₱11,748,980	(₱2,063,358)	₱37,000,000	₱222,213,054	₱353,387,201	₱138,902,811	₱492,290,012
Net income	–	–	–	–	–	–	–	–	–	10,690,220	10,690,220	5,685,828	16,376,048
Other comprehensive income	–	–	–	–	154,084	(438,948)	4,361,345	–	–	–	4,076,481	342,679	4,419,160
Total comprehensive income	–	–	–	–	154,084	(438,948)	4,361,345	–	–	10,690,220	14,766,701	6,028,507	20,795,208
Realized gain on sale of financial assets at FVOCI	–	–	–	–	–	–	(703,471)	–	–	703,471	–	–	–
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(516,200)	(516,200)
Increase in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	129,908	129,908
As at March 31, 2019 (Unaudited)	₱12,045,829	₱75,815,520	(₱5,424,455)	(₱25,386)	₱2,168,657	(₱376,504)	₱15,406,854	(₱2,063,358)	₱37,000,000	₱233,606,745	₱368,153,902	₱144,545,026	₱512,698,928

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Three-Month Periods Ended March 31	
	2020 (Unaudited)	2019 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱16,765,063**	₱20,309,830
Adjustments for:		
Equity in net earnings of associate companies and joint ventures	**(5,298,309)**	(5,535,151)
Depreciation and amortization (Notes 11, 12 and 14)	**4,839,355**	4,149,130
Interest expense	**4,192,716**	4,294,118
Interest income	**(764,626)**	(998,947)
Unrealized foreign exchange (gain) loss and others	**127,080**	(171,527)
Dividend, management fees and others	**(31,261)**	(103,628)
Gain on fair value changes on derivatives - net	**(472)**	(55,278)
Income before working capital changes	**19,829,546**	21,888,547
Decrease (increase) in:		
Receivables and contract assets	**(2,069,865)**	(3,038,966)
Merchandise inventories	**(1,245,078)**	(3,108,572)
Other current assets	**(2,381,359)**	491,404
Land and development	**(6,246,151)**	(6,203,684)
Increase (decrease) in:		
Accounts payable and other current liabilities	**(11,396,372)**	(9,259,710)
Tenants' deposits and others	**3,094,114**	55,904
Net cash generated from (used in) operations	**(415,165)**	824,923
Income tax paid	**(2,059,721)**	(2,136,826)
Net cash used in operating activities	**(2,474,886)**	(1,311,903)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
Investment properties	**2,059**	19,302
Financial assets	**–**	1,455,363
Property and equipment	**–**	769
Additions to:		
Investment properties (Note 12)	**(6,365,822)**	(5,963,981)
Property and equipment (Note 11)	**(1,700,207)**	(1,274,841)
Financial assets	**(2,854,936)**	(1,312,500)
Investments in associate companies and joint ventures	**–**	(1,585,342)
Decrease (increase) in:		
Time deposits	**15,498**	2,933,293
Other noncurrent assets	**(10,219,030)**	4,698,845
Dividends received	**1,487,908**	1,320,702
Interest received	**537,258**	675,548
Net cash provided by (used in) investing activities	**(19,097,272)**	967,158

(Forward)

	Three-Month Periods Ended March 31	
	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of:		
Bank loans	**₱28,223,000**	₱2,250,000
Long-term debt	**17,600,412**	–
Payments of:		
Long-term debt	**(13,452,316)**	(5,649,902)
Bank loans	**(11,202,291)**	(7,207,391)
Interest	**(3,630,577)**	(4,532,242)
Lease liabilities	**(790,178)**	–
Dividends	**(247,075)**	(33,602)
Net cash provided by (used in) financing activities	**16,500,975**	(15,173,137)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(5,071,183)**	(15,517,882)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(313,879)**	359,369
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD (Note 5)	**76,213,774**	79,313,215
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 5)	**₱70,828,712**	₱64,154,702

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

SM Investments Corporation (SMIC or Parent Company) was incorporated in the Philippines on January 15, 1960. On December 27, 2019, the Philippine Securities and Exchange Commission (SEC) approved the amendment of the Parent Company's articles of incorporation changing its corporate life to perpetual. Its registered office address is 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300.

SMIC is the largest publicly listed company in the Philippines that is invested in market leading businesses in retail, banking and property. It also invests in ventures that capture high growth opportunities in the emerging Philippine economy.

The accompanying unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors (BOD), as approved and recommended for approval by the Audit Committee on June 26, 2020.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

The interim condensed consolidated financial statements of the Parent Company and its subsidiaries (collectively referred to as the Group) are prepared on a historical cost basis, except for derivative financial instruments and financial assets and liabilities which are measured at fair value.

The interim condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, Interim Financial Reporting. The interim condensed consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional and presentation currency under Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest thousand Peso except when otherwise indicated.

The accompanying interim condensed consolidated financial statements have been prepared under the going concern assumption. The Group believes that its businesses would remain relevant despite the challenges posed by the COVID-19 pandemic. Whilst the pandemic may adversely impact short-term business results, long-term prospects remain attractive. The Group maintains a conservative Balance Sheet and is confident it would be able to navigate through these challenges and take on opportunities as these arise.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's audited consolidated financial statements as at December 31, 2019. These interim condensed consolidated financial statements have been prepared for inclusion in the Prospectus to be prepared by the Group for its planned offering transaction.

Basis of Consolidation

The interim condensed consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. As at March 31, 2020, there were no significant changes in the Parent Company's ownership interest in its subsidiaries.

Significant Accounting Judgments, Estimates and Assumptions
The preparation of the interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the interim condensed consolidated financial statements and accompanying notes. Changes in these estimates and assumptions could result in outcomes that may require material adjustments to the carrying amounts of the affected assets or liabilities in the future.

Except as otherwise stated, there were no significant changes in accounting judgments, estimates, and assumptions that affect the amounts reported in the interim condensed consolidated financial statements and accompanying notes.

3. Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2019, except for the adoption of new standards effective as at January 1, 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective except for the amendments to PFRS 16, *Leases*.

Unless otherwise indicated, adoption of these new standards did not have an impact on the interim condensed consolidated financial statements of the Group.

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*

  The amendments to PFRS 3 clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output; that a business can exist without including all of the inputs and processes needed to create outputs. These amendments may impact future periods should the Group enter into any business combinations.

- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments*, *Interest Rate Benchmark Reform*

  The amendments to PFRS 9 provide a number of reliefs which apply to all hedging relationships that are directly affected by the interest rate benchmark reform in case the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

  The amendments provide a new definition of "material" that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements."

  The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

- Conceptual Framework for Financial Reporting issued on March 29, 2018

  The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

  The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

- Amendments to PFRS 16, *COVID-19-related Rent Concessions*

  The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

  - The rent concession is a direct consequence of COVID-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
  - Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
  - There is no substantive change to other terms and conditions of the lease.

  A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

  The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

  The Group adopted the amendments beginning January 1, 2020. These amendments have no significant impact on the interim consolidated financial statements as at March 31, 2020.

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4. **Segment Information**

The Group has identified three reportable operating segments as follows: property, retail, and financial services and others.

The property segment is involved in mall, residential and commercial development and hotel and convention center operations. The mall segment develops, conducts, operates and maintains the business of modern commercial shopping centers and all businesses related thereto such as the conduct, operation and maintenance of shopping center spaces for rent, amusement centers and cinemas within the compound of the shopping centers. The residential and commercial segments are involved in the development and transformation of major residential, commercial, entertainment and tourism districts through sustained capital investments in buildings and infrastructure. The hotels and convention centers segment engages in and carries on the business of hotels and convention centers and operates and maintains any and all services and facilities incident thereto.

The retail segment is engaged in the retail/wholesale trading of merchandise such as dry goods, wearing apparels, food and other merchandise.

The financial services and others segment primarily includes the operations of the Parent Company which is engaged in asset management and capital investments as well as its associate companies which include the banks.

The BOD monitors the operating results of each of its business units for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with the operating profit or loss in the consolidated financial statements.

Operating Segment Financial Data

	Three-Month Period Ended March 31, 2020 (Unaudited)				
	Property	**Retail**	**Financial Services and Others**	**Eliminations/ Adjustments**	**Consolidated**
			(In Thousands)		
Revenue:					
External customers	**₱24,453,291**	**₱80,927,693**	**₱5,771,509**	**₱–**	**₱111,152,493**
Inter-segment	**3,028,498**	**–**	**605,840**	**(3,634,338)**	**–**
	₱27,481,789	**₱80,927,693**	**₱6,377,349**	**(₱3,634,338)**	**₱111,152,493**
Segment results:					
Income before income tax	**₱10,771,091**	**₱2,079,521**	**₱3,914,451**	**₱–**	**₱16,765,063**
Provision for income tax	**(2,172,200)**	**(745,473)**	**(70,497)**	**–**	**(2,988,170)**
Net income	**₱8,598,891**	**₱1,334,048**	**₱3,843,954**	**₱–**	**₱13,776,893**
Net income attributable to:					
Owners of the Parent	**₱4,273,442**	**₱950,387**	**₱3,783,448**	**₱–**	**₱9,007,277**
Non-controlling interests	**4,325,449**	**383,661**	**60,506**	**–**	**4,769,616**

	Three-Month Period Ended March 30, 2019 (Unaudited)				
	Property	Retail	Financial Services and Others	Eliminations/ Adjustments	Consolidated
			(In Thousands)		
Revenue:					
External customers	₱24,141,846	₱78,900,982	₱6,004,817	₱–	₱109,047,645
Inter-segment	3,415,968	–	691,348	(4,107,316)	–
	₱27,557,814	₱78,900,982	₱6,696,165	(₱4,107,316)	₱109,047,645
Segment results:					
Income before income tax	₱11,631,655	₱4,373,021	₱4,305,154	₱–	₱20,309,830
Provision for income tax	(2,542,744)	(1,320,508)	(70,530)	–	(3,933,782)
Net income	₱9,088,911	₱3,052,513	₱4,234,624	₱–	₱16,376,048
Net income attributable to:					
Owners of the Parent	₱4,436,282	₱2,088,104	₱4,165,834	₱–	₱10,690,220
Non-controlling interests	4,652,629	964,409	68,790	–	5,685,828

Disaggregated revenue is consistent with the business segment revenues presented above.

Seasonality

Sales of the retail segment are cyclical and driven by seasonality. Historically, sales peak during the month of December for the Christmas period and in the month of May, prior to the opening of schools in June. Except for the impact of COVID-19 pandemic to the Group's operations starting March 2020, there were no trends, events or uncertainties that have had or that are reasonably expected to have a material impact on net sales or revenues or income from continuing operations.

5. Cash and Cash Equivalents

This account consists of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)	March 31, 2019 (Unaudited)
		(In Thousands)	
Cash on hand and in banks (Note 19)	**₱16,269,047**	₱19,218,912	₱12,233,279
Temporary investments (Note 19)	**54,559,665**	56,994,862	51,921,423
	₱70,828,712	₱76,213,774	₱64,154,702

Cash in banks earn interest at the respective bank deposit rates. Temporary investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group. These investments earn interest at prevailing rates.

6. Time Deposits

This account consists of time deposits as follows:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
		(In Thousands)
Current	**₱30,739**	₱30,488
Noncurrent	**2,412,972**	2,412,972
	₱2,443,711	₱2,443,460

The time deposits bear interest ranging from 2.0% to 3.2% in 2020 and 2019.

7. Financial Assets

This account consists of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
		(In Thousands)
Financial assets at fair value through other comprehensive income (FVOCI):		
Shares of stock		
Listed	**₱15,911,581**	₱22,240,653
Unlisted	**2,678,509**	2,635,484
Club shares	**15,700**	12,500
	18,605,790	24,888,637
Less current portion	**567,102**	659,077
Noncurrent portion	**₱18,038,688**	₱24,229,560

8. Receivables and Contract Assets

This account consists of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	(In Thousands)	
Trade:		
Real estate buyers	**₱71,308,390**	₱66,679,220
Third party tenants	**6,191,383**	8,469,829
Related party tenants (Note 19)	**137,230**	432,513
Others	**29,532**	66,747
Due from related parties (Note 19)	**2,238,431**	1,079,944
Management and service fees (Note 19)	**2,079,639**	2,212,623
Dividends (Note 19)	**276,774**	610,649
	82,261,379	79,551,525
Less allowance for expected credit loss (ECL)	**1,053,447**	1,053,549
	81,207,932	78,497,976
Less noncurrent portion of receivables from real estate buyers (Note 14)	**26,055,269**	24,880,776
Current portion	**₱55,152,663**	₱53,617,200

** Includes unbilled revenue from sale of real estate amounting to ₱64,579.4 million and ₱59,903.2 million as at March 31, 2020 and December 31, 2019, respectively.*

Allowance for ECL pertains to receivables from tenants which were identified to be impaired based on specific assessment. Receivables other than those identified as impaired, are assessed as good and collectible.

9. Other Current Assets

This account consists of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	(In Thousands)	
Land and development (Note 13)	**₱39,166,997**	₱37,935,968
Prepaid taxes and other prepayments	**14,598,778**	13,985,109
Bonds and deposits	**10,149,559**	9,519,229
Condominium and residential units for sale (Note 13)	**6,019,997**	6,026,426
Non-trade receivables	**6,700,281**	4,362,489
Input tax	**5,061,565**	4,261,278
Receivable from banks	**3,323,188**	5,497,587
Accrued interest receivable (Note 19)	**419,867**	192,499
Escrow fund (Note 19)	**142,835**	117,985
Others	**2,882,151**	2,780,249
	₱88,465,218	₱84,678,819

10. **Investments in Associate Companies and Joint Ventures**

The ₱1.3 billion increase in this account pertains mainly to equity in earnings, net of share in net comprehensive loss and dividends of associate companies and joint ventures.

11. **Property and Equipment**

The movements in this account follow:

	Buildings and Improvements	Store Equipment and Improvements	Data Processing Equipment	Furniture, Fixtures and Office Equipment	Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Construction in Progress	Total
					(In Thousands)				
Cost									
As at December 31, 2018	₱13,655,272	₱3,662,606	₱7,836,767	₱9,563,662	₱9,422,640	₱18,812,117	₱964,311	₱1,514,504	₱65,431,879
Additions	356,889	144,070	681,626	1,284,065	864,377	1,347,570	90,239	2,677,577	7,446,413
Effect of business combination	–	–	750	86,517	14,443	–	1,562	–	103,272
Reclassifications	544,069	237,227	98,281	(974,418)	82,394	533,433	311	(1,459,977)	(938,680)
Disposals/retirements	(229,272)	(33,454)	(28,431)	(74,845)	(46,189)	(93,669)	(8,629)	(13,183)	(527,672)
As at December 31, 2019 (Audited)	14,326,958	4,010,449	8,588,993	9,884,981	10,337,665	20,599,451	1,047,794	2,718,921	71,515,212
Additions	109,925	63,520	107,238	217,234	199,318	173,788	4,534	824,650	1,700,207
Reclassifications	97,322	(33,402)	(30,574)	685,506	15,816	53,659	(1,081)	(151,432)	635,814
Disposals/retirements	(7,199)	(2,998)	(60,654)	(46,849)	(44,447)	(190,960)	(300)	(1,555)	(354,962)
As at March 31, 2020 (Unaudited)	**₱14,527,006**	**₱4,037,569**	**₱8,605,003**	**₱10,740,872**	**₱10,508,352**	**₱20,635,938**	**₱1,050,947**	**₱3,390,584**	**₱73,496,271**
Accumulated Depreciation and Amortization									
As at December 31, 2018	₱5,873,280	₱2,562,697	₱6,199,111	₱6,955,402	₱6,218,401	₱13,867,319	₱554,002	₱–	₱42,230,212
Depreciation and amortization	773,894	380,986	695,475	554,216	1,003,150	1,467,314	59,215	–	4,934,250
Effect of business combination	–	–	205	33,216	2,643	–	1,157	–	37,221
Reclassifications	(31,628)	(80,706)	(6,405)	861,310	(7,303)	(840,944)	(6,294)	–	(111,970)
Disposals/retirements	(90,774)	(15,556)	(21,913)	(23,952)	(43,342)	(91,236)	(8,601)	–	(295,374)
As at December 31, 2019 (Audited)	6,524,772	2,847,421	6,866,473	8,380,192	7,173,549	14,402,453	599,479	–	46,794,339
Depreciation and amortization	184,354	87,338	162,073	232,674	244,431	402,727	49,941	–	1,363,538
Reclassifications	570	(598)	(16,251)	464,901	61	(354)	–	–	448,329
Disposals/retirements	(7,100)	(2,948)	(44,508)	(41,193)	(28,802)	(174,763)	(300)	–	(299,614)
As at March 31, 2020 (Unaudited)	**₱6,702,596**	**₱2,931,213**	**₱6,967,787**	**₱9,036,574**	**₱7,389,239**	**₱14,630,063**	**₱649,120**	**₱–**	**₱48,306,592**
Net Book Value									
As at March 31, 2020 (Unaudited)	**₱7,824,410**	**₱1,106,356**	**₱1,637,216**	**₱1,704,298**	**₱3,119,113**	**₱6,005,875**	**₱401,827**	**₱3,390,584**	**₱25,189,679**
As at December 31, 2019 (Audited)	7,802,186	1,163,028	1,722,520	1,504,789	3,164,116	6,196,998	448,315	2,718,921	24,720,873

12. Investment Properties

The movements in this account follow:

	Land and Improvements	Buildings and Leasehold Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)		
Cost					
As at December 31, 2018	₱71,129,919	₱239,322,133	₱39,878,182	₱38,753,649	₱389,083,883
Additions	3,563,225	2,334,200	1,883,218	29,121,761	36,902,404
Reclassifications	(120,439)	12,621,438	1,261,397	(14,002,546)	(240,150)
Effect of common control business combination	510,586	3,771,736	–	382,207	4,664,529
Translation adjustment	(67,417)	(1,976,026)	(157,843)	(69,323)	(2,270,609)
Disposals	(5,125)	(18,639)	(159,680)	(1,153)	(184,597)
As at December 31, 2019 (Audited)	75,010,749	256,054,842	42,705,274	54,184,595	427,955,460
Additions	448,383	242,558	481,851	5,193,030	6,365,822
Reclassifications	(2,268)	4,722,335	201,274	(3,371,672)	1,549,669
Translation adjustment	(23,190)	(695,806)	(55,427)	(63,189)	(837,612)
Disposals	(82)	–	(25,631)	–	(25,713)
As at March 31, 2020 (Unaudited)	**₱75,433,592**	**₱260,323,929**	**₱43,307,341**	**₱55,942,764**	**₱435,007,626**
Accumulated Depreciation, Amortization and Impairment Loss					
As at December 31, 2018	₱2,153,121	₱53,349,433	₱24,317,055	₱–	₱79,819,609
Depreciation and amortization	244,454	7,297,151	3,064,236	–	10,605,841
Reclassifications	7,563	(11,523)	–	–	(3,960)
Effect of common control business combination	–	57,712	–	–	57,712
Translation adjustment	(35,052)	(355,546)	(88,474)	–	(479,072)
Disposals	(3,626)	(10,454)	(105,893)	–	(119,973)
As at December 31, 2019 (Audited)	2,366,460	60,326,773	27,186,924	–	89,880,157
Depreciation and amortization	59,784	1,870,397	778,399	–	2,708,580
Translation adjustment	(14,051)	(134,093)	(32,270)	–	(180,414)
Disposals	(18)	–	(22,712)	–	(22,730)
As at March 31, 2020 (Unaudited)	**₱2,412,175**	**₱62,063,077**	**₱27,910,341**	**₱–**	**₱92,385,593**
Net Book Value					
As at March 31, 2020 (Unaudited)	**₱73,021,417**	**₱198,260,852**	**₱15,397,000**	**₱55,942,764**	**₱342,622,033**
As at December 31, 2019 (Audited)	72,644,289	195,728,069	15,518,350	54,184,595	338,075,303

Construction in progress pertains to construction costs incurred for new shopping malls, commercial buildings and redevelopment of existing malls.

Interest capitalized to investment properties amounted to ₱1,411.7 million and ₱3,143.3 million as at March 31, 2020 and December 31, 2019, respectively. Capitalization rates used range from 2.4% to 5.2% in 2020 and 2.4% to 5.1% in 2019.

The fair value of investment properties is categorized under Level 3 since valuation is based on unobservable inputs.

The fair value of substantially all investment properties amounting to ₱1,350,307.2 million as at December 31, 2019 was determined by accredited independent appraisers with appropriate qualifications and experience in the valuation of similar properties in the relevant locations. The fair value represents the price that would be received to sell the investment properties in an orderly transaction between market participants at the measurement date. The emergence of COVID-19 pandemic poses a potential impact in the fair value measurement of investment properties.

The Company has no restriction on the realizability of its investment properties and no obligation to purchase, construct or develop, repair, maintain and/or enhance any of these properties.

13. Land and Development and Condominium and Residential Units for Sale

Land and Development
Land and development includes the cost of land as well as construction cost of ongoing residential projects.

The movements in "Land and development - current" accounted as real estate inventories follow:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	(In Thousands)	
Balance at beginning of period	**₱37,935,968**	₱29,486,964
Reclassification to land and development - noncurrent, accounted as investment property	–	(7,227)
Development cost incurred	**6,184,118**	22,277,052
Transfer from land and development - noncurrent	–	1,810,966
Cost of real estate sold	**(3,916,902)**	(14,638,083)
Transfer to condominium and residential units for sale	**(1,038,259)**	(4,089,397)
Translation adjustment and others	**2,072**	3,095,693
Balance at end of period (Note 9)	**₱39,166,997**	₱37,935,968

The movements in "Land and development - noncurrent" accounted as investment property follow:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	(In Thousands)	
Balance at beginning of period	**₱74,946,694**	₱53,928,447
Reclassification from land and development - current, accounted as real estate inventories	–	7,227
Land acquisitions	**62,033**	23,254,266
Reclassification to investment property	**(28,725)**	(432,280)
Transfer to land and development - current	–	(1,810,966)
Balance at end of period	**₱74,980,002**	₱74,946,694

Not included in land and development - current and noncurrent is the estimated cost to complete the projects amounting to ₱80,846.4 million and ₱74,238.1 million as at March 31, 2020 and December 31, 2019, respectively.

Land and development is stated at cost. There is no allowance for inventory writedown as at March 31, 2020 and December 31, 2019.

Condominium and Residential Units for Sale
The movements in this account follow:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	(In Thousands)	
Balance at beginning of period	**₱6,026,426**	₱8,110,504
Transfer from land and development	**1,038,259**	4,089,397
Cost of real estate sold	**(1,047,134)**	(6,168,529)
Repossessed inventories and others	**2,446**	(4,946)
Balance at end of period (Note 9)	**₱6,019,997**	₱6,026,426

The condominium and residential units for sale are stated at cost as at March 31, 2020 and December 31, 2019.

14. **Intangibles and Other Noncurrent Assets**

Intangible Assets
This account consists of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	(In Thousands)	
Goodwill	**₱17,456,168**	₱17,458,431
Less accumulated impairment loss	**91,620**	91,620
Net book value	**17,364,548**	17,366,811
Trademarks and brand names	**7,862,530**	7,922,798
	₱25,227,078	₱25,289,609

Other Noncurrent Assets
This account consists of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	(In Thousands)	
Bonds and deposits	**₱56,716,495**	₱48,643,102
Receivables from real estate buyers (Note 8)	**26,055,269**	24,880,776
Long-term notes (Notes 19 and 23)	**5,948,159**	5,942,878
Deferred input value-added tax	**1,399,736**	1,410,699
Derivative assets (Note23)	**834,730**	826,315
Land use rights	**364,106**	377,722
Escrow fund (Note 19)	**132,460**	132,460
Defined benefit asset	**120,599**	95,057
Others	**2,411,957**	2,066,636
	₱93,983,511	₱84,375,645

15. **Bank Loans**

This account consists of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	(In Thousands)	
Peso-denominated:		
Parent Company	**₱6,750,000**	₱8,829,900
Subsidiaries	**28,981,174**	9,880,565
	₱35,731,174	₱18,710,465

These loans bear interest ranging from 3.9% to 5.3% in 2020 and 3.8% to 7.9% in 2019.

16. **Accounts Payable and Other Current Liabilities**

This account consists of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	(In Thousands)	
Trade	**₱63,447,815**	₱85,996,862
Tenants and customers' deposits	**15,664,612**	12,868,406
Accrued expenses	**13,930,761**	11,324,572
Nontrade	**10,661,107**	9,790,527
Payable arising from acquisition of land	**4,965,263**	4,769,349
Payables to government agencies	**4,465,966**	6,331,940
Accrued interest (Note 19)	**3,286,438**	2,833,930
Subscriptions payable	**2,021,790**	2,021,790
Due to related parties (Note 19)	**772,561**	1,031,812
Lease liabilities	**1,455,295**	1,534,154
Gift checks redeemable and others	**4,286,074**	2,948,422
	₱124,957,682	₱141,451,764

* *Includes unearned revenue from sale of real estate amounting to ₱9,155.3 million and ₱6,022.6 million as at March 31, 2020 and December 31, 2019, respectively.*

17. **Long-term Debt**

This account consists of:

	Availment	Maturity	Interest Rate/Term	Security	**March 31, 2020 (Unaudited)**	December 31, 2019 (Audited)
					(In Thousands)	
Parent Company						
U.S. dollar-denominated	June 10, 2014 - July 16, 2019	September 18, 2020 - June 28, 2024	Fixed 4.9%; three-month LIBOR + margin; semi-annual and quarterly	Unsecured	**₱44,961,205**	₱44,921,283
Peso-denominated	July 16, 2012 - December 27, 2018	April 23, 2020 - August 8, 2025	Fixed 4.4%-6.9%; three-month PHP BVAL + margin; semi-annual and quarterly	Unsecured	**68,498,010**	68,498,010
Subsidiaries						
U.S. dollar-denominated	March 21, 2016 - April 15, 2019	January 29, 2021 - February 28, 2024	LIBOR + spread; semi-annual	Unsecured	**39,783,902**	39,749,299
China Yuan Renminbi-denominated	January 14, 2016 - October 16, 2017	June 1, 2020 - October 16, 2022	CBC rate less 10.0%; quarterly; Fixed 5.8%	Secured	**2,619,723**	2,670,803
Peso-denominated	January 12, 2012 - March 31, 2020	June 3, 2020 - August 7, 2029	Fixed 3.8%-7.6%; BVAL + margin	Unsecured	**206,431,964**	202,247,332
					362,294,804	358,086,727
Less debt issue cost					**1,568,868**	1,650,800
					360,725,936	356,435,927
Less current portion					**50,151,469**	29,077,719
					₱310,574,467	₱327,358,208

BVAL – Bloomberg Valuation
LIBOR – London Interbank Offered Rate
CBC – Central Bank of China

Repayment Schedule

The repayment schedule of long-term debt as at March 31, 2020 follows:

	Gross Debt	Debt Issue Cost	Net
		(In Thousands)	
Within 1 year	₱50,214,643	₱63,174	₱50,151,469
Over 1 year to 5 years	290,904,221	1,472,512	289,431,709
Over 5 years	21,175,940	33,182	21,142,758
	₱362,294,804	₱1,568,868	₱360,725,936

Covenants

The long-term debt of the Group is covered with certain covenants including adherence to financial ratios. The Parent Company's loan covenants include adherence to certain financial ratios namely: (1) debt-to-equity ratio not to exceed 80:20, and, (2) current ratio at a minimum of 0.30, and, certain restrictions with respect to material change in ownership or control. SM Prime Holdings, Inc. (SM Prime's) loan covenants include adherence to certain financial ratios namely: (1) current ratio of not less than 1:1, (2) debt to equity ratio of not more than 70:30 to 75:25, and (3) interest coverage ratio of not less than 2.5x; and, certain restrictions with respect to material change in ownership or control. As at March 31, 2020 and December 31, 2019, the Group is in compliance with the terms of its debt covenants.

18. **Equity**

Capital Stock

a. Common stock

	Number of Shares	
	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Authorized - ₱10 par value per share	**2,790,000,000**	2,790,000,000
Issued and subscribed	**1,204,582,867**	1,204,582,867

As at March 31, 2020 and December 31, 2019, the Parent Company is compliant with the minimum public float as required by the PSE.

The total number of shareholders of the Parent Company is 1,260 and 1,261 as at March 31, 2020 and December 31, 2019, respectively.

b. Redeemable preferred shares

	Number of Shares	
	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Authorized - ₱10 par value per share	**10,000,000**	10,000,000

There are no issued and subscribed preferred shares as at March 31, 2020 and December 31, 2019.

Retained Earnings

- Appropriated

Retained earnings appropriated as at March 31, 2020 is intended for the payment of certain long-term debts and new investments as follows:

	Timeline	Amount
		(In Thousands)
Debt service	2020 - 2023	₱27,000,000
Investments	2020 - 2021	10,000,000
		₱37,000,000

- Unappropriated

The Parent Company's cash dividend declaration in 2019 follows:

Declaration Date	Record Date	Payment Date	Per Share	Total
				(In Thousands)
April 24, 2019	May 9, 2019	May 23, 2019	₱9.12	₱10,985,796

Unappropriated retained earnings include the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱246,523.1 million and ₱237,286.0 million as at March 31, 2020 and December 31, 2019, respectively, that is not available for distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.

19. Related Party Disclosures

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The significant transactions with related parties follow:

- Rent

  The Group has existing lease agreements for office and commercial spaces with related companies (retail and banking group and other related parties under common stockholders).

- Management and Service Fees

  The Parent Company and SM Retail Inc. receive management and service fees from retail entities under common stockholders for management, consultancy, manpower and other services.

- Dividend Income

  The Group earns dividend income from certain related parties under common stockholders.

- Cash Placements and Loans

  The Group has certain bank accounts and cash placements as well as bank loans and debts with BDO Unibank, Inc. and China Banking Corporation. Such accounts earn interest at prevailing market rates.

- Notes Receivable

  The Group has certain notes receivable from Carmen Copper Corporation (see Notes 14 and 22).

- Others

  The Group, in the normal course of business, has outstanding receivables from and payables to related companies which are unsecured and normally settled in cash.

The related party transactions and outstanding balances follow:

	Transaction Amount		Outstanding Amount			
	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)	**March 31, 2020 (Unaudited)**	December 31, 2019 (Audited)	Terms	Conditions
		(In Thousands)				
Banking Group						
Cash placement and investment in marketable securities			**₱62,855,860**	₱60,819,475	Interest-bearing at prevailing rates	Unsecured; no impairment
Interest receivable			**272,162**	96,400	–	–
Interest income	**₱495,462**	₱759,597			–	–
Interest-bearing debt			**31,660,732**	25,787,720	Interest-bearing	Unsecured
Interest payable			**116,387**	85,185	–	–
Interest expense	**1,045,164**	580,290			–	–
Rent receivable			**33,254**	130,907	Noninterest-bearing	Unsecured; no impairment
Rent income	**184,718**	250,409			–	–
Receivable financed			**2,350,503**	–	Without recourse	Unsecured
Dividends receivable			**486**	13,462	Noninterest-bearing	Unsecured; no impairment
Bonds and deposits			**17,738,000**	17,722,250	Interest-bearing 4.5%	Unsecured; no impairment
Management and service fee receivable			**8,459**	16,882	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	**49**	642			–	–
Escrow fund			**275,295**	250,445	Interest-bearing at prevailing rates	Unsecured; no impairment
Retail and Other Entities						
Rent receivable			**103,976**	301,606	Noninterest-bearing	Unsecured; no impairment
Rent income	**378,427**	491,970			–	–
Management and service fee receivable			**1,406,616**	1,938,102	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	**162,103**	244,773			–	–
Due from related parties			**2,238,431**	1,079,944	Noninterest-bearing	Unsecured; no impairment
Due to related parties			**772,561**	1,031,812	Noninterest-bearing	Unsecured
Interest receivable			**11,566**	9,905	–	–
Interest income	**92,391**	86,509			–	–
Dividend receivable			**274,720**	369,988	Noninterest-bearing	Unsecured; no impairment
Notes receivable			**5,948,159**	5,942,878	Interest-bearing 5.0% to 10.0%	Unsecured; no impairment

Terms and Conditions of Transactions with Related Parties

The Group did not make any provision for impairment loss relating to amounts owed by related parties.

20. Cost of Merchandise Sales

This account consists of:

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
	(In Thousands)	
Merchandise inventories at beginning of period	**₱33,157,622**	₱31,836,333
Purchases	**60,680,076**	58,898,758
Total goods available for sale	**93,837,698**	90,735,091
Less merchandise inventories at end of period	**34,402,700**	34,944,905
	₱59,434,998	₱55,790,186

21. Income Tax

Deferred tax assets of ₱3,661.6 million and ₱3,121.1 million as at March 31, 2020 and December 31, 2019, respectively, consist of the tax effects of unrealized gain on intercompany sale of investment properties, unamortized past service cost and defined benefit liability, provision for doubtful accounts and others, accrued leases, minimum corporate income tax, lease liabilities and net operating loss carry over.

Deferred tax liabilities of ₱10,534.9 million and ₱9,604.0 million as at March 31, 2020 and December 31, 2019, respectively, consist of the tax effects of appraisal increment on investment property, right-of-use assets, trademarks and brand names, capitalized interest, unrealized gross profit on sale of real estate, accrued/deferred rent income and unamortized past service cost and defined benefit asset. The disproportionate relationship between income before income tax and the provision for income tax is due to various factors such as interest income already subjected to final tax, non-deductible interest expense, equity in net earnings of associates, and dividend income exempt from tax.

22. Financial Risk Management Objectives and Policies

The main risks arising from the Group's financial instruments follow:

- *Interest rate risk.* Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is mostly done at intervals of three months or six months.

- *Foreign currency risk.* The Group's exposure to foreign currency risk arises as the Parent Company and SM Prime have investments and debt issuances which are denominated in U.S. Dollars and China Yuan Renminbi.

- *Liquidity risk.* Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.

- *Credit risk.* Refers to the risk that a borrower will default on any type of debt by failing to make the required payments.

- *Equity price risk.* The Group's exposure to equity price risk pertains to its investments in quoted equity shares which are classified as equity investments at FVOCI in the consolidated balance sheets. Equity price risk arises from changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

The BOD reviews and approves the policies for managing each of these risks.

Interest Rate Risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations (see Note 17).

The Group maintains a conservative financing strategy and has preference for longer tenor credit with fixed interest rate that matches the nature of its investments. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps and cross-currency swaps in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed notional amount. The interest rate swaps economically hedge the underlying debt obligations. The cross-currency swaps were designated by the Group under cash flow hedge accounting.

As at March 31, 2020 and December 31, 2019, after taking into account the effect of the swaps, approximately 79.4% and 79.0%, respectively of the Group's borrowings, net of debt issue cost, is kept at fixed interest rates.

Foreign Currency Risk

The Group aims to reduce foreign currency risks by employing on-balance sheet hedges and derivatives such as foreign currency swap contracts, foreign cross-currency swaps, foreign currency call options and non-deliverable forwards.

As at March 31, 2020, the Group's foreign currency-denominated assets and liabilities amounted to ₱25,637.8 million ($505.9 million) and ₱24,252.8 million ($478.5 million), respectively.

As at December 31, 2019, the Group's foreign currency-denominated assets and liabilities amounted to ₱25,817.4 million ($509.9 million) and ₱24,115.0 million ($476.3 million), respectively.

As at March 31, 2020 and December 31, 2019, approximately 21.9% and 23.1%, respectively, of the Group's borrowings, net of debt issue cost, are denominated in foreign currency.

The following exchange rates were used in translating foreign currency-denominated assets and liabilities into Pesos.

	March 31, 2020	December 31, 2019
Philippine Peso to U.S. Dollar	**₱50.68**	₱50.64

Liquidity Risk

The Group manages its liquidity to ensure adequate financing of capital expenditures and debt service. Financing consists of internally generated funds, proceeds from debt and equity issues, and/or sales of assets.

The Group regularly evaluates its projected and actual cash flow information and assesses conditions in the financial markets for opportunities to pursue fundraising initiatives including bank loans, export credit agency-guaranteed facilities, bonds and equity market issues.

Credit Risk

The Group trades only with recognized and creditworthy related and third parties. The Group policy requires customers who wish to trade on credit terms to undergo credit verification. In addition, receivable balances are monitored on a regular basis to keep exposure to bad debts at the minimum. Given the Group's diverse customer base, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Group which consist of cash and cash equivalents, time deposits, and certain derivative instruments, the Group's credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Receivables from sale of real estate have minimal credit risk and are effectively collateralized by the respective units sold since title to the real estate properties are not transferred to the buyers until full payment is made.

As at March 31, 2020 and December 31, 2019, the financial assets, except for some receivables, are generally viewed by the management as good and collectible considering the credit history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

Equity Price Risk

Management closely monitors the equity securities in its investment portfolio. Material equity investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes appropriate adjustments based on changes in economic conditions. Accordingly, the Group may adjust dividend payments to shareholders, secure new and/or payoff existing debts, return capital to shareholders or issue new shares.

The Group monitors its capital gearing by maintaining its net debt at no higher than 50% of the sum of net debt and equity.

The Group's gearing ratios follow:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Gross	**42%**	41%
Net	**38%**	36%

23. Financial Instruments

The Group's financial assets and liabilities by category and by class, except for those with carrying amounts that are reasonable approximations of fair values, follow:

			March 31, 2020 (Unaudited)		
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Assets Measured at Fair Value					
Financial assets at FVOCI					
Listed shares of stock	**₱15,911,581**	**₱15,911,581**	**₱15,911,581**	**₱–**	**₱–**
Unlisted shares of stock	**2,678,509**	**2,678,509**	**–**	**–**	**2,678,509**
Club shares	**15,700**	**15,700**	**–**	**15,700**	**–**
Derivative assets	**834,730**	**834,730**	**–**	**834,730**	**–**
	19,440,520	**19,440,520**	**15,911,581**	**850,430**	**2,678,509**
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	**2,412,972**	**2,412,972**	**–**	**–**	**2,412,972**
Other noncurrent assets:					
Bonds and deposits	**17,738,000**	**20,714,251**	**–**	**–**	**20,714,251**
Long-term notes	**5,948,159**	**7,861,676**	**–**	**–**	**7,861,676**
	26,099,131	**30,988,899**	**–**	**–**	**30,988,899**
	₱45,539,651	**₱50,429,419**	**₱15,911,581**	**₱850,430**	**₱33,667,408**
Liabilities Measured at Fair Value					
Derivative liabilities	**₱1,556,256**	**₱1,556,256**	**₱–**	**₱1,556,256**	**₱–**
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion, net of debt issue cost)	**310,574,467**	**296,867,413**	**–**	**–**	**296,867,413**
Lease liabilities - noncurrent portion	**27,397,531**	**39,783,809**			**39,783,809**
Tenants' deposits and others*	**37,449,263**	**34,686,806**	**–**	**–**	**34,686,806**
	375,421,261	**371,338,028**	**–**	**–**	**371,338,028**
	₱376,977,517	**₱372,894,284**	**₱–**	**₱1,556,256**	**₱371,338,028**

**Excluding nonfinancial liabilities amounting to ₱6,281.9 million*

			December 31, 2019 (Audited)		
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Assets Measured at Fair Value					
Financial assets at FVOCI					
Listed shares of stock	₱22,240,653	₱22,240,653	₱22,240,653	₱–	₱–
Unlisted shares of stock	2,635,484	2,635,484	–	–	2,635,484
Club shares	12,500	12,500	–	12,500	–
Derivative assets	826,315	826,315	–	826,315	–
	25,714,952	25,714,952	22,240,653	838,815	2,635,484
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	2,412,972	2,386,637	–	–	2,386,637
Other noncurrent assets:					
Bonds and deposits	17,722,250	19,763,982	–	–	19,763,982
Long-term notes	5,942,878	7,577,904	–	–	7,577,904
	26,078,100	29,728,523	–	–	29,728,523
	₱51,793,052	₱55,443,475	₱22,240,653	₱838,815	₱32,364,007
Liabilities Measured at Fair Value					
Derivative liabilities	₱1,966,090	₱1,966,090	₱–	₱1,966,090	₱–
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	327,358,208	331,463,306	–	–	331,463,306
Lease liabilities - noncurrent portion	27,600,392	38,144,838	–	–	38,144,838
Tenants' deposits and others*	35,607,059	32,355,186	–	–	32,355,186
	390,565,659	401,963,330	–	–	401,963,330
	₱392,531,749	₱403,929,420	₱–	₱1,966,090	₱401,963,330

**Excluding nonfinancial liabilities amounting to ₱5,086.4 million.*

There were no transfers into and out of Levels 1, 2 and 3 fair value measurements as at March 31, 2020 and December 31, 2019.

The estimated fair value of the following financial instruments is based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used follow:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Noncurrent portion of time deposits	**4.77% - 5.47%**	4.41% - 4.74%
Long-term notes included under "Other noncurrent assets" account	**0.46% - 1.46%**	1.69% - 1.94%
Tenants' deposits	**3.18% - 7.86%**	3.12% - 4.74%

Long-term Debt. The fair value of long-term debt is estimated based on the following assumptions:

Debt	Fair Value Assumptions
Fixed Rate	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 0.5% to 7.7% and 1.7% to 6.5% as at March 31, 2020 and December 31, 2019, respectively.
Variable Rate	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used were 2.3% to 6.7% and 3.0% to 7.0% as at March 31, 2020 and December 31, 2019, respectively.

Derivative Instruments Accounted for as Cash Flow Hedges

As at March 31, 2020, the Parent Company and SM Prime have outstanding arrangements to hedge both foreign currency and interest rate exposure on its foreign currency-denominated debt. Details follow:

Cross-currency swaps:

	Notional Amount									
	(In US$)	*(In PhP)*	*(In CN¥)*	Principal	Fair Value	Receive	Pay	US$:PhP	US$:CN¥	Maturity
			(In Thousands)							
Parent:										
	$53,000	₱2,761,300		₱2,686,040	(₱87,375)	LIBOR + spread	5.3%	₱52.10		March 6, 2023
	100,000	5,210,000		5,068,000	(288,809)	LIBOR + spread	5.9%	52.10		April 16, 2023
	56,159	3,000,000		2,846,125	(272,110)	LIBOR + spread	6.1%	53.42		July 26, 2023
	100,000	5,140,000		5,068,000	(105,313)	LIBOR + spread	5.5%	51.40		June 28, 2024
	100,000	5,115,000		5,068,000	(71,153)	LIBOR + spread	5.4%	51.15		June 28, 2024
SM Prime:										
	50,000	2,666,500		2,534,000	(290,424)	LIBOR + spread	6.4%	53.33		June 14, 2023
	60,000	3,199,200		3,040,800	(353,581)	LIBOR + spread	6.4%	53.32		June 14, 2023
	25,000		¥172,100	1,267,000	(35,546)	LIBOR + spread	5.4%		¥6.884	March 27, 2022
	25,000		172,300	1,267,000	(36,604)	LIBOR + spread	5.4%		6.892	March 27, 2022
	50,000		327,315	2,534,000	67,261	LIBOR + spread	5.0%		6.546	June 30, 2022
	50,000		335,940	2,534,000	18,507	LIBOR + spread	4.0%		6.719	February 28, 2024
	50,000		335,725	2,534,000	25,599	LIBOR + spread	3.9%		6.715	February 28, 2024
	50,000		335,750	2,534,000	13,606	LIBOR + spread	3.9%		6.715	February 28, 2024
	50,000		334,400	2,534,000	4,594	LIBOR + spread	3.9%		6.688	February 28, 2024
	50,000		335,750	2,534,000	16,834	LIBOR + spread	3.9%		6.715	February 28, 2024
	36,000		241,643	1,824,480	15,695	LIBOR + spread	3.9%		6.712	February 28, 2024

Principal only and interest rate swaps:

	Notional Amount	Principal	Fair Value: Principal Only Swap	Fair Value: Interest Rate Swap	Interest Rate	US$:CN¥	Maturity
		(In Thousands)					
SM Prime	US$270,000	₱13,683,654	₱744,784	(₱86,949)	6.2%	¥6.458-6.889	January 29, 2021

As the terms of the swaps have been negotiated to match the terms of the hedged loans and advances, the hedges are assessed to be highly effective.

Other Derivative Instruments Not Designated as Accounting Hedges

Non-deliverable Forwards and Swaps. The net fair value changes from the settled currency forward and swap contracts recognized in the interim consolidated statements of income amounted to nil in 2020 and ₱20.0 million gain in 2019.

24. EPS Computation

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
	(In Thousands Except Per Share Data)	
Net income attributable to owners of the Parent (a)	**₱9,007,277**	₱10,690,220
Weighted average number of common shares outstanding (b)	**1,204,583**	1,204,583
EPS (a/b)	**₱7.48**	₱8.87

25. Events After the Reporting Period

Declaration of Dividends

On June 24, 2020, the Parent Company's BOD approved the declaration of cash dividend amounting to ₱5,119.5 million or ₱4.25 per share in favor of all stockholders of record as at July 9, 2020, payable on July 23, 2020.

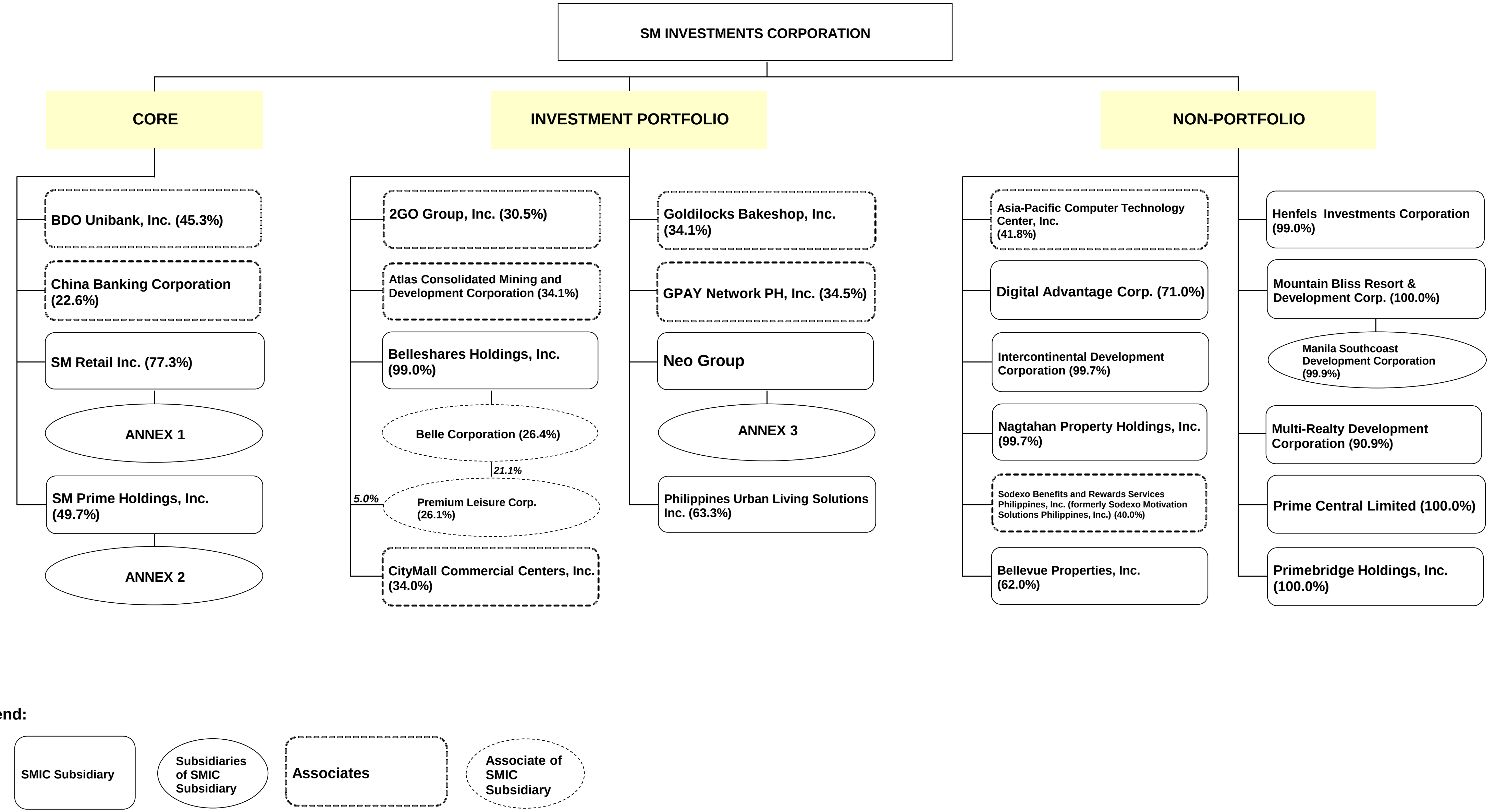
26. Other Matters

COVID-19 Outbreak

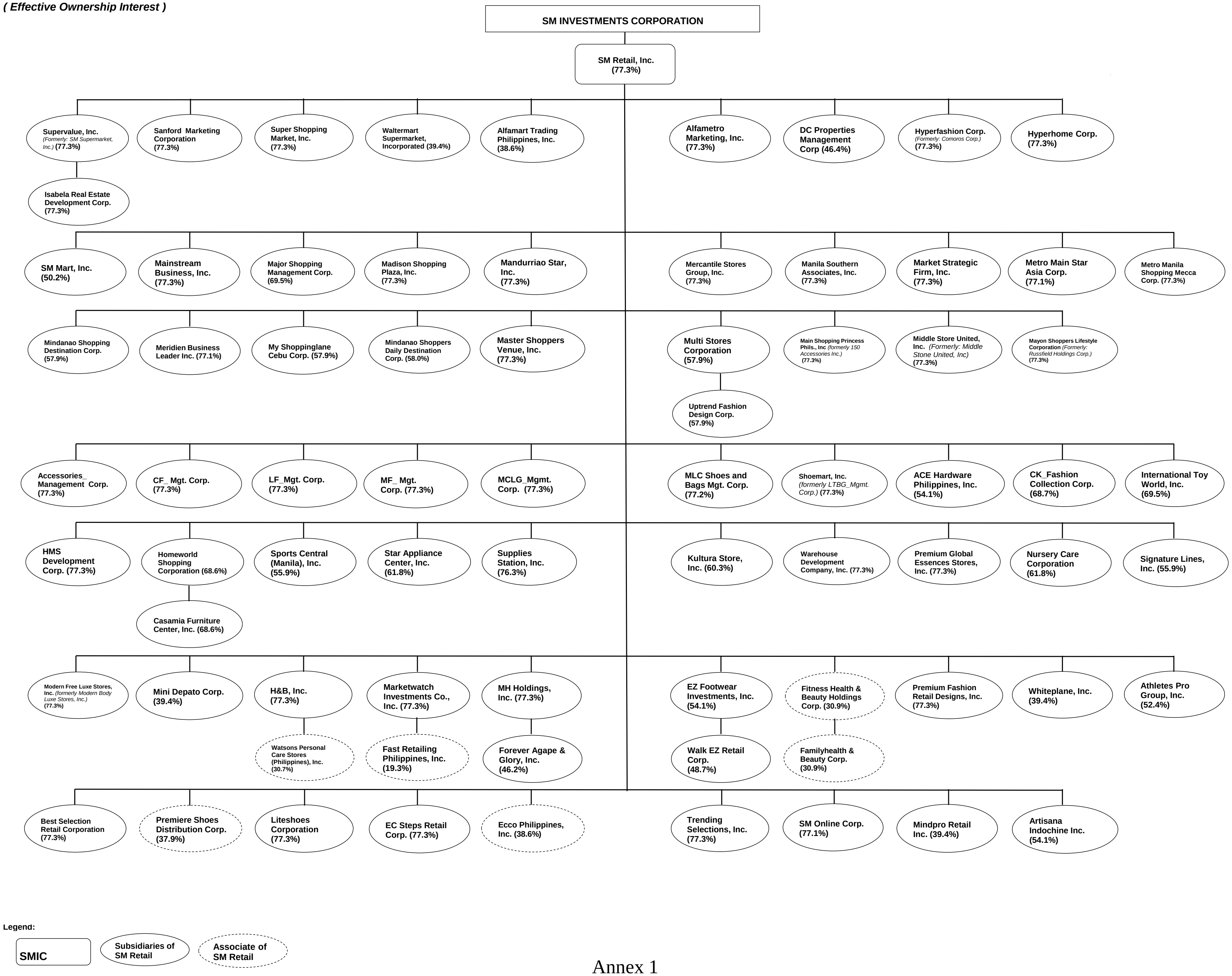
In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region (NCR) effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020, which was subsequently extended to April 30, 2020 and further extended to May 15, 2020. The enhanced community quarantine shifted to modified enhanced community quarantine until May 31, 2020 and to general community quarantine until June 30, 2020 for NCR and certain provinces.

The declaration of COVID-19 as a pandemic by the World Health Organization (WHO), the declaration of nationwide state of calamity and implementation of community quarantine throughout the Philippines starting March 16 and in most parts of China starting January 25, have caused disruptions in the Group's business activities. As this global problem evolves, the Group would continually adapt and adjust its business model according to the business environment in the areas where the Group operates, in full cooperation with the national and local government units.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAP
AS AT JUNE 30, 2020
(Effective Ownership Interest)

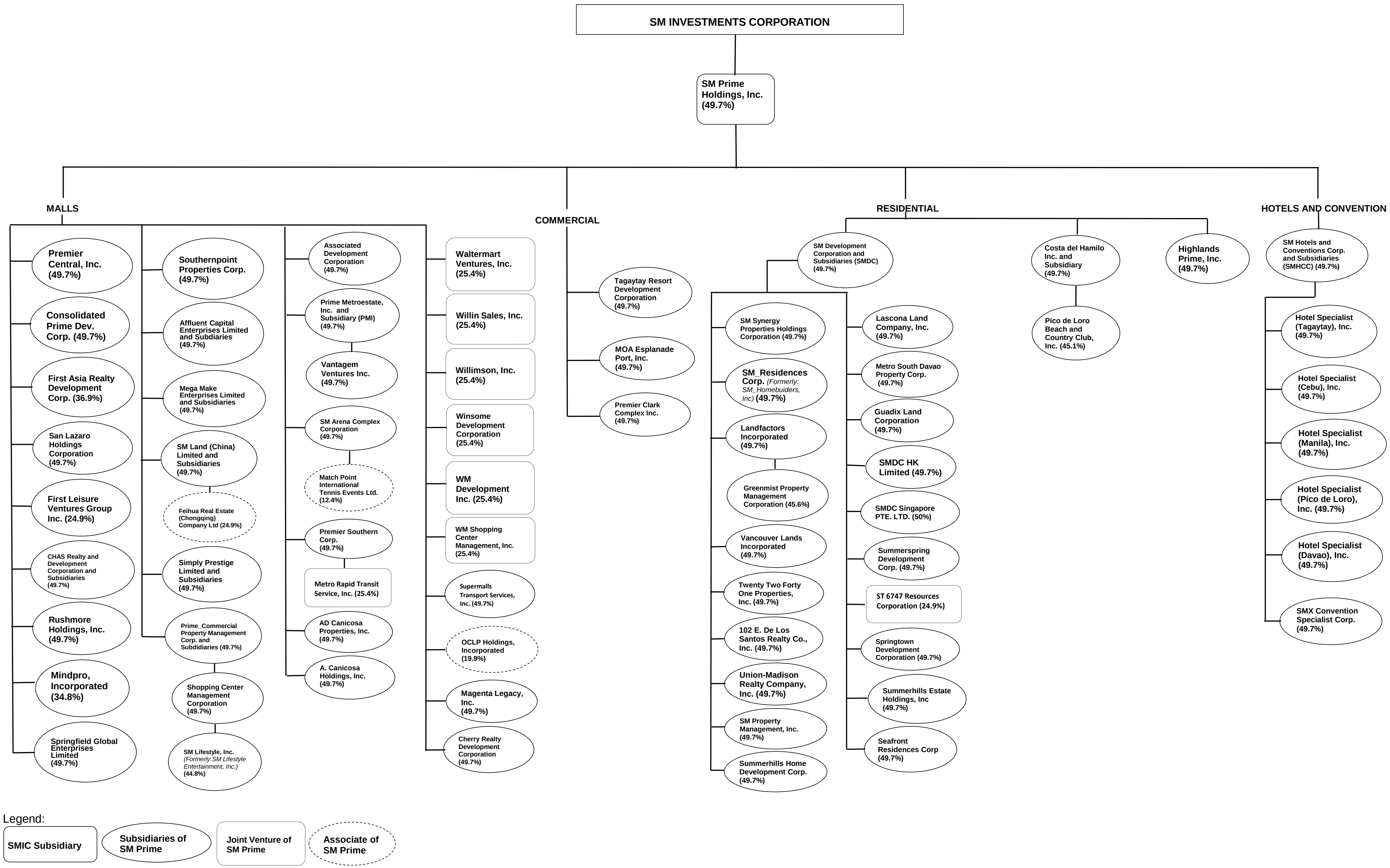


SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAP
AS AT JUNE 30, 2020
(Effective Ownership Interest)



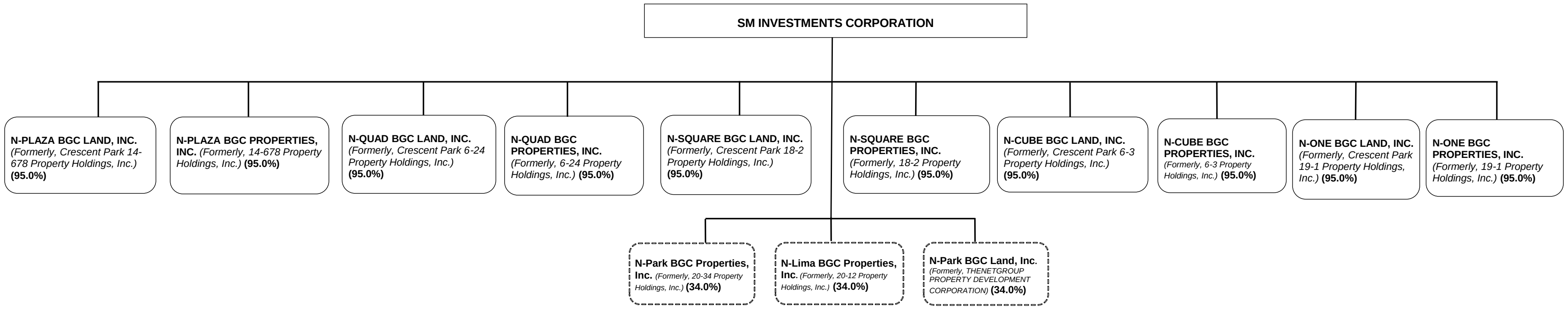
Annex 1

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAP
AS AT JUNE 30, 2020
(Effective Ownership Interest)



Annex 2

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAP
AS AT JUNE 30, 2020
(Effective Ownership Interest)



Legend: